

Annual Report 2000

H&M

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FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information for the 2001 financial year:

INTERIM REPORT, three months
29 March 2001

INTERIM REPORT, six months
21 June 2001

INTERIM REPORT, nine months
28 September 2001

PRESS RELEASE, twelve months
January 2002

ANNUAL REPORT
March 2002

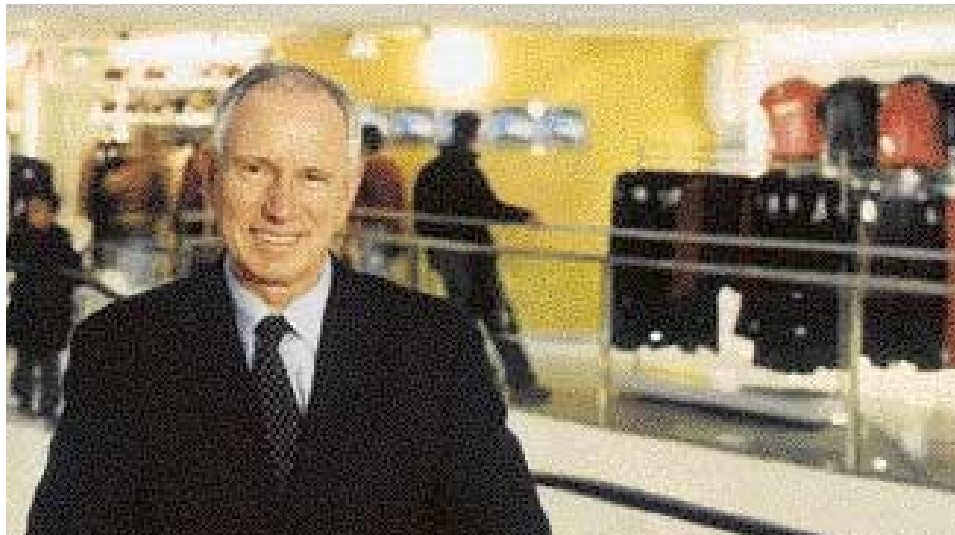
This information will also be available at
www.hm.com

THE YEAR IN BRIEF

- Group sales for the financial year amounted to SEK 35,876 M including VAT (SEK 32,977 M), an increase of 9 per cent compared to the previous year. With comparable exchange rates the increase was 12 per cent.
- Profit after financial items was SEK 4,003 M (SEK 4,759 M), a fall of 16 per cent compared to the previous year. Profits were adversely affected by price reductions, foreign currency translation effects, and by investments in two new markets, the USA and Spain.
- 90 new stores were opened during the year and 21 stores were closed.
- H&M's reception in its new markets, the USA and Spain, far exceeded expectations. All of the stores opened in these markets will generate an operating profit in 2001.
- Expansion is continuing according to plan; around 100 new stores will be opened in 2001.
- The SEK 500 M cost reduction programme is proceeding according to plan.
- The Board proposes a dividend of SEK 1.35 (SEK 1.35) per share.

FINANCIAL HIGHLIGHTS

| | 2000 | 1999 |
|--|----------|----------|
| Gross sales, including VAT, SEK M | 35,876.1 | 32,976.5 |
| Change, % | + 9 | + 24 |
| Sales outside Sweden, SEK M | 30,621.0 | 27,667.4 |
| Sales outside Sweden as a percentage of gross sales, % | 85 | 84 |
| Operating margin, % | 12.4 | 16.4 |
| Profit after financial items, SEK M | 4,003.2 | 4,758.6 |
| Net profit for the year, SEK M | 2,552.7 | 3,705.4 |
| Earnings per share, SEK | 3.08 | 3.72 |
| Change from previous year, % | - 17 | + 37 |
| Return on shareholders' equity, Note 19, % | 23.0 | 32.9 |
| Return on capital employed, Note 19, % | 35.8 | 50.3 |
| Debt/equity ratio, Note 19, % | 1.2 | 1.3 |
| Share of risk-bearing capital, Note 19, % | 79.8 | 76.4 |
| Solidity, Note 19, % | 75.7 | 72.5 |
| Number of stores in Sweden | 115 | 124 |
| Number of stores outside Sweden | 567 | 489 |
| Total number of stores | 682 | 613 |
| Average number of employees | 20,680 | 17,652 |



AN INTENSE YEAR

My first year as Managing Director of H&M has been exciting and intense. We have enjoyed great success, but also suffered setbacks from which we will learn as we go forward.

RAPID EXPANSION. The year was characterised by rapid expansion, with breakthroughs in two brand new markets – the USA and Spain. We have also taken an important step forward in the French market, where we opened 12 stores during the year, more than doubling the number of our stores there. We opened 13 new stores in Great Britain. In total we opened 90 new stores during the year, which is the fastest expansion in the company's history.

The high point was undoubtedly our store openings in the USA and Spain, which far exceeded expectations.

STRONG RESULT – SEK 4 BILLION IN PROFIT. The turnover for the year amounted to SEK 35.9 billion, an increase of 9 per cent, and with comparable exchange rates, the figure is 12 per cent.

The profit after financial items was SEK

4 billion – a reduction of 16 per cent compared to 1999, which was a very good year. This profit represents a return on equity of 23 per cent.

The result for the year is strong, but we know that we can do better. Profits were adversely affected by greater price reductions than last year, higher expansion costs, and foreign currency translation effects. Nonetheless, it is our second best result ever measured in monetary terms.

FASHION IS A PERISHABLE ITEM. The result was adversely affected above all by price reductions, which were SEK 600 million greater than in the previous year. The reductions were due to an imbalance in the mix between garments with a high fashion content and basic fashion in the spring and summer ranges. This was followed by an abnormally warm autumn, which resulted in reduced sales of outerwear in particular.

Fashion is a perishable item and H&M sells around 400 million items per year. This year saw a great swing in fashion – from minimalism in grey and black to strong colours and hippie-style patterns.

We did not have a fashion miss, but in the spring and summer ranges the balance of the mix was wrong in that we concentrated too much on items with a high fashion content.

We believe that we have now put this right. The larger volumes are to be made up of fashion basics within each individual concept. I would like to stress, however, that it is important for our image that we continue to include clothes with a high fashion degree – albeit in the correct volumes.

SHARPER FOCUS ON THE CUSTOMER. One way of further improving the balance has been to define our customer groups more clearly. Our main customers are fashion-conscious women from 18 to 45 years of age – or who feel that they belong in that age range.

We are therefore broadening our age range and increasing our focus on the fashion-conscious woman who is looking for easy-to-wear fashionable garments at the right price.

PLATFORM IN THE USA AND SPAIN. During the year we have built up a platform for

further expansion in the USA and Spain. Entering new markets is always costly because you have to build up everything from scratch. In 2000 we invested in infrastructure such as distribution centres and administration. We trained around 3,000 new staff members and started establishing our brand in these new markets.

Our expansion costs will be lower in 2001 because we now have an organisation in place. We also learned more about these new markets in 2000, enabling us to continue our expansion with higher cost efficiency.

All of the stores opened in these markets will generate an operating profit in 2001.

COST REDUCTION PROGRAMME ON TRACK. As a consequence of our increased cost consciousness, we have set up a cost reduction programme. It was introduced in spring 2000 and involves reducing our overall costs by SEK 500 M on a full-year basis. This programme is proceeding according to plan and will have its full impact in 2001. By the end of 2000, we had reduced the cost level by around SEK 210 M.

Today, the entire organisation is very cost-conscious, and focuses on cost savings in both small and large matters.

GREATER PROVISION OF INFORMATION. H&M now has more shareholders than ever – around 200,000. We take our duty to provide information very seriously, and are always careful to follow the rules that apply for a listed company. However, we realise that we could do better and provide clearer information.

We will therefore hold press and telephone conferences every quarter when we publish our reports. We are also working on improving our various communication tools.

We will, however, continue to be cautious about giving out certain sensitive financial ratios, since we feel that, for competitive reasons, this is in the best interest of both the company and our shareholders.

A GOOD PLATFORM FOR FURTHER EXPANSION. H&M is an expansive and financially strong company. Over the past five years we have more than doubled our turnover and increased the number of stores from 393 to 682. Our expansion has

been entirely financed with our own funds. Our financial strength gives us the power to act and to grow at a pace that we ourselves set. Our aim is to continue to expand while maintaining good profitability.

We now have a strong platform from which to grow in all of our 14 markets.

Investments in new markets and new stores will generate future revenue.

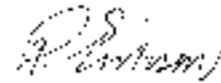
H&M IN 2001. Our strategy for 2001 is to continue to grow in our growth markets – the USA, Spain, France, Great Britain and Germany.

It is also important for us to continue to develop and safeguard other, more mature markets, to enable us to increase our market share. We are constantly improving our existing stores with alterations and renovations.

We also review our store locations when appropriate.

Our expansion plan is established. We plan to open around 100 new stores during the year. Two-thirds of these will open in our growth markets. Around 20 new stores will open in the USA. In three years we will have 85 stores there, making the USA our second biggest market after Germany.

I would like to end by saying a big thank you to all of our staff who has done so well in a year which in many ways has been a tough one. I am looking forward to the coming year, which has every indication of being fun, eventful and profitable.



ROLF ERIKSEN



Careful preparations were made for our launch in the USA. The evening before the opening we invited the press and other opinion-formers in the world of fashion to a preview.





BUSINESS CONCEPT

H&M's business concept is to offer fashion and quality at the best price.

In order to be able to offer the latest fashion, we have a design and purchasing department that creates our clothing collections. We are able to maintain the best price by:

- having few middlemen
- buying in large volumes
- having long experience of the clothing industry
- having a good understanding of which goods to buy from which market
- having effective distribution systems
- being cost-conscious at every stage

OUR BRAND

Our brand is one of our most important assets. All H&M employees are responsible for the brand and its development. We are constantly working on achieving the right balance between the various components that make up our brand.

H&M IN 2000

- Rolf Eriksen becomes the new Managing Director of H&M, having previously held the position as country manager for H&M in Denmark.
- H&M's first store in the USA is opened on Fifth Avenue in New York to a fantastic reception. People queue around the block and after 13 minutes the store is so full that the doors have to be closed temporarily.
- H&M's first two Spanish stores are opened in Barcelona and Zaragoza. Here again, the reception is extremely good.
- An action plan is implemented to save SEK 500 M on a full-year basis.
- H&M's primary customer group is broadened to cover women from 18 to 45 – or who feel they belong in this age range.
- The last 14 Galne Gunnar stores in Sweden are closed.
- In France the number of stores is doubled from 11 to 23.
- 13 new stores are opened in the UK and 21 in Germany.
- Six new distribution centres are put into operation during the year.
- H&M is named the best international retailer by the US National Retail Federation.
- During the year a total of 90 new stores are opened and 21 are closed.
- At the end of the year H&M has 682 stores in 14 countries and a strong platform for further expansion is in place in the USA and Spain.

