


H&M

ANNUAL REPORT
2013



Dress €59.95



A full-page photograph of Beyoncé sitting on a bright pink metal mesh chair on a sandy beach. She is wearing a vibrant, multi-colored patterned two-piece outfit consisting of a crop top and a high-waisted skirt. Her accessories include multiple gold bangles on both wrists, large hoop earrings, and a single orange hibiscus flower in her hair. She is also wearing black high-heeled sandals with large red flower decorations. The background is a bright, sunlit beach with shadows cast on the sand. The text 'Top €14.95' is overlaid on the right side of the image.

Top €14.95



Dress
€ 69.95

Contents

H&M IN WORDS AND PICTURES

This is H&M	6
CEO letter	8
2013 in brief	10
Our brands	14
Sustainable development	32
Our employees	36
Expansion	40
History	48

H&M IN FIGURES

Administration Report including proposed distribution of earnings	52
Group Income Statement	58
Group Statement of Comprehensive Income	58
Group Balance Sheet	59
Group Changes in Equity	60
Group Cash Flow Statement	61
Parent Company Income Statement	62
Parent Company Statement of Comprehensive Income	62
Parent Company Balance Sheet	63
Parent Company Changes in Equity	64
Parent Company Cash Flow Statement	65
Notes to the Financial Statements	66
Signing of the Annual Report	80
Auditor's report	81
Corporate Governance Report including information about the Board of Directors	82
Auditor's Statement on the Corporate Governance Report	94
Five year summary	96
The H&M share	97
Financial information and contact details	98

— THIS IS H&M —

Fashion and quality at the best price

A clear business concept and strong values have taken H&M from a single store to a leading global fashion company, with a passion for fashion, a belief in people and a desire to always exceed customers' expectations.



Over **116,000**
employees

3,132 stores

53 markets

Sales including VAT
SEK 150 billion

Profit after tax
SEK 17.2 billion

BUSINESS CONCEPT

Fashion and quality
at the best price.

CUSTOMER OFFERING

The H&M Group makes affordable, good quality fashion accessible to people all over the world. This is possible because H&M designs its own products, has no middlemen, buys the right product from the right market in large volumes, has efficient logistics and is cost-conscious in every part of the business. H&M's designers, pattern makers and buyers work in teams to create the collections. Flexible planning of the product range and quick decision-making ensure that the collections are continually adapted to what customers want. H&M strives to always have the best customer offering in each individual market – based on the combination of fashion, quality, price and sustainability.

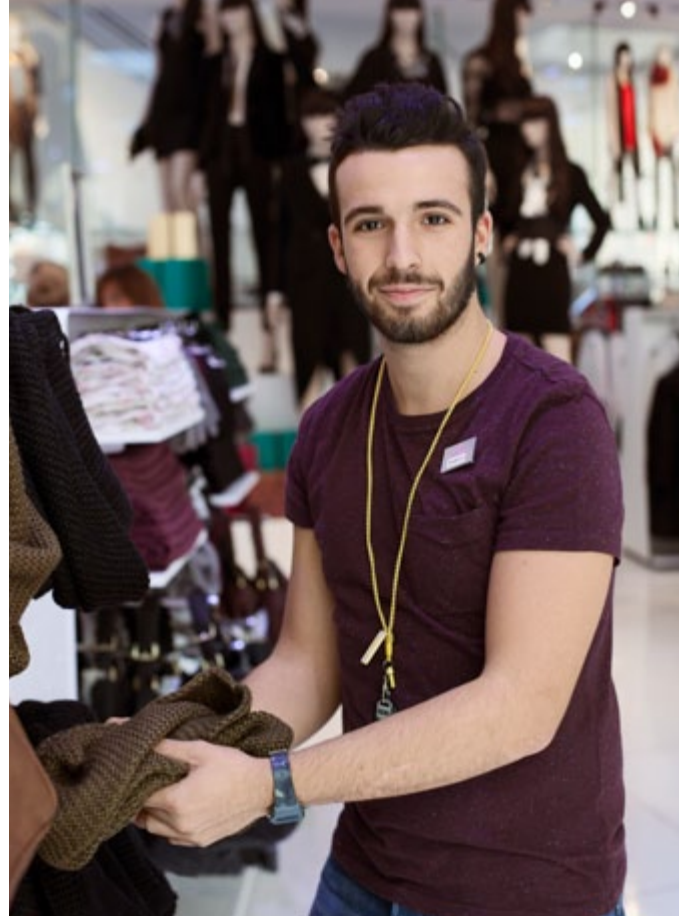
H&M offers a wide, varied range of inspiring fashion in collections for women, men, teenagers and children. The product range also includes shoes, accessories and cosmetics as well as fashion for the home from H&M Home. Added to this are a number of independent fashion brands, each with its own identity: & Other Stories, Cheap Monday, COS, Monki and Weekday.



THE H&M SPIRIT

H&M is guided by strong values based on fundamental respect for the individual and a belief in people's ability to use their own initiative. These values have existed ever since the very first store opened in 1947 and serve as guidance for every aspect of work within the Group. The shared values can be summed up as the H&M spirit – the spirit that makes H&M a unique workplace for employees around the world.

H&M welcomed over 12,000 new employees net in 2013.



SUSTAINABLE DEVELOPMENT

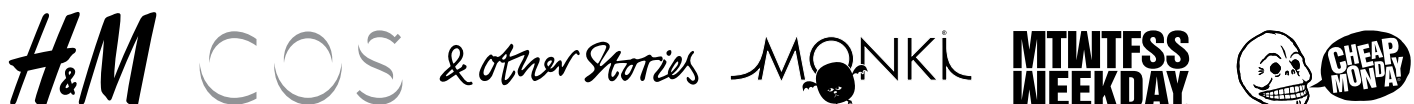
H&M aims to be the more sustainable option for today's increasingly aware customers. To this end, H&M's investments in social improvements and minimal environmental impact extend throughout the garment life cycle – from responsible use of natural resources to ensuring good working conditions at suppliers' factories, and from reducing electricity consumption in the stores to offering garment recycling globally. Because H&M's sustainability work is an investment in the customer offering and is vital to the Group's long-term development, sustainability is thoroughly integrated in the business.

H&M's customers brought in 3,047 tonnes of used clothing for re-use and recycling in 2013.

LONG-TERM EXPANSION

H&M is growing successfully in existing markets and in new countries, with all its brands and through new concepts. Expansion includes both new stores and online sales. The target is to increase the number of stores by 10–15 percent each year while at the same time increasing sales in comparable units.

H&M opened 356 new stores net in 2013.



Long-term investments for an even stronger H&M

H&M continues to grow at a rapid pace and our attractive offering is reaching more and more customers, both in stores and online. In 2013 we opened more than one new store per day; today we have over 3,200 stores on five continents, and our online store hm.com is now available in nine countries including the US.

2013 was an intense and eventful year – among other things, we opened a net total of 356 new stores, we launched online shopping in the US and we introduced a completely new fashion brand, & Other Stories. For the third year running we added five new markets, this time Chile, Lithuania, Serbia, Estonia and, via franchise, Indonesia. We also opened our first store in the southern hemisphere, in Santiago de Chile, with more than 2,500 customers queuing to shop at H&M on the opening day.

We opened a number of flagship stores in outstanding locations around the world in 2013, including Times Square in New York and Via del Corso in Rome, and these were also very well received by customers. We are growing in existing markets as well as in new countries, and today H&M can be found in 53 countries. China is the country where we are expanding most of all. In just a few years China has become one of our biggest markets and our expansion there is continuing at a rapid pace. You can read more about H&M's increased presence in China on pages 44–45.

SALES EXCEED SEK 150 BILLION

At H&M we are always working on continuous improvement, which has



Karl-Johan Persson, CEO.

been one of our values since H&M was first established. This includes our aim to always exceed our customers' expectations and to give our customers the best combination of fashion, quality, price and sustainability. Our employees are doing a fantastic job to achieve this and I would like to thank everyone for their continued excellent efforts and superb teamwork during the past year.

Our attractive customer offering and well-received collections – particularly during the autumn – meant that we ended the year strongly. Overall during 2013 we increased sales by 9 percent in local currencies, to over SEK 150 billion including VAT. Although several markets continued to be characterised by a challenging macroeconomic situation with multiple price activities and markdowns during the year, H&M continued to grow with high profitability and increasing market share.

Profit after financial items increased to SEK 22.6 billion. The result was affected by negative currency translation effects and by the continued, major long-term investments we are making to build an even stronger H&M and secure future expansion. Our long-term investments are being made in areas such as

IT, online, new brands and broadening our product range.

& OTHER STORIES

One example of these investments is our new fashion brand & Other Stories, launched in March 2013 to an astonishing reception. & Other Stories has already opened eight stores in seven countries during 2013 and is also available online in ten markets.

Building up a new brand takes time and involves major investments and costs, both initially and during roll-out. COS is an example of a similar successful investment which, since its launch in 2007, has developed into an internationally well-established fashion brand in 19 markets. COS performed very well in 2013 and opened 21 new stores during the year, corresponding to a store growth of more than 30 percent.

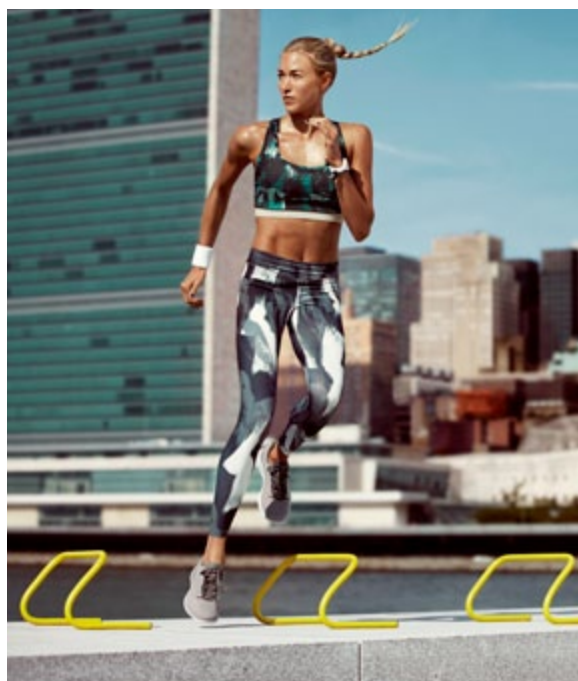
H&M SPORT

Another example of our long-term investments is our expanded H&M Sport range, launched in January 2014. This range for men, women and children is significantly broader than previously and consists of sportswear and accessories in specially developed functional materials suited to various kinds of athletic activities. With a focus on function, fit, design and comfort, the new sports collections were designed together with Swedish Olympic athletes. We are also proud that H&M has designed collections for the Swedish athletes at the 2014 Winter Olympics and Paralympics, and is also to design collections for Sweden's participants at the 2016 Summer Olympics and Paralympics.

The new H&M Sport concept has initially been launched in our existing online markets and in selected stores in 18 countries. It has been very well received and we look forward to offering the new sports collections in more stores and countries in the future.

NEW ONLINE MARKETS

We are also investing significantly in online sales, an area of increasing importance. Our online sales continue to develop very well and e-commerce at hm.com, which is one of the world's most visited fashion websites, allows us to offer our product range to even more customers. In August we launched our online store in the US, which has had a very good response from customers. We are continuing our online expansion and are looking forward to opening four new online markets in 2014. France is opening online during spring/summer 2014, and three more new, large online markets are planned to open later this year.



We are continuing our online expansion and are looking forward to opening four new online markets in 2014.

SUSTAINABILITY – PART OF THE CUSTOMER OFFERING

We want all H&M's operations to be run in an economically, socially and environmentally sustainable way, and we are continuing our intensive work on sustainability in many different areas. For this reason we are also working daily to offer our customers increased sustainability in all our collections.

H&M Conscious is the name given to our work towards a more sustainable fashion future. You can read more about H&M's sustainability work in our H&M Conscious Actions Sustainability Report at hm.com.

SHARED VALUES

Our shared values that are summarised in the H&M spirit represent one of the most important keys to H&M's successful long-term development

The H&M spirit is based on fundamental respect for the individual and a belief in people's ability to use their initiative. This spirit has existed ever since the company was started in 1947 and continues to permeate the entire company even after many years

Above H&M Sport offers an expanded range of products suited to multiple disciplines, such as running, tennis, yoga and various outdoor activities.

of strong expansion. There are more and more of us, and in the past year alone we welcomed over 12,000 new employees in total. Today we are a global fashion company employing more than 116,000 people and we continue to create new jobs around the world.

OUTLOOK

For 2014 we are planning a net addition of 375 new stores in total, which is well within our expansion target of opening 10–15 percent new stores per year.

This year H&M will again open a number of large flagship stores, including one in Melbourne in the first half of 2014 when Australia becomes a new H&M market. The Philippines will be another new market for H&M this year, as will India. In addition to these countries, yet another new H&M market is planned to open at the end of 2014. We expect to have over 3,500

stores at the end of 2014. In 2015 we plan to open the first H&M store in South Africa.

Expansion will also continue for our other brands COS, Monki, Weekday, Cheap Monday and & Other Stories, as well as for H&M Home. For example, in 2014 COS will expand into the US, Australia, South Korea and Switzerland.

We have started off the new year well, with strong sales in both December and January. Although there are still macroeconomic challenges in several of our markets, we are optimistic about 2014, which will be an exciting year with new H&M countries and new opportunities. We truly believe in our strong offering and are convinced that we will strengthen our market position even further during the year.

A handwritten signature in black ink, appearing to read 'K-Persson'.

Karl-Johan Persson, CEO
H & M Hennes & Mauritz AB

— 2013 IN BRIEF —

Highlights of the year

2013 was an eventful year: more sustainable fashion, five new markets, the first H&M stores in the southern hemisphere and, not least, the launch of the new fashion brand & Other Stories.

JANUARY



GLOBAL PARTNERSHIP WITH WWF

H&M's new global water strategy was introduced. Produced jointly with WWF and unique in the industry, it aims to help improve management of water resources throughout the garment life cycle.

FEBRUARY



SHOW AT PARIS FASHION WEEK

H&M's first show at Paris Fashion Week, at the Musée Rodin. A star-studded audience saw top models Edita Vilkevičiūtė and Isabeli Fontana in tailored pieces from an elegant, playful autumn collection.

FEBRUARY



RECYCLING TEXTILES

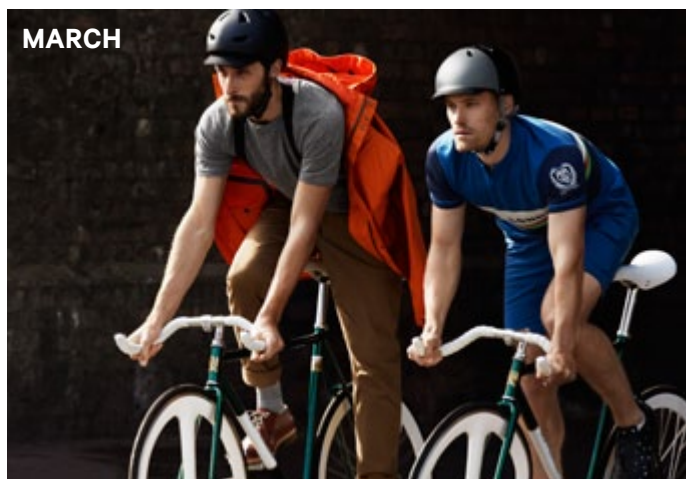
In-store "Garment Collecting" makes H&M the first fashion company to offer clothes collection globally. In 2013 customers brought in 3,047 tonnes of used clothing. Recycled fibres become for example, new jeans.

MARCH



FOUR NEW MARKETS FOR COS IN 2013

COS is growing fast, with four new markets in 2013: Norway in March, and Turkey and Singapore in the autumn. In the United Arab Emirates, a franchise store opened at the start of the year.



MARCH

H&M MEETS BRICK LANE BIKES

For spring H&M launched a men's collection with London's Brick Lane Bikes. Organic and recycled materials were used to combine function, sustainability and smart city style.



MARCH

H&M IN THE SOUTHERN HEMISPHERE

In 2013 H&M expanded into South America and the southern hemisphere with a popular full-range store in Chile's capital, Santiago. Over 2,500 customers queued for the opening in the Costanera Center.



MARCH

LAUNCH OF & OTHER STORIES

The new fashion brand & Other Stories, which has enjoyed a phenomenal reception, was launched in spring 2013. It already has stores in seven countries and online sales in ten European markets.



APRIL

H&M CONSCIOUS FOUNDATION

The Stefan Persson family donated SEK 500 million to the H&M Conscious Foundation, mainly supporting projects for clean water, education and improved status for women, areas chosen by H&M customers and employees.



APRIL

HOLLYWOOD ECO-GLAMOUR

H&M Conscious Exclusive combines best prices with sustainability, quality and high fashion for men and women. The spring collection offered Hollywood glamour in organic cotton and recycled polyester.



MAY

FIRE AND BUILDING SAFETY ACCORD

H&M became the first company to sign the Accord on Fire and Building Safety in Bangladesh, aimed at further helping the textile industry to achieve lasting improvements in safety and working conditions.



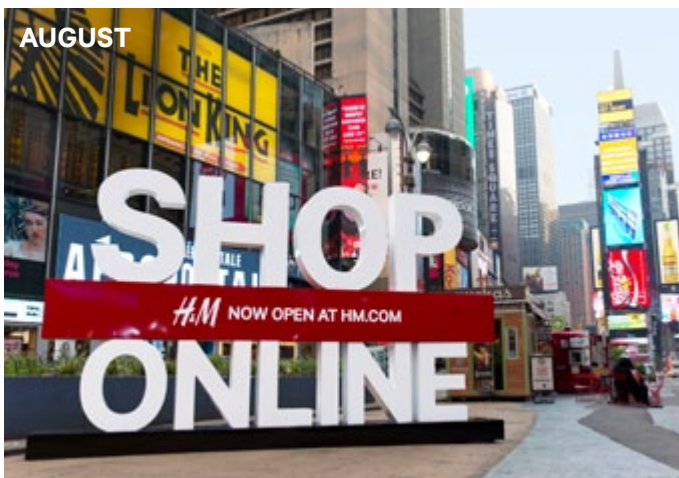
MONKI AND WEEKDAY EXPAND

Monki and Weekday were very well received in Japan, with the first stores opening in Osaka in June. During the year Monki also opened in Tokyo and expanded into its new markets of France and Russia.



H&M FOR WATER

25 percent of sales of the annual H&M for Water collection have contributed to WaterAid's water and sanitation projects. Since 2002 H&M customers have helped 230,000 people gain access to clean water.



H&M SHOP ONLINE IN THE US

In August H&M opened its online store in the US, which was very positively received, showing that online shopping at hm.com is a welcome complement to H&M's stores in the company's second largest market.



50 MARKETS AND COUNTING

H&M expanded into five new countries in 2013: Chile, Lithuania, Serbia, Estonia and, via franchise, Indonesia. Lithuania became H&M's 50th market when stores opened in Vilnius and Klaipeda in August.



STORE 3,000

H&M is growing fast. Just three years after the Group's 2,000th store opened in 2010, store number 3,000 was added in Chengdu – one of China's major cities. China is H&M's biggest expansion market.



"M" AS IN MAURITZ ARCHIVE

The Mauritz Archive collection references the year 1968, when Hennes became Hennes & Mauritz and started selling menswear after purchasing Mauritz Widforss, a hunting and outdoor wear shop.



OCTOBER

HALLOWEEN – ALL FOR CHILDREN

Princesses, skeletons and pirates – the All for Children collection offered an 18th century masquerade. 25 percent of sales benefited UNICEF's work for children's education and health in Bangladesh.



OCTOBER

CAMBODIAN GOVERNMENT VISIT

CEO Karl-Johan Persson visited Cambodia and met Prime Minister Hun Sen to discuss labour market conditions in the textile industry and to urge the government to review minimum wages in the industry annually.



NOVEMBER

ISABEL MARANT POUR H&M

Parisian designer Isabel Marant's signature style is elegant rock with a bohemian French touch. For H&M she created pieces and accessories she loves wearing herself, and her first collections for teenagers and men.



NOVEMBER

LADY GAGA AT H&M TIMES SQUARE

When H&M opened in Times Square, New York gained a spectacular new flagship store and 2,500 customers came to celebrate with megastar and fashion icon Lady Gaga. H&M has more than 300 stores in the US.



NOVEMBER

H&M HOME IN NEW COUNTRIES

H&M Home's textiles and decorative items are being offered in more and more countries. In 2013 H&M Home opened in around ten new markets including the US, Poland, the Czech Republic and Spain.



NOVEMBER

PLAN FOR A FAIR LIVING WAGE

H&M's view is that all textile workers should be able to live on their wages. Wages are an important industry-wide issue and in 2013 H&M launched a new plan to help improve wage structures at the supplier stage.



— OUR BRANDS —

Fashion for all

H&M always offers a wide and varied range of inspiring fashion, from the latest trends to sustainable classics to wear season after season. All this is complemented by various independent brands with their own identities.

The collections are created by H&M's own designers, pattern makers and buyers, all working together. This team of people of different ages and nationalities finds inspiration everywhere: from travel, films, art exhibitions and magazines, fashion from the catwalk to the street, and trade fairs and trend seminars. When designing the collections the focus is on quality, best price and capturing the feel of a trend. Flexible planning of the product range and efficient logistics mean that products can be continually adapted and updated according to customers' preferences.

The collections are diverse, allowing customers to combine pieces in unique reflections of their personal style, taste and needs, and then wear them over a number of seasons. This extends the garment's life cycle and helps increase sustainability – an important consideration for today's increasingly aware consumers.

The H&M Group works actively to ensure that everything customers are offered has been manufactured under good working conditions and with minimum possible impact on the environment. The Group is a major user of organic and recycled materials as well as cellulose materials.

The following pages present a selection of H&M's many concepts, followed by the Group's additional brands & Other Stories, Cheap

Monday, COS, Monki and Weekday. All are independent, clearly defined brands with their own stores and their own look.

The H&M stores carry a wide and varied range of clothing and accessories for women, men, teenagers, children and babies. To complement the garments H&M offers shoes, accessories and cosmetics as well as fashion for the home from H&M Home. One exciting innovation is the increased range of products for H&M Sport, which has been updated to focus on performance and design and adapt to customers' increasingly active lifestyles. Among other things collections have been created in collaboration with members of the Swedish Olympic Teams.

The fashion brand Cheap Monday provides customers with denim and young, up-to-the-minute fashion with streetwear and catwalk tones. Weekday is a jeans-focused fashion destination offering urban designs. COS offers collections with both classic and modern garments in distinctive designs, while Monki's fashion is playful and personal. The launch of & Other Stories – big fashion news in 2013 – heralds a new and exciting fashion brand within the Group, with substantial emphasis on details and fine materials. Customers can buy clothes and a wide range of shoes, accessories and cosmetics to create their own looks and personal style.



