



Annual Report 1999

H&M

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FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information for the 2000 financial year:

INTERIM REPORT, three months
13 April 2000

INTERIM REPORT, six months
20 June 2000

INTERIM REPORT, nine months
19 September 2000

PRESS RELEASE, twelve months
January 2001

ANNUAL REPORT
March 2001

This information will also be available at
www.hm.com



THE YEAR IN REVIEW

A TOTAL OF 75 NEW STORES WERE OPENED AND TWELVE WERE CLOSED.

SALES ROSE BY 24 PER CENT AND TOTALLED SEK 32,977 M.

PROFIT BEFORE TAX GREW BY 37 PER CENT TO SEK 4,759 M.

SAME STORE SALES AS WELL AS MARKET SHARES ROSE IN ALL MARKETS.

INVESTMENTS FOR THE YEAR TOTALLED SEK 1,296 M.

FINANCIAL HIGHLIGHTS

	1999	1998
Gross sales, including VAT, SEK M	32,976.5	26,649.8
Change, %	+ 24	+ 25
Sales outside Sweden, SEK M	27,667.4	21,730.1
Sales outside Sweden as a percentage of gross sales, %	84	82
Operating margin, %	16.4	14.8
Profit after financial items, SEK M	4,758.6	3,468.2
Net profit for the year, SEK M	3,705.4	2,286.9
Earnings per share, SEK	3.72	2.76
Change from previous year, %	+ 37	+ 35
Return on shareholders' equity, Note 18, %	32.9	30.7
Return on capital employed, Note 18, %	50.3	46.3
Debt/equity ratio, Note 18, %	1.3	1.6
Share of risk-bearing capital, Note 18, %	76.4	77.9
Solidity, Note 18, %	72.5	73.4
Number of stores in Sweden	124	120
Number of stores outside Sweden	489	430
Total number of stores	613	550
Average number of employees	17,652	14,101



Nineteen ninety-nine was a highly successful year for the H&M Group. Turnover reached SEK 32.9 billion for the year, up 24 per cent from 1998. Profit before tax increased by 37 per cent to SEK 4.8 billion. This increase in sales enabled us to capture market shares in every country of operation. Sales outside Sweden accounted for 84 per cent of Group turnover. Germany remained our largest market, generating 32 per cent of the Group's total turnover, followed by Sweden, Austria and Norway.

REPORT OF THE MANAGING DIRECTOR

There are several reasons why we performed so well. We were very successful with our range of products; new establishments exceeded expectations, and improved logistics raised the stock turnover rate. During the year, our major efforts to reduce shrinkage paid off handsomely.

Investments, in new stores and the renovation of existing stores, as well as in our logistics system, totalled SEK 1.3 billion for the year. In November, the Board of Directors decided to give each of the nearly 26,500 H&M employees a millennium bonus. The total cost to the company was SEK 94 M.

We expanded Internet sales to Denmark and Finland during the year. Internet sales in Sweden have been possible since March 1998. We are continuously monitoring and evaluating our Internet business.

We continued to expand in 1999, opening 63 new stores, bringing the total number of H&M stores at year-end to 613. We opened a total of 75 new stores and closed 12. The majority of new stores were opened in Germany, Great Britain and the Netherlands. Four of the 12 stores closed during the year belonged to the Galne Gunnar chain, which we began phasing out during the autumn of 1999.

RETAINING THE H&M SPIRIT. New stores result in new employees. And it is extremely important to continue to spread our corporate culture. The more we expand into new markets, the more important it becomes to ensure that employees feel that we are a company with short decision paths and no unnecessary bureaucracy. Teamwork, common

sense, cost consciousness and constant improvement are a few of the basic values that we are working hard to keep.

FASHION TRENDS SHIFT MORE RAPIDLY. Today's fashion is more individual than ever before. Several trends exist simultaneously, and we must always remember that our customers vary in taste and needs. This places major demands on our design and purchasing department. They must be able to foresee coming trends with regard to colours, materials and cuts as much as a year in advance.

We worked hard during the year to continue to enhance and clarify our women, men, children, youth and cosmetics concepts to better suit our various target groups. Among other efforts, we designed new concepts for children under the Chiboogi and Dubbster names. We also focused more on producing our own cosmetic lines.

ENHANCED QUALITY. We devote considerable time and effort to ensuring and enhancing the quality of our products. An important part of this effort takes place at our 15 European and Asian production offices. The role of these offices is to assist our buyers in finding the right markets and the right suppliers, plan and follow up on-site production and inspect working conditions and quality. This enables us to ensure the quality of our products early in the chain of production and shorten lead-times.

We also invested in our own textile laboratories at the production offices during the year and trained employees to be able to carry out more quality checks on site.

We are often asked how we manage to keep such low prices. We do this by purchasing large volumes directly from our suppliers without costly middlemen. We have extensive experience in the textile industry, considerable expertise in purchasing the right goods from the right markets and an efficient distribution system. Our entire operation is characterised by a high degree of cost-consciousness.

CLOSE CO-OPERATION WITH SUPPLIERS. Our major expansion calls for greater volumes, which makes it necessary to co-operate with suppliers who have substantial production capacity. Our suppliers must meet the stringent requirements of our Code of Conduct. This code specifies in detail our demands on

suppliers regarding employee rights, working conditions, industrial safety, the environment and a ban on child labour.

During the year, we reduced the number of suppliers from about 1,600 to 900. This was done mainly because we stopped purchasing goods for Galne Gunnar, but also as a means of concentrating our production to suppliers who understand and comply with our Code of Conduct. Several of our suppliers have also cut the number of sub-contractors and increased capacity in their own factories to gain better control over production.

H&M suppliers are well aware that compliance with our Code of Conduct is a requirement for co-operating with the H&M Group. Thanks to these requirements, not only does

the working conditions of employees improve but also the quality of the goods.

In 1999, we revised our environmental policy to more clearly define our view of the environment and our environmental goals.

STORES THAT INSPIRE. The environment of our stores represents a crucial competitive tool. That's why we place a major emphasis on designing new and existing stores. Our goal is to create a comfortable and inspirational store environment that makes it easier for customers to find what they want and enjoy the experience. For example, we developed a special concept of women's stores during the year, opening three stores; in London, Stockholm and Gothenburg. The response

has been very positive, and we plan to open additional women's stores of this type during the spring.

Our stores are designed to help customers find what they want by themselves. In order to provide our customers with better service and information, we have improved communication in our stores. We want customers to see a consistent line of thought that runs from the store-front and display window, throughout the store, to the various departments, changing rooms and cash registers.

FUTURE CHALLENGES. During the year 2000, we plan to open 90 new stores, five of which will be in each of our new markets Spain and the USA. Although this is a major challenge, we feel that the time is right. We're convinced that we can offer our customers added value through fashion, competitive prices and quality. Our financial strength is a prerequisite for this effort, and we view these two new markets as an investment in future growth. We see major potential for continued expansion in the USA and Spain once our first stores have opened. Nevertheless, it's important to remember that it usually takes a number of years before a new market generates a surplus.

The first store in the USA will be located on one of the world's most famous shopping streets, Fifth Avenue in Manhattan. This fantastic location will also serve as part of our marketing effort to make H&M known to customers as well as landlords prior to future expansion.

Our greatest expansion continues to take place in Germany, France and Great Britain.

We are pleased to note that the British market enjoyed healthy profitability despite tremendous growth. This makes us optimistic for the year 2000, when we plan to open 14 new stores. In France, we've secured several excellent locations, and we plan to open 12 new stores in and outside Paris.

In conclusion, I'd like to take this opportunity to thank each and every H&M employee for the effort and energy that they devote daily to our greatest challenge: to continuously improve our efforts to meet the demands of our customers.



FABIAN MÅNSSON







GROUP REVIEW

The H&M Group enjoyed dramatic growth during the past decade. Turnover rose from SEK 5,561 M to SEK 32,977 M or by an average of 50 per cent annually throughout the 1990s. We also entered five new markets and expanded the number of stores by 372.

Our expansion was organic and not accomplished through external acquisitions. Consequently, we were able to adapt our organisation, administration and financial resources to a high but relatively even rate of growth.

We financed our growth in existing and new markets ourselves, which enabled us to maintain and even strengthen our healthy key business ratios during the expansion phase. Our strategy of controlled, self-financed growth proved successful and will continue to lead the way in the future.

The H&M Group operate some 600 stores in 12 European countries, as well as mail-order companies in Sweden, Norway, Denmark and Finland.

Group development was highly satisfactory during the past year. H&M sales, which

rose by 24 per cent, increased more than the market in each country of operation, reaching SEK 32,977 M. The share of sales accounted for by foreign operations totalled 84 per cent.

OPERATING PROFIT amounted to SEK 4,580 M, an increase of 37 per cent. Operating margin also climbed to 16.4 per cent. After the addition of the Group's positive net income interest/expense of SEK 178.6 M and after deduction of tax of SEK 1,683.2 M, profit for the year reached SEK 3,075.4 M. Return on shareholders' equity totalled 32.9 per cent, which is extremely good given the high solidity of the Group.

The Group consolidated its healthy key business ratios despite heavy expansion. Our debt/equity ratio was 1.3 per cent, while the share of risk-bearing capital totalled 76.4 per cent. During the year, a total of SEK 1,295.8 M was invested. As the Group generated a positive cash flow before investments, financial assets rose by SEK 1,672.5 M to a total of SEK 6,832.4 M at year-end.



