

The H&M logo is displayed in a large, bold, black, stylized font. The 'H' and 'M' are connected by an ampersand, and the letters have a slightly irregular, hand-drawn appearance.

ANNUAL REPORT  
2014

Dress  
€99



Blazer  
€19.99







A full-body photograph of a man with dark hair, a beard, and extensive tattoos on both arms. He is wearing a white long-sleeved button-down shirt and dark trousers. He is standing in front of a grey, textured wall. The lighting is dramatic, coming from the side, casting shadows on his face and shirt. The text 'Shirt €19.99' is overlaid on the right side of the image.

Shirt  
€19.99



Sweater  
€19.95

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— THIS IS H&M —

# Fashion and quality at the best price

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H&M is a leading global fashion company with strong values and a clear business concept. H&M has a passion for fashion, a belief in people and a desire to always exceed customers' expectations – and to do so in a sustainable way.



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

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## CUSTOMER OFFERING

H&M makes sustainable, good-quality fashion accessible to people all over the world. With a passion for design, a focus on quality and targeted sustainability work, H&M constantly strives to have the best customer offering in each individual market – which includes giving customers the best price.

Through multiple brands and concepts H&M offers a broad and varied range of inspiring fashion that lets customers explore and develop their own personal style. H&M has collections for women, men, teenagers and children. The range also includes sportswear, underwear, shoes, accessories and cosmetics, as well as home textiles and decorations from H&M Home.

Added to this are a number of independent fashion brands, each with its own identity: COS, & Other Stories, Monki, Weekday and Cheap Monday.

## SUSTAINABLE DEVELOPMENT

H&M aims to be the more sustainable choice for today's increasingly aware customers. To this end, H&M's investments in social improvements and reduced environmental impact extend throughout the product life cycle – from responsible use of natural resources to ensuring good working conditions at suppliers' factories. Working for more sustainable cotton growing, and offering customers garment recycling globally are other examples of H&M's sustainability initiatives. Sustainability work is thoroughly integrated into the business, not only because it is an investment in the customer offering, but also because it is vital to the group's long-term growth and development.

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**H&M is  
guided by  
strong shared  
values.**

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## THE H&M SPIRIT

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

## LONG-TERM EXPANSION

H&M is growing successfully in existing markets and in new countries, with all its brands and through new concepts. The group's expansion is long-term and is taking place both via stores and online. The target is to increase the number of stores by 10–15 percent each year.

Over  
**132,000**  
employees

**3,511**  
stores

**55**  
countries

Sales including VAT  
**SEK 176.6** billion

Profit after tax  
**SEK 20** billion



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**H&M opened 379 new stores net and  
four new online markets in 2014.**

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**H&M**

**COS**

*& other Stories*

**MONKI**

**MTWTFSS  
WEEKDAY**

**CHEAP  
MONDAY**

# Committed employees are the key to our success

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Well-received collections for all our brands and rapid expansion in stores and online – 2014 was a very good year for H&M, with strong sales and profitability. We are continuing to add value for our customers and to invest for an even stronger H&M. We will open a net total of 400 new stores and nine new online markets in 2015.

2014 was a very good year for H&M, and I would like to start by thanking all our employees around the world for such fantastic teamwork. As always, we have worked hard to give our customers an even better offering. Every garment is created with great passion for fashion, a focus on quality and a continual drive to give customers even more value for money – and to do so in a sustainable way.

With well-received collections for all six of our brands and continued strong expansion both in stores and online, we continued to take market share in 2014 and strengthened our position in the market further. Over the full year our sales increased by 14 percent in local currencies and by 18 percent in Swedish kronor, to SEK 176.6 billion including VAT, in a clothing retail market that remained challenging. Profit for the year after tax increased by 17 percent to SEK 20 billion.

## THE H&M SPIRIT

Our growth enables us to welcome more and more employees all around the world; 16,000 new employees joined us in 2014, bringing the total number of people working within the H&M



Karl-Johan Persson, CEO.

group to more than 132,000. As I travel around the world it is amazing to meet all these colleagues who are so enthusiastic about H&M and what we do. Our employees and the H&M spirit, which is our shared values, are the key to our success. And this year's good profits mean that we have allocated SEK 303 million to our employee incentive programme, the H&M Incentive Program (HIP). HIP, which was started a few years ago, is for all employees of the H&M group – regardless of position, salary,

country and whether working full- or part-time – and aims to acknowledge employees' daily and long-term commitment. As we expand there are also more and more exciting career opportunities to be found globally within the group, which gives our employees great opportunities to grow and develop along with H&M.

## NEW ONLINE MARKETS

We are a company that acts for the long term and invests for the future. In 2014 we continued our long-term investments to build an even stronger H&M for the years ahead and to secure future expansion. We have invested in IT, online sales, new brands and in broadening the product range. While we are continuing these long-term investments, at the same time we can see our investments in areas such as online starting to bear fruit. In 2014 we opened our online store in a further four new large markets: France, Italy, Spain and China. These openings, combined with further improvements in the online offering in existing markets in the US and Europe, have naturally contributed to the year's good sales development. We are now rolling out H&M's

online store to nine new markets in 2015: Belgium, Bulgaria, the Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Switzerland.

## RAPID STORE EXPANSION

With a number of brands and concepts, we offer customers a wide and varied range of inspiring fashion. Today we have more than 3,500 stores in 55 countries, and we can see that our customer offering is just as popular in the big fashion metropolises as in small and medium-sized towns.

We are expanding within our target to increase the number of stores by 10–15 percent each year. In 2014 we opened a net total of 379 new stores – more than one new store a day. The retail trade is constantly developing, customers are constantly looking for something new, and we are working all the time to enhance the shopping experience for our customers. This includes opening a number of excellently located new flagship stores in cities such as Shanghai, Milan, Munich and New York – to name but a few. One of our finest stores this year opened in Melbourne in April 2014, when we expanded into Australia. The Philippines also

became a new H&M country in 2014, with the opening of our first stores in Manila in the autumn. The response from customers has been very positive in both these new markets.

In 2015 we will be opening a net total of around 400 new stores. New H&M markets planned for 2015 are Taiwan, Peru, Macau, South Africa and India. The greatest expansion will take place in existing markets where there is still great potential for us to grow further. China and the US will once again be our biggest expansion markets.

The expansion encompasses all our brands: H&M, COS, & Other Stories, Monki, Weekday and Cheap Monday. COS has performed very well since its launch in 2007 and is today an internationally established fashion brand with 114 stores in 25 countries. In 2014 alone COS expanded into six new markets. Our very latest fashion brand, & Other Stories, which was launched in 2013, has also grown quickly and already has stores in ten countries. Both & Other Stories and COS plan to open even more stores in 2015 than in 2014.

#### BROADER PRODUCT RANGE

We are also developing our customer offering by broadening H&M's product range. Early in 2014 we successfully launched H&M Sport, and in the autumn our extended shoe range was gradually launched in selected H&M stores and online. The home textiles and decorations concept H&M Home is another example of how we have broadened our product offering. H&M Home is growing at a rapid pace, and a further hundred or so H&M Home departments and ten new markets are planned for 2015.

To expand H&M's product range further, in autumn 2015 we will start the launch of H&M Beauty – a new, broad concept for make-up, body care and hair care with high quality value-for-money products in a specially produced design. Already, this year, H&M Beauty will be launched in about 900 H&M stores in around 40 markets, as well as in our online markets.

#### SUSTAINABLE DEVELOPMENT

We work continually to add value for our customers, and therefore we carry out extensive sustainability work as part of our efforts



Employees in Manila at H&M's first store in the Philippines.

## This year's good profits mean that SEK 303 million has been allocated to HIP, the incentive programme for all our employees.

towards continual improvement. Our customers should always know that when they shop with us, the products have been produced with the greatest possible consideration for people and the environment. We want to make a positive contribution to development in the world, and we want to continue to be an attractive employer for committed employees. Our sustainability work is important for our business, and is therefore fully integrated into our operations.

Examples of sustainable initiatives that we believe will make a big difference in the longer term include our work to close the loop on textile fibres. We are also collaborating with other companies to produce an industry standard for labelling garments – one that lets customers see clearly the social and environmental impact associated with a particular garment. This should then spur

us on to make even more improvements. Another example is in the textile industry in the sourcing countries, where we have a plan in place to help the parties in the labour market develop functioning structures for a fair living wage.

It is gratifying and inspiring that H&M's sustainability work has been recognised externally. Among other honours, in 2014 H&M received a Fairness Award from the Global Fairness Initiative and, for the fourth year in a row, H&M was named one of the world's most ethical companies by the Ethisphere Institute.

Visit [hm.com](http://hm.com) and read our H&M Conscious Actions Sustainability Report to find out more about our sustainability work.

#### OUTLOOK

We have great faith in what we are doing, and we have another exciting year ahead of us, with new opportunities and

challenges. External factors will always affect us; for example, since last autumn, the US dollar has strengthened significantly against most currencies, including the euro. Although the increasingly expensive US dollar will affect our sourcing costs, we will make sure that we always have the best customer offering in each individual market, in terms of fashion, quality, price and sustainability, as this is the basis of our business concept.

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

— 2014 IN BRIEF —

# Highlights of the year

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2014 was an exciting fashion year filled with new personal looks, more sustainable fashion and inspiring in-store experiences. Australia and the Philippines became new H&M markets, and the online store hm.com opened in four new countries, including China.

JANUARY



## THE NEW H&M SPORT BOOSTS FITNESS

The kick-off of the new H&M Sport in 2014 introduced a refreshed, broader range of sports fashion. H&M Sport offers fashionable sportswear in functional fabrics for the entire family and all kinds of activities.

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FEBRUARY



## H&M STUDIO AT PARIS FASHION WEEK

H&M's show at Paris Fashion Week attracted 600 attendees to the Grand Palais, with guests like Miranda Kerr, Jessica Alba and Solange Knowles viewing signature items from the H&M Studio A/W14 collection.

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FEBRUARY



## SIX NEW MARKETS FOR COS IN 2014

COS is growing fast, with six new markets in 2014: Switzerland in February, followed by the US, Portugal, South Korea, Japan and Australia. COS has 114 stores in 25 countries and shop online in 19 markets.

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FEBRUARY



## A CLOSED LOOP FOR TEXTILES

2014 saw the launch of H&M's first garments using fibres recycled from Garment Collecting, in which H&M stores worldwide accept old garments in any condition and of any brand for re-use and recycling.

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## FOUR NEW H&M ONLINE MARKETS

H&M's online store makes H&M's fashion even more accessible, and in 2014 hm.com welcomed customers in a further four new, large countries: France in March, Italy and Spain in August, and China in September.



## H&M CONSCIOUS EXCLUSIVE

H&M Conscious Exclusive is a well-crafted, innovative collection made from more sustainable materials, including organic cotton, recycled polyester, Tencel® and – new for 2014 – organic leather and organic silk.



## NEW MARKETS FOR & OTHER STORIES

The fashion brand & Other Stories has had an amazing reception since its launch in 2013. Belgium's first store came in May 2014, with the first stores in the US and the Netherlands opening in October.



## H&M OPENS IN AUSTRALIA

Australia became a new H&M market with the opening of a magnificent flagship store in the historic General Post Office building in Melbourne. Over 3,000 customers queued to shop at H&M on the opening day.



## MONKI AND CHEAP MONDAY EXPAND

All H&M's brands are growing. Malaysia was a new market for Monki in 2014 and Cheap Monday has also expanded in Asia, with stores in China. In April Cheap Monday also opened its first store in Paris.



## PARTNERSHIP IN CAMBODIA

Together with Sida, IF Metall and the ILO, H&M started a new programme in Cambodia to help bring about more collective agreements in the textile industry and improve relations in the labour market.



## H&M AND JEFF KOONS ON FIFTH AVENUE

On 17 July H&M opened a new flagship store on Fifth Avenue in New York. The opening was celebrated with a collaboration with US artist Jeff Koons – famous for works such as Yellow Balloon Dog.



## NO. 1 IN ORGANIC COTTON GLOBALLY

H&M is the world's biggest user of organic cotton, according to annual data from Textile Exchange published in July. H&M's goal is for all the cotton it uses to be from more sustainable sources by 2020.



## NEW SHOES IN EXTENDED RANGE

From sneakers to classic leather boots and sparkly pumps: in the autumn H&M began launching an extended range of footwear for women, men, teenagers and children – available in selected stores and online.



## NEW ANIMAL WELFARE POLICY

Animal welfare and the protection of animals are important to H&M. In September H&M introduced a new animal welfare policy with even more stringent production requirements for animal fibres used by H&M.



## H&M GOES TO THE PHILIPPINES

The Philippines became a new H&M market in October, with the opening of a flagship store in the SM Megamall in Manila. H&M's fashion attracted thousands of eager customers right from the opening day.



## H&M CONSCIOUS DENIM

Less water, less energy and less processing – the H&M Conscious Denim collection offered denim models with clean lines for all the family, in materials such as organic or recycled cotton and Tencel®.

OCTOBER



## BANGLADESH GOVERNMENT VISIT

CEO Karl-Johan Persson met Bangladesh's trade minister Tofail Ahmed to urge the government to regulate costs and prices in the country more effectively and to implement annual pay reviews in the textile industry.

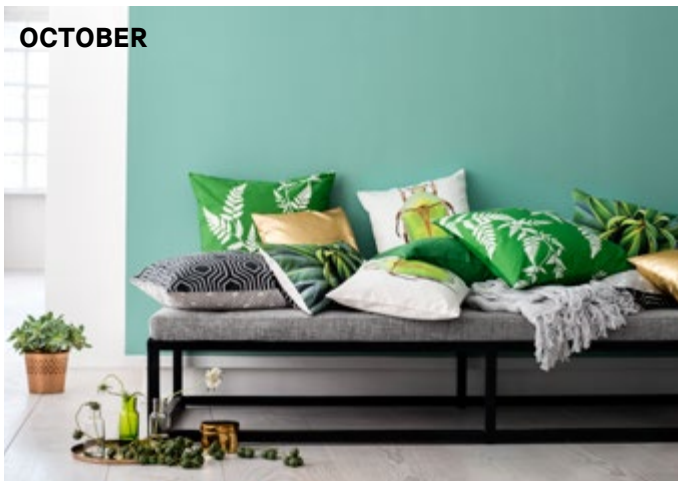
OCTOBER



## EMPOWERING WOMEN

Work by H&M and the H&M Conscious Foundation to empower women was recognised on UN Day, when H&M's chairman of the board Stefan Persson was given a Humanitarian Award.