H&M

2,936 stores
53 markets
9 markets shop online
hm.com



&otherstories

8 stores
7 markets
10 markets shop online
stories.com



3 stores in 2 markets
2,000 retailers in more than
35 markets
18 markets shop online
cheapmonday.com



COS

85 stores
19 markets
18 markets shop online
cosstores.com



MONKI

79 stores
11 markets
18 markets shop online
monki.com



**MTWTFSS
WEEKDAY**

21 stores
7 markets
18 markets shop online
weekday.com



H&M

LADIES H&M's product range for women offers all the latest must-haves along with updated fashion classics: from simple everyday wear and stunning party dresses to fashionable maternity wear, high-function sportswear and underwear. A wide selection of accessories complements the apparel collections. Every piece focuses on fashion, personal style, quality and best price.



H&M

MEN Men seeking smart, comfortable, functional clothing can always turn to H&M. A modern, varied and flexible men's wardrobe includes both the latest trends and classics for both city life and the great outdoors. The product range includes well-tailored suits and shirts for work and special occasions, casual attractive everyday wear, and updated sports clothing, along with shoes, bags and other accessories.



H&M

DIVIDED Fashion-conscious young men and women choose H&M Divided to find their favourites from the wide variety of clothing and accessories. The range spans the most useful basics – often with sporty influences – to the hottest trend items and jeans styles, along with the latest footwear and underwear. This is young fashion for anyone who likes creating their own personal style.

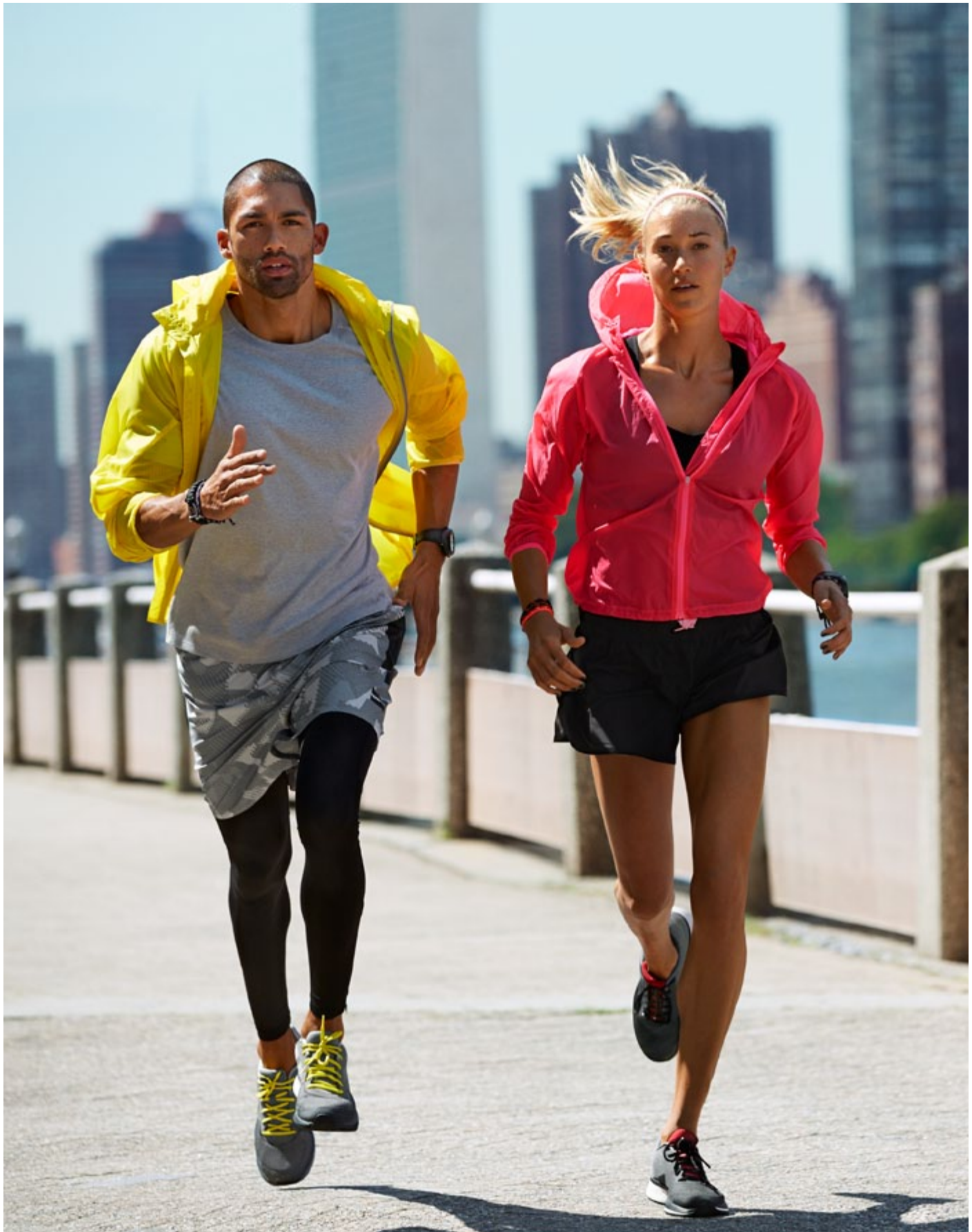


KIDS H&M Kids offers everything for children, from great basics and cool jackets to party gear, in sizes from baby to 14 years. H&M children's clothing is modern and comfortable and is always carefully tested to ensure it meets strict requirements of quality, function, safety and sustainability. Materials must be soft on the skin, yet designed to withstand lively play and rigorous washing.



H&M

&DENIM Denim is an indispensable wardrobe staple, setting the tone on both the catwalk and the street, so H&M always offers plenty of styles of jeans for both women and men. Both the latest denim and ever-popular classics are available in a variety of colours, designs and washes, along with updated denim shirts, jackets, dresses, skirts and shorts.



SPORT Focusing on performance and design, H&M Sport shows H&M's long-term engagement with the world of sports. The range for women, men and children has been updated to fit increasingly active lifestyles and different kinds of exercise. New garments have been developed in cooperation with top athletes to achieve perfect form and function, with a wider range available in selected stores and online.



H&M

UNDERWEAR Great outfits begin closest to the skin. H&M always offers attractive underwear in the softest cotton, as well as shapewear for a perfect fit and the latest styles in the season's top colours, patterns and fabrics. The men's range also includes David Beckham Bodywear, the football legend's own line.



COSMETICS Sparkling lips, glamorous nails and the latest hair styles: H&M lets customers flirt with the season's new looks. Eyeshadows, mascara and nail varnish come in the latest shades, along with make-up brushes and other accessories. H&M's cosmetics are never tested on animals, and all of H&M's products fulfil at least the minimum requirements stipulated by the laws and regulations in H&M's sales markets.



ACCESSORIES H&M is all about diversity and letting people find their own personal style. H&M has a very broad customer base and they can all give their style an extra creative edge by choosing from the wide range of accessories available for women, men, teenagers, children and babies: from scarves, belts, hats and jewellery to footwear and bags.



H&M HOME H&M Home provides fashion for living. Home furnishings in both timeless and fashionable colours and patterns inspire a quick, easy makeover or transform a home into the perfect party venue. H&M Home mainly offers home textiles such as towels, bed linen, curtains and cushions, but also has a range of decorative items in glass, metal and wood.



& other Stories

& OTHER STORIES offers a wide range of shoes, bags, accessories, cosmetics and ready to wear – ranging from masculine tailoring to feminine chic, and designed to provide endless styling choices. The diverse collections are designed in ateliers in Paris and Stockholm, with great emphasis on details and quality – always at a good price.



CHEAP MONDAY put tight jeans on the fashion map, and is now a jeans and fashion brand offering complete collections for men and women. It often draws inspiration from alternative music and trends, such as the 1990s club scene and grunge. Cheap Monday is sold by retailers in more than 35 countries and in its own Cheap Monday stores in Denmark and the UK.



COS

COS offers timeless fashion that outlasts the season, with both classic and modern items for women and men who demand exclusive design and good quality at affordable prices. Quality and detail are present in every aspect of the brand, from the high level of customer service to the appealing store environment and beautiful packaging.



MONKI is a personal, playful brand and provides a unique shopping experience. It offers women diverse, youthful collections (though Monki is about style, not age) inspired by current trends, with a twist of Nordic and Asian street style. Clothes and accessories are presented in a store concept that is a world of its own, characterised by storytelling, creativity and colourful graphic design.



**MTWTFSS
WEEKDAY**

WEEKDAY is a jeans-focused fashion destination offering urban design for women and men, always at great prices. In-house brands such as MTWTFSS Weekday, MTWTFSS Collection and Weekday Store-made are offered as well as a mix of vintage and external brands.



Dress €99

Greater sustainability for continued growth

H&M aims to continue growth, add value for its customers and employees, and contribute to countries' growth and prosperity. Sustainability work is essential in achieving this aim, which is why it is an integral part of H&M's business.



H&M makes affordable, good quality fashion accessible to people all over the world. This is possible because H&M designs its own products, has no middlemen, buys the right product from the right market in large volumes, has efficient logistics and is cost-conscious in every part of the business. By staying true to the business concept of offering customers fashion and quality at the best price H&M has evolved into a global company, providing a workplace for more than 116,000 people and generating long-term expansion that contributes to the welfare and development of countries. Sustainability is integral to this development and includes aspects such as the environment, ethics and human rights.

H&M acts directly as a buyer and seller in a large number of markets, contributing to trade between countries. International trade plays a crucial role in countries' development by generating work opportunities and economic growth. H&M's business contributes to more than a million jobs in total, not least for women – largely in the textile industry in Asia, home to many of H&M's sourcing markets. H&M does not have any factories of its own; instead, items are manufactured by independent suppliers. For many countries, the jobs created by exporting clothing manufacturers spark further industrial development, leading to increased productivity and higher wages. These jobs help to lift individuals and nations out of poverty. The

continued presence of long-term, responsible buyers is therefore vital to the future of these countries.

H&M relies on stable sourcing markets and wants people to be paid a wage that they can live on and wants people to be treated with respect, so H&M uses its size, influence and commitment to drive changes that bring about lasting improvements in working conditions within the textile industry. Wages at the supplier stage are an important issue, and H&M has been working for many years to improve conditions for the factory workers. Read on the next page about H&M's new roadmap for fair living wages.

H&M's initiatives to bring about social improvements and minimise environmental impact extend beyond the supplier chain and throughout the entire garment life cycle – from responsible, efficient use of natural resources to how customers care for and recycle the garments they buy. For example, H&M's global water partnership with WWF is unique in the fashion industry; in addition, H&M's chemical restrictions are among the most extensive in the business, and the product policy describes the company's product responsibility in relation to customers, animal welfare and biodiversity.

H&M's extensive sustainability work is an investment in the offering to customers and exerts a positive influence on the company's long-term development.

VISION AND STRATEGY

H&M Conscious is the name of H&M's work for a more sustainable fashion future. H&M's vision is for all its operations to be run in a way that is economically, socially and environmentally sustainable. For this reason sustainability work is not a separate activity – it is included in every aspect of the business.

To achieve this vision, H&M has set seven commitments – the H&M Conscious Commitments: provide fashion for conscious customers; choose and reward responsible partners; be ethical; be climate smart; reduce, reuse and recycle; use natural resources responsibly; and strengthen communities. To put these commitments into practice, hundreds of activities – H&M Conscious Actions – are carried out in the various areas. This work is an integral part of H&M's business.

As part of H&M's sustainability function, around 100 people work in the sourcing markets in close partnership with H&M's suppliers. An additional over 20 specialists work in the sustainability department at the head office in Stockholm, ensuring that clear goals are set with associated indicators to measure progress. This team also supports other functions within the company and evaluates the effects of activities. H&M's Head of Sustainability is a member of the executive management, and strategic sustainability issues are dealt with regularly by H&M's CEO and Board of Directors.



The H&M Conscious Foundation is a non-profit global foundation initiated in connection with H&M's 60th anniversary in 2007. The mission of the foundation is to reach beyond H&M's value chain and contribute to positive long-term change for people and communities where H&M operates. In 2013 the Stefan Persson family donated SEK 500 million to the H&M Conscious Foundation, enabling genuine improvements in living conditions in the countries where H&M is active. This is a great step for the foundation, which in the coming years will use its resources to support three global development challenges: clean water, education and strengthening women. These areas were chosen in a vote by H&M customers and employees, taking the UN Millennium Development Goals as a starting point.



GLOBAL WATER PARTNERSHIP WITH WWF

Water plays an important role throughout the life of a garment, from growing cotton to making fabrics and washing of the garments. But water is a scarce resource. In partnership with WWF, therefore, H&M has developed a global strategy for better water resource management within the fashion industry. The three-year partnership includes initiatives aimed at improving the efficiency of H&M's internal water consumption, training employees, minimising suppliers' water impact and motivating and inspiring H&M customers to use water responsibly. In addition, H&M is collaborating with organisations, other companies and public policy makers to improve the stewardship of vulnerable river basins in China and Bangladesh.

ROADMAP FOR A FAIR LIVING WAGE

H&M wants all its suppliers' textile workers to be able to live on their wage. Wages are an important sector-wide matter for the textile industry in the sourcing markets. H&M wants to contribute to lasting improvements and has been working actively for many years to help strengthen the textile workers' influence and contribute to a functioning dialogue between the parties in the labour market. H&M is also working to influence decision makers, and some wage increases have been made. CEO Karl-Johan Persson has visited the prime ministers of both Bangladesh (in 2012) and Cambodia (in 2013) to discuss labour market conditions in the textile industry in these countries and to call for annual wage reviews. There remains great potential to improve wage structures both at national level and at factory level, which is why H&M has introduced a new plan for its work on wage issues. In a holistic approach, the roadmap includes improved purchasing practices, further training in the textile industry to improve skill levels, higher



starting wages and the introduction of regular wage negotiation by democratically elected workers' representatives. This plan also includes cooperation with the trade union IF Metall, the Swedish International Development Cooperation Agency (Sida) and the International Labour Organization (ILO). This initiative aims to contribute to more stability in the sourcing markets, which will benefit both H&M and the suppliers.

SUSTAINABILITY REPORT AT HM.COM

H&M's full sustainability report uses the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI) and can be found at hm.com/conscious, along with the company's Code of Conduct, supplier list, policies and Code of Ethics.

KEY INDICATORS FOR SUSTAINABILITY

Overleaf are six indicators showing how H&M's sustainability work has developed in various key areas.

Key indicators for sustainability



MORE SUSTAINABLE MATERIALS

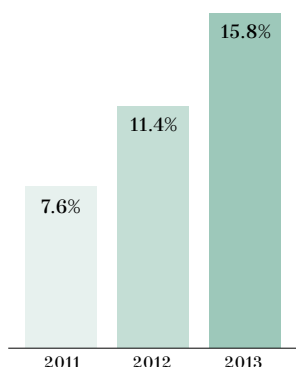
H&M is run with a focus on long-term growth. To ensure a sustainable supply of raw materials H&M works to minimise environmental impact and make social improvements at this early stage in the process, and each year tries to increase the percentage of more sustainable materials used in its product range. These materials – such as organic cotton, recycled polyester, Tencel® and recycled wool – increased as a percentage of the product range from 9 percent in 2012 to 11 percent in 2013 and are used both in everyday basics and in high-fashion collections such as H&M's annual Conscious Exclusive Collection.

GOAL

Cotton is the raw material that H&M uses most. H&M's goal is that by 2020 all the cotton it uses will be more sustainable cotton. H&M is already one of the world's biggest users of organic cotton. More sustainable cotton means both organic cotton and recycled cotton, as well as cotton grown under the Better Cotton Initiative, known as "Better Cotton". The BCI works to improve both the social and the environmental conditions of traditional cotton growing.

RESULT

H&M has doubled the percentage of more sustainable cotton in its product range over the past two years to 15.8 percent in 2013.



A CLOSED LOOP FOR TEXTILE FIBRES

At the beginning of 2013 H&M became the first fashion company in the world to offer garment collecting in stores globally. H&M's "Garment Collecting" initiative allows customers in all its markets to drop off used clothing in almost any H&M store – clothing of any brand and in any condition – for re-use and recycling. In return, H&M gives customers a voucher for each bag of clothing they bring in to use the next time they shop. Existing delivery transports take the clothing to the nearest recycling facility for sorting and assessment. Garments with too much wear and tear to be re-used are largely recycled into raw materials and new products. In the longer term H&M wants to create a closed loop for textile fibres. Because the raw material is re-used, collected garments help reduce consumption of water, energy and chemicals.

3,047 tonnes of clothing collected in 2013.



GOAL

An annual increase in garments brought in for H&M's "Garment Collecting".

RESULT

In 2013, the first year of "Garment Collecting", H&M customers brought in 3,047 tonnes of used clothing. Early 2014 sees H&M's launch of the first garments (see photo above) made of materials using recycled fibres from collected textiles. The new garments – classic jeans and denim jackets for women and men – are examples of how H&M is closing the loop for textiles.

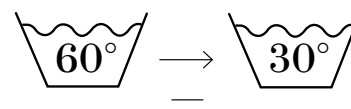


REDUCING EMISSIONS OF GREENHOUSE GASES

H&M is working to reduce the amount of greenhouse gas emissions in a garment's life cycle. To reduce emissions from its own operations, in parallel with long-term expansion, H&M is striving for increasingly efficient energy use and, among other things, is working to use only energy from renewable sources. In 2013, 18 percent of H&M's electricity consumption came from renewable sources.

However, H&M's own operations account for just a small proportion of a garment's total climate impact. H&M is working in various ways to help reduce emissions in the other parts of the garment life cycle; for example, by using more eco-smart materials, helping suppliers to increase energy efficiency in their operations and choosing more sustainable modes of transport for freight. Around 90 percent of all freight transport is by rail or sea.

Laundry and clothing care are major contributors to a garment's total climate impact. Lowering the washing temperature from 60 degrees to 30 degrees, for example, achieves a 50 percent saving in energy. Among other measures, H&M has introduced the clevercare symbol on the garments' care labels. The website clevercare.info provides advice on more environmental-smart garment care.



50% LESS ENERGY USE

GOAL

To reduce emissions of greenhouse gases from H&M's own operations annually in absolute terms starting from 2015, despite H&M's continued expansion.

RESULT

Emissions of greenhouse gases amounted to around 356,000 tonnes in 2013, compared with around 326,000 tonnes in 2012.

REDUCE ENERGY CONSUMPTION

H&M endeavours to reduce energy consumption and use energy more efficiently. Increased energy efficiency helps reduce environmental impact and improves cost control. The stores account for more than 70 percent of all the energy that H&M uses in its own operations. Energy consumption has been cut in newly built stores as well as in rebuilt stores and older stores. More and more stores are being equipped with their own energy meters in order to increase their control over electricity consumption and allow energy to be used even more efficiently.

14% reduction in electricity use 2007–2013.

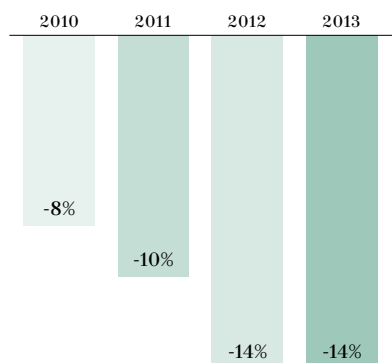


GOAL

To reduce electricity consumption per square metre in H&M's stores by 20 percent in total by 2020, compared with 2007.

RESULT

Electricity consumption per square metre in H&M stores decreased by 14 percent between 2007 and 2013.



COMPLIANCE WITH THE CODE OF CONDUCT

H&M does not have any factories of its own; instead, its products are manufactured by around 900 independent suppliers with around 1,900 factories in total. H&M strives to work closely with its suppliers in long-term relationships and for many years has carried out extensive sustainability work at this stage of production. H&M applies methods for choosing the best possible suppliers and factories and then helps them to develop further to improve their sustainability, for example through training, support and partnerships in various areas.

H&M sets high social and environmental requirements for its suppliers. To ensure that production takes place under good working conditions and with consideration for the environment, H&M checks how well the suppliers and their factories are living up to H&M's Code of Conduct, which was introduced in 1997. The Code of Conduct contains minimum requirements that each factory must meet in order to supply H&M, but also lays down a number of additional requirements based on the Code. How well suppliers comply with these requirements is graded on a scale of 1 to 100, and points achieved indicate that the suppliers are moving towards greater sustainability. To measure how well suppliers met these requirements in 2013, among other things H&M carried out 3,121 factory inspections and 11,549 interviews with factory workers concerning their working conditions.

GOAL

Suppliers are to improve their Code of Conduct compliance rating each year, based on the scale of 1–100 points for compliance beyond the minimum requirements.

RESULT

Supplier compliance with the Code of Conduct – beyond meeting the minimum requirements – increased from an average of 77.3 points out of a possible 100 in 2012 to 77.8 points in 2013. H&M's strategic suppliers (which produce around 60 percent of all H&M products) improved from 79.1 points in 2012 to 80.1 points in 2013.

ANTI-CORRUPTION

H&M has a zero tolerance approach to all forms of corruption and this is strongly linked to H&M's values. It is also in line with the company's commitment to human rights and sustainable development. This commitment is supported by H&M's Code of Ethics, which was adopted in 2003 and is regularly updated. The Code does not allow bribes or "facilitation payments", has a restrictive policy on corporate entertainment, and includes a "no thank you" policy for gifts.

All H&M employees who are affected and all suppliers must sign the Code of Ethics before being appointed or before starting to supply H&M. The company provides relevant information and training to both employees and suppliers.

Corruption risk assessments are regularly carried out for all the company's business units. H&M also works actively to prevent, discover and remedy violations of the Code and also takes responsibility for thorough follow-up of reported incidents. The company also provides a whistleblowing function for anonymous reporting of any violations.

Since 2013 H&M has been a member of Transparency International Sweden as a Corporate Supporter. Transparency International is an independent global organisation working to combat corruption in all its forms and to create greater transparency in both public and private sectors.

H&M has a zero tolerance approach to all forms of corruption.

GOAL

To detect all violations of H&M's Code of Ethics.

RESULT

In 2013 H&M investigated 36 incidents. Of these, 18 were violations that resulted in action being taken.

REVIEW OF KEY INDICATORS

These six indicators on pages 34–35 have been generally reviewed by the company's auditors. For verification refer to H&M's sustainability report for 2013.

— OUR EMPLOYEES —

Employees grow with H&M

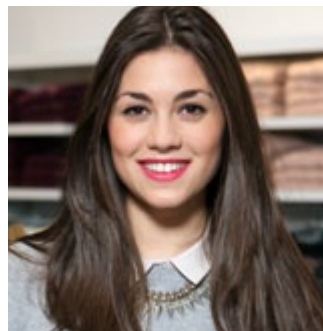
At H&M strong values help generate energy and commitment,
resulting in an open and dynamic workplace where everyone works
together to achieve shared goals – and where every
employee makes a difference.





“I think H&M is growing so fast because we’re given responsibility – you want to do your best.”

Fred Ghazouani,
Sales Advisor



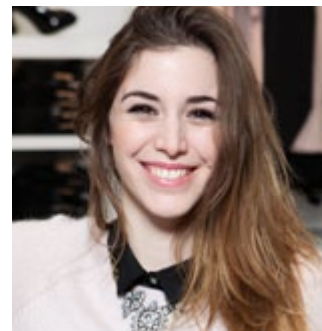
“It’s all about team spirit! Helping out and working towards the same goals creates a good atmosphere.”

