ANNUAL REPORT PART 2
H&M IN FIGURES 2011

Silk dress
€129
VERSACE FOR H&M

PART 2

H&M in figures 2011

The Annual Accounts and Consolidated Accounts

The annual report on H&M's operations in 2011 is in two parts: part 1 is H&M in words and pictures 2011 and part 2 is H&M in figures 2011 including the annual accounts and consolidated accounts.


Shirt
€9.95

ADMINISTRATION REPORT

The Board of Directors and the Managing Director of H & M Hennes & Mauritz AB (publ), 556042-7220, domiciled in Stockholm, Sweden, hereby submit their annual report and consolidated accounts for the financial year 1 December 2010 to 30 November 2011, hereinafter referred to as the 2011 financial year.

BUSINESS

The H&M Group's business consists mainly of sales of clothing, accessories, footwear, cosmetics and home textiles to consumers. In addition to H&M and H&M Home, the H&M Group includes the brands COS, Monki, Weekday and Cheap Monday.

H&M's business concept is to offer fashion and quality at the best price. H&M is a design-driven innovative and responsible fashion company based on strong values that is growing all over the world while maintaining quality, sustainability and high profitability. H&M's principle for expansion is that every store shall have the best commercial location. The business is operated from leased store premises, through online and catalogue sales and on a franchise basis. At the end of the financial year H&M was present in 43 markets; eleven of these are operated on a franchise basis. The total number of stores at the end of the 2011 financial year was 2,472 including 70 franchise stores, 45 COS stores, 52 Monki stores, 19 Weekday stores and 4 Cheap Monday stores. Online and catalogue sales are offered in Sweden, Norway, Denmark, Finland, the Netherlands, Germany, Austria and the UK. The home textiles range, H&M Home, is sold via online and catalogue sales and also through stores in for example Stockholm, Helsinki, Copenhagen, London, Amsterdam, Oslo and Frankfurt. Online sales for COS and Monki began in 18 countries in autumn 2011.

Focusing on the customer, H&M's own designers work with pattern designers and buyers to create a broad range that offers inspiring fashion for everyone. H&M's design and buying department creates the collections centrally.

H&M does not own any factories but instead outsources product manufacturing to around 700 independent suppliers through H&M's local production offices in Asia and Europe. To guarantee the quality of the products and that manufacturing takes place under good working conditions, H&M works in close cooperation with the suppliers. The production offices are responsible for ensuring that orders are placed with the correct supplier, that the products are manufactured at the right price and are of good quality, and that they are delivered at the right time. The production offices also check that manufacturing takes place under good working conditions.

Tests, such as chemical and laundry tests, are carried out on a continuous basis at the production offices and at external laboratories. The goods are subsequently transported to various distribution centres – primarily by sea and rail, but also by road and air. From there the goods are distributed directly to the stores and/or to regional replenishment centres.

The best price is achieved by avoiding middlemen, buying the right product from the right market, being cost-conscious in every part of the organisation and having efficient distribution processes.

ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

H&M is one of the world's leading fashion companies, and with that comes responsibilities. H&M's sustainability work is based on a social and environmental commitment that puts H&M at the forefront of the global fashion industry. Trade between countries is an important source of economic growth around the world. As a global retailer, H&M acts as a buyer and seller in many markets. H&M contributes to more than a million jobs for people around the world, a large number of these in Asia.

H&M uses its size and influence to exert a positive effect on social development in these countries, thereby helping to achieve better conditions for many people. H&M also makes efforts to reduce environmental impact throughout the life cycle of its clothing.

H&M endeavours to ensure that each of its suppliers' employees is guaranteed at least their statutory rights and that the suppliers comply with H&M's Code of Conduct. Since the 1990s H&M has been carrying on extensive work to improve working conditions in suppliers' factories. The company has around 80 auditors of its own who check that the suppliers are meeting H&M's environmental requirements and its high requirements regarding good working conditions for the suppliers' workforce. H&M is working to achieve long-term improvements for those employed by the suppliers that produce H&M products. This is done primarily via the Code of Conduct, but also through activities such as training, projects, partnerships, etc. that are aimed at improving working conditions among suppliers.

H&M's sustainability strategy is to incorporate sustainability work into day-to-day routines in every area of the company's operations. This means that each of the Group's departments is itself responsible for environmental and social matters, while the central Sustainability department provides these departments with support on sustainability matters. One area currently in focus is the development of sustainable materials and production methods, such as the use of organic cotton.

H&M's aim is for all cotton used in its product range to come from more sustainable sources by 2020 at latest, and its participation in the Better Cotton Initiative (BCI) is the main means of achieving this aim. H&M is one of the driving forces behind the BCI and is a member of its steering committee. The aim of the BCI is to help improve cotton growing globally and make the growing of cotton environmentally, socially and economically sustainable. H&M was the world's largest user of organic cotton in 2010.

H&M's full sustainability report is published at www.hm.com/csr annually and follows the guidelines for sustainability reporting issued by the Global Reporting Initiative (GRI). H&M's sustainability policy and product policy, Code of Conduct, Chemical Restrictions and Code of Ethics can all be found in full at www.hm.com.

EMPLOYEES

H&M's business shall be characterised by a fundamental respect for the individual. This applies to everything from fair pay, reasonable working hours and freedom of association to the opportunity to grow and develop within the company. The company's values – the spirit of H&M – which have been in place since the days of H&M's founder, Erling Persson, are in part based on the ability of the employees to use their common sense to take responsibility and use their initiative.

H&M has grown significantly since its beginnings in 1947 and at the end of the financial year had more than 94,000 employees. The average number of employees in the Group, converted to full-time positions, was 64,874 (59,440), of which 5,855 (5,398) are employed in Sweden.

Around 79 percent of the employees were women and 21 percent were men. Women held 70 percent of the positions of responsibility within the company, such as store managers and country managers.

SALES AND PROFITS

Sales including VAT in local currencies increased by 8 percent over the financial year. Sales in comparable units decreased by 1 percent. Converted into SEK, sales including VAT increased to SEK 128,810 m (126,966). Sales excluding VAT increased to SEK 109,999 m (108,483).

The strengthening of the Swedish krona over the year meant that most of the sales countries' currencies depreciated against SEK compared with the previous year. For H&M this has a significant negative effect when converting sales from local currencies into the company's reporting currency, which is Swedish kronor. Although sales in local currencies increased by 8 percent, the increase in SEK was only 1 percent because of the stronger krona.

The Group's gross profit for the 2011 financial year amounted to SEK 66,147 m (68,269), a decrease of 3 percent. This is equivalent to a gross margin of 60.1 percent (62.9).

Operating profit amounted to SEK 20,379 m (24,659). This represents an operating margin of 18.5 percent (22.7).

The operating profit for the 2011 financial year has been charged with depreciation of SEK 3,262 m (3,061).

The Group's net financial income amounted to SEK 563 m (349).

Profit after financial items was SEK 20,942 m (25,008).

The Group's profit for the 2011 financial year after applying a tax rate of 24.5 percent (25.3) was SEK 15,821 m (18,681), which represents earnings per share of SEK 9.56 (11.29) – a decrease of 15 percent.

The profit for the year represents a return on equity of 35.8 percent (44.1) and a return on capital employed of 47.1 percent (58.7).

COMMENTS ON PROFITS

H&M has continued to gain market share in a year that has been very challenging for the fashion retail industry in many countries. Economic uncertainty in a number of markets has had a negative effect on consumption, resulting in fiercer competition for consumer spending. For fashion retailers this meant multiple price activities and markdowns, which intensified during the second half-year.

In these circumstances sales were good, showing that H&M's strong offering was well received by customers. The fact that sales in comparable units decreased by 1 percent for the full-year should also be viewed in the light of last year's strong comparables of a 5 percent increase in comparable units. Sales development was very positive in countries such as the US, China, Russia and the UK.

The Group's other brands COS, Monki, Weekday and Cheap Monday also saw positive sales development during the year. It was a very good year for COS in particular, which developed beyond the company's high expectations as regards both sales and profits. There are now nearly 50 COS stores in nine countries and the expansion continues.

The situation was challenging also in the sourcing markets, where high cost inflation, mainly as a result of very high cotton prices, led to increased purchasing costs.

To maintain a long-term perspective and always be able to offer customers the best combination of fashion and quality at the best price in each market, H&M made a strategic decision to further strengthen its customer offering and thereby its position in the market. These investments varied over time and involved everything from even better prices to even higher quality and more sustainable fashion.

The Group opened 296 (243) stores during the 2011 financial year and 30 (25) stores were closed. Of the new stores, 20 (15) were opened on a franchise basis. A total of 266 new stores net were opened in 2011, which was more than the originally planned 250 stores. The fact that more stores than planned were added was mainly due to greater expansion opportunities in China and the very positive reception in H&M's new markets of Romania and Croatia. China, the US, the UK and Germany were the largest expansion markets during the year. The reception in H&M's new market of Singapore in South East Asia was very good. The new franchise markets Jordan and Morocco, which opened at the end of November, also made a good start.

Online shopping is becoming increasingly important for the fashion retail industry as well as for H&M. The new H&M Shop Online, which was launched at the beginning of 2011, offers an inspiring, innovative and interactive shopping experience. H&M's website including the new H&M Shop Online is today one of the world's most visited websites in the fashion retail industry. The recent launch of online shopping for COS and Monki in 18 markets has been well received.

During the year H&M increased its investments within marketing, IT and online sales. The purpose of these investments is to further strengthen H&M's market position in the long term and to secure future expansion. The company also introduced a long-term incentive programme for all employees, the H&M Incentive Program, which aims to encourage long-term commitment and support future recruitment. Although these investments involved increased costs for the Group, cost control remains good. Costs in comparable stores decreased compared to the previous year.

The profit decrease compared to the previous year is mainly related to increased purchasing costs combined with the fact that H&M chose a strategy of further strengthening its customer offering and its market position relative to competitors. In addition, more than SEK 1.2 billion of the decrease in profit after financial items compared to the previous year is related to negative currency translation effects, as most of the sales countries' currencies depreciated relative to the Swedish krona during the year. The item affecting comparability, SEK 248 m to the H&M Incentive Program, also affected the year's profits. For further information on the H&M Incentive Program see Note 6.

The number of refurbished stores remained at the same high level as in the 2010 financial year, while investments for new and refurbished stores were lower per unit than in 2010.

TAXES

For the financial year 2011 the tax rate was 24.5 percent (25.3). The lower tax rate for the year compared with the previous year is due mainly to adjustment of tax expense relating to previous years.

For the 2012 financial year the tax rate is expected to be in the region of 25-26 percent, depending on the subsidiaries' results in the various countries.

PARENT COMPANY

The parent company had external sales of SEK 24 m (6) during the 2011 financial year. Profit after financial items amounted to SEK 16,451 m (14,868). Investments in fixed assets amounted to SEK 119 m (100).

FINANCIAL POSITION AND CASH FLOW

The Group's total assets as of 30 November 2011 amounted to SEK 60,188 m (59,182), an increase of 2 percent compared with the same date the previous year.

Current operations generated a positive cash flow of SEK 17,420 m (21,838). The cash flow was affected by, among other things, dividends of SEK -15,723 m (-13,239), investment in fixed assets of SEK -5,174 m (-4,959) and changes in short-term financial investments with a term of four to twelve months amounting to SEK -1,209 m (-5,166). The Group's cash flow for the 2011 financial year thus amounted to SEK -2,359 m (-1,530). Liquid funds and short-term investments amounted to SEK 21,277 m (24,858).

Stock-in-trade increased by 20 percent compared with the same date the previous year and amounted to SEK 13,819 m (11,487). This is equivalent to 12.6 percent (10.6) of sales excluding VAT. Stock-in-trade accounted for 23.0 percent (19.4) of total assets.

The Group's equity/assets ratio was 73.3 percent (74.6) and the percentage of risk-bearing capital was 74.9 percent (76.2).

Shareholders' equity shared between the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2011 equalled SEK 26.65 (26.69).

LIQUIDITY MANAGEMENT

In 2011 the longest investment period was 12 months. The Group does not use any derivative instruments in the interest-bearing securities market, nor does the Group trade in shares or similar instruments. See also Note 2, Financial risks.

EVENTS AFTER THE CLOSING DATE

EXPANSION AND FUTURE DEVELOPMENT

H&M remains positive towards future expansion and the Group's business opportunities.

H&M's growth target remains to increase the number of stores by 10-15 percent per year while maintaining high profitability and, at the same time, to increase sales within comparable units. For the 2012 financial year a net addition of around 275 new stores is planned. China, the US and the UK are expected to be the largest expansion markets for H&M in 2012. There are also still great opportunities for expansion in markets such as France, Italy and Germany.

The refurbishment of existing stores is expected to remain at the same high level as in the 2011 financial year.

H&M will open its first store in Sofia, Bulgaria in March 2012. H&M is continuing to expand in South East Asia, with a store opening in Kuala Lumpur in Malaysia during autumn 2012. In the autumn H&M will also open its first store in Riga in Latvia. In addition to these new H&M countries, H&M plans to open in Mexico in autumn 2012. It will be the company's first store in Latin America. Thailand will become a new franchise market in cooperation with the franchisee J.S. Gill. The first store is scheduled to open in autumn 2012 in Bangkok. The franchise opening in Jakarta in Indonesia has been postponed until spring 2013.

In autumn 2012 H&M will start online sales in the US, the world's largest online market.

Expansion continues for the Group's other brands COS, Monki, Weekday and Cheap Monday. COS, for example, will open its first stores in Hong Kong, Italy and Finland during spring 2012 and in Kuwait during autumn 2012. The opening in Kuwait will be in cooperation with the franchisee Alshaya. H&M Home will also continue to expand.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

At the Annual General Meeting on 28 April 2011 a resolution on guidelines for remuneration of senior executives within H&M in accordance with the Swedish Companies Act was approved. The guidelines below are effective until the 2012 Annual General Meeting.

The term "senior executives" covers the Managing Director, other members of executive management, country managers and certain key individuals. The number of individuals covered by the term senior executives is currently around 40.

Compensation for senior executives is based on factors such as work tasks, expertise, position, experience and performance. Senior executives are compensated at what are considered by the company to be competitive market rates. Senior executives are also entitled to the benefits provided under the H&M Incentive Program.

H&M is present in more than 30 countries excluding franchise markets and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as car benefits. The largest portion of the remuneration consists of the fixed salary. For information on variable components, see the section below.

In addition to the ITP plan, executive management and certain key individuals are covered by either a defined benefit or defined contribution pension plan. The retirement age for these individuals varies between 60 and 65 years. Members of executive management and country managers who are employed by a subsidiary abroad are covered by local pension arrangements and a defined contribution plan. The retirement age for these is in accordance with local retirement age rules. The cost of these commitments is partly covered by separate insurance policies.

The period of notice for senior executives varies from three to twelve months. No severance pay agreements exist within H&M other than for the Managing Director.

PENSION TERMS ETC. FOR THE MANAGING DIRECTOR

The retirement age for the Managing Director is 65. The Managing Director is covered by the ITP plan and a defined contribution plan. The total pension cost shall amount in total to 30 percent of the Managing Director's fixed salary. The Managing Director is entitled to 12 months' notice. In the event the company cancels the Managing Director's employment contract, the Managing Director will also receive severance pay of an extra year's salary.

VARIABLE REMUNERATION

The Managing Director, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on a certain percentage of the increase in the dividend approved by the Annual General Meeting and the fulfilment of targets in their respective areas of responsibility. For the Managing Director, the bonus is based on 0.3 percent of the dividend increase up to a maximum of SEK 0.9 m net after tax. In the case of the Head of Sales the bonus is based on 0.2 percent of the dividend increase, up to a maximum of SEK 0.6 m net after tax. For other personnel the figure is 0.1 percent of the dividend increase, with a maximum of SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. The bonuses that are paid out must be invested entirely in shares in the company, which must be held for at least five years. Since H&M is present in markets with varying personal income tax rates, the net model has been chosen because it is considered fair that the recipients in the different countries should be able to purchase the same number of H&M shares for the amounts that are paid out.

In individual cases other members of executive management, key individuals and country managers may, at the discretion of the Managing Director and the Chairman of the Board, receive one-off payments up to a maximum of 30 percent of their fixed yearly salary.

MISCELLANEOUS

The Board of Directors may deviate from these guidelines in individual cases where there is a particular reason for doing so.

THE BOARD's PROPOSED GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES FOR ADOPTION AT THE 2012 AGM

The Board's proposal for guidelines for adoption at the 2012 AGM is the same as the guidelines above.

ARTICLES OF ASSOCIATION, ANNUAL GENERAL MEETING

According to H&M's articles of association, H&M's Board is to consist of at least three but no more than twelve members elected by the AGM and no more than the same number of deputies. The Annual General Meeting decides the exact number of Board members, and which individuals are to be elected to the Board. Board members are elected for the period until the end of the next Annual General Meeting. The Annual General Meeting also decides on amendments to the articles of association.

NUMBER OF SHARES ETC.

The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share). Class A shares are not listed. Class B shares are listed on the Stockholm stock exchange, NASDAQ OMX Stockholm AB.

Ramsbury Invest AB holds all 194,400,000 class A shares, which represent 57.1 percent of the votes, as well as 393,049,043 class B shares, which represent 11.5 percent of the votes. This means that as of 30 November 2011, Ramsbury Invest AB represents 68.6 percent of the votes and 35.5 percent of the total number of shares. Ramsbury Invest AB is owned by Stefan Persson and family, and primarily by Stefan Persson. Karl-Johan Persson is also a shareholder in Ramsbury Invest AB.