OCTOBER



## H&M HOME TO NEW COUNTRIES

H&M Home offers home textiles and decorative objects for every room in the home, with collections enjoyed by customers the world over. In 2014 H&M Home opened in a further 63 H&M stores in 14 markets.

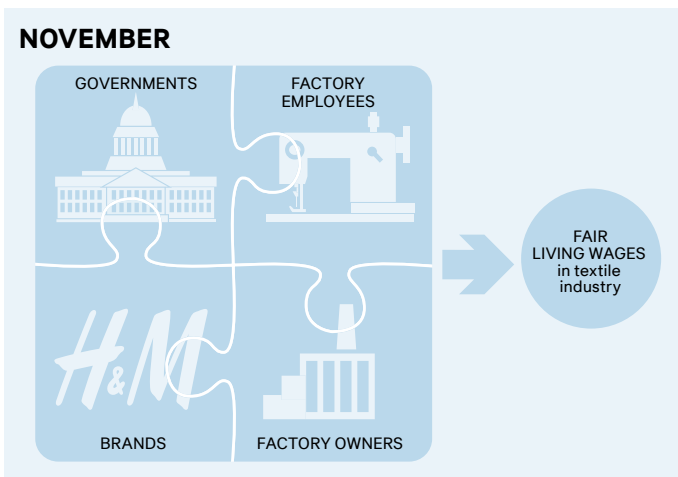
NOVEMBER



## ALEXANDER WANG X H&M

Fashion designer Alexander Wang became H&M's first US guest designer. Wang created a celebrated sports-influenced collection for H&M, with pieces that work equally well as gym gear or party outfits.

NOVEMBER



## FOCUS ON UNIQUE WAGE STRATEGY

In New York, CEO Karl-Johan Persson presented to BSR – the world's biggest sustainability conference – H&M's work and unique plan for the important issue of better wage structures in the textile industry.

NOVEMBER



## 2014 FAIRNESS AWARD GOES TO H&M

In 2014 CEO Karl-Johan Persson was honoured with a Fairness Award from the Global Fairness Initiative in Washington, which recognises efforts to increase development opportunities for poor communities.

— OUR BRANDS —

# Fashion for all

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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.



Designers, pattern makers and buyers all work together at H&M to create collections that attract customers around the world. New ideas come from influences as diverse as travel, films, art exhibitions and magazines, trade fairs and trend seminars, catwalk models and street fashion. When designing the collections the focus is on quality, best price and capturing the feel of a trend. Flexible planning and efficient logistics allow continual adaptation of the range to customers' preferences. The collections are diverse, letting customers combine pieces in unique reflections of their personal style, taste and needs, for wear 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 is manufactured under good working conditions and with minimum possible impact on the environment. The group is the world's biggest user of organic cotton, for example, and is constantly increasing its use of recycled 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 fashion brands with their own stores and their own look.

The H&M stores carry a wide variety of clothing and accessories for women, men, teenagers, children and babies. The range is constantly evolving. 2014 saw the arrival of the new H&M Sport: an updated range of fashionable sportswear in functional fabrics, for an even wider variety of activities. The garments in H&M's collections are complemented by footwear, accessories and cosmetics. Starting from autumn 2014, the footwear range is being expanded to include a greater variety of models, many in leather. Through H&M Home, H&M also offers a wide range of home textiles along with a selection of decorative items in, for example, glass, metal and wood.

The launch of & Other Stories in 2013 introduced a new and exciting fashion brand with substantial emphasis on details and fine materials. & Other Stories offers women clothes and a wide range of shoes, accessories and cosmetics to create their own looks and personal style. Cheap Monday offers denim for women and men, and young, up-to-the-minute fashion with streetwear and catwalk tones. At COS customers find both classic and modern garments in distinctive designs, while Monki's fashion is playful and personal. Weekday is a jeans-focused fashion destination with urban designs.



**H&M**

3,261 stores  
55 countries  
13 shop online countries  
[hm.com](http://hm.com)



*& other Stories*

17 stores  
10 countries  
13 shop online countries  
[stories.com](http://stories.com)



5 stores in 4 countries  
2,000 retailers in more than  
35 countries  
18 shop online countries  
[cheapmonday.com](http://cheapmonday.com)



**COS**

114 stores  
25 countries  
19 shop online countries  
[cosstores.com](http://cosstores.com)



**MONKI**

92 stores  
12 countries  
18 shop online countries  
[monki.com](http://monki.com)



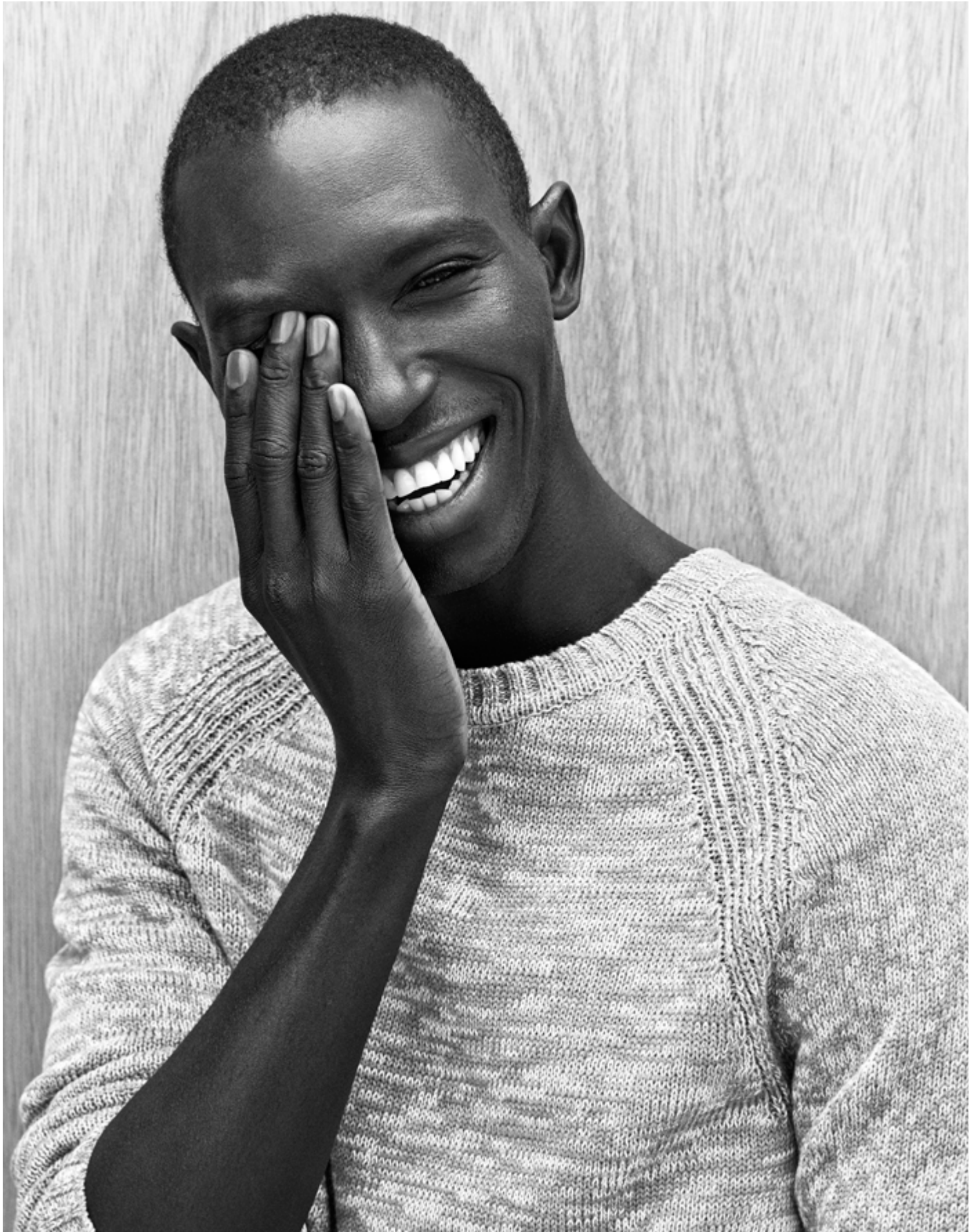
**MTWTFSS  
WEEKDAY**

22 stores  
7 countries  
18 shop online countries  
[weekday.com](http://weekday.com)



**H&M**

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



**MEN** Men seeking smart, comfortable, functional clothing can always turn to H&M. A modern, varied and flexible men's wardrobe extends from the latest trends to classics, for both city life and the great outdoors. The product range includes well-fitting suits and shirts for work and special occasions, attractive everyday wear, updated sportswear and underwear, 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 streetwear influences – to the hottest trend items and denim 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.



**&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. Both the latest denim and ever-popular classics are available in a variety of designs and washes. &Denim offers fashion for women, men, teenagers and children.



**SPORT** Focusing on performance and design, the expanded H&M Sport range suits increasingly active lifestyles. Garments developed in cooperation with top athletes achieve perfect function, and a number of designs use more sustainable materials. Complete collections for running, gym workouts, yoga, skiing and more – for men, women and children.



**SHOES** A new, upgraded range with more designs, many in leather, is being gradually launched from autumn 2014 onwards. The footwear collection ranges from classic loafers, pumps and ballerinas to sporty trainers, boots, comfortable everyday shoes, and designs that reflect the very latest trends, for women, men, teenagers and children.



**ACCESSORIES** Fashion is increasingly about personal style – how you wear garments and what you put with them – so accessories are taking on a bigger role. H&M has a wide range so that all its different customers can create a unique look: everything from hats and shoes to belts, bags and jewellery. H&M has accessories for women, men, teenagers, children and babies.



**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.



**H&M HOME** Fashion for living. Home decor products 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, and also has a range of decorative items in materials such as 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, the UK, China and France.



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, always at great prices. With roots in a Scandinavian aesthetic, the collections are aimed at style-conscious young adults. Weekday is a modern brand with stores that create a dynamic urban experience where customers can also find a mix of external brands.



Dress in organic  
linen blend

**€199**

# Sustainability work for long-term growth

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H&M aims to continue to grow and add value for customers and employees, and to make a positive contribution to the communities where H&M is active. Sustainability is therefore an integrated part of the business.



As a company with strong values and a long-term view, H&M wants to make a positive contribution to the world. H&M sees it as its responsibility to work for social improvements and reduced environmental impact throughout the life cycle of the products. H&M's sustainability work is an investment in the communities where H&M is active, but equally it is an investment in H&M's own future. Greater sustainability increases the value of H&M's customer offering, strengthens H&M as an employer, means resources are used more efficiently and helps stabilise sourcing markets. Sustainability is therefore an integrated part of the business.

H&M makes sustainable, good-quality fashion accessible to people all over the world. With a passion for design, a focus on quality and targeted sustainability work, H&M constantly strives to have the best customer offering in each individual market – which includes giving customers the best price. This price is achieved by H&M having its own

designers, removing middlemen, buying the right item from the right market, having efficient logistics and being cost-conscious in every part of the business. The company's size means that H&M's customers also benefit from economies of scale.

## THE SIGNIFICANCE OF TRADE

As a direct buyer and seller in many markets, H&M contributes to trade between countries. International trade creates employment and economic growth, which is particularly important for developing countries because it helps lift people and nations out of poverty.

Shopping at H&M contributes to jobs and development around the world. As well as H&M being a workplace for more than 132,000 people, over a million jobs are created outside H&M – largely in the Asian textile industry, where much of H&M's sourcing takes place.

H&M does not have any factories of its own but instead outsources manufacturing to independent suppliers, the majority of whose employees are women. For many women this is their first job that provides an income and their first job outside the home, and so represents a first step to independence.

In many countries, textile industry jobs have not only reduced poverty. The growth of the textile industry has also led to further industrial development – resulting in increased productivity, greater specialisation and higher wages. The continued presence of long-term, responsible buyers is therefore vital to the future of these countries.

#### COOPERATION AND INNOVATION

Important progress has been made on sustainability in the textile industry in these countries, yet significant challenges remain. H&M uses its size and influence to help move development in a positive direction. But one company's commitment is not enough to bring about lasting improvements; to really make a difference in the long term, companies must work together with governments, NGOs and other companies.

One example is the wage issue – an important matter for the textile industry to address. H&M is driving a special initiative to achieve a fair living wage for suppliers' employees. To create sustainable solutions this issue must be owned locally, which is why H&M's plan is based on cooperation between various parties – both global and local – and everyone has a unique role to play in creating real change. On the next page, you can read more about H&M's roadmap for a fair living wage.

H&M also drives environmental improvements through various partnerships. One important goal for H&M is to close the loop on textile fibres. Along with experts and various innovative companies, H&M is working to find a circular model for use of these resources. Read more about H&M's garment recycling on page 40.

Plans for new garment labelling are another major joint project, in an initiative run by the Sustainable Apparel Coalition (SAC). This is made up of various brands and experts



who are striving together to create an industry standard for labelling in the longer term – labelling that details the social and environmental impact associated with a particular garment. Increasing garment traceability would allow customers to make more informed decisions, and as a buyer H&M could measure sustainability results at product level and work for continual improvement.

#### INTEGRATED INTO BUSINESS PROCESSES

H&M's vision is for all its operations to be run in a way that is economically, socially and environmentally sustainable. To live up to this vision

#### Opposite page

H&M Conscious Denim for the whole family.

**Above** H&M brings work opportunities for many women in the supply chain.

**Below** Sustainability aspects are included even at the design stage.

H&M works according to seven commitments – the H&M Conscious Commitments. The commitments are: provide fashion for conscious customers; choose and reward responsible partners; be ethical and respect human rights; be climate smart; reduce, re-use and recycle to reduce environmental impact; use natural resources responsibly; and strengthen communities.

Hundreds of targeted activities – H&M Conscious Actions – are dedicated to putting these commitments into practice, run by all the functions of the company. Every year, each function and sales country sets its own measurable sustainability targets and activities, supported by H&M's central sustainability department. The sustainability department also has more than 20 experts who formulate targets and key indicators for the whole company's sustainability work. In sales markets and other functions around 50 employees focus primarily on sustainability, while in sourcing markets more than 100 employees make sure that suppliers live up to H&M's requirements of good social and environmental conditions and support improvements in sustainability.



#### MANAGEMENT AND BOARD

The head of H&M's sustainability department is a member of the executive management, reporting directly to the CEO – who also drives strategic sustainability matters. The board of H&M regularly discusses and addresses these topics, because H&M sees sustainability work as a long-term commitment and an integrated part of its business concept.