Delphine Trioanelli,
Visual Merchandiser



“Colleagues who do a good job and try out new roles make me proud.”

Rafik Chabradi,
Floor Manager



“I know I’m making a difference – I can see the direct results of my ideas and my work.”

Diane Barthélemy,
Sales Advisor

H&M believes in people’s ability to use their own initiative. That’s why no career path is staked out in advance; instead, each and every employee can choose their own individual journey. H&M’s strong global presence provides plenty of opportunity for employees to develop.

As one of the world’s leading fashion companies, H&M needs all kinds of skills for continued expansion. That’s why employees are encouraged to set their own development and career objectives. Job rotation and internal recruitment are common within the Group, and most H&M managers have been recruited from other internal positions.

ONE EMPLOYER – INFINITE OPPORTUNITIES

The roles available are broad and varied, and every position can be a step towards something new. The opportunities are equally great for employees who have recently joined H&M and for those who have been working at the company for many years.

For example, a job within sales can lead in many different directions. H&M has more than 3,200 stores in 53 markets. All stores have people working together in different roles – from sales advisors to visual merchandisers to store controllers. The Group’s different brands also open up various career opportunities.

A person’s career may also span different functions. H&M is an ideas-driven, innovative company that offers a variety of interesting roles in areas such as design, buying, sustainability, production, distribution, IT, HR, online sales, expansion, shopfitting and finance. Some positions – such as project manager, controller and area manager – exist within multiple functions and in most countries.

H&M believes in having an open, inclusive workplace where human rights are respected and colleagues treat each other with integrity, respect, humbleness and dignity. Living according to H&M’s values goes without saying.

DIVERSITY AND EQUALITY

Diversity and equality have long been priorities in H&M’s daily work throughout the company. Diversity helps H&M attract, recruit and retain employees with the right skills.

Teamwork is one of H&M’s values and forms an important part of the company’s culture, and this is also reflected in leadership. It is important to encourage employees to use their initiative and have the courage to take on new challenges. Leadership at H&M is therefore all about inspiring people, delegating, providing feedback, motivating, and leading by setting a good example.

GOOD WORKING RELATIONS

H&M’s business is based on great respect for the individual, which covers many aspects – from fair pay, reasonable working hours and the freedom to join trade unions, to equal

More than
116,000
employees
worldwide.

Opposite page
Colleagues together
at H&M in the So
Ouest shopping
mall in Levallois,
a suburb of Paris.

opportunities for everyone to grow and develop within the company. Being a good employer is particularly important in those countries where laws and regulations fall short of H&M’s own standards and requirements. H&M believes in open doors and allowing people to express their opinions freely. Any employee can discuss all work-related matters directly with her or his managers.

H&M employees have the right to conclude collective agreements. The company always strives to maintain good relations with both employees and the workers’ organisations and trade unions that represent them.

H&M CONTINUES TO GROW

Today more than 116,000 people work at H&M and numbers are growing rapidly. In 2013 alone more than 12,000 people net joined the Group. The Group’s expansion is rapid and long-term. In 2014 the Group’s growth plans include 375 new stores net, the addition of new countries and expansion of online sales into more markets. As a result, substantial recruitment will continue in many countries and for many different roles.

H&M believes in people’s ability to use their own initiative. For the employees, this means great opportunities for personal growth.



“This is my dream job”

For Patrice Migeon, the world is his workplace. As a member of H&M’s global HR team he helps coordinate recruitment and training of employees in new markets.

“This is my dream job. I get to go to places I never thought I would experience, and I meet people from different backgrounds and see them develop together,” says Patrice Migeon, who lives in Paris but divides his time between Europe, Asia and Australia.

The journey towards his dream job began 17 years ago. A former English teacher with an interest in fashion, Patrice was 33 years old and working in a French menswear store. H&M had 11 markets at the time. France was about to become the twelfth, and the company was looking for staff for its first Paris store that was to open on the Rue de Rivoli in 1998.

“I saw the job advertisement in the newspaper – a full-page ad with a big fashion picture. It said something along the lines of ‘We are from Sweden’ and a bit about the positions they were looking to fill, but nothing about required qualifications or anything. Instead the words were about H&M’s values – I’d never seen anything like it. It was a job ad that spoke to people,” remembers Patrice. Despite having never set foot in an H&M store, he decided: “That’ll be my next employer – and my last”.

Patrice became H&M’s very first employee in France. After a few months’ training and work experience in the neighbouring country of Belgium he helped open the store on the

Rue de Rivoli, where initially he was in charge of the children’s department. Before long he had tried out working in all the departments, and shortly thereafter he was put in charge of the whole store, which was rapidly joined by others. Then, when Patrice had been working in two stores as a manager, his manager asked whether he wanted to take on a more HR-related role.

“I’ve always been interested in people, and I had after all worked as

Above Patrice Migeon visiting Stockholm. **Below** Tokyo, where Patrice helped recruit new employees for H&M’s first store in Japan in 2008.

At H&M the focus is on who you are, not on job titles.



a teacher, but it was so long ago and I was surprised that anyone remembered. At the start H&M was my opportunity to work in larger fashion stores with more departments. I wasn’t aiming to be in HR, but now I had the chance to combine fashion and training.”

H&M expanded quickly in France and the need for recruitment grew.

“In the early days we doubled the number of stores every season. We came up with VIP events and other new ways of constantly attracting new employees. We didn’t work according to any set guidelines – we just did what we felt needed to be done. But France is a big market and eventually, of course, we had to create some structure in the organisation. I took on more responsibility and my role became clearer.”

Patrice’s commitment was noticed. When H&M moved into the US in 2000 he helped recruit employees in New York, and some time later was asked by the then head of HR whether he wanted to pass on his experience at a global level.

“I said yes and no. Obviously I wanted to do it, but I asked if I could make up my mind later – we had so much to do in France and I wasn’t prepared to leave the team there. By the time I said I was happy to do it, they said that H&M would soon be opening stores in China and asked whether I could go there.”

Ten days later Patrice was on a plane to Hong Kong. “At the outset the idea was that I would split my time fifty-fifty between China and France, but China took up almost all my time.”

Later it was time to recruit in Japan, H&M’s next market; since then, Patrice has helped to structure HR work in 12 new markets.

“My role has grown along with the company. At H&M the focus is on who you are, not on job titles or qualifications. I’ve always been open and alert to what’s going on around me and people have invited me to try new things.”

To Patrice, the most rewarding aspect of his job is giving people new opportunities.

“It’s amazing. But sometimes I don’t really understand how we get it to work – how all of us from such widely differing cultures and backgrounds are able to develop together and work towards the same goals. I think it must be the shared values. They’re people-centred and that’s why they’re universal.”

Certainly the company is business-driven, says Patrice. “But it’s the people who are the heart of H&M, and the values are the link that connects us.”

The H&M spirit – strong shared values

The strong values summarised in the H&M spirit represent one of the most important keys to successful long-term development. The H&M spirit is based on fundamental respect for the individual and a belief in people's ability to use their own initiative. This spirit has existed ever since the very first store opened in 1947 and it permeates the entire company.

The H&M spirit serves as guidance for the way that everyone in the Group works together. The concepts of being flexible, humble and

having a respectful and listening approach are interwoven into H&M's common values, creating a workplace with effective decision-making where colleagues work together at a fast pace and can rely on each other's knowledge and capabilities. At H&M shared values help generate energy and commitment, resulting in an open, creative and dynamic workplace where teamwork is the key to success and employees can grow together, both professionally and personally. Together the values form a culture that makes H&M unique.

We believe in people

We are one team | Entrepreneurial spirit

Straightforward and open-minded

Constant improvement

Keep it simple | Cost-consciousness



H&M INCENTIVE PROGRAM – FOR EVERYONE AT H&M

H&M's employees are the key to its success. To show appreciation for and acknowledge employees' daily and long-term commitment, H&M has established the H&M Incentive Program (HIP). HIP allows employees who have worked within the Group for at least five years (regardless of

salary or role, or whether they work full-time or part-time) to share in the increase in company profits, and until 2021 to share a gift donated by the Persson family – H&M shares worth around SEK 1 billion. This gift is being distributed in stages each year until 2021.

As a general rule, funds will begin to be paid out no earlier than the age of 62. However, it will also be possible for payments to be made after ten years of employment – but no earlier than 2021. Rules on pay-outs may vary in some countries due to local legislation.

Read more about H&M's employees at hm.com, where you'll also find more information on work areas, training, the incentive programme, benefits and H&M as an employer.

— EXPANSION —

Expansion worldwide

H&M continues to grow through new stores and online sales.
The company is expanding in existing markets and into new countries,
through all its brands and through new concepts.



H&M is growing rapidly and in 2013 the pace was stepped up even further. Stores opened in the best locations in established markets and in new countries. The expansion of online shopping continued as well, including the successful launch of H&M's online store in the US – an important milestone in a long-term global rollout.

With more than 3,200 stores in 53 markets, H&M has a strong global presence.

New stores opened in 2013 average out at more than one per day and a net total of 356 new stores were added within the Group. The most new stores opened in China (read more on pages 44–45), followed by the US.

For the third year in a row H&M opened stores in five new countries: Chile, Lithuania, Serbia, Estonia and, via franchise, Indonesia. The response was equally positive everywhere. The flagship store in Santiago de Chile – situated in the best location in the Costanera Center shopping mall – is not only the first H&M store in South America, but also the first in the southern hemisphere. Already on opening day, thousands of fashion enthusiasts queued up to shop at H&M.

THE NEW BRANDS EXPAND

The Group also expanded through Cheap Monday, COS, Monki, Weekday and the very latest fashion brand & Other Stories, launched in spring 2013. Having had an amazing reception from customers, & Other Stories already has eight stores in seven European cities. COS is also growing rapidly. Since the brand's launch in 2007 more than 85 stores have been opened in 19 countries.



H&M is growing fast and is always to be found at the best location. In 2013 the first stores in the southern hemisphere opened.

Opposite page

H&M's online store opened in the US in August 2013.

Above, from top Re-opening of H&M at Oxford Circus in London. **Left, from top** H&M's first stores in Tallinn, Estonia and Vilnius, Lithuania. **Right** H&M's flagship store on Via del Corso in Rome opened in autumn 2013.

Each brand within the Group has its own identity that customers recognise in each store. This also applies to the H&M stores, with their many concepts – such as H&M Home, the home interiors concept now available in more and more countries, and the sports concept H&M Sport, which was expanded, updated and re-launched at the beginning of 2014.

The breadth and variation within H&M provides the flexibility to use premises of varying size, design and character. H&M does not own any store premises, but instead rents these on leases of limited duration.

New stores opened in 2013 average out at more than one per day.

New openings in 2013 included flagship stores on Times Square in New York, Via del Corso in Rome and Shinsaibashi-suji in Osaka.

Opening of new stores around the world is also accompanied by frequent updates to existing stores. The store environment is continually developed to offer customers an even better shopping experience at all times. Along with the appealing signage, styling and presentation of the products, the shop fittings help convey the right feel in the stores and put the focus on the collections. Finding more sustainable shop fitting solutions is another goal.

GLOBAL ROLLOUT OF ONLINE SALES

Just as the stores must be made inspiring, inviting and fashionable, customers must also be offered an inspiring shopping experience online. All the brands offer online shopping. COS, Monki, Weekday and Cheap Monday have online stores in 18 European countries, and & Other Stories collections can be purchased online in ten European countries.

H&M's online store is at hm.com, one of the most visited fashion websites in the world. The store is interactive, easy to navigate and fully mobile-adapted. H&M offers online shopping in



Above H&M's new fashion brand & Other Stories opened the first store in London on 8 March 2013. **Below, left** COS on Via della Spada in Florence, Italy. **Below** H&M in Tallinn, Estonia. **Right** The first Monki store in Tokyo opened in 2013.





Above H&M's new flagship store at Times Square in New York opened in November 2013. Megastar and fashion icon Lady Gaga cut the ribbon together with among others H&M's chairman Stefan Persson and US country manager Daniel Kulle. **Right and below** The first H&M store in Jakarta, Indonesia, opened via franchise in autumn 2013.

H&M continues to grow in each market and is also opening stores in new countries.

nine countries, the US being the latest addition. The online store has been very positively received by customers in the US and work on the global rollout continues. For 2014, four new online markets are planned, including France.

Since its very first store opened in 1947 H&M has grown to become one of the world's leading fashion companies. Its successes and good performance over the years have put the company in a strong financial position. The company has the scope to take advantage of business opportunities as they arise.

NEW COUNTRIES IN 2014

There is great potential for continued expansion for many years to come. The target is to increase the number of stores by 10–15 percent each year. For 2014 a net total of 375 new stores are planned across all the brands.

Australia, the Philippines and India will become new H&M markets in 2014 and plans include yet another new market towards the end of the year. The first H&M store in Australia will open in Melbourne in the first half of the year. It will be a flagship store in the classical General Post Office building, one of the best business locations in Australia.

In 2015 H&M will expand to South Africa.

Expansion will also continue for the other brands of the Group as well as for H&M Home. In 2014, COS will open its first store and start online sales in the US, as well as opening its first stores in Australia, South Korea and Switzerland.

& Other Stories will open its first stores in Belgium and the Netherlands while Austria and Ireland will become new online markets.



— EXPANSION —

Increased presence in China

From Beijing to Guangzhou and from Chengdu to Shanghai, H&M shopping bags are increasingly to be sighted among the people thronging China's cities. Growth is rapid in H&M's biggest expansion market.



Asia is playing an ever-expanding role in H&M's rapid growth. In the past six years H&M has expanded into more than one new country a year in East and Southeast Asia. Today there are stores in China, Japan, South Korea, Singapore, Malaysia, Thailand and Indonesia. The greatest expansion by far is in China, which in a mere few years has grown to become one of the largest of H&M's 53 markets.

MORE THAN 200 STORES IN CHINA

H&M took its first steps into East Asia in spring 2007 when it opened stores in Hong Kong and Shanghai. The reception from customers exceeded H&M's high expectations right from the start, and since then the red H&M logo has become a common sight on the streets of China's teeming cities – from Beijing in the north to Nanning in the south, and from inland Kunming to Xiamen in the east.

"In the past few years we have increased our focus on this important growth market," says Fredrik Olsson, H&M's head of expansion, who made one of his many trips around China in autumn 2013. "We are now in all the largest cities and are continuing to expand there, while at the same time we are also opening stores in more growing cities. There are far in excess of a hundred cities in China with a population of more than one million."

In 2013 alone H&M opened 71 new stores net in China, an increase of 53 percent on 2012, taking the total number of stores in the country to 205. During the autumn large stores opened in cities such as Hohhot, Suzhou, Shenzhen, Shanghai and Taiyuan. Customers eager for their first H&M fashion experience formed long queues at all the openings.

"There is keen interest in fashion in Asia and we can see that H&M's various concepts work just as well here as elsewhere in the world."

With our wide product range we can offer everything from childrenswear to accessories and high-fashion collections,” says Fredrik.

The newer brands are also expanding in China and the rest of Asia. COS has stores in places such as Hong Kong, Beijing, Shanghai and Tianjin, as well as in Singapore. Monki, which opened its first store in Hong Kong in 2010, now also has several stores in mainland China where Cheap Monday too is present. In 2013 Japan became a new market for both Monki and Weekday.

NEW EXPERIENCES

Retail trade in China is developing fast, and customers are seeking new impressions and experiences. As in other markets, the look and shop fittings of H&M's stores are continually updated to set an inspiring scene for customers.



In a mere few years China has grown to become one of H&M's biggest markets.

Opposite page Shanghai. **Above** Fredrik Olsson, head of expansion at H&M. **Below left** Customers in Shanghai, and store opening in Hohhot. **Below** Guangzhou. **Below right** The 3,000th store of the H&M Group opened in Chengdu in autumn 2013.

In early 2013 the very first store in mainland China, situated at 645–659 Huaihai Road in Shanghai, reopened following refurbishment. The facade's high arched windows fill the store's four floors with light and new interior design intensifies the focus on H&M's complete product range for women, men, teenagers and children. Just as in other markets, most H&M stores in China also offer customers a “Garment Collecting” service for textile recycling and reuse.

STORE NO. 3,000 IN CHENGDU

One of the highlights of 2013 was the opening of H&M's full-range store in the new Fun Square shopping mall in Chengdu, one of China's biggest cities. The store became number 3,000 in the H&M Group. The opening was a “trending topic” – in other words, one of the most posted about events – on Sina Weibo, China's equivalent of Facebook. This marked another milestone in H&M's rapid global expansion:

“In 2010 we opened H&M's 2,000th store in the world in Osaka. Just three years later, in September 2013, we opened our 3,000th store – this time here in China,” says Fredrik.

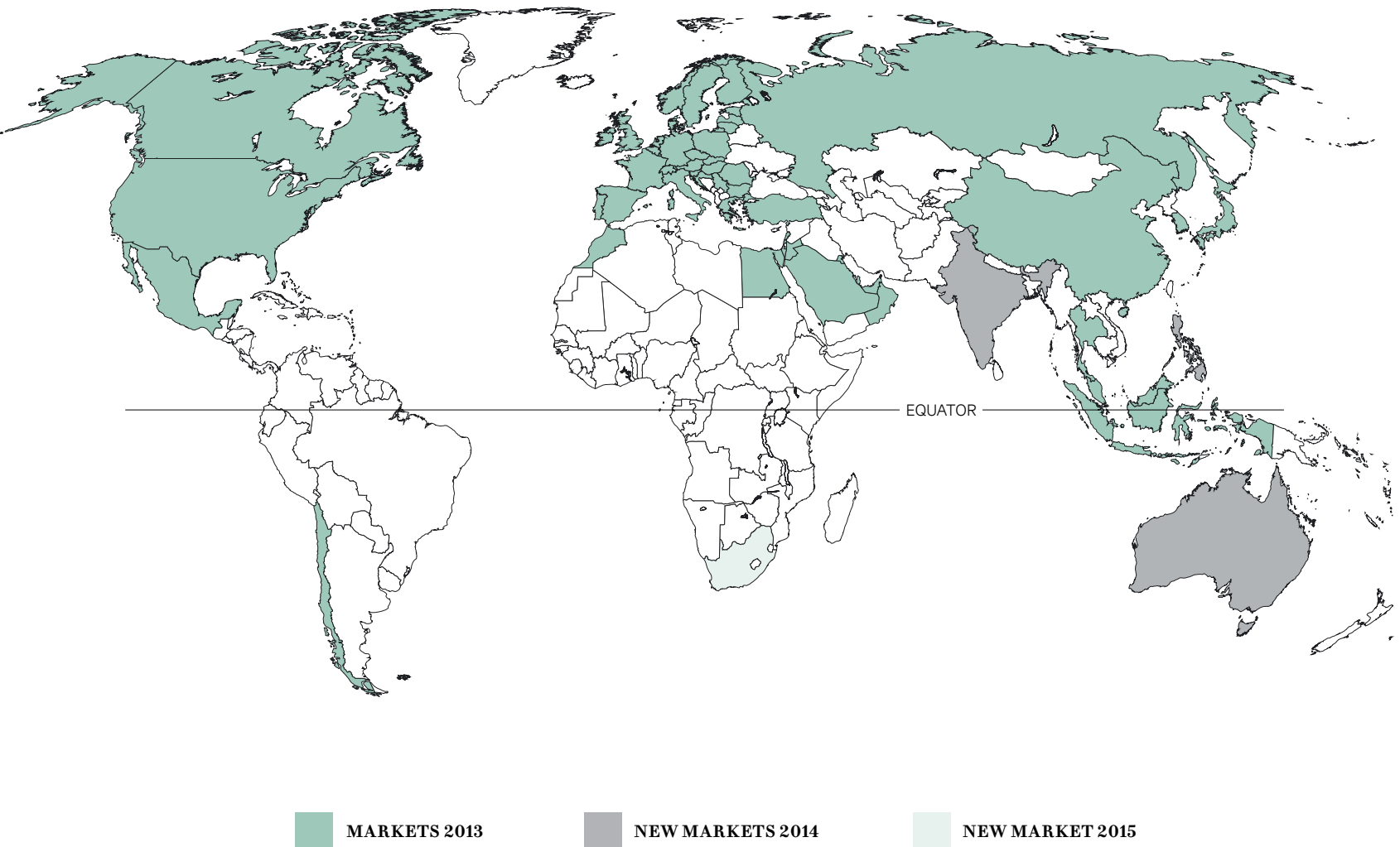
China is planned to be H&M's largest expansion market again in 2014.




— EXPANSION —

H&M in 53 markets

In 2013, 356 new stores net were opened and five new markets were added.
H&M took the step into the southern hemisphere and the potential
for continued expansion is great.



STORE OVERVIEW 2013

	<i>H&M</i>	<i>& other Stores</i>	<i>COS</i>	<i>MONKI</i>	MTWTFSS WEEKDAY		GROUP TOTAL
New stores net during the year	308	8	21	20	–	-1	356
Number of stores 30 Nov 2013	2,936	8	85	79	21	3*	3,132**

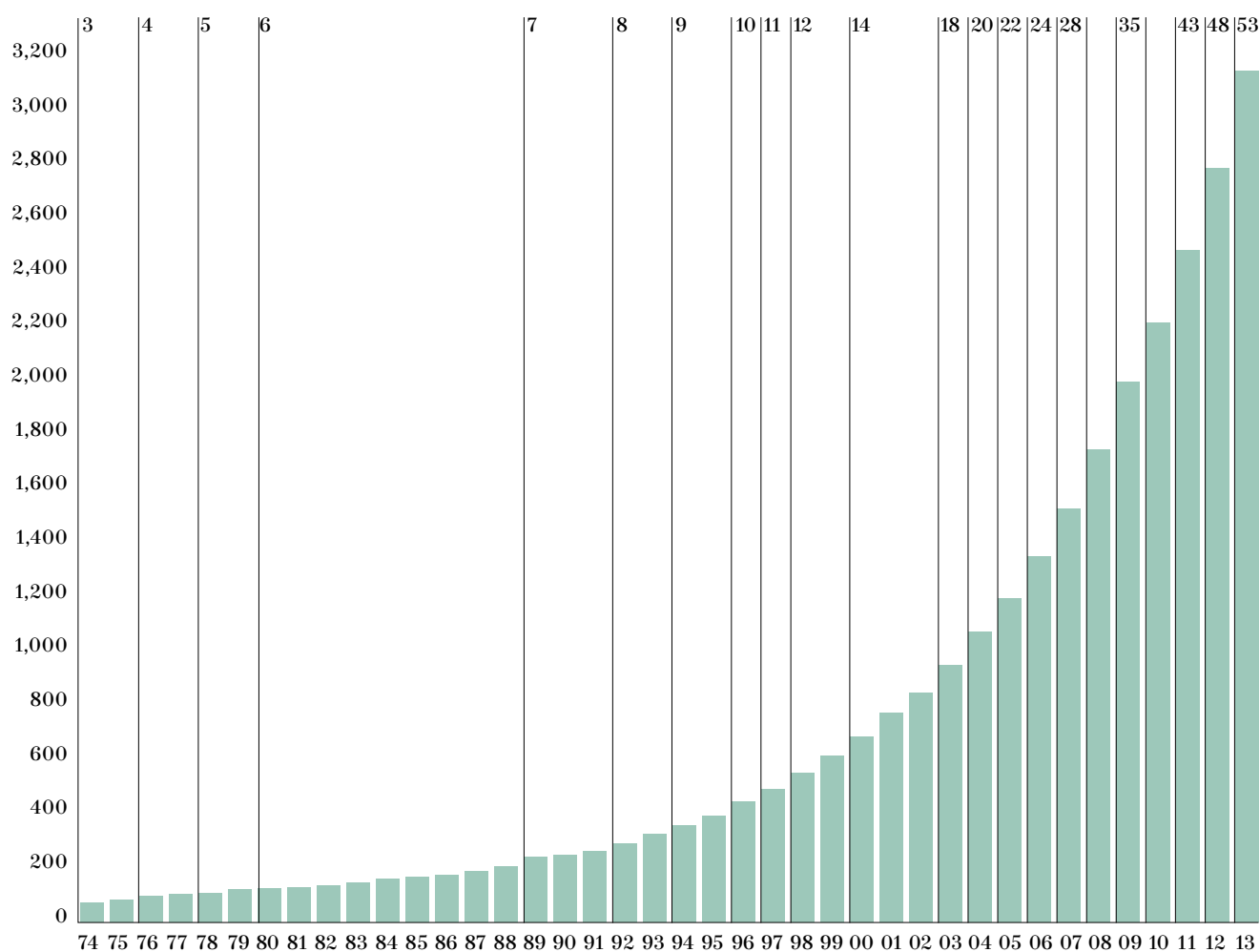
* Cheap Monday is offered mainly via 2,000 retailers in more than 35 countries.