Customers queued for hours for the opening of H&M's new store in New York's top shopping street.



A CLOTHING COLLECTION FOR EACH CUSTOMER GROUP

H&M's wide range is divided into 16 different concepts for women, men, teenagers and children. Each collection is aimed at a defined customer group. By offering fashion basics and clothes with a high fashion content within each collection, we allow our customers to combine different garments and find their own personal style.

Most of the collections are represented in the majority of H&M's stores, but there are also stores that are specially aimed at women or teenagers or that sell only cosmetics and underwear.

H&M's purchasing department is made up of 450 people in total, divided between the areas of women, men, teenage, children, underwear, accessories, cosmetics and H&M Rowells (our mail order business).

WOMEN. Women's wear makes up the largest part of H&M's range. The various concepts offer a wide range for fashion-conscious women from 18 to 45 years of age – or who feel they fit into this age group and are interested in fashion.

Clothes – for the fashion-conscious woman who always follows the latest trends. She is not loyal to a particular style but instead is always on the lookout for a new look.

Hennes – represents current fashion for all women interested in fashion. The collection offers the latest trends and modern basics.

Mama – for the mother-to-be who wants to continue to dress fashionably during her

pregnancy. The emphasis is on comfortable and modern materials in functional cuts. Styles follow the trends in the Hennes collection.

L.O.G.G./L.O.G.G. Sport – offer leisure favourites that are constantly updated according to the season's trends. The emphasis is on the choice of fabrics, designs and details.

BiB – aimed at plus-size women who are interested in fashion, offering trendy garments as well as functional basics. The emphasis is on continuity in the collection, a good fit and choice of material. BiB is available in sizes 42–56.

MEN. The men's range consists of four collections that are designed separately.

Clothes Men – reflects the very latest trends. Here, the latest fabrics, colours and silhouettes are important.

Conwell – for a well-dressed but relaxed style. A wide range of modern, up-to-the-minute garments.

L.O.G.G. – Label of Graded Goods. This collection consists of modern, contemporary casual clothes, which naturally follow the current trends in colours, cuts and details.

L.O.G.G. Sport – part of the L.O.G.G. collection. Functional influences in the details and materials, and the focus is on sport as fashion.

TEENAGE. During the year H&M's Impuls and Rocky collections for young people were jointly renamed Divided. Divided is H&M's concept for boys and girls from 15 to 25 years of age and is aimed at young people who



want an individual and personal style. It includes both everyday wear and partywear as well as a wide range of denim and denim-related garments. The range is updated every season in accordance with the latest trends in music, films and street fashion.

CHILDREN. H&M's four children's collections form a much valued part of H&M's range. The basic idea is to offer good, safe and functional children's clothing that also follows the fashions.

Baby Baby – sizes 50–80 cm, 0–12 months. Comfortable and practical babywear.

Chiboogi – for boys and girls, sizes 86–140 cm, 18 months–10 years. Playful and functional collection.

DubbSTER – for boys and girls, sizes 86–164 cm, 18 months–14 years. Clothes in a denim style with a high fashion content.

L.O.G.G. – for boys and girls, sizes 86–164

cm, 18 months–14 years. Modern versions of classic favourites.

UNDERWEAR AND ACCESSORIES. A wide range of accessories, underwear and hosiery is offered with all of the collections.

COSMETICS. H&M started selling cosmetics in 1975 and today sells cosmetics in Sweden, Norway, Denmark, Great Britain, Germany, Austria, Finland and the USA. The cosmetics department offers H&M brand products of good quality. The product range currently consists of body care and hair care products, make-up and accessories. No testing is carried out on animals either during production or of finished products.

Steel – make-up, accessories and body care for girls. The Steel range offers exciting colours and fragrances for the young H&M customer.

Beauty Box – make-up, accessories, hair care and body care. A wide range of modern products.

F.O.B. (Face of Beauty) – make-up and accessories. Classic high quality make-up range.

RESQ – hair care, hair styling and hair colours. RESQ is a high-tech hair care range.

L.O.G.G. Sport – hair care, body care, foot care and hair styling for men and women. Fresh, practical body care for active people.

H&M ROWELLS. Since 1980 H&M Rowells has also been selling its clothes by mail order. Again, the business concept is to offer fashion and quality at the best price. H&M Rowells has customers in Sweden, Norway, Finland and Denmark.

To some extent the range is the same as that in the stores, but since the pattern of sales is different there is also a separate range.







H&M's fashion originates in the design and purchasing department in Stockholm. Buyers and designers work closely with each other in teams. The most important thing is to follow the latest fashion and convert it into collections that suit H&M's customers.

DESIGN AND PURCHASING WORK CLOSELY TOGETHER

H&M's 70 designers work in teams together with buyers, pattern designers and budget controllers to create collections for each concept.

The planning of a collection starts about a year before it is launched. This period of time allows for flexibility until the actual production starts. Our lead times from an idea to a finished product in the store can be anything from three or four weeks to six months, depending on the nature of the goods.

FASHIONS FOR H&M CUSTOMERS. During the planning stage an initial informed assessment is made of what customers will want, and this is checked against what sold well the

previous year. Inspiration is gathered from all over the world through travel, trade fairs, exhibitions, films and music, and then converted into fashions, which suit H&M's customers.

Together with the team, the designer produces a colour scheme and a theme for the collection. Colours, cuts and materials are discussed. The buyer takes care of contacts with suppliers and with H&M's production offices.

There are many advantages to working in teams for each concept. Mixing different areas of expertise which are all based on an interest in clothes, creates creativity and a team spirit. Our employees must follow their instincts, be sensitive to trends, take a holistic

view, and have the desire to make a good deal. Flexibility is key, as is achieving balance in the range.

The purchasing department is constantly working on finding an optimal balance of the three components that make up H&M's business concept - fashion, price and quality - for each customer group.

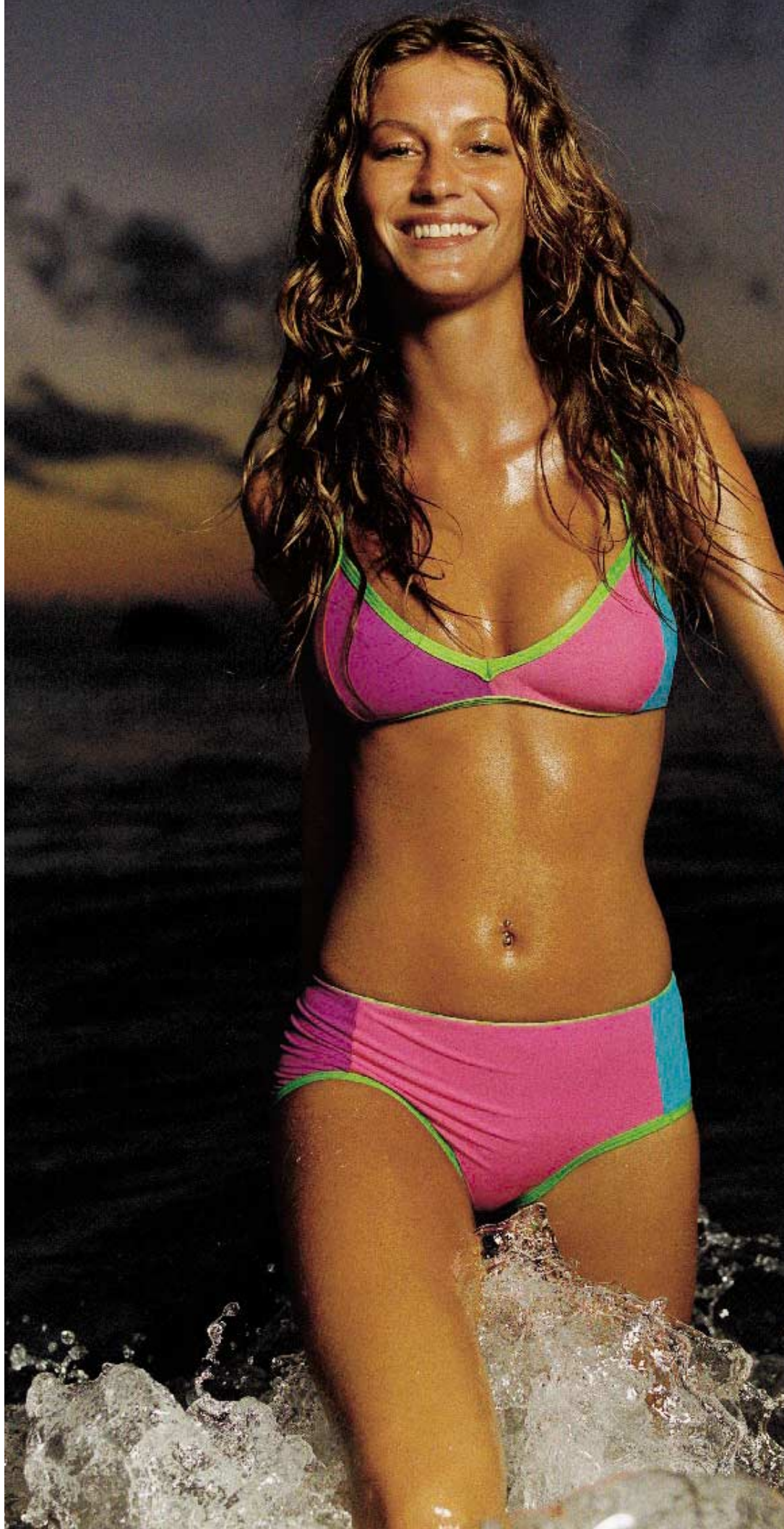
A MAJOR SWING IN FASHIONS. During the year there was a major swing in fashions. The colourful seventies-inspired fashion seen at the start of the year was a major departure from the minimalist black and grey styles seen previously.

H&M went along with this fashion swing. However, the emphasis on clothes with a high fashion content was too great in relation to fashion basics. This resulted in greater price reductions than normal during the spring and summer.

During the autumn the purchasing department worked on achieving a better balance in the mix of the range. This meant defining the various customer groups more clearly, and working on the distribution between fashion basics and garments with a high fashion content. Each team focuses on this within the framework of each concept.

The volume goods will consist of fashion basics within each individual concept. However, it is important for our image that we continue to offer clothes with a high fashion content - albeit in the correct volumes.

FASHION IN SPRING 2001. We are now moving towards simpler, more easy-to-wear fashion with cleaner lines. This spring's fashion is characterised by beige and soft pastels and by wider cuts. Various elements of the 1950s and 1980s will appear in a modern form. We will also see more combinations of black and white as well as modern classic garments.





When suppliers sign a contract with H&M they undertake to meet our high requirements.