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## H&M sees it as its responsibility to work for social improvements and reduced environmental impact.

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## ROADMAP FOR A FAIR LIVING WAGE

Wages are an important issue throughout the textile industry, with great potential to improve pay structures in sourcing countries – both at national level and at factory level. One H&M initiative is therefore to drive a new strategy for fair living wages.

H&M wants suppliers to pay their employees a fair living wage – a wage that meets the basic needs of the employee and his or her family. The International Labour Organization (ILO) and other global trade unions state that a fair living wage must be reviewed annually and negotiated with democratically elected union representatives or workers' representatives. H&M also believes wages must be negotiated by the parties in the labour market.

Cooperation at various levels is needed to enable local ownership of wage matters by the parties in the labour market, so H&M's roadmap is based on cooperation between buyers such as H&M, suppliers, the suppliers' employees and the governments of the countries concerned. In a holistic approach, the roadmap includes improved sourcing routines at H&M, improvements to suppliers' pay structures and training of suppliers' employees.

Along with the Fair Wage Network, H&M is working on a pay-structure improvement method that is being tested in three "model factories" – two in Bangladesh and one in Cambodia. Because the method must be assessed over time, H&M has committed to buy 100 percent of the output of these factories for five years. The process is at an early stage, but the signs are positive. The first evaluation has been carried out at the factory in Cambodia, where overtime has decreased, wages have risen, productivity has increased and dialogue between employer and employees has improved. One of H&M's goals is to create a basis for better pay structures at all H&M's strategic suppliers – accounting for around 60 percent of H&M's total production – by 2018 at the latest.

As part of its work towards a fair living wage H&M is focusing on strengthening dialogue in the labour market, increasing employees' opportunities to organise and conclude collective agreements, and improving workers' access to training. In these areas H&M is working on a number of different projects with the ILO, the Swedish International Development Cooperation Agency (Sida) and the union IF Metall. For example, H&M is

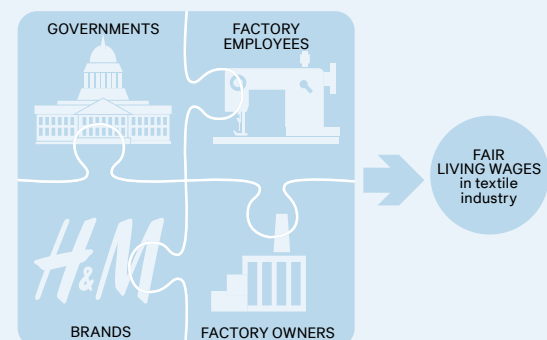
**Above** Lunchbreak at one of H&M's largest suppliers, DBL Group in Bangladesh.

investing in training that will not only improve the workers' technical skills, but also their knowledge of their rights and their negotiating skills. In partnership with ILO and Sida, H&M has opened a vocational training centre in Dhaka, Bangladesh, where the ambition is to train 5,000 textile workers before the end of 2016 and then make sure that they get roles and wages that match their knowledge and experience.

The development of the textile industry has created jobs for millions of people. Export-led growth in the industry, for example, is the main reason why poverty in Bangladesh has halved since the early 1990s. But there are also many challenges in the industry, and the issue of pay is complex. National governments are important because they play a central role in creating legal frameworks and ensuring fair and regular pay reviews. In recent years H&M's CEO Karl-Johan Persson has met twice with the Bangladeshi government and visited the Cambodian prime minister to discuss these topics. Labour market legislation needs to be strengthened and minimum wages need to be reviewed annually. Improvements have been made, but there is still a lot to do.

H&M welcomes more long-term partnerships and is hopeful that by joining forces it can contribute to positive development. In 2014 H&M started cooperating with other international fashion companies, and signed a joint declaration of principle for fair living wages. This work will include protecting trade union freedoms and the right to collective agreements, as well as conducting joint discussions with governments.

### H&M's PLAN IS BASED ON COOPERATION



# H&M wants suppliers to pay their employees a fair living wage.

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

## GLOBAL WATER STRATEGY WITH WWF

Water plays an important role throughout the life of a garment, from growing cotton to making fabrics and washing the garments. But water is a scarce resource. In a three-year partnership with WWF, H&M has analysed water management throughout the garment life cycle and based on this work has developed a global strategy for H&M's water work – a strategy that WWF describes as groundbreaking in the fashion industry.

H&M works to constantly make sure that its suppliers' 500 or more factories with wet processes have appropriate water treatment. In partnership with WWF, H&M has found new ways to test the water discharged and monitor water treatment effectiveness. A number of suppliers are situated on the flood plains along the Brahmaputra River in Bangladesh and the Yangtze in China, where H&M is working with NGOs such as Solidaridad, other companies and public decision-makers to achieve more sustainable water management in these areas.

In China, H&M and WWF have developed special water management

methods for industrial areas, in a project that will be tested at selected industrial parks on Lake Tai. Utilising wastewater, upgrading the treatment technology, etc. will make water management more efficient and reduce environmental impact on the ecosystems in the industries' catchment basins.

Within its partnership in China H&M is also supporting WWF's work to preserve the Yangtze River's porpoise species and their habitats.

The partnership with WWF continues until the end of 2015 and also covers H&M's internal water consumption. H&M is working to use water more efficiently in all its stores, warehouses and offices, and is using training to increase employees' awareness of water issues. H&M also wants to motivate and inspire customers to save water. For example, in 2014 the Conscious Denim collection was launched – with more sustainable production processes resulting in a 56 percent water saving over conventional denim production. All H&M garments have care labels designed to inspire customers to save water and energy.



H&M Conscious  
Exclusive, spring 2015.

### AWARDS AND INDEXES

H&M's sustainability work has attracted outside attention. In 2014, for example, H&M received an award from the Pontus Schultz Foundation for a more humane economy, the United Nations Association of New York's annual Humanitarian Award, and the Fairness Award from the Washington-based Global Fairness Initiative.

For the fourth year in a row H&M was named one of the world's most ethical companies by the Ethisphere Institute, and H&M also features in Corporate Knights' Global 100 Most Sustainable Corporations. H&M is included in the Dow Jones Sustainability Index World and the FTSE4Good Index Series, among others.



## H&M CONSCIOUS FOUNDATION

The H&M Conscious Foundation is an independent, non-profit global foundation that works towards long-term positive change for people and society, focusing on countries where H&M is active. The foundation complements H&M's sustainability work by reaching out beyond H&M's value chain. The H&M Conscious Foundation currently focuses its work on three areas chosen by H&M employees and customers: education, clean water and strengthening women (economically and in society).

The foundation was established with a SEK 60 million donation from H&M in 2007, to celebrate H&M's 60th birthday. Since 2013 the Stefan Persson family has donated SEK 700 million to

the H&M Conscious Foundation. These donations allow the foundation to run extensive global and local programmes on a large scale. Partnerships with strong organisations in each area – such as UNICEF, WaterAid and CARE – enable the H&M Conscious Foundation to support positive changes both at policy level and in people's daily lives.

Videos and more information about work on education, clean water and strengthening women can be found at [hm.com/consciousfoundation](http://hm.com/consciousfoundation).

**H&M CONSCIOUS  
FOUNDATION**

# Key indicators for sustainable development

H&M carries on extensive work to increase sustainability throughout the life cycle of the garments. The work is systematic and targeted, and the results are reported in detail in H&M's annual sustainability report. Here are six selected key indicators showing developments in some important areas.

## MORE SUSTAINABLE MATERIALS

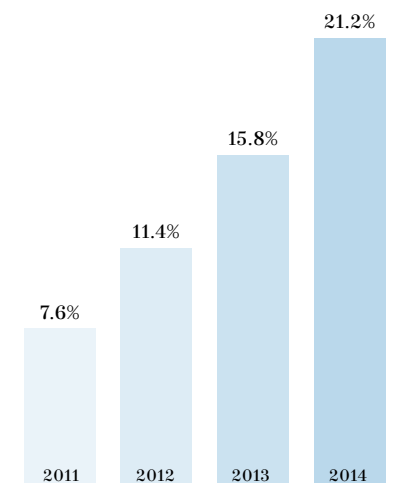
H&M strives to each year increase the percentage of more sustainable materials used in its product range. These materials – such as organic cotton, recycled polyester and recycled wool – increased as a share of the product range from 11 percent in 2013 to 14 percent in 2014.

### 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. More sustainable cotton means both organic cotton and recycled cotton, as well as cotton grown under the Better Cotton Initiative. H&M is one of the founding members of the BCI and an active member. The BCI works to improve both the social and the environmental conditions in traditional cotton growing.

### RESULT

H&M has nearly doubled the share of more sustainable cotton in its product range over the past two years to 21.2 percent in 2014.



## 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. Early 2014 H&M launched the first garments made of materials using recycled fibres from collected textiles. In the longer term H&M wants to create a closed loop for textile fibres. Because the raw material in re-used, collected garments help reduce consumption of water, energy and chemicals.

### GOAL

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

### RESULT

In 2014, H&M collected 7,684 tonnes of used clothing, more than double the amount of 3,047 tonnes collected in 2013.

In the longer term H&M wants to create a closed loop for textile fibres.

## 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 energy only from renewable sources. In 2014, 27 percent of H&M's electricity consumption came from renewable sources, an increase from 18 percent in 2013.

Already in 2014 H&M reached its target of reducing greenhouse gas emissions in absolute terms by 2015.

### GOAL

Reduce the total amount of greenhouse gas emissions from H&M's own operations in absolute numbers no later than 2015, compared with the previous year, despite H&M's continued expansion.

### RESULT

Already in 2014 H&M reached its target of reducing greenhouse gas emissions in absolute numbers no later than 2015. Emissions of greenhouse gases amounted to around 342,000 tonnes in 2014, compared with 356,000 tonnes in 2013. The main reason for the reduction is the increased share of energy from renewable sources.



GETTY IMAGES

## REDUCE ENERGY USE

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 80 percent of all the energy that H&M uses in its own operations.

### 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 12 percent between 2007 and 2014. While this is a slightly lower rate of reduction than the 14 percent achieved by 2013, progress towards the target set for 2020 remains good. One reason why consumption did not fall as quickly in 2014 is the addition of LED mood lighting and video screens in stores in order to give customers an even more inspiring shopping experience. Meanwhile an increasing amount of the energy which is used in the stores comes from renewable sources. In addition, 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.

More and more  
of the energy  
that H&M uses  
is from renewable  
sources.



## COMPLIANCE WITH THE CODE OF CONDUCT

H&M does not have any factories of its own; instead, its products are manufactured by around 850 independent suppliers. H&M sets high social and environmental requirements for its suppliers and 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 H&M 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.

### 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 77.8 points out of a possible 100 in 2013 to 81.0 points in 2014. H&M's strategic suppliers (which produce around 60 percent of all H&M's products) increased from 80.1 points in 2013 to 82.7 points in 2014.

## 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 2014 H&M investigated 30 suspected violations of its Code of Ethics. These investigations led to action being taken in 18 cases. The action taken involved both employees and suppliers.

These six indicators on pages 40–41 have been generally reviewed by the company's auditors. For verification refer to H&M's sustainability report for 2014.

— OUR EMPLOYEES —

# Every employee makes a difference

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Each H&M employee contributes energy and commitment,  
creating an open and dynamic workplace where everyone  
works together to take H&M further.



With a passion for fashion, H&M's employees make it possible for customers around the world to explore and develop their own personal style. Just as H&M's fashion offers breadth and variation, so H&M's workplaces are characterised by variety and diversity.

H&M is growing on six continents. The group has various brands and sells through different channels, and has several production offices. H&M's global expansion offers H&M employees infinite opportunities, and they also benefit from the special spirit that exists throughout H&M. Ever since the first store opened in 1947, H&M has been guided by strong, shared values; these values are summarised in the H&M spirit and are based on a belief in people's ability to use their initiative. Employees are encouraged to take responsibility and set goals for their own development. That's why no career path is staked out in advance; instead, with plenty of opportunity to develop in all kinds of areas, every employee can choose his or her own individual journey.

#### INFINITE CAREER OPPORTUNITIES

Within sales alone there are many different roles. In more than 3,500 stores in 55 countries sales advisors, visual merchandisers, department managers and store managers work together to present the collections and attend to customers.

Other functions also offer a broad spectrum of jobs. A variety of interesting positions exist in different areas, including design, buying, sustainability, production, distribution, expansion, shopfitting, online, IT, HR and finance. Many mobile roles – such as project manager, controller and area manager – exist within multiple functions and in most countries.

Moving between different functions, brands and markets develops employees and is excellent for a future career at H&M. Job rotation is therefore encouraged throughout the group.



Employees who are given opportunities to share their experience and test their skills in a new setting learn from each other and develop both professionally and on a personal level.

#### FUTURE LEADERS

Most managers at H&M are recruited internally. Great importance is placed on employees being able to develop within their roles and to lead by example, guided by H&M's shared values. Leadership at H&M is about inspiration, delegation, feedback and motivation.

A crucial success factor for H&M is that leaders actively contribute to a culture in which measurement of results is based just as much on what is achieved as on how it is achieved. This coaching style of leadership encourages and supports individuals in achieving their goals.

#### VALUABLE DIVERSITY

H&M welcomes difference and greatly values the diversity that exists among

#### Opposite page

Colleagues together in the world's largest H&M store on Fifth Avenue in New York.

**Above** The White Room at H&M's design department in Stockholm.

H&M employees. Equality is therefore a priority; for example, 72 percent of all those in positions of responsibility within the group are women.

All H&M workplaces must be open and inclusive, with human rights being respected and colleagues treating each other with integrity, respect, humbleness and dignity. H&M's shared values help colleagues from different backgrounds and from all parts of the world to develop and work together to achieve shared goals.

As a company, H&M also has a highly ethical approach. This means H&M takes a clear stand against discrimination and harassment wherever the company is active.

#### SUSTAINABLE RECRUITMENT

H&M continues to grow. In 2015 alone, 400 new stores net and five new markets are planned. The group's expansion is long-term, so there remains a substantial need for recruitment. The expansion of one of the world's leading fashion companies also demands a diverse range of skills.

H&M invests heavily in attracting, recruiting and retaining employees with the right skills – people who want to grow and develop with H&M. Commitment, an interest in fashion and being business-minded are basic requirements. The recruitment process also focuses on finding employees who share H&M's values and long-term perspective. The commitment of employees will remain the key to H&M's success.