In 2011 the shares that Stefan Persson previously owned privately were transferred to Ramsbury Invest AB as a shareholder contribution, as a result of which Stefan Persson has no private shareholding in H&M as of 30 November 2011.

There are no restrictions on voting rights or authorisations to the Board relating to the issue or acquisition of the company's own shares.

CORPORATE GOVERNANCE REPORT

H&M has elected to present its corporate governance report as a separate document to the Annual Report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act.

RISKS AND UNCERTAINTIES

A number of factors may affect the results and business of the H&M Group. Most of these can be dealt with through internal routines, while some are influenced more by external factors.

There are risks and uncertainties related to fashion, weather conditions, macroeconomic changes, climate change, trade interventions, external factors in production countries and foreign currencies, but also in connection with expansion into new markets, the launch of new concepts and how the brand is managed.

FASHION

Operating in the fashion industry is a risk in itself. Fashion has a limited shelf-life, and there is always a risk that some part of the collections will not be well received by customers.

Within each concept it is important to have the right volumes and achieve the right balance in the mix between fashion basics and the latest trends. In summary, each collection must achieve the right combination of fashion and quality at the best price. To optimise fashion precision, the Group buys items on an ongoing basis throughout the season.

The purchasing patterns are relatively similar in the various markets, although differences do exist. The start of the season and the duration of a season may, for example, vary from country to country. Delivery dates and product volumes for the various countries and stores are therefore adjusted accordingly.

WEATHER

The H&M Group's products are purchased in order to be sold in stores on the basis of normal weather patterns. Deviations from normal weather conditions may affect sales. This is particularly true at the transition between two seasons, such as the transition from summer to autumn.

NEGATIVE MACROECONOMIC CHANGES

There is a risk that negative macroeconomic changes in one or more countries will result in an economic downturn, which is likely to change consumer purchasing behaviour. It is therefore important to be aware of such changes which may affect the Group's business and to have a flexible buying model that can be adjusted to different market conditions.

EXTERNAL FACTORS IN PRODUCTION COUNTRIES

Uncertainties also exist concerning how external factors such as raw materials prices, transport costs and suppliers' capacity will affect buying costs for the Group's products. The Group therefore needs to monitor such changes closely and have strategies in place to deal with fluctuations in external factors as advantageously as possible for both the company and its customers.

CLIMATE CHANGE

There is a risk that the H&M Group's business may be affected by future regulation and increased costs, e.g. in the form of emissions trading and carbon taxes in H&M's various sales markets. These can essentially be regarded as competition-neutral. The risks that may arise as a result of climate change and natural disasters primarily in production countries can be considered very limited bearing in mind H&M's flexible business model, which can be adapted quickly to changed circumstances.

TRADE INTERVENTION

Buying costs may be affected by decisions at a national level on export/import subsidies, customs duties, textile quotas, embargos, etc. The effects primarily impact customers and companies in individual markets. Global companies with operations in many countries are affected to a lesser extent and among global corporations trade interventions may be regarded as largely competition-neutral.

FOREIGN CURRENCIES

Most of the Group's sales are made in euro and the most significant currencies in which the Group's purchasing takes place are the US dollar and the euro. Fluctuation in the US dollar/euro exchange rate is the single largest transaction exposure for the Group. To hedge flows of goods in foreign currencies and thereby reduce the effects of future exchange rate fluctuations, the Group's flows of goods and the corresponding inflows from the sales companies to the central buying company H & M Hennes & Mauritz GBC AB are hedged under forward contracts on an ongoing basis.

In addition to the effects of transaction exposure, translation effects also impact the Group's results due to changes in exchange rates between the local currencies of the various foreign sales companies and the Swedish krona compared to the same period the previous year. The underlying profit/loss in a market may be unchanged in the local currency, but when converted into SEK may increase if the Swedish krona has weakened or decrease if the Swedish krona has strengthened.

Translation effects also arise in respect of the Group's net assets on consolidation of the foreign sales companies' balance sheets. No exchange rate hedging (known as equity hedging) is carried out for this risk.

For more information on currency hedging and financial risks see Note 2, Financial risks.

DIVIDEND POLICY

H&M's financial goal is to enable the company to continue enjoying good growth and to be prepared to exploit future business opportunities. It is essential that the company's expansion is able to proceed as in the past with a continued high degree of financial strength and continued freedom of action.

On this basis the Board of Directors has established a dividend policy stating that the dividend should equal around half of the profit after taxes. In addition, the Board may propose the distribution of any surplus liquidity.

The Board of Directors has decided to propose to the 2012 Annual General Meeting a dividend of SEK 9.50 per share (9.50), which is equivalent to 99 percent (84) of the Group's profit after tax.

PROPOSED DISTRIBUTION OF EARNINGS

At the disposal of the Annual General Meeting:	SEK 16,749,725,843
The Board of Directors and the Managing Director propose a dividend of SEK 9.50 per share	SEK 15,723,184,000
To be carried forward as retained earnings	SEK 1,026,541,843
	SEK 16,749,725,843

The Board of Directors is of the opinion that the proposed distribution of earnings is justifiable taking into consideration the financial position and future freedom of action of the Group and the parent company, and observing the requirements that the nature and extent of the business, its risks and future expansion plans impose on the Group's and the parent company's equity and liquidity.

GROUP INCOME STATEMENT

SEK M

1 DECEMBER – 30 NOVEMBER	2011	2010
Sales including VAT	128,810	126,966
Sales excluding VAT, Note 3, 4	109,999	108,483
Cost of goods sold, Note 6, 8	-43,852	-40,214
GROSS PROFIT	**66,147**	**68,269**
Selling expenses, Note 6, 8	-42,517	-40,751
Administrative expenses, Note 6, 8, 9	-3,251	-2,859
OPERATING PROFIT	**20,379**	**24,659**
Interest income	568	356
Interest expense	-5	-7
PROFIT AFTER FINANCIAL ITEMS	**20,942**	**25,008**
Tax, Note 10	-5,121	-6,327
PROFIT FOR THE YEAR	**15,821**	**18,681**
All profit is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	9.56	11.29
Number of shares, thousands*	1,655,072	1,655,072

* Before and after dilution. Number of shares has been adjusted for both years due to the 2-for-1 share split effected by H&M in 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK M

1 DECEMBER – 30 NOVEMBER	2011	2010
PROFIT FOR THE YEAR	**15,821**	**18,681**
Other comprehensive income		
Translation differences	-35	-2,169
Change in hedging reserves	-113	386
Tax attributable to change in hedging reserves	30	-100
OTHER COMPREHENSIVE INCOME	**-118**	**-1,883**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**15,703**	**16,798**

All comprehensive profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.

GROUP BALANCE SHEET

SEK M

30 NOVEMBER	2011	2010
ASSETS		
FIXED ASSETS		
Intangible fixed assets		
Brands, Note 11	302	349
Customer relations, Note 11	84	97
Leasehold rights, Note 11	585	688
Goodwill, Note 11	64	64
	1,035	**1,198**
Tangible fixed assets		
Buildings and land, Note 12	804	656
Equipment, tools, fixtures and fittings, Note 12	16,589	14,813
	17,393	**15,469**
Long-term receivables	**608**	**518**
Deferred tax receivables, Note 10	**1,234**	**1,065**
TOTAL FIXED ASSETS	**20,270**	**18,250**
CURRENT ASSETS		
Stock-in-trade	**13,819**	**11,487**
Current receivables		
Accounts receivable	2,337	2,258
Other receivables	1,375	1,453
Prepaid expenses, Note 13	1,110	876
	4,822	**4,587**
Short-term investments, Note 14	**6,958**	**8,167**
Liquid funds, Note 15	**14,319**	**16,691**
TOTAL CURRENT ASSETS	**39,918**	**40,932**
TOTAL ASSETS	**60,188**	**59,182**

30 NOVEMBER	2011	2010
EQUITY AND LIABILITIES		
EQUITY		
Share capital, Note 17	207	207
Reserves	-487	-369
Retained earnings	28,563	25,653
Profit for the year	15,821	18,681
TOTAL EQUITY	**44,104**	**44,172**
LIABILITIES		
Long-term liabilities*		
Provisions for pensions, Note 18	377	257
Deferred tax liabilities, Note 10	950	906
	1,327	**1,163**
Current liabilities**		
Accounts payable	4,307	3,965
Tax liabilities	1,851	2,304
Other liabilities	2,428	2,202
Accrued expenses and prepaid income, Note 20	6,171	5,376
	14,757	**13,847**
TOTAL LIABILITIES	**16,084**	**15,010**
TOTAL EQUITY AND LIABILITIES	**60,188**	**59,182**
Pledged assets and contingent liabilities	–	–

* Only provisions for pensions are interest-bearing.
** No current liabilities are interest-bearing.

GROUP CHANGES IN EQUITY
SEK M

Since there are no minority interests, all shareholders' equity is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.

	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2010	**207**	**-613**	**244**	**44,334**	**44,172**
Adjustment of opening balance*	–	–	–	-48	-48
Adjusted opening balance	207	-613	244	44,286	44,124
Profit for the year	–	–	–	15,821	15,821
Other comprehensive income					
Translation differences	–	-35	–	–	-35
Change in hedging reserves					
Reported in other comprehensive income	–	–	-368	–	-368
Transfer to income statement	–	–	255	–	255
Tax attributable to hedging reserves	–	–	30	–	30
Other comprehensive income	–	-35	-83	–	-118
Total comprehensive income	–	-35	-83	15,821	15,703
Dividend	–	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2011	**207**	**-648**	**161**	**44,384**	**44,104**

* Adjustment of pension obligations related to prior years – see Note 18.

	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2009	**207**	**1,556**	**-42**	**38,892**	**40,613**
Profit for the year	–	–	–	18,681	18,681
Other comprehensive income					
Translation differences	–	-2,169	–	–	-2,169
Change in hedging reserves					
Reported in other comprehensive income	–	–	1,378	–	1,378
Transfer to income statement	–	–	-992	–	-992
Tax attributable to hedging reserves	–	–	-100	–	-100
Other comprehensive income	–	-2,169	286	–	-1,883
Total comprehensive income	–	-2,169	286	18,681	16,798
Dividend	–	–	–	-13,239	-13,239
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2010	**207**	**-613**	**244**	**44,334**	**44,172**

GROUP CASH FLOW STATEMENT

SEK M

1 DECEMBER – 30 NOVEMBER	2011	2010
Current operations		
Profit after financial items*	20,942	25,008
Provisions for pensions	120	3
Depreciation	3,262	3,061
Tax paid	-5,666	-5,451
Cash flow from current operations before changes in working capital	**18,658**	**22,621**
Cash flow from changes in working capital		
Current receivables	-244	-778
Stock-in-trade	-2,331	-1,557
Current liabilities	1,337	1,552
CASH FLOW FROM CURRENT OPERATIONS	**17,420**	**21,838**
Investment activities		
Investment in leasehold rights	-71	-147
Investment in buildings and land	-157	-209
Investment in equipment	-4,946	-4,603
Adjustment of consideration/acquisition of subsidiaries	–	-8
Change in short-term investments, 4–12 months	1,209	-5,166
Other investments	-91	4
CASH FLOW FROM INVESTMENT ACTIVITIES	**-4,056**	**-10,129**
Financing activities		
Dividend	-15,723	-13,239
CASH FLOW FROM FINANCING ACTIVITIES	**-15,723**	**-13,239**
CASH FLOW FOR THE YEAR	**-2,359**	**-1,530**
Liquid funds at beginning of the financial year	**16,691**	**19,024**
Cash flow for the year	-2,359	-1,530
Exchange rate effect	-13	-803
Liquid funds at end of the financial year**	**14,319**	**16,691**

* Interest paid for the Group amounts to SEK 5 m (7). Received interest for the Group amounts to SEK 568 m (356).

** Liquid funds and short-term investments at the end of the financial year amounted to SEK 21,277 m (24,858).

PARENT COMPANY INCOME STATEMENT
SEK M

1 DECEMBER - 30 NOVEMBER	2011	2010
External sales excluding VAT	24	6
Internal sales excluding VAT, Note 5	6,958	6,900
GROSS PROFIT	**6,982**	**6,906**
Selling expenses, Note 6, 8	-2,235	-2,240
Administrative expenses, Note 6, 8, 9	-2,671	-2,024
OPERATING PROFIT	**2,076**	**2,642**
Dividend from subsidiaries	14,224	12,153
Interest income	151	73
Interest expense	0	0
PROFIT AFTER FINANCIAL ITEMS	**16,451**	**14,868**
Year-end appropriations, Note 22	-9	705
Tax, Note 10	-596	-912
PROFIT FOR THE YEAR	**15,846**	**14,661**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
SEK M

1 DECEMBER – 30 NOVEMBER	2011	2010
PROFIT FOR THE YEAR	**15,846**	**14,661**
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**15,846**	**14,661**

PARENT COMPANY BALANCE SHEET

SEK M

30 NOVEMBER	2011	2010
ASSETS		
FIXED ASSETS		
Tangible fixed assets		
Buildings and land, Note 12	45	48
Equipment, tools, fixtures and fittings, Note 12	396	369
	441	**417**
Financial fixed assets		
Shares and participation rights, Note 23	590	580
Receivables from subsidiaries	1,177	1,208
Long-term receivables	13	14
Deferred tax receivables, Note 10	63	59
	1,843	**1,861**
TOTAL FIXED ASSETS	**2,284**	**2,278**
CURRENT ASSETS		
Current receivables		
Receivables from subsidiaries	10,628	7,764
Other receivables	33	14
Prepaid expenses, Note 13	14	9
	10,675	**7,787**
Short-term investments, Note 14	**5,038**	**8,167**
Liquid funds, Note 15	**678**	**223**
TOTAL CURRENT ASSETS	**16,391**	**16,177**
TOTAL ASSETS	**18,675**	**18,455**

30 NOVEMBER	2011	2010
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital, Note 17	207	207
Restricted reserves	88	88
	295	**295**
Non-restricted equity		
Retained earnings	903	1,965
Profit for the year	15,846	14,661
	16,749	**16,626**
TOTAL EQUITY	**17,044**	**16,921**
UNTAXED RESERVES, NOTE 24	**128**	**119**
LIABILITIES		
Long-term liabilities		
Provisions for pensions, Note 18	**240**	**223**
Current liabilities*		
Accounts payable	212	128
Liabilities to subsidiaries	–	129
Tax liabilities	445	368
Other liabilities	348	340
Accrued expenses and prepaid income, Note 20	258	227
	1,263	**1,192**
TOTAL LIABILITIES	**1,503**	**1,415**
TOTAL EQUITY AND LIABILITIES	**18,675**	**18,455**
Pledged assets	–	–
Contingent liabilities, Note 25	9,321	12,729

* No current liabilities are interest-bearing.

PARENT COMPANY CHANGES IN EQUITY

SEK M

	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2010	**207**	**88**	**16,626**	**16,921**
Profit for the year	–	–	15,846	15,846
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	15,846	15,846
Dividend	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2011	**207**	**88**	**16,749**	**17,044**

	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2009	**207**	**88**	**15,299**	**15,594**
Profit for the year	–	–	14,661	14,661
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	14,661	14,661
Group contributions provided	–	–	-129	-129
Tax effect of group contributions provided	–	–	34	34
Dividend	–	–	-13,239	-13,239
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2010	**207**	**88**	**16,626**	**16,921**

PARENT COMPANY CASH FLOW STATEMENT

SEK M

1 DECEMBER – 30 NOVEMBER	2011	2010
Current operations		
Profit after financial items*	16,451	14,868
Provisions for pensions	17	12
Depreciation	95	97
Tax received/paid	-523	114
Cash flow from current operations before changes in working capital	**16,040**	**15,091**
Cash flow from changes in working capital		
Current receivables	-2,888	312
Current liabilities	-6	176
CASH FLOW FROM CURRENT OPERATIONS	**13,146**	**15,579**
Investment activities		
Net investment in equipment	-119	-100
Adjustment of consideration/acquisition of subsidiaries	-10	-8
Change in short-term investments, 4–12 months	3,129	-5,166
Other investments	32	-487
CASH FLOW FROM INVESTMENT ACTIVITIES	**3,032**	**-5,761**
Financing activities		
Dividend	-15,723	-13,239
CASH FLOW FROM FINANCING ACTIVITIES	**-15,723**	**-13,239**
CASH FLOW FOR THE YEAR	**455**	**-3,421**
Liquid funds at beginning of the financial year	**223**	**3,644**
Cash flow for the year	455	-3,421
Liquid funds at end of the financial year**	**678**	**223**

* Interest paid for the parent company amounts to SEK 0 m (0). Received interest for the parent company amounts to SEK 151 m (73).

** Liquid funds and short-term investments at the end of the financial year amounted to SEK 5,716 m (8,390).

NOTES TO THE FINANCIAL STATEMENTS

CORPORATE INFORMATION

The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Stockholm, Sweden. The parent company's corporate identity number is 556042-7220. The company's share is listed on the Stockholm stock exchange, NASDAQ OMX Stockholm AB. The Group's business consists mainly of sales of clothing, accessories, footwear, cosmetics and home textiles to consumers. The company's financial year is 1 December – 30 November. The Annual Report was approved for publication by the Board of Directors on 25 January 2012 and will be submitted to the Annual General Meeting for approval on 3 May 2012.