21 PRODUCTION OFFICES AND 900 SUPPLIERS

H&M has 21 production offices, primarily in Europe and Asia. Around 500 people work in the production offices, most of them are locally employed. They are responsible for having direct contact with the 900 or so suppliers who manufacture H&M's goods. This means ensuring that the buyers' orders are placed with the right supplier, that goods are produced at the right price and are of high quality, and checking that production takes place under good working conditions. H&M does not have any factories of its own.

Purchasing is distributed among the various production offices. Around half of the purchasing is done in Europe and the remainder primarily in Asia.

Quality control is an important part of our purchasing work. H&M carries out regular checks to ensure that the quality meets our high requirements.

H&M also has buyers based in the various production offices. They are in direct contact with the purchasing office in Stockholm to further improve the efficiency of the purchasing process. It is important to maintain a high level of flexibility and the ability to make quick decisions. Fashion is, after all, a perishable item.

SUPPLIERS MUST OBSERVE H&M'S CODE OF CONDUCT. When suppliers sign a contract with H&M they undertake to meet our

high requirements. The requirements that we set relate to fire safety, the working environment, the right to union organisation and a minimum wage, and that there must be no child labour, unreasonable working hours, enforced labour or discrimination. These criteria are set out in H&M's Code of Conduct.

During the year H&M carried out 2,400 Code of Conduct inspections, which are aimed at checking that suppliers meet the requirements that we have set.

Our suppliers must also observe our chemical restrictions, so as to reduce the impact on the environment both during production and in the incineration or recycling of worn-out clothing.

YOUTH PROJECT IN BANGLADESH. Since 1999 H&M has been running a well-regarded project in Bangladesh, which aims to improve the prospects of young people who want to work in the textiles industry.

After completing their schooling, a number of young people are now given the opportunity to train as seamstress at H&M's training centre in Dhaka, to which some of our suppliers have donated sewing machines. After the course, the young people gain work experience at one of H&M's suppliers, after which they are given the opportunity of permanent employment.



H&M continually updates its requirements and test methods to ensure the quality and safety of its garments. During the year over 100,000 tests were carried out in H&M's own laboratories – everything from pH testing to flame tests.

TESTS ENSURE PRODUCT QUALITY AND SAFETY

Today H&M has its own laboratories in the larger production offices as well as at the head office in Stockholm for testing the quality of the goods. A further laboratory is being set up in the USA. During the year we carried out more than 100,000 tests. To prevent allergies and skin irritations we check that the end products do not contain prohibited chemicals or metals such as nickel.

THREE TEST LEVELS. The tests are carried out at three levels:

First we test samples, to be sure right from the start that they meet the requirements we have set in respect of flame resistance, seam strength, shrinkage and colour fastness. We also test for pilling, test the durability of zips, and ensure that buttons are properly attached.

In stage two the finished garments are tested before they are shipped out. Clothes that are rejected are returned to the supplier.

The goods are checked a third and final time when they reach our distribution centres, before being sent on to the stores.

EXTRA REQUIREMENTS FOR CHILDREN'S WEAR. Ensuring that children's clothes meet all the safety requirements is extremely important. During the year H&M has increased these requirements further and has also added to its test resources.

There must be no sharp objects or objects that could cause choking, for example. Buttons are checked with particular care. Easily flammable materials may not be used.







EFFICIENT LOGISTICS FROM SUPPLIER TO STORE

In the year 2000 we handled around 400 million items from the supplier to the store. Getting the right volume of goods to the right country, city and store at the right time requires good logistical planning. Simplicity and experience are the keywords in H&M's goods flow.

H&M manages every stage in the transport chain, which means that the company acts as importer, wholesaler and agent. This enables us to achieve economies of scale and good control of the flow as regards both costs and delivery times. We are constantly working on reducing lead times, among other things, through the development of our IT systems.

2000 was an intense year as we focused on building up our logistics functions for the new markets, the USA and Spain, while managing the flow of goods to existing markets. Distribution centres were set up during the year; one in the USA and the other in Spain.

New distribution centres were opened in France, Great Britain, Denmark and Switzerland.

At the end of the year, H&M had 13 distribution centres – one in each country (with the exception of Luxembourg, which is supplied from Belgium). In addition, there are a number of separate intermediate warehouses, as well as two warehouses for H&M Rowells, in Borås and Oslo.

The transport chain begins with the supplier, where the goods are packed and transported. Goods from the European suppliers are generally sent by rail or road. From Asia, the goods are shipped by sea, either directly to the sales country or via our transit depot in Hamburg.

Once they have arrived at the respective distribution centre for distribution, the goods are checked and processed a final time before being sent on to the stores.



H&M STORES - LOCATION, LOCATION, LOCATION. Finding the best business location is of strategic importance for customer footfall and has been a principle of H&M's store policy ever since the company started up in 1947. We always look for the best shopping area before establishing a new store. We also carry out continual follow-up.

We regard being close to our competitors as an advantage. A number of strong stores helps increase the flow of customers into the area, giving us a better chance of offering more customers the opportunity for a good deal.

H&M leases its premises and has multiple-year leases with the lessors.

OUR SHOP FITTING PHILOSOPHY. H&M's stores undergo alterations and superficial

modifications on an ongoing basis. The stores are modern with the emphasis on simple layout and design. An H&M customer must feel at home in any H&M store wherever in the world he or she may be.

The character of the stores does, however, differ somewhat depending on location. The H&M store on Fifth Avenue in New York, for example, differs in design from a store in a shopping mall.

H&M also adapts the range somewhat depending on the store location. Stores in big cities often sell more garments with a high fashion content than stores in suburban shopping malls, for instance.

H&M ROWELLS. The H&M Rowells mail order catalogue offers customers an alternative and convenient way of shopping. The mail order business exists in Sweden, Norway, Finland and Denmark.

H&M Rowells has around 450 employees. The office for design, purchasing, marketing and advertising is located in Stockholm. Orders, logistics and distribution are handled from H&M Rowells' main facilities in Borås and Oslo.





SHOP ONLINE. e-shopping was started as a test activity in Sweden in March 1998. From the beginning of 1999 the business was expanded to include Denmark and Finland as well. We are constantly evaluating and



improving our website. We keep careful track of consumers' purchasing behaviour and have the resources and experience to rapidly meet any increased demand for e-shopping services. We regard the Internet as one of a number of distribution channels and believe that the majority of our sales will continue to be generated in our stores.

ADVERTISING – A STRATEGIC TOOL.

Every year H&M communicates the business concept – fashion and quality at the best price – through various advertising campaigns around Europe and in parts of the USA. The design of the advertisements is clear and simple, with the aim of informing our customers of what is new at H&M.

The ads show the latest fashions as well as the price of the goods. To make our message

as clear as possible, we use professional models, photographers and stylists. The advertising must be commercially sound, but must also show who we are and what we stand for.

The advertising is produced centrally in Sweden in co-operation between H&M's advertising department and various advertising agencies. It is largely identical in all of H&M's markets, but the media mix is adapted according to local requirements and conditions.

Our marketing has great resonance and it is therefore essential for us to communicate a positive and healthy image, as well as good values. The models seen in our advertising must be healthy and wholesome.

Around 60 advertising productions were created in 2000.

H&M'S MARKETS

At end of 2000, H&M had 682 stores in 14 markets and mail-order businesses in Sweden, Norway, Denmark and Finland. Sales during the year amounted to SEK 35,876 M, a 9 per cent increase on the previous year (12 per cent with comparable exchange rates). 90 new stores were opened during the year and 21 were closed. The share of sales outside Sweden was 85 per cent.

WIDE GEOGRAPHICAL SPREAD. H&M has a presence in 13 markets in Europe as well as in the USA. Germany is our largest individual market, followed by Sweden, Norway, Austria, Switzerland, the Netherlands and Great Britain. Our first markets outside Sweden were Norway and Denmark, while our first operation outside Scandinavia was in Great Britain in 1976. The latest markets to be added are France, the USA and Spain.

GROWTH MARKETS. In a growth market H&M has opportunities to establish full-range stores in new locations which can demonstrate a strong footfall of consumers with an inclination to buy. A growth market may be an entirely new market for H&M such as the USA, or an established market such as Germany, which has a large population base.

H&M's growth markets are France, Great Britain, the USA, Spain and Germany. Here we can grow at our own pace and in a cost-effective way. Our expansion is planned so that investments in distribution capacity and costs such as advertising costs will benefit as

many stores as possible. Two-thirds of the new stores opened in the past year are in these markets.

MATURE MARKETS. It is as important for H&M to develop and safeguard the existing markets as to grow in new markets.

The majority of the markets in which we have been active for a long time are now mature markets, such as Sweden, Norway and Denmark. Growth in these markets is achieved primarily by reviewing and improving our existing stores. However, we can also open stores in smaller locations, open second and third stores in big cities, establish concept stores and increase sales per store.

Stores are constantly being refurbished, for example, if the shop fittings have become outdated or a competing store has raised its profile. Closing a store often means that a new larger store is being opened in the same city and may therefore form part of our expansion.

COMPETITORS. H&M sees itself as its biggest competitor. The business is constantly being compared with our company's previous performance. Our aim is to exceed what we have achieved before. We believe that this is the best way to guarantee that we remain competitive.

All business is local, and each H&M store competes with other retailers on its own street corner. We face competition from international chains as well as domestic



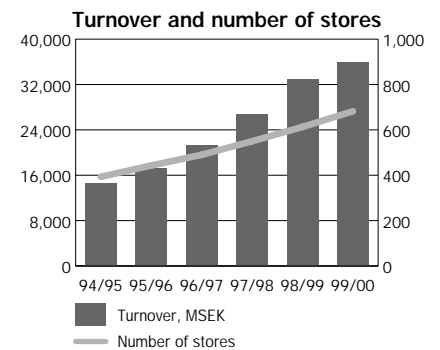


chains in individual markets and in various segments. In addition, there are, of course, plenty of local players of varying size.

H&M aims to be the strongest player in every town and in every store location. The challenge is to be the store in the town or shopping centre that attracts the most visitors. At the same time, it is advantageous for us to have competitors nearby, as this increases the flow of potential customers into the area.

EXPANSION IN 2001. The rate of expansion is decided by our access to the right business locations. H&M's store locations must be of the highest quality. We therefore place great emphasis on finding those locations that are best in each individual market.

The strong expansion of the H&M Group will continue in 2001. In total around 100 stores will be opened and around six stores will be closed. Two-thirds of the new stores will be in H&M's five growth markets - Germany, Great Britain, France, the USA and Spain.





Development of individual markets. Sales increases expressed as a percentage refer to local currencies.

SWEDEN. Seven stores were opened in Sweden during the year, while significant refurbishment was carried out with a view to consolidating our position. Two H&M stores were closed. The phasing out of the Galne Gunnar chain, which had already been started, was completed during the year with the closure of the remaining 14 stores. Sales fell during the year by 1 per cent compared to the previous year.