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## H&M employees in all areas, in all roles and at all levels can develop and grow with H&M through training programmes, feedback and dialogue.

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**In 2014 alone the group welcomed 16,000 new employees. Today, more than 132,000 people work at H&M.**

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**BYRON  
INGLESTON**  
Print and pattern  
forecaster,  
White Room,  
Stockholm

"In my team the focus is on the future. H&M's fashion draws influences from all over the world, and in Trends & Forecast we analyse global trends for upcoming seasons. There is so much to be inspired by, and we are encouraged to use both our creativity and our experience when presenting our research to the teams in the White Room at the design department."



**ANNA NOWAK**  
Group leader,  
H&M Distribution Centre,  
Poznan, Poland

"There are more than 2,900 of us working here in Gądko outside Poznan, distributing garments for all H&M's brands and sales channels. Working in logistics calls for precision, flexibility and above all teamwork, so it is both enjoyable and stimulating. Our Talent Development Programme has enabled me to develop both professionally and as a leader."



**BELINDA OFORI-ATTA**  
Sales advisor,  
Fifth Avenue, New York

"Serving our customers here in H&M's new flagship store in Manhattan is so rewarding. The store is amazing – just coming here every day gives me a kick! Right now I'm training to become a supervisor. My colleagues and I coach each other, letting me grow in my role."

## SHARED VALUES CREATE THE SPIRIT OF H&M

H&M is guided by shared values. Together, these form a culture that makes H&M unique. The values are summarised in the H&M spirit, which is based on fundamental respect for the individual and a belief in people's ability to use their initiative. The H&M spirit has existed ever since the very first

store opened in 1947 and continues to permeate the entire company. By living these values every day each employee helps create a flexible, down-to-earth workplace with effective decision-making where colleagues work together at a fast pace and can rely on each other's knowledge and capabilities.

We believe in people

We are one team

Entrepreneurial spirit

Straightforward and  
open-minded

Constant improvement

Keep it simple

Cost-consciousness



## 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 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 his or her managers. H&M employees have the right to conclude collective agreements. The company strives to maintain good relations with employees, as well as the workers' organisations and trade unions that represent them.



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

H&M's employees are the key to its success. To show appreciation for H&M employees, in 2011 the Stefan Persson family took the initiative to establish a unique incentive programme by donating just over 4 million H&M shares, valued at approximately SEK 1 billion. Known as HIP (H&M Incentive Program), the programme acknowledges employees' daily commitment and long-term participation. HIP works the same way for everyone in the H&M group – regardless of salary or role, which country they work in, or whether they work full-time or part-time.

HIP allows employees who have worked within the H&M group for at least five years to share in any increase in company profits. HIP is given a contribution from the H&M group based on 10 percent of the increase in profit after tax between two consecutive

financial years, before allocation to HIP. For the 2013/14 financial year SEK 303 million was allocated to HIP. The entire amount is invested in H&M shares.

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.

**More information about H&M as an employer can be found at [hm.com/jobs](http://hm.com/jobs), where you can also read more about roles and career opportunities at H&M, as well as the various benefits that H&M offers its employees.**

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## The commitment of employees is the key to H&M's success.

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— EXPANSION —

# Expansion worldwide

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H&M continues to grow successfully, in existing markets, as well as in new countries. H&M's long-term expansion encompasses all its brands, and is taking place both via new stores and online.



H&M continues to grow at a rapid pace and is reaching more and more customers across the globe. Today, there are more than 3,500 stores in 55 countries. In parallel with significant growth in stores, H&M is also expanding online shopping at hm.com into new countries.

With various brands and concepts, H&M offers customers a broad and diverse range of inspiring, value-for-money, good-quality fashion – and is doing so in a sustainable way. H&M's offering attracts customers the world over, and the collections are just as popular in the big fashion metropolises as in small and medium-sized towns. As a result, H&M is able to grow deeper into each market while also welcoming customers in new countries. In 2014 there was a net addition of 379 new stores, all H&M's brands included. Two new countries were added during the year, Australia and the Philippines – both exciting countries with great potential for H&M.

#### H&M EAGERLY ANTICIPATED

The first H&M store in Australia opened in Melbourne on 5 April 2014. Located in the historic General Post Office building, this flagship store was one of the grandest of the year. The opening attracted phenomenal attention: over 3,000 customers queued for hours, many even overnight, to be the first to shop at H&M. The customers' amazing reception exceeded even H&M's own high expectations. Expansion continued with a further store in Sydney as early as autumn 2014; for 2015 more stores are planned to open in Australia.

H&M was also eagerly anticipated in the Philippines. Around 2,500 customers queued for the opening of the first store, located in the SM Megamall in Manila, on 17 October in 2014. Since then additional stores have opened in Manila.



**Opposite page** Fifth Avenue, New York. **Above** The new store in Melbourne, H&M's first in Australia. **Right** Opening in Beijing, China. **Below** H&M in Saint-Germain, Paris. **Below right** Hatten Square in Malacca, Malaysia.




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## H&M's successful store expansion continues.

## In 2014 alone, 379 new stores net were added.

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H&M continues to open stores at a rapid pace. Around 400 new stores net are planned for 2015.



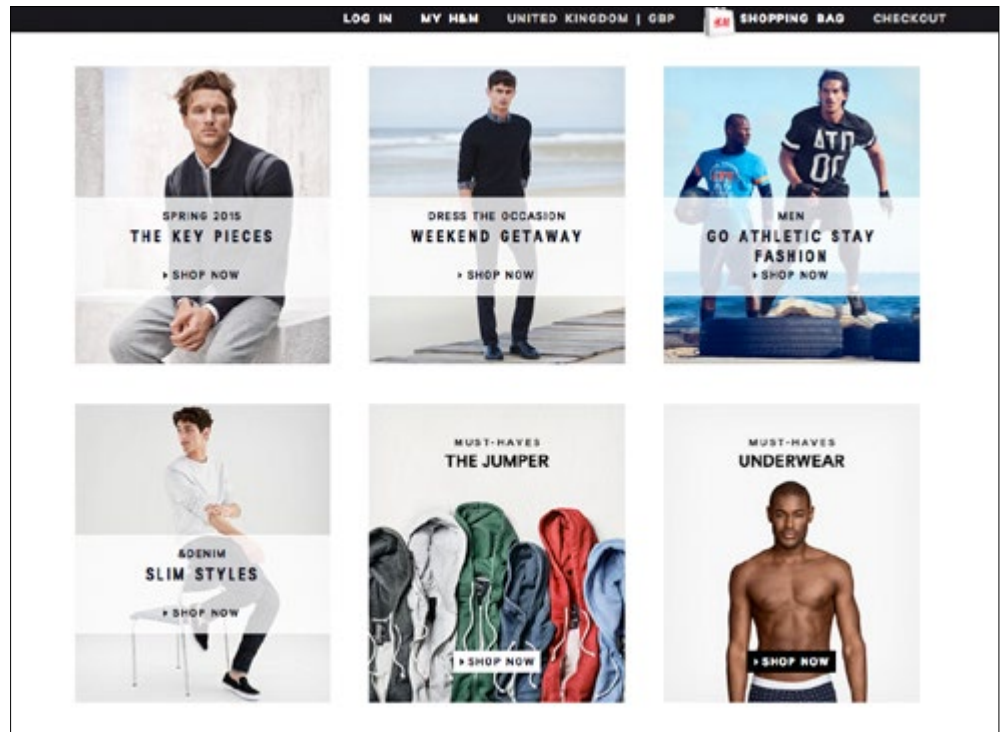
**Above** Fredrik Olsson, head of expansion at H&M. **Above right** The Philippines became a new H&M market in 2014 with the openings of the first stores in Manila. **Right** New flagship store in Munich, Germany – which is H&M's single largest market, with 440 stores. **Below** Customers shopping at an H&M store opening in Istanbul, Turkey.



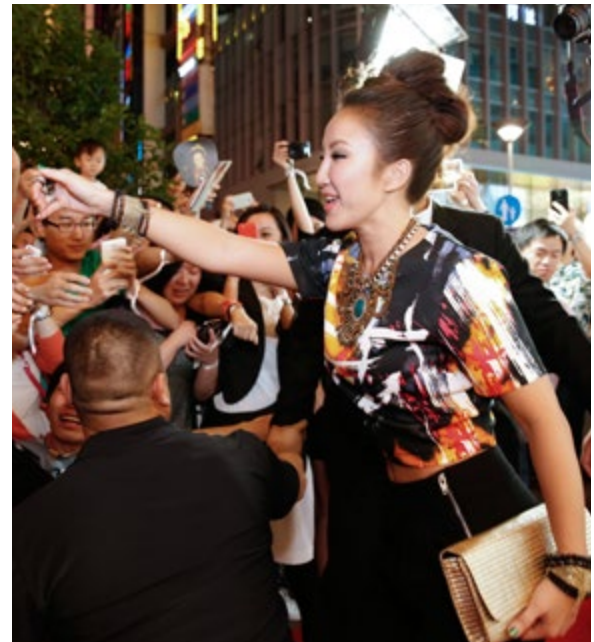
Asia is increasingly contributing to the group's expansion. As well as the Philippines – H&M's latest market – there are stores in China, Japan, South Korea, Singapore, Malaysia, Thailand and Indonesia. The greatest expansion is in China, which has quickly grown to become one of H&M's biggest markets. In 2014 alone a net total of 86 new stores opened in China and, by the end of the year, there were 291 stores in the country. The new openings included a number of flagship stores such as on Shanghai's very hottest shopping street, East Nanjing Road, and in the trendy Sanlitun Taikoo Li mall in Beijing.

#### THE WORLD'S TOP LOCATIONS

H&M is expanding in all the company's existing markets. After China, the US was the country with the most new stores in 2014. On 17 July the world's largest H&M store to date opened on Fifth Avenue in New York. The opening was celebrated by a collaboration with American artist Jeff Koons and the Whitney Museum of American Art. Customer response to the opening of



Above H&M's online store at hm.com.  
 Right Singer and actress Coco Lee at H&M's store opening in Shanghai, China.  
 Below right H&M store in Toronto, Canada.



## The online store hm.com is open in 13 countries, with a further nine countries to be added in 2015.

a further flagship store in Manhattan has been very positive.

### BREADTH AND VARIETY

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

At the same time as new stores are opening in the best locations around the world, existing stores are continually updated so as to offer customers an inspiring experience at

all times. Along with 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 and the various concepts.

### OPEN ONLINE 24/7

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





Rapid expansion is also taking place online. The US became a new online market in 2013, and in 2014 another four large countries were added: France, Italy, Spain and China. The reception from customers has been very positive in all markets. With online sales in 13 countries at the end of 2014, H&M is planning to open online in a further nine countries in 2015. New markets will include Belgium, Bulgaria, the Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Switzerland.

Online shopping is also offered by the other brands in the H&M group. COS offers online shopping in 19 countries, including in Europe and the US. Monki, Weekday and Cheap Monday have online stores in 18 European countries, while & Other Stories sells online in 13 countries, including in Europe and the US.

#### ALL BRANDS ARE EXPANDING

COS has grown rapidly since its launch in 2007. In 2014 alone six new markets and 29 new stores were added. The 100th COS store in the world opened in Berlin during the year. The US got its first COS stores, one in Los Angeles and one in New York. Australia also became a new market for COS. With a total of 114 stores in 25 countries, COS is today an internationally established fashion brand.



& Other Stories – the latest fashion brand from the H&M group – has also enjoyed an amazing reception from customers. Since its launch in 2013, & Other Stories has opened stores in 12 major cities around Europe and as of 2014 the brand has a store in New York. Including the US, & Other Stories has stores in ten countries in total.

H&M is also expanding via Monki, Weekday and Cheap Monday, as well as through H&M Home. In 2014 H&M Home opened in a further 63 H&M stores in 14 markets.

#### STRONG STORE EXPANSION IN 2015

H&M's very first store opened in Västerås, Sweden, in 1947. Since then H&M has grown into one of the world's leading fashion companies. Over the years the group's successes and good performance have put it in a strong financial position, with the scope to

**Opposite page** H&M in Melbourne, Australia. **Above** & Other Stories in New York. **Top** COS in Los Angeles. **Above left** H&M Man in Stockholm. **Top left** H&M at Piazza del Duomo in Milan, Italy.

## H&M is growing with all group brands. Both & Other Stories and COS opened in the US in 2014.

continue to grow and take advantage of business opportunities as they arise. There is great potential for continued expansion for many years to come. The growth target is to increase the number of stores by 10–15 percent per year, which will mean strong store expansion again in 2015. A net addition of around 400 new stores is planned for 2015, including all the brands. China and the US are expected to once again be H&M's biggest expansion markets. A number of new markets will be added, with the first H&M stores planned in Taiwan, Peru, Macau, South Africa and India.

Expansion will also continue for the other brands. In 2015, both COS and & Other Stories plan to open more stores compared with 2014. H&M Home will also expand, with around a hundred new H&M Home departments and around ten new markets planned.



— EXPANSION —

# H&M in 55 countries

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With 3,511 stores in 55 countries and six fashion brands, H&M has a strong global position, and the potential for continued expansion is great.

## MARKET OVERVIEW 2014

| COUNTRY        | NEW STORES<br>NET DURING<br>THE YEAR | NO. OF STORES<br>30 NOV 2014 | COUNTRY        | NEW STORES<br>NET DURING<br>THE YEAR | NO. OF STORES<br>30 NOV 2014 |
|----------------|--------------------------------------|------------------------------|----------------|--------------------------------------|------------------------------|
| Germany        | 22                                   | 440                          | Portugal       | 3                                    | 30                           |
| USA            | 51                                   | 356                          | Hungary        | 2                                    | 35                           |
| United Kingdom | 8                                    | 253                          | South Korea    | 6                                    | 22                           |
| France         | 8                                    | 205                          | Czech Republic | 5                                    | 43                           |
| China          | 86                                   | 291                          | Ireland        | 1                                    | 20                           |
| Sweden         | -1                                   | 176                          | Singapore      | 4                                    | 10                           |
| Netherlands    | 5                                    | 135                          | Croatia        | 1                                    | 14                           |
| Italy          | 16                                   | 132                          | Malaysia       | 11                                   | 18                           |
| Spain          | 3                                    | 159                          | Mexico         | 3                                    | 6                            |
| Switzerland    | 6                                    | 93                           | Slovenia       | -                                    | 12                           |
| Norway         | 4                                    | 118                          | Australia      | 3                                    | 3                            |
| Austria        | 1                                    | 73                           | Slovakia       | 2                                    | 15                           |
| Denmark        | 2                                    | 99                           | Luxembourg     | -                                    | 10                           |
| Belgium        | 5                                    | 78                           | Bulgaria       | 5                                    | 16                           |
| Poland         | 18                                   | 140                          | Chile          | -                                    | 1                            |
| Japan          | 12                                   | 51                           | Latvia         | 3                                    | 6                            |
| Canada         | 6                                    | 72                           | Serbia         | 3                                    | 5                            |
| Russia         | 20                                   | 71                           | Estonia        | 3                                    | 6                            |
| Finland        | 2                                    | 60                           | Lithuania      | 4                                    | 6                            |
| Greece         | 3                                    | 30                           | Philippines    | 3                                    | 3                            |
| Turkey         | 10                                   | 30                           | Franchise*     | 20                                   | 130                          |
| Romania        | 10                                   | 38                           | <b>TOTAL</b>   | <b>379</b>                           | <b>3,511</b>                 |

\* United Arab Emirates, Kuwait, Qatar, Saudi Arabia, Egypt, Bahrain, Oman, Lebanon, Israel, Morocco, Jordan, Thailand and Indonesia.