** 110 of the Group's stores were franchise stores.

EXPANSION 1974*–2013

NUMBER OF STORES

NUMBER OF MARKETS



* Since IPO 1974.

YEAR

H&M through the years

In 1947, Erling Persson opened a store called Hennes in Västerås, Sweden. Through its business concept of offering fashion and quality at the best price, H&M has since grown into a leading global fashion company with a variety of independent brands.



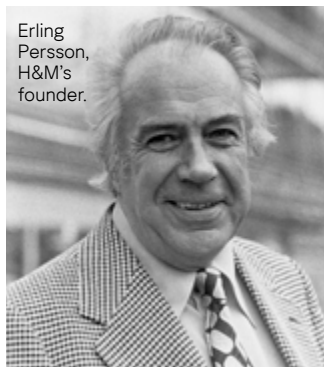
The very first store, Hennes in Västerås, Sweden.

1947

The story of H&M begins when its founder Erling Persson opens the first store in Västerås, Sweden, selling women's clothing. The store is called Hennes.

1964

The first store outside Sweden opens in Norway.



Erling Persson, H&M's founder.

1968

The name is changed to Hennes & Mauritz when Erling Persson buys the hunting and fishing store Mauritz Widforss in Stockholm and a stock of men's clothing comes with the store. This is the start of sales of men's and children's clothing.

1974

H&M is listed on the Stockholm Stock Exchange.

1976

The first store outside Scandinavia opens in London.

1980–1999

Global expansion takes off with new markets such as Germany,

the Netherlands, Belgium, Austria, Luxembourg, Finland and France.

2000

The first H&M stores in the US and Spain open in 2000. In subsequent years H&M opens in more European markets.

2004

H&M's first designer collaboration starts with Karl Lagerfeld, to be followed by many more collaborations with some of the world's biggest designers and fashion icons – including “Roberto Cavalli at H&M” in 2007. Store number 1,000 opens in France, in Boulogne-sur-Mer near Lille.



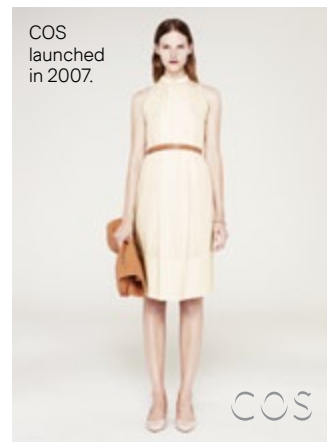
“Roberto Cavalli at H&M.”

2006

Major expansion of H&M's online sales begins in Europe. The first franchise stores open, in the Middle East.

2007–2009

The H&M Conscious Foundation is founded in 2007 as a non-profit global foundation. The first H&M stores in East Asia open in Hong Kong, Shanghai and Tokyo. New brands are added to the H&M Group: COS is launched in 2007, while in 2008 H&M acquires the fashion company FaBric Scandinavien AB and with it the brands Cheap Monday, Monki and Weekday. H&M Home is launched in 2009.



2010

The first Conscious Collection is launched, made with more sustainable materials such as organic cotton and recycled polyester. Store number 2,000 opens in Osaka, Japan.

2011

The H&M Incentive Program (HIP) for all employees starts.

H&M Conscious Collection 2010.



2013

Launch of the new fashion brand & Other Stories. H&M expands online shopping to the US. The world's 3,000th H&M store opens in Chengdu, China,



H&M Miami Beach opened in 2012.

and the first H&M stores in the southern hemisphere open in Chile and Indonesia. H&M starts "Garment Collecting", becoming the first fashion company to offer collection of clothes in stores globally for re-use or recycling.

2014

New H&M Sport is launched. Australia, the Philippines and India planned new H&M markets in 2014 as well as four new online markets, including France. H&M to open in South Africa in 2015.



& Other Stories launched in 2013.

ISABEL MARANT POUR H&M
AUTUMN 2013

Wool
Cardigan
€129



H&M
in figures
2013

Administration report

The Board of Directors and the Chief Executive Officer of H & M Hennes & Mauritz AB (publ), 556042-7220, domiciled in Stockholm, Sweden, hereby submit their annual report and consolidated accounts for the financial year 1 December 2012 to 30 November 2013, hereinafter referred to as the 2013 financial year.

BUSINESS

The H&M Group's business consists mainly of sales of clothing, accessories, footwear, cosmetics and home textiles to consumers.

The H&M Group offers fashion from the brands H&M, & Other Stories, COS, Monki, Weekday and Cheap Monday, as well as home textiles from H&M Home.

H&M's business concept is to offer fashion and quality at the best price, and its strategy is to always have the best customer offering in each individual market. Sustainability is becoming increasingly important and one element of H&M's strong offering is also that today's increasingly aware customers see H&M as the more sustainable option.

The H&M Group is a design-driven, creative and responsible fashion company guided by strong values that are based on a fundamental respect for the individual and a belief in people's ability to use their initiative. With a focus on fashion and customers, and a shared aim among employees to always exceed customers' expectations, H&M is growing all over the world while maintaining quality, sustainability and high profitability. H&M's principle for expansion is that every store must have the best commercial location. The business is operated from leased store premises, through online and catalogue sales and on a franchise basis. At the end of the financial year H&M was present in 53 markets; 13 of these were operated on a franchise basis. The total number of stores at the end of the 2013 financial year was 3,132 including 2,936 H&M stores, 85 COS stores, 79 Monki stores, 21 Weekday stores, 8 & Other Stories stores and 3 Cheap Monday stores. 110 of the Group's stores were franchise stores.

The H&M range is also offered online in Sweden, Norway, Denmark, Finland, the Netherlands, Germany, Austria, the UK and the US. H&M Home, the home textiles and decorations range, is sold through stores in 17 countries and online. COS, Monki, Weekday and Cheap Monday have 18 online markets, while & Other Stories has 10 online markets.

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

H&M does not own any factories but instead has its products manufactured by around 900 independent suppliers, mainly in Asia and Europe, through H&M's local production offices. To guarantee the quality of the products and that manufacturing takes place under good working conditions, H&M works in close cooperation with the suppliers. The production offices are responsible for ensuring that orders are placed with the right supplier, that the products are manufactured at the right price and are of good quality, and that they are delivered at the right time. The production offices also check that manufacturing takes place under good working conditions.

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

The best price is achieved by having in-house designers, buying in large purchasing volumes, having no middlemen, buying the right product from the right market, being cost-conscious in every part of the organisation and through efficient logistics.

SUSTAINABILITY

H&M is one of the world's leading fashion companies, and with that comes responsibilities. H&M invests major resources in sustainability in every part of its organisation. Efforts to bring about social improvement, to improve working conditions at the supplier stage and to minimise environmental impact are closely linked to both H&M's business concept and its strategy. H&M's vision is for all its operations to be run in a way that is economically, socially and environmentally sustainable. H&M actively pursues extensive work to bring about improvements throughout the life cycle of the clothing and in the societies where H&M operates.

Sustainability is an integral part of H&M's business and includes aspects such as the environment, ethics and human rights. H&M's sustainability strategy is to incorporate sustainability work into day-to-day routines in every area of the company's operations. This means that each of the Group's departments is itself responsible for environmental and social matters, while the central Sustainability Department provides these departments with support on sustainability matters.

H&M acts directly as a buyer and seller in a large number of markets, contributing to trade between countries. International trade plays a crucial role in countries' development by generating work opportunities and economic growth. H&M's business helps create more than a million jobs in total – largely in the textile industry in Asia, home to many of H&M's sourcing markets. H&M does not have any factories of its own; instead, items are manufactured by independent suppliers. For many countries, the jobs created by exporting clothing manufacturers spark further industrial development, leading to increased productivity and higher wages. These jobs help to lift individuals and nations out of poverty. The continued presence of long-term, responsible buyers is therefore vital to the future of these countries.

H&M is working to achieve long-term improvements for those employed by the suppliers that produce H&M products. That includes important issues such as wages, health and safety, etc. H&M's initiatives to bring about social improvements and minimise environmental impact extend beyond the supplier stage and throughout the entire garment life cycle – from responsible, efficient use of natural resources to how customers care for and recycle the garments they buy. For example, H&M's global water partnership with WWF is unique in the fashion industry; in addition, H&M's chemical restrictions are among the most extensive in the business, and its product policy describes the company's product responsibility in relation to customers, animal welfare and biodiversity.

H&M's extensive sustainability work is an investment in its offering to customers and exerts a positive influence on the company's long-term development.

Around 100 expert sustainability specialists are based at H&M's production offices, working to support continual improvement in the area of sustainability and carrying out regular audits to ensure that the suppliers are abiding by H&M's Code of Conduct. In addition to factory inspections, H&M carries on a variety of activities and projects in various focal areas such as water, chemicals and wages. Since the challenges affect the whole of the textile industry, this is often done in partnership with others.

One of H&M's aims is for all cotton used in its product range to come from more sustainable sources by 2020 at latest, and its participation in the Better Cotton Initiative (BCI) is the main means of achieving this aim. H&M is one of the driving forces behind the BCI and is a member of its steering committee. The aim of the BCI is to help improve cotton growing globally and make the growing of cotton more environmentally, socially and economically sustainable. H&M was one of the world's largest users of organic cotton in 2012.

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

EMPLOYEES

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

H&M has grown significantly since its beginnings in 1947 and at the end of the financial year had more than 116,000 employees. The average number of employees in the Group, converted into full-time positions, was 81,099 (72,276), of which 6,868 (6,220) are employed in Sweden.

Around 77 percent of the employees were women and 23 percent were men. Women held 73 percent of the positions of responsibility within the company, such as store managers and country managers.

SALES AND PROFITS

Sales including VAT increased by 9 percent, in local currencies, for the financial year. Sales in comparable units were unchanged. Converted into SEK, sales including VAT increased to SEK 150,090 m (140,948). Sales excluding VAT increased to SEK 128,562 m (120,799), an increase of 6 percent.

The Group's gross profit for the 2013 financial year amounted to SEK 76,033 m (71,871), an increase of 6 percent. This corresponds to a gross margin of 59.1 percent (59.5).

Operating profit amounted to SEK 22,168 m (21,754). This corresponds to an operating margin of 17.2 percent (18.0).

Operating profit for the 2013 financial year has been charged with depreciation amounting to SEK 4,191 m (3,705). Consolidated net interest income was SEK 358 m (531).

Profit after financial items amounted to SEK 22,526 m (22,285). The Group's profit for the 2013 financial year after applying a tax rate of 23.9 percent (24.3) was SEK 17,152 m (16,867), which represents earnings per share of SEK 10.36 (10.19), an increase of 2 percent.

The profit for the year represents a return on equity of 38.5 percent (38.4) and a return on capital employed of 50.2 percent (50.3).

COMMENTS ON PROFITS

The year ended with strong sales development. Even if several markets were characterised by the prevailing challenging macroeconomic situation and multiple price activities and markdowns in many markets, H&M continued to grow with continued high profitability and increasing market share.

The Group's online sales, which developed well during the year, are a very important complement to the stores. A completely mobile-adapted H&M shop online was launched at the beginning of the year and H&M's online sales were launched in the US in August. During the year preparations were made for a global roll-out of more online markets.

Many stores opened during 2013 – in total, a net addition of 356 new stores. At the end of the financial year the total number of stores amounted to 3,132 stores. Five new countries were added: Chile, Estonia, Lithuania and Serbia, and via franchise, Indonesia. The store in Santiago de Chile, which opened in March, was the first H&M store in South America as well as the first H&M store south of the equator.

The long-term investments continued during the year in order to build an even stronger H&M and secure future expansion. One example of this is the new fashion brand & Other Stories that has been amazingly well received since its launch in March. Building up a new brand takes time and involves major investments and costs, both initially and during roll-out.

COS is a successful example of a similar investment which, since its launch in 2007, has developed into an internationally well-established fashion brand. COS performed very well in 2013 and opened 21 new stores, corresponding to a store growth of more than 30 percent.

Examples of other long-term investments include the investments in IT and online sales and in broadening H&M's product range. Although this has meant increased costs for the Group, cost control remains good. Costs in comparable stores decreased compared to the previous year.

Profit for the year after financial items was affected by the major long-term investments mentioned above and by increased price markdowns in relation to sales compared to the previous year. In addition, compared to the previous year the result was affected by negative currency translation effects of around SEK 600 m. Currency translation effects arise when converting the various subsidiaries' results in local currencies into SEK, H&M's reporting currency.

TAX

The Swedish corporate tax rate was reduced from 26.3 percent to 22 percent as of 1 January 2013. The H&M Group's final tax rate for the financial year 2012/2013 was 23.9 percent (24.3). The Group's tax rate depends on the results of its various companies and the corporate tax rates in each country. The H&M Group's tax rate is expected to be 23–24 percent for the financial year 2013/2014.

PARENT COMPANY

The parent company's external sales amounted to SEK 35 m (30) in the 2013 financial year. Profit after financial items amounted to SEK 17,015 m (15,888). Investments in fixed assets amounted to SEK 161 m (125).

FINANCIAL POSITION AND CASH FLOW

Consolidated total assets as of 30 November 2013 amounted to SEK 65,676 m (60,173). The current operations generated a positive cash flow of SEK 23,840 m (18,900). Among other things, cash flow was affected by dividends of -15,723 (-15,723), investments in fixed assets of SEK -8,027 m (-6,827) and by changes in short-term investments with a duration of four to twelve months of SEK -311 m (3,963). The Group generated a cash flow of SEK -252 m (276) for the financial year. Liquid funds and short-term investments amounted to SEK 17,224 m (17,143).

The equity/assets ratio was 68.9 percent (72.8) and the share of risk-bearing capital was 73.0 percent (76.1).

Shareholders' equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2013 was SEK 27.34 (26.49).

LIQUIDITY MANAGEMENT

In 2013 the longest investment period was eight months. The Group does not use any derivative instruments in the interest-bearing securities market, nor does the Group trade in shares or similar instruments. See also Note 2, Financial risks.

EVENTS AFTER THE CLOSING DATE

EXPANSION AND FUTURE DEVELOPMENT

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

H&M's growth target remains intact. The growth target is to increase the number of stores by 10–15 percent per year with continued high profitability, while at the same time increasing sales in comparable units.

For full-year 2014 a net addition of around 375 new stores is planned. Most new stores during 2014 are planned to open in China and the US. There are also still great opportunities for expansion in markets such as Russia, Germany, Italy and Poland.

Australia and the Philippines will become new H&M countries in 2014. In Melbourne, Australia the first H&M store will open in the first half of 2014 and in the Philippines H&M will open its first store in Manila in autumn 2014. In addition to these countries, a couple of other new H&M markets are planned to open at the end of 2014. H&M will also open in South Africa in 2015.

The Group is continuing to work on the global roll-out of new H&M online markets. France will open online during spring/summer 2014, followed by an additional three large new online markets that are planned to open later in the year.

Expansion continues for the Group's other brands COS, Monki, Weekday, Cheap Monday and & Other Stories. H&M Home will expand into approximately 15 new countries in 2014.

COS will open its first US store during 2014 in Soho, New York, and will also open online in the US in 2014. In addition, South Korea, Australia and Switzerland will become new markets for COS in 2014 with stores in Seoul, Melbourne and Geneva.

& Other Stories will open further stores in 2014 in both existing and new markets, including Belgium and the Netherlands, which will be new markets for & Other Stories stores. Austria and Ireland will also become new online markets for & Other Stories.

In January 2014 H&M launched H&M Sport – an updated and expanded sports concept for women, men and children. The range is significantly broader than previously and consists of sportswear and accessories in specially developed functional materials suited to various kinds of sporting activities. The concept is initially being launched in H&M's existing online markets as well as in selected H&M stores in approximately 18 countries.

OTHER INFORMATION

In 2014 the H&M Group will continue to publish interim reports in accordance with IAS 34, as previously, including for the first and third quarters.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The Annual General Meeting held on 23 April 2013 adopted the following guidelines for remuneration of senior executives.

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

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

H&M is present in more than 35 countries excluding franchise markets and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as car benefits. The largest portion of the remuneration consists of the fixed salary. For information on variable components, see the section below.

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

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

Pension terms etc. for the Chief Executive Officer

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

Variable remuneration

The Chief Executive Officer, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on the fulfilment of targets in their respective areas of responsibility. The result is linked to the measurable profit targets (qualitative, quantitative, general, individual) set in advance within their respective areas of responsibility. These targets also include measurable targets for sustainability. The targets within each area of responsibility are aimed at promoting H&M's development in both the short and the long term.

For the Chief Executive Officer the maximum bonus is SEK 0.9 m net after tax. For other senior executives the maximum bonus is SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. The bonuses that are paid out must be invested entirely in shares in the company, which must be held for at least five years. Since H&M is present in markets with varying personal income tax rates, the net model

has been chosen because it is considered fair that the recipients in the different countries should be able to purchase the same number of H&M shares for the amounts that are paid out.

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

MISCELLANEOUS

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

THE BOARD'S PROPOSALS TO THE 2014 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The Board considers it of the utmost importance that senior executives are paid competitive, attractive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. The Board's proposed remuneration is in the best interests of the company and its shareholders from a growth perspective, since it helps motivate and retain talented and committed senior executives.

The Board's proposal to the 2014 AGM differs from previous guidelines because the proposal to the 2014 AGM also contains supplementary guidelines for remuneration of certain senior executives. The Board has thus divided the guidelines for remuneration of senior executives into two parts: general guidelines and supplementary guidelines.

The general guidelines, which are the same as those adopted at the 2013 AGM, are aimed at a group of around 50 senior executives and are based on performance in the previous year, linked to certain quantifiable targets set in advance. The supplementary guidelines, which are aimed at around a third of these individuals, are based on a "stay on board" principle. The supplementary guidelines do not apply to the CEO, who is included only in the general guidelines.

The Board's reasoning for the supplementary guidelines is as follows: in view of H&M's strong expansion phase and the important development phase that H&M is in, including multi-brand and multi-channel developments, the aim is to ensure that these key individuals in senior positions remain with the H&M Group during this important development phase. The proposal was prepared by the Board with the assistance of external advisors.

Below is a more detailed account of the Board's proposal to the 2014 AGM for general and supplementary guidelines:

GENERAL GUIDELINES

The term "senior executives" covers the Chief Executive Officer, other members of executive management, country managers and certain key individuals. The number of individuals covered by the term senior executives is currently around 50.

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

H&M is present in more than 40 countries excluding franchise markets and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as car benefits. The largest portion of the re-

muneration consists of the fixed salary. For information on variable components, see the section below.

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

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

Pension terms etc. for the Chief Executive Officer

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

Variable remuneration

The Chief Executive Officer, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on the fulfilment of targets in their respective areas of responsibility. The result is linked to the measurable profit targets (qualitative, quantitative, general, individual) set in advance within their respective areas of responsibility. These targets also include measurable targets for sustainability. The targets within each area of responsibility are aimed at promoting H&M's development in both the short and the long term.

For the Chief Executive Officer the maximum bonus is SEK 0.9 m net after tax. For other senior executives the maximum bonus is SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. The bonuses that are paid out must be invested entirely in shares in the company, which must be held for at least five years. Since H&M is present in markets with varying personal income tax rates, the net model has been chosen because it is considered fair that the recipients in the different countries should be able to purchase the same number of H&M shares for the amounts that are paid out.

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

SUPPLEMENTARY GUIDELINES

In addition to the general guidelines, the Board has prepared supplementary guidelines for certain managers, which are primarily aimed at executive management but also at certain other key individuals. The Chief Executive Officer is not, however, included in the supplementary guidelines. Overall, around a third of the senior executives who are covered by the above mentioned general guidelines are also covered by the supplementary guidelines.

The supplementary guidelines are based on a “stay on board” principle, which means that the remuneration linked to the supplementary guidelines is conditional upon the senior executive remaining employed within the H&M Group for at least five years. Provided that the 2014 AGM approves the programme, the five-year rule applies from and including May 2014 up to and including May 2019.

Cash remuneration in 2019

Provided that the “stay on board” principle is fulfilled, the senior executives covered by the supplementary guidelines are entitled to a cash payment after five years.

At individual level, the cash payment may vary between SEK 0.5 m and SEK 5 m net after tax; the exact distribution per individual will be decided by the CEO and the Chairman of the Board.

Cost to H&M: The total cost to the company is estimated at around SEK 30 m per year including social security costs over five years.

MISCELLANEOUS

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

ARTICLES OF ASSOCIATION, ANNUAL GENERAL MEETING

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

NUMBER OF SHARES ETC.

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

Ramsbury Invest AB holds all 194,400,000 class A shares, which represent 57.1 percent of the votes, as well as 393,049,043 class B shares, which represent 11.5 percent of the votes. This means that as of 30 November 2013, Ramsbury Invest AB represents 68.6 percent of the votes and 35.5 percent of the total number of shares. Ramsbury Invest AB is owned by Stefan Persson and family, and primarily by Stefan Persson. Karl-Johan Persson is also a shareholder in Ramsbury Invest AB.

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

CORPORATE GOVERNANCE REPORT

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

RISKS AND UNCERTAINTIES

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

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

FASHION

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

Within each concept it is important to have the right volumes and achieve the right balance in the mix between fashion basics and the latest trends. In summary, each collection must achieve the right combination of sustainable fashion and quality at the best price.

To optimise fashion precision, the Group buys items on an on-going basis throughout the season. The purchasing patterns are relatively similar in the various markets, although differences do exist. The start of the season and the duration of a season may, for example, vary from country to country. Delivery dates and product volumes for the various countries and stores are therefore adjusted accordingly.

Sustainability is an increasing important factor, and consumers are becoming more and more aware of sustainability issues. H&M works hard on sustainability matters, including the environment, ethics and human rights, and works on a daily basis to offer customers increased sustainability in all its collections.