GERMANY. The rate of expansion was high during 1999. In the Group's largest market, Germany, 18 new stores were opened in Berlin, Düsseldorf, Kassel, Bremen and Kiel, among other cities. The German textile market remained sluggish in 1999 as it did throughout the 1990s. Textile consumption has not risen in Germany since 1991. H&M's German operation, on the other hand, enjoyed healthy growth. Sales rose by 25 per cent, topping SEK 10 billion.

FRANCE. H&M's most recent market, France, saw the opening of five new stores; four in Paris and one in Calais. After operating in the market since 1998, the number of Group stores climbed to 11 at year-end. Sales exceeded SEK 800 M and met all expectations.

SWEDEN. Eight new stores were opened in Sweden in the second half of 1999. A large number of renovations also took place, including a major upgrading of our Hamngatan store in Stockholm.

A decision was reached during the year to phase out our Galne Gunnar chain; a concept based on offering a wide range of goods at extremely low prices. The EU ruling that banned parallel imports from non-EES countries made it difficult to continue to operate. Consequently, four of our 17 Galne Gunnar stores were closed during 1999.

Our mail-order operation, H&M Rowells, has grown dramatically in recent years, among other things, by entering the Finnish and Danish markets. To cope with this increased volume of goods, H&M Rowells

invested in the Borås warehouse, increasing the area of storage from 4,000 to 21,000 square metres.

NORWAY. Five stores were opened and one store was closed in Norway. The Norwegian market developed well during the year and grew by 5 per cent, which should be compared with the 17 per cent achieved by H&M operations.

DENMARK. In Denmark, H&M opened six stores and closed two during the past year. The Danish market remained sluggish, while H&M sales rose by 27 per cent.

GREAT BRITAIN. We opened 10 new H&M stores in Great Britain, including stores in







Newcastle, Cardiff and Glasgow. The British operation recorded very healthy growth in an otherwise stagnant market.

SWITZERLAND. The Swiss market is mature as far as H&M stores are concerned. Although we opened two new stores and closed three, H&M grew at a much greater rate than the market in general.

THE NETHERLANDS. The Group opened 10 new stores in the Netherlands and closed one. Like the Dutch market in general, sales were relatively healthy in 1999. To cope with an increased volume of goods, the Dutch central warehouse was remodelled extensively during the autumn.

The latter part of the year saw the beginning of a new customs procedure for H&M in the Netherlands. All goods imported directly to the Benelux countries clear customs in the Netherlands, but are distributed to their destinations without having to enter the Netherlands. This procedure simplifies administration.

FINLAND. Finnish textile consumption, which rose by some 2 per cent last year, did not meet market expectations. The fourth quarter was especially disappointing. The H&M Group, however, enjoyed healthy development, expanding the network of stores by four. Two of these stores were our first in central Helsinki.

BELGIUM. H&M's Belgian company opened four stores, including stores in Brussels and Liège, and closed one.

AUSTRIA AND LUXEMBOURG. In Austria and Luxembourg, we opened two new stores and one store respectively.

THE GROUP WILL CONTINUE to expand heavily during the coming year, opening some 90 stores. As a number of stores will be closed, the net total is expected to be around 70.

Relatively large investments will also be made in central warehouses, including two new facilities; one each in Switzerland and Denmark.

As in previous years, the greatest expansion will take place in Germany, where 22 new stores will be opened.





TWELVE NEW STORES are planned for France, which will double the number of stores in the country. We intend to open new stores in cities such as Paris, Bordeaux and Marseilles. This expansion will necessitate the opening of a new central warehouse during the autumn that will provide some 33,000 square metres of space.

H&M will step up the pace of expansion in the British market during the year. A total of

14 new stores will be added, three of which are targeted for London's West End. Liverpool, Southampton and Sunderland will also receive new stores. During the spring, we will move distribution operations into a new 34,000 square-metre-large facility.

We also plan to open nine stores in Norway and four each in Denmark and the Netherlands. Finland and Austria will receive two stores each.

The phasing out of the Galne Gunnar chain will be completed in Sweden this year, and five new H&M stores will be opened.

FASHION IS A BUSINESS that involves substantial risks. Rapidly changing trends can make inventory and contracted goods quickly become yesterday's products. This can lead to major price reductions in order to sell off goods rapidly and make room for new, fash-

ionable products that need to be purchased immediately. Healthy liquidity is required to accomplish this. The Group's strong financial position and limited risk-taking outside core operations have been a major contribution to our success.

THE U.S. DOLLAR, and other currencies linked to it, is the Group's most important purchasing currency. Fluctuations in the rate of exchange between the dollar and the Euro constitute the single largest translation exposure within the Group. To ensure a good rate of exchange and to reduce translation risks, the U.S. dollar and other foreign currencies linked to it are insured through forward

exchange agreements. As currency trading is intended to reduce exposure, only risks that have been contracted or established are insured.

In addition to foreign exchange exposure, the Group is also affected by the flow of currencies resulting from receivables and liabilities that constantly arise among subsidiaries. The introduction of the Euro, however, has eliminated some of the latter risk. The majority of the risks that remain are insured through forward exchange agreements.

Translation exposure poses a risk when purchasing foreign currencies and when translating the profit of foreign subsidiaries into Swedish kronor. A 10 per cent change in

the value of the krona to subsidiary currencies is estimated to impact Group earnings before tax by some SEK 400 M. Translation effects also impact Group net assets when consolidating foreign subsidiary balance sheets. The Group does not utilise equity hedging.

SURPLUS LIQUIDITY is invested in the short term in each company's local currency in banks or securities. The Group does not assume any positions, deal with options and futures or the like or trade in shares or similar instruments.

The Group Parent Company carried out a 4:1 split during the spring, thus lowering the nominal value of a share to SEK 0.25.









FASHION AND QUALITY AT THE BEST PRICE

At H&M, we are all working towards the same goal – giving our customers unbeatable value by offering fashion and quality at the best price. It is a major challenge to live up to our business concept on a daily basis. One of our core values is constant improvement, which means that each and every employee works together to ensure that we improve.

OUR TRADEMARK. Our trademark is one of our most important assets. We are all responsible for the H&M trademark and its development. We are continuously working to find the optimum balance between the various components that form our trademark. Examples of these include price, degree of fashion, quality, marketing, store environment, media profile and employee professionalism.

OUR COMMUNICATION. The way we communicate with the world around us affects confidence in H&M. Our external and inter-

nal communication shall be characterised by:

- An open attitude
- Objectivity
- Accessibility
- Sensitivity.

OUR CONCEPT. In order to make it easier for our customers to orientate themselves, we have divided our range into different concepts. This allows them to choose from among cutting-edge fashion trends to classic fashions and from the newly born to the fully grown. Some of our concepts are Clothes and Contemporary for the trendiest of our customers; BiB for large sizes, Rocky for young girls and guys and L.O.G.G. for those who want classic everyday and leisure clothing. The majority of our stores carry all of the aforementioned concepts. We also have special stores for women, youth, cosmetics and underwear.





Jean-Baptiste, shop manager, dans un costume de couleur kaki. Mais avez-vous remarqué qu'il porte de la lingerie féminine?

Chez H&M & Naturel, un homme de 40 ans aime à profiter de sa liberté. Son nom: Jean-Baptiste. Ses occupations: Shop manager. Ses passions: la mode masculine, les chiens et les voyages. Ses valeurs: la simplicité, la confiance, la franchise, la solidarité. Ses rêves: devenir un homme de bien. Ses qualités: sa gentillesse, son humour, sa curiosité, sa capacité à écouter, sa capacité à donner. Ses défauts: sa timidité, sa timidité, sa timidité. Ses conseils: ne jamais se laisser aller à la paresse, ne jamais se laisser aller à la paresse, ne jamais se laisser aller à la paresse. Ses idées: ne jamais se laisser aller à la paresse, ne jamais se laisser aller à la paresse, ne jamais se laisser aller à la paresse.

H&M, un job à votre taille.
400, Rue de Valenciennes, 13001 Marseille
04 91 55 55 55




OUR EMPLOYEES

In 1999, we employed some 3,000 persons, bringing our year-end total to 26,500 for the H&M Group. The majority of our employees work in our 600 stores. We strive to recruit in-house whenever possible, and we offer the opportunity to develop expertise in sales, purchasing, design, pattern-making, marketing, display, store establishment, interior decoration, IT, administration and much more. Our high degree of internationalisation and the excellent possibility for development make H&M an attractive employer. In January 2000, we set up a recruitment site on the Internet where interested persons can see which job opportunities we offer in the various countries and apply to join our team.

H&M conducts internal training in such areas as service, display, textiles, leadership and H&M's core values. The ability to convey H&M's core values is vital in helping people understand how we work. Internal information also supports our efforts to consolidate and spread our corporate culture.

The H&M spirit of today is based on the same we had from the very beginning – open doors, unambiguous communication, short decision paths and common sense. We work according to values rather than manuals. Continuous improvement, teamwork and cost-consciousness are a few of our core values.





OUR SOCIAL RESPONSIBILITIES

We believe in taking social responsibilities. This involves responsibilities towards our customers, as well as for the impact that our activities have on people, the community and the environment. These responsibilities also include actively working to improve the conditions of the factories that manufacture H&M garments even though we do not own any factories ourselves.