## STORE COUNT PER BRAND 2014

|                                |  | <i>&amp; other Stores</i> |  |  |  |  | GROUP TOTAL |
|--------------------------------|-----------------------------------------------------------------------------------|---------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------|
| New stores net during the year | 325                                                                               | 9                         | 29                                                                                | 13                                                                                 | 1                                                                                   | 2                                                                                   | 379         |
| Number of stores 30 Nov 2014   | 3,261                                                                             | 17                        | 114                                                                               | 92                                                                                 | 22                                                                                  | 5*                                                                                  | 3,511**     |

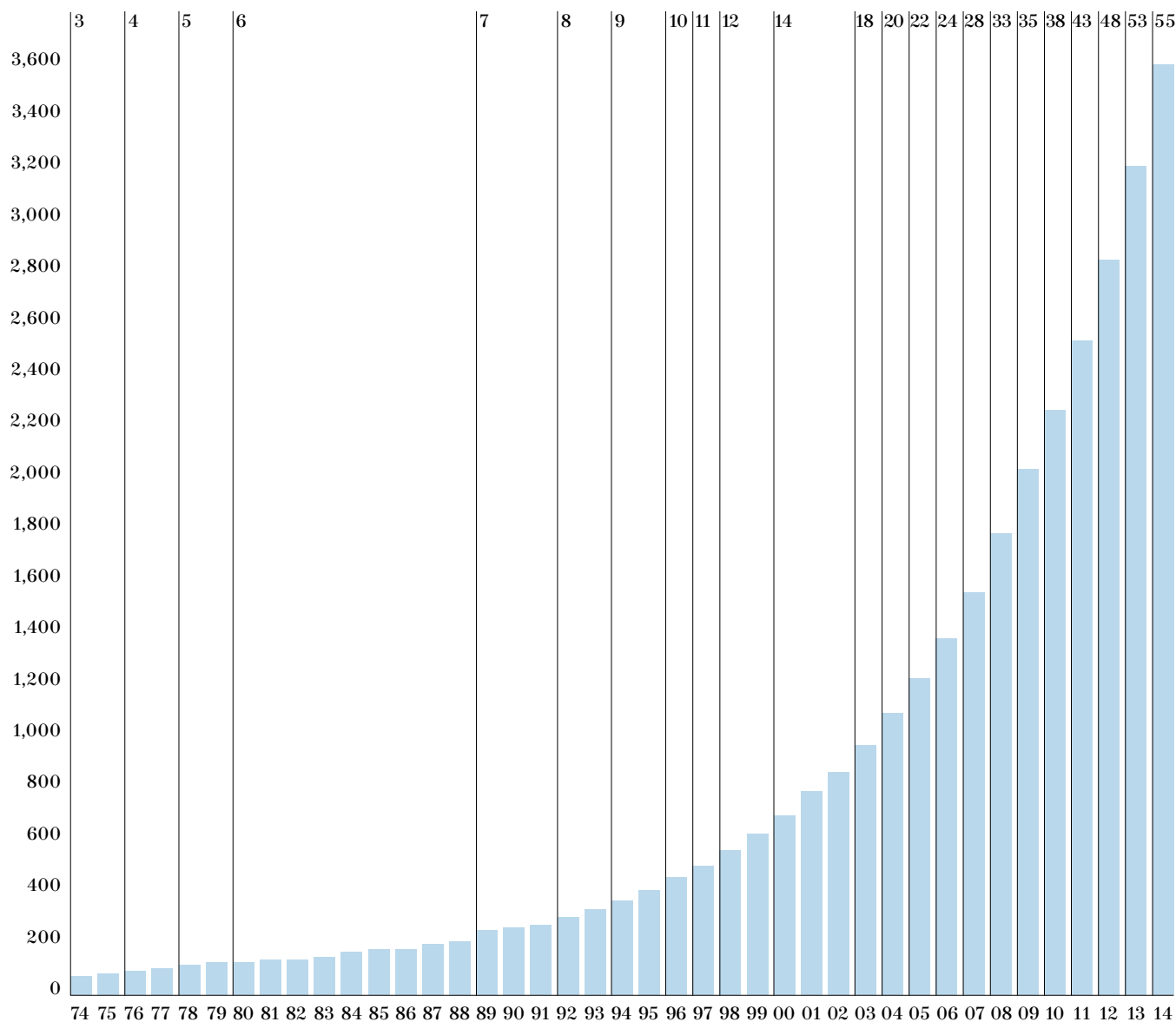
\* Cheap Monday is offered mainly via 2,000 retailers in more than 35 countries.

\*\* 130 of the group's stores are franchise stores.

## EXPANSION 1974\*–2014

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.



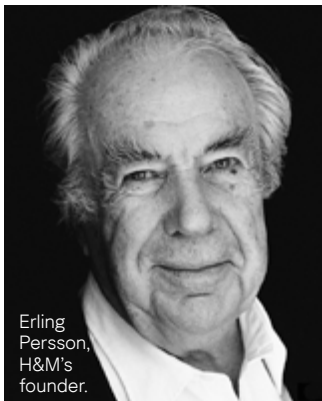
The very first store, Hennes in Västerås, Sweden.

## 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 collaborations with some of the world's biggest designers and fashion icons. Turn the page to read more about the first ten years of H&M's popular designer collaborations.

## 2006

Major expansion of online shopping at H&M 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 H&M: COS is launched in 2007, while in 2008 H&M



COS launched in 2007.

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 H&M employees began with a gift of approximately SEK 1 billion, invested in H&M shares, from Stefan Persson and family. HIP works the same way for everyone in the H&M group – regardless of salary, role, country and whether full- or part-time.

## 2013

Launch of the new fashion brand & Other Stories. H&M opens its online store in the US. The world's 3,000th H&M store opens in Chengdu, China, 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 clothes collection in stores globally for re-use or recycling.



## 2014

New H&M Sport launched. H&M closes the loop for textiles with the launch of the first denim garments to use recycled materials from H&M's Garment Collecting. H&M's

shoe concept is extended and updated. Australia and the Philippines become new H&M markets, and the online store hm.com opens in four new countries: France, Italy, Spain and China.



— HISTORY —

# 10 years of designer collaborations

Design isn't a question of price. In a series of collections that have fascinated, surprised and been loved by customers all over the world, H&M has made fashion giants including Karl Lagerfeld, Versace, Roberto Cavalli and Alexander Wang accessible to a wider audience. In 2014 the popular designer collaborations celebrated their tenth anniversary.

2004  
Karl Lagerfeld.

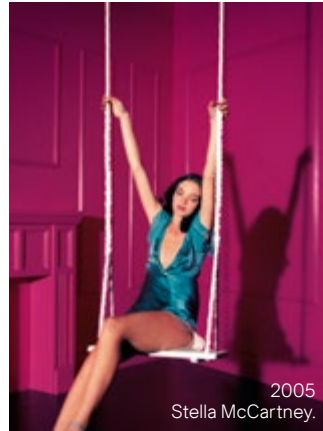


## Karl Lagerfeld

Together with H&M, fashion legend Karl Lagerfeld created the very first designer collaboration – a collection full of sharply cut modern classics including party dresses, blazers and denim in a minimalist black and white colour scheme.

## Stella McCartney

Masculine met feminine when Stella McCartney offered H&M's customers well-cut dresses, jumpsuits and outerwear in deep fashion colours such as midnight blue and raspberry red.



## Viktor&Rolf

Viktor&Rolf, inspired by the concept of Love, adorned iconic pieces such as trench coats and cashmere sweaters with heart-shaped motifs, patterns and belt buckles. They also created the very first wedding dress sold at H&M.



## Roberto Cavalli

Ultra glamorous and super sensual: Cavalli's designer collaboration focused on spectacular partywear for men and women. Materials included gold lamé and leather, in a collection that also incorporated the designer's iconic animal prints.



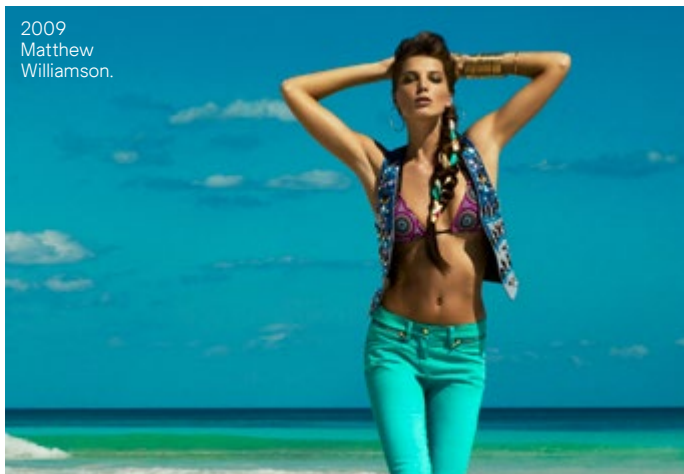
2008  
Comme des  
Garçons.



## Comme des Garçons

Comme des Garçons are known for innovative shapes as well as accessible everyday wear. For their H&M collection they worked in materials typical of the house – including boiled wool and gabardine – in deep black and blue hues, and even developed an exclusive fragrance.

2009  
Matthew  
Williamson.



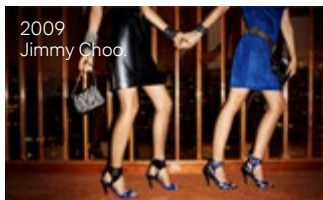
## Matthew Williamson

Intense colours, spectacular prints and elegant patterns were all part of Williamson's chic and bohemian holiday collection, which also included the designer's very first menswear pieces.

## Jimmy Choo

Jimmy Choo brought the sophisticated stilettos and studded boots the brand is known for to H&M, as well as their very first ready-to-wear, including an exclusive suede dress in the house's signature blue colour.

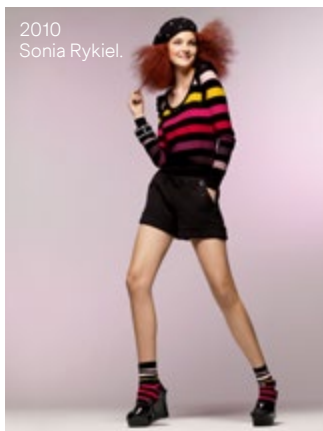
2009  
Jimmy Choo.



## Sonia Rykiel

Just in time for Christmas, legendary Parisian maison Sonia Rykiel brought a chic lingerie collection in silk, velvet and cotton tulle as well as a range of playful accessories to H&M. For spring, it was followed up by knitwear in Rykiel's typical colourful stripes.

2010  
Sonia Rykiel.



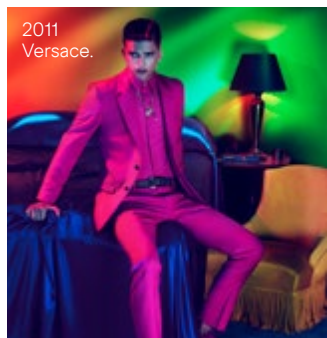
## Lanvin

Couture sensibility in every little detail – Lanvin♥H&M was a collection of exclusive party dresses complete with flattering ruffles, raw edges and materials such as silk and gold lamé, as well as playful accessories and a range of elegant, street-smart men's pieces.

2010  
Lanvin.



2011  
Versace.



## Versace

Donatella Versace dug deep into the rich history of the brand to find patterns, cuts and colours for a collection full of iconic pieces as well as home decor – all in Versace's glamorous over-the-top aesthetics.

## Marni

With a collection full of strong patterns, full skirts, short trousers and materials such as jacquard and cotton poplin, Marni brought their typical silhouette and taste for mixing and matching to H&M.



2012  
Marni.

## Maison Martin Margiela

H&M and Maison Martin Margiela created a series of reproductions from the archives of the influential avant-garde house – from deconstructed biker jackets to horizontal dresses.

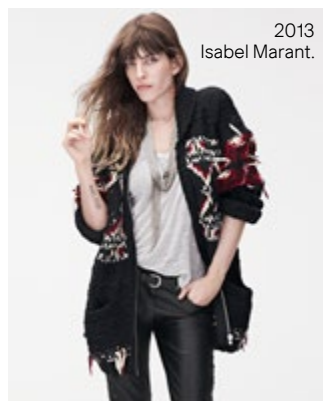
2012  
Maison  
Martin  
Margiela.



## Isabel Marant

A chic, Parisian look with a playful rock'n'roll edge and perfect tailoring – these are the signatures of Isabel Marant. The H&M collection took the designer's own wardrobe favourites as its starting point.

2013  
Isabel Marant.



## Alexander Wang

The collaboration with wunderkind Alexander Wang was a perfect meeting between sport and fashion. With a futuristic feel, the collection came in functional performance materials.

2014  
Alexander  
Wang.



Sweater  
€ 9.99



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H&M  
in figures  
2014

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# Administration report

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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 2013 to 30 November 2014, hereinafter referred to as the 2014 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, Cheap Monday and 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 as well as through online and catalogue sales, and also via franchise in certain markets. At the end of the financial year H&M was present in 55 markets; 13 of these were operated on a franchise basis. The total number of stores at the end of the 2014 financial year was 3,511 – including 3,261 H&M stores, 114 COS stores, 92 Monki stores, 22 Weekday stores, 17 & Other Stories stores and 5 Cheap Monday stores. Of the group's total number of stores, 130 were franchise stores. H&M Home, which primarily sells home textiles, is in 104 H&M stores.