Ramsbury Invest AB's holding of shares in H & M Hennes & Mauritz AB represents around 35.5 percent of all shares and around 68.6 percent of the total voting power. Ramsbury Invest AB (556423-5769) is thus formally the parent company of H & M Hennes & Mauritz AB.

1 ACCOUNTING PRINCIPLES

BASIS FOR PREPARATION OF THE ACCOUNTS

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations provided by the IFRS Interpretations Committee. Since the parent company is a company within the EU, only IFRS approved by the EU are applied. The consolidated accounts also contain disclosures in accordance with the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups.

The financial statements are based on historical acquisition costs, apart from certain financial instruments which are reported at fair value.

The parent company's functional currency is Swedish kronor, which is also the reporting currency for the parent company and for the Group. Unless otherwise indicated, all amounts are reported in millions of Swedish kronor (SEK m).

Parent company

In the preparation of its financial statements the parent company has applied the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, the statements issued by the Swedish Financial Reporting Board and the Swedish Annual Accounts Act. The main deviation from the Group's accounting principles is that the parent company does not apply IAS 39.

With effect from the 2011/2012 financial year group contributions received by a parent company from subsidiaries are to be reported as financial income, while group contributions that a parent company provides to subsidiaries are to be reported either against participations in subsidiaries – in other words, in the same way as shareholder contributions – or as an expense, due to the link between reporting and taxation.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

The accounting principles and disclosure requirements applied for 2010/2011 are the same as those applied in the previous year.

FUTURE ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

A number of new standards, revisions and interpretations of existing standards have been published but have not yet entered into force. Of these, only the standards below are expected to have any effect on the consolidated financial statements.

- IFRS 9, Financial Instruments: Recognition and Measurement (not yet adopted by the EU). This standard is part of a comprehensive revision of the current standard IAS 39. The standard reduces the number of categories for measuring financial assets, such that the primary categories for recognition of financial assets and liabilities are at amortised cost (accrued acquisition cost) or at fair value through profit or loss. Certain investments in equity instruments may be recognised at fair value in the balance sheet and the change in value recognised directly in other comprehensive income, with no transfer to profit or loss for the period on disposal. In addition, new rules have been introduced for how changes in own credit spread are to be presented when liabilities are measured at fair value. The standard will be supplemented with rules on write-downs, hedge accounting and derecognition in the balance sheet. IFRS 9 must be applied to annual reporting periods beginning on or after 1 January 2015. The Group will assess the effects of the new standard once all parts of the standard are complete.
- IFRS 10, Consolidated Financial Statements and amended IAS 27, Separate Financial Statements (not yet adopted by the EU). This standard is to be applied to annual reporting periods beginning on or after 1 January 2013. IFRS 10 supersedes the section in IAS 27 dealing with the preparation of consolidated financial statements. IAS 27 will continue to cover the treatment of subsidiaries, joint ventures and associates in separate financial statements. The rules concerning the preparation of consolidated financial statements remain unchanged. Instead, the amendment concerns how a company is to go about deciding whether it has a controlling interest and thus whether a company is to be consolidated. The standard is to be applied retrospectively in accordance with IAS 8, with certain modifications, including relief from retrospective consolidation where this is not practically possible. The standard is not expected to have any effect on the Group.
- IFRS 12, Disclosure of Interests in Other Entities (not yet adopted by the EU). This standard is to be applied to annual reporting periods beginning on or after 1 January 2013. Companies with interests in subsidiaries, associates, joint arrangements and structured entities are to disclose information concerning these in accordance with IFRS 12. The objective of such disclosure is to enable users of financial statements to assess any effects of the interests on the financial statements, as well as any risks associated with the interests concerned. The standard is to be applied retrospectively in accordance with IAS 8. The standard may possibly result in the Group disclosing additional information.
- IAS 1, Presentation of Financial Statements – changes to the presentation of other comprehensive income (not yet adopted by the EU). This standard is to be applied to annual reporting periods beginning on or after 1 July 2012. The revision involves changes to the grouping of transactions reported under other comprehensive income. Items that are recognised in profit and loss are to be recognised separately from those items that are not recognised in profit and loss. The proposal does not change the actual content of other comprehensive income, only the way it is presented.

– IAS 19, Employee Benefits – amended (not yet adopted by the EU). This standard is to be applied to annual reporting periods beginning on or after 1 January 2013. The amendments involve significant changes relating to the recognition of defined benefit pension plans, such as:
– The option of allocating actuarial gains and losses to periods as part of the 'corridor' approach is eliminated; instead, these must be recognised immediately in other comprehensive income. Those items attributable to the earning of defined benefit pensions, gains and losses arising on settlement of a pension liability and net financing relating to the defined benefit plan are all recognised in the income statement.
– The amendments include further changes focusing not on recognition of pensions, but rather on other forms of employee benefits. Termination benefits are to be recognised at the following time (whichever is the earlier): when the offer of the benefit cannot be withdrawn or in accordance with IAS 37 as part of restructuring of the business, for example.
– In the case of the Swedish entities, the actuarial calculations will also cover future payments of special payroll tax and net yield tax.
– The revised standard is to be applied retrospectively in accordance with IAS 8. The standard may be applied in advance.

Until now the Group has recognised actuarial gains and losses in the income statement. Once the amended version of IAS 19 enters into force these will be recognised in other comprehensive income.

ESTIMATES, ASSUMPTIONS AND ASSESSMENTS

The preparation of the Annual Report and consolidated accounts requires estimates and assumptions to be made, as well as judgments in the application of the accounting principles. These affect recorded amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. The actual outcome may therefore deviate from the estimates and assumptions made. It is judged that, as at 30 November 2011, there are no estimates or assumptions made in the financial statements that involve a significant risk of any material adjustment to the values of assets and liabilities in the forthcoming financial year.

CONSOLIDATED ACCOUNTS

General

The consolidated accounts cover the parent company and its subsidiaries. Subsidiaries are included in the consolidated accounts from the date of acquisition, which is the date on which the parent company gains a controlling interest, and are included in the consolidated accounts until such date as the controlling interest ends. The acquisition method is used in the preparation of the consolidated accounts. The net assets of acquired subsidiaries are determined based on an assessment of the fair value of the assets, liabilities and contingent liabilities at the time of acquisition. If the acquisition cost of the subsidiary's shares exceeds the calculated value at the time of acquisition of the net identifiable assets of the acquired company, the difference is reported as goodwill upon consolidation. If the acquisition cost is less than the finally established value of the net identifiable assets, the difference is reported directly in the income statement. The minority interest in the case of acquisitions of less than 100 percent is determined for each transaction either as a proportionate share of the fair value of net identifiable assets or at fair value. The financial reports for the parent company and the subsidiaries included in the consolidated accounts cover the same period and have been prepared in accordance with the accounting principles that apply to the Group. Intra-group income, expenses, receivables and liabilities, as well as unrealised gains and losses, are eliminated entirely in the preparation of the consolidated accounts.

Minority interests

In 2008 H&M acquired 60 percent of the shares in FaBric Scandinavien AB. At the time of this acquisition the parties reached an agreement giving H&M the opportunity/obligation to acquire the remaining shares within three to seven years. The calculated value of the put options allocated to minority shareholders in connection with the acquisition was reported in 2008/2009 as a provision for an additional conditional consideration, and thus no minority interest was reported. The put option was exercised in November 2010, when H&M acquired the remaining 40 percent of the shares. The difference between the final consideration and the provision was reported as a reduction in goodwill.

Translation of foreign subsidiaries

Assets and liabilities in foreign subsidiaries are translated at the exchange rate on the closing date, while the income statement is translated at the average exchange rate for the financial year. The translation difference arising from this, and also as a result of the fact that the net investment is translated at a different exchange rate at the end of the year than at the beginning of the year, is posted directly to equity as a translation reserve, via the statement of comprehensive income. On disposal of a foreign business the accumulated translation differences in the income statement are posted together with the profit or loss on disposal. Accumulated translation differences relating to foreign operations that are attributable to the period before 1 December 2004 – the date of adoption of IFRS – have been set at zero in accordance with the transitional rules in IFRS 1.

FOREIGN CURRENCY

Receivables and liabilities in foreign currencies are converted at the exchange rate on the closing date. Exchange rate differences arising on translation are reported in the income statement with the exception of exchange rate differences in respect of loans, which are to be regarded as net investment in a foreign business. Exchange rate differences of this type are posted to equity as translation differences via the statement of comprehensive income.

INCOME

The Group's income is generated mainly by the sale of clothing and cosmetics to consumers. Sales revenue is reported less value-added tax, returns and discounts as sales excluding VAT in the income statement. Income is reported in conjunction with sale/delivery to the customer. Franchise sales have two components: sales of goods to franchisees, which are reported on delivery of the goods, and franchise fees, which are reported when the franchisee sells goods to the consumer. The Group's income exhibits seasonal variations. The first quarter of the financial year is normally the weakest and the last quarter the strongest. Interest income is reported as it is earned.

MARKETING
Advertising costs and other marketing activities are expensed on a continuous basis.

INTANGIBLE FIXED ASSETS
Intangible fixed assets with a finite useful life are reported at acquisition cost less accumulated amortisation and any accumulated write-downs. Amortisation is distributed linearly over the assets' expected useful life.

Development costs are capitalised to the extent that it is judged that the company will gain from future financial benefits and if the acquisition cost can be reliably calculated. The reported value includes the direct costs of services and materials acquired, as well as indirect costs attributable to the asset. Other development costs, as well as maintenance and training initiatives, are recognised as expenses in the income statement as they arise.

Goodwill is the amount by which the acquisition cost of the subsidiary's shares exceeds the calculated value of the subsidiary's net identifiable assets upon acquisition. Goodwill on acquisition of subsidiaries is reported as intangible assets. Intangible assets with an indefinite useful life, including goodwill, are tested for impairment annually or more often if there is an indication of a decline in value. If the book value of the asset exceeds the recoverable amount (the higher of the net realisable value and the value in use), the necessary amount is written down. Any write-down is recognised in profit/loss.

TANGIBLE FIXED ASSETS
Costs relating to intangible fixed assets are reported in the balance sheet if it is likely that the company will gain from future financial benefits associated with the asset and if the asset's acquisition cost can be reliably calculated. Other costs and costs relating to ongoing maintenance and repair are reported as an expense in the period in which they arise. Tangible fixed assets are reported at acquisition cost less accumulated depreciation and any accumulated write-downs. Depreciation is distributed linearly over the assets' expected useful life. No depreciation is applied to land. The book value of tangible fixed assets is tested for impairment. If the asset's book value exceeds the recoverable amount (the higher of the net realisable value and the value in use), the required amount is written down. Any write-down is recognised in profit/loss.

LEASING
Leasing agreements in which a substantial portion of the risks and benefits of ownership are retained by the lessor are classified as operational leases. Financial leases exist when the financial risks and benefits associated with the ownership of an object are essentially transferred from the lessor to the lessee, regardless of whether the legal ownership belongs to the lessor or the lessee. Assets held under financial leases are reported as fixed assets and future payment commitments are reported as liabilities in the balance sheet. As of the closing date the Group had no financial leases. Minimal leasing agreements relating to operational leases are recognised in the income statement as an expense and distributed linearly over the term of the agreement. The Group's main leases are rental agreements for premises. Variable (sales-based) rents are recognised in the same period as the corresponding sales.

FINANCIAL INSTRUMENTS
Financial instruments recognised in the balance sheet include on the assets side liquid funds, accounts receivable, short-term investments, long-term receivables and derivatives. On the liabilities side are accounts payable and derivatives. Financial instruments are recognised in the balance sheet when the Group becomes a party to the contractual terms of the instrument. Financial assets are removed from the balance sheet when the contractual rights to the cash flows from the asset cease. Financial liabilities are removed from the balance sheet when the obligation is met, cancelled or ends.

Financial assets and liabilities at fair value through profit or loss
This category consists of two sub-groups: financial assets and liabilities held for trading, and other financial assets and liabilities that the company initially chose to place in this category when they were first recognised. Assets and liabilities in this category are assessed continually at fair value, with changes in value recognised in profit/loss. No financial assets or liabilities have been classified in this category.

Loans receivable and accounts receivable
This category primarily covers cash and bank balances as well as accounts receivable. Cash and bank balances are valued at the accrued acquisition cost. Accounts receivable have a short expected term and are recognised at the original invoiced amount without discount, with deductions for doubtful receivables.

Financial assets held to maturity
Financial assets held to maturity are assets with payment flows that are fixed or that can be established in advance and with a fixed term which the Group has the express intention and capacity to hold until maturity. Assets in this category are valued at accrued acquisition cost, with the effective interest rate being used to calculate the value. As of the closing date, all of the Group's short-term investments fell into this category.

Financial assets that may be sold
This category contains financial assets that were either placed in this category at the time of acquisition or have not been classified in any other category. These are valued continually at fair value, with changes in value recognised in equity as a fair value reserve, via the statement of comprehensive income. No financial assets have been classified in this category.

Other financial liabilities
Financial liabilities that are not held for trading are assessed at their accrued acquisition value. Accounts payable fall into this category. These have a short expected term and are recognised at the nominal amount with no discounting.

Reporting of derivatives used for hedging purposes
All derivatives are reported initially and continually at fair value in the balance sheet. The result of revaluation of derivatives used for hedging is reported as described in the section Derivatives and Hedge Accounting.

LIQUID FUNDS

Liquid funds consist of cash and bank balances as well as short-term investments with a maximum term of three months from the date of acquisition. These investments carry no significant risk of changes in value.

DERIVATIVES AND HEDGE ACCOUNTING

The Group's policy is for derivatives to be held for hedging purposes only. Derivatives comprise forward currency contracts used to hedge the risk of exchange rate fluctuation for internal and external flows of goods.

To meet the requirements of hedge accounting there must be a clear link to the hedged item. In addition, the hedge must effectively protect the hedged item, hedge documentation must have been prepared and the effectiveness must be measurable.

In hedge accounting, derivatives are classified as cash flow hedging or as fair value hedging. In 2010 and 2011 all of the Group's derivatives were in the cash flow hedging category. How these hedging transactions are reported is described below.

Hedging of forecast currency flows – cash flow hedging

Derivatives that hedge the forecast flow are reported in the balance sheet at fair value. Changes in value are reported in equity as a hedging reserve, via the statement of comprehensive income, until such time as the hedged flow is recognised in the income statement, at which time the hedging instrument's accumulated changes in value are transferred to the income statement where they then correspond to the profit/loss effects of the hedged transaction.

Hedging of contracted currency flows

When a hedging instrument is used to hedge fair value, the hedges are reported at fair value in the balance sheet and, correspondingly, the contracted flow is also reported at fair value with regard to the currency risk being hedged. Changes in the value of a derivative are reported in the income statement together with changes in the value of the hedged item. Cash flow hedging may also be used for contracted flows of goods.

STOCK-IN-TRADE

Stock-in-trade is valued at the lower of the acquisition cost and the net realisable value. From the moment the goods are transferred from the supplier to the transport service provider appointed by H&M, the goods are owned according to civil law by H&M and become part of H&M's reported stock-in-trade. The net realisable value is the estimated market value less the calculated selling expenses. Goods that have not yet arrived at a store are valued at their actual acquisition cost including the estimated cost of customs duties and freight.

For stock in the stores the acquisition cost is determined by reducing the selling price by the calculated gross margin (retail method).

H&M INCENTIVE PROGRAM (HIP)

The costs of the incentive programme are recognised in accordance with the rules on short-term profit-sharing and bonus schemes set out in IAS 19. The expense is recognised when the amount has been established and an obligation exists.

PENSIONS

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 separately for the respective plan based on the benefits earned during the previous and current periods. The defined benefit obligations less the fair value of managed assets are reported under the heading 'Provisions for pensions'. Defined benefit plans are primarily found in Sweden. Pension obligations are assessed annually with the help of independent actuaries according to the so-called Projected Unit Credit Method. The assessment is made using actuarial assumptions. These assumptions include such things as the discount rate, anticipated salary and pension increases as well as the expected return on managed assets. Changes in the actuarial assumptions and outcomes that deviate from the assumptions give rise to actuarial gains or losses. Such gains or losses are recognised in profits in the year they arise.

For salaried employees in Sweden, H&M applies the ITP plan through an insurance policy with Alecta. According to the statement issued by the Swedish Financial Reporting Board (UFR 3), this is a defined benefit plan that covers a number of employers. The plan will be reported as a defined contribution plan until the company gains access to the information allowing this plan to be reported according to the rules for defined benefit plans.

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2011, Alecta's consolidation ratio was 113 percent (134). The consolidation ratio is calculated as the fair value of managed assets as a percentage of the obligations calculated in accordance with Alecta's actuarial assumptions. This calculation is not in line with IAS 19.

OTHER PROVISIONS

Provisions are reported in the balance sheet when there is an undertaking as a result of an event occurring and it is likely that an outflow of resources will be required for the undertaking and when the amount can be reliably estimated.

INCOME TAX

Income taxes in the income statement represent current and deferred corporation tax payable by Swedish and foreign subsidiaries. Current tax is tax that will be paid or received in respect of the current year as well as adjustments to current tax attributable to previous periods. The income tax rate in force in each country is applied.