We plan to open two new H&M stores in Sweden in 2001 and one store will be closed.

NORWAY. Nine stores were opened during the year, including stores in Stavanger and Trondheim. Sales increased by 6 per cent.

During the year we also started building a new, large warehouse in Oslo. This warehouse will replace four different storage premises and will increase the efficiency of the goods flow and improve working conditions.

Three new stores are planned in Norway in 2001.

DENMARK. Three new stores were opened in Denmark and three stores on Copenhagen's main shopping street, Strøget, were refurbished. One store was closed. An important element in the work of improving efficiency and cost control was the construction of a new distribution centre that was put into operation at the end of the year. Sales increased by 7 per cent.

Four new stores are planned for 2001 and one store will be closed.

FINLAND. During the year two stores were opened in Finland, both in new towns for H&M. Sales increased by 15 per cent.

We are pleased to report that in 2000, Finnish business executives and marketing managers voted H&M the country's best clothing chain.

Five new stores are planned for the Finnish market in 2001, including a large children's store in Helsinki.

GERMANY. Germany is H&M's biggest market, and in 2000 we celebrated our 20th anniversary in this market. A total of 21 new stores were opened in medium-sized and large German towns and cities, including



two teenage stores in Berlin and Munich. At the turn of the year H&M had 188 stores in Germany. Sales increased by 10 per cent in 2000.

We plan to open 18 new stores in 2001. There is great potential for continued expansion in Germany, since H&M's market share is currently not more than 2-3 per cent.

FRANCE. 12 stores were opened in France during the year, doubling the number in the previous year and indicating a very rapid expansion since we moved into the country in 1998. Stores were established in new locations in the south of France, including Marseilles and Nice. A new distribution centre was put into operation during the year. Sales increased by 47 per cent.

The foundations have now been laid for further expansion and eight new stores are planned in 2001.

GREAT BRITAIN. 13 stores were opened in the Great Britain in 2000, including stores in Dundee, Bristol and Liverpool as well as three in London, two of them on Oxford Street. A new distribution centre was also put into operation.

Sales increased by 47 per cent during the year. H&M is developing well in the British market, and thanks to the increased availability of good premises, we are expanding at a higher pace than has previously been possible in this market.

15 new stores are planned in the Great Britain in 2001.

SWITZERLAND. In 2000 one store was opened and one closed. Meanwhile a general upgrade and refurbishment of existing stores was carried out. A new distribution centre in Neuendorf was also put into operation. Sales increased by 3 per cent.

H&M plans to open five new stores in Switzerland in 2001. One store will be closed.

AUSTRIA. A store was opened in Lienz in autumn 2000, in a new location for H&M, which is very close to the Italian border. Sales increased by 3 per cent.

Six new stores are planned for this market in 2001, primarily in smaller towns.

THE NETHERLANDS. Three new stores were opened in the Netherlands and two older stores were converted into concept stores. Three stores were closed. Sales increased by 14 per cent.

Four new stores are planned for this market in 2001 and one store will be closed.

BELGIUM/LUXEMBOURG. In 2000 an underwear and accessories store was opened in Antwerp and the country head office was moved to new, more efficient premises. Sales increased by 5 per cent.

One new store will be opened in Belgium in 2001.

USA. Ten stores were opened in the USA during the year. The first, on Fifth Avenue in New York's Manhattan, was opened on 31 March. We now have two stores in Manhattan and

others around New York, primarily in the north. Sales during the year amounted to SEK 804 M.

In autumn 1999 H&M obtained a lease for premises in a good location in Manhattan, providing the starting shot for H&M's move into the USA. From then on it was full speed ahead, and the entire H&M organisation was involved. The work was arduous but ultimately very successful. Extensive recruitment and marketing work was carried out at a high pace.

The new USA employees were trained within the various H&M organisations in Europe and with the help of H&M staff seconded from Europe to the USA. The training then continued in other forms. Expansion requires continuous staff training and adaptation of operations.

Around 20 new stores are planned for the USA in 2001. These will primarily be located in a single geographical area with a population of over 70 million, which extends from Washington and Philadelphia in the south to Syracuse and Boston in the north.

SPAIN. During the year seven stores were opened in Spain: in Barcelona, Zaragoza and Madrid. Two of these are concept stores, one for women and one for teenagers. Experienced H&M staff from several H&M countries helped out with recruitment and training. Sales in this first year amounted to SEK 187 M.

Four new stores are planned for Spain in 2001. Expansion will primarily be focused on Madrid and Barcelona.



OUR EMPLOYEES CREATE THE SPIRIT OF H&M

All employees of H&M help to convey our business concept – fashion and quality at the best price.

At the end of 2000 H&M had around 30,000 employees. The year was characterised by rapid expansion of the business in the USA and Spain. This expansion was particularly demanding in terms of getting a functioning organisation in place quickly, and spreading the spirit of H&M throughout the organisation. We always give priority to straight, fast decision paths so as to avoid bureaucracy.

THE SPIRIT OF H&M. The spirit of H&M comes from a number of values that are based on our business concept and that describe, in simple terms, how we want to work. The spirit of H&M is based on common sense, initiative, faith in individuals, direct communication, cost-awareness, team work, fast pace and constant improvement – always with a focus on the customer.

RECRUITMENT. At H&M we principally recruit internally. External recruitment is primarily for sales personnel for our stores, who later form a good recruiting base for positions of responsibility both in stores and in other functions within the company.

In connection with our entry into new markets, H&M recruited many new staff members at all levels, who, with the help of a number of experienced key people from our older established markets, developed the operations in the USA and Spain.

Prior to the opening in the USA, new recruits in the USA came to Sweden, Norway and Germany for three to eight weeks' training depending on their function. Many European employees also went to the USA to recruit staff and to act as mentors in the

start-up of the various stores. This exchange is a good example of how we can quickly and effectively transfer experience and knowledge from our mature markets to the new markets.

DEVELOPING SKILLS. Attracting and maintaining competent staff is important for our success. We are therefore constantly working on developing skills. The greatest knowledge gains come from active learning experiences while at work.

New employees undergo a three-week induction programme in which each new recruit is assigned a mentor, and the emphasis is on passing on experience and skills.

Training is then continued as required, in areas such as customer care, textiles, shop fitting and display. We also hold management courses in which we place great emphasis on being a good communicator of H&M's values.

ORGANISATION. H&M's head office is in Stockholm. In addition to the Group management, it is here that

the main departments for purchasing and design, finance, new establishments, shop fitting and display, advertising, communication, logistics and IT are found.

H&M also has 13 country offices that are responsible for the local operations in the respective country. H&M stores in Luxembourg are administered by the country office in Belgium.

H&M has 21 production offices – primarily in Europe and Asia – which take care of contacts with H&M's 900 or so suppliers.

At the end of the year H&M had 682 stores in 14 countries.

The average number of employees was 20,680 (calculated as full-time positions), of whom 17 per cent were men.



H&M MINDS THE ENVIRONMENT ON BOTH A SMALL AND A LARGE SCALE

Reduced impact on the environment means a better world for us all, both as individuals and companies. H&M takes environmental matters very seriously and is constantly working on improving our environmental efforts on both a small and a large scale.

ENVIRONMENTAL REPRESENTATIVES IN THE ORGANISATION. Environmental awareness is well rooted in our organisation. To carry out efficient environmental work, H&M has appointed environmental representatives in all of the countries where we are active and within the key departments in Sweden. The representatives undergo environmental training.

ENVIRONMENTAL IMPACT OF STORES. During the year H&M carried out a project to develop environmentally adapted guidelines for the purchase of building and shop fitting materials. Environmental product declarations are already required for all building materials purchased in Sweden. H&M is continuing to work on reducing consumption and increasing recycling of packaging, hang-

ers, interior decoration materials, consumables, etc.

In 2000 we also evaluated various starch-based alternatives to the carrier bags that are currently used in our stores. H&M will continue to monitor the development of these and other alternative materials.

RESTRICTED CHEMICALS LIST. H&M regularly tests samples of goods to avoid chemicals that pose a risk to the environment and health. Our chemical restrictions, our own restricted chemicals list, is continuously updated. The restrictions refer to chemicals that are used in the production of clothing and other goods.

We are also continuing to phase out PVC. H&M is looking for replacement materials for PVC, and in December 2001 all use of PVC in H&M's products will cease.

LONG-TERM ENVIRONMENTAL WORK WITH SUPPLIERS. All H&M's goods suppliers have signed an agreement to comply with the established chemical restrictions. In this way we can also contribute to reducing the





environmental impact of the production stage, as well as in the incineration and recycling of worn-out clothing.

However, the greatest environmental impact comes from the dyeing of fabrics and processing of fibres – stages of production that take place before the making of H&M's clothing is started. To increase environmental awareness in these production stages, H&M planned a pilot project in 2000 together with a number of suppliers.

The project aims to improve the suppliers' environmental awareness in the long term. We have chosen suppliers in Turkey, India, Indonesia and China that bleach, dye and print fabric themselves. Experiences gained from this project will form the basis for our future work in reducing our suppliers' impact on the environment.

TRANSPORT CHANGES FOR THE BETTER.

H&M endeavours to reduce the environmental impact of transportation. In Germany, for example, large proportions of the goods are transported from the port in Bremen to the transit depot in Hamburg by rail. The train has 30-50 containers filled with H&M goods thus replacing the same number of lorries, which would otherwise be on the roads.

GUIDELINES FOR OFFICE EQUIPMENT.

Guidelines for environmentally acceptable purchasing of office equipment such as computers, printers, photocopiers and fax machines were drawn up during the autumn. The guidelines include requirements for energy efficiency and promotion of recycling, and also restrictions on certain chemicals. These guidelines will be implemented in 2001.

BALTIC SEA 2008. H&M supports the environmental project Baltic Sea 2008, which aims to improve the waters of the Baltic Sea. The project is being implemented in co-operation with Russian, Finnish and Swedish trade and industry. At the top of the agenda is improving the quality of fresh water and waste management in the Gulf of Finland and the Bay of Gdansk.

GLOBAL RESPONSIBILITY. In 2000 H&M joined Global Responsibility, an Internet-based communications platform for sustainability issues. The platform provides the public with access to information on companies'

environmental work as well as their ethical and social responsibility. The aim is to encourage transparency and dialogue between companies and the public.

More information is available at www.global-responsibility.com

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

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

We shall:

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



EXTERNAL FACTORS

H&M faces various external risks in its business. A number of these can be dealt with by well-developed internal routines, while others are largely determined by external factors. Working in the fashion industry is a risk in itself, because fashion is a perishable item. However, H&M's way of working – following the latest fashion trends – involves a lower risk than for companies that actually create trends.

THE ECONOMIC CYCLE. In general H&M does not see any significant decline in sales in connection with an economic downturn. On the contrary, it can sometimes be that in times of recession, customers are more cost-conscious in their shopping than they would otherwise be, and this works in H&M's favour.