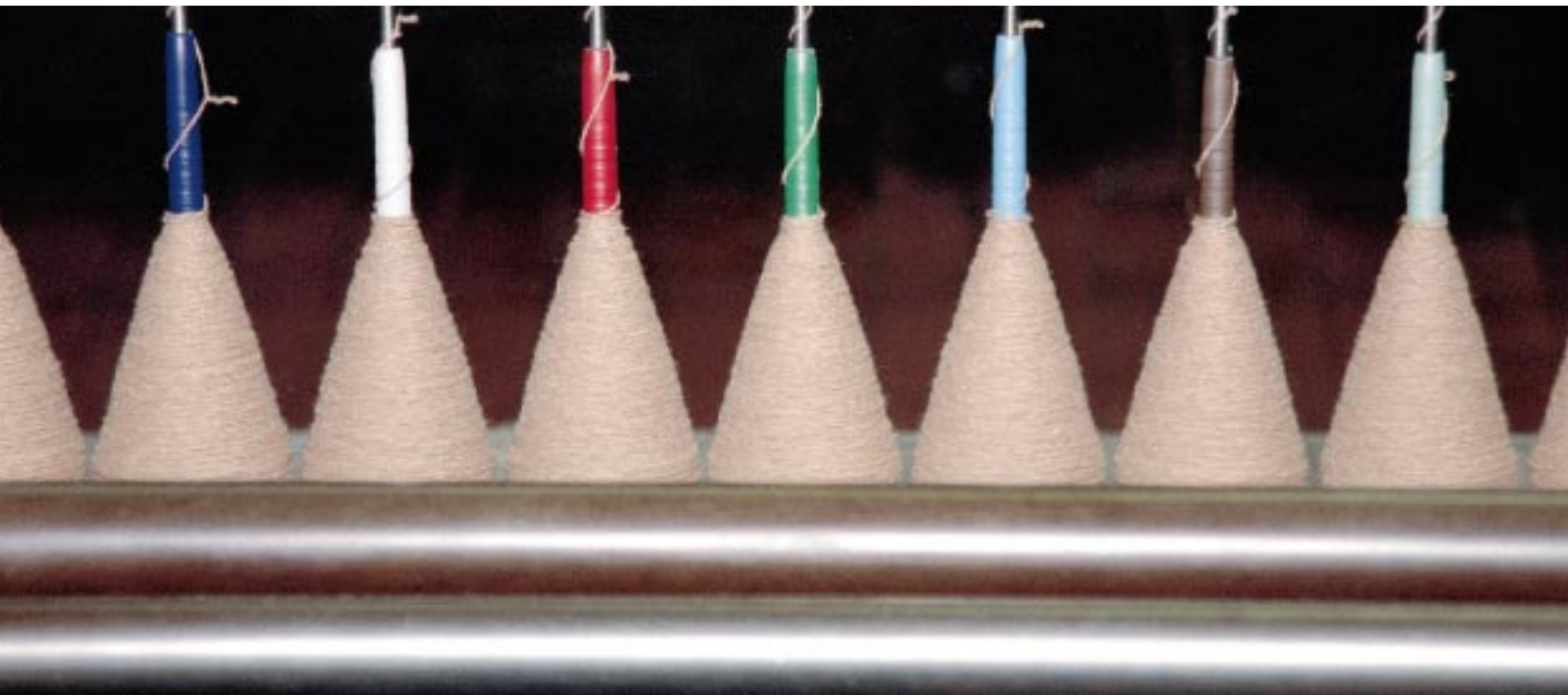
H&M SUPPLIER REQUIREMENTS. H&M's Code of Conduct contains a number of requirements that we place on our suppliers and their sub-contractors with respect to the working conditions in the factories that manufacture H&M goods. They include industrial safety, the work environment, working hours, minimum wages, labour union rights, and a ban on child labour and forced labour, as well as discrimination.

INSPECTIONS. H&M suppliers have signed an agreement to comply with our regulations. In order to ensure that our demands are being met H&M hired local personnel to

conduct regular inspections of the factories we utilise. They visit all manufacturing facilities to ensure compliance with the Code of Conduct. Any deficiencies detected are pointed out and together with the supplier, H&M helps develop a plan to rectify the problems. If improvements are not made within a reasonable period of time, H&M will cease to utilise the supplier in question.

We reduced the number of suppliers during the year, primarily due to the phasing out of Galne Gunnar. We also placed the bulk of our orders with suppliers who capacity-wise and quality-wise meet H&M's demands and comply with the Code of Conduct. Our suppliers often use sub-contractors, who are also subject to inspection by H&M. In 1998-99, more than 3,000 production units were inspected.

IMPROVEMENTS. There are numerous examples of the positive effects that H&M's efforts to improve working conditions have generated. Many suppliers have expanded factories instead of utilising small sub-contractors. Not



only has this led to more secure and safer working conditions, it has improved the quality of the garments by placing the entire manufacturing process under the same roof.

Industrial safety also usually improves overall, resulting in additional fire extinguishers, more unblocked emergency exits and better fire alarms. In many factories, both the working conditions and the housing situation have improved for those who live by the factory.

Child labour is rarely encountered. In a few cases, children between the ages of 12 and 14 have been found carrying out light tasks. When that happened, H&M became involved in the child's situation and, in accordance with the Code of Conduct, implemented measures in the best interest of the child together with the supplier. Such measures have included some form of schooling or vocational training. If child labour is detected again, we discontinue our co-operation with that supplier.

CODE OF CONDUCT ON THE INTERNET. The H&M Code of Conduct is currently available on the Internet in 12 languages. A mailing address is also available for reporting any violations of the Code of Conduct (coc@hm.com).

DEVELOPMENT PROJECTS. H&M also finance investment projects that are related to the Code of Conduct. These projects make possible a long-term commitment that

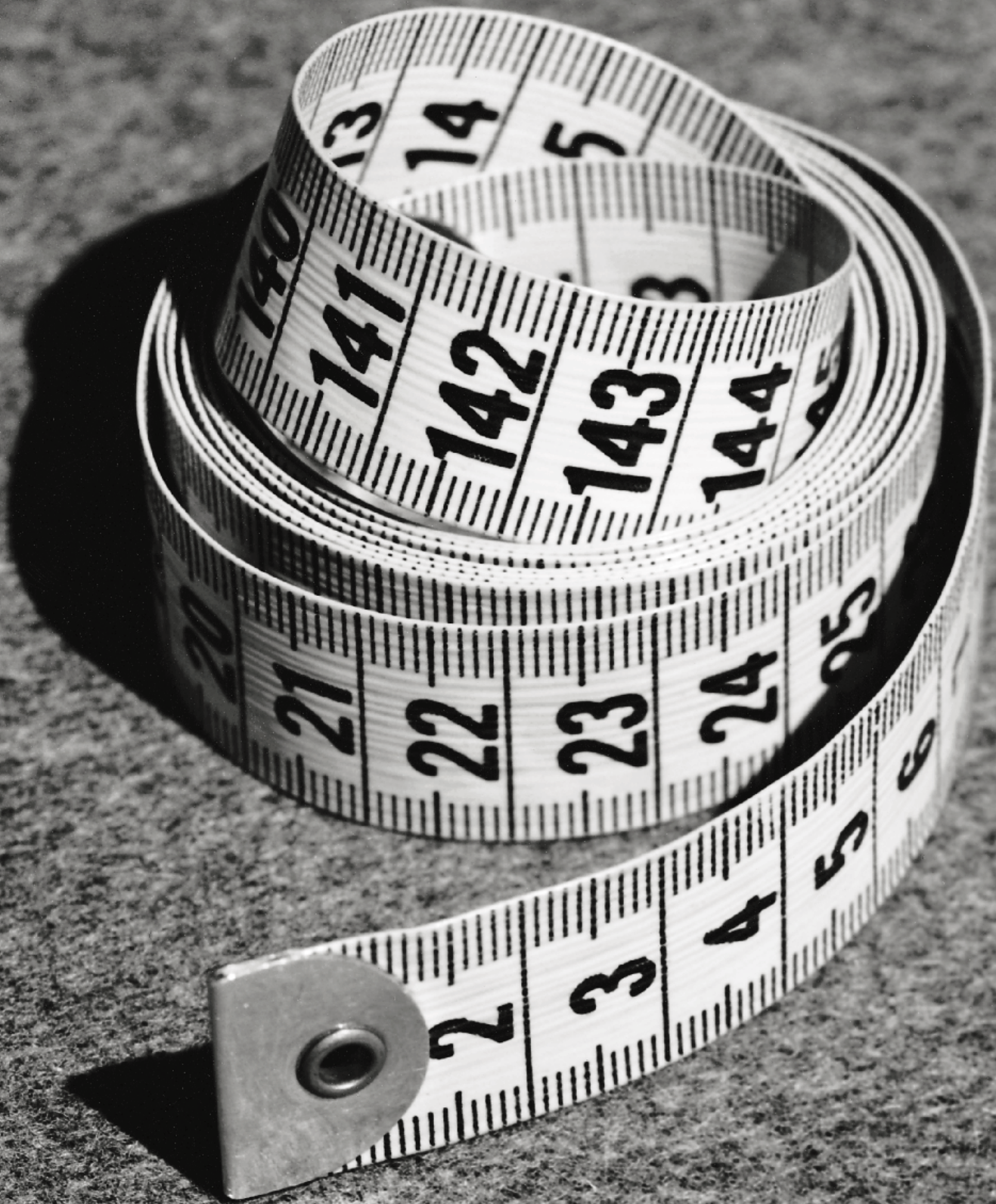
enables us to develop models for sustainable social development.