Deferred tax is calculated according to the balance sheet method based on temporary differences arising between reported and fiscal values of assets and liabilities. Deferred tax is calculated using the tax rates that are expected to apply in the period when the receivables are deducted or the liabilities are settled, based on the tax rates (and the tax legislation) in force on the closing date. Deferred tax receivables are recognised for all temporary differences unless they relate to goodwill or an asset or a liability in a transaction that is not a company acquisition and that, at the time of acquisition, affects neither the reported nor taxable profit or loss for the period. Also, temporary differences relating to investments in subsidiaries and associated companies are taken into account only to the extent it is likely that the temporary difference will be reversed in the foreseeable future. Deferred tax receivables for temporary differences and loss carry-forwards are recognised only to the extent it is likely that these will be able to be utilised.

The recorded values of deferred tax receivables are tested as of each closing date and reduced where it is no longer deemed likely that they will be able to be utilised.

CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The reported cash flow covers only transactions involving payments in or out.

SEGMENT REPORTING

The Group's business consists mainly of sales of clothing and cosmetics to consumers. Internal follow-up is carried out by country. In order to clearly present the information for different segments, the operations are divided into three geographical regions: the Nordic Region, Euro Zone Countries excluding Finland, and the Rest of the World. The parent company and subsidiaries with no external sales are reported in a separate Group-wide segment. The same accounting principles are applied to segment reporting as in the consolidated accounts. Transactions between segments take place on normal commercial terms.

2 FINANCIAL RISKS

The Group's financing and management of financial risk is carried out centrally within the Group's finance department in accordance with a financial policy established by the Board of Directors. The financial policy is the most important financial control tool for the company's financial activities and establishes the framework within which the company works. The Group's accounting principles for financial instruments, including derivatives, are described in Note 1.

In the course of doing business the Group is exposed to risk associated with financial instruments, such as liquid funds, short-term investments, accounts receivable and accounts payable. The Group also executes transactions involving currency derivatives for the purpose of managing currency risk that arises in the course of the Group's business.

The risks relating to these instruments are primarily the following:

– interest risk associated with liquid funds and short-term investments;
– currency risk associated with flows and financial assets in foreign currencies;
– credit risk associated with financial assets and derivative positions.

INTEREST RISK

Interest risk is the risk that the value of a financial instrument will vary due to changes in market interest rates and that changes in market interest rates may affect net profit. The Group's exposure to risk from changes in interest rates relates to liquid funds and short-term investments. The original term of the investments is a maximum of twelve months by the closing date. The financial policy permits investments of up to two years. The Group's liquid funds and short-term investments as of the closing date amounted to SEK 21,277 m (24,858). The short term means that the risk of changes in value is limited. An interest rate increase of 0.5 percentage units on this amount would increase interest income by SEK 106 m (124). A corresponding decrease in the interest rate would reduce interest income by the same amount.

CURRENCY RISK

Currency risk is, among other things, the risk that the value of financial instruments or future cash flows will vary due to changes in exchange rates.

Currency exposure associated with financial instruments

H&M's currency risk associated with financial instruments is mainly related to financial investments, accounts payable and derivatives. Most of the surplus liquidity is in Sweden and is invested in SEK, which reduces the Group's currency risk. The Group's accounts payable in foreign currencies are mainly handled in Sweden and are to a large extent hedged through forward contracts. Based on this, a change in the value of the Swedish krona of 2 percent in relation to other currencies would result in an insignificant momentary effect on profit related to the financial instrument holdings as of the closing date. A 2 percent strengthening of the Swedish krona would have a positive effect on the hedge reserve in equity of around SEK 60 m (60) before taking into account the tax effect.

The Group's exposure to outstanding derivative instruments is reported in Note 16.

The Group's operating result for the year was affected by exchange rate differences relating to flows of goods in the amount of SEK 154 m (-87).

Transaction exposure associated with commercial flows

The payment flows in the form of payments in foreign currencies for accounts receivable and payable expose the Group to currency risk. To manage the currency risk relating to changes in exchange rates the Group hedges its currency risk within the framework of the financial policy. The currency risk exposure is dealt with at central level. Most of the Group's sales are made in euro, and the Group's most significant purchase currencies are the US dollar and the euro. Fluctuation in the US dollar/euro exchange rate is the single largest transaction exposure within the Group. To hedge the flows of goods in foreign currencies and thereby reduce the effects of future exchange rate fluctuations, 100 percent of the Group's purchases of goods and corresponding forecast inflows from the sales companies are hedged under forward contracts on an ongoing basis. The average term of outstanding forward contracts is around four months. Since the sole purpose of this currency management is to reduce risk, only exposure in the flow of goods is hedged.

Translation exposure on consolidation of units outside Sweden

In addition to the effects of transaction exposure, the profits are also affected by translation effects as a result of changes in exchange rates for the local currencies of the various foreign subsidiaries against the Swedish krona, compared to the same period the previous year. The underlying profit/loss in a market may be unchanged in the local currency, but when converted into SEK may increase if the Swedish krona has weakened or decrease if the Swedish krona has strengthened. Translation effects affect the Group's net assets on consolidation of the foreign subsidiaries' balance sheets (translation exposure in the balance sheet). No exchange rate hedging (equity hedging) is carried out for this risk.

CREDIT RISK

Investments are only permitted to be made in banks based in countries with a minimum rating of AA- (according to Standard & Poor's long-term rating) and funds are only invested in banks with a minimum rating of A- (Standard & Poor) and A3 (Moody's). The finance policy stipulates for various ratings the maximum amount that may be invested and the term for which it may be invested. Investments are only allowed in banks defined by Standard & Poor's or Moody's as having systemic importance in the country where they are based. Under Standard & Poor's rating model the bank shall have at least "moderate systemic importance" and under Moody's model the bank shall have at least "one-notch uplift for systemic support". No further investments shall be made in countries or banks which have the minimum allowed long-term rating and a negative outlook. Maximum credit exposure as of 30 November 2011 totalled SEK 24,678 m (28,091), equivalent to the book value of liquid assets of SEK 14,319 m (16,691), short-term investments of SEK 6,958 m (8,167), accounts receivable of SEK 2,337 m (2,258) and other SEK 1,064 m (975). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 1,900 (2,100). Bad debts during the year from accounts receivable were insignificant.

3 SEGMENT REPORTING

	2011	2010
Nordic Region		
External net sales	16,343	17,023
Operating profit	614	966
Operating margin, %	3.8	5.7
Assets excluding tax receivables	6,301	6,076
Liabilities excluding tax liabilities	1,496	1,562
Investments	344	393
Depreciation	303	276
Eurozone excluding Finland		
External net sales	56,687	58,412
Operating profit	1,486	3,011
Operating margin, %	2.6	5.2
Assets excluding tax receivables	17,598	16,178
Liabilities excluding tax liabilities	3,556	3,403
Investments	1,796	1,988
Depreciation	1,450	1,433
Rest of the World		
External net sales	36,969	33,048
Operating profit	2,989	2,038
Operating margin, %	8.1	6.2
Assets excluding tax receivables	15,202	12,248
Liabilities excluding tax liabilities	3,110	2,508
Investments	2,543	2,000
Depreciation	1,274	1,141

	2011	2010
Group Functions		
Net sales to other segments	59,778	58,641
Operating profit	15,290	18,644
Operating margin, %	25.6	31.8
Assets excluding tax receivables	19,853	23,615
Liabilities excluding tax liabilities	5,121	4,327
Investments	491	578
Depreciation	235	211
Eliminations		
Net sales to other segments	-59,778	-58,641
Total		
External net sales	**109,999**	**108,483**
Operating profit	**20,379**	**24,659**
Operating margin, %	**18.5**	**22.7**
Assets excluding tax receivables	**58,954**	**58,117**
Liabilities excluding tax liabilities	**13,283**	**11,800**
Investments	**5,174**	**4,959**
Depreciation	**3,262**	**3,061**

The parent company and subsidiaries with no external sales are reported in a separate Group-wide segment.

4 NET SALES BY COUNTRY

	2011	NO. OF STORES 30 NOV. 2011	2010	NO. OF STORES 30 NOV. 2010
Sweden	6,704	173	6,742	168
Norway	4,322	104	4,690	101
Denmark	3,362	90	3,493	87
UK	7,921	213	7,337	192
Switzerland	5,553	80	5,689	75
Germany	24,997	394	25,757	377
Netherlands	5,885	118	6,208	112
Belgium	2,609	66	2,765	64
Austria	4,002	66	4,389	66
Luxembourg	345	10	365	10
Finland	1,948	47	2,098	43
France	7,806	168	7,642	151
USA	9,209	233	8,490	208
Spain	4,968	132	5,257	122
Poland	2,255	89	2,199	76
Czech Republic	603	24	591	22
Portugal	732	23	778	21
Italy	3,667	87	3,610	72
Canada	2,491	58	2,442	55
Slovenia	420	12	477	11
Ireland	441	15	443	12
Hungary	397	20	310	15
Slovakia	212	10	189	7
Greece	621	22	532	18
China	3,283	82	2,340	47
Japan	1,476	15	1,708	10
Russia	1,299	19	785	11
South Korea	373	6	232	2
Turkey	283	8	26	1
Romania	267	11	–	–
Croatia	215	6	–	–
Singapore	104	1	–	–
Franchise	1,229	70	899	50
Total	**109,999**	**2,472**	**108,483**	**2,206**

5 ROYALTIES FROM GROUP COMPANIES

The parent company's internal sales consist of royalties from Group companies of SEK 6,958 m (6,900).

6 SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2011	Board, MD, executive management, salary	Salary, other employees	Social sec. costs total	*of which* pens. total	*of which* pens. Board, MD, executive management
Sweden, parent company	79	607	358	127	31
Subsidiaries	61	14,250	3,179	141	6
Group total	**140**	**14,857**	**3,537**	**268**	**37**

2010	Board, MD, executive management, salary	Salary, other employees	Social sec. costs total	*of which* pens. total	*of which* pens. Board, MD, executive management
Sweden, parent company	64	477	268	94	12
Subsidiaries	61	13,581	3,067	156	7
Group total	**125**	**14,058**	**3,335**	**250**	**19**

BOARD FEES

Board fees paid for the year as approved by the 2010 AGM amounted to SEK 4,250,000 (3,875,000). Board fees were paid as follows:

	SEK
Stefan Persson, Chairman	1,425,000
Mia Brunell Livfors	375,000
Anders Dahlvig	375,000
Lottie Knutson	375,000
Sussi Kvart	450,000
Bo Lundquist	500,000
Melker Schörling	375,000
Christian Sievert	375,000

The fees were paid as resolved at the 2010 Annual General Meeting. This means that the fees relate to the period until the next AGM is held; that is, for the period 29 April 2010 to 28 April 2011. The amounts were paid out after the 2011 AGM.

As of the AGM on 28 April 2011 the Board consists of eight ordinary members elected by the AGM. There are also two employee representatives with two deputies for these positions. Seven members of the Board are women, five are men, and four of the 12 are employed by the company.

REMUNERATION TO SENIOR EXECUTIVES

Based on the resolution regarding guidelines passed by the 2011 AGM. See the Administration Report page 7.

REMUNERATION TO THE MANAGING DIRECTOR

Remuneration to the Managing Director for the 2011 financial year in the form of salary and benefits amounted to SEK 13.9 m (11.2), which included a bonus of SEK 2.1 m (0.2). Pension benefits for the current Managing Director are covered by a defined contribution plan and by the ITP plan. The combined pension expenses shall amount in total to 30 percent of the Managing Director's fixed salary. Pension expenses for the current Managing Director amounted to SEK 3.5 m (3.3). The retirement age for the Managing Director is 65.

The Managing Director is entitled to a 12-month period of notice. In the event the company cancels his employment contract, the Managing Director will also receive severance pay of an extra year's salary. The Managing Director's terms of employment are determined by the Board of Directors.

Pension for the former Managing Director

The former Managing Director retired on 1 September 2009. The total pension commitments entered as liabilities, which are based on the fact that the former Managing Director will receive a pension for the first three years of his retirement equivalent to 65 percent of his fixed salary followed by a lifelong pension equivalent to 50 percent of the same salary, amount to SEK 158.6 m (144.2). The change in the year's pension commitments entered as liabilities include actuarial losses of SEK 19.5 m (actuarial losses of SEK 1.7 m). Pension costs for the former Managing Director are included under "of which pensions to Board, MD, executive management".

Remuneration to other members of the exective management

Remuneration to other members of the executive management team in the form of salary and benefits were paid in the amount of SEK 61.9 m (49.3), which included bonuses of SEK 7.3 m (0.8). Pension expenses relating to other members of the executive management during the year amounted to SEK 14.6 m (8.8). The other members of the executive management are 16 (16) individuals, six of whom are women.

In addition to the Managing Director, the executive management team consists of the heads of the following functions: Finance, Buying, Production, Sales, Expansion, IR, Accounts, Marketing, HR, Communications, Sustainability, Security, Business Development, New Business, IT and Logistics. There are rules in place for these individuals with respect to supplements to retirement pension beyond the ITP plan. The retirement age varies between 60 and 65. The cost of this commitment is partially covered by separate insurance policies.

In addition, bonuses amounting to SEK 6.1 m (3.9) were paid out to country managers. No severance pay agreements exist within the Group other than for the Managing Director as described above. The terms of employment for other members of the executive management are determined by the Managing Director and the Chairman of the Board.

H&M INCENTIVE PROGRAM (HIP)

An extraordinary general meeting held on 20 October 2010 resolved to introduce an incentive programme for all employees of the H&M Group.

The programme was initiated by Stefan Persson and family through the donation of 4,040,404 H&M shares worth around SEK 1 billion to a Swedish foundation, Stiftelsen H&M Incentive Program.

All employees of the H&M Group, regardless of their position and salary level, are included in the programme according to the same basic principle – based on length of employment, either full-time or part-time. The number of years that the employee has worked for the company are taken into account in the qualification period, which is five years unless local rules require otherwise. As a general rule, funds will begin to be paid out no earlier than the age of 62. However, it will also be possible for payouts to be made after ten years of employment – but no earlier than 2021.

Each year the foundation will normally receive a contribution from the H&M Group corresponding to 10 percent of the increase in dividend compared with the previous year's dividend, provided this amounts to no more than 2 percent of the total dividend. There is a certain amount of flexibility as regards proposed contributions. One example of an exceptional situation is a year in which there is no increase in dividend. The Board may propose to the AGM that a contribution be made to the foundation nonetheless, in order to reward employees. Another example might be a year in which the dividend increase is disproportionately high; in this case, the previously mentioned cap of 2 percent of the total dividend could be applied. The contribution represents a cost to the H&M Group and does not affect the dividend resolution passed. It does not result in any dilution of existing shares. The contribution to the foundation is to be invested in H&M shares. H&M has no other commitments beyond this.

In the consolidated accounts the costs of the incentive programme are recognised in accordance with the rules on short-term profit-sharing and bonus schemes set out in IAS 19. The expenses will be recognised when the amount has been established and an obligation exists.

The first units in the foundation were allocated to employees in 2011 and were based on the 2010 earnings year. The first contribution by H&M to the foundation was also made in 2011. The contribution was based on the increase in dividend compared with the previous year's dividend. The contribution, which was made after the 2011 AGM, was SEK 248 m. The cost of the contribution was expensed in the second quarter of the 2011 financial year.

7 AVERAGE NUMBER OF EMPLOYEES

	2011 Total	Male %	2010 Total	Male %
Sweden	5,855	22	5,398	25
Norway	1,740	9	1,707	9
Denmark	1,397	8	1,522	7
UK	5,404	23	4,903	22
Switzerland	1,985	14	1,984	14
Germany	12,498	19	11,845	19
Netherlands	2,403	16	2,240	16
Belgium	1,836	25	1,632	22
Austria	1,906	9	1,921	10
Luxembourg	158	16	137	13
Finland	817	7	913	7
France	5,137	24	4,381	26
USA	5,096	34	4,543	34
Spain	3,209	18	4,303	18
Poland	4,099	19	3,089	18
Czech Republic	388	10	312	12
Portugal	582	15	693	16
Italy	2,158	27	2,037	27
Canada	1,142	22	1,114	22
Slovenia	141	13	137	15
Ireland	258	18	241	24
Hungary	260	17	182	14
Slovakia	198	18	96	19
Greece	460	17	294	22
China	3,048	26	2,013	30
Japan	472	43	475	44
Russia	724	26	565	27
South Korea	286	29	143	28
Turkey	320	38	200	25
Romania	236	35	22	9
Croatia	124	13	–	–
Singapore	51	37	–	–
Other countries	486	67	398	71
Group total	**64,874**	**21**	**59,440**	**21**

8 DEPRECIATION

Depreciation has been calculated at 12 percent of the acquisition cost of equipment and leasehold rights, and 20 percent for computer equipment and vehicles, based on their estimated useful life. Depreciation on brands and customer relations relating to FaBric Scandinavien AB is assessed at 10 percent of the acquisition cost. Buildings are depreciated at 3 percent of their acquisition cost.