WEATHER

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

NEGATIVE MACROECONOMIC CHANGES

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

EXTERNAL FACTORS IN PRODUCTION COUNTRIES

Uncertainties also exist concerning how external factors such as raw materials prices, transport costs and suppliers' capacity will affect buying costs for the Group's products. There are also risks associated with social tensions in certain sourcing markets, which may lead to instability at the suppliers and in manufacturing. The Group therefore needs to monitor such changes closely and have strategies in place to deal with fluctuations as advantageously as possible for both the company and external stakeholders.

CLIMATE CHANGE

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

H&M's flexible business model, which can be adapted quickly to changed circumstances.

TRADE INTERVENTION

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

FOREIGN CURRENCIES

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

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

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

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

DIVIDEND POLICY

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

Based on this policy, the Board of Directors has decided that the total dividend should equal around half of the profit after tax. In addition, the Board may propose that any surplus liquidity is also distributed.

The Board of Directors has decided to propose to the 2014 Annual General Meeting a dividend of SEK 9.50 per share (9.50), which is equivalent to 92 percent (93) of the Group's profit after tax.

PROPOSED DISTRIBUTION OF EARNINGS

At the disposal of the Annual General Meeting:	SEK 16,552,524,418
--	--------------------

The Board of Directors and the CEO propose a dividend of SEK 9.50 per share	SEK 15,723,184,000
---	--------------------

To be carried forward as retained earnings	SEK 829,340,418
	SEK 16,552,524,418

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

Group income statement

SEK M 1 DECEMBER – 30 NOVEMBER	2013	2012
Sales including VAT	150,090	140,948
Sales excluding VAT, Note 3, 4	128,562	120,799
Cost of goods sold, Note 6, 8	-52,529	-48,928
GROSS PROFIT	76,033	71,871
Selling expenses, Note 6, 8	-49,878	-46,608
Administrative expenses, Note 6, 8, 9	-3,987	-3,509
OPERATING PROFIT	22,168	21,754
Interest income	367	536
Interest expense	-9	-5
PROFIT AFTER FINANCIAL ITEMS	22,526	22,285
Tax, Note 10	-5,374	-5,418
PROFIT FOR THE YEAR	17,152	16,867
All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	10.36	10.19
Number of shares, thousands*	1,655,072	1,655,072

* Before and after dilution.

Group statement of comprehensive income

SEK M 1 DECEMBER – 30 NOVEMBER	2013	2012
PROFIT FOR THE YEAR	17,152	16,867
Other comprehensive income		
<i>Amounts reclassified or that may be reclassified subsequently to profit or loss</i>		
Translation differences	30	-1,212
Change in hedging reserves	-61	-272
Tax attributable to change in hedging reserves	15	71
OTHER COMPREHENSIVE INCOME	-16	-1,413
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	17,136	15,454
All comprehensive income for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		

Group balance sheet

SEK M 30 NOVEMBER	2013	2012	SEK M 30 NOVEMBER	2013	2012
ASSETS			EQUITY AND LIABILITIES		
FIXED ASSETS			EQUITY		
Intangible fixed assets			Share capital, Note 17	207	207
Brands, Note 11	208	255	Reserves	-1,916	-1,900
Customer relations, Note 11	58	71	Retained earnings	29,805	28,661
Leasehold rights, Note 11	591	537	Profit for the year	17,152	16,867
Capitalised expenditure, Note 11	1,355	631	TOTAL EQUITY	45,248	43,835
Goodwill, Note 11	64	64			
	2,276	1,558	LIABILITIES		
Tangible fixed assets			Long-term liabilities*		
Buildings and land, Note 12	814	805	Provisions for pensions, Note 18	309	377
Equipment, tools, fixtures and fittings, Note 12	21,372	18,326	Deferred tax liabilities, Note 10	2,722	1,951
	22,186	19,131		3,031	2,328
Long-term receivables	659	628	Current liabilities**		
Deferred tax receivables, Note 10	1,367	1,624	Accounts payable	4,870	4,234
			Tax liabilities	797	–
TOTAL FIXED ASSETS	26,488	22,941	Other liabilities	3,360	2,765
			Accrued expenses and prepaid income, Note 20	8,370	7,011
CURRENT ASSETS				17,397	14,010
Stock-in-trade	16,695	15,213	TOTAL LIABILITIES	20,428	16,338
Current receivables					
Accounts receivable	3,107	2,207	TOTAL EQUITY AND LIABILITIES	65,676	60,173
Tax receivables	–	477			
Other receivables	907	1,056	Pledged assets and contingent liabilities, Note 22	–	–
Prepaid expenses, Note 13	1,255	1,136			
	5,269	4,876			
Short-term investments, Note 14	3,306	2,995			
Liquid funds, Note 15	13,918	14,148			
TOTAL CURRENT ASSETS	39,188	37,232			
TOTAL ASSETS	65,676	60,173			

* Only provisions for pensions are interest-bearing.

** No current liabilities are interest-bearing.

Group changes in equity

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

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2012	207	-1,860	-40	45,528	43,835
Profit for the year	–	–	–	17,152	17,152
Other comprehensive income					
Translation differences	–	30	–	–	30
Change in hedging reserves					
Reported in other comprehensive income	–	–	-153	–	-153
Transfer to income statement	–	–	92	–	92
Tax attributable to hedging reserves	–	–	15	–	15
Other comprehensive income	–	30	-46	–	-16
Total comprehensive income	–	30	-46	17,152	17,136
Dividend	–	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2013	207	-1,830	-86	46,957	45,248

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2011	207	-648	161	44,384	44,104
Profit for the year	–	–	–	16,867	16,867
Other comprehensive income					
Translation differences	–	-1,212	–	–	-1,212
Change in hedging reserves					
Reported in other comprehensive income	–	–	128	–	128
Transfer to income statement	–	–	-400	–	-400
Tax attributable to hedging reserves	–	–	71	–	71
Other comprehensive income	–	-1,212	-201	–	-1,413
Total comprehensive income	–	-1,212	-201	16,867	15,454
Dividend	–	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2012	207	-1,860	-40	45,528	43,835

Group cash flow statement

SEK M		
1 DECEMBER – 30 NOVEMBER	2013	2012
Current operations		
Profit after financial items*	22,526	22,285
Provisions for pensions	-68	10
Depreciation	4,191	3,705
Tax paid	-3,059	-7,021
Cash flow from current operations before changes in working capital	23,590	18,979
Cash flow from changes in working capital		
Current receivables	-839	-8
Stock-in-trade	-1,439	-1,607
Current liabilities	2,528	1,536
CASH FLOW FROM CURRENT OPERATIONS	23,840	18,900
Investment activities		
Investment in leasehold rights	-179	-125
Investments in other intangible assets	-738	-631
Investment in buildings and land	-23	-63
Investment in equipment	-7,087	-6,008
Change in short-term investments, 4–12 months	-311	3,963
Other investments	-31	-37
CASH FLOW FROM INVESTMENT ACTIVITIES	-8,369	-2,901
Financing activities		
Dividend	-15,723	-15,723
CASH FLOW FROM FINANCING ACTIVITIES	-15,723	-15,723
CASH FLOW FOR THE YEAR	-252	276
Liquid funds at beginning of the financial year	14,148	14,319
Cash flow for the year	-252	276
Exchange rate effect	22	-447
Liquid funds at end of the financial year**	13,918	14,148

* Interest paid for the Group amounts to SEK 9 m (5). Interest received for the Group amounts to SEK 367 m (536).

** Liquid funds and short-term investments at the end of the financial year amounted to SEK 17,224 m (17,143).

Parent company income statement

SEK M		
1 DECEMBER – 30 NOVEMBER	2013	2012
External sales excluding VAT	35	30
Internal sales excluding VAT, Note 5	7,845	7,271
GROSS PROFIT	7,880	7,301
Selling expenses, Note 6, 8	-2,699	-2,788
Administrative expenses, Note 6, 8, 9	-4,259	-3,281
OPERATING PROFIT	922	1,232
Dividend from subsidiaries	16,039	14,518
Interest income	63	139
Interest expense	-9	-1
PROFIT AFTER FINANCIAL ITEMS	17,015	15,888
Year-end appropriations, Note 23	-1,020	-328
Tax, Note 10	-50	-255
PROFIT FOR THE YEAR	15,945	15,305

Parent company statement of comprehensive income

SEK M		
1 DECEMBER – 30 NOVEMBER	2013	2012
PROFIT FOR THE YEAR	15,945	15,305
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,945	15,305

Parent company balance sheet

SEK M 30 NOVEMBER	2013	2012	SEK M 30 NOVEMBER	2013	2012
ASSETS			EQUITY AND LIABILITIES		
FIXED ASSETS			EQUITY		
Tangible fixed assets			Restricted equity		
Buildings and land, Note 12	56	47	Share capital, Note 17	207	207
Equipment, tools, fixtures and fittings, Note 12	446	412	Restricted reserves	88	88
	502	459		295	295
Financial fixed assets			Non-restricted equity		
Shares and participation rights, Note 24	588	588	Retained earnings	607	1,026
Receivables from subsidiaries	733	950	Profit for the year	15,945	15,305
Long-term receivables	13	13		16,552	16,331
Deferred tax receivables, Note 10	47	51			
	1,381	1,602	TOTAL EQUITY	16,847	16,626
TOTAL FIXED ASSETS	1,883	2,061	UNTAXED RESERVES, NOTE 25	454	456
CURRENT ASSETS			LIABILITIES		
Current receivables			Long-term liabilities		
Receivables from subsidiaries	12,107	12,412	Provisions for pensions, Note 18	213	229
Tax receivable	–	300	Current liabilities*		
Other receivables	33	43	Accounts payable	424	224
Prepaid expenses, Note 13	23	25	Tax liabilities	27	–
	12,163	12,780	Other liabilities	350	324
Short-term investments, Note 14	3,304	2,993	Accrued expenses and prepaid income, Note 20	359	280
Liquid funds, Note 15	1,324	305		1,160	828
TOTAL CURRENT ASSETS	16,791	16,078	TOTAL LIABILITIES	1,373	1,057
TOTAL ASSETS	18,674	18,139	TOTAL EQUITY AND LIABILITIES	18,674	18,139
			Pledged assets	–	–
			Contingent liabilities, Note 26	12,034	8,376

* No current liabilities are interest-bearing.

Parent company changes in equity

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2012	207	88	16,331	16,626
Profit for the year	–	–	15,945	15,945
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	15,945	15,945
Dividend	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2013	207	88	16,552	16,847

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2011	207	88	16,749	17,044
Profit for the year	–	–	15,305	15,305
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	15,305	15,305
Dividend	–	–	-15,723	-15,723
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2012	207	88	16,331	16,626

Parent company cash flow statement

SEK M		
1 DECEMBER – 30 NOVEMBER	2013	2012
Current operations		
Profit after financial items*	17,015	15,888
Provisions for pensions	-16	-11
Depreciation	115	107
Tax received/paid	281	-988
Cash flow from current operations before changes in working capital	17,395	14,996
Cash flow from changes in working capital		
Current receivables	-705	-1,805
Current liabilities	307	10
CASH FLOW FROM CURRENT OPERATIONS	16,997	13,201
Investment activities		
Investment in buildings and land	-13	-6
Net investment in equipment	-148	-119
Adjustment of consideration/acquisition of subsidiaries	0	2
Change in short-term investments, 4–12 months	-311	2,045
Other investments	217	227
CASH FLOW FROM INVESTMENT ACTIVITIES	-255	2,149
Financing activities		
Dividend	-15,723	-15,723
CASH FLOW FROM FINANCING ACTIVITIES	-15,723	-15,723
CASH FLOW FOR THE YEAR	1,019	-373
Liquid funds at beginning of the financial year	305	678
Cash flow for the year	1,019	-373
Liquid funds at end of the financial year**	1,324	305

* Interest paid for the parent company amounts to SEK 9 m (1). Interest received for the parent company amounts to SEK 63 m (139).

** Liquid funds and short-term investments at the end of the financial year amounted to SEK 4,628 m (3,298).

Notes to the financial statements

CORPORATE INFORMATION

The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Stockholm, Sweden. The parent company's corporate identity number is 556042-7220. The company's shares are listed on the Stockholm stock exchange, NASDAQ OMX Stockholm AB. The Group's business consists mainly of sales of clothing, accessories, footwear, cosmetics and home textiles to consumers. The company's financial year is 1 December – 30 November. The annual report was approved for publication by the Board of Directors on 29 January 2014 and will be submitted to the Annual General Meeting for approval on 29 April 2014.

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

1. ACCOUNTING PRINCIPLES

BASIS FOR PREPARATION OF THE ACCOUNTS

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

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

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

Parent company

The parent company applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, which essentially means that IFRS is applied. In accordance with RFR 2, the parent company does not apply IAS 39 or IAS 38.57. Due to the link between reporting and taxation, year-end appropriations and untaxed reserves are reported in the parent company's financial statements.

With effect from the 2011/2012 financial year group contributions received by a parent company from subsidiaries are reported as financial income, while group contributions that a parent company provides to subsidiaries are reported as an expense.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

The accounting principles and disclosure requirements applied for 2012/2013 are the same as those applied in the previous year, with the following additions:

- IAS 1, Presentation of Financial Statements, amended – Presentation of Items of Other Comprehensive Income; this standard has been applied to the 2012/2013 financial year. The revision involved changes to the grouping of transactions reported under other comprehensive income. Items recognised in profit and loss are recognised separately from those items that are not recognised in profit

and loss. The revision does not change the actual content of other comprehensive income, only the way it is presented.

FUTURE ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

- A number of new standards, revisions and interpretations of existing standards have been published but have not yet entered into force. Of these, only the standards below are expected to have any effect on the consolidated financial statements.
- IFRS 7, Financial Instruments: Disclosures – the amendment to IFRS 7 is effective for annual periods beginning on or after 1 January 2013. Under the new disclosure requirements, information is to be provided on financial assets and financial liabilities that have been set off in the statement of financial position. Companies must also disclose financial assets and financial liabilities that are subject to master netting arrangements or similar agreements, irrespective of whether or not they have been set off. The revision is to be applied retrospectively in accordance with IAS 8.
- IFRS 9, Financial Instruments: Recognition and Measurement (not yet adopted by the EU). This standard is part of a comprehensive revision of the current standard IAS 39. The standard reduces the number of categories for measuring financial assets, such that the primary categories for recognition of financial assets and liabilities are at amortised cost (accrued acquisition cost) or at fair value through profit or loss. Certain investments in equity instruments may be recognised at fair value in the balance sheet and the change in value recognised directly in other comprehensive income, with no transfer to profit or loss for the period on disposal. In addition, new rules have been introduced for how changes in own credit spread are to be presented when liabilities are measured at fair value. The standard will be supplemented with rules on write-downs, hedge accounting and derecognition in the balance sheet. The IASB has not specified a mandatory effective date. The Group will assess the effects of the new standard once all parts of the standard are complete.
- IFRS 10, Consolidated Financial Statements and amended IAS 27, Separate Financial Statements. This standard is to be applied to annual reporting periods beginning on or after 1 January 2013, but companies within the EU may wait until annual reporting periods beginning on or after 1 January 2014 before applying the standard. IFRS 10 supersedes the section in IAS 27 dealing with the preparation of consolidated financial statements. IAS 27 will continue to cover the treatment of subsidiaries, joint ventures and associates in separate financial statements. The rules concerning the preparation of consolidated financial statements remain unchanged. Instead, the amendment concerns how a company is to go about deciding whether it has a controlling interest and thus whether a company is to be consolidated. The standard is to be applied retrospectively in accordance with IAS 8, with certain modifications, including relief from retrospective consolidation where this is not practically possible. The standard is not expected to have any effect on the Group.
- IFRS 12, Disclosure of Interests in Other Entities. This standard is to be applied to annual reporting periods beginning on or after 1 January 2013, but companies within the EU may wait until annual reporting periods beginning on or after 1 January 2014 before applying the standard. Companies with interests in subsidiaries, associates, joint arrangements and structured entities are to disclose information concerning these in accordance with IFRS 12. The objective of such disclosure is to enable users of financial statements to assess any effects of the interests on the financial statements, as well as any

risks associated with the interests concerned. The standard is to be applied retrospectively in accordance with IAS 8. The standard may possibly result in the Group disclosing additional information.

- IFRS 13, Fair Value Measurement – effective for annual periods beginning on or after 1 January 2013. The standard has been introduced in order to create a uniform definition of fair value and a uniform method of measuring fair value. The introduction of IFRS 13 also brings about amendments to IAS 34, Interim Financial Reporting, in that fair value disclosures must also be provided in interim financial reports. The standard is not expected to have any material effect on the Group.
- IAS 19, Employee Benefits – amended. This standard is to be applied to annual reporting periods beginning on or after 1 January 2013 (will be applied for the first time to the 2013/2014 financial year). The amendments involve significant changes relating to the recognition of defined benefit pension plans, such as:
 - The option of allocating actuarial gains and losses to periods as part of the “corridor” approach is eliminated; instead, these must be recognised immediately in other comprehensive income. Items attributable to the earning of defined benefit pensions, gains and losses arising on settlement of a pension liability and net financing relating to the defined benefit plan are all recognised in the income statement.
 - The amendments include further changes focusing not on recognition of pensions, but rather on other forms of employee benefits. Termination benefits are to be recognised at the following time (whichever is the earlier): when the offer of the benefit cannot be withdrawn or in accordance with IAS 37 as part of restructuring of the business, for example.
 - In the case of the Swedish entities, the actuarial calculations will also cover future payments of special payroll tax.
 - The revised standard is to be applied retrospectively in accordance with IAS 8. The standard may be applied in advance.

Until now the Group has recognised actuarial gains and losses in the income statement. Once the amended version of IAS 19 enters into force these will be recognised in other comprehensive income. For the 2012/2013 financial year this would have affected operating profit by SEK -78 m and other comprehensive income by SEK 78 m, since actuarial gains would have been reported in other comprehensive income rather than in operating profit. Total comprehensive income and equity would not have been affected.

ESTIMATES, ASSUMPTIONS AND ASSESSMENTS

The preparation of the Annual Report and consolidated accounts requires estimates and assumptions to be made, as well as judgments in the application of the accounting principles. These affect recorded amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. The actual outcome may therefore deviate from the estimates and assumptions made. It is judged that, as at 30 November 2013, there are no such estimates or assumptions made in the financial statements that involve a significant risk of any material adjustment to the values of assets and liabilities in the forthcoming financial year.

CONSOLIDATED ACCOUNTS

Basis of consolidation

The consolidated accounts cover the parent company and its subsidiaries, and have been prepared according to the acquisition method. The financial reports for the parent company and the subsidiaries included in the consolidated accounts cover the same period and have been prepared in accordance with the accounting principles that apply to the Group. Intra-group income, expenses, receivables and liabilities, as well as unrealised gains and losses, are eliminated entirely in the preparation of the consolidated accounts. All companies in which the Group owns or controls more than 50 percent of the votes, or in which the Group alone has a controlling interest through an agreement or otherwise, are consolidated as subsidiaries. Subsidiaries are included in the consolidated accounts from the date of acquisition, which is the date on which the parent company gains a controlling interest, and are included in the consolidated accounts until such date as the controlling interest ends.

Business combinations

In business combinations acquired assets and liabilities are identified and classified and are measured at fair value on the acquisition date. If the acquisition cost of the subsidiary's shares exceeds the calculated value of the net identifiable assets of the acquired company at the time of acquisition, the difference is reported as goodwill upon consolidation. If the acquisition cost is less than the finally established value of the net identifiable assets, the difference is reported directly in the income statement. The minority interest in the case of acquisitions of less than 100 percent is determined for each transaction either as a proportionate share of the fair value of net identifiable assets or at fair value. Transaction costs associated with acquisitions are not included in the acquisition cost; instead these are expensed immediately.

Translation of foreign subsidiaries

The companies making up the Group present their financial reports in the currency used in the economic environment in which the company concerned mainly operates, known as the functional currency. These reports form the basis of the consolidated accounts. The consolidated accounts are presented in Swedish kronor, which is the parent company's functional currency and reporting currency. Assets and liabilities in foreign subsidiaries are translated at the exchange rate on the closing date, while the income statement is translated at the average exchange rate for the financial year. The translation difference arising from this, and also as a result of the fact that the net investment is translated at a different exchange rate at the end of the year than at the beginning of the year, is posted directly to equity as a translation reserve, via the statement of comprehensive income. On disposal of a foreign business the accumulated translation differences in the income statement are posted together with the profit or loss on disposal.

FOREIGN CURRENCY

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

INCOME

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

MARKETING

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

INTANGIBLE FIXED ASSETS

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

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

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

TANGIBLE FIXED ASSETS

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

LEASING

Leasing agreements in which a substantial portion of the risks and benefits of ownership are retained by the lessor are classified as operational leases. Financial leases exist when the financial risks and benefits associated with the ownership of an object are essentially

transferred from the lessor to the lessee, regardless of whether the legal ownership lies with the lessor or the lessee. Assets held under financial leases are reported as fixed assets and future payment commitments are reported as liabilities in the balance sheet. As of the closing date the Group had no financial leases. Minimal leasing agreements relating to operational leases are recognised in the income statement as an expense and distributed linearly over the term of the agreement. The Group's main leases are rental agreements for premises. Variable (sales-based) rents are recognised in the same period as the corresponding sales.

FINANCIAL INSTRUMENTS

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

Financial assets and liabilities at fair value through profit or loss

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

Loans receivable and accounts receivable

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

Financial assets held to maturity

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

Other financial liabilities

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

Reporting of derivatives used for hedging purposes

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

LIQUID FUNDS

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

Hedging of forecast currency flows – cash flow hedging

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

STOCK-IN-TRADE

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

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

H&M INCENTIVE PROGRAM (HIP)

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

PENSIONS

H&M has several different plans for benefits after employment has ended. The plans are either defined benefit or defined contribution plans. Defined contribution plans are reported as an expense in the period when the employee performs the service to which the benefit relates. Defined benefit plans are assessed separately for the respective plan based on the benefits earned during the previous and current periods. The defined benefit obligations less the fair value of managed assets are reported under the heading 'Provisions for pensions'. Defined benefit plans are primarily found in Sweden. Pension obligations are

assessed annually with the help of independent actuaries according to the so-called Projected Unit Credit Method. The assessment is made using actuarial assumptions. These assumptions include such things as the discount rate, anticipated salary and pension increases as well as the expected return on managed assets. Changes in the actuarial assumptions and outcomes that deviate from the assumptions give rise to actuarial gains or losses. Such gains or losses are recognised in profits in the year they arise.

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

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2013, Alecta's consolidation ratio was 153 percent (123). The consolidation ratio is calculated as the fair value of managed assets as a percentage of the obligations calculated in accordance with Alecta's actuarial assumptions. This calculation is not in line with IAS 19.

OTHER PROVISIONS

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

INCOME TAX

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

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

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

CASH FLOW STATEMENT

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

SEGMENT REPORTING

The Group's business consists mainly of sales of clothing and cosmetics to consumers. Internal follow-up is carried out on a country by country basis by the CEO, who is the Group's chief operating decision maker. Each country is thus an operating segment. Since some countries have similar economic characteristics, these may be combined in segment reporting in accordance with IFRS 8. H&M has combined countries to form the segments Asia & Oceania, Europe and North & South America. The parent company and subsidiaries with no external sales are reported in a separate Group Functions segment. The same accounting principles are applied to segment reporting as in the consolidated accounts. Transactions between segments take place on normal commercial terms.