Vocational training for young textile workers in Bangladesh is a case in point. H&M's training project includes a six-month theoretical and practical programme that leads to guaranteed employment as a seamstress at one of H&M's suppliers. We pay the students wages during the course as a means of support to their families. The project began in spring 1999 and currently trains 40 students in each class. Despite the small scale of the programme, it has attracted major attention nation-wide. We hope that this ini-

tiative will spawn other training courses. The need for training in Bangladesh is enormous. As clothing is the country's leading export, it is important for the future of the country to increase the level of skills in the garment industry.

CLOTHING FOR CHARITY. H&M have signed an agreement with various charities throughout Europe, for example Eriks-hjälpen, UNHCR, Caritas and Oxfam. In 1999, we donated clothing through these channels to refugee camps in Kosovo and to Turkey after a series of earthquakes.





CARING FOR OUR CUSTOMERS

We are responsible for ensuring that all of our customers are satisfied when they shop at H&M. This means living up to the quality that the customers demand and providing safe products.

STANDARDS AND TESTS. H&M follow European and American standards in determining the appropriate level of quality for our goods. This can involve shrinkage, colour fastness and zipper durability, as well as buttons and snaps that are secured properly. H&M conduct tests to ensure compliance with these standards in H&M laboratories, as well as textile laboratories.

QUALITY CHECKS. H&M quality inspectors work in the countries where our garments are manufactured to ensure that quality standards are met before the goods are shipped. Once the goods arrive at our central warehouse, they are inspected and tested again before distribution to the stores.



CHEMICALS. H&M chemical restrictions are described in more detail in the environmental section. A number of chemicals covered by these restrictions are banned for health reasons. Formaldehyde, azo and dispersion dyes are examples of these. In the case of children's products, we follow the new European law regarding toys containing phthalates for children under the age of three. Chemical content is also carefully tested in laboratories to ensure that the stipulated limits have not been exceeded. H&M normally test products according to the standards of the market with the strictest limits for each country of sale.

NICKEL. Nickel allergies are an increasingly common problem. For several years, H&M has limited the amount of nickel in jewellery, accessories and metal details on our clothing. All metal that comes into contact with the skin is tested to ensure that the nickel content does not exceed the permitted limit.

FLAME RESISTANCE. H&M test all products to ensure that they meet European and U.S. standards. This is especially important for children's night clothing, as both Great Britain and the USA have very stringent regulations in this area.

CHILDREN'S CLOTHING. Ensuring that our children's clothing meet all safety regulations is a priority for us. We conduct special, comprehensive tests and inspections of children's and baby clothing. In fact, we often use standards for children's clothing that are more stringent than for the rest of our range.





THE ENVIRONMENT

In 1999 we revised our environmental policy to ensure that it more accurately reflects our view of the environment and the ambitions incorporated in our environmental effort. The new policy is as follows:

Continuous improvements is significant for all H&M activities. This includes our environmental effort, which is conducted within the framework of our business operations. H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price. Our quality concept is based on ensuring that our customers are satisfied with our products and H&M as a company. To this end, we are committed to acting responsibly in our community. We shall also cooperate with our suppliers to improve the social and environmental standards in the factories that manufacture H&M clothing to help maintain sustainable development in these areas.

To achieve this goal, H&M have adopted the following principles.

We shall:

- *Always consider the health and safety of our employees. By adopting the precautionary principle, we will continuously update our restrictions against the use of environmentally and health hazardous chemicals in the production of our garments and other products.*
- *Continuously update ourselves of all environmental news and legislation. We will not be content to follow existing environmental legislation, but will in certain areas do more than the law requires.*
- *Conduct our business in a manner that utilises natural resources as efficiently as possible.*

- *Develop new and continuously improve existing environmental requirements concerning the purchase of products and services.*
- *Train, inform and motivate our employees to participation and responsibility, thereby making environmental work an integrated part of H&M daily routines.*
- *Specify for our suppliers our position regarding behaviour towards the environment and human rights and follow up to ensure that our suppliers improve their operations according to these requirements.*

The following are a few of examples of our environmental activities during 1999:

CHEMICALS. H&M's chemical restrictions have been updated, and a number of new substances have been added to our own restricted list. These restrictions apply to chemicals used in the manufacturing of clothing and other products marketed by H&M. Many new findings concerning chemicals and textiles have come to light since the last version of the list was written in 1996, and we wish to take these into consideration in our environmental effort. Our suppliers have signed an agreement to comply with these restrictions.

ENVIRONMENTAL IMPACT IN OUR STORES. In 1999, H&M and an external consultant began a survey of the environmental impact in our stores. The survey covers, among other things, construction materials and furnishings in the stores and will help to





establish guidelines for the selection of materials in the future. We already require environmental declarations for all construction material purchased in Sweden.

ENVIRONMENTAL STATIONS. During the year, we established environmental stations for the sorting of waste at all central operations in Stockholm. We now separate cartons, plastic, office paper, toner cassettes, hazardous waste and the like. Environmental stations also serve as models for H&M's other offices around the world, where it may be possible to recycle and organise similar systems.

CO-OPERATION WITH SUPPLIERS. In 1999, we circulated a questionnaire among the suppliers who make clothing for H&M to find out how their activities impact the environment. The results will form the basis of H&M's continued work to help suppliers understand the importance of active environmental efforts. As knowledge of environmental issues is lacking in many textile-producing countries, it is important to combine our demands with information and education.

REDUCING TEXTILE MANUFACTURING'S ENVIRONMENTAL IMPACT. It has been known for quite some time that the textile manufacturing's greatest environmental impact does not occur in the area of the garment industry where H&M operate. On the contrary, it takes place in the earlier production phases, for example during the processing of fibres or dyeing of the fabric. H&M are committed to a long-term effort to increase environmental awareness in these phases. We believe that together with our suppliers, we have a responsibility to gradually reduce environmental impact during the manufacturing of our products. Consequently, we intend to develop guidelines to help our suppliers become more environmentally aware.

TRANSPORTS. H&M's use of transportation has long been characterised by environmental awareness. We have developed environmental requirements that must be met in order to transport our goods. Already in use in Sweden, we intend to revise these environmental requirements and apply them to the purchase of international transports.

ADMINISTRATION REPORT

The Board of Directors and Managing Director of H & M Hennes & Mauritz AB (publ) submit herewith their report for the financial year 1 December 1998 to 30 November 1999.

SALES

During the past year total turnover for the H&M Group rose by 24 per cent (previous year 25 per cent) and amounted to SEK 32,976.5 M including VAT (SEK 26,649.8 M).

The sales growth of H&M was attributable both to the retail business and to the mail-order business. Same store sales increased in all markets.

During the past year, 75 new stores were opened and twelve were closed. Four of the closed stores belonged to the Galne Gunnar chain, which began closing down in the autumn of 1999.

The H&M Group increased its market shares in all countries.

Sales outside Sweden accounted for 84 per cent of Group sales (82 per cent).

In 2000, the Group will start store operations in Spain and USA. A total of five stores is planned in the two countries respectively during the year.

PROFIT

Gross profit amounted to SEK 14,735.8 M (SEK 11,483.8 M). After deduction for selling and administrative expenses of SEK 10,155.8 M (SEK 8,157.1 M), operating profit increased by SEK 1,253.3 M or 38 per cent and was SEK 4,580.0 M (SEK 3,326.7 M). The result achieved meant an operating margin of 16.4 per cent (14.8 per cent). The operating profit has been charged with depreciation according to plan of SEK 457.0 M (SEK 352.8 M) and start-up costs (the part of the investment in new premises which is treated as a cost item) of SEK 195.3 M (SEK 119.6 M). The start of the operations in Spain and USA have affected the profit in the form of start-up costs and depreciation by SEK 25.3 M.

Operating margin calculated on the profit after depreciation but before start-up costs was thus 17.1 per cent (15.3 per cent).

The operating profit has also been charged with a single item, a so-called millennium bonus of SEK 93.5 M, which has been promised to all of the staff of the Group.

Profit growth and margin improvement are attributable both to the increased sales volumes and to the smaller part price reductions which has been made during the financial year.

Net interest income for the Group amounted to SEK 178.6

M (SEK 141.5 M). Profit after financial items was SEK 4,758.6 M (SEK 3,468.2 M), an increase of 37 per cent.

After provisions for tax of SEK 1,683.2 M (SEK 1,181.3 M), profit for the year was SEK 3,075.4 M (SEK 2,286.9 M). The result corresponds to a profit per share of SEK 3.72 (SEK 2.76).

Return on shareholders' equity reached 32.9 per cent (30.7 per cent) and return on capital employed amounted to 50.3 per cent (46.3 per cent).

LIQUIDITY AND FINANCING

At the financial year-end, the balance sheet total was SEK 14,198.2 M (SEK 11,452.9 M), an increase of 24 per cent.

During the past year Group operations generated a positive cash flow of SEK 2,949.1 M (SEK 2,317.9 M), of which SEK 1,295.8 M (SEK 1,008.4 M) were reinvested into the operations. The financial assets increased by SEK 1,672.5 M and amounted to SEK 6,832.4 M (SEK 5,159.9 M).

Stock-in-trade increased by 11 per cent and was SEK 3,609.3 M (SEK 3,237.9 M). It represented 12.9 per cent (14.4 per cent) of the turnover and 25.4 per cent (28.3 per cent) of the balance sheet total.

The debt/equity ratio was 1.3 per cent (1.6 per cent) and the share of risk-bearing capital was 76.4 per cent (77.9 per cent).