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

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Cost of goods sold	366	336	–	–
Selling expenses	2,698	2,540	–	–
Administrative expenses	198	185	95	97
Total	**3,262**	**3,061**	**95**	**97**

9 AUDIT FEES

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Ernst & Young				
Audit assignments	15.5	15.9	2.5	2.4
Auditing other than audit assignments	1.3	1.1	0.1	0.1
Tax consultancy	11.4	10.9	0.1	0.1
Other auditors				
Audit assignments	3.3	3.2	–	–
Total	**31.5**	**31.1**	**2.7**	**2.6**

10 TAX

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Tax expense (–) / tax receivable (+):				
Current tax				
Tax expense for the period	-5,281	-7,255	-600	-881
Tax effect of group contributions provided	–	–	–	-34
Adjusted tax expense for previous years	98	–	–	–
Total	-5,183	-7,255	-600	-915
Deferred tax receivable (+) / tax expense (-) in respect of				
Temporary differences in stock-in-trade	188	-280	–	–
Loss carry-forward	-47	47	–	–
Pension provisions	14	3	4	3
Tax allocation reserve	–	1,150	–	–
Intangible fixed assets	16	26	–	–
Tangible fixed assets	-83	32	–	–
Other temporary differences	-26	-50	–	–
Total	62	928	4	3
Total	**-5,121**	**-6,327**	**-596**	**-912**
Reconciliation between current tax rate and effective tax rate:				
Expected tax expense according to the Swedish tax rate of 26.3%	-5,508	-6,577	-4,324	-4,096
Effect of changed tax rate in Sweden	–	58	–	–
Difference in foreign tax rates	425	288	–	–
Non-deductible/non-taxable	-152	-166	-13	-13
Other	16	70	–	–
Tax for previous years	98	–	–	–
Tax-free dividend subsidiaries	–	–	3,741	3,196
Total	**-5,121**	**-6,327**	**-596**	**-912**
Reported deferred tax receivable relates to:				
Pensions	108	87	63	59
Tangible fixed assets	14	–	–	–
Loss carry-forward in subsidiaries	–	47	–	–
Temporary differences in stock-in-trade	851	672	–	–
Hedging reserves	14	–	–	–
Other temporary differences	247	259	–	–
Total	**1,234**	**1,065**	**63**	**59**
Reported deferred tax expense relates to:				
Intangible fixed assets	100	116		
Tangible fixed assets	503	406		
Stock-in-trade	256	265		
Tax allocation reserve	–	–		
Hedging reserves	80	98		
Other temporary differences	11	21		
Total	**950**	**906**		

As of the closing date, the Group has no loss carry-forward other than the reported deferred taxes receivable.

11 INTANGIBLE FIXED ASSETS

	GROUP	
	2011	2010
Brand*		
Opening acquisition cost	470	470
Acquisitions during the year	–	–
Closing acquisition cost	470	470
Opening amortisation	-121	-74
Amortisation for the year	-47	-47
Closing accumulated amortisation	-168	-121
Closing book value	**302**	**349**
Customer relations*		
Opening acquisition cost	131	131
Acquisitions during the year	–	–
Closing acquisition cost	131	131
Opening amortisation	-34	-21
Amortisation for the year	-13	-13
Closing accumulated amortisation	-47	-34
Closing book value	**84**	**97**
Leasehold rights		
Opening acquisition cost	1,115	1,086
Acquisitions during the year	71	147
Sales/disposals	-99	-4
Translation effects	-13	-114
Closing acquisition cost	1,074	1,115
Opening amortisation	-427	-342
Sales/disposals	63	1
Amortisation for the year	-123	-130
Translation effects	-2	44
Closing accumulated amortisation	-489	-427
Closing book value	**585**	**688**
Goodwill*		
Opening book value	64	424
Adjusted consideration/additional consideration	–	-360
Closing book value	**64**	**64**

* Brands, customer relations and goodwill assets were added through the acquisition in 2008 of the company FaBric Scandinavien AB, which is a cash-generating unit. H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB at the end of November 2010. The consideration for the remaining 40 percent of the shares was SEK 8 m. A provision of SEK 368 m had been made previously for an additional consideration to the sellers as a result of the options. The difference between the actual consideration and the provision was recognised as a SEK 360 m reduction in goodwill.

A goodwill impairment test was carried out at the end of 2011. The impairment test is based on a calculation of value in use. The value in use has been assessed based on discounted cash flows according to forecasts for the next ten years and with an annual growth rate of 2 percent (2) in subsequent years. A discount rate of 12 percent (12) before tax was used. The cash flows are based on H&M's business plan. The growth rate of 2 percent (2) is based on H&M's assessment of the opportunities and risks associated with the business. The discount rate is based on an average weighted capital cost that is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and H&M is of the opinion that reasonable possible changes in the variables above would not have such a significant impact that the recovery amount would be reduced to a lower amount than the book value.

12 BUILDINGS, LAND & EQUIPMENT

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Buildings				
Opening acquisition cost	781	629	105	105
Acquisitions during the year	157	180	–	–
Sales/disposals	–	–	–	–
Translation effects	21	-28	–	–
Closing acquisition cost	959	781	105	105
Opening depreciation	-220	-207	-60	-57
Sales/disposals	–	–	–	–
Depreciation for the year	-26	-18	-3	-3
Translation effects	-6	5	–	–
Closing accumulated depreciation	-252	-220	-63	-60
Closing book value	**707**	**561**	**42**	**45**
Land				
Opening acquisition cost	95	70	3	3
Acquisitions during the year	–	29	–	–
Sales/disposals	–	–	–	–
Translation effects	2	-4	–	–
Closing book value	**97**	**95**	**3**	**3**
Equipment				
Opening acquisition cost	24,632	23,576	756	736
Acquisitions during the year	4,946	4,603	119	100
Sales/disposals	-1,518	-1,620	-175	-80
Translation effects	25	-1,927	–	–
Closing acquisition cost	28,085	24,632	700	756
Opening depreciation	-9,819	-9,257	-387	-373
Sales/disposals	1,404	1,508	175	80
Depreciation for the year	-3,053	-2,853	-92	-94
Translation effects	-28	783	–	–
Closing accumulated depreciation	-11,496	-9,819	-304	-387
Closing book value	**16,589**	**14,813**	**396**	**369**

The Group has no significant leasing agreements other than the rental agreements for rented premises entered into at normal market rates. Rental costs for the 2011 financial year amounted to SEK 12,993 m (12,891), of which sales-based rent amounted to SEK 1,232 m (1,044).

Rent according to the Group's rental agreements (basic rent excluding any sales-based rent) amounts to SEK m:

Rental commitments in next 12 months	9,942 (9,546)
Rental commitments in next 2–5 years	28,085 (27,255)
Rental commitments more than 5 years ahead	18,273 (17,878)

13 PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Prepaid rent	769	701	7	7
Other items	341	175	7	2
Total	**1,110**	**876**	**14**	**9**

14 SHORT-TERM INVESTMENTS

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Short-term investments, 4–12 months	6,958	8,167	5,038	8,167
Total	**6,958**	**8,167**	**5,038**	**8,167**

The balance sheet item includes interest-bearing investments, i.e. investments in securities issued by banks or in short-term bank deposits.

Investments are made on market terms and the interest rates are between 2.94 and 3.40 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

15 LIQUID FUNDS

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Cash and bank balances	5,739	5,437	177	123
Short-term investments, 0–3 months	8,580	11,254	501	100
Total	**14,319**	**16,691**	**678**	**223**

Investments are made on market terms and the interest rates are between 0.10 and 3.10 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

16 FORWARD CONTRACTS

The table below shows the outstanding forward contracts as of the closing date:

Currency pair	Book value and fair value		Nominal amount		Average remaining term in months	
SELL/BUY	2011	2010	2011	2010	2011	2010
NOK/SEK	-2	10	371	428	4	4
GBP/SEK	-26	21	1,276	1,095	4	4
DKK/SEK	0	8	415	360	4	4
CHF/SEK	22	-2	626	650	3	4
EUR/SEK	3	167	8,669	7,525	4	4
PLN/SEK	22	11	364	336	4	4
USD/SEK	-68	23	1,407	1,352	4	4
CAD/SEK	-4	2	307	298	4	4
JPY/SEK	-7	6	128	365	3	3
SEK/USD	365	48	9,441	8,419	2	2
SEK/EUR	1	-13	1,099	1,036	2	2
Total	**306**	**281**	**24,103**	**21,864**		

All changes in the value of derivatives are recognised initially via other comprehensive income in equity. From other comprehensive income the fair value is transferred to the income statement in conjunction with a hedged transaction taking place. As of the closing date forward contracts with a positive market value amount to SEK 456 m (457), which is reported under Other current receivables. Forward contracts with a negative market value amount to SEK 150 m (176), which is reported under Other current liabilities. Of the outstanding forward contracts, gains of SEK 88 m were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 218 m was recorded in the hedge reserve in equity.

Regarding measurement see Note 19.

17 SHARE CAPITAL

The share capital is divided between 194,400,000 class A shares (ten votes per share) and 1,460,672,000 class B shares (one vote per share). There are no other differences between the rights associated with the shares. The total number of shares is 1,655,072,000.

H & M Hennes & Mauritz AB effected bonus issues in the years 1983, 1984, 1985 and 1986, at which times so-called scrips were issued in accordance with the Companies Act effective at that time. A number of bonus share rights have not yet been received for exchange. In accordance with an announcement in June 2009, the corresponding bonus shares were sold on the market in June 2010. The holders of the bonus share rights then have a further four years in which to withdraw their share of the proceeds less the costs of the reminder and sale. The proceeds of the sale in 2010, which total SEK 48 m after costs have been deducted, are therefore being reported as a short-term liability until 30 June 2014. Any of these proceeds for which no valid claim is made will accrue to the company and thereby increase equity.

18 PROVISION FOR PENSIONS

	GROUP			PARENT COMPANY		
	2011	2010	2009	2011	2010	2009
Capitalised value of defined benefit obligations	951	348	335	271	252	238
Fair value of managed assets	-574	-91	-81	-31	-29	-27
Provision for pension obligations recorded in the balance sheet	**377**	**257**	**254**	**240**	**223**	**211**
Opening balance, 1 December	257	254	228	223	211	193
Adjustment of opening balance*	64	–	–	–	–	–
Adjusted opening balance	**321**	**254**	**228**	**223**	**211**	**193**
Reported pension expenses, net	120	33	38	33	28	23
Premiums paid	-43	-13	-5	-1	-3	-2
Pensions paid out	-21	-17	-7	-15	-13	-3
Recorded amount of defined benefit obligations, 30 November	**377**	**257**	**254**	**240**	**223**	**211**

* The change in the capitalised value of defined benefit obligations and the fair value of managed assets is mainly due to the fact that the pension plan in Switzerland was previously reported as a defined contribution plan. With effect from the 2011 financial year this is reported in accordance with the rules for defined benefit plans. Had the plan been reported in accordance with these rules the previous year, the commitment would have amounted to SEK 64 m. This effect, adjusted by deferred tax, has been recognised as an adjustment of opening shareholders' equity.

The amounts recorded as pension expenses include the following items:

	GROUP 2011	GROUP 2010	GROUP 2009	PARENT COMPANY 2011	PARENT COMPANY 2010	PARENT COMPANY 2009
Expenses for service during the current year	55	16	34	5	9	23
Interest expense	29	12	11	8	8	7
Expected return on managed assets	-19	-3	-3	-1	-1	-1
Actuarial gains (-) and losses (+)	51	7	-4	21	6	-6
Reductions/adjustments gains (-) and losses (+)	0	-10	–	0	-4	–
Recognised past service cost	0	13	–	0	10	–
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	4	-2	0	–	–	–
Reported pension expenses, net	**120**	**33**	**38**	**33**	**28**	**23**

The cost of defined contribution pension plans amounts to SEK 240 m (238).

Significant actuarial assumptions on the balance sheet date (weighted average amounts)

	GROUP 2011	GROUP 2010	GROUP 2009	PARENT COMPANY 2011	PARENT COMPANY 2010	PARENT COMPANY 2009
Discount rate	2.77%	3.25%	3.61%	3.25%	3.25%	3.50%
Expected return on managed assets	1.73%	3.12%	3.57%	2.25%	3.25%	3.25%
Future salary increases	2.72%	4.73%	4.63%	5.00%	5.00%	5.00%
Future pension increases (inflation)	0.83%	2.00%	3.00%	2.00%	2.00%	2.00%

19 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

2011	Loans receivable and accounts receivable	Financial assets held to maturity	Deriv. for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	608	–	–	608
Accounts receivable	2,337	–	–	–	2,337
Other receivables	–	–	456	–	456
Short-term investments	–	6,958	–	–	6,958
Liquid funds	8,580	5,739	–	–	14,319
Total financial assets	**10,917**	**13,305**	**456**	**–**	**24,678**
Accounts payable	–	–	–	4,307	4,307
Other liabilities	–	–	150	–	150
Total financial liabilities	**–**	**–**	**150**	**4,307**	**4,457**

2010	Loans receivable and accounts receivable	Financial assets held to maturity	Deriv. for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	518	–	–	518
Accounts receivable	2,258	–	–	–	2,258
Other receivables	–	–	457	–	457
Short-term investments	–	8,167	–	–	8,167
Liquid funds	11,254	5,437	–	–	16,691
Total financial assets	**13,512**	**14,122**	**457**	**–**	**28,091**
Accounts payable	–	–	–	3,965	3,965
Other liabilities	–	–	176	–	176
Total financial liabilities	**–**	**–**	**176**	**3,965**	**4,141**

The fair value of all financial assets and liabilities essentially corresponds to the book value. Assets and liabilities that are recognised at accrued acquisition cost have short remaining terms, making the difference between book value and fair value negligible.

The category derivatives for hedging recognised at fair value is measured based on observable data; in other words, in accordance with level 2 in the measurement hierarchy established in IFRS 7.

20 ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Holiday pay liability	672	627	67	51
Social security costs	440	438	71	54
Payroll liability	544	450	18	14
Costs relating to premises	2,078	1,959	0	4
Other accrued overheads	2,437	1,902	102	104
Total	**6,171**	**5,376**	**258**	**227**

21 RELATED PARTY DISCLOSURES

Ramsbury Invest AB, which is owned by Stefan Persson and family, is the parent company of H & M Hennes & Mauritz AB. The H&M Group leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50-52, Drottninggatan 56 and Drottninggatan 57 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö, Amagertorv 23 in Copenhagen, Oxford Circus and Regent Street in London, Kaufinger Strasse in Munich and, since January 2008, premises for H&M's head office in Stockholm. Rent is paid at market rates and totalled SEK 227 m (229) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 13.9 m (11.2), which included a bonus of SEK 2.1 m (0.2), for work carried out during the financial year as Managing Director of H & M Hennes & Mauritz AB.

22 APPROPRIATIONS

	PARENT COMPANY	
	2011	2010
Reversal of tax allocation reserve	–	705
Depreciation in excess of plan	-9	1
Total	**-9**	**706**

23 PARTICIPATIONS IN GROUP COMPANIES

All Group companies are wholly-owned.

2011	Corporate ID number	No. of shares	Book value	Domicile
Parent company shareholdings				
Bekå AB	556024-2488	450	1.3	Stockholm
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	0.1	Stockholm
H & M Online AB	556023-1663	1,150	0.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International B.V.		40	0.1	Netherlands
H & M India Private Ltd		8,650,000	12.5	India
H & M Hennes & Mauritz Japan KK		99	11.7	Japan
FaBric Scandinavien AB	556663-8522	1,380	560.7	Tranås
H & M Hennes & Mauritz International AB	556782-4890	1,000	0.1	Stockholm
Total			**589.7**	

2011	Domicile
Subsidiaries' holdings	
H & M Hennes & Mauritz AS	Norway
H & M Hennes & Mauritz A/S	Denmark
H & M Hennes & Mauritz Ltd	UK
H & M Hennes & Mauritz SA	Switzerland
H & M Hennes & Mauritz B.V. & Co. KG	Germany
Impuls GmbH	Germany
H & M Hennes & Mauritz Logistics AB Co. KG	Germany
H & M Hennes & Mauritz online shop AB & Co. KG	Germany
H & M Hennes & Mauritz Holding B.V.	Netherlands
H & M Hennes & Mauritz Netherlands B.V.	Netherlands
H & M Hennes & Mauritz Management B.V.	Netherlands
H & M Hennes & Mauritz Belgium NV	Belgium
H & M Hennes & Mauritz Logistics GBC NV	Belgium
H & M Hennes & Mauritz GesmbH	Austria
H & M Hennes & Mauritz Oy	Finland
H & M Hennes & Mauritz SARL	France
H & M Hennes & Mauritz Logistics GBC	France
H & M Hennes & Mauritz LLP	USA
Hennes & Mauritz SL	Spain
H & M Hennes & Mauritz Sp. z o.o.	Poland
H & M Hennes & Mauritz Logistics Sp. z o.o.	Poland
H & M Hennes & Mauritz CZ, s.r.o.	Czech Republic
Hennes & Mauritz Lda	Portugal
H & M Hennes & Mauritz S.r.l.	Italy
H & M Hennes & Mauritz Inc.	Canada
H & M Hennes & Mauritz d.o.o.	Slovenia
H & M Hennes & Mauritz Ltd	Ireland
H & M Hennes & Mauritz Kft	Hungary
H & M Hennes & Mauritz Far East Ltd	Hong Kong
Puls Trading Far East Ltd	Hong Kong
H & M Hennes & Mauritz Holding Asia Ltd	Hong Kong
H & M Hennes & Mauritz Ltd	Hong Kong
Hennes & Mauritz (Shanghai) Commercial Ltd Co	China
H & M Hennes & Mauritz (Shanghai) Trading Ltd Co	China
H & M Hennes & Mauritz (Shanghai) Garment Company Ltd	China
H & M Hennes & Mauritz SK s.r.c.	Slovakia
H & M Hennes & Mauritz A.E.	Greece
H & M Hennes & Mauritz LLP	Russia
H & M Hennes & Mauritz TR Tekstil ltd sirketi	Turkey
H & M Hennes & Mauritz Ltd	South Korea
H & M Hennes & Mauritz SRL	Romania

2011	Corporate ID number	Domicile
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia
H & M Hennes & Mauritz PTE Ltd		Singapore
H & M Hennes & Mauritz EOOD		Bulgaria
Fabric Retail Glbl AB	556427-8926	Sweden
Weekday Brands AB	556675-8438	Sweden
Fabric Sales Sweden AB	556686-8609	Sweden
FaBric Sales Norway AS		Norway
FaBric Sales A/S		Denmark
FaBric Sales AB & Co. KG Germany		Germany
Fabric Sales Netherlands B.V.		Netherlands
Fabric Sales Hong Kong Limited		Hong Kong
Fabric Sales Finland Oy		Finland

24 UNTAXED RESERVES

	PARENT COMPANY	
	2011	2010
Depreciation in excess of plan	128	119
Total	**128**	**119**

25 CONTINGENT LIABILITIES

	PARENT COMPANY	
	2011	2010
Parent company's lease guarantees	9,321	12,729
Total	**9,321**	**12,729**

26 KEY RATIO DEFINITIONS

Return on equity
Profit for the year in relation to average shareholders' equity.