2. FINANCIAL RISKS

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

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

The risks relating to these instruments are primarily the following:

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

INTEREST RISK

Interest risk is the risk that the value of a financial instrument will vary due to changes in market interest rates and that changes in market interest rates may affect net profit. The Group's exposure to risk from changes in interest rates relates to liquid funds and short-term investments. The original term of the investments is a maximum of twelve months by the closing date. The financial policy permits investments of up to two years. The Group's liquid funds and short-term investments as of the closing date amounted to SEK 17,224 m (17,143). The short term means that the risk of changes in value is limited. An interest rate increase of 0.5 percentage units on this amount would increase interest income by SEK 86 m (86). A corresponding decrease in the interest rate would reduce interest income by the same amount.

CURRENCY RISK

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

Currency exposure associated with financial instruments

H&M's currency risk associated with financial instruments is mainly related to financial investments, accounts payable and derivatives.

Most of the surplus liquidity is located in Sweden and is invested in SEK, which reduces the Group's currency risk. The Group's accounts payable in foreign currencies are mainly handled in Sweden and are to a large extent hedged through forward contracts. Based on this, a change in the value of the Swedish krona of 2 percent in relation to other currencies would result in an insignificant momentary effect on profit related to the financial instrument holdings as of the closing date. A 2 percent strengthening of the Swedish krona would have a positive effect on the hedge reserve in equity of around SEK 31 m (75) before taking into account the tax effect, of which SEK 138 m relates to EUR and SEK -224 m to USD.

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

The Group's operating result for the year was affected by exchange rate differences relating to flows of goods in the amount of SEK -1 m (161).

Transaction exposure associated with commercial flows

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

Translation exposure on consolidation of units outside Sweden

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

CREDIT RISK

Investments are only permitted to be made in banks based in countries with a minimum rating of AA- (according to Standard & Poor's long-term rating) and funds are only invested in banks with a minimum rating of A- (Standard & Poor's) and A3 (Moody's). The financial policy stipulates for various ratings the maximum amount that may be invested and the term for which it may be invested. Investments are only allowed in banks defined by Standard & Poor's or Moody's as having systemic importance in the country where they are based. Under Standard & Poor's rating model the bank shall have at least

“moderate systemic importance” and under Moody’s model the bank shall have at least “one-notch uplift for systemic support”. No further investments shall be made in countries or banks which have the minimum allowed long-term rating and a negative outlook. Maximum credit exposure as of 30 November 2013 totalled SEK 21,176 m (20,136) and corresponds to the book value of liquid assets of SEK 13,918 m (14,148), short-term investments of SEK 3,306 m (2,995), accounts receivable of SEK 3,107 m (2,207) and other SEK 845 m (786). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 2,100 (2,000). Bad debts during the year from accounts receivable were insignificant.

LIQUIDITY RISK

In view of the Group’s good liquidity and good cash flow, H&M sees no need for any borrowing at the present time. The Group has no external borrowing as at the closing date.

3. SEGMENT REPORTING

	2013	2012
Asia & Oceania		
External net sales	12,844	10,191
Operating profit	1,916	1,634
Operating margin, %	14.9	16.0
Assets excluding tax receivables	5,221	3,857
Liabilities excluding tax liabilities	626	495
Investments	1,163	918
Depreciation	348	242
Europe		
External net sales	99,492	95,816
Operating profit	5,929	3,450
Operating margin, %	6.0	3.6
Assets excluding tax receivables	33,965	31,341
Liabilities excluding tax liabilities	8,404	7,370
Investments	4,034	3,776
Depreciation	2,828	2,603
North & South America		
External net sales	16,226	14,792
Operating profit	407	325
Operating margin, %	2.5	2.2
Assets excluding tax receivables	7,006	5,292
Liabilities excluding tax liabilities	2,202	1,572
Investments	1,829	1,269
Depreciation	724	601
Group Functions		
Net sales to other segments	60,448	69,047
Operating profit	13,916	16,345
Operating margin, %	23.0	23.7
Assets excluding tax receivables	18,117	17,582
Liabilities excluding tax liabilities	5,677	4,950
Investments	1,001	864
Depreciation	291	259
Eliminations		
Net sales to other segments	-60,448	-69,047
Total		
External net sales	128,562	120,799
Operating profit	22,168	21,754
Operating margin, %	17.2	18.0
Assets excluding tax receivables	64,309	58,072
Liabilities excluding tax liabilities	16,909	14,387
Investments	8,027	6,827
Depreciation	4,191	3,705

To better reflect the company’s current geographical spread, with effect from 2013 segment reporting has been split into the following three segments: Asia & Oceania, Europe and North & South America.

Comparison figures have been restated based on the new segment groupings. The parent company and other subsidiaries with no external sales are reported in a separate Group Functions segment.

The Group’s tangible fixed assets amounted to SEK 22,186 m (19,131) as of 30 November 2013. The fixed assets are largely distributed between the countries in accordance with each country’s level of sales.

4. NET SALES BY COUNTRY

	NO. OF STORES		NO. OF STORES	
	2013	30 NOV. 2013	2012	30 NOV. 2012
Sweden	6,652	177	6,625	177
Norway	4,432	114	4,495	111
Denmark	3,694	97	3,444	94
UK	8,835	245	8,968	226
Switzerland	5,108	87	5,389	82
Germany	26,206	418	25,499	406
Netherlands	5,581	130	5,608	124
Belgium	2,847	73	2,696	70
Austria	4,024	72	3,992	68
Luxembourg	346	10	374	10
Finland	2,054	58	1,987	53
France	8,893	197	8,341	182
USA	13,001	305	11,950	269
Spain	4,997	156	4,917	146
Poland	2,598	122	2,401	103
Czech Republic	691	38	642	31
Portugal	747	27	701	23
Italy	4,529	116	4,016	104
Canada	2,713	66	2,802	61
Slovenia	389	12	405	12
Ireland	524	19	495	16
Hungary	625	33	492	26
Slovakia	311	13	282	13
Greece	799	27	685	25
China	5,957	205	4,884	134
Japan	2,804	39	2,385	22
Russia	2,208	51	1,824	37
South Korea	736	16	540	11
Turkey	661	20	408	11
Romania	720	28	512	19
Croatia	564	13	488	11
Singapore	573	6	383	2
Bulgaria	220	11	101	4
Latvia	108	3	30	2
Malaysia	379	7	84	2
Mexico	280	3	40	1
Chile	232	1	–	–
Lithuania	36	2	–	–
Serbia	59	2	–	–
Estonia	35	3	–	–
Franchise	2,394	110	1,914	88
Total	128,562	3,132	120,799	2,776

5. ROYALTIES FROM GROUP COMPANIES

The parent company’s internal sales consist of royalties from Group companies of SEK 7,845 m (7,271).

6. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2013	Board, CEO, executive management, salary	Salary, other employees	Social sec. costs total	of which pens. total	Board, CEO, executive management
Sweden, parent company	76	862	423	144	10
Subsidiaries	62	16,207	3,815	184	3
Group total	138	17,069	4,238	328	13

2012	Board, CEO, executive management, salary	Salary, other employees	Social sec. costs total	of which pens. total	Board, CEO, executive management
Sweden, parent company	77	786	391	121	23
Subsidiaries	63	15,183	3,418	157	8
Group total	140	15,969	3,809	278	31

BOARD FEES

Board fees paid for the year as approved by the 2012 AGM amounted to SEK 5,025,000 (4,850,000). Board fees were paid as follows:

	SEK
Stefan Persson, Chairman	1,350,000
Mia Brunell Livfors	475,000
Anders Dahlvig	475,000
Lottie Knutson	475,000
Sussi Kvart	575,000
Bo Lundquist	625,000
Melker Schörling	475,000
Christian Sievert	575,000

The fees were paid as resolved at the 2012 Annual General Meeting. This means that the fees relate to the period until the next AGM is held, i.e. for the period 3 May 2012 to 23 April 2013. The amounts were paid out after the 2013 AGM.

As of the AGM on 23 April 2013 the Board consists of eight ordinary members elected by the AGM. There are also two employee representatives, with two deputies for these positions. Seven members of the Board are women, five are men, and four of the 12 are employed by the company.

REMUNERATION OF SENIOR EXECUTIVES

Based on resolution on guidelines adopted annually by the AGM. See Administration report pages 54–55.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

Remuneration paid to the CEO for the 2013 financial year in the form of salary and benefits amounted to SEK 12.3 m (12.0), which included variable remuneration of SEK 0 m (0). Pension benefits for the CEO are covered by a defined contribution plan and by the ITP plan. The combined pension expenses shall amount in total to 30 percent of the CEO's fixed salary. Pension expenses amounted to SEK 3.7 m (3.6). The retirement age for the CEO is 65.

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

PENSION FOR THE FORMER CEO

The former CEO retired on 1 September 2009. The total pension commitments entered as liabilities, which are based on the fact that the former CEO receives a pension for the first three years of his retirement equivalent to 65 percent of his fixed salary followed by a life-long pension equivalent to 50 percent of the same salary, amount to SEK 137.3 m (151.4). The change in the year's pension commitments entered as liabilities include actuarial gains of SEK 12.0 m (actuarial gains of SEK 3.6 m). Pension costs for the former CEO are included under "of which pensions to Board, CEO, executive management".

REMUNERATION OF OTHER MEMBERS OF THE EXECUTIVE MANAGEMENT

Remuneration paid to other members of the executive management team in the form of salary and benefits were paid in the amount of SEK 58.7 m (58.9), which included variable remuneration of SEK 2.9 m (3.6). Pension expenses relating to other members of the executive management during the year amounted to SEK 13.7 m (16.9). At year-end the other members of the executive management are 15 (16) individuals, six of whom are women.

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

During 2013 variable remuneration of SEK 2.5 m (3.9) was paid to country managers. No severance pay agreements exist within the Group other than for the CEO as described above. The terms of employment for other members of the executive management are determined by the CEO and the Chairman of the Board.

H&M INCENTIVE PROGRAM (HIP)

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

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

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

The 2013 Annual General Meeting resolved to change the basis of future contributions to HIP. The contribution is no longer linked to the increase in dividend; instead, contributions to HIP are based on 10 percent of the increase in the company's profit after tax between two consecutive financial years. The increase in profit is calculated on profit after tax before any contribution to HIP. Thus when calculating the contribution to HIP for year 2, the year's profit after tax is compared with year 1's profit after tax before any contribution to HIP. This ensures that the two years are compared on a like-for-like basis; in

other words, profit after tax before any contribution to HIP. The first contribution to HIP based on an increase in profit will be for the financial year ending on 30 November 2013.

The contribution to HIP for a financial year is expensed in the year to which it relates. Example: Profit after tax in year 1 is 100. Profit after tax in year 2 is 130. The contribution is then 3 and is expensed in year 2.

There is a ceiling that limits the size of the contribution when the increase in profit between two years may be deemed disproportionately large. The ceiling has been set at 2 percent of profit for the year after tax before any contribution to HIP.

The contributions to the foundation are to be invested in H&M shares. H&M has no other commitments beyond this.

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

For 2013 the contribution to the incentive programme was SEK 31 m (0) based on the new principle for contributions to HIP that was adopted at the 2013 AGM and is described above. The cost of this contribution was reported in the fourth quarter 2013.

7. AVERAGE NUMBER OF EMPLOYEES

	2013 Total	Male %	2012 Total	Male %
Sweden	6,868	23	6,220	23
Norway	1,784	10	1,742	10
Denmark	1,529	7	1,433	8
UK	5,789	23	5,600	23
Switzerland	1,928	14	1,931	14
Germany	13,389	19	13,141	19
Netherlands	2,482	14	2,464	14
Belgium	1,935	26	1,912	25
Austria	1,881	10	1,873	10
Luxembourg	154	12	150	13
Finland	1,074	7	980	7
France	5,646	23	5,503	23
USA	8,203	35	6,538	35
Spain	3,440	16	3,306	17
Poland	5,176	17	4,685	18
Czech Republic	709	12	588	9
Portugal	676	16	585	17
Italy	2,897	28	2,300	27
Canada	1,188	20	1,189	21
Slovenia	129	14	137	13
Ireland	293	18	264	16
Hungary	398	17	304	15
Slovakia	178	16	172	19
Greece	598	16	505	17
China	5,985	27	4,325	25
Japan	988	40	638	41
Russia	1,097	24	1,036	26
South Korea	606	31	351	30
Turkey	864	45	517	43
Romania	680	30	502	32
Croatia	295	10	264	9
Singapore	349	32	200	34
Bulgaria	221	27	102	27
Latvia	94	18	51	18
Malaysia	374	63	151	62
Mexico	130	52	32	53
Chile	191	48	-	-
Lithuania	64	13	-	-
Serbia	66	24	-	-

	2013 Total	Male %	2012 Total	Male %
Estonia	82	10	-	-
Other countries	669	68	585	67
Group total	81,099	23	72,276	22

8. DEPRECIATION

Depreciation has been calculated at 12 percent of the acquisition cost of equipment and leasehold rights, and 20 percent for computer equipment and vehicles. Depreciation on brands and customer relations relating to FaBric Scandinavien AB and capitalised development expenditure is assessed at 10 percent of the acquisition cost. Buildings are depreciated at 3 percent of their acquisition cost. No depreciation is applied to land values. Depreciation for the year is reported in the Income Statement as follows:

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Cost of goods sold	470	415	-	-
Selling expenses	3,463	3,065	-	-
Administrative expenses	258	225	115	107
Total	4,191	3,705	115	107

9. AUDIT FEES

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Ernst & Young				
Audit assignments	20.8	17.3	3.3	2.7
Auditing other than audit assignments	2.4	1.8	0.4	0.3
Tax consultancy	13.2	10.5	0.1	0.1
Other consultancy	0.9	-	-	-
Other auditors				
Audit assignments	3.6	2.8	-	-
Total	40.9	32.4	3.8	3.1

10. TAX

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<i>Tax expense (-) / tax receivable (+):</i>				
Current tax				
Tax expense for the period	-4,183	-4,660	-4	-231
Adjusted tax expense for previous years	-157	20	-42	-1
Total	-4,340	-4,640	-46	-232
Deferred tax receivable (+) / tax expense (-) in respect of				
Temporary differences in stock-in-trade	-406	226	-	-
Loss carry-forward	66	36	-	-
Pension provisions	-23	-	-4	-13
Tax allocation reserve	-505	-798	-	-
Intangible fixed assets	-138	-123	-	-
Tangible fixed assets	-95	-201	-	-
Other temporary differences	67	-37	-	-
Effect of changed tax rates	-	119	-	-10
Total	-1,034	-778	-4	-23
Total	-5,374	-5,418	-50	-255
<i>Reconciliation between current tax rate and effective tax rate:</i>				
Expected tax expense according to the Swedish tax rate of 22% (26.3%)	-4,956	-5,861	-3,519	-4,083
Effect of changed tax rate in Sweden	-33	119	-3	-10
Difference in foreign tax rates	-124	409	-	-
Non-deductible/non-taxable	-105	-97	-15	21
Other	1	-8	-	-
Tax for previous years	-157	20	-42	-1
Tax-free dividend subsidiaries	-	-	3,529	3,818
Total	-5,374	-5,418	-50	-255
Reported deferred tax receivable relates to:				
Pension provisions	85	108	47	51
Tangible fixed assets	116	61	-	-
Loss carry-forward in subsidiaries	102	36	-	-
Temporary differences in stock-in-trade	685	1,089	-	-
Hedging reserves	24	17	-	-
Other temporary differences	355	313	-	-
Total	1,367	1,624	47	51
Reported deferred tax expense relates to:				
Intangible fixed assets	362	224	-	-
Tangible fixed assets	901	751	-	-
Stock-in-trade	270	268	-	-
Tax allocation reserve	1,173	668	-	-
Hedging reserves	-	-	-	-
Other temporary differences	16	40	-	-
Total	2,722	1,951		

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

11. INTANGIBLE FIXED ASSETS

	GROUP	
	2013	2012
Brands*		
Opening acquisition cost	470	470
Acquisitions during the year	-	-
Closing acquisition cost	470	470
Opening amortisation	-215	-168
Amortisation for the year	-47	-47
Closing accumulated amortisation	-262	-215
Closing book value	208	255
Customer relations*		
Opening acquisition cost	131	131
Acquisitions during the year	-	-
Closing acquisition cost	131	131
Opening amortisation	-60	-47
Amortisation for the year	-13	-13
Closing accumulated amortisation	-73	-60
Closing book value	58	71
Leasehold rights		
Opening acquisition cost	1,094	1,074
Acquisitions during the year	179	125
Sales/disposals	-22	-45
Translation effects	34	-60
Closing acquisition cost	1,285	1,094
Opening amortisation	-557	-489
Sales/disposals	20	28
Amortisation for the year	-135	-125
Translation effects	-22	29
Closing accumulated amortisation	-694	-557
Closing book value	591	537
Capitalised expenditure**		
Opening acquisition cost	631	-
Acquisitions during the year	738	631
Closing acquisition cost	1,369	631
Opening amortisation	-	-
Amortisation for the year	-14	-
Closing accumulated amortisation	-14	-
Closing book value	1,355	631
Goodwill*		
Opening book value	64	64
Adjusted consideration/additional consideration	-	-
Closing book value	64	64

* Brands, customer relations and goodwill assets were added through the acquisition in 2008 of the company FaBric Scandinavien AB, which is a cash-generating unit. H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB at the end of November 2010.

** Capitalised expenditure refers mainly to IT-related investments. To a certain extent these were taken into use during 2013, whereupon amortisation was commenced for these parts.

A goodwill impairment test was carried out at the end of 2013. The impairment test is based on a calculation of value in use. The value in use has been assessed based on discounted cash flows according to forecasts for the next five years and with an annual growth rate of 2 percent (2) in subsequent years. A discount rate of 16 percent (16) before tax was used. The cash flows are based on H&M's business plan. The growth rate of 2 percent (2) is based on H&M's assessment of the opportunities and risks associated with the business. The discount rate is based on an average weighted capital cost that

is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and H&M is of the opinion that reasonable possible changes in the variables above would not have such a significant impact that the recovery amount would be reduced to a lower amount than the book value.

12. BUILDINGS, LAND AND EQUIPMENT

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Buildings				
Opening acquisition cost	948	959	111	105
Acquisitions during the year	11	30	1	6
Sales/disposals	–	–	–	–
Translation effects	15	-41	–	–
Closing acquisition cost	974	948	112	111
Opening depreciation	-269	-252	-67	-63
Sales/disposals	–	–	–	–
Depreciation for the year	-29	-28	-4	-4
Translation effects	-2	11	–	–
Closing accumulated depreciation	-300	-269	-71	-67
Closing book value	674	679	41	44
Projects in progress	12	–	12	–
Total closing book value	686	679	53	44
Land				
Opening acquisition cost	126	97	3	3
Acquisitions during the year	–	33	–	–
Sales/disposals	–	–	–	–
Translation effects	2	-4	–	–
Closing book value	128	126	3	3
Equipment				
Opening acquisition cost	31,304	28,085	776	700
Acquisitions during the year	7,038	6,008	112	119
Sales/disposals	-2,035	-1,678	-77	-43
Translation effects	228	-1,111	–	–
Closing acquisition cost	36,535	31,304	811	776
Opening depreciation	-12,978	-11,496	-364	-304
Sales/disposals	1,881	1,545	77	43
Depreciation for the year	-3,953	-3,492	-111	-103
Translation effects	-162	465	–	–
Closing accumulated depreciation	-15,212	-12,978	-398	-364
Closing book value	21,323	18,326	413	412
Projects in progress	49	–	33	–
Total closing book value	21,372	18,326	446	412

The Group has no significant leasing agreements other than the rental agreements for rented premises entered into on normal market terms. Rental costs for the 2013 financial year amounted to SEK 15,044 m (14,056), of which sales-based rent amounted to SEK 1,869 m (1,541).

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

Rental commitments in next 12 months	11,363 (10,080)
Rental commitments in next 2–5 years	31,446 (27,800)
Rental commitments more than five years ahead	20,831 (17,440)

13. PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Prepaid rent	905	796	10	9
Other items	350	340	13	16
Total	1,255	1,136	23	25

14. SHORT-TERM INVESTMENTS

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Short-term investments, 4–12 months	3,306	2,995	3,304	2,993
Total	3,306	2,995	3,304	2,993

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

Investments are made on market terms and the interest rates are between 1.26 and 1.72 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

15. LIQUID FUNDS

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Cash and bank balances	11,859	9,566	1,324	305
Short-term investments, 0–3 months	2,059	4,582	0	0
Total	13,918	14,148	1,324	305

Investments are made on market terms and the interest rates are between 0.07 and 5.35 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

16. FORWARD CONTRACTS

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

Currency pair	Book value and fair value		Nominal amount		Average remaining term in months	
	2013	2012	2013	2012	2013	2012
SELL/BUY						
NOK/SEK	3	-8	383	411	4	4
GBP/SEK	-51	9	1,247	1,355	4	4
DKK/SEK	-8	-2	439	440	4	4
CHF/SEK	-10	-2	496	579	4	4
EUR/SEK	-155	-48	7,925	8,434	4	4
PLN/SEK	-15	-18	380	437	4	4
USD/SEK	-4	34	1,987	2,017	4	4
CAD/SEK	3	3	294	320	4	4
JPY/SEK	16	25	495	428	4	4
HKD/SEK	0	–	47	–	6	–
SEK/USD	102	-66	11,114	9,665	2	2
SEK/EUR	20	9	1,146	1,018	2	2
Total	-99	-64	25,953	25,104		

All changes in the value of derivatives are recognised initially in equity as a hedging reserve, via Other comprehensive income. Via other comprehensive income the fair value is transferred from the hedging reserve to the income statement in conjunction with a hedged transaction taking place. As of the closing date forward contracts with a positive market value amount to SEK 186 m (158), which is reported under Other current

receivables. Forward contracts with a negative market value amount to SEK 285 m (222), which is reported under Other current liabilities. Of the outstanding forward contracts, gains of SEK 14 m were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 113 m is included in the hedging reserve in equity.

Regarding measurement see Note 19.

17. SHARE CAPITAL

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

H & M Hennes & Mauritz AB effected bonus issues in the years 1983, 1984, 1985 and 1986, at which times so-called scrips were issued in accordance with the Companies Act effective at that time. A number of bonus share rights have not yet been received for exchange. In accordance with an announcement in June 2009, the corresponding bonus

shares were sold on the market in June 2010. The holders of the bonus share rights then have a further four years in which to withdraw their share of the proceeds less the costs of the reminder and sale. The proceeds of the sale in 2010, which total SEK 48 m after costs have been deducted, are therefore being reported as a short-term liability until 30 June 2014. Any of these proceeds for which no valid claim is made will accrue to the company and thereby increase equity.

The Group's managed capital consists of shareholders' equity. The Group's goal with respect to managing capital is to enable good growth to continue and to be prepared to exploit business opportunities. It is essential that the company's expansion, as in the past, is able to proceed with a continued high degree of financial strength and continued freedom of action. In view of this, the Board of Directors has established a dividend policy whereby the dividend should equal around half of the profit for the year after tax. In addition, the Board may propose that any surplus liquidity is also distributed. H&M meets the capital requirements set out in the Swedish Companies Act. There are no other external capital requirements.