At the financial year-end, shareholders' equity amounted to SEK 10,293.8 M (SEK 8,405.9 M), which corresponds to SEK 12.44 (SEK 10.16) per share.

The Swedish Group's part of SPP's (Swedish pension fund) surplus funds amounts to SEK 34.2 M according to a statement from SPP. The terms and conditions for the refund have not yet been elucidated by SPP. The amount allocated to the Group has not affected the result for the past financial year.

The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 1.35 per share (SEK 1.-).

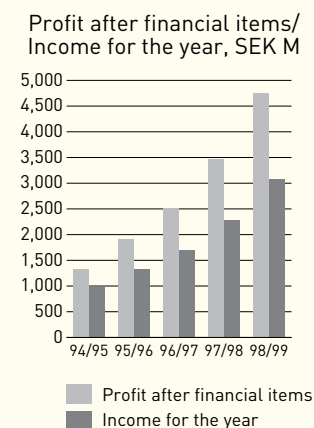
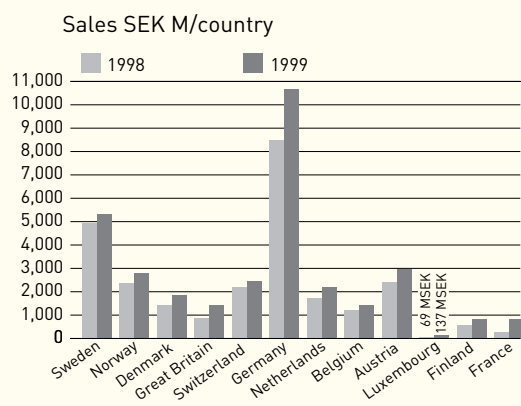
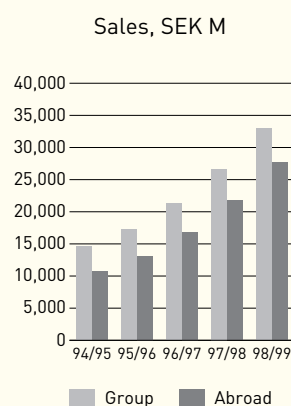
BOARD OF DIRECTORS' WORK

The Parent Company Board of Directors met six times during the financial year. Stefan Persson was re-elected Chairman of the Board at a Board Meeting following election. The Board of Directors have kept abreast of the financial development and position of the Group. During the year, the Board adopted a working arrangement for themselves that calls for them to hold five ordinary meetings annually. It also stipulates that the Board of Directors shall decide on the Group financing policy, investments/disinvestments in companies and activities, as well as new markets. No special committees were appointed.

GROUP INCOME STATEMENT

(SEK M)

	1998/99	1997/98
Turnover, including VAT	32,976.5	26,649.8
Turnover, excluding VAT, Note 1	27,888.1	22,540.8
Costs of goods sold, Notes 4, 5	- 13,152.3	- 11,057.0
GROSS PROFIT	14,735.8	11,483.8
Selling expenses Notes 2, 4, 5	- 9,596.7	- 7,710.4
Administrative expenses, Notes 4, 5, 6	- 559.1	- 446.7
OPERATING PROFIT	4,580.0	3,326.7
Result from financial investments:		
Interest income	193.3	155.3
Interest expense	- 14.7	- 13.8
PROFIT AFTER FINANCIAL ITEMS	4,758.6	3,468.2
Tax on profit for the year, Note 7	- 1,683.2	- 1,181.3
NET PROFIT FOR THE YEAR	3,075.4	2,286.9

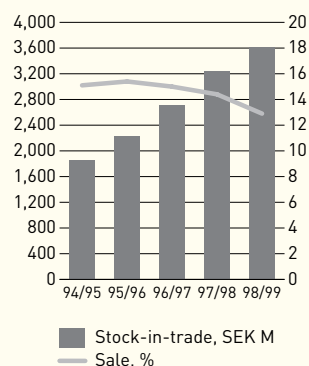


GROUP BALANCE SHEET

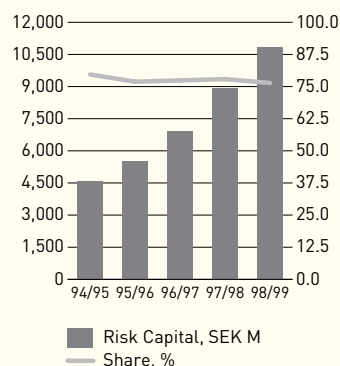
(SEK M)

ASSETS	1999	1998
FIXED ASSETS		
<u>Intangible Assets</u>		
Renting rights, Note 9	94.5	36.3
<u>Tangible Assets</u>		
Land and buildings, Note 9	281.0	191.9
Equipment, tools, fixtures and fittings, Note 9	2,715.3	2,219.1
	2,996.3	2,411.0
<u>Financial Assets</u>		
Other long-term receivables	75.7	60.4
Total Fixed Assets	3,166.5	2,507.7
CURRENT ASSETS		
Stock-in-trade	3,609.3	3,237.9
<u>Current receivables</u>		
Accounts receivable, trade	385.1	349.0
Other receivables	34.4	43.6
Prepaid expenses and accrued income, Note 10	170.5	154.8
	590.0	547.4
Short-term investments	4,829.8	3,737.7
Cash and bank balances	2,002.6	1,422.2
Total Current Assets	11,031.7	8,945.2
TOTAL ASSETS	14,198.2	11,452.9

Stock-in-trade



Risk Capital



GROUP BALANCE SHEET

(SEK M)

EQUITY AND LIABILITIES	1999	1998
EQUITY, Note 11		
<u>Restricted Equity</u>		
Share capital	206.9	206.9
Restricted reserves	1,444.3	1,419.6
	<u>1,651.2</u>	<u>1,626.5</u>
<u>Non-restricted Equity</u>		
Profit brought forward	5,567.2	4,492.5
Profit for the year	3,075.4	2,286.9
	<u>8,642.6</u>	<u>6,779.4</u>
Total Equity	10,293.8	8,405.9
<u>Provisions</u>		
Provisions for pensions	92.2	90.5
Provisions for taxation	552.0	516.3
	<u>644.2</u>	<u>606.8</u>
<u>Long-term Liabilities</u>		
Liabilities to credit institutions	43.2	46.1
<u>Current Liabilities</u>		
Accounts payable, trade	891.0	596.3
Income tax liabilities	718.0	489.5
Other liabilities	497.1	454.1
Accrued expenses and deferred income, Note 12	1,110.9	854.2
	<u>3,217.0</u>	<u>2,394.1</u>
TOTAL EQUITY AND LIABILITIES	14,198.2	11,452.9
Pledged assets		
Real estate mortgages	56.6	58.7
Contingent liabilities	38.9	29.7

CONSOLIDATED CASH FLOW STATEMENT

(SEK M)

	1998/99		1997/98	
Operating profit		4,580.0		3,326.7
Depreciation and start-up costs		652.3		472.4
<hr/>				
Cash flow before changes in working capital		5,232.3		3,799.1
Changes in				
Current receivables	- 42.6		- 67.3	
Stock-in-trade	- 371.4		- 529.5	
Current liabilities	822.9	408.9	509.8	- 87.0
<hr/>				
Cash flow from operations before financial items		5,641.2		3,712.1
Net interest income		178.6		141.5
Tax expense	- 1,683.2		- 1,181.3	
Dividend to shareholders	- 827.5		- 620.7	
Exchange rate difference etc	- 360.0	- 2,692.1	266.3	- 1,394.2
<hr/>				
Cash flow before external financing		2,949.1		2,317.9
Changes in				
Long-term liabilities and provisions	34.5		73.3	
Long-term receivables	- 15.3	19.2	- 19.9	53.4
<hr/>				
Cash flow before investments		2,968.3		2,371.3
Investments and start-up costs		- 1,295.8		- 1,008.4
<hr/>				
Changes in financial current assets		1,672.5		1,362.9

PARENT COMPANY INCOME STATEMENT

(SEK M)

	1998/99	1997/98
Turnover including VAT	5,701.7	5,111.2
Turnover excluding VAT, Note 3	4,671.6	4,165.0
Cost of goods sold, Notes 4, 5	- 2,686.1	- 2,425.6
GROSS PROFIT	1,985.5	1,739.4
Selling expenses, Notes 4, 5	- 1,555.0	- 1,375.6
Administrative expenses, Notes 4, 5, 6	- 217.8	- 165.5
OPERATING PROFIT	212.7	198.3
Result from financial investments:		
Dividend from subsidiaries	1,370.6	1,174.6
Interest income	59.5	47.5
Interest expense	- 31.4	- 26.1
PROFIT AFTER FINANCIAL ITEMS	1,611.4	1,394.3
Appropriations, Note 8	- 32.5	- 15.6
Taxes	- 62.4	- 59.0
NET PROFIT FOR THE YEAR	1,516.5	1,319.7

PARENT COMPANY BALANCE SHEET

(SEK M)