Return on capital employed
Profit after financial items plus interest expense in relation to average shareholders' equity plus average interest-bearing liabilities.

Share of risk-bearing capital
Shareholders' equity plus deferred tax liability in relation to the balance sheet total.

Equity/assets ratio
Shareholders' equity in relation to the balance sheet total.

Equity per share
Shareholders' equity divided by number of shares.

P/E ratio
Price per share divided by earnings per share.

Comparable units
Comparable units refers to the stores and the internet and catalogue sales countries that have been in operation for at least one financial year. H&M's financial year runs from 1 December to 30 November.

SIGNING OF THE ANNUAL REPORT

The undersigned hereby provide an assurance that the Annual Report and consolidated accounts have been drawn up in accordance with IFRS international accounting standards, as adopted by the EU, with good accounting practice, and that they provide a true and fair view of the Group's and the parent company's position and earnings, and also that the Administration Report provides a true and fair view of the development of the Group's and the parent company's business, position and earnings, and also describe the significant risks and uncertainties faced by the companies making up the Group.

Stockholm, 25 January 2012

STEFAN PERSSON
Chairman of the Board

MIA BRUNELL LIVFORS
Board member

ANDERS DAHLVIG
Board member

LOTTIE KNUTSON
Board member

SUSSI KVART
Board member

BO LUNDQUIST
Board member

MELKER SCHÖRLING
Board member

CHRISTIAN SIEVERT
Board member

AGNETA RAMBERG
Board member

MARGARETA WELINDER
Board member

KARL-JOHAN PERSSON
Managing Director

Our audit report was submitted on 26 January 2012

Ernst & Young AB

Erik Åström
Authorised Public Accountant

AUDITORS' REPORT

To the Annual General Meeting of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220

We have audited the annual accounts, consolidated accounts, accounting records and the administration of the Board of Directors and the Managing Director of H & M Hennes & Mauritz AB for the financial year 1 December 2010 to 30 November 2011. The company's annual accounts and consolidated accounts are included in this document on pages 5–32. These accounts, the administration of the company and compliance with the Annual Accounts Act in the preparation of the annual report and the application of IFRS international accounting standards, as adopted by the EU, and of the Annual Accounts Act to the consolidated accounts 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.

Our audit was conducted in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain a high, but not absolute 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 and the Managing Director and evaluating the significant assessments made by the Board and the Managing Director and evaluating the significant assessments made by the Board and the Managing Director in preparing the annual accounts and consolidated accounts, as well as assessing the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances in the company in order 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 has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the company's earnings and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been compiled in accordance with IFRS international accounting standards, as adopted by the EU, and the Annual Accounts Act and give a true and fair view of the Group's earnings and financial position. The administration report is consistent with the other sections of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting 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, 26 January 2012

Ernst & Young AB

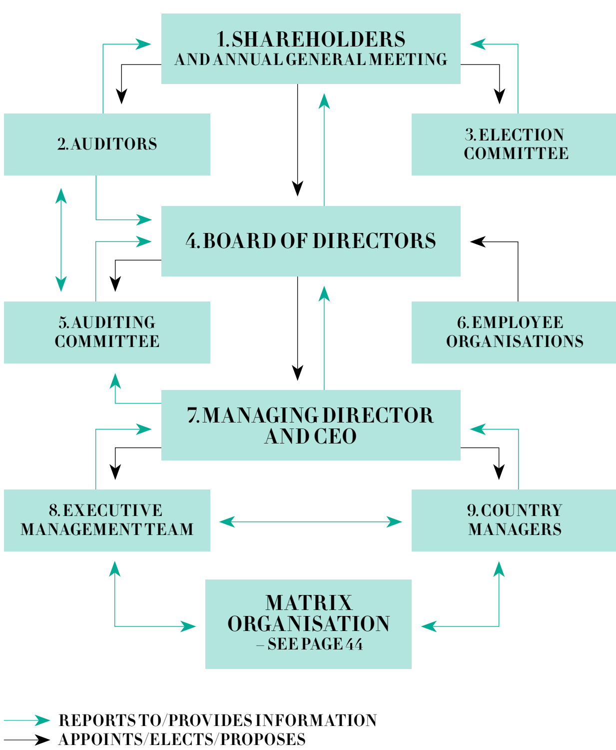
Erik Åström
Authorised Public Accountant

CORPORATE GOVERNANCE REPORT 2011
H & M HENNES & MAURITZ AB

Good corporate governance is basically about ensuring that companies are run as efficiently as possible in the interests of the shareholders.

H&M applies the Swedish Code of Corporate Governance (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code (available from www.bolagsstyrning.se). This corporate governance report for 2011 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. H&M has chosen to have the corporate governance report as a separate document to the Annual Report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act. The information that must be provided under Chapter 6 § 6 items 3–6 of the Annual Accounts Act is included in the administration report on page 8 of H&M in Figures 2011 and is therefore not included in this corporate governance report. In accordance with Chapter 6 § 9 of the Annual Accounts Act the company's auditors have issued a statement on the corporate governance report that can be found on page 46.

The Code is based on the principle of "comply or explain", which means that companies applying the Code may deviate from individual rules provided they give an explanation of the deviation, describe the chosen alternative and provide the reasons for the deviation.



Deviation from section 2.4 of the Code:
– The Chairman of the Board is the chairman of the Election Committee. Reason for the deviation: The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.

H&M's CORPORATE GOVERNANCE STRUCTURE

H&M's shareholders make the ultimate decision on the company's direction, since the shareholders at the Annual General Meeting appoint the Board of Directors and the Chairman of the Board. The Annual General Meeting also elects auditors, decides on the principles of the Election Committee and selects the members of this committee. The task of the Board of Directors is to manage H&M's affairs on behalf of the shareholders. The auditors report to the Annual General Meeting on their scrutiny. The Board of Directors establishes a work plan for the Board as well as instructions for the Managing Director. Auditing matters are dealt with in the Auditing Committee, which is the main channel of communication between the Board and the company's auditors. The Board of Directors appoints the Managing Director. The Managing Director in turn appoints the members of the executive management team and the country managers. H&M has a matrix organisation.

H&M's corporate governance is regulated by both external regulations and internal control documents.

Examples of external regulations:
– the Swedish Companies Act
– accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
– NASDAQ OMX Stockholm AB Rules for Issuers
– Swedish Code of Corporate Governance

Examples of internal control documents:
– Articles of Association
– instructions and work plan for the Board of Directors and the Managing Director
– Code of Ethics
– Code of Conduct
– policies such as the Financing Policy and Communications Policy, guidelines and manuals

1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

The general meeting is the company's highest decision-making body and is the forum in which shareholders exercise their right to decide on the company's affairs.

The ordinary general meeting (the Annual General Meeting) is convened once a year in order to carry out tasks such as adopting the annual accounts and consolidated accounts, discharging the members of the Board of Directors and the Managing Director from liability and deciding how the profit for the past financial year is to be allocated. The Annual General Meeting also decides on guidelines for remuneration to senior executives. In addition, the meeting decides on any amendments to the Articles of Association and elects the Board of Directors and, when necessary, auditors for the forthcoming period of office. Extraordinary general meetings can be held where there is a particular need to do so.

2. AUDITORS

The auditors are appointed by the shareholders at H&M's Annual General Meeting every four years. The auditors scrutinise the company's financial statements, the consolidated statements and the accounts, and the management of the company by the Board and Managing Director.

3. ELECTION COMMITTEE

The Election Committee is the general meeting's body that prepares the necessary information as a basis for decisions at the general meeting as regards election of the Board of Directors, Chairman of the Board, auditors and the chairman of the Annual General Meeting, fees to the Board and auditors, as well as principles for the Election Committee. An account of the work of the Election Committee ahead of each AGM is available in a separate document on the website. Starting from the 2008 Annual General Meeting, the members of H&M's Election Committee are elected by the general meeting.

4. BOARD OF DIRECTORS

The task of the Board of Directors is to manage the company's affairs on behalf of the shareholders. The Board members are elected by the shareholders at the Annual General Meeting for the period up until the next AGM.

In addition to laws and recommendations, H&M's Board work is regulated by the Board's work plan which contains rules on the distribution of work between the Board, its committees and the Managing Director, financial reporting, investments and financing. The work plan, which also includes a work plan for the Auditing Committee, is established once a year.

According to the Articles of Association, H&M's Board is to consist of at least three but no more than twelve members elected by the AGM and no more than the same number of deputies. The Annual General Meeting determines the exact number of Board members.

5. AUDITING COMMITTEE

The Auditing Committee monitors the company's financial reporting, which includes monitoring the effectiveness of the company's internal control and risk management. Its work includes handling auditing issues and financial reports published by the company. The auditors appointed by the Annual General Meeting attend the meetings of the Auditing Committee to report on their scrutiny of the Group's annual accounts, consolidated accounts, etc. The Auditing Committee also reviews and monitors the impartiality and independence of the auditor and regulates which assignments the accounting firm may conduct in addition to the audit. The Committee also assists the Election Committee with any proposals to the AGM concerning the election of auditors.

H&M's Auditing Committee is made up of three Board members, all of which have expertise in accounting or auditing. Two of the members are independent of the company, its management and its major shareholders. The Committee is appointed annually by the Board of Directors at the statutory Board meeting held in conjunction with the AGM.

6. EMPLOYEE ORGANISATIONS

Under Swedish law, the employees have the right to appoint employee representatives with deputies to the company's Board. These are appointed via employee organisations (trade unions). The trade unions appoint two Board members and two deputies to the Board of H&M.

7. MANAGING DIRECTOR

The Managing Director is appointed by the Board of Directors and is responsible for the daily management of the company as directed by the Board. This means that the Managing Director must focus in particular on recruitment of senior executives, buying and logistics matters, the customer offering, pricing strategy, sales and profitability, marketing, expansion, development of the store network and of online and catalogue sales, and IT development. The Managing Director reports to the Board on H&M's development and makes the necessary preparations for taking decisions on investments, expansion, etc. The role of Managing Director includes contact with the financial market, the media and the authorities.

8, 9. EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

H&M has a matrix organisation, which means that the members of the executive management team responsible for each department are responsible for that department's support, training and best practice, and for each country working efficiently in accordance with the policies and guidelines issued by head office. The country managers are responsible for sales, profitability and operations in their country, and thereby have overall responsibility for all the departments in their country. The country organisations are in turn divided into regions, with a number of stores in each region.

Internal control is evaluated annually by each central department, which checks that this department of the business in each country is working in accordance with the policies and guidelines laid down. The stores are in turn checked by internal store auditors.

READ MORE AT www.hm.com
To find out more about H&M's corporate governance visit www.hm.com/corporategovernance
Among other things, you will find:
– Previous corporate governance reports dating back to 2005
– Articles of Association
– Information on the Election Committee, Board of Directors, Managing Director, auditors, Auditing Committee, etc.
– Information and material from previous AGMs dating back to 2004
– Risks and uncertainties

SHAREHOLDERS AND ANNUAL GENERAL MEETING

H&M's class B share is listed on NASDAQ OMX Stockholm AB. At the end of the financial year H&M had 201,673 shareholders. The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share).

H&M's largest shareholder is Stefan Persson and family, who via Ramsbury Invest AB hold all the class A shares, which represent 57.1 percent of the votes, as well as 393,049,043 class B shares, which represent 11.5 percent of the votes. This means that as at 30 November 2011 Stefan Persson and family represent 68.6 percent of the votes and 35.5 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB.

The shareholders registered directly in the register of shareholders who have given notice of their attendance on time are entitled to participate in the meeting and vote for the total number of shares they hold. Shareholders who cannot be present in person may be represented by proxy. Notice of the general meeting is published on the company's website and also by advertisements in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Nyheter.

Information material from H&M's most recent Annual General Meetings as well as H&M's Extraordinary General Meeting in 2010 can be found on www.hm.com under the heading Corporate Governance. Here there is also information about the right of shareholders to raise matters at the meeting and when such requests must be received by H&M so that the matter is certain to be included on the agenda in the notice to attend. H&M's e-mail address is also given for those shareholders who wish to submit their questions in advance to H&M.

ANNUAL GENERAL MEETING 2011

H&M's Annual General Meeting 2011 was held on 28 April in Victoriahallen at the Stockholm International Fairs. 1,498 shareholders were represented at the meeting, representing 82.3 percent of the votes and 63.5 percent of the capital. H&M's Board of Directors, executive management and Election Committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:
- Lawyer Sven Unger was elected as chairman of the meeting.
- Balance sheets and income statements for the parent company and for the Group were adopted.
- A dividend to shareholders of SEK 9.50 per share was approved.
- The Board members and the Managing Director were discharged from liability for the 2009/2010 financial year.
- The number of Board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- All the ordinary Board members – Mia Brunell Livfors, Anders Dahlvig, Lottie Knutson, Sussi Kvart, Bo Lundquist, Stefan Persson, Melker Schörling and Christian Sievert – were re-elected by the AGM.
  Stefan Persson was re-elected as Chairman of the Board.
- The fees paid to Board members until the next AGM were set at SEK 4,850,000 in total, to be distributed as follows: Chairman of the Board SEK 1,350,000; Board members SEK 450,000; members of the Auditing Committee an extra SEK 100,000; and the chairman of the Auditing Committee an extra SEK 150,000.
- The proposed principles for the Election Committee were approved and members of the Election Committee were elected.
- The amendment of the Articles of Association, with a view to adapting the Articles to amendments in the Swedish Companies Act, was approved.
- The proposed guidelines for remuneration to senior executives were approved.

The minutes of the Annual General Meeting were published on the website within two weeks of the meeting. Material from the meeting, such as the notice to attend the meeting, the Board's statement concerning the proposed allocation of profits, the Managing Director's speach and presentation and the minutes, etc. were translated into English and also published on the website.

Votes and capital represented at H&M's Annual General Meeting

YEAR	% OF VOTES	% OF CAPITAL
2007	80.9	60.7
2008	80.9	60.7
2009	81.3	61.5
2010	81.9	62.7
2011	82.3	63.5

COMPOSITION AND WORK OF THE ELECTION COMMITTEE IN 2011/2012

The members of the Election Committee were elected by the 2011 AGM. The Election Committee was elected on the basis of its principles, which, in brief, state that the Election Committee shall be made up of the Chairman of the Board and four other members, each representing one of the four biggest shareholders as of 28 February 2011, apart from the shareholder that the Chairman of the Board represents. The principles include a procedure for replacing any member who leaves the Election Committee before the Committee's work is complete. To read the principles in full, see the document "Account of the work of H&M's Election Committee 2011" under the heading Election Committee in the Corporate Governance section at www.hm.com.

The composition of the Election Committee following the 2011 AGM was:
- Stefan Persson, Chairman of the Board
- Lottie Tham, representing Lottie Tham
- Liselott Ledin, representing Alecta
- Jan Andersson, representing Swedbank Robur Fonder
- Anders Oscarsson, representing AMF Pension

The composition of the Election Committee meets the Code's requirements with respect to independent members.

H&M deviated from Code rule 2.4 which states, among other things, that the Chairman of the Board shall not be the chairman of the Election Committee. The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee during the year on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.
The Election Committee elected at the 2010 AGM presented its proposals to the 2011 AGM. The Election Committee provided the following grounds for its proposed composition of the Board before the 2011 AGM:

"The Election Committee judges that the proposed composition of the Board of Directors accords well with section 4.1 of the Swedish Code of Corporate Governance, i.e. that the proposed Board is characterised by diversity and breadth of expertise, experience, background and equal gender distribution".