CURRENCY HEDGING. The most significant purchase currencies for the Group are the US dollar and related currencies. Fluctuations in the dollar/Euro exchange rates form the largest individual transaction exposure within the Group. To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate fluctuations, the US dollar and related currencies are secured

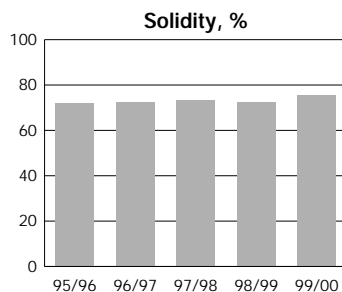
under forward contracts on an ongoing basis throughout the year. Since the sole aim of this currency management is to reduce the risks, only actual exposure is hedged.

In addition to the transaction exposure arising from purchases in foreign currencies, the Group is affected by currency fluctuations as a result of the receivables and liabilities that arise on an ongoing basis between Group companies. However, with the introduction of the Euro, some of this exposure has been reduced. The majority of the risks that remain are hedged through forward contracts.

TRANSLATION EFFECTS. In addition to the effects of transaction exposure, the Group's result is also affected by translation effects. These arise when a foreign subsidiary's profit/loss is converted into Swedish kronor in order to be consolidated in the Group accounts. Over the past year these have been affected by the fact that the Swedish krona has strengthened against the European currencies and weakened against the dollar. Thus the underlying profit/loss in each market may be unchanged, but then either reduced or increased when converted into Swedish kronor. Over the year the translation effect was negative to the tune of SEK 240 million.

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

LIQUIDITY MANAGEMENT. Liquid surplus funds are invested short-term in banks or in government securities in the local currency of the company in question. The Group does not utilise any derivative instruments in the interest-bearing securities market, nor does it trade in shares or similar instruments.



H&M has enjoyed strong and consistent solidity over the period. The Group's solidity at the end of the financial year was 75.7 per cent.

ADMINISTRATION REPORT

556042-7220

The Board of Directors and Managing Director of H & M Hennes & Mauritz AB (publ) submit herewith their report for the financial year 1 December 1999 to 30 November 2000.

TURNOVER

During the past year total turnover for the H&M Group rose by 9 per cent (previous year 24) and amounted to SEK 35,876.1 M including VAT (SEK 32,976.5 M). After adjustments for exchange rate fluctuations, the increase was 12 per cent.

The development of sales has been weak during the year, especially in comparison to a strong year 1999. During the spring and the summer, sales were affected negatively by an imbalance in the assortment mix between high fashion garments and garments of basic fashion. This was followed by an unusually warm autumn that resulted in reduced sales of primarily outdoor garments. Also, expected sales increase of, among other things, leather garments and wool sweaters was affected negatively by the warm weather.

During 2000, 90 new stores were opened and 21 were closed. Fourteen of the closed stores were the remaining stores of the Swedish "Galne Gunnar" chain. The net increase of stores was 69, of which 46 occurred during the fourth quarter. The total number of stores is now 682 (613).

H&M entered two completely new markets during the year, the USA and Spain. To begin with, five new stores were planned for each of the two countries during the year. Since sales significantly exceeded expectations during the spring, the number of stores was expanded to ten in the USA and seven in Spain.

Sales outside Sweden accounted for 85 per cent (84) of total sales.

H&M plans to open approximately 100 new stores and to close six stores during 2001. The main part of this planned expansion will take place in Germany, Great Britain, France, the USA and Spain. Approximately 20 new stores will be opened in the USA.

PROFITS

Gross profit for the year amounted to SEK 15,396.8 M (SEK 14,735.8 M), corresponding to 50.6 per cent (52.8) of sales.

After deduction for administrative and selling expenses, the operating profit for the year amounted to SEK 3,766.6 M (SEK 4,580.0 M). This corresponds to an operating margin of 12.2 per cent (16.4).

Operating profit for the year has been charged with depreciation according to plan, amounting to SEK 629.1 M (SEK 457.0 M) and start-up costs, i.e. the part of the investment in new stores that is charged directly to the income statement, of SEK 315.7 M (SEK 195.3 M). Operating margin, after depreciation but before start-up costs, amounted to 13.4 per cent (17.1).

In comparison with the 1999, which must be considered very successful with a low level of price reductions, profit for the year has been negatively affected by the following factors: higher price reduction level approximately SEK 600 M and currency translation effects approximately SEK 240 M. (Currency translation effects arise when the results of foreign subsidiaries are translated into SEK in order to be consolidated into the H&M Group accounts.)

Entering new markets is costly. To start operations in two new countries at the same time naturally affects Group costs to an even higher extent. In addition to the USA's and Spain's parts in the above-mentioned factors, these two new countries have negatively affected this year's result by approximately SEK 360 M (of which SEK 110 M are start-up costs). These costs should however be regarded as an investment for future income.

Group financial net interest income was SEK 236.6 M (SEK 178.6 M). Profit after financial items was SEK 4,003.2 M (SEK 4,758.6 M), a reduction of 16 per cent.

After deduction for tax of SEK 1,450.5 M (SEK 1,683.2 M), profit for the year amounted to SEK 2,552.7 M (SEK 3,075.4 M), corresponding to earnings per share of SEK 3.08 (SEK 3.72).

Return on shareholders' equity was 23.0 per cent (32.9) and return on capital employed was 35.8 per cent (50.3).

LIQUIDITY AND FINANCING

At the financial year-end, the balance sheet total was SEK 15,700.4 M (SEK 14,198.2 M), an increase of 11 per cent. During the past year Group operations generated a positive cash flow from the current operations of SEK 1,941.2 M (SEK 3,925.1 M). SEK 2,525 M (SEK 1,132.5 M) were invested into the operations through investments in fixed assets. The financial assets amounted to SEK 5,403.2 M (SEK 6,832.4 M), a reduction of SEK 1,429.2 M.

Stock-in-trade increased by 23 per cent (11) and was SEK 4,448.7 M (SEK 3,609.3 M). It represented 14.6 per cent (12.9) of the turnover and 28.3 per cent (25.4) of the balance sheet total.

The debt/equity ratio was 1.2 per cent (1.3) and the share of risk-bearing capital was 79.8 per cent (76.4).

At the financial year-end, shareholders' equity amounted to SEK 11,889.8 M (SEK 10,293.8 M), which corresponds to SEK 14.37 (SEK 12.44) per share.

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.

The Board of Directors will propose to the Annual General Meeting a dividend of SEK 1.35 per share (SEK 1.35).

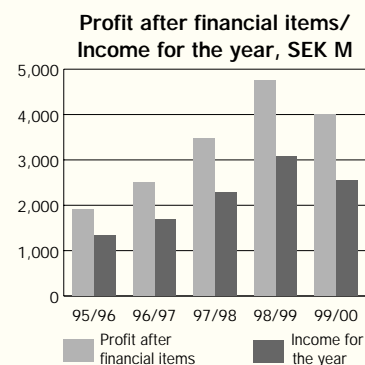
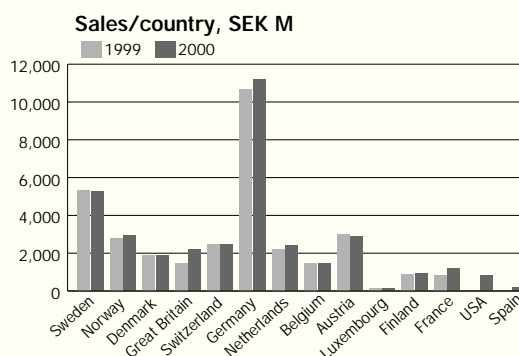
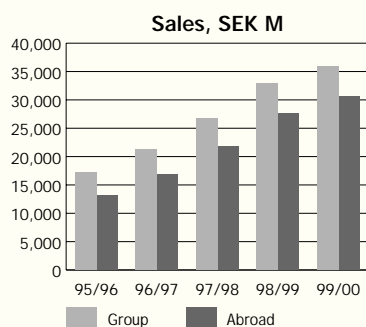
BOARD OF DIRECTORS' WORK

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.

INCOME STATEMENT

(SEK M)

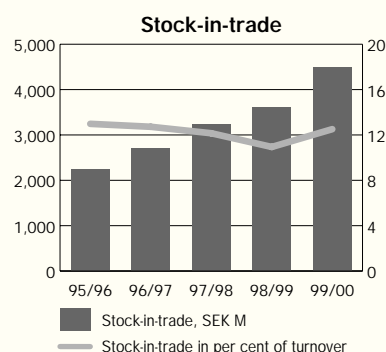
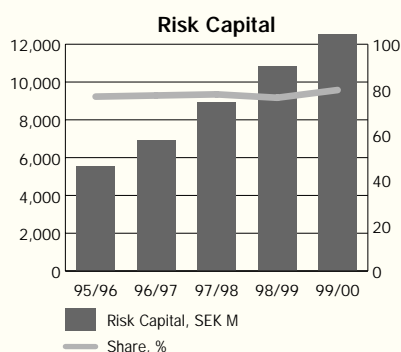
| | GROUP | | PARENT COMPANY | |
|---|-----------------|-----------------|----------------|----------------|
| | 1999/2000 | 1998/1999 | 1999/2000 | 1998/1999 |
| Turnover, including VAT | 35,876.1 | 32,976.5 | 5,733.7 | 5,701.7 |
| Turnover, excluding VAT, Note 1, 3 | 30,453.7 | 27,888.1 | 4,696.6 | 4,671.6 |
| Costs of goods sold, Notes 2, 4, 5 | - 15,056.9 | - 13,152.3 | - 2,628.6 | - 2,686.1 |
| GROSS PROFIT | 15,396.8 | 14,735.8 | 2,068.0 | 1,985.5 |
| Selling expenses, Notes 2, 4, 5 | - 10,962.5 | - 9,596.7 | - 1,556.4 | - 1,555.0 |
| Administrative expenses, Notes 2, 4, 5, 6 | - 667.7 | - 559.1 | - 259.7 | - 217.8 |
| OPERATING PROFIT | 3,766.6 | 4,580.0 | 251.9 | 212.7 |
| Result from financial investments | | | | |
| Dividend from subsidiaries | | | 1,675.3 | 1,370.6 |
| Interest income | 254.4 | 193.3 | 116.6 | 59.5 |
| Interest expense | - 17.8 | - 14.7 | - 9.1 | - 31.4 |
| PROFIT AFTER FINANCIAL ITEMS | 4,003.2 | 4,758.6 | 2,034.7 | 1,611.4 |
| Appropriations, Note 8 | | | - 0.3 | - 32.5 |
| Tax on profit for the year, Note 7 | - 1,450.5 | - 1,683.2 | - 100.7 | - 62.4 |
| NET PROFIT FOR THE YEAR | 2,552.7 | 3,075.4 | 1,933.7 | 1,516.5 |