ASSETS	1999	1998
FIXED ASSETS		
<u>Intangible Assets</u>		
Renting rights, Note 9	0.3	0.4
<u>Tangible Assets</u>		
Land and buildings, Note 9	126.9	111.9
Equipment, tools, fixtures and fittings, Note 9	347.6	254.3
	<u>474.5</u>	<u>366.2</u>
<u>Financial Assets</u>		
Shares and participation rights, Note 13	8.6	8.6
Long-term receivables, subsidiaries	24.0	24.0
Other long-term receivables	12.1	12.2
	<u>44.7</u>	<u>44.8</u>
Total Fixed Assets	519.5	411.4
CURRENT ASSETS		
Stock-in-trade	643.9	615.8
<u>Current receivables</u>		
Accounts receivable, trade	187.1	162.0
Accounts receivable from subsidiaries	2,841.8	2,433.8
Other current assets	5.0	3.9
Prepaid expenses and accrued income, Note 10	34.7	34.9
	<u>3,068.6</u>	<u>2,634.6</u>
Short-term investments	670.0	410.0
Cash and bank balances	167.2	151.3
Total Current Assets	4,549.7	3,811.7
TOTAL ASSETS	5,069.2	4,223.1

PARENT COMPANY BALANCE SHEET

(SEK M)

EQUITY AND LIABILITIES	1999	1998
EQUITY		
<u>Restricted Equity</u>		
Share capital, Note 14	206.9	206.9
Restricted reserves	87.8	87.8
	<u>294.7</u>	<u>294.7</u>
<u>Non-restricted Equity</u>		
Profit brought forward, Note 15	1,917.7	1,425.5
Profit for the year	1,516.5	1,319.7
	<u>3,434.2</u>	<u>2,745.2</u>
Total Equity	3,728.9	3,039.9
Untaxed reserves, Note 16	532.9	500.4
Provisions for pensions	92.3	90.4
Liabilities to credit institutions	24.8	25.0
<u>Current Liabilities</u>		
Accounts payable, trade	227.1	174.5
Accounts payable, subsidiaries	64.7	60.0
Income tax liability	13.1	17.3
Other current liabilities	53.2	40.3
Accrued expenses and deferred income, Note 12	332.2	275.3
	<u>690.3</u>	<u>567.4</u>
TOTAL EQUITY AND LIABILITIES	5,069.2	4,223.1
Pledged assets		
Real estate mortgages	32.5	32.5
Contingent liabilities	38.9	29.7

PARENT COMPANY CASH FLOW STATEMENT

(SEK M)

	1998/99		1997/98	
Operating profit		212.7		198.3
Depreciation		61.6		49.9
Cash flow before changes in working capital		274.3		248.2
Changes in				
Current receivables	- 434.0		- 560.6	
Stock-in-trade	- 28.1		- 23.2	
Current liabilities	122.9	- 339.2	- 20.6	- 604.4
Cash flow from operations before financial items		- 64.9		- 356.2
Net interest income	28.1		21.4	
Dividends from subsidiaries	1,370.6		1,174.6	
Tax expense	- 62.4		- 59.0	
Returned dividend			0.2	
Dividends to shareholders	- 827.5	508.8	- 620.7	516.5
Cash flow before external financing		443.9		160.3
Changes in				
Long-term liabilities and provisions	1.7		3.9	
Long-term receivables	0.1	1.8	- 5.9	- 2.0
Cash flow before investments		445.7		158.3
Investments		- 169.8		- 71.5
Changes in financial current assets		275.9		86.8

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The accounting and valuation principles comply with the recommendations issued by the Swedish Financial Accounting Standards Council and the Swedish Accounting Board. The new accounting laws are to be applied beginning with the 1997/98 financial year. The figures for previous years have been modified for reasons of comparison.

Consolidated accounts

On consolidation, the cost of shares has been offset against reported shareholders' equity at the date of acquisition. Any remaining difference (surplus value) is immediately written off. Effective the 1993/94 financial year, the annual accounts of subsidiaries have been translated to Swedish kronor in accordance with the current exchange rate method. The exchange rate at the balance sheet date was used to consolidate the balance sheets of foreign companies. Income statements have been translated using the average annual exchange rate. Translation differences arising from the current method are charged directly to Group shareholders' equity. Group companies calculate tax in accordance with the rules and regulations of the country in question. Deferred tax expense in the consolidated accounts amounts to 30 per cent of the change in untaxed reserves for the year. The Group has made allocations for calculated taxes on expected dividends from subsidiaries during the year.

The value of stock-in-trade is reported in the consolidated financial statements net of market-value obsolescence, but excluding obsolescence for goods in transit.

Parent Company financial statements report the value of stock-in-trade net of the tax-deductible obsolescence reserve.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currencies have been reported in accordance with Instruction No. 7 of the Swedish Accounting Board. This means that receivables and liabilities have been assessed at the exchange rate at the balance sheet date.

Forward exchange agreements, which ensure the flow of currencies between countries, have been dealt with in a manner where receivables and liabilities have been assessed at a forward rate. If no receivables or liabilities arose, the assessment of forward exchange agreements did not affect the accounts.

The Parent Company insures the exchange rate of subsidiary foreign-currency receivables through loans in the currency in question. The Parent Company values loans and receivables in foreign currencies at the rate of exchange in effect at acquisition and utilises net reporting.

1 TURNOVER EXCLUDING VAT PER COUNTRY (SEK M)

	1998/99	1997/98
Sweden	4,274	3,952
Norway	2,283	1,940
Denmark	1,481	1,162
Great Britain	1,280	791
Switzerland	2,304	2,059
Germany	9,192	7,358
The Netherlands	1,885	1,467
Belgium	1,193	1,022
Austria	2,491	2,021
Luxembourg	122	62
Finland	695	473
France	688	234
Total	27,888	22,541

2 START-UP COSTS

Start-up costs refer to the cost involved in modernising and fitting out newly acquired premises and newly established operations. Start-up costs have been charged to the income statement in accordance with the accounting and taxation practice of each country. Start-up costs during the year amounted to SEK 195.3 M (119.6).

3 SALES TO GROUP COMPANIES

Parent Company net turnover includes SEK 662 M (SEK 555 M) concerning the internal sale of goods to subsidiaries.

4 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS (SEK M)

1999	Board + Man. Dir., salary	Other, salary	Payroll overheads Total	of which pensions Total	of which pen- sions* Board + Man. Dir.
Sweden	9.3	787.2	323.6	44.4	0.6
Norway	1.8	331.7	49.0	3.3	0.3
Denmark	2.3	200.1	12.8	8.3	
Great Britain	2.3	157.3	12.9	1.0	0.1
Switzerland	2.2	312.7	29.8	0.8	0.4
Germany	4.6	1,060.3	224.9	0.7	
The Netherlands	1.9	205.3	44.3	0.5	0.5
Belgium	0.8	137.5	35.1	0.7	0.3
Austria	1.7	257.5	74.0	0.1	
Luxembourg		11.0	1.3		
Finland	1.1	74.0	18.8	0.2	0.1
France	1.5	97.0	45.9	0.2	
Spain		0.4	0.0		
USA		0.6	0.2		
Other countries		62.1	9.8	2.8	
Group, total	29.5	3,694.7	882.4	63.0	2.3

1998	Board + Man. Dir., salary	Other, salary	Payroll overheads Total	of which pensions Total	of which pen- sions* Board + Man. Dir.
Sweden	8.5	678.2	286.4	40.8	1.1
Norway	1.7	272.1	42.5	3.1	0.3
Denmark	1.5	156.2	10.6	6.2	
Great Britain	2.1	92.3	8.3	0.6	0.3
Switzerland	1.6	290.4	26.0	0.7	0.1
Germany	4.5	867.5	165.7	0.9	0.1
The Netherlands	2.0	159.4	27.6	0.6	0.5
Belgium	2.3	108.4	34.5	0.6	0.1
Austria	1.7	221.0	62.3	0.3	0.2
Luxembourg		6.2	0.7		
Finland	0.9	40.2	8.3	0.1	0.1
France	0.6	49.2	18.9	0.1	
Other countries		45.0	6.7	1.7	
Group, total	27.4	2,986.1	698.5	55.7	2.8

*1) Company and Group outstanding pension obligations to this group total 2.6 (2.1).

Severance pay

The managing Director of the Parent Company is entitled to one year's notice. In the event the company cancels the employment contract, the Managing Director shall receive an additional year's salary as part of the severance pay.

There are no other agreements regarding severance pay in the Group.

Terms of employment for other Group senior executive officers

In accordance with decision at the Annual General Meeting, remuneration to the Board of Directors reached SEK 3,900,000, of which SEK 3,000,000 was paid to the Chairman of the Board. Board members employed by the company were not compensated.

Remuneration to the Managing Director amounted to SEK 3,925,000. The usual premium for a Swedish ITP retirement plan should be added to the aforementioned figures.

Certain executives who are entitled to retire between the ages of 60 and 62 receive retirement payments. The cost of these payments has been covered by separate insurance policies.

5 DEPRECIATION ACCORDING TO PLAN (SEK M)

Equipment and leasehold rights have been depreciated at a rate of 12 per cent of acquisition cost, based on the estimated economic life. Real estate has been depreciated at 3 per cent of acquisition cost.