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2011

NAME	YEAR ELECTED	INDEPENDENT [1]	INDEPENDENT [2]	FEES (SEK) [3]	BOARD MEETINGS	AUDITING COMMITTEE	SHAREHOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, Chairman	1979	No	No	1,425,000	6/6	4/4		194,400,000 [4] 393,049,043 [5]
Mia Brunell Livfors	2008	Yes	Yes	375,000	5/6			600 [6]
Anders Dahlvig	2010	Yes	Yes	375,000	6/6		9,000	
Lottie Knutson	2006	Yes	Yes	375,000	6/6		1,400	
Sussi Kvart	1998	Yes	Yes	450,000	6/6	4/4	4,400	1,700
Bo Lundquist	1995	Yes	Yes	500,000	6/6	4/4		100,000 [7]
Melker Schörling	1998	Yes	Yes	375,000	6/6			228,000 [8]
Christian Sievert	2010	Yes	Yes	375,000	6/6		50,000	600
Marianne Broman, [9] employee rep.	1995				3/6		140	290
Margareta Welinder, employee rep.	2007				6/6			
Agneta Ramberg, [9] employee rep.	1997				5/6			
Marie Björstedt, [9] deputy employee rep.	2011				4/6			
Tina Jäderberg, deputy employee rep.	2007				6/6			

1) Independent of the company and company management in accordance with the Swedish Code of Corporate Governance.
2) Independent of major shareholders in the company in accordance with the Swedish Code of Corporate Governance.
3) Fees as resolved at the 2010 Annual General Meeting. This means that the fees relate to the period until the next AGM is held, i.e. for the period 29 April 2010 to 28 April 2011. The amount was paid out after the 2011 AGM.
4) Class A shares owned through Ramsbury Invest AB.
5) Class B shares owned through Ramsbury Invest AB.
6) Shares held together with related parties.
7) Shares owned through Bo Lundquist's company Caboran AB.
8) Shares owned through Melker Schörling AB.
9) Employee representative Marianne Broman retired in 2011. Former deputy employee representative Agneta Ramberg succeeded Marianne Broman as employee representative at the 2011 AGM and Marie Björstedt became the new deputy employee representative.

There are no outstanding share or share price related incentive programmes for the Board of Directors.

The proposed composition met the applicable requirements concerning the independence of members and stock market experience.

Since the 2011 AGM the Election Committee has held one meeting at which minutes were taken and the Committee was also in contact at other times. At the Election Committee's meeting Stefan Persson gave a verbal account of the work of the Board during the year. The conclusion was that the Board had worked effectively over the course of the year.

The Board's work is presented so that the Election Committee can make the best possible assessment of the Board's competence and experience. The Election Committee also discussed the size of the Board, its composition, the election of a chairman for the meeting and fees for Board members.

No fees were paid to the Election Committee's chairman or to any of the other members of the Election Committee.

> ANNUAL GENERAL MEETING 2012
> H&M's Annual General Meeting 2012 will be held on Thursday 3 May in Victoriahallen at the Stockholm International Fairs. To register to attend the 2012 AGM, see H&M in Figures 2011 page 50 or visit www.hm.com/agm.

The Election Committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2012 AGM.

INDEPENDENCE OF BOARD MEMBERS

The composition of H&M's Board during the year met the independence requirements set out in sections 4.4 and 4.5 of the Code. This means that the majority of the Board members elected by the general meeting are independent of the company and company management. At least two of these are also independent of the company's major shareholders.

THE BOARD OF DIRECTORS

Since the 2011 AGM the Board has consisted of eight ordinary members elected by the AGM and no deputies. There are also two employee representatives, with two deputies for these positions. The Board is comprised of seven women and five men. Only the employee representatives are employed by the company. The 2011 AGM re-elected all the Board members and Stefan Persson was re-elected as Chairman of the Board.

For facts about H&M's Board members, see pages 42–43. The Board members are to devote the time and attention that their assignment for H&M requires. New Board members receive introductory training which, among other things, includes meetings with the heads of various functions.

During the financial year H&M normally holds six regular Board meetings, one of which is the statutory Board meeting. Extraordinary Board meetings are held when the need arises. The Managing Director attends all Board meetings, except when the Managing Director's work is being evaluated. The Managing Director reports to the Board on the operational work within the Group and ensures that the Board is given relevant and objective information on which to base its decisions. Other members of the management team, such as the CFO and Chief Accountant, also attend in order to provide the Board with financial information. The Board is assisted by a secretary who is not a member of the Board.

WORK OF THE BOARD IN 2010/2011

H&M's Board held six Board meetings during the financial year, one of which was the statutory meeting.

The Board's attendance is reported in the table entitled "Composition of the Board of Directors and Attendance during the Year". The Managing Director Karl-Johan Persson attended all the Board meetings held in 2011.

During the year the Board addressed and discussed the following matters:

– The company's financial situation, with sales, costs and results as the main focus.
– Decisions on the interim reports, full year report, annual accounts and consolidated accounts, as well as the corporate governance report. Accounting and auditing matters are prepared within the Auditing Committee and reported to the Board (see next section).
– Investments for the coming financial year.
– Guidelines for remuneration to senior executives.
– Expansion strategy, aims and new markets.
– Among other things, the Managing Director reported on developments in H&M's various markets including the new markets of Romania, Croatia, Singapore, Jordan and Morocco, the customer offering, buying work, the level of stock-in-trade, marketing, online sales, organisational changes, expansion and developments relating to the more recent concepts – COS, Monki, Weekday, Cheap Monday and H&M Home.
– The dividend proposal to the AGM of SEK 9.50 per share for the 2009/2010 financial year.
– Decision to continue with the present model for monitoring internal control – see page 45.
– Examination of the executive management team's updated risk assessment.
– Decisions were taken during the year on updated policy documents such as the work plan and information policy.
– Production, buying processes, the environment and sustainability.
– During the year the Board also discussed strategic matters such as competition, external factors and development opportunities.

In connection with the Board's review of the proposed Annual Report for 2009/2010, auditor Erik Åström gave an account of the year's audit work.

THE AUDITING COMMITTEE IN 2010/2011

Since the statutory meeting held in conjunction with the 2011 AGM, the Auditing Committee has consisted of chairman Bo Lundquist and members Sussi Kvart and Stefan Persson. The committee held four meetings at which minutes were taken in 2011.

Ernst & Young attended the Auditing Committee meetings and reported on the auditing assignments. The meetings were also attended by CFO Jyrki Tervonen and Chief Accountant Anders Jonasson, among others. The Committee's meetings are minuted and the minutes are then distributed to the Board members. During the year the Auditing Committee addressed the following matters, among others:

– The company's financial reporting, including interim reports, the corporate governance report and annual report.
– The Auditing Committee checked that the company is carrying out its internal control and risk management processes effectively and also reviewed the overall risk analysis for the Group.
– The significance of the European debt crisis for the company.
– The company's internal pricing model and tax issues.
– Ernst & Young provided the Committee with information on the results of its scrutiny as well as the scope of the audit.
– Among other things, the following functions also gave presentations/provided information on their work: Production, Security, Human Resources and Transfer Pricing.
– The introduction of new bribery legislation in the UK in 2011 and in 2012 also in Sweden.

FINANCIAL REPORTING

H&M's financial reporting is carried out in compliance with the laws, statutes, regulations and recommendations that apply to companies listed on NASDAQ OMX Stockholm AB. It falls to the Board of Directors to ensure the quality of financial reporting with the help, for example, of the Auditing Committee (see text above). More information is available in the section on internal control over financial reporting.

AUDITORS

At the 2009 AGM the accounting firm Ernst & Young AB was elected as auditor of H&M for a four-year period, i.e. until the end of the 2013 Annual General Meeting. Authorised Public Accountant Erik Åström from Ernst & Young holds the main responsibility for the audit.

As previously, the 2011 AGM resolved that the auditors' fees should be paid based on the invoices submitted.

Ernst & Young AB is a member of a global network used for auditing assignments for most of the Group companies and meets H&M's requirements with respect to competence and geographical coverage. The auditors' independent status is guaranteed partly by legislation and professional ethics rules, partly by the accounting firm's internal guidelines and partly by the Auditing Committee's guidelines regulating which assignments the accounting firm is permitted to conduct in addition to the audit.

Authorised Public Accountant Erik Åström conducts auditing assignments for listed companies such as Hakon Invest and Svenska Handelsbanken, as well as for IKEA Sweden and NASDAQ OMX.

The fees invoiced by the auditors over the past two financial years are as follows:

AUDIT FEES (SEK M)

	GROUP		PARENT COMPANY	
	2011	2010	2011	2010
Ernst & Young				
Audit assignments	15.5	15.9	2.5	2.4
Other assignments	1.3	1.1	0.1	0.1
Tax consultancy	11.4	10.9	0.1	0.1
Other auditors				
Audit assignments	3.3	3.2	–	–
TOTAL	**31.5**	**31.1**	**2.7**	**2.6**

INFORMATION ABOUT THE MANAGING DIRECTOR

Karl-Johan Persson, born in 1975, has been the Managing Director and Chief Executive Officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as Managing Director Karl-Johan Persson held an operational role within H&M from 2005, including working as head of expansion, business development, brand and new business. Since 2000 Karl-Johan Persson has been a member of the boards of H&M's subsidiaries in Denmark, Germany, the US and the UK. Between the years 2006 and 2009 he was also a member of the Board of H & M Hennes & Mauritz AB.

Between 2001 and 2004 Karl-Johan Persson was CEO of European Network. Karl-Johan holds a BA in Business Administration from the European Business School in London.

His current external board assignments are the Swedish Chamber of Commerce in the UK and the GoodCause foundation. Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

H&M has a matrix organisation in which country managers and the members of the executive management team report directly to the Managing Director (see section on control environment). The matrix organisation consists of the sales countries, headed by the country managers, and the Group functions/central departments for which the heads of department on the executive management team are responsible.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

In accordance with the Swedish Companies Act the 2011 Annual General Meeting adopted guidelines for remuneration of senior executives within H&M. To view the full guidelines please refer to the Administration Report on page 7 of H&M in Figures 2011 including the Annual Accounts and Consolidated Accounts.

H&M has no remuneration committee since the Board of Directors deems it more appropriate for the entire Board to carry out the tasks of a remuneration committee. The Board prepares proposals for guidelines for remuneration to senior executives and these proposals are presented at the Annual General Meetings.

The Board decides on the Managing Director's salary according to the guidelines adopted at the 2011 AGM. The terms of employment for other senior executives are decided by the Managing Director and the Chairman of the Board. No severance pay agreements exist within H&M other than for the Managing Director.

Before the 2011 Annual General Meeting the Board carried out an assessment of the guidelines for remuneration of senior executives that were adopted by the 2010 AGM. The results of this assessment were published on the website in good time before the 2011 AGM.

BO LUNDQUIST
Board member and Chairman of the Auditing Committee

MARIE BJÖRSTEDT
Deputy employee representative

TINA JÄDERBERG
Deputy employee representative

MELKER SCHÖRLING
Board member

MIA BRUNELL LIVFORS
Board member

ANDERS DAHLVIG
Board member

SUSSI KVART
Board member and member of the Auditing Committee

LOTTIE KNUTSON
Board member

MARGARETA WELINDER
Employee representative

CHRISTIAN SIEVERT
Board member

STEFAN PERSSON
Chairman of the Board and member of the Auditing Committee

AGNETA RAMBERG
Employee representative

FACTS ON BOARD MEMBERS

STEFAN PERSSON

Chairman of the Board and member of the Auditing Committee. Born 1947.

PRIMARY OCCUPATION

Chairman of the Board of H&M.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the board of MSAB and board assignments in family-owned companies.

EDUCATION

Stockholm University and Lund University, 1969–1973.

WORK EXPERIENCE

1976–1982	Country Manager for H&M in the UK and responsible for H&M's expansion abroad.
1982–1998	Managing Director and Chief Executive Officer of H&M.
1998–	Chairman of the Board of H&M.

MIA BRUNELL LIVFORS

Board member. Born 1965.

PRIMARY OCCUPATION

Managing Director and Chief Executive Officer of Investment AB Kinnevik.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the following boards since:

2006	Metro International S.A., Tele2 AB Transcom WorldWide S.A., Korsnäs AB
2007	Modern Times Group MTG AB Millicom International Cellular S.A.
2008	Efva Attling Stockholm AB
2010	CDON AB

EDUCATION

Studies in Business Administration at Stockholm University.

WORK EXPERIENCE

1989–1992	Consensus AB.
1992–2006	Various managerial positions within Modern Times Group MTG AB and Chief Financial Officer 2001–2006.
2006–	Managing Director and CEO, Investment AB Kinnevik.

ANDERS DAHLVIG

Board member. Born 1957.

PRIMARY OCCUPATION

Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Chairman of New Wave Group, member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB and Resurs Bank AB.

EDUCATION

Bachelor of Science in Business Administration, Lund University, 1980 and Master of Arts from the University of California, Santa Barbara, 1982.

WORK EXPERIENCE

1983–1993	Various roles within IKEA in Sweden, Germany, Switzerland and Belgium.
1993–1997	Managing Director of IKEA UK.
1997–1999	Vice President of IKEA Europe.
1999–2009	President and CEO of the IKEA Group.

LOTTIE KNUTSON

Board member. Born 1964.

PRIMARY OCCUPATION

Marketing Director at Fritidsresor Group Nordic with responsibility for communications as well as corporate social responsibility.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

No positions other than as member of the Board of H&M.

EDUCATION

Université de Paris III, Diplôme de Culture Française, 1985–1986. Theatre History, Stockholm University, 1989. Department of Journalism at Stockholm University, 1987–1989.

WORK EXPERIENCE

1988–1989	Journalist, Svenska Dagbladet.
1989–1995	Communications Department, SAS Group.
1995–1996	PR Consultant, Johansson & Co.
1996–1998	PR and Communications Consultant, Bates Sweden.
1998–1999	Communications Consultant, JKL.
1999–	Marketing Director at Fritidsresor Group Nordic.

SUSSI KVART
Board member and member of the Auditing Committee. Born 1956.

PRIMARY OCCUPATION
Consulting, with a focus on strategic business advice, corporate governance and board procedures.

OTHER SIGNIFICANT BOARD ASSIGNMENTS
Chairman of Kvinvest AB. Member of the boards of Healthcare Provision – Stockholm County Council, Stockholms Stadshus AB, Transparency International Sweden and DGC One AB.

EDUCATION
Bachelor of Laws from Lund University, 1980.

WORK EXPERIENCE
1981–1983	Mölndal District Court, court clerk.
1983–1989	Lagerlöf law firm (now Linklaters), as lawyer from 1986.
1989–1991	Political Expert, Riksdagen (Swedish parliament), parliamentary office of the Swedish Liberal Party.
1991–1993	Political Expert, Swedish Cabinet Office.
1993–1999	Company lawyer, LM Ericsson.
1997–2001	Member of Aktiebolagskommittén (Swedish Companies Act Committee).
2000–2001	Lawyer and Business Developer, LM Ericsson, Corporate Marketing and Strategic Business Development.
2002–	Sussi Kvart AB.

BO LUNDQUIST
Board member and Chairman of the Auditing Committee. Born 1942.

PRIMARY OCCUPATION
Head of family-owned investment company. Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS
Chairman of the boards of the Swedish School of Sport and Health Sciences (GIH) Stockholm, Shareville AB, Club Consulting AB and Gothenburg School of Gymnastics. Member of the boards of Teknikmagasinet AB, Athlete Sports Academy Sweden AB and the Anders Wall Foundation's Professorial Chair in Entrepreneurship.

EDUCATION
MSc in Engineering from Chalmers University of Technology, Gothenburg, 1968.

WORK EXPERIENCE
1970–1974	Administrative Director, Luleå University.
1975–1978	Divisional Manager, SSAB.
1978–1982	Sales Manager, Sandvik.
1982–1984	Managing Director, Bulten.
1984–1990	Vice President, Trelleborg.
1991–1998	Managing Director and Chief Executive Officer, Esselte.
1994–1998	Involved in various central trade and industry organisations, including as Chairman of the Federation of Swedish Commerce and Trade.

MELKER SCHÖRLING
Board member. Born 1947.

PRIMARY OCCUPATION
Founder and owner of MSAB.

OTHER SIGNIFICANT BOARD ASSIGNMENTS
Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Hexpol AB and Securitas AB.

EDUCATION
MSc in Business and Economics from the School of Business, Economics and Law, Gothenburg University, 1970.

WORK EXPERIENCE
1970–1975	LM Ericsson, Mexico.
1975–1979	ABB Fläkt, Stockholm.
1979–1983	Managing Director, Essef Service, Stockholm.
1984–1987	Managing Director, Crawford Door, Lund.
1987–1992	Managing Director and CEO, Securitas AB, Stockholm.
1993–1997	Managing Director and CEO, Skanska AB, Stockholm.

CHRISTIAN SIEVERT
Board member. Born 1969.

PRIMARY OCCUPATION
CEO of Segulah Advisor AB, a venture capital company.

OTHER SIGNIFICANT BOARD ASSIGNMENTS
Member of the boards of AB Segulah, Segulah Advisor AB, Gunnebo Industrier, Kemetyl, CCS Healthcare and S:t Eriks.

EDUCATION
MSc in Business Administration from the School of Economics, Stockholm, 1994.

WORK EXPERIENCE
1994–1997	Bain & Company, Consultant, Stockholm and San Francisco, USA.
1997–2003	Investment Manager and Partner, Segulah.
2003–	CEO/Managing Partner of Segulah.

AGNETA RAMBERG
Employee representative on the H&M Board since 1997. Born 1946.

MARGARETA WELINDER
Employee representative on the H&M Board since 2007. Born 1962.

MARIE BJÖRSTEDT
Deputy employee representative on the H&M Board since 2011. Born 1957.

TINA JÄDERBERG
Deputy employee representative on the H&M Board since 2007. Born 1974.

INTERNAL CONTROL

This description of H&M's internal control and risk management for financial reporting has been prepared in accordance with Chapter 6 § 6 of the Swedish Annual Accounts Act and section 7.4 of the Swedish Code of Corporate Governance.