BALANCE SHEET

(SEK M)

| ASSETS | GROUP | | PARENT COMPANY | |
|---|-----------------|-----------------|----------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| Fixed Assets | | | | |
| <u>Intangible Assets</u> | | | | |
| Renting rights, Note 9 | 104.3 | 94.5 | 0.3 | 0.3 |
| <u>Tangible Assets</u> | | | | |
| Land and buildings, Note 9 | 516.9 | 281.0 | 126.6 | 126.9 |
| Equipment, tools, fixtures and fittings, Note 9 | 4,337.4 | 2,715.3 | 407.7 | 347.6 |
| | 4,854.3 | 2,996.3 | 534.3 | 474.5 |
| <u>Financial Assets</u> | | | | |
| Shares and participation rights, Note 13 | | | 8.5 | 8.6 |
| Long-term receivables, subsidiaries | | | 24.0 | 24.0 |
| Other long-term receivables | 96.6 | 75.7 | 9.2 | 12.1 |
| | 96.6 | 75.7 | 41.7 | 44.7 |
| Total Fixed Assets | 5,055.2 | 3,166.5 | 576.3 | 519.5 |
| CURRENT ASSETS | | | | |
| Stock-in-trade | 4,448.7 | 3,609.3 | 698.9 | 643.9 |
| <u>Current receivables</u> | | | | |
| Accounts receivable, trade | 420.5 | 385.1 | 209.0 | 187.1 |
| Accounts receivable from subsidiaries | | | 3,244.8 | 2,841.8 |
| Other receivables | 134.9 | 34.4 | 42.7 | 5.0 |
| Prepaid expenses and accrued income, Note 10 | 237.9 | 170.5 | 41.5 | 34.7 |
| | 793.3 | 590.0 | 3,538.0 | 3,068.6 |
| Short-term investments | 3,813.8 | 4,829.8 | 960.0 | 670.0 |
| Cash and bank balances | 1,589.4 | 2,002.6 | 96.5 | 167.2 |
| Total Current Assets | 10,645.2 | 11,031.7 | 5,293.4 | 4,549.7 |
| TOTAL ASSETS | 15,700.4 | 14,198.2 | 5,869.7 | 5,069.2 |



BALANCE SHEET

(SEK M)

| EQUITY AND LIABILITIES | GROUP | | PARENT COMPANY | |
|---|-----------------|-----------------|----------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| EQUITY, Note 11 | | | | |
| <u>Restricted Equity</u> | | | | |
| Share capital | 206.9 | 206.9 | 206.9 | 206.9 |
| Restricted reserves | 1,673.8 | 1,444.3 | 87.8 | 87.8 |
| | <u>1,880.7</u> | <u>1,651.2</u> | <u>294.7</u> | <u>294.7</u> |
| <u>Non-restricted Equity</u> | | | | |
| Profit brought forward | 7,456.4 | 5,567.2 | 2,317.2 | 1,917.7 |
| Profit for the year | 2,552.7 | 3,075.4 | 1,933.7 | 1,516.5 |
| | <u>10,009.1</u> | <u>8,642.6</u> | <u>4,250.9</u> | <u>3,434.2</u> |
| Total Equity | 11,889.8 | 10,293.8 | 4,545.6 | 3,728.9 |
| Untaxed reserves, Note 16 | | | 533.3 | 532.9 |
| <u>Provisions</u> | | | | |
| Provisions for pensions | 96.1 | 92.2 | 92.8 | 92.3 |
| Provisions for taxation | 639.4 | 552.0 | | |
| | <u>735.5</u> | <u>644.2</u> | <u>92.8</u> | <u>92.3</u> |
| <u>Long-term Liabilities</u> | | | | |
| Liabilities to credit institutions | 41.9 | 43.2 | 24.5 | 24.8 |
| <u>Current Liabilities</u> | | | | |
| Accounts payable, trade | 925.3 | 891.0 | 215.3 | 227.1 |
| Accounts payable, subsidiaries | | | 24.7 | 64.7 |
| Income tax liabilities | 363.7 | 718.0 | 36.5 | 13.1 |
| Other liabilities | 431.9 | 497.1 | 54.0 | 53.2 |
| Accrued expenses and deferred income, Note 12 | 1,312.3 | 1,110.9 | 343.0 | 332.2 |
| | <u>3,033.2</u> | <u>3,217.0</u> | <u>673.5</u> | <u>690.3</u> |
| TOTAL EQUITY AND LIABILITIES | 15,700.4 | 14,198.2 | 5,869.7 | 5,069.2 |
| Securities provided | | | | |
| Real estate mortgages, Note 18 | 32.5 | 56.6 | 32.5 | 32.5 |
| Contingent liabilities | 21.0 | 38.9 | 21.0 | 38.9 |

CASH FLOW ANALYSES

(SEK M)

| | GROUP | | PARENT COMPANY | |
|---|------------------|-----------|------------------|-----------|
| | 1999/2000 | 1998/1999 | 1999/2000 | 1998/1999 |
| Profit after financial items | 4,003.2 | 4,758.6 | 2,034.7 | 1,611.4 |
| Adjustment for items not affecting cash flow | - 821.4 | - 1,226.2 | - 24.5 | - 33.3 |
| Cash flow generated by current operations before changes in working capital | 3,181.8 | 3,532.4 | 2,010.2 | 1,578.1 |
| Cash flow generated by changes in working capital | | | | |
| Changes in: | | | | |
| Current receivables | - 208.0 | - 48.0 | - 469.4 | - 434.0 |
| Stock-in-trade | - 844.1 | - 376.8 | - 55.0 | - 28.1 |
| Current liabilities | - 188.5 | 817.5 | - 16.8 | 122.9 |
| Cash flow generated by current operations | 1,941.2 | 3,925.1 | 1,469.0 | 1,238.9 |
| Cash flow from investment activities | | | | |
| Investments in fixed assets | - 2,525.0 | - 1,132.5 | - 136.0 | - 169.8 |
| Cash flow from financing activities | - 1,049.0 | - 809.2 | - 1,113.7 | - 793.2 |
| <i>of which dividend</i> | - 1,117.2 | - 827.5 | - 1,117.2 | - 827.5 |
| Cash flow for the year | - 1,632.8 | 1,983.4 | 219.3 | 275.9 |
| Liquid funds, beginning of year | 6,832.4 | 5,159.9 | 837.2 | 561.3 |
| Cash flow for the year | - 1,632.8 | 1,983.4 | 219.3 | 275.9 |
| Changes in currency rates | 203.6 | - 310.9 | | |
| Liquid funds, end of year | 5,403.2 | 6,832.4 | 1,056.5 | 837.2 |

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The accounting and valuation principles comply with the accounting laws, the recommendations issued by the Swedish Financial Accounting Standards Council and the Swedish Accounting Board. The new accounting laws are applied beginning with the 1997/98 financial year.

Consolidated accounts

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.

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

Foreign currency

The most significant purchase currencies for the Group are the US dollar and currencies related thereto. Fluctuation in the dollar/Euro exchange rate forms the largest individual transaction exposure within the Group. To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate movements, US dollars and related currencies are secured under forward contracts on an ongoing basis throughout the year. Since the sole aim of this currency management is to reduce the risks, only actual exposure is hedged. The Group's operating result for the year has been positively affected by SEK 59 M.

Translation effects also arise in respect of the Group's net assets on consolidation of the foreign subsidiaries' balance sheets. No equity hedging is carried out for this risk. The translation differences for the year, which are reported directly against Group equity, amount to SEK 160.5 M.

Receivables and liabilities in foreign currencies have been reported in accordance with recommendation No. 8 of the Swedish Financial Accounting Standard Council. 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 and forward exchange agreements. 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

| | 1999/2000 | 1998/1999 |
|-----------------|---------------|---------------|
| Sweden | 4,208 | 4,274 |
| Norway | 2,367 | 2,283 |
| Denmark | 1,511 | 1,481 |
| Great Britain | 1,940 | 1,280 |
| Switzerland | 2,307 | 2,304 |
| Germany | 9,632 | 9,192 |
| The Netherlands | 2,047 | 1,885 |
| Belgium | 1,196 | 1,193 |
| Austria | 2,422 | 2,491 |
| Luxembourg | 129 | 122 |
| Finland | 764 | 695 |
| France | 972 | 688 |
| USA | 798 | |
| Spain | 161 | |
| TOTAL | 30,454 | 27,888 |

2 START-UP COSTS

Start-up costs are included in the selling expenses and 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 315.7 M (195.3).

3 SALES TO GROUP COMPANIES

Parent Company net turnover includes SEK 760 M (SEK 662 M) concerning the internal sale of goods to subsidiaries.

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

| 2000 | Board + Man. Dir., Salary | Other, Salary | Payroll overheads Total | of which pensions* Total | of which pensions** Board + Man. Dir. |
|---------------------|---------------------------------|------------------|-------------------------------|--------------------------------|--|
| Sweden | 11.4 | 820.3 | 316.8 | 15.6 | 1.5 |
| Norway | 2.0 | 360.8 | 56.2 | 4.0 | 0.2 |
| Denmark | 2.3 | 195.0 | 13.4 | 8.8 | |
| Great Britain | 2.8 | 247.1 | 19.1 | 1.3 | 0.1 |
| Switzerland | 3.3 | 320.2 | 37.8 | 0.8 | 0.3 |
| Germany | 4.3 | 1,133.6 | 231.0 | 0.3 | |
| The Netherlands | | 214.2 | 45.0 | | |
| Belgium | 1.3 | 138.5 | 33.6 | 0.2 | 0.1 |
| Austria | 1.2 | 254.1 | 73.6 | | |
| Luxembourg | | 11.2 | 1.2 | | |
| Finland | 1.0 | 76.1 | 17.2 | 0.2 | 0.1 |
| France | 1.6 | 144.0 | 55.9 | 0.4 | 0.1 |
| USA | 2.9 | 134.1 | 21.3 | 2.0 | |
| Spain | 1.9 | 30.5 | 8.2 | 0.1 | |
| Other countries | | 80.8 | 6.6 | 2.9 | |
| Group, total | 36.0 | 4,160.5 | 936.9 | 36.6 | 2.4 |

| 1999 | Board + Man. Dir., Salary | Other, Salary | Payroll overheads Total | of which pensions* Total | of which pensions** 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 | |
| USA | | 0.6 | 0.2 | | |
| Spain | | 0.4 | 0.0 | | |
| Other countries | | 62.1 | 9.8 | 2.8 | |
| Group, total | 29.5 | 3,694.7 | 882.4 | 63.0 | 2.3 |

*] Pension costs in Sweden have been reduced by SEK 34.3 M, which represents the company's repayment of pension funds from SPP.