The H&M range is also offered online in 13 countries: Sweden, Norway, Denmark, Finland, the Netherlands, Germany, Austria, the UK, the US, France, Italy, Spain and China. H&M Home, the home textiles and decorations range, is sold through stores in 17 countries and online. COS has 19 online markets, while Monki, Weekday and Cheap Monday have 18 online markets. & Other Stories has 13 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 850 independent suppliers, mainly in Asia and Europe, through H&M's local production offices. To ensure future expansion, production capacity and geographical location are continually reviewed. Not long ago a small part of production was placed to Africa.

To ensure the quality of the products and that they are manufactured under good working conditions, H&M works closely 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 group achieves the best prices by having in-house designers, having no middlemen, utilising economies of scale, buying the right product from the right market, being cost-conscious in every part of the organisation and by having 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, covering every aspect of the business. 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.

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 products 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 establishes the direction and overall targets for the company's sustainability work as well as providing the departments with support on sustainability matters.

H&M does not have any factories of its own, but instead outsources manufacturing to independent suppliers. In H&M's sourcing markets more than 100 specialist sustainability experts work to support improvements in sustainability and to make sure that suppliers live up to H&M's requirements of good social and environmental conditions.

As a direct buyer and seller in many markets, H&M contributes to trade between countries. International trade creates employment and economic growth, which is particularly important for developing countries because it helps lift people and nations out of poverty. As a major buyer, for example, H&M helps create more than a million jobs – largely in the textile industry in Asia, home to many of H&M's sourcing markets.

In many countries, textile industry jobs have not only reduced poverty. The growth of the textile industry has also led to further industrial development – resulting in increased productivity, greater specialisation and higher wages. The continued presence of long-term, responsible buyers is therefore vital to the future of these countries.

H&M uses its size and influence to help move development in the right direction and works to achieve long-term improvements for those employed by suppliers that make H&M products. To make a real difference in the long term, H&M also works in partnership with other companies, NGOs and governments, including on important industry-wide issues such as health, safety and wages. For example, H&M is driving a special initiative to achieve a fair living wage for suppliers' employees.

H&M's initiatives to bring about social improvements and minimise environmental impact extend beyond the supplier stage and throughout the entire life cycle of the products – from responsible, efficient use of natural resources to how customers care for and recycle the garments they buy. In partnership with WWF, for instance, H&M has developed a unique global strategy for better water resource management throughout the garment life cycle. H&M also has chemical restrictions that are among the most extensive in the industry, as well as policies describing the company's product responsibility in respect of people, animals and nature.

One of H&M's aims is for all cotton used in the product range

to come from more sustainable sources by 2020 at latest. The main initiative for achieving this is H&M's involvement in the Better Cotton Initiative (BCI), where H&M is one of the driving forces and is represented on the steering committee. The purpose 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 the world's largest user of organic cotton in 2013.

H&M's full sustainability report is published annually at [www.hm.com/conscious](http://www.hm.com/conscious) and follows the guidelines for sustainability reporting issued by the Global Reporting Initiative (GRI). H&M's sustainability policy, human rights policy, material ethics policy, animal welfare policy, Code of Conduct, Code of Ethics and Chemical Restrictions can all be found at [hm.com](http://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 132,000 employees. The average number of employees in the group, converted into full-time positions, was 93,351 (81,099), of which 7,489 (6,868) were employed in Sweden.

Around 76 percent of the average number of employees were women and 24 percent were men. Women held 72 percent of the positions of responsibility within the company, such as store managers and country managers.

## SALES AND PROFITS

Sales including VAT increased by 14 percent, in local currencies, for the financial year. Converted into SEK, sales including VAT increased to SEK 176,620 m (150,090). Sales excluding VAT increased to SEK 151,419 m (128,562), an increase of 18 percent.

The group's gross profit for the 2014 financial year amounted to SEK 89,052 m (76,025), an increase of 17 percent. This corresponds to a gross margin of 58.8 percent (59.1).

Operating profit amounted to SEK 25,583 m (22,090). This corresponds to an operating margin of 16.9 percent (17.2).

Operating profit for the 2014 financial year has been charged with depreciation amounting to SEK 5,045 m (4,191). Consolidated net financial income was SEK 312 m (358).

Profit after financial items amounted to SEK 25,895 m (22,448).

The group's profit for the 2014 financial year after applying a tax rate of 22.9 percent (23.9) was SEK 19,976 m (17,093), which represents earnings per share of SEK 12.07 (10.33), an increase of 17 percent.

The profit for the year represents a return on equity of 41.3 percent (38.4) and a return on capital employed of 53.1 percent (50.0).

## COMMENTS ON PROFITS

2014 was a very good year for H&M. Over the full year sales increased by 14 percent in local currencies and by 18 percent in Swedish kronor, to SEK 176.6 billion including VAT. Profit for the year after tax, before the contribution to HIP, increased by 18 percent to over SEK 20 billion. Well-received collections for all the group's brands and continued strong expansion both in stores and online helped increase market shares and further strengthened H&M's position in the market.

16,000 new jobs were created within the H&M group in 2014 and at the end of the financial year the group employed just over 132,000

people in total. These employees and the H&M spirit – the group's values – are the key to its success, and the good results for the year meant that H&M allocated SEK 303 m as a contribution to the H&M Incentive Program (HIP). HIP is for all employees in the H&M group and aims to acknowledge the employees' daily and long-term commitment.

Many major long-term investments have been made in IT, online, new brands and in broadening the product range, with a view to strengthening the position of the H&M group further and securing future expansion. In addition, H&M's extensive sustainability work is another example of how the group adds value for its customers; customers should always know that when they shop at H&M, the products have been produced with the greatest possible consideration for people and the environment.

As these long-term investments continue, it is clear at the same time that the investments in areas such as online are starting to bear fruit. In 2014 H&M's online store opened in four new large markets: France, Italy, Spain and China. Combined with further improvements in the online offering, this contributed to the good sales development during the year. H&M's online store will therefore be rolled out to nine new markets in 2015: Belgium, Bulgaria, the Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Switzerland.

Early in 2014 H&M Sport was successfully launched, and in the autumn the expanded shoe range was gradually launched in selected H&M stores and online. In a further step towards broadening H&M's product range, autumn 2015 will see the start of the launch of H&M Beauty. H&M Beauty is a new, broad concept for make-up, body care and hair care with high quality value-for-money products in a specially produced design. H&M Beauty, which will replace H&M's current own-brand cosmetics, will be launched already in 2015 in about 900 H&M stores in around 40 markets as well as in H&M's online markets.

## TAX

For the 2014 financial year the tax rate was 22.9 percent (23.9). 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 for the 2014/2015 financial year is expected to be 22.5–23.5 percent.

## PARENT COMPANY

The parent company's external sales amounted to SEK 47 m (35) in the 2014 financial year. Profit after financial items amounted to SEK 16,248 m (16,998). Investments in fixed assets amounted to SEK 274 m (161).

## FINANCIAL POSITION AND CASH FLOW

Consolidated total assets as of 30 November 2014 amounted to SEK 75,597 m (65,676). Current operations generated a positive cash flow of SEK 24,156 m (23,840). Among other things, cash flow was affected by dividends of SEK -15,723 m (-15,723), investments in fixed assets of SEK -9,361 m (-8,027) and by changes in short-term investments with a duration of four to twelve months of SEK 704 m (-311). The group generated a cash flow of SEK -275 m (-252) for the financial year. Liquid funds and short-term investments amounted to SEK 16,693 m (17,224).

The equity/assets ratio was 68.2 percent (68.9) and the share of risk-bearing capital was 72.5 percent (73.0).

Shareholders' equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2014 was SEK 31.15 (27.34).

## LIQUIDITY MANAGEMENT

In 2014 the longest investment period was eight months. The group does not use any derivative instruments in the interest-bearing

securities market, nor does it trade in shares or similar instruments. See also note 2, Financial risks.

## EVENTS AFTER THE CLOSING DATE

As previously communicated, sales including VAT increased by 15 percent in local currencies in December 2014 compared to the same month the previous year.

Sales including VAT in January 2015 are expected to increase by 14 percent in local currencies compared to the same month the previous year.

## EXPANSION AND FUTURE DEVELOPMENT

H&M remains positive as regards future expansion and the group's business opportunities. The strong expansion continues.

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.

For full-year 2015 a net addition of around 400 new stores is planned. Most new stores during 2015 are planned to open in China and the US. There are also still great opportunities for expansion in other existing markets and in new markets.

Taiwan, Peru, Macau, South Africa and India will become new H&M markets in 2015.

The group is continuing to work on the global roll-out of H&M's online store. In 2015 H&M plans to open nine new online markets: Belgium, Bulgaria, the Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Switzerland.

Expansion continues for the group's other brands COS, Monki, Weekday, Cheap Monday and & Other Stories. The main focus for expansion will be on COS and & Other Stories, which will open more stores in 2015 compared with 2014. This expansion will mainly take place in existing markets. H&M Home will also continue its rapid expansion in 2015, with around a hundred new H&M Home departments and around 10 new H&M Home markets planned for the year. H&M Sport, H&M Beauty and the extended shoe range are examples of ongoing long-term investments in the broadening of H&M's product range. In autumn 2015 H&M Beauty will be launched – H&M's own broad concept for make-up, body care and hair care with high quality value-for-money products in a specially produced design. H&M Beauty, which will replace H&M's current own-brand cosmetics, will be launched already this year in about 900 H&M stores in around 40 markets as well as online.

The US dollar has strengthened significantly against most currencies, including the euro, since autumn 2014. Although the increasing strength of the US dollar will gradually mean increased sourcing costs for Q2, Q3 and Q4 2015, H&M will still ensure that it has the best customer offering in each individual market.

## GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The annual general meeting held on 29 April 2014 adopted the following 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 chief executive officer (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 CEO, 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 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 CEO.

## *Pension terms etc. for the CEO*

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

## *Variable remuneration*

The CEO, 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 CEO 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 CEO and the chairman of the board, receive one-off payments of 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 CEO is not, however, included in the supplementary guidelines. Overall, around a third of the senior executives who are covered by the abovementioned 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.

#### THE BOARD'S PROPOSALS TO THE 2015 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The board's proposal to the annual general meeting on 29 April 2015 in respect of guidelines for remuneration of senior executives is essentially the same as the guidelines adopted at the 2014 annual general meeting – see below.

*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.*

*Like the guidelines adopted at the 2014 annual general meeting, the board's proposal to the 2015 annual general meeting for guidelines*

*for remuneration of senior executives is divided into two parts: general guidelines and supplementary guidelines.*

*The general guidelines 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 are aimed at some of these individuals. The supplementary guidelines are based on performance compared with targets set, but are also conditional upon the senior executive remaining employed by the H&M group for at least five years.*

*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.*

*Below is a more detailed account of the board's proposal to the 2015 AGM for general and supplementary guidelines:*

#### GENERAL GUIDELINES

The term "senior executives" covers the CEO, 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 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. Other than the ITP plan, no defined benefit pension plans have been taken out for executive management since 2005. 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 CEO.

#### Pension terms etc. for the CEO

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

#### Variable remuneration

The CEO, 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 CEO 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 CEO and the chairman of the board, receive one-off payments of 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 and other key individuals, such that these individuals are covered by both the general guidelines and the supplementary guidelines. The CEO is not, however, included in the supplementary guidelines.

Remuneration according to the supplementary guidelines is based on performance compared with targets set, but is also conditional upon the senior executive remaining employed by the H&M group for at least five years. The five-year rule applies with effect from the year that the annual general meeting adopted the arrangement – which was at the annual general meeting in spring 2014 – up to and including the month of May five years later, i.e. in 2019.

Provided that the abovementioned criteria are met, the senior executives covered by the supplementary guidelines are thus 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.

Where a board member performs work for the company in addition to his or her board work, a separate fee may be paid for this. This also applies if the work is performed by a company wholly or partly owned by the board member.

#### 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 Stockholm.

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 2014, 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. Certain of these can be dealt with through internal routines, while others are affected more by external influences. There are risks and uncertainties related to fashion, weather conditions, macroeconomic changes, sustainability issues, external factors in production countries, trade interventions, foreign currencies and taxes, 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. Fashion is becoming increasingly global, but shopping patterns vary between different markets; the start of a season and the length of that season can vary from country to country, for example. Delivery dates and product volumes for the various countries and stores are therefore adjusted accordingly.

Sustainability is an increasingly important factor, and customers 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 for sale based on normal weather patterns. Deviations from normal weather conditions affect sales. This is particularly true at the transition between two seasons, such as the transition from summer to autumn.

#### NEGATIVE MACROECONOMIC CHANGES

The risk exists that negative macroeconomic and geopolitical changes in one or more countries may result in negative changes in the business environment and in economic downturn, which is likely to change consumer purchasing behaviour and thus affect the group's sales. It is therefore important that H&M is aware of such changes and has a flexible buying model that can be adjusted to different market conditions.

## SUSTAINABILITY AND EXTERNAL FACTORS IN PRODUCTION COUNTRIES

Sustainability is an integral part of H&M's business and includes aspects such as the environment, ethics and human rights.

Sustainability risk areas – which in many cases are industry-wide matters – include climate change, dwindling natural resources, working conditions, corruption and politically unstable sourcing markets. H&M works actively to support social development, to run its operations ethically, to be climate smart and to use natural resources responsibly. H&M's Garment Collecting recycling initiative, with customers depositing clothes in collecting boxes in the stores, is one example of this; H&M's training and follow-up of its anti-corruption code, Code of Ethics, is also an important part of ensuring that employees and suppliers live up to H&M's high requirements as regards business ethics. Considerable volumes of water are used in the textile industry, but water is a limited natural resource – so H&M has developed a global strategy in partnership with the World Wide Fund for Nature (WWF) to improve how H&M works with water.

Uncertainties also exist concerning how external factors such as foreign currencies (see below), 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. H&M's wage project, which aims to achieve better pay terms for workers in the textile industry, is an example of how the company is supporting social development in sourcing markets.

## REPUTATIONAL RISK

As one of the world's leading fashion companies H&M attracts great interest and is constantly in the spotlight. Reputational risk, i.e. the risk that the company's reputation and brand will be damaged, implies a risk of lower sales. Should existing and potential customers lose confidence in H&M and/or one of its brands, or in the industry in general, because of negative publicity and rumours this could result in decreased sales.