The Board of Directors is responsible for the company's internal control, the overall aim of which is to safeguard the company's assets and thereby its shareholders' investment. Internal control and risk management are part of the Board's and the management's control and follow-up responsibilities, the purpose of which is to ensure that the business is managed in the most appropriate and effective manner possible.

H&M uses the COSO framework as a basis for internal control over financial reporting. The COSO framework, which is issued by the Committee of Sponsoring Organizations of the Treadway Commission, is made up of five components: control environment, risk assessment, control activities, information and communication as well as monitoring.

CONTROL ENVIRONMENT

The control environment forms the basis of internal control, because it includes the culture that the Board and management communicate and by which they work. The control environment is made up primarily of ethical values and integrity, expertise, management philosophy, organisational structure, responsibility and authority, policies and guidelines, as well as routines.

Of particular importance is that management documents such as internal policies, guidelines and manuals exist in significant areas and that these provide the employees with solid guidance. Within H&M there exists above all a Code of Ethics; a policy that permeates the entire company, since it describes the way in which the employees should act within the company and in business relations with suppliers.

H&M's internal control structure is based on:

- The division of work between the Board of Directors, the Auditing Committee and the Managing Director, which is clearly described in the Board's formal work plan. The executive management team and the Auditing Committee report regularly to the Board based on established routines.
- The company's organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
- Policies, guidelines and manuals; of these, the Code of Ethics, the financial policy, the information policy, the communications policy and the store instructions are examples of important overall policies.
- Awareness among the employees of the maintenance of effective control over financial reporting.
- Control activities, checks and balances, analysis, reporting.

H&M has a matrix organisation, which means that those on the executive management team are responsible for the work within their function in each country being efficient (the vertical arrows). The country managers are responsible for sales and profitability in their country and thereby have overall responsibility for all the functions within their operations (the horizontal arrows). The country organisations are in turn divided into regions, with a number of stores in each region.

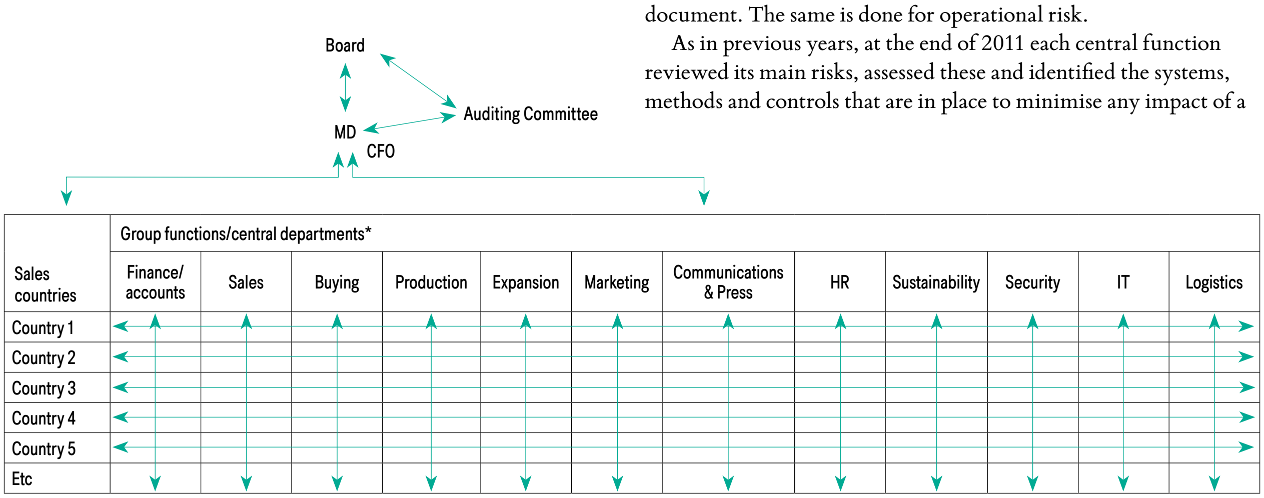
All the companies within the H&M Group – apart from Weekday Brands, which is engaged in wholesale operations – have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which facilitates internal control and comparisons between the various companies.

There are detailed instructions for the store staff that control daily work in the stores. Many other guidelines and manuals are also available within the Group. In most cases these are drawn up in the central departments at the head office in Stockholm and then communicated to the respective departments in the country offices. Each central department regularly reviews its guidelines and manuals to see which ones need updating and whether new guidelines need to be developed.

RISK ASSESSMENT

H&M carries out regular risk analysis to review the risks of errors within its financial reporting. At the end of each financial year the main risks within financial reporting are updated in a group-wide document. The same is done for operational risk.

As in previous years, at the end of 2011 each central function reviewed its main risks, assessed these and identified the systems, methods and controls that are in place to minimise any impact of a



* Those responsible for Group functions are members of the executive management team. In addition to the functions mentioned above and the Managing Director, the areas of Business Development, IR and New Business are also included in the executive management team.

risk. This information was compiled at Group level into an overall risk analysis and was discussed with each function with a view to gaining an overall picture of the main risks within the company.

The risk analyses for operational risks and for risks within the financial reporting were then dealt with in the Auditing Committee and thereafter communicated to the Board.

For a description of H&M's operational risks see the Administration Report, pages 8–9, and for the financial risks see Note 2 Financial risks on page 22 in H&M in Figures 2011 including the Annual Accounts and Consolidated Accounts.

To limit the risks there are appropriate policies and guidelines as well as processes and controls within the business.

CONTROL ACTIVITIES

There are a number of control activities built into every process to ensure that the business is run effectively and that financial reporting on every reporting occasion provides a fair and true picture. The control activities, which aim to prevent, find and correct inaccuracies and non-compliance, are at all levels and in all parts of the organisation. Within H&M the control activities include effective control and analysis of sales statistics, account reconciliation, monthly accounts and financial reports.

IT systems are scrutinised regularly during the year to ensure the validity of H&M's IT systems with respect to financial reporting. In 2011 general IT controls for certain selected systems were scrutinised by an external party together with those responsible for systems and system areas within H&M.

INFORMATION AND COMMUNICATION

Policies and guidelines are of particular importance for accurate accounting, reporting and provision of information, and also define the control activities to be carried out.

H&M's policies and guidelines are updated on an ongoing basis. This takes place primarily within each central function and is communicated to the sales countries by e-mail and via the intranet, as well as at meetings.

H&M has a communications policy providing guidelines for communication with external parties. The purpose of the policy is to ensure that all information obligations are met and that the information provided is accurate and complete.

Financial communication is provided via:
– H&M's Annual Report
– Interim reports, the full year report and monthly sales reports
– Press releases on events and circumstances that may impact the share price
– H&M's website www.hm.com

MONITORING

Prior to the work to assess internal control in 2011, the issues were studied at Group level to ascertain what could be improved and updated in the functions' working materials. This work resulted in updated checklists – both general and department-specific lists, as well as a summary template – for the central functions to use in their audits in 2011.

As part of the company's 2011 internal control work the central departments carried out assessments of their respective functions in the sales countries based partly on general issues and partly on department-specific issues, using the COSO model.

This work resulted in a plan of action for each central department containing the areas that should be improved to further strengthen internal control, not only in respect of each country but also for the central function. The functions also followed up on the assessments made in the previous year. It is felt that the way in which H&M assesses internal control is firmly rooted within the organisation. It is an aid and a control by which the central functions can ensure that their respective departments in the sales countries are working in a uniform and desirable way. The assessment of internal control also allows each sales country to provide valuable and constructive feedback to the central function regarding where there is room for improvement at central level. An important part of the internal control work is the feedback to the country management (country manager and country controller) which the central function provides based on the results of the evaluation in each country. This is done with a view to being transparent and ensuring that the countries apply best practice.

Internal shop controllers perform annual checks at the stores with the aim of determining the strengths and weaknesses of the stores and how any shortcomings can be corrected. Follow-up and feedback with respect to any non-compliances found during the assessment of internal control constitute a central part of internal control work.

The Board of Directors and the Auditing Committee continuously evaluate the information provided by the executive management team, including information on internal control. The Auditing Committee's task of monitoring the efficiency of internal control by the management team is of particular interest to the Board. This work includes checking that steps are taken with respect to any problems detected and suggestions made during the assessment by the central departments and internal shop controllers as well as by external auditors. The work on internal control further increases awareness of the importance of effective internal control within the Group and improvements are made on a continuous basis.

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Code of Corporate Governance, during the year the Board assessed the need for a specific internal audit department. The Board concluded that H&M's present model of monitoring internal control is the most appropriate for the company. In the Board's opinion, this model – which is applied by the central departments such as Accounts, Communications, Security, Logistics, Production, etc. in the sales countries – and the work carried out by internal shop controllers are well in line with the work performed in other companies by an internal audit department. The issue of a specific internal audit department will be reviewed again in 2012.

Stockholm, January 2012

The Board of Directors

More information on H&M's corporate governance work can be found in the section on Corporate Governance at www.hm.com.

AUDITORS' STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

We have reviewed the corporate governance report for the financial year 1 December 2010 to 30 November 2011 on pages 34–45. The corporate governance report is the responsibility of the Board of Directors, which is responsible for the report being prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance report based on our review.

ORIENTATION AND SCOPE OF REVIEW

Our review was conducted in accordance with RevU 16, Auditors' review of the corporate governance report. This means that we planned and performed the audit in order to obtain a high, but not absolute, degree of assurance that the corporate governance report is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

STATEMENT

A corporate governance report has been prepared. The corporate governance report is consistent with the annual report and the consolidated accounts.

Stockholm, 26 January 2012

Ernst & Young AB

Erik Åström
Authorised Public Accountant


Top
€ 9.95
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FIVE YEAR SUMMARY

1 DECEMBER – 30 NOVEMBER

THE FINANCIAL YEAR	2011	2010	2009	2008	2007
Sales including VAT, SEK m	128,810	126,966	118,697	104,041	92,123
Sales excluding VAT, SEK m	109,999	108,483	101,393	88,532	78,346
Change from previous year, %	+1	+7	+15	+13	+15
Operating profit, SEK m	20,379	24,659	21,644	20,138	18,382
Operating margin, %	18.5	22.7	21.3	22.7	23.5
Depreciation for the year, SEK m	3,262	3,061	2,830	2,202	1,814
Profit after financial items, SEK m	20,942	25,008	22,103	21,190	19,170
Profit after tax, SEK m	15,821	18,681	16,384	15,294	13,588
Liquid funds and short-term investments, SEK m	21,277	24,858	22,025	22,726	20,964
Stock-in-trade, SEK m	13,819	11,487	10,240	8,500	7,969
Equity, SEK m	44,104	44,172	40,613	36,950	32,093
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	9.56	11.29	9.90	9.24	8.21
Shareholders' equity per share, SEK*	26.65	26.69	24.54	22.33	19.39
Cash flow from current operations per share, SEK*	10.53	13.19	10.86	10.86	9.29
Dividend per share, SEK	9.50**	9.50	8.00	7.75	7.00
Return on equity, %	35.8	44.1	42.2	44.3	45.4
Return on capital employed, %	47.1	58.7	56.7	61.1	63.7
Share of risk-bearing capital, %	74.9	76.2	78.5	75.7	78.5
Equity/assets ratio, %	73.3	74.6	74.7	72.1	76.9
Total number of stores	2,472	2,206	1,988	1,738	1,522
Average number of employees	64,874	59,440	53,476	53,430	47,029

* Before and after dilution. Number of shares has been adjusted for all periods due to the 2-for-1 share split effected by H&M in 2010.

** Proposed by the Board of Directors.

For definitions of key ratios see page 31.

THE H&M SHARE

KEY RATIOS PER SHARE	2011	2010	2009	2008	2007
Shareholders' equity per share, SEK	26.65	26.69	24.54	22.33	19.39
Earnings per share, SEK	9.56	11.29	9.90	9.24	8.21
Change from previous year, %	-15	+14	+7	+13	+26
Dividend per share, SEK	9.50*	9.50	8.00	7.75	7.00
Market price on 30 November, SEK	214.00	237.40	206.15	149.00	199.50
P/E ratio	22	21	21	16	24

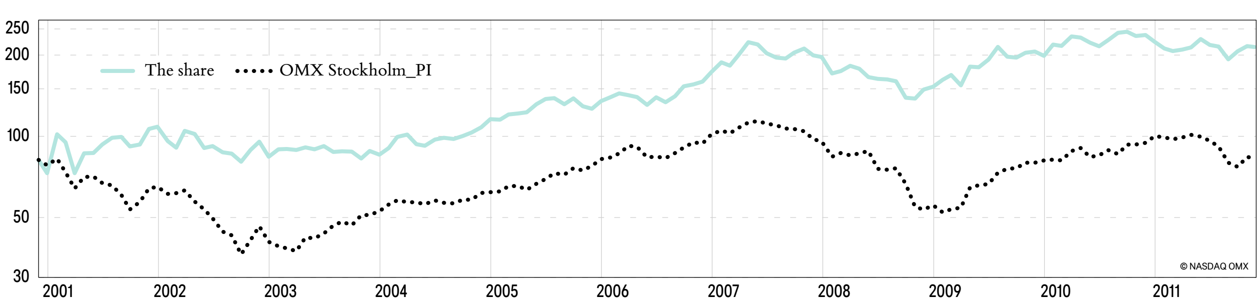
* Board's proposal.

In 2010 H&M implemented a 2-for-1 share split. The years 2007–2009 in the table above have therefore been adjusted for the new number of shares.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2010

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1–500	152,012	75.4	24,414,806	1.5	161
501–1,000	24,011	11.9	19,142,349	1.2	797
1,001–5,000	20,157	10.0	44,711,744	2.7	2,218
5,001–10,000	2,571	1.3	18,921,235	1.1	7,359
10,001–15,000	756	0.4	9,453,211	0.6	12,504
15,001–20,000	483	0.2	8,603,351	0.5	17,812
20,001–	1,683	0.8	1,529,825,304	92.4	908,987
Total	**201,673**	**100**	**1,655,072,000**	**100**	**8,207**

MAJOR SHAREHOLDERS, 30 NOVEMBER 2011	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
Stefan Persson and family	623,849,332	69.71	37.69
Lottie Tham and family	88,080,400	2.59	5.32
Alecta Pensionsförsäkring	61,840,000	1.82	3.74
Swedbank Robur fonder	43,338,695	1.27	2.62
AMF – Försäkring och Fonder	23,320,000	0.68	1.41
Handelsbanken fonder	22,045,860	0.65	1.33
Folksam	18,768,787	0.55	1.13
SEB Investment Management	16,635,216	0.49	1.01
Afa Försäkring	15,044,503	0.44	0.91
Jan Bengtsson	14,222,030	0.42	0.86



CONTACT DETAILS

HEAD OFFICE
H & M Hennes & Mauritz AB
Mäster Samuelsgatan 46A
106 38 Stockholm
Sweden
Telephone: +46 (0) 8 796 55 00

For information about H&M and addresses of the country offices, please see www.hm.com

CONTACTS
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BUYING Madeleine Persson
DESIGN Ann-Sofie Johansson
PRODUCTION Karl Gunnar Fagerlin
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EXPANSION Fredrik Olsson
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HUMAN RESOURCES Sanna Lindberg
IT Kjell-Olof Nilsson
LOGISTICS Jonas Guldstrand
SECURITY Cenneth Cederholm

DISTRIBUTION POLICY
The H&M Annual Report 2011 comes in two parts, Part 1: H&M in words and pictures 2011, and Part 2: H&M in figures 2011 including the annual accounts and consolidated accounts.

H&M sends out the printed version of Parts 1 and 2 to shareholders who have specifically expressed an interest in receiving the printed version. The Annual Report is also available to read and download at www.hm.com

COVER
PHOTOGRAPHY Terry Richardson
MODEL Mathias Lauridsen
GARMENT Blazer in organic cotton, H&M Conscious collection

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ANNUAL GENERAL MEETING

The Annual General Meeting 2012 will be held at Victoriahallen, Stockholm International Fairs, Stockholm, on Thursday 3 May at 3 p.m.

Shareholders who are registered in the share register print-out as of Thursday 26 April 2012 and give notice of their intention to attend the AGM no later than Thursday 26 April 2012 will be entitled to participate in the AGM.

NOMINEE SHARES
Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own name in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, well in advance of 26 April 2012.

NOTICE OF ATTENDANCE
Shareholders must provide notice of their intention to participate in the Annual General Meeting by post, fax, telephone or via H&M's website to:

H & M Hennes & Mauritz AB
Head Office/Carola Ardéhn
SE-106 38 Stockholm
Sweden
Telephone: +46 (0) 8 796 55 00
Fax: +46 (0) 8 796 55 44
www.hm.com/agm

Shareholders must provide their name, civil identity number and telephone number (daytime) when providing notice of their intention to participate.

DIVIDEND
The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 2011 of SEK 9.50 per share. The Board of Directors has proposed 8 May 2012 as the record day. With this record day, Euroclear Sweden AB (formerly VPC AB) is expected to pay the dividend on 11 May 2012. To be guaranteed dividend payment, the H&M shares must have been purchased no later than 3 May 2012.

FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information:

29 March 2012	Three-month report
3 May 2012	Annual General Meeting 2012, Victoriahallen, Stockholm International Fairs at 3 p.m.
20 June 2012	Six-month report
27 September 2012	Nine-month report
31 January 2013	Full-year report


Kimono jacket
€ 29.95


WWW.HM.COM/ANNUALREPORT