Depreciations for the year have been reported in the Income Statement as follows:

	GROUP		PARENT COMPANY	
	98/99	97/98	98/99	97/98
Cost of goods sold	45.7	35.3	6.2	5.0
Selling expenses	388.4	299.9	52.3	42.4
Administrative expenses	22.9	17.6	3.1	2.5
Total	457.0	352.8	61.6	49.9

6 AUDIT FEES (SEK M)

		GROUP		PARENT COMPANY	
		98/99	97/98	98/99	97/98
Ernst & Young	Audit assignments	4.8		0.9	
	Other assignments	4.0		0.1	
Other auditors	Audit assignments	1.9			

7 TAX ON PROFIT FOR THE YEAR (SEK M)

	98/99	97/98
Taxes paid	- 1,625.4	- 1,126.0
Taxes deferred	- 57.8	- 55.3
Total	- 1,683.2	- 1,181.3

8 APPROPRIATIONS (SEK M)

	98/99	97/98
Depreciation in excess of plan	- 29.1	- 14.6
Change in capital based tax equalisation reserve K	51.7	51.7
Allocation to tax allocation reserve	- 55.1	- 52.7
Totalt	- 32.5	- 15.6

9 EQUIPMENT, LEASEHOLD RIGHTS AND REAL ESTATE (SEK M)

	Equipment	Leasehold rights	Real estate
Group			
Acquisition value carried forward	3,411.6	42.3	245.0
Acquisition for the year	1,103.0	69.8	101.1
Sales/disposal	- 117.1	- 1.7	
Translation effects	- 215.9	- 3.2	- 5.3
Closing acquisition value	4,181.6	107.2	340.8
Depreciation carried forward	- 1,192.5	- 6.0	- 53.1
Sales/disposal	80.7	1.7	
Depreciation for the year	- 440.7	- 8.9	- 7.4
Translation effects	86.2	0.5	0.7
Closing accumulated depreciations	- 1,466.3	- 12.7	- 59.8
Closing residual value according to plan	2,715.3	94.5	281.0
Parent Company			
Acquisition value carried forward	416.5	0.7	150.5
Acquisition for the year	149.8		20.0
Sales/disposal	- 16.8		
Closing acquisition value	549.5	0.7	170.5
Depreciation carried forward	- 162.2	- 0.3	- 38.6
Sales/disposal	16.8		
Depreciation for the year	- 56.5	- 0.1	- 5.0
Closing accumulated depreciations	- 201.9	- 0.4	- 43.6
Closing residual value according to plan	347.6	0.3	126.9

The Group has not entered into any leasing agreements. Contracts for leased premises have been entered at normal market terms.

10 PREPAID EXPENSES AND ACCRUED INCOME (SEK M)

	GROUP		PARENT COMPANY	
	98/99	97/98	98/99	97/98
Prepaid rent	87.0	89.6	17.8	18.0
Accrued interest income	15.2	15.2	4.7	4.1
Other items	68.3	50.0	12.2	12.8
Total	170.5	154.8	34.7	34.9

11 CHANGE IN SHAREHOLDERS' EQUITY (SEK M)

	Share capital	Restricted reserves	Unappropriated earnings	Total shareholders' equity
Shareholders' equity 1 Dec. 98	206.9	1,419.6	6,779.4	8,405.9
Dividends			- 827.5	- 827.5
Capital shares in untaxed reserves		83.6	- 83.6	
Translation differences		- 58.9	- 301.1	- 360.0
Profit for the year			3,075.4	3,075.4
Shareholders' equity 30 Nov. 99	206.9	1,444.3	8,642.6	10,293.8

12 ACCRUED EXPENSES AND PREPAID INCOME (SEK M)

	GROUP		PARENT COMPANY	
	98/99	97/98	98/99	97/98
Holiday pay liability	222.4	187.5	86.6	79.7
Payroll overheads	119.2	100.4	82.9	71.0
Accrued interest expense	3.2	2.3	1.8	2.0
Other items	766.1	564.0	160.9	122.6
Total	1,110.9	854.2	332.2	275.3

13 PARTICIPATION IN GROUP COMPANIES (all companies are wholly owned)

	Organisation number	Number of shares	Booked value SEK M	Domicile
Parent company participation				
Hennes & Mauritz Svenska AB	556056-6126	1,000	0.1	Stockholm
K E Persson AB	556030-1052	1,000	0.1	Stockholm
AB Hennes	556056-0889	1,000	0.1	Stockholm
Big is Beautiful, BiB AB	556005-5047	3,300	0.4	Stockholm
Bekå AB	556024-2488	450	1.3	Stockholm
Impuls AB	556151-2376	1,250	0.1	Stockholm
Carl-Axel Herrmode AB	556099-0706	1,000	3.0	Stockholm
H & M Rowells AB	556023-1663	1,150	0.6	Stockholm
Mauritz AB	556125-1421	2,000	0.2	Stockholm
Erica Modehus AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International B.V.		40,000 ^{NL6}	0.1	The Netherlands
			8.6	
Subsidiary participation in group companies				
Carl Axel Petterssons AB	556027-7351	1,200		Stockholm
H & M Hennes & Mauritz AS				Norway
H & M Hennes & Mauritz AS				Denmark
H & M Hennes Ltd				Great Britain
H & M Hennes & Mauritz SA				Switzerland
H & M Trading SA				Switzerland
H & M Hennes & Mauritz Holding GmbH				Germany
H & M Hennes & Mauritz GmbH				Germany
Impuls Modeteam Vertriebsgesellschaft mbH				Germany
Modehaus H & M Hennes & Mauritz GmbH				Germany
Firma Magis Verwaltungs- und Beteiligungsgesellschaft mbH				Germany
Magis GmbH & Co. KG				Germany
H & M Hennes & Mauritz Holding BV				The Netherlands
H & M Hennes & Mauritz Netherlands BV				The Netherlands
H & M Hennes & Mauritz Belgium BV				The Netherlands
H & M Hennes & Mauritz Belgium NV				Belgium
H & M Hennes & Mauritz GesmbH				Austria
H & M Hennes & Mauritz OY				Finland
H & M Hennes & Mauritz SARL				France
H & M Moda SL				Spain
H & M Hennes & Mauritz Inc.				USA
H & M Reinsurance SA				Luxembourg
H & M Hennes & Mauritz Far East Ltd				Hong Kong
Puls Trading Far East Ltd				Hong Kong
H & M Hennes & Mauritz International Ltd				Hong Kong
Puls Trading International Ltd				Hong Kong

14 SHARE CAPITAL

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

15 APPROPRIATION OF PROFITS IN ACCORDANCE WITH THE RESOLUTION OF THE 1999 ANNUAL GENERAL MEETING

	MSEK
Unappropriated profit at 30 Nov. 98	2,745.2
Dividend, SEK 1 per share	- 827.5
Unappropriated profit carried forward	1,917.7

16 UNTAXED RESERVES (SEK M)

	98/99	97/98
Depreciation in excess of plan	180.4	151.3
Capital based tax equalisation reserve K	51.7	103.4
Tax allocation reserve	300.8	245.7
Total	532.9	500.4

17 AVERAGE NUMBER OF EMPLOYEES

	1998/99		1997/98	
	Total	Males	Total	Males
Sweden, Parent Company	3,388	18%	3,079	18%
Norway	1,231	8%	1,096	8%
Denmark	866	8%	734	9%
Great Britain	877	19%	549	12%
Switzerland	1,050	9%	1,001	9%
Germany	5,287	17%	3,898	22%
The Netherlands	1,525	15%	1,136	20%
Belgium	693	17%	477	17%
Austria	1,343	19%	1,302	19%
Luxembourg	54	13%	37	19%
Finland	410	14%	251	13%
France	560	14%	250	14%
Spain	2	50%		
USA	3	67%		
Other countries	363	22%	291	28%
Group, total	17,652	16%	14,101	17%

18 KEY FIGURE DEFINITIONS

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

PROPOSED DISTRIBUTION OF EARNINGS

GROUP

According to the Group Balance Sheet, unappropriated Group profit amounts to SEK 8,642,610,000.

At the disposal of the Annual General Meeting	SEK	3,434,273,645
The Board of Directors and Managing Director propose that:		
shareholders be paid a dividend of SEK 1.35 per share	SEK	1,117,173,600
To be carried forward as retained profits	SEK	<u>2,317,100,045</u>
	SEK	3,434,273,645

Stockholm, 27 January 2000

Stefan Persson
Chairman

Fred Andersson

Birgitta Brusberg*

Vivian Enochsson*

Werner Hofer

Sussi Kvart

Bo Lundquist

Stig Nordfelt

Melker Schörling

Fabian Månsson
Managing Director

* Employee representative

DIVIDEND POLICY

H&M's financial goal is for the company to continue to enjoy healthy growth. We must continue to expand with the same high degree of financial strength. In view of this, the Board has determined that dividends should correspond to one-third of the profit per share after taxes. Although dividends will normally follow the profit trend, they may deviate in certain years.