To safeguard and manage the brand it is important that the H&M group continues to be developed and run according to its strong values, which are characterised by high business ethics. To prevent reputational risk, but also to manage any incidents, it is important that communication is accurate, transparent and reliable.

## 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

Around half the group's sales are made in euros and the most significant currencies for the group's purchasing are the US dollar and the euro. Fluctuation in the US dollar/euro exchange rate is the single largest foreign currency transaction exposure for the group. Large and rapid exchange rate fluctuations, particularly as regards the USD as a sourcing currency, may also have a significant effect on sourcing costs, even if this may be regarded as relatively competition-neutral. To hedge flows of goods in foreign currencies and thereby reduce the effects of future exchange rate fluctuations, the group's flows of goods – i.e. the

group's purchases of goods and in the majority of cases also the corresponding inflows from the sales companies to the central 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.

## TAXES

For multinational companies today's global environment involves complex tax risks, such as the risk of double taxation and tax disputes. As a large global company, H&M keeps a close eye on developments in the field of tax. H&M is present in many countries and through its operations contributes to the community via various taxes and levies such as corporate tax, customs duties, income taxes and indirectly via VAT on the clothes sold to customers.

H&M endeavours always to comply with national and international tax legislation, and always pays taxes and levies in accordance with local laws and regulations in the countries where H&M is active. H&M's tax policy, which can be found at [hm.com](http://hm.com), reflects and supports H&M's business. H&M follows the OECD Transfer Pricing Guidelines, which means that profits are allocated and taxed where the value is added.

## 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 2015 annual general meeting a dividend of SEK 9.75 per share (9.50), which is equivalent to 81 percent (92) of the group's profit after tax.

## PROPOSED DISTRIBUTION OF EARNINGS

|                                                |                    |
|------------------------------------------------|--------------------|
| At the disposal of the annual general meeting: | SEK 16,966,023,183 |
|------------------------------------------------|--------------------|

|                                                                             |                    |
|-----------------------------------------------------------------------------|--------------------|
| The board of directors and the CEO propose a dividend of SEK 9.75 per share | SEK 16,136,952,000 |
|-----------------------------------------------------------------------------|--------------------|

|                                            |                    |
|--------------------------------------------|--------------------|
| To be carried forward as retained earnings | SEK 829,071,183    |
|                                            | SEK 16,966,023,183 |

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<br>1 DECEMBER – 30 NOVEMBER                                                                            | 2014          | 2013**        |
| Sales including VAT                                                                                          | 176,620       | 150,090       |
| Sales excluding VAT, note 3, 4                                                                               | 151,419       | 128,562       |
| Cost of goods sold, note 6, 8                                                                                | -62,367       | -52,537       |
| <b>GROSS PROFIT</b>                                                                                          | <b>89,052</b> | <b>76,025</b> |
| Selling expenses, note 6, 8                                                                                  | -58,525       | -49,944       |
| Administrative expenses, note 6, 8, 9                                                                        | -4,944        | -3,991        |
| <b>OPERATING PROFIT</b>                                                                                      | <b>25,583</b> | <b>22,090</b> |
| Interest income                                                                                              | 328           | 367           |
| Interest expense                                                                                             | -16           | -9            |
| <b>PROFIT AFTER FINANCIAL ITEMS</b>                                                                          | <b>25,895</b> | <b>22,448</b> |
| Tax, note 10                                                                                                 | -5,919        | -5,355        |
| <b>PROFIT FOR THE YEAR</b>                                                                                   | <b>19,976</b> | <b>17,093</b> |
| All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB. |               |               |
| Earnings per share, SEK*                                                                                     | 12.07         | 10.33         |
| Number of shares, thousands*                                                                                 | 1,655,072     | 1,655,072     |

\* Before and after dilution.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                                                                                                                     |               |               |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| SEK M<br>1 DECEMBER – 30 NOVEMBER                                                                                   | 2014          | 2013**        |
| <b>PROFIT FOR THE YEAR</b>                                                                                          | <b>19,976</b> | <b>17,093</b> |
| <b>Other comprehensive income</b>                                                                                   |               |               |
| <i>Items that have been reclassified or may be reclassified to profit or loss</i>                                   |               |               |
| Translation differences                                                                                             | 1,979         | 30            |
| Change in hedging reserves                                                                                          | 185           | -61           |
| Tax attributable to change in hedging reserves                                                                      | -44           | 15            |
| <i>Items that have not been and will not be reclassified to profit or loss</i>                                      |               |               |
| Revaluations relating to defined benefit pension plans                                                              | -148          | 78            |
| Tax attributable to the above revaluation                                                                           | 35            | -19           |
| <b>OTHER COMPREHENSIVE INCOME</b>                                                                                   | <b>2,007</b>  | <b>43</b>     |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>                                                                    | <b>21,983</b> | <b>17,136</b> |
| All total comprehensive income is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB. |               |               |

\*\* Due to a change in accounting principles (IAS 19 Revised), profit for the 2012/2013 financial year has been restated compared to previously published information. Profit for the year has decreased by SEK 59 m after tax and Other comprehensive income has increased by SEK 59 m after tax. The change in accounting principles has had no effect on the balance sheet. For further information see note 1, Accounting principles.

# Group balance sheet

| SEK M<br>30 NOVEMBER                             | 2014          | 2013          | SEK M<br>30 NOVEMBER                               | 2014          | 2013          |
|--------------------------------------------------|---------------|---------------|----------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                    |               |               | <b>EQUITY AND LIABILITIES</b>                      |               |               |
| <b>FIXED ASSETS</b>                              |               |               | <b>EQUITY</b>                                      |               |               |
| <b>Intangible fixed assets</b>                   |               |               | Share capital, note 17                             | 207           | 207           |
| Brands, note 11                                  | 161           | 208           | Reserves                                           | 204           | -1,916        |
| Customer relations, note 11                      | 45            | 58            | Retained earnings                                  | 51,145        | 46,957        |
| Leasehold rights, note 11                        | 509           | 591           | <b>TOTAL EQUITY</b>                                | <b>51,556</b> | <b>45,248</b> |
| Capitalised expenditure, note 11                 | 2,183         | 1,355         |                                                    |               |               |
| Goodwill, note 11                                | 64            | 64            | <b>LIABILITIES</b>                                 |               |               |
|                                                  | <b>2,962</b>  | <b>2,276</b>  | <b>Long-term liabilities*</b>                      |               |               |
| <b>Tangible fixed assets</b>                     |               |               | Provisions for pensions, note 18                   | 451           | 309           |
| Buildings and land, note 12                      | 804           | 814           | Deferred tax liabilities, note 10                  | 3,287         | 2,722         |
| Equipment, tools, fixtures and fittings, note 12 | 26,144        | 21,372        |                                                    | <b>3,738</b>  | <b>3,031</b>  |
|                                                  | <b>26,948</b> | <b>22,186</b> | <b>Current liabilities**</b>                       |               |               |
| <b>Long-term receivables</b>                     | <b>709</b>    | <b>659</b>    | Accounts payable                                   | 5,520         | 4,870         |
| <b>Deferred tax receivables, note 10</b>         | <b>2,237</b>  | <b>1,367</b>  | Tax liabilities                                    | 1,154         | 797           |
|                                                  |               |               | Other liabilities                                  | 2,947         | 3,360         |
| <b>TOTAL FIXED ASSETS</b>                        | <b>32,856</b> | <b>26,488</b> | Accrued expenses and prepaid income, note 20       | 10,682        | 8,370         |
|                                                  |               |               |                                                    | <b>20,303</b> | <b>17,397</b> |
| <b>CURRENT ASSETS</b>                            |               |               | <b>TOTAL LIABILITIES</b>                           | <b>24,041</b> | <b>20,428</b> |
| <b>Stock-in-trade</b>                            | <b>19,403</b> | <b>16,695</b> |                                                    |               |               |
| <b>Current receivables</b>                       |               |               | <b>TOTAL EQUITY AND LIABILITIES</b>                | <b>75,597</b> | <b>65,676</b> |
| Accounts receivable                              | 3,659         | 3,107         | Pledged assets and contingent liabilities, note 22 | –             | –             |
| Other receivables                                | 1,470         | 907           |                                                    |               |               |
| Prepaid expenses, note 13                        | 1,516         | 1,255         |                                                    |               |               |
|                                                  | <b>6,645</b>  | <b>5,269</b>  |                                                    |               |               |
| <b>Short-term investments, note 14</b>           | <b>2,602</b>  | <b>3,306</b>  |                                                    |               |               |
| <b>Cash and cash equivalents, note 15</b>        | <b>14,091</b> | <b>13,918</b> |                                                    |               |               |
| <b>TOTAL CURRENT ASSETS</b>                      | <b>42,741</b> | <b>39,188</b> |                                                    |               |               |
| <b>TOTAL ASSETS</b>                              | <b>75,597</b> | <b>65,676</b> |                                                    |               |               |

\* 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 DIFFERENCES | HEDGING RESERVES | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|--------------------------------------------------------|---------------|-------------------------|------------------|-------------------|----------------------------|
| <b>SHAREHOLDERS' EQUITY, 1 DECEMBER 2013</b>           | <b>207</b>    | <b>-1,830</b>           | <b>-86</b>       | <b>46,957</b>     | <b>45,248</b>              |
| Profit for the year                                    | –             | –                       | –                | 19,976            | 19,976                     |
| <b>Other comprehensive income</b>                      |               |                         |                  |                   |                            |
| Translation differences                                | –             | 1,979                   | –                | –                 | 1,979                      |
| <b>Change in hedging reserves</b>                      |               |                         |                  |                   |                            |
| Recognised in other comprehensive income               | –             | –                       | 944              | –                 | 944                        |
| Transfer to income statement                           | –             | –                       | -759             | –                 | -759                       |
| Tax attributable to hedging reserves                   | –             | –                       | -44              | –                 | -44                        |
| Revaluations relating to defined benefit pension plans | –             | –                       | –                | -148              | -148                       |
| Tax attributable to the above revaluation              | –             | –                       | –                | 35                | 35                         |
| <b>Other comprehensive income</b>                      | <b>–</b>      | <b>1,979</b>            | <b>141</b>       | <b>-113</b>       | <b>2,007</b>               |
| <b>Total comprehensive income</b>                      | <b>–</b>      | <b>1,979</b>            | <b>141</b>       | <b>19,863</b>     | <b>21,983</b>              |
| Overdue bonus share rights                             | –             | –                       | –                | 48                | 48                         |
| Dividend                                               | –             | –                       | –                | -15,723           | -15,723                    |
| <b>SHAREHOLDERS' EQUITY, 30 NOVEMBER 2014</b>          | <b>207</b>    | <b>149</b>              | <b>55</b>        | <b>51,145</b>     | <b>51,556</b>              |

| SEK M                                                  | SHARE CAPITAL | TRANSLATION DIFFERENCES | HEDGING RESERVES | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|--------------------------------------------------------|---------------|-------------------------|------------------|-------------------|----------------------------|
| <b>SHAREHOLDERS' EQUITY, 1 DECEMBER 2012</b>           | <b>207</b>    | <b>-1,860</b>           | <b>-40</b>       | <b>45,528</b>     | <b>43,835</b>              |
| Profit for the year                                    | –             | –                       | –                | 17,093            | 17,093                     |
| <b>Other comprehensive income</b>                      |               |                         |                  |                   |                            |
| Translation differences                                | –             | 30                      | –                | –                 | 30                         |
| <b>Change in hedging reserves</b>                      |               |                         |                  |                   |                            |
| Recognised in other comprehensive income               | –             | –                       | -153             | –                 | -153                       |
| Transfer to income statement                           | –             | –                       | 92               | –                 | 92                         |
| Tax attributable to hedging reserves                   | –             | –                       | 15               | –                 | 15                         |
| Revaluations relating to defined benefit pension plans | –             | –                       | –                | 78                | 78                         |
| Tax attributable to the above revaluation              | –             | –                       | –                | -19               | -19                        |
| <b>Other comprehensive income</b>                      | <b>–</b>      | <b>30</b>               | <b>-46</b>       | <b>59</b>         | <b>43</b>                  |
| <b>Total comprehensive income</b>                      | <b>–</b>      | <b>30</b>               | <b>-46</b>       | <b>17,152</b>     | <b>17,136</b>              |
| Dividend                                               | –             | –                       | –                | -15,723           | -15,723                    |
| <b>SHAREHOLDERS' EQUITY, 30 NOVEMBER 2013</b>          | <b>207</b>    | <b>-1,830</b>           | <b>-86</b>       | <b>46,957</b>     | <b>45,248</b>              |

# Group cash flow statement

|                                                                            |                |                |
|----------------------------------------------------------------------------|----------------|----------------|
| SEK M                                                                      |                |                |
| 1 DECEMBER - 30 NOVEMBER                                                   | 2014           | 2013           |
| <b>Current operations</b>                                                  |                |                |
| Profit after financial items*                                              | 25,895         | 22,448         |
| Provisions for pensions                                                    | -20            | 10             |
| Depreciation                                                               | 5,045          | 4,191          |
| Tax paid                                                                   | -5,971         | -3,059         |
| <b>Cash flow from current operations before changes in working capital</b> | <b>24,949</b>  | <b>23,590</b>  |
| <b>Cash flow from changes in working capital</b>                           |                |                |
| Current receivables                                                        | -888           | -839           |
| Stock-in-trade                                                             | -2,327         | -1,439         |
| Current liabilities                                                        | 2,422          | 2,528          |
| <b>CASH FLOW FROM CURRENT OPERATIONS</b>                                   | <b>24,156</b>  | <b>23,840</b>  |
| <b>Investment activities</b>                                               |                |                |
| Investment in leasehold rights                                             | -35            | -179           |
| Investments in other intangible assets                                     | -868           | -738           |
| Investment in buildings and land                                           | -21            | -23            |
| Investment in equipment                                                    | -8,467         | -7,087         |
| Change in short-term investments, 4–12 months                              | 704            | -311           |
| Other investments                                                          | -21            | -31            |
| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>                                | <b>-8,708</b>  | <b>-8,369</b>  |
| <b>Financing activities</b>                                                |                |                |
| Dividend                                                                   | -15,723        | -15,723        |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                 | <b>-15,723</b> | <b>-15,723</b> |
| <b>CASH FLOW FOR THE YEAR</b>                                              | <b>-275</b>    | <b>-252</b>    |
| <b>Cash and cash equivalents at beginning of the financial year</b>        | <b>13,918</b>  | <b>14,148</b>  |
| Cash flow for the year                                                     | -275           | -252           |
| Exchange rate effect                                                       | 448            | 22             |
| <b>Cash and cash equivalents at end of the financial year**</b>            | <b>14,091</b>  | <b>13,918</b>  |

\* Interest paid for the group amounts to SEK 16 m (9). Interest received for the group amounts to SEK 328 m (367).