18. PROVISION FOR PENSIONS

	GROUP			PARENT COMPANY		
	2013	2012	2011	2013	2012	2011
Capitalised value of defined benefit obligations	993	989	951	239	256	271
Fair value of managed assets	-684	-612	-574	-26	-27	-31
Provision for pension obligations recorded in the balance sheet	309	377	377	213	229	240
Opening balance, 1 December	377	377	257	229	240	223
Adjustment of opening balance*	-	-	64	-	-	-
Adjusted opening balance	377	377	321	229	240	223
Reported pension expenses, net	-11	61	120	-6	7	33
Premiums paid	-41	-40	-43	0	-2	-1
Pensions paid out	-16	-21	-21	-10	-16	-15
Recorded amount of defined benefit obligations, 30 November	309	377	377	213	229	240

* The 2011 change in the capitalised value of defined benefit obligations and the fair value of managed assets was mainly due to the fact that up to and including 2010 the pension plan in Switzerland had been reported as a defined contribution plan. With effect from the 2011 financial year this is reported in accordance with the rules for defined benefit plans. Had the plan been reported in accordance with these rules in 2010, the commitment would have amounted to SEK 64 m. This effect, adjusted by deferred tax, was recognised in 2011 as an adjustment of opening shareholders' equity.

The amounts recorded as pension expenses include the following items:

Expenses for service during the current year	47	45	55	4	3	5
Interest expense	22	25	29	8	9	8
Expected return on managed assets	-12	-14	-19	-1	-1	-1
Actuarial gains (-) and losses (+)	-78	16	51	-17	-4	21
Reductions/adjustments gains (-) and losses (+)	0	-3	0	0	0	0
Recognised past service cost	10	-2	0	0	0	0
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	0	-6	4	-	-	-
Reported pension expenses, net	-11	61	120	-6	7	33

The cost of defined contribution pension plans amounts to SEK 327 m (279).

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

Discount rate	2.59%	2.30%	2.77%	3.00%	3.00%	3.25%
Expected return on managed assets	2.32%	1.66%	1.73%	2.00%	2.00%	2.25%
Future salary increases	2.59%	2.60%	2.72%	5.00%	5.00%	5.00%
Future pension increases (inflation)	0.79%	0.80%	0.83%	2.00%	2.00%	2.00%

19. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

2013	Loans receivable and accounts receivable	Financial assets held to maturity	Derivatives for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	659	–	–	659
Accounts receivable	3,107	–	–	–	3,107
Other receivables	–	–	186	–	186
Short-term investments	–	3,306	–	–	3,306
Liquid funds	11,859	2,059	–	–	13,918
Total financial assets	14,966	6,024	186	–	21,176
Accounts payable	–	–	–	4,870	4,870
Other liabilities	–	–	285	–	285
Total financial liabilities	–	–	285	4,870	5,155

2012	Loans receivable and accounts receivable	Financial assets held to maturity	Derivatives for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	628	–	–	628
Accounts receivable	2,207	–	–	–	2,207
Other receivables	–	–	158	–	158
Short-term investments	–	2,995	–	–	2,995
Liquid funds	9,566	4,582	–	–	14,148
Total financial assets	11,773	8,205	158	–	20,136
Accounts payable	–	–	–	4,234	4,234
Other liabilities	–	–	222	–	222
Total financial liabilities	–	–	222	4,234	4,456

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

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

20. ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Holiday pay liability	837	744	116	92
Social security costs	586	481	101	86
Payroll liability	589	615	29	24
Costs relating to premises	3,710	2,869	9	0
Other accrued overheads	2,648	2,302	104	78
Total	8,370	7,011	359	280

21. RELATED PARTY DISCLOSURES

Ramsbury Invest AB, which is owned by Stefan Persson and family, is the parent company of H & M Hennes & Mauritz AB. The H&M Group leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52, Drottninggatan 56 and Drottninggatan 57 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö, Amagertorv 23 in Copenhagen, Oxford Circus and Regent Street in London, Kaufinger Strasse in Munich, Via del Corso and Via Tomacelli in Rome and, since January 2008, premises for H&M's head office in Stockholm. Rent is paid at market rates and totalled SEK 305 m (256) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 12.3 m (12.0), which included variable remuneration of SEK 0 m (0), for work carried out during the 2013 financial year as CEO of H & M Hennes & Mauritz AB.

22. CONTINGENT LIABILITIES

The Group is sometimes involved in various types of disputes, but it is assessed that no current disputes will have any significant impact on the Group's results.

23. APPROPRIATIONS

	PARENT COMPANY	
	2013	2012
Group contributions provided	-1,022	–
Depreciation in excess of plan	2	-23
Provision for tax allocation reserve	–	-305
Total	-1,020	-328

24. PARTICIPATIONS IN GROUP COMPANIES

All Group companies are wholly-owned.

2013	Corporate ID number	No. of shares	Book value	Domicile
Parent company shareholdings				
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	0.1	Stockholm
H & M Online AB	556023-1663	1,150	0.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International B.V.		40	0.1	Netherlands
H & M India Private Ltd		8,650,000	12.5	India
H & M Hennes & Mauritz Japan KK		99	11.7	Japan
FaBric Scandinavien AB	556663-8522	1,380	560.7	Tranås
H & M Hennes & Mauritz International AB	556782-4890	1,000	0.1	Stockholm
H & M Fashion AB	556922-7878	50,000	0.1	Stockholm
Total			588.5	

2013	Corporate ID number	Domicile
Subsidiaries' holdings		
H & M Hennes & Mauritz AS		Norway
H & M Hennes & Mauritz A/S		Denmark
H & M Hennes & Mauritz Ltd		UK
H & M Hennes & Mauritz SA		Switzerland
H & M Hennes & Mauritz B.V. & Co. KG		Germany
Impuls GmbH		Germany
H & M Hennes & Mauritz Logistics AB Co. KG		Germany
H & M Hennes & Mauritz online shop AB & Co. KG		Germany
& Other Stories AB & Co. KG		Germany
H & M Hennes & Mauritz Holding B.V.		Netherlands
H & M Hennes & Mauritz Netherlands B.V.		Netherlands
H & M Hennes & Mauritz Management B.V.		Netherlands
H & M Hennes & Mauritz Belgium NV		Belgium
H & M Hennes & Mauritz Logistics GBC NV		Belgium
H & M Hennes & Mauritz GesmbH		Austria
H & M Hennes & Mauritz Oy		Finland
H & M Hennes & Mauritz SARL		France
H & M Hennes & Mauritz Logistics GBC		France
H & M Hennes & Mauritz LP		USA
Hennes & Mauritz SL		Spain
H & M Hennes & Mauritz sp. z.o.o.		Poland
H & M Hennes & Mauritz Logistics sp. z.o.o.		Poland
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic
Hennes & Mauritz Lda		Portugal
H & M Hennes & Mauritz S.r.l.		Italy
H & M Hennes & Mauritz Inc.		Canada
H & M Hennes & Mauritz d.o.o.		Slovenia
H & M Hennes & Mauritz Ltd		Ireland
H & M Hennes & Mauritz Kft		Hungary
H & M Hennes & Mauritz (Far East) Ltd		Hong Kong
Puls Trading Far East Ltd		Hong Kong
H & M Hennes & Mauritz Holding Asia Ltd		Hong Kong
H & M Hennes & Mauritz Ltd		Hong Kong
Hennes & Mauritz (Shanghai) Commercial Ltd Co		China
H & M Hennes & Mauritz (Shanghai) Trading Ltd Co		China
H & M Hennes & Mauritz (Shanghai) Garment Company Ltd		China
H & M Hennes & Mauritz SK s.r.o.		Slovakia
H & M Hennes & Mauritz A.E.		Greece
H & M Hennes & Mauritz LLC		Russia
H & M Hennes & Mauritz TR Tekstil ltd sirketi		Turkey
H & M Hennes & Mauritz Ltd		South Korea
H & M Hennes & Mauritz SRL		Romania
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia
H & M Hennes & Mauritz PTE Ltd		Singapore
H & M Hennes & Mauritz EOOD		Bulgaria
Weekday Brands AB	556675-8438	Sweden
FaBric Sales AB & Co. KG Germany		Germany
FaBric Sales Hong Kong Limited		Hong Kong

2013	Domicile
H & M Hennes & Mauritz S.A de C.V.	Mexico
H & M Hennes & Mauritz Management S.A de C.V.	Mexico
H & M Hennes & Mauritz Servicios S.A de C.V.	Mexico
H & M Hennes & Mauritz Support S.A de C.V.	Mexico
H & M Hennes & Mauritz SIA	Latvia
H & M Retail SDN BHD	Malaysia
H & M Hennes & Mauritz SpA	Chile
H & M Hennes & Mauritz OÜ	Estonia
H & M Hennes & Mauritz UAB	Lithuania
H & M Hennes & Mauritz d.o.o.	Serbia
H & M Hennes & Mauritz Proprietary Limited	South Africa
H & M Hennes & Mauritz Pty Ltd	Australia

25. UNTAXED RESERVES

	PARENT COMPANY	
	2013	2012
Depreciation in excess of plan	149	151
Tax allocation reserve	305	305
Total	454	456

26. CONTINGENT LIABILITIES

	PARENT COMPANY	
	2013	2012
Parent company's lease guarantees	12,034	8,376
Total	12,034	8,376

27. KEY RATIO DEFINITIONS

Return on equity

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

Return on capital employed

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

Share of risk-bearing capital

Shareholders' equity plus deferred tax liability in relation to the balance sheet total.

Equity/assets ratio

Shareholders' equity in relation to the balance sheet total.

Equity per share

Shareholders' equity divided by number of shares.

P/E ratio

Price per share divided by earnings per share.

Comparable units

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

Signing of the Annual Report

The undersigned hereby provide an assurance that the Annual Report and consolidated accounts have been drawn up in accordance with IFRS international accounting standards, as adopted by the EU, with good accounting practice, and that they provide a true and fair view of the Group's and the parent company's position and earnings, and

also that the Administration Report provides a true and fair view of the development of the Group's and the parent company's business, position and earnings, and also describe the significant risks and uncertainties faced by the companies making up the Group.

Stockholm, 29 January 2014

STEFAN PERSSON
Chairman of the Board

ANDERS DAHLVIG
Board member

LOTTIE KNUTSON
Board member

SUSSI KVART
Board member

BO LUNDQUIST
Board member

MELKER SCHÖRLING
Board member

CHRISTIAN SIEVERT
Board member

MARIE BJÖRSTEDT
Board member

MARGARETA WELINDER
Board member

KARL-JOHAN PERSSON
Chief Executive Officer

Our audit report was submitted on 29 January 2014

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of H & M Hennes & Mauritz AB for the financial year 1 December 2012 to 30 November 2013 on pages 52–80.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the annual accounts and the consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers the aspects of internal control that are relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive Officer, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 30 November 2013 and of its financial performance and its cash flows for the year in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 30 November 2013 and of its financial performance and cash flows for the year in accordance with International Financial

Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the Annual General Meeting adopts the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive Officer of H & M Hennes & Mauritz AB for the financial year from 1 December 2012 to 30 November 2013.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Chief Executive Officer are responsible for administration under the Companies Act.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Chief Executive Officer has any liability to the company. We also examined whether any member of the Board of Directors or the Chief Executive Officer has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 29 January 2014
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Corporate governance report

H&M Hennes & Mauritz AB 2013

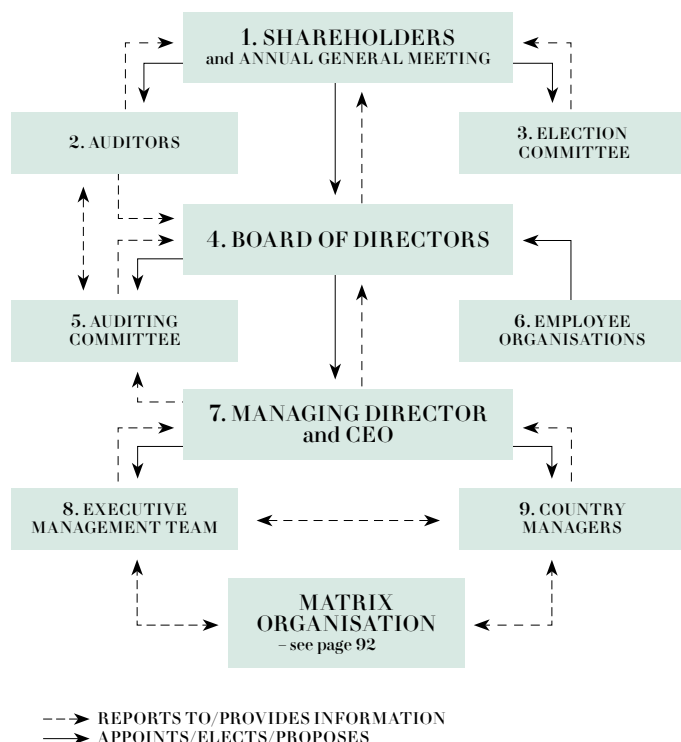
Good corporate governance is about ensuring that companies are managed as efficiently as possible in the interests of the shareholders.

H&M applies the Swedish Code of Corporate Governance (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code (available at www.bolagsstyrning.se). This corporate governance report for 2013 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. H&M has chosen to have the corporate governance report as a separate document to the Annual Report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act. The information that must be provided under Chapter 6 § 6 items 3–6 of the Annual Accounts Act is included in the administration report on page 56 of the H&M Annual Report 2013 and is therefore not included in this corporate governance report. In accordance with Chapter 6 § 9 of the Annual Accounts Act the company's auditors have issued a statement on the corporate governance report that can be found on page 94.

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

COMPLIANCE WITH REGULATIONS

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



Examples of external regulations:

- the Swedish Companies Act
- accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- NASDAQ OMX Stockholm AB Rules for Issuers
- Swedish Code of Corporate Governance

Examples of internal control documents:

- Articles of Association
- instructions and work plan for the Board of Directors and the Managing Director
- Code of Ethics
- Code of Conduct
- policies such as the Financial Policy and Communications Policy, guidelines and manuals

Deviation from section 2.4 of the Code:

- The Chairman of the Board is the chairman of the Election Committee.

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

H&M's CORPORATE GOVERNANCE STRUCTURE

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

1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

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

2. AUDITORS

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

3. ELECTION COMMITTEE

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

4. BOARD OF DIRECTORS

The task of the Board of Directors is to manage the company's affairs on behalf of the shareholders. The Board members are elected by the shareholders at the Annual General Meeting for the period up until the next AGM. According to the Articles of Association, H&M's Board is to consist of at least three but no more than twelve members elected by the AGM and no more than the same number of deputies. The Annual General Meeting determines the number of Board members.

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

5. AUDITING COMMITTEE

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

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

6. EMPLOYEE ORGANISATIONS

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

7. MANAGING DIRECTOR

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

8, 9. EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

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

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

READ MORE AT hm.com

To find out more about H&M's corporate governance visit www.hm.com/corporategovernance

Among other things, you will find here:

- Previous corporate governance reports dating back to 2005
- Articles of Association
- Information on the Election Committee, Board of Directors, Managing Director, auditors, Auditing Committee, etc.
- Information and material from previous AGMs dating back to 2004
- Risks and uncertainties

SHAREHOLDERS AND ANNUAL GENERAL MEETING

H&M's class B share is listed on NASDAQ OMX Stockholm AB. At the end of the financial year H&M had 187,096 shareholders. The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share).

H&M's largest shareholder is Stefan Persson and family, who via Ramsbury Invest AB hold all the class A shares, which represent 57.1 percent of the votes, as well as 393,049,043 class B shares, which represent 11.5 percent of the votes. This means that as of 30 November 2013, Stefan Persson and family via Ramsbury Invest AB represent 68.6 percent of the votes and 35.5 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB.

The shareholders registered directly in the register of shareholders who have given notice of their attendance on time are entitled

to participate in the meeting and vote for the total number of shares they hold. Shareholders who cannot be present in person may be represented by proxy. Notice of the general meeting is published on the company's website and also by advertisements in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Nyheter.

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

ANNUAL GENERAL MEETING 2013

H&M's Annual General Meeting 2013 was held on 23 April in Victoria-hallen at the Stockholm International Fairs in Stockholm. 1,601 shareholders were represented at the meeting, representing 85.3 percent of the votes and 69.8 percent of the capital. H&M's Board of Directors, executive management and Election Committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

- Lawyer Sven Unger was elected as chairman of the meeting.
- Balance sheets and income statements for the parent company and for the Group were adopted.
- A dividend to shareholders of SEK 9.50 per share was approved.
- The Board members and the Managing Director were discharged from liability for the 2011/2012 financial year.
- The number of Board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- All the ordinary Board members – Mia Brunell Livfors, Anders Dahlvig, Lottie Knutson, Sussi Kvart, Bo Lundquist, Stefan Persson, Melker Schörling and Christian Sievert – were re-elected by the AGM. Stefan Persson was re-elected as Chairman of the Board.
- The total Board fees were set at the same level as in the previous year. The fees paid to Board members until the next AGM were set at SEK 5,025,000 in total, to be distributed as follows: Chairman of the Board SEK 1,350,000; Board members SEK 475,000; members of the Auditing Committee an extra SEK 100,000; and the chairman of the Auditing Committee an extra SEK 150,000.
- The accounting firm Ernst & Young AB was elected as the company's auditor for a four-year period, i.e. until the end of the 2017 Annual General Meeting. Ernst & Young reported that authorised public accountant Åsa Lundvall was to be the auditor-in-charge.
- The proposed principles for the Election Committee were approved and members of the Election Committee were elected.
- The proposed guidelines for remuneration to senior executives were approved.

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

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

YEAR	% OF VOTES	% OF CAPITAL
2009	81.3	61.5
2010	81.9	62.7
2011	82.3	63.5
2012	83.3	65.7
2013	85.3	69.8

COMPOSITION AND WORK OF THE ELECTION COMMITTEE IN 2013

The members of the Election Committee were elected by the 2013 AGM. The Election Committee was elected on the basis of principles which, in brief, state that the Election Committee shall be made up of the Chairman of the Board and four other members who are nominated by the four biggest shareholders as of 28 February 2013, apart from the shareholder that the Chairman of the Board represents. The principles include a procedure for replacing any member who leaves the Election Committee before the Committee's work is complete. To read the principles in full, see the document "Account of the work of H&M's Election Committee 2013" under the heading Election Committee at www.hm.com/corporategovernance.

The composition of the Election Committee following the 2013 AGM was:

- Stefan Persson, Chairman of the Board
- Lottie Tham
- Liselott Ledin, Alecta
- Jan Andersson, Swedbank Robur Fonder
- Anders Oscarsson, AMF Pension

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

H&M deviated from Code rule 2.4 which states, among other things, that the Chairman of the Board shall not be the chairman of the Election Committee. The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee during the year on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.

The Election Committee elected at the 2012 AGM presented its proposals to the 2013 AGM. The Election Committee provided the following grounds for its proposed composition of the Board before the 2013 AGM:

"The Election Committee judges that the proposed composition of the Board of Directors accords well with section 4.1 of the Swedish Code of Corporate Governance, i.e. that the proposed Board is characterised by diversity and breadth of expertise, experience, background and equal gender distribution. It is felt that the proposed composition of the Board more than satisfies the requirements made of expertise and experience, taking into account the company's operations and future development.

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

Since the 2013 AGM the Election Committee has held two meetings at which minutes were taken and the Committee has also been in contact at other times. At the Election Committee's meeting Stefan Persson gave a verbal account of the work of the Board during the year.

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2013

NAME	YEAR ELECTED	INDEPENDENT ¹⁾	INDEPENDENT ²⁾	FEES (SEK) ³⁾	BOARD MEETINGS	AUDITING COMMITTEE	SHAREHOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, Chairman	1979	No	No	1,350,000	7/7			194,400,000 ⁴⁾ 393,049,043 ⁵⁾
Mia Brunell Livfors	2008	Yes	Yes	475,000	7/7			600 ⁶⁾
Anders Dahlvig	2010	Yes	Yes	475,000	7/7		17,510	
Lottie Knutson	2006	Yes	Yes	475,000	7/7		1,400	
Sussi Kvart	1998	Yes	Yes	575,000	7/7	4/4	4,400	1,700
Bo Lundquist	1995	Yes	Yes	625,000	7/7	4/4		100,000 ⁷⁾
Melker Schörling	1998	Yes	Yes	475,000	6/7			228,000 ⁸⁾
Christian Sievert	2010	Yes	Yes	575,000	7/7	4/4	56,000	4,000 and 600 ⁹⁾
Marie Björstedt, employee rep.	2011				7/7			
Margareta Welinder, employee rep.	2007				6/7			
Ingrid Godin, deputy employee rep.	2012				7/7			
Tina Jäderberg, deputy employee rep.	2007				7/7			

1) Independent of the company and company management in accordance with the Swedish Code of Corporate Governance.

2) Independent of major shareholders in the company in accordance with the Swedish Code of Corporate Governance.

3) Fees as resolved at the 2012 Annual General Meeting. This means that the fees related to the period until the next AGM, i.e. for the period 3 May 2012 to 23 April 2013.

The amount was paid out after the 2013 AGM.

4) Class A shares owned through Ramsbury Invest AB.

5) Class B shares owned through Ramsbury Invest AB.

6) Shares held together with related parties.

7) Shares owned through Bo Lundquist's company Caboran AB.

8) Shares owned through Melker Schörling AB.

9) Shares held by related parties: 4,000 shares held through Christian Sievert's company Whitechris Industri AB and 600 shares held by spouse.

Additional information: In addition to Christian Sievert's shareholding shown above, Christian Sievert holds 5,000 H&M shares via a pension plan.

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

The conclusion was that the Board had worked effectively over the course of the year.

The Board's work is presented so that the Election Committee can make the best possible assessment of the Board's competence and experience. The Election Committee also discussed the size of the Board, its composition, the election of a chairman for the meeting and fees for Board members. No fees were paid to the Election Committee's chairman or to any of the other members of the Election Committee.

The Election Committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2014 AGM.

ANNUAL GENERAL MEETING 2014

H&M's Annual General Meeting 2014 will be held on Tuesday 29 April 2014 in Victoriahallen at the Stockholm International Fairs in Stockholm. To register to attend the 2014 AGM, see H&M Annual Report 2013 page 98 or visit www.hm.com/agm.

INDEPENDENCE OF BOARD MEMBERS

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

THE BOARD OF DIRECTORS

Since the 2013 AGM the Board has consisted of eight ordinary members elected by the AGM and no deputies. There are also two employee representatives, with two deputies for these positions. The Board is comprised of seven women and five men. Only the employee representatives are employed by the company. Mia Brunell Livfors, a Board member elected by the AGM, has asked to be relieved of her position on the Board of H&M as of 1 January 2014 because she is to take up a position on the Board of a company in the same industry.

For facts about H&M's Board members, see pages 90–91. The Board members are to devote the time and attention that their assignment for H&M requires. New Board members receive introductory

training which, among other things, includes meetings with the heads of various functions.