**] Company and Group outstanding pension obligations to this group total SEK 5.0 M (4.8).

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 5,831,000. 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 | |
|-------------------------|-------|-------|----------------|-------|
| | 99/00 | 98/99 | 99/00 | 98/99 |
| Cost of goods sold | 77.0 | 45.7 | 12.3 | 6.2 |
| Selling expenses | 522.1 | 388.4 | 60.4 | 52.3 |
| Administrative expenses | 30.0 | 22.9 | 3.5 | 3.1 |
| Total | 629.1 | 457.0 | 76.2 | 61.6 |

6 AUDIT FEES (SEK M)

| | GROUP | PARENT COMPANY |
|-------------------|-------|----------------|
| Ernst & Young | | |
| Audit assignments | 5.7 | 1.0 |
| Other assignments | 2.7 | 0.1 |
| Other auditors | | |
| Audit assignments | 1.8 | |

7 TAX ON PROFIT FOR THE YEAR (SEK M)

| | 99/00 | 98/99 |
|----------------|----------|----------|
| Taxes paid | -1,372.6 | -1,625.4 |
| Taxes deferred | -77.9 | -57.8 |
| Total | -1,450.5 | -1,683.2 |

8 APPROPRIATIONS (SEK M)

| | 99/00 | 98/99 |
|--------------------------------|-------|-------|
| Depreciation in excess of plan | -28.0 | -29.1 |
| Change in untaxed reserves | 27.7 | -3.4 |
| Total | -0.3 | -32.5 |

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

| Group | Leasehold rights | Real estate | Equipment |
|--|---------------------|----------------|-----------|
| Acquisition value carried forward | 107.2 | 340.8 | 4,181.6 |
| Acquisition for the year | 22.5 | 278.2 | 2,200.8 |
| Sales/disposal | | -36.5 | -195.3 |
| Translation effects | 2.0 | 7.8 | 93.8 |
| Closing acquisition value | 131.7 | 590.3 | 6,280.9 |
| Depreciation carried forward | -12.7 | -59.8 | -1,466.2 |
| Sales/disposal | | 4.4 | 171.9 |
| Depreciation for the year | -14.1 | -17.0 | -598.0 |
| Translation effects | -0.6 | -1.0 | -51.2 |
| Closing accumulated depreciations | -27.4 | -73.4 | -1,943.5 |
| Closing residual value according to plan | 104.3 | 516.9 | 4,337.4 |
| Parent Company | | | |
| Acquisition value carried forward | 0.7 | 170.5 | 549.5 |
| Acquisition for the year | | 4.9 | 131.0 |
| Sales/disposal | | | -20.6 |
| Closing acquisition value | 0.7 | 175.4 | 659.9 |
| Depreciation carried forward | -0.3 | -43.6 | -201.9 |
| Sales/disposal | | | 20.6 |
| Depreciation for the year | -0.1 | -5.2 | -70.9 |
| Closing accumulated depreciations | -0.4 | -48.8 | -252.2 |
| Closing residual value according to plan | 0.3 | 126.6 | 407.7 |

The Group has not entered into any leasing agreements. Contracts for leased premises have been entered at normal market terms. Rental charges for the financial year 1999/2000 amounted to SEK 3,160 M.

10 PREPAID EXPENSES AND ACCRUED INCOME (SEK M)

| | GROUP | | PARENT COMPANY | |
|-------------------------|-------|-------|----------------|-------|
| | 99/00 | 98/99 | 99/00 | 98/99 |
| Prepaid rent | 117.8 | 87.0 | 25.9 | 17.8 |
| Accrued interest income | 16.7 | 15.2 | 3.3 | 4.7 |
| Other items | 103.4 | 68.3 | 12.3 | 12.2 |
| Total | 237.9 | 170.5 | 41.5 | 34.7 |

11 CHANGE IN SHAREHOLDERS' EQUITY (SEK M)

| | Share capital | Restricted reserves | Unappropriated earnings | Total shareholders' equity |
|------------------------------------|---------------|---------------------|-------------------------|----------------------------|
| Shareholders' equity 1 Dec. 1999 | 206.9 | 1,444.3 | 8,642.6 | 10,293.8 |
| Dividends | | | - 1,117.2 | - 1,117.2 |
| Capital shares in untaxed reserves | | 181.7 | - 181.7 | |
| Translation differences | | 47.8 | 112.7 | 160.5 |
| Profit for the year | | | 2,552.7 | 2,552.7 |
| Shareholders' equity 30 Nov. 2000 | 206.9 | 1,673.8 | 10,009.1 | 11,889.8 |

12 ACCRUED EXPENSES AND PREPAID INCOME (SEK M)

| | GROUP | | PARENT COMPANY | |
|--------------------------|---------|---------|----------------|-------|
| | 99/00 | 98/99 | 99/00 | 98/99 |
| Holiday pay liability | 243.9 | 222.4 | 94.0 | 86.6 |
| Payroll overheads | 114.6 | 119.2 | 69.5 | 82.9 |
| Accrued interest expense | 8.1 | 3.2 | 6.8 | 1.8 |
| Other items | 945.7 | 766.1 | 172.7 | 160.9 |
| Total | 1,312.3 | 1,110.9 | 343.0 | 332.2 |

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

| | Organisation number | Number of shares | Book value | Domicile |
|---|---------------------|------------------|------------|-----------------|
| Parent company participation | | | | |
| K E Persson AB | 556030-1052 | 1,000 | 0.1 | Stockholm |
| AB Hennes | 556056-0889 | 1,000 | 0.1 | Stockholm |
| Big is Beautiful, BiB AB | 556005-5047 | 3,300 | 0.4 | Stockholm |
| 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 BV | | 40,000 NLG | 0.1 | The Netherlands |
| | | | 8.5 | |
| 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 USA 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 Hennes & Mauritz LP | | | | USA |
| H & M Moda SL | | | | Spain |
| 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 2000 ANNUAL GENERAL MEETING (SEK M)

| | MSEK |
|---|-----------|
| Unappropriated profit at 30 November 99 | 3,434.3 |
| Dividend, SEK 1.35 per share | - 1,117.2 |
| Unappropriated profit carried forward | 2,317.1 |

16 UNTAXED RESERVES (SEK M)

| | 99/00 | 98/99 |
|--------------------------------|-------|-------|
| Depreciation in excess of plan | 208.4 | 180.4 |
| Other untaxed reserves | 324.9 | 352.5 |
| Total | 533.3 | 532.9 |

17 AVERAGE NUMBER OF EMPLOYEES

| | 99/00 | | 98/99 | |
|------------------------|--------|-------|--------|-------|
| | Total | Males | Total | Males |
| Sweden, Parent Company | 3,556 | 17% | 3,388 | 18% |
| Norway | 1,321 | 8% | 1,231 | 8% |
| Denmark | 888 | 8% | 866 | 8% |
| Great Britain | 1,325 | 22% | 877 | 19% |
| Switzerland | 1,047 | 9% | 1,050 | 9% |
| Germany | 5,928 | 17% | 5,287 | 17% |
| The Netherlands | 1,656 | 15% | 1,525 | 15% |
| Belgium | 735 | 15% | 693 | 17% |
| Austria | 1,421 | 18% | 1,343 | 19% |
| Luxembourg | 58 | 14% | 54 | 13% |
| Finland | 519 | 14% | 410 | 14% |
| France | 948 | 14% | 560 | 14% |
| USA | 559 | 40% | 3 | 67% |
| Spain | 287 | 22% | 2 | 50% |
| Other countries | 432 | 16% | 363 | 22% |
| Group, total | 20,680 | 17% | 17,652 | 16% |

18 SECURITIES PROVIDED (SEK M)

| | 99/00 | 98/99 |
|---|-------|-------|
| Real estate mortgages provided for liabilities to credit institutes | | |
| Sweden Dagskiftet Stockholm | 7.5 | 7.5 |
| Holmens gård, Borås | 25.0 | 25.0 |
| Total Parent Company | 32.5 | 32.5 |
| Denmark Fabriksvejen, Glostrup | | 24.1 |
| Total Group | 32.5 | 56.6 |

19 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 10,009,064,000.

| | | |
|--|------------|----------------------|
| At the disposal of the Annual General Meeting | SEK | 4,250,902,482 |
| 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 | <u>SEK</u> | <u>3,133,728,882</u> |
| | SEK | 4,250,902,482 |

Stockholm, 24 January 2001

Stefan Persson
Chairman

Fred Andersson

Birgitta Brusberg*

Vivian Enochsson*

Werner Hofer

Sussi Kwart

Bo Lundquist

Stig Nordfelt

Melker Schörling

Rolf Eriksen
Managing Director

* Employee representative

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and managing director of H & M Hennes & Mauritz AB for year financial year 1/12 1999 – 30/11 2000. 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.

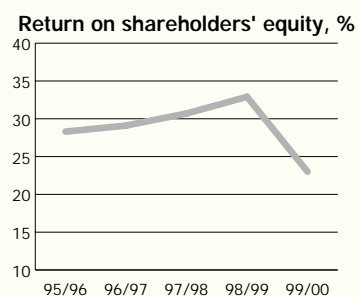
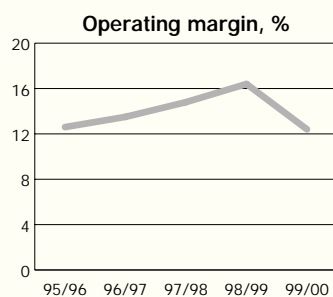
Stockholm, 25 January 2001

Åke Hedén
Authorised Auditor

Gunnar Widhagen
Authorised Auditor

FIVE-YEAR SUMMARY

| | 1995/1996 | 1996/1997 | 1997/1998 | 1998/1999 | 1999/2000 |
|--|-----------|-----------|-----------|-----------|-----------------|
| Turnover, including VAT, SEK M | 17,212.1 | 21,279.4 | 26,649.8 | 32,976.5 | 35,876.1 |
| Change from previous year, % | + 18 | + 24 | + 25 | + 24 | + 9 |
| Sales outside Sweden, SEK M | 13,085.4 | 16,853.1 | 21,730.1 | 27,667.4 | 30,621.0 |
| Sales outside Sweden as a percentage of total sales, % | 76 | 79 | 82 | 84 | 85 |
| Operating margin, %% | 12.6 | 13.5 | 14.8 | 16.4 | 12,4 |
| Profit after financial items, SEK M | 1,905.0 | 2,511.9 | 3,468.2 | 4,758.6 | 4,003.2 |
| Net profit for the year, SEK M | 1,331.0 | 1,690.9 | 2,286.9 | 3,075.4 | 2,552.7 |
| Cash and Bank balances including short-term investments, SEK M | 2,937.5 | 3,797.0 | 5,159.9 | 6,832.4 | 5,403.2 |
| Stock-in-trade, SEK M | 2,235.6 | 2,708.4 | 3,237.9 | 3,609.3 | 4,488.7 |
| Restricted equity, SEK M | 1,194.8 | 1,392.0 | 1,626.5 | 1,651.2 | 1,880.7 |
| Non-restricted equity, SEK M | 3,960.0 | 5,081.4 | 6,779.4 | 8,642.6 | 10,009.1 |
| Return on shareholders' equity, %, Note 19 | 28.3 | 29.1 | 30.7 | 32.9 | 23.0 |
| Return on capital employed, %, Note 19 | 39.8 | 42.5 | 46.3 | 50.3 | 35.8 |
| Debt/equity ratio, %, Note 19 | 2.5 | 2.1 | 1.6 | 1.3 | 1.2 |
| Share of risk-bearing capital, %, Note 19 | 76.9 | 77.4 | 77.9 | 76.4 | 79.8 |
| Solidity, %, Note 19 | 71.9 | 72.4 | 73.4 | 72.5 | 75.7 |
| Interest cover, Note 19 | 106.2 | 198.8 | 252.3 | 324.7 | 225.9 |
| Number of stores in Sweden | 117 | 117 | 120 | 124 | 115 |
| Number of stores outside Sweden | 326 | 373 | 430 | 489 | 567 |
| Total number of stores | 443 | 490 | 550 | 613 | 682 |
| Average number of employees | 10,469 | 12,096 | 14,101 | 17,652 | 20,680 |