\*\* Cash and cash equivalents and short-term investments at the end of the financial year amounted to SEK 16,693 m (17,224).

# Parent company income statement

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| SEK M                                 |               |               |
| 1 DECEMBER - 30 NOVEMBER              | 2014          | 2013*         |
| External sales excluding VAT          | 47            | 35            |
| Internal sales excluding VAT, note 5  | 8,764         | 7,845         |
| <b>GROSS PROFIT</b>                   | <b>8,811</b>  | <b>7,880</b>  |
| Selling expenses, note 6, 8           | -2,982        | -2,699        |
| Administrative expenses, note 6, 8, 9 | -5,316        | -4,276        |
| <b>OPERATING PROFIT</b>               | <b>513</b>    | <b>905</b>    |
| Dividend from subsidiaries            | 15,701        | 16,039        |
| Interest income                       | 59            | 63            |
| Interest expense                      | -25           | -9            |
| <b>PROFIT AFTER FINANCIAL ITEMS</b>   | <b>16,248</b> | <b>16,998</b> |
| Year-end appropriations, note 23      | -10           | -1,020        |
| Tax, note 10                          | -130          | -46           |
| <b>PROFIT FOR THE YEAR</b>            | <b>16,108</b> | <b>15,932</b> |

## PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

|                                                                                |               |               |
|--------------------------------------------------------------------------------|---------------|---------------|
| SEK M                                                                          |               |               |
| 1 DECEMBER - 30 NOVEMBER                                                       | 2014          | 2013*         |
| <b>PROFIT FOR THE YEAR</b>                                                     | <b>16,108</b> | <b>15,932</b> |
| <b>Other comprehensive income</b>                                              |               |               |
| <i>Items that have not been and will not be reclassified to profit or loss</i> |               |               |
| Revaluations relating to defined benefit pension plans                         | -24           | 17            |
| Tax attributable to the above revaluation                                      | 5             | -4            |
| <b>OTHER COMPREHENSIVE INCOME</b>                                              | <b>-19</b>    | <b>13</b>     |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                                 | <b>16,089</b> | <b>15,945</b> |

\* Due to a change in accounting principles (IAS 19 Revised), profit for the 2012/2013 financial year has been restated compared to previously published information. Profit for the year has decreased by SEK 13 m after tax and Other comprehensive income has increased by SEK 13 m after tax. The change in accounting principles has had no effect on the balance sheet. For further information see note 1, Accounting principles.

# Parent company balance sheet

| SEK M<br>30 NOVEMBER                            | 2014          | 2013          | SEK M<br>30 NOVEMBER                         | 2014          | 2013          |
|-------------------------------------------------|---------------|---------------|----------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                   |               |               | <b>EQUITY AND LIABILITIES</b>                |               |               |
| <b>FIXED ASSETS</b>                             |               |               | <b>EQUITY</b>                                |               |               |
| <b>Tangible fixed assets</b>                    |               |               | <b>Restricted equity</b>                     |               |               |
| Buildings and land, note 12                     | 73            | 56            | Share capital, note 17                       | 207           | 207           |
| Equipment, tools, fixture and fittings, note 12 | 575           | 446           | Restricted reserves                          | 88            | 88            |
|                                                 | <b>648</b>    | <b>502</b>    |                                              | <b>295</b>    | <b>295</b>    |
| <b>Financial fixed assets</b>                   |               |               | <b>Non-restricted equity</b>                 |               |               |
| Shares and participations, note 24              | 588           | 588           | Retained earnings                            | 877           | 607           |
| Receivables from subsidiaries                   | 905           | 733           | Profit for the year                          | 16,089        | 15,945        |
| Long-term receivables                           | 11            | 13            |                                              | <b>16,966</b> | <b>16,552</b> |
| Deferred tax receivables, note 10               | 49            | 47            |                                              |               |               |
|                                                 | <b>1,553</b>  | <b>1,381</b>  | <b>TOTAL EQUITY</b>                          | <b>17,261</b> | <b>16,847</b> |
| <b>TOTAL FIXED ASSETS</b>                       | <b>2,201</b>  | <b>1,883</b>  | <b>UNTAXED RESERVES, NOTE 25</b>             | <b>464</b>    | <b>454</b>    |
| <b>CURRENT ASSETS</b>                           |               |               | <b>LIABILITIES</b>                           |               |               |
| <b>Current receivables</b>                      |               |               | <b>Long-term liabilities</b>                 |               |               |
| Receivables from subsidiaries                   | 11,851        | 12,107        | Provisions for pensions, note 18             | 223           | 213           |
| Tax receivables                                 | 82            | –             | <b>Current liabilities*</b>                  |               |               |
| Other receivables                               | 44            | 33            | Accounts payable                             | 462           | 424           |
| Prepaid expenses, note 13                       | 20            | 23            | Tax liabilities                              | –             | 27            |
|                                                 | <b>11,997</b> | <b>12,163</b> | Other liabilities                            | 325           | 350           |
| <b>Short-term investments, note 14</b>          | <b>2,602</b>  | <b>3,304</b>  | Accrued expenses and prepaid income, note 20 | 379           | 359           |
| <b>Cash and cash equivalents, note 15</b>       | <b>2,314</b>  | <b>1,324</b>  |                                              | <b>1,166</b>  | <b>1,160</b>  |
| <b>TOTAL CURRENT ASSETS</b>                     | <b>16,913</b> | <b>16,791</b> | <b>TOTAL LIABILITIES</b>                     | <b>1,389</b>  | <b>1,373</b>  |
| <b>TOTAL ASSETS</b>                             | <b>19,114</b> | <b>18,674</b> | <b>TOTAL EQUITY AND LIABILITIES</b>          | <b>19,114</b> | <b>18,674</b> |
|                                                 |               |               | Pledged assets                               | –             | –             |
|                                                 |               |               | Contingent liabilities, note 26              | 13,186        | 12,034        |

\* No current liabilities are interest-bearing.

# Parent company changes in equity

| SEK M                                                  | SHARE CAPITAL | TRANSLATION DIFFERENCES | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|--------------------------------------------------------|---------------|-------------------------|-------------------|----------------------------|
| <b>SHAREHOLDERS' EQUITY, 1 DECEMBER 2013</b>           | <b>207</b>    | <b>88</b>               | <b>16,552</b>     | <b>16,847</b>              |
| Profit for the year                                    | –             | –                       | 16,108            | 16,108                     |
| <b>Other comprehensive income</b>                      |               |                         |                   |                            |
| Revaluations relating to defined benefit pension plans | –             | –                       | -24               | -24                        |
| Tax attributable to the above revaluation              | –             | –                       | 5                 | 5                          |
| <b>Other comprehensive income</b>                      | <b>–</b>      | <b>–</b>                | <b>-19</b>        | <b>-19</b>                 |
| <b>Total comprehensive income</b>                      | <b>–</b>      | <b>–</b>                | <b>16,089</b>     | <b>16,089</b>              |
| Overdue bonus share rights                             | –             | –                       | 48                | 48                         |
| Dividend                                               | –             | –                       | -15,723           | -15,723                    |
| <b>SHAREHOLDERS' EQUITY, 30 NOVEMBER 2014</b>          | <b>207</b>    | <b>88</b>               | <b>16,966</b>     | <b>17,261</b>              |

| SEK M                                                  | SHARE CAPITAL | TRANSLATION DIFFERENCES | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|--------------------------------------------------------|---------------|-------------------------|-------------------|----------------------------|
| <b>SHAREHOLDERS' EQUITY, 1 DECEMBER 2012</b>           | <b>207</b>    | <b>88</b>               | <b>16,331</b>     | <b>16,626</b>              |
| Profit for the year                                    | –             | –                       | 15,932            | 15,932                     |
| <b>Other comprehensive income</b>                      |               |                         |                   |                            |
| Revaluations relating to defined benefit pension plans | –             | –                       | 17                | 17                         |
| Tax attributable to the above revaluation              | –             | –                       | -4                | -4                         |
| <b>Other comprehensive income</b>                      | <b>–</b>      | <b>–</b>                | <b>13</b>         | <b>13</b>                  |
| <b>Total comprehensive income</b>                      | <b>–</b>      | <b>–</b>                | <b>15,945</b>     | <b>15,945</b>              |
| Dividend                                               | –             | –                       | -15,723           | -15,723                    |
| <b>SHAREHOLDERS' EQUITY, 30 NOVEMBER 2013</b>          | <b>207</b>    | <b>88</b>               | <b>16,552</b>     | <b>16,847</b>              |

# Parent company cash flow statement

|                                                                            |                |                |
|----------------------------------------------------------------------------|----------------|----------------|
| SEK M                                                                      |                |                |
| 1 DECEMBER – 30 NOVEMBER                                                   | 2014           | 2013           |
| <b>Current operations</b>                                                  |                |                |
| Profit after financial items*                                              | 16,248         | 16,998         |
| Provisions for pensions                                                    | -14            | 1              |
| Depreciation                                                               | 128            | 115            |
| Taxes received/paid                                                        | -235           | 281            |
| <b>Cash flow from current operations before changes in working capital</b> | <b>16,127</b>  | <b>17,395</b>  |
| <b>Cash flow from changes in working capital</b>                           |                |                |
| Current receivables                                                        | 248            | -705           |
| Current liabilities                                                        | 80             | 307            |
| <b>CASH FLOW FROM CURRENT OPERATIONS</b>                                   | <b>16,455</b>  | <b>16,997</b>  |
| <b>Investment activities</b>                                               |                |                |
| Investment in buildings and land                                           | -20            | -13            |
| Investment in equipment                                                    | -254           | -148           |
| Adjustment of consideration/acquisition of subsidiaries                    | 0              | 0              |
| Change in short-term investments, 4–12 months                              | 702            | -311           |
| Other investments                                                          | -170           | 217            |
| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>                                | <b>258</b>     | <b>-255</b>    |
| <b>Financing activities</b>                                                |                |                |
| Dividend                                                                   | -15,723        | -15,723        |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                 | <b>-15,723</b> | <b>-15,723</b> |
| <b>CASH FLOW FOR THE YEAR</b>                                              | <b>990</b>     | <b>1,019</b>   |
| <b>Cash and cash equivalents at beginning of the financial year</b>        | <b>1,324</b>   | <b>305</b>     |
| Cash flow for the year                                                     | 990            | 1,019          |
| <b>Cash and cash equivalents at end of the financial year**</b>            | <b>2,314</b>   | <b>1,324</b>   |

\* Interest paid for the parent company amounts to SEK 25 m (9). Interest received for the parent company amounts to SEK 59 m (63).

\*\* Cash and cash equivalents and short-term investments at the end of the financial year amounted to SEK 4,916 m (4,628).

# Notes to the financial statements

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## 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 Stockholm. 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 27 January 2015 and will be submitted to the annual general meeting for approval on 29 April 2015.

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 to the measurement of financial instruments and does not capitalise development expenditure (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.

Group contributions that the parent company receives from subsidiaries and provides to subsidiaries are reported under appropriations.

### CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

The accounting principles and disclosure requirements applied for 2013/2014 are the same as those applied in the previous year, with the following additions:

- IFRS 7, Financial Instruments: Disclosures – the amendment to IFRS 7 has been applied to the 2013/2014 financial year. Under the new disclosure requirements, information is provided on financial assets and financial liabilities that are set off in the statement of financial position. Financial assets and financial liabilities that are subject to master netting arrangements or similar agreements are also disclosed, irrespective of whether or not they have been set off.
- IFRS 13, Fair Value Measurement – this standard has been applied to the 2013/2014 financial year. 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, such that fair value disclosures are also provided in interim financial reports.

- IAS 19, Employee Benefits – amended – has been applied to 2013/2014. 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.

Up to and including the 2012/2013 financial year the group recognised actuarial gains and losses in the income statement. With the application of the revised IAS 19, these are recognised in other comprehensive income. The comparison figures for the 2012/2013 financial year have been restated so that actuarial gains are recognised in other comprehensive income. Operating profit has been adjusted by SEK -78 m and tax expense by SEK 19 m. Other comprehensive income has thus been adjusted by SEK 59 m net including tax. The comparison figures in segment reporting and other notes have also been adjusted where applicable. The change of accounting principle has had no effect on the balance sheet.

### FUTURE ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS

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

- IFRS 9, Financial Instruments: Recognition and Measurement (not yet adopted by the EU). This standard is to be applied to annual reporting periods beginning on or after 1 January 2018, when it will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard have been comprehensively revised in various parts, including in respect of the recognition and measurement of financial assets and financial liabilities. The standard is divided into three parts: classification and measurement, hedge accounting and impairment.

IFRS 9 requires financial assets to be classified in three different measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is made at the time the asset is initially recognised based on the characteristics of the asset and the company's business model. In the case of financial liabilities, there are no significant changes compared to IAS 39. The main change is for liabilities

measured at fair value. In this case the part of the change in fair value attributable to a change in the credit risk of the liability is to be presented in other comprehensive income rather than in profit or loss, unless this would create an accounting mismatch.

The second part relates to hedge accounting. IFRS 9 requires additional disclosures concerning risk management and the effects of hedge accounting. In the main, the new principles provide the conditions for a fairer picture of a company's management of financial risks to be reported.

Finally, new principles have been introduced regarding impairment of financial assets using a model based on expected losses. One of the aims of the new model is that reservations for credit losses will be made at an earlier stage.

The group has not evaluated the effects of the new standard.

- IFRS 10, Consolidated Financial Statements and amended IAS 27, Separate Financial Statements – the EU has stated that this standard is to apply to annual reporting periods beginning on or after 1 January 2014. 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. The amendment is more about 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 – the EU has stated that this standard is to apply to annual reporting periods beginning on or after 1 January 2014. Companies with participations 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 holdings on the financial statements, as well as any risks associated with the holdings 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 15 Revenue from Contracts with Customers (not yet adopted by the EU) – this standard applies to annual reporting periods beginning on or after 1 January 2017 (in the case of H&M, from the 2017/2018 financial year). The standard replaces all previously issued standards and interpretations dealing with revenue (i.e. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue: Barter Transactions Involving Advertising Services).

IFRS 15 contains an overall model for reporting revenue arising from contracts with customers. The idea is that everything starts with an agreement between two parties concerning