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and managing director of H & M Hennes & Mauritz AB for year financial year 1/12 1998 - 30/11 1999. These accounts and the administration of the company are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

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

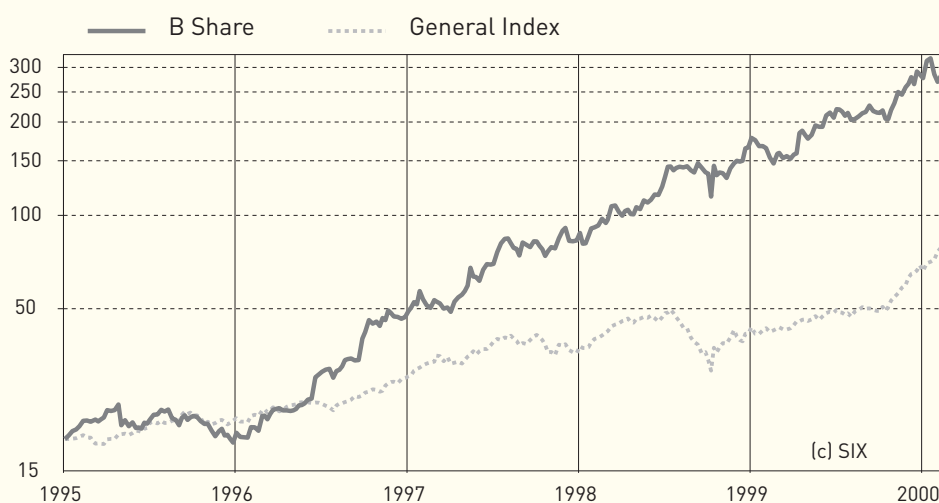
Stockholm, 27 January 2000

Åke Hedén
Authorised Auditor

Gunnar Widhagen
Authorised Auditor

FIVE-YEAR SUMMARY

	1994/95	1995/96	1996/97	1997/98	1998/99
Turnover, including VAT, SEK M	14,591.1	17,212.1	21,279.4	26,649.8	32,976.5
Change from previous year, %	+ 8	+ 18	+ 24	+ 25	+ 24
Sales outside Sweden, SEK M	10,720.1	13,085.4	16,853.1	21,730.1	27,667.4
Sales outside Sweden as a percentage of total sales, %	73	76	79	82	84
Operating margin, %	10.0	12.6	13.5	14.8	16.4
Profit after financial items, SEK M	1,321.7	1,905.0	2,511.9	3,468.2	4,758.6
Net profit for the year, SEK M	973.1	1,331.0	1,690.9	2,286.9	3,075.4
Cash and Bank balances including short-term investments, SEK M	2,193.5	2,937.5	3,797.0	5,159.9	6,832.4
Stock-in-trade, SEK M	1,859.0	2,235.6	2,708.4	3,237.9	3,609.3
Restricted equity, SEK M	1,070.1	1,194.8	1,392.0	1,626.5	1,651.2
Non-restricted equity, SEK M	3,186.1	3,960.0	5,081.4	6,779.4	8,642.6
Return on shareholders' equity, %, Note 18	24.3	28.3	29.1	30.7	32.9
Return on capital employed, %, Note 18	32.7	39.8	42.5	46.3	50.3
Debt/equity ratio, %, Note 18	3.0	2.5	2.1	1.6	1.3
Share of risk-bearing capital, %, Note 18	79.7	76.9	77.4	77.9	76.4
Solidity, %, Note 18	74.3	71.9	72.4	73.4	72.5
Interest cover, Note 18	47.4	106.2	198.8	252.3	324.7
Number of stores in Sweden	118	117	117	120	124
Number of stores outside Sweden	275	326	373	430	489
Total number of stores	393	443	490	550	613
Average number of employees	9,465	10,469	12,096	14,101	17,652



H&M SHARE

BUSINESS RATIOS PER SHARE	1994/95	1995/96	1996/97	1997/98	1998/99
Shareholders' equity per share, SEK	5.14	6.23	7.82	10.16	12.44
Earnings per share, SEK	1.18	1.61	2.04	2.76	3.72
Change from previous year, %	- 9	+ 37	+ 27	+ 35	+ 35
Dividend per share, SEK	0.39	0.55	0.75	1.00	1.35*
Market price at financial year-end, SEK	20.35	48.25	89.25	150.25	270.00
P/E ratio	17	30	44	54	73

DISTRIBUTION OF SHARES, DECEMBER 1999

Shareholdings	Number of shareholders	%	Number of shares	%	Average number of shares per shareholder
1 – 1,000	85,500	88.8	19,969,030	2.4	234
1,001 – 5,000	8,068	8.4	18,260,744	2.2	2,263
5,001 – 10,000	1,198	1.3	8,960,237	1.1	7,749
10,001 – 50,000	1,053	1.1	22,176,908	2.7	21,061
50,001 – 100,000	137	0.1	9,980,407	1.2	72,850
100,001 –	327	0.3	748,188,674	90.4	2,288,039
TOTAL	96,283	100.0	827,536,000	100.0	8,595

MAJOR SHAREHOLDERS, DECEMBER 1999

	Shares held	% of voting rights	% of capi- tal stock
The Stefan Persson family	300,092,400	69.0	36.3
Liselott Tham	36,640,700	2.2	4.4
Allmänna Pensionsfonden, fjärde fondstyrelsen	34,757,500	2.0	4.2
FöreningsSparbanken fonder	28,390,850	1.7	3.4
Försäkringsbolaget SPP	28,043,919	1.7	3.4
Nordbanken Fonder AB	12,277,150	0.7	1.5
SEB Fonder	11,035,012	0.7	1.3
Jan Bengtsson	10,693,740	0.6	1.3
AMF	10,546,000	0.6	1.3
Stefan Bengtsson	10,491,500	0.6	1.3

* Proposed dividend

BOARD OF DIRECTORS



STEFAN PERSSON

born 1947
Chairman, H&M
Member of the board since 1979
Other board assignments: AB
Electrolux and INGKA Holding B.V.
No. of shares in H&M: 282,894,400



FRED ANDERSSON

born 1946
Managing Director, Coromandel
Holding AB
Member of the board since 1990
Other board assignments:
Bergendahl & Son AB
No. of shares in H&M: 4,300



BIRGITTA BRUSBERG

born 1937
Employee representative
since 1992



VIVIAN ENOCHSSON

born 1940
Employee representative
since 1977
No. of shares in H&M: 600



WERNER HOFER

born 1935
Lawyer and partner of Luther & Partner,
Hamburg/Berlin
Member of the board since 1996
Other board assignments: Chairman of
Puma AG, Electrolux Deutschland GmbH
and Astra GmbH
No. of shares in H&M: 4,000



JAN JACOBSEN

born 1951
Director of Finance, H&M
Deputy member of the board
since 1985
No. of shares in H&M: 300,000



SUSSI KVART

born 1956
Deputy Secretary General of the
Swedish Bar Association
Member of the board since 1998
No. of shares in H&M: 1,900



BO LUNDQUIST

born 1942
Member of the board since 1995
Other board assignments: Chairman of ACSC AB, board member of Hemköp AB, Dahl International AB, Svedala AB and CityMail AB
No. of shares in H&M: 20,000



AGNETA RAMBERG

born 1946
Deputy employee representative since 1997



MELKER SCHÖRLING

born 1947
Member of the board since 1998
Other board assignments: Chairman of Securitas AB, vice chairman of Assa Abloy AB, board member of Cardo AB and the Federation of Swedish Industries
No. of shares in H&M: 4,000



STIG NORDFELT

born 1940
Managing Director, Pilen AB
Member of the board since 1987
Other board assignments: IBS AB
No. of shares in H&M: 4,000



FABIAN MÅNSSON

Born 1964
Chief Executive Officer and Managing Director of H&M
Deputy member of the board since 1998
No. of shares in H&M: 25,300



MARIANNE NORIN-BROMAN

born 1944
Deputy employee representative since 1995
No. of shares in H&M: 40

H&M FACTS

Sweden

Established:	1947
Turnover (SEK M):	5,309
Number of stores:	124
Number of locations:	50
Number of employees:	3,388

Norway

Established:	1964
Turnover (SEK M):	2,789
Number of stores:	55
Number of locations:	25
Number of employees:	1,231

Denmark

Established:	1967
Turnover (SEK M):	1,852
Number of stores:	45
Number of locations:	28
Number of employees:	866

Great Britain

Established:	1976
Turnover (SEK M):	1,443
Number of stores:	34
Number of locations:	19
Number of employees:	877

Switzerland

Established:	1978
Turnover (SEK M):	2,475
Number of stores:	41
Number of locations:	20
Number of employees:	1,050

Germany

Established:	1980
Turnover (SEK M):	10,659
Number of stores:	167
Number of locations:	87
Number of employees:	5,287

The Netherlands

Established:	1989
Turnover (SEK M):	2,215
Number of stores:	54
Number of locations:	32
Number of employees:	1,525

Belgium

Established:	1992
Turnover (SEK M):	1,444
Number of stores:	33
Number of locations:	21
Number of employees:	693

Austria

Established:	1994
Turnover (SEK M):	2,977
Number of stores:	33
Number of locations:	10
Number of employees:	1,343

Luxembourg

Established:	1996
Turnover (SEK M):	137
Number of stores:	4
Number of locations:	1
Number of employees:	54

Finland

Established:	1997
Turnover (SEK M)	848
Number of stores:	12
Number of locations:	7
Number of employees:	410

France

Established:	1998
Turnover (SEK M):	829
Number of stores:	11
Number of locations:	3
Number of employees:	560







ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held in the Concert Hall in Stockholm on Thursday, 13 April 2000, at 2 p.m.

Shareholders who are registered in the share register print-out on Monday, 3 April 2000 and

who give notice of intention to participate in the Meeting no later than 12 noon, Monday, 10 April 2000 are entitled to participate in the Annual General Meeting.

NOMINEE SHARES

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names to be entitled to participate in the Meeting. In order to re-register shares for

participation in the Meeting in good time before 3 April 2000 shareholders should request temporary owner registration, which is referred to as voting right registration.

NOTICE

Notice of intention to participate in the Meeting must be submitted by mail, telefax or telephone to:

H & M Hennes & Mauritz AB
Box 1421
S-111 84 Stockholm, Sweden
Telephone +46 8 796 55 00
Telefax +46 8 24 80 78

Shareholders wishing to participate in the Meeting must register their intention no later than 12 noon, Monday, 10 April 2000.

DIVIDEND

The Board of Directors has proposed Tuesday, 18 April 2000 as record day. VPC (Swedish Securities Register Centre) is expected to commence paying dividends on 27 April 2000.

The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 1999 of SEK 1.35 per share.