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

WORK OF THE BOARD IN 2013

H&M's Board held seven Board meetings during the year, one of which was the statutory meeting. As last year, attendance by the Board members was high and the Managing Director Karl-Johan Persson attended all the meetings. The Board's attendance is reported in the table entitled "Composition of the Board of Directors and Attendance during the Year".

In brief, the Board addressed and discussed the following matters, among other things:

The company's financial situation, including sales, costs and results:

The Managing Director provided information on the performance of H&M and the new brands COS, Monki, Weekday, Cheap Monday, H&M Home and & Other Stories in different markets based on the general market situation, price levels/competition and H&M's customer offering in each market. The Board was also given information on expansion and developments in the new markets of Chile, Latvia, Serbia, Estonia and Indonesia, and on the investments in online shopping including work on the future roll-out of online shopping, the successful launch of H&M's online store in the USA in August and the fully mobile-adapted online store.

In addition, the Managing Director reported on buying work and production, the level of stock-in-trade, marketing, developments in the online business and IT, and organisational changes.

The annual report, corporate governance report and interim reports were addressed and discussed. At its January meeting the Board decided to propose a dividend for the 2012 financial year and this was presented to the Annual General Meeting in April.

The executive management team's updated risk assessment was addressed and discussed, having been dealt with previously by the Auditing Committee.

Expansion and investments: The Board reviewed the expansion strategy and targets (which increased from the previously planned 325 new stores net to 350 new stores net) and investments for the forthcoming financial year, such as new stores, new markets and the number of store refurbishments, as well as long-term investments in areas such as online shopping, IT and new brands. At the beginning of 2014 an expanded sportswear concept is being launched in H&M's online store and in selected H&M stores in 18 countries (to start with).

Sustainability: Strategic matters within the Group's sustainability work were discussed and dealt with, with reports on the results of the Group's sustainability work in areas such as compliance with the Code of Conduct, more sustainable cotton, climate impact, anti-corruption, etc.

Other: During the year the Board also discussed strategic matters such as competition, external factors and macroeconomic conditions as well as development opportunities for H&M and the other brands. Earlier in the year the Board had decided to change the basis for future allocations to the HIP incentive programme; this proposal was presented and approved at the 2013 AGM.

Accounting and auditing matters are prepared within the Auditing Committee and reported to the Board.

At each Board meeting the chairman of the Auditing Committee reports on the main points discussed at the latest meeting of the Auditing Committee.

Among other things, the Board made decisions on the following:

- The interim reports, full-year report, annual accounts and consolidated accounts, as well as the corporate governance report.
- The dividend proposal to the AGM of SEK 9.50 per share for the 2011/2012 financial year.
- Proposal to the AGM to change the basis of future allocations to the HIP incentive programme.
- Proposal to the AGM concerning guidelines for remuneration to senior executives.
- Decision to continue with the present model for monitoring internal control.
- Decisions were taken during the year on the updated work plan.

In connection with the Board's review of the proposed Annual Report for 2013, auditor Åsa Lundvall gave an account of the year's audit work.

THE AUDITING COMMITTEE IN 2013

Since the statutory meeting held in conjunction with the 2013 AGM, the Auditing Committee has consisted of chairman Bo Lundquist and members Sussi Kvart and Christian Sievert. The committee held four meetings at which minutes were taken in 2013.

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

- The company's financial reporting, including interim reports, the corporate governance report and annual report.
- Compliance with the Group's internal control and risk management processes and review of the overall risk analysis for the Group. Among other things, the following functions also gave presentations/provided information on their work: Security, Expansion, Tax and IT.
- The company's internal pricing model and tax issues.
- Whistleblowing.
- Ernst & Young provided the Committee with information on the results of its scrutiny as well as the scope of the audit.
- The Auditing Committee finds that it is clear which assignments Ernst & Young takes on in addition to auditing and sees no reason to question the accounting firm's impartiality. H&M also buys other consulting services from other accounting firms.

FINANCIAL REPORTING

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

AUDITORS

At the 2013 AGM the accounting firm Ernst & Young AB was elected as auditor of H&M for a four-year period, i.e. until the end of the 2017 Annual General Meeting. Authorised Public Accountant Åsa Lundvall from Ernst & Young holds the main responsibility for the audit.

As previously, the 2013 AGM resolved that the auditors' fees should be paid based on the invoices submitted.

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

Åsa Lundvall is an Authorised Public Accountant who conducts auditing assignments for companies such as ATG, Apoteket, DGC One, Systemair and Systembolaget.

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

AUDIT FEES (SEK M)	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Ernst & Young				
Audit assignments	20.8	17.3	3.3	2.7
Auditing other than audit assignments	2.4	1.8	0.4	0.3
Tax consultancy	13.2	10.5	0.1	0.1
Other consultancy	0.9	–	–	–
Other auditors				
Audit assignments	3.6	2.8	–	–
TOTAL	40.9	32.4	3.8	3.1

INFORMATION ABOUT THE MANAGING DIRECTOR

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

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

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

Karl-Johan Persson currently has external board assignments for, among others, the Swedish Chamber of Commerce in the UK, Ramsbury Invest AB and the GoodCause Foundation. Karl-Johan Persson is since 2013 a member of the Board of H&M Conscious Foundation. Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

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

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

In accordance with the Swedish Companies Act the 2013 Annual General Meeting adopted guidelines for remuneration of senior executives within H&M. To view the full guidelines please refer to the Administration Report on pages 54–55 of the H&M Annual Report 2013.

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

The Board decides on the Managing Director's salary according to the guidelines adopted at the 2013 AGM. The terms of employment for other senior executives are decided by the Managing Director and the Chairman of the Board. No severance pay agreements exist within H&M other than for the Managing Director.

Before the 2013 Annual General Meeting the Board carried out an assessment of the application of the guidelines for remuneration to senior executives that were adopted by the 2012 AGM. The results of this assessment were published on the website in good time before the 2013 AGM.



CHRISTIAN SIEVERT
Board member and member
of the Auditing Committee

LOTTIE KNUTSON
Board member

MELKER SCHÖRLING
Board member

MARIE BJÖRSTEDT
Employee representative

ANDERS DAHLVIG
Board member



INGRID GODIN
Deputy employee
representative

TINA JÄDERBERG
Deputy employee
representative

BO LUNDQUIST
Board member and Chairman
of the Auditing Committee

SUSI KVART
Board member and member
of the Auditing Committee

STEFAN PERSSON
Chairman of the Board

MARGARETA WELINDER
Employee representative

Facts on board members

STEFAN PERSSON

Chairman of the Board. Born 1947.

PRIMARY OCCUPATION

Chairman of the Board of H&M.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

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

EDUCATION

Stockholm University and Lund University, 1969–1973.

WORK EXPERIENCE

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

MIA BRUNELL LIVFORS*

Board member. Born 1965.

PRIMARY OCCUPATION

Managing Director and Chief Executive Officer of Investment AB Kinnevik.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the following boards since:

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

EDUCATION

Studies in Business Administration at Stockholm University.

WORK EXPERIENCE

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

ANDERS DAHLVIG

Board member. Born 1957.

PRIMARY OCCUPATION

Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

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

EDUCATION

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

WORK EXPERIENCE

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

LOTTIE KNUTSON

Board member. Born 1964.

PRIMARY OCCUPATION

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

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the board of Stena Line Holding BV.

EDUCATION

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

WORK EXPERIENCE

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

* Mia Brunell Livfors was a member of H&M's Board until 31 December 2013, having asked to be relieved of her position on the Board of H&M thereafter because she was to take up a position on the Board of a company in the same industry.

SUSSI KVART

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

PRIMARY OCCUPATION

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

OTHER SIGNIFICANT BOARD ASSIGNMENTS

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

EDUCATION

Bachelor of Laws from Lund University, 1980.

WORK EXPERIENCE

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

BO LUNDQUIST

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

PRIMARY OCCUPATION

Head of family-owned investment company. Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Chairman of the board of Smideseken and three wholly-owned subsidiaries of Smideseken, and of School of Gymnastics. Member of the boards of Teknikmagasinet AB, Ensy AB and the Anders Wall Foundation for Free Enterprise.

EDUCATION

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

WORK EXPERIENCE

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

MELKER SCHÖRLING

Board member. Born 1947.

PRIMARY OCCUPATION

Founder and owner of MSAB.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Hexpol AB and Securitas AB.

EDUCATION

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

WORK EXPERIENCE

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

CHRISTIAN SIEVERT

Board member and member of the Auditing Committee. Born 1969.

PRIMARY OCCUPATION

Partner in Segulah Advisor AB, a venture capital company.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the boards of AB Segulah and CCS Healthcare.

EDUCATION

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

WORK EXPERIENCE

1994–1997 Bain & Company, Consultant, Stockholm and San Francisco, USA.
 1997–2003 Investment Manager and Partner, Segulah.
 2003–2013 CEO/Managing Partner of Segulah.
 2013–2014 Partner, Segulah.

MARGARETA WELINDER

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

MARIE BJÖRSTEDT

Employee representative on the H&M Board since 2011. Born 1957.

INGRID GODIN

Deputy employee representative on the H&M Board since 2012. Born 1959.

TINA JÄDERBERG

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

INTERNAL CONTROL

The Board of Directors is responsible for the company's internal control, the overall aim of which is to safeguard the company's assets and thereby its shareholders' investment. Internal control and risk management are part of the Board's and the management's control and follow-up responsibilities, the purpose of which is to ensure that the business is managed in the most appropriate and effective manner possible, to ensure reliable financial reporting and to ensure compliance with applicable laws and regulations. This description of H&M's internal control and risk management for financial reporting has been prepared in accordance with Chapter 6 § 6 of the Swedish Annual Accounts Act and section 7.4 of the Swedish Code of Corporate Governance.

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

CONTROL ENVIRONMENT

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

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

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

- The division of work between the Board of Directors, the Auditing Committee and the Managing Director, which is clearly described in

the Board's formal work plan. The executive management team and the Auditing Committee report regularly to the Board based on established routines.

- The company's organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
- Values and guidelines, as well as policies, routines and manuals; of these, the Code of Ethics, the financial policy, the information policy, the communications policy and the store instructions are examples of important overall policies.
- Awareness among the employees of the importance of maintaining effective control over financial reporting.
- Control activities, checks and balances, analysis, reporting.

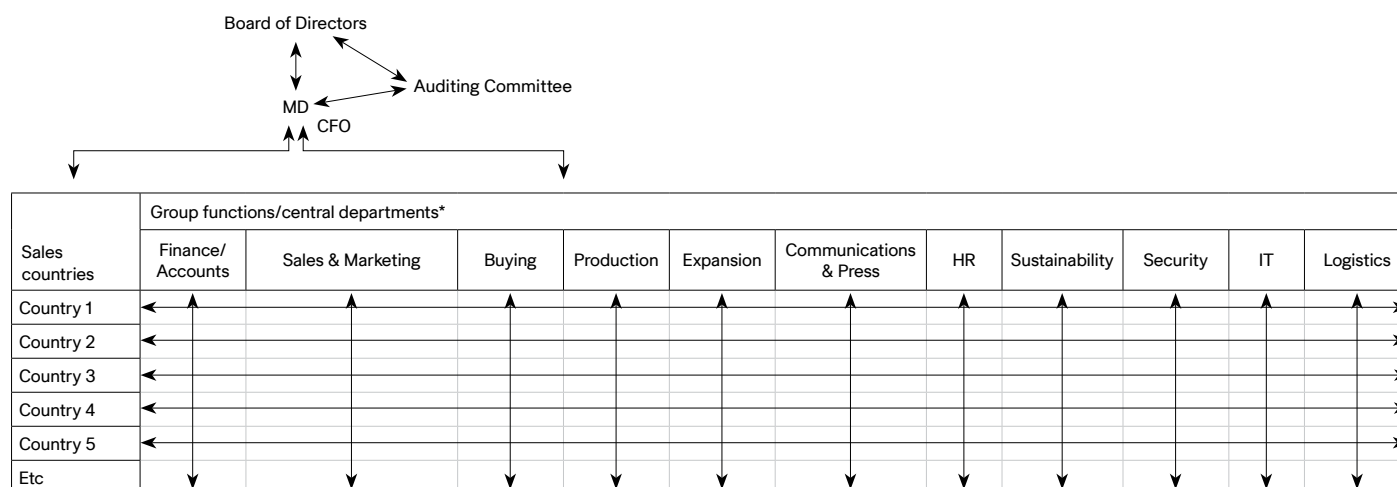
H&M has a matrix organisation, which means that those on the executive management team are responsible for the work within their function in each country being efficient (the vertical arrows). The country managers are responsible for sales and profitability in their country and thereby have overall responsibility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

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

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

RISK ASSESSMENT

H&M carries out regular risk analysis to review the risk of errors within its financial reporting. At the end of each financial year the analysis of



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

the main risks within financial reporting is updated in a group-wide document. The same is done for the analysis of operational risk.

As in previous years, at the end of 2013 each central function reviewed its main risks, assessed these and identified the systems, methods and controls that are in place to minimise any impact of the risks. This information was compiled at Group level into an overall risk analysis and was discussed with the functions with a view to gaining an overall picture of the main risks within the company.

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

For a description of H&M's operational risks see the Administration Report, pages 56–57, and for risks within financial reporting see Note 2 Financial risks on page 70 of the H&M Annual Report 2013.

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

CONTROL ACTIVITIES

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

IT systems are scrutinised regularly during the year to ensure the validity of H&M's IT systems with respect to financial reporting. In 2013 general IT controls for certain selected systems were scrutinised by an external party together with those responsible for systems and system areas within H&M.

INFORMATION AND COMMUNICATION

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

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

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

Financial communication is provided via:

- H&M's Annual Report
- Interim reports, the full-year report and monthly sales reports
- Press releases on events and circumstances that may impact the share price
- H&M's website hm.com

MONITORING

In 2013 Group functions/the central departments carried out assessments of internal control within their respective functions in the sales countries based partly on general issues and partly on department-specific issues, using the COSO model.

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

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

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

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Code of Corporate Governance, during the year the Board assessed the need for a specific internal audit department. The Board concluded that H&M's present model of monitoring internal control is the most appropriate for the company. In the Board's opinion, this model – which is applied by the central departments such as Accounts, Communications, Security, Logistics, Production, etc. in the sales countries – and the work carried out by internal shop controllers are well in line with the work performed in other companies by an internal audit department. The issue of a specific internal audit department will be reviewed again in 2014.

Stockholm, January 2014

The Board of Directors

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

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

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

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

We have reviewed the corporate governance report for the financial year 1 December 2012 to 30 November 2013 on pages 82–93. The corporate governance report is the responsibility of the Board of Directors, which is responsible for the report being prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance report based on our review.

ORIENTATION AND SCOPE OF REVIEW

Our review was conducted in accordance with RevU 16, Auditors' review of the corporate governance report. This means that we planned and performed the audit in order to obtain a reasonable degree of assurance that the corporate governance report is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

OPINION

In our opinion, a corporate governance report has been prepared and its content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 29 January 2014

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant



Sweater
€24.95

DAVID BECKHAM BODYWEAR
FOR H&M, SPRING 2014

Five year summary

1 DECEMBER - 30 NOVEMBER

THE FINANCIAL YEAR	2013	2012	2011	2010	2009
Sales including VAT, SEK m	150,090	140,948	128,810	126,966	118,697
Sales excluding VAT, SEK m	128,562	120,799	109,999	108,483	101,393
Change from previous year, %	+6	+10	+1	+7	+15
Change from previous year in local currencies, %	+9	+11	+8	+15	+4
Operating profit, SEK m	22,168	21,754	20,379	24,659	21,644
Operating margin, %	17.2	18.0	18.5	22.7	21.3
Depreciation for the year, SEK m	4,191	3,705	3,262	3,061	2,830
Profit after financial items, SEK m	22,526	22,285	20,942	25,008	22,103
Profit after tax, SEK m	17,152	16,867	15,821	18,681	16,384
Liquid funds and short-term investments, SEK m	17,224	17,143	21,277	24,858	22,025
Stock-in-trade, SEK m	16,695	15,213	13,819	11,487	10,240
Equity, SEK m	45,248	43,835	44,104	44,172	40,613
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	10.36	10.19	9.56	11.29	9.90
Shareholders' equity per share, SEK*	27.34	26.49	26.65	26.69	24.54
Cash flow from current operations per share, SEK*	14.40	11.42	10.53	13.19	10.86
Dividend per share, SEK	9.50**	9.50	9.50	9.50	8.00
Return on equity, %	38.5	38.4	35.8	44.1	42.2
Return on capital employed, %	50.2	50.3	47.1	58.7	56.7
Share of risk-bearing capital, %	73.0	76.1	74.9	76.2	78.5
Equity/assets ratio, %	68.9	72.8	73.3	74.6	74.7
Total number of stores	3,132	2,776	2,472	2,206	1,988
Average number of employees	81,099	72,276	64,874	59,440	53,476

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

** Proposed by the Board of Directors.

For definitions of key ratios, see page 79.

The H&M share

KEY RATIOS PER SHARE

	2013	2012	2011	2010	2009**
Shareholders' equity per share, SEK	27.34	26:49	26:65	26:69	24:54
Earnings per share, SEK	10.36	10:19	9:56	11:29	9:90
Change from previous year, %	+2	+7	-15	+14	+7
Dividend per share, SEK	9.50*	9:50	9:50	9:50	8:00
Market price on 30 November, SEK	278.00	215:90	214:00	237:40	206:15
P/E ratio	27	21	22	21	21

* Board's proposal.

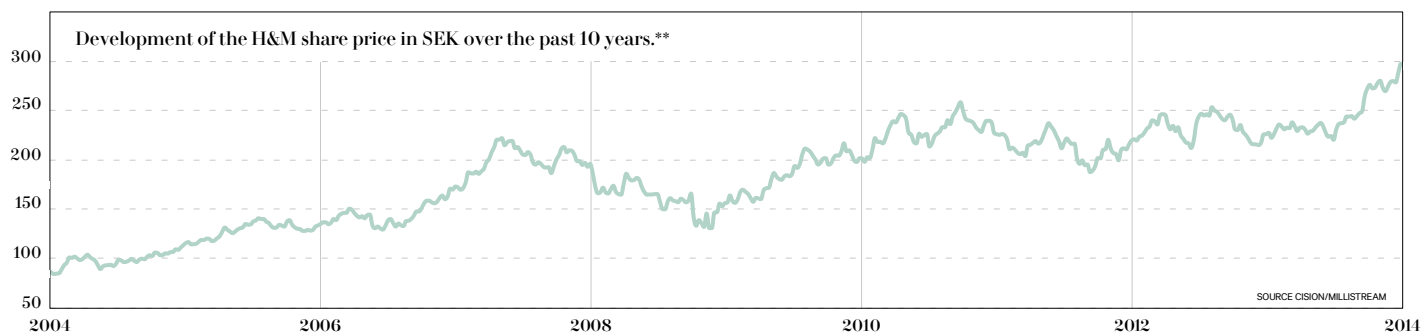
** In 2010 H&M implemented a 2-for-1 share split. The year 2009 in the table above has therefore been adjusted for the new number of shares.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2013

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1–500	144,147	77.0	22,284,895	1.3	155
501–1,000	20,690	11.0	16,438,902	1.0	795
1,001–5,000	17,594	9.4	39,119,213	2.4	2,223
5,001–10,000	2,192	1.2	16,184,108	1.0	7,383
10,001–15,000	667	0.4	8,368,759	0.5	12,547
15,001–20,000	418	0.2	7,439,523	0.4	17,798
20,001–	1,388	0.8	1,545,236,600	93.4	1,113,283
Total	187,096	100	1,655,072,000	100	8,846

MAJOR SHAREHOLDERS, 30 NOVEMBER 2013

	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
The Persson family and related companies	623,849,332	69.7	37.7
Lottie Tham and family	88,080,400	2.6	5.3
Alecta Pensionsförsäkring	62,020,000	1.8	3.7
Swedbank Robur fonder	44,805,959	1.3	2.7
AMF – Försäkring och Fonder	34,265,125	1.0	2.1
SEB Investment Management	17,585,431	0.5	1.1
Handelsbanken Fonder	16,148,511	0.5	1.0
Fjärde AP-fonden (Fourth Swedish National Pension Fund)	15,182,491	0.4	0.9
Jan Bengtsson	12,972,030	0.4	0.8
Första AP-fonden (First Swedish National Pension Fund)	12,559,370	0.4	0.8



For more information see the investor relations section at hm.com.

Contact details

HEAD OFFICE

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

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

CONTACTS

CEO Karl-Johan Persson
FINANCE Jyrki Tervonen
ACCOUNTS Anders Jonasson
BUYING Stina Westerstad
DESIGN Pernilla Wohlfahrt
SALES & MARKETING Mattias Ankarberg
PRODUCTION Karl Gunnar Fagerlin
SUSTAINABILITY Helena Helmersson
EXPANSION Fredrik Olsson

NEW BUSINESS Madeleine Persson
BRAND Anna Tillberg Pantzar
COMMUNICATIONS Kristina Stenvinkel
INVESTOR RELATIONS Nils Vinge
HUMAN RESOURCES Sanna Lindberg
IT Kjell-Olof Nilsson
LOGISTICS Jonas Guldstrand
SECURITY Cenneth Cederholm

DISTRIBUTION POLICY

H&M sends out the printed version of the annual report to shareholders who have specifically expressed an interest in receiving the printed version. The annual report is also available to read and download at hm.com.

Annual general meeting

TIME AND PLACE

The Annual General Meeting 2014 will be held at Victoriahallen, Stockholm International Fairs, Stockholm, on Tuesday 29 April at 3 p.m.

Shareholders who are registered in the share register print-out as of Wednesday 23 April 2014 and give notice of their intention to attend the AGM no later than Wednesday 23 April 2014 will be entitled to participate in the AGM.

NOMINEE SHARES

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own name in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, well in advance of 23 April 2014.

NOTICE OF ATTENDANCE

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

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

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

DIVIDEND

The Board of Directors and the CEO have decided to propose to the Annual General Meeting a dividend for 2013 of SEK 9.50 per share. The Board of Directors has proposed 5 May 2014 as the record day. With this record day, Euroclear Sweden AB (formerly VPC AB) is expected to pay the dividend on 8 May 2014. To be guaranteed dividend payment, the H&M shares must have been purchased no later than 29 April 2014.

Financial information

CALENDAR

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

27 March 2014
29 April 2014

18 June 2014
25 September 2014
29 January 2015

Three-month report
Annual General Meeting 2014, Victoriahallen, Stockholm International Fairs at 3 p.m.
Six-month report
Nine-month report
Full-year report

COVER

Amber Valetta photographed by Karim Sadli for H&M Conscious Exclusive Spring 2014.

The annual report is printed on FSC® certified paper.



A man and a woman are standing side-by-side against a bright blue sky with light clouds. The man, on the left, is wearing a black and white long-sleeved athletic top with a high collar and a zipper. The woman, on the right, is wearing a black and white long-sleeved athletic dress with a high collar and a zipper. Both pieces of clothing feature geometric patterns and contrasting colors. The woman is also wearing black shorts.

Base Layer Dress
€24.95

GO GOLD, AN EXCLUSIVE
SPORTS COLLECTION, SPRING 2014



Dress €199