H&M SHARE

BUSINESS RATIOS PER SHARE

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---------|---------|---------|---------|---------------|
| Shareholders' equity per share, SEK | 6.23 | 7.82 | 10.16 | 12.44 | 14.37 |
| Earnings per share, SEK | 1.61 | 2.04 | 2.76 | 3.72 | 3.08 |
| Change from previous year, % | + 37 | + 27 | + 35 | + 35 | - 17 |
| Dividend per share, SEK | 0.55 | 0.75 | 1.00 | 1.35 | 1.35* |
| Market price at financial year-end, SEK | 48.25 | 89.25 | 150.25 | 270.00 | 169.00 |
| P/E ratio | 30 | 44 | 54 | 73 | 55 |

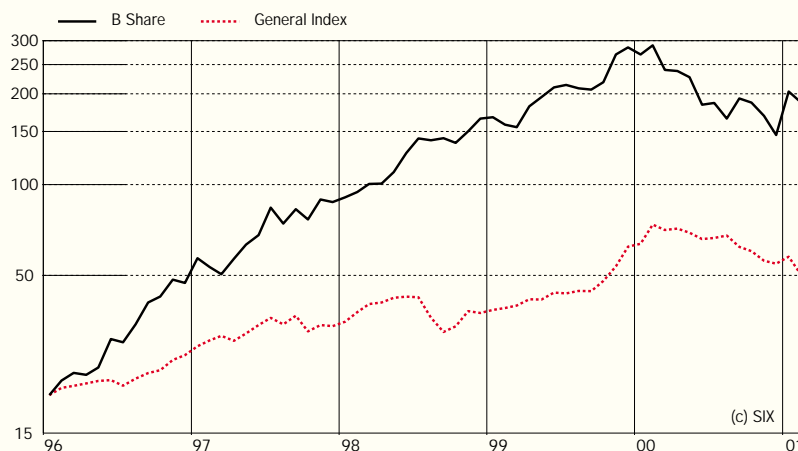
DISTRIBUTION OF SHARES, DECEMBER 2000

| Shareholdings | Number of shareholders | | Number of shares | | Average number of shares per shareholder |
|------------------|------------------------|--------------|--------------------|--------------|--|
| | | % | | % | |
| 1 – 1,000 | 183,952 | 91.9 | 38,138,567 | 4.6 | 207 |
| 1,001 – 5,000 | 12,651 | 6.3 | 28,867,361 | 3.5 | 2,282 |
| 5,001 – 10,000 | 1,672 | 0.8 | 12,562,114 | 1.5 | 7,513 |
| 10,001 – 50,000 | 1,349 | 0.7 | 28,491,864 | 3.4 | 21,121 |
| 50,001 – 100,000 | 165 | 0.1 | 11,766,429 | 1.4 | 71,312 |
| 100,001 – | 357 | 0.2 | 707,709,665 | 85.6 | 1,982,380 |
| SUMMA | 200,146 | 100.0 | 827,536,000 | 100.0 | |

MAJOR SHAREHOLDERS, DECEMBER 2000

| | Shares held | % of voting rights | % of capital stock |
|----------------------------|-------------|--------------------|--------------------|
| The Stefan Persson family | 301,672,400 | 69.1 | 36.5 |
| Liselott Tham | 36,640,700 | 2.2 | 4.4 |
| FöreningsSparbanken fonder | 31,607,340 | 1.9 | 3.8 |
| Fjärde AP-fonden | 31,096,700 | 1.8 | 3.8 |
| Försäkringsbolaget SPP | 20,467,312 | 1.2 | 2.5 |
| SEB Fonder | 15,694,117 | 0.9 | 1.9 |
| Nordeas fonder | 15,386,729 | 0.9 | 1.9 |
| Jan Bengtsson | 10,693,740 | 0.6 | 1.3 |
| Stefan Bengtsson | 10,491,500 | 0.6 | 1.3 |
| SEB Trygg Liv | 8,344,580 | 0.5 | 1.0 |

* 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: 283,474,400



FRED ANDERSSON

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



BIRGITTA BRUSBERG

born 1937
Employee representative
since 1992.
No. of shares in H&M: 100



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 Ispat Germany 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: 200,000



SUSSI KVART

born 1956
Legal council Telefonaktiebolaget
LM Ericsson.
Member of the board since 1998.
Other board assignments: board member
of The Swedish National Grid.
No. of shares in H&M: 2,200



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



STIG NORDFELT

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



MARIANNE NORIN-BROMAN

born 1944
Deputy employee representative since 1995.
No. of shares in H&M: 70



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, Hexagon AB and TeleLarm Care AB, vice chairman of Assa Abloy AB, board member of Cardo AB and the Federation of Swedish Industries.
No. of shares in H&M: 114,000



ROLF ERIKSEN

Born 1944
Chief Executive Officer and Managing Director of H&M.
Deputy member of the board since 2000.
No. of shares in H&M: 17,800

H&M FACTS

SWEDEN

| | |
|----------------------|-------|
| Established: | 1947 |
| Turnover (SEK M): | 5,255 |
| Number of stores: | 115 |
| Number of employees: | 3,556 |

NORWAY

| | |
|----------------------|-------|
| Established: | 1964 |
| Turnover (NOK M): | 2,800 |
| Turnover (SEK M): | 2,911 |
| Number of stores: | 64 |
| Number of employees: | 1,321 |

DENMARK

| | |
|----------------------|-------|
| Established: | 1967 |
| Turnover (DKK M): | 1,669 |
| Turnover (SEK M): | 1,885 |
| Number of stores: | 47 |
| Number of employees: | 888 |

GREAT BRITAIN

| | |
|----------------------|-------|
| Established: | 1976 |
| Turnover (GBP M): | 159 |
| Turnover (SEK M): | 2,201 |
| Number of stores: | 47 |
| Number of employees: | 1,325 |

SWITZERLAND

| | |
|----------------------|-------|
| Established: | 1978 |
| Turnover (CHF M): | 459 |
| Turnover (SEK M): | 2,480 |
| Number of stores: | 41 |
| Number of employees: | 1,047 |

GERMANY

| | |
|----------------------|--------|
| Established: | 1980 |
| Turnover (DEM M): | 2,585 |
| Turnover (SEK M): | 11,168 |
| Number of stores: | 188 |
| Number of employees: | 5,928 |

THE NETHERLANDS

| | |
|----------------------|-------|
| Established: | 1989 |
| Turnover (NLG M): | 628 |
| Turnover (SEK M): | 2,405 |
| Number of stores: | 54 |
| Number of employees: | 1,656 |

BELGIUM

| | |
|----------------------|-------|
| Established: | 1992 |
| Turnover (BEF M): | 6,892 |
| Turnover (SEK M): | 1,447 |
| Number of stores: | 34 |
| Number of employees: | 735 |

AUSTRIA

| | |
|----------------------|-------|
| Established: | 1994 |
| Turnover (ATS M): | 4,741 |
| Turnover (SEK M): | 2,891 |
| Number of stores: | 34 |
| Number of employees: | 1,421 |

LUXEMBOURG

| | |
|----------------------|------|
| Established: | 1996 |
| Turnover (LUF M): | 688 |
| Turnover (SEK M): | 144 |
| Number of stores: | 4 |
| Number of employees: | 58 |

FINLAND

| | |
|----------------------|------|
| Established: | 1997 |
| Turnover (FIM M): | 657 |
| Turnover (SEK M): | 932 |
| Number of stores: | 14 |
| Number of employees: | 519 |

FRANCE

| | |
|----------------------|-------|
| Established: | 1998 |
| Turnover (FFR M): | 904 |
| Turnover (SEK M): | 1,165 |
| Number of stores: | 23 |
| Number of employees: | 948 |

USA

| | |
|----------------------|------|
| Established: | 2000 |
| Turnover (USD M): | 88 |
| Turnover (SEK M): | 804 |
| Number of stores: | 10 |
| Number of employees: | 559 |

SPAIN

| | |
|----------------------|-------|
| Established: | 2000 |
| Turnover (ESP M): | 3,672 |
| Turnover (SEK M): | 187 |
| Number of stores: | 7 |
| Number of employees: | 287 |





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Spain
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BRIEF HISTORY OF H&M

- 1947 Erling Persson opens the first Hennes store in Västerås
- 1964 First store opens abroad – in Norway
- 1967 First store in Denmark
- 1968-70 The company starts to sell men's wear and children's wear
- 1974 H&M is quoted on the Stockholm stock exchange
- 1975 The company starts to sell cosmetics
- 1976 First store in Great Britain
The company starts to sell clothes for teenagers
- 1978 First store in Switzerland
The company starts to sell baby wear
- 1980 First store in Germany
The company buys Rowells mail order
- 1989 First store in the Netherlands
- 1992 First store in Belgium
- 1994 First store in Austria
- 1996 First store in Luxembourg
- 1997 First store in Finland
- 1998 First store in France
- 2000 First stores in the USA and Spain

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held at the Stockholmsmässan (Victoriahallen) in Stockholm on Monday, 23 April 2001, at 3 p.m.

Shareholders who are registered in the share register print-out on Thursday, 12 April 2001

and who give notice of intention to participate in the Meeting no later than 12 noon, Wednesday, 18 April 2001 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, shareholders should, in good time before 12 April 2001, 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, Wednesday, 18 April 2001.**

DIVIDEND

The Board of Directors has proposed Thursday, 26 April 2001 as record day. VPC (Swedish Securities Register Centre) is expected to commence paying dividends on 2 May 2001.

The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 2000 of SEK 1.35 per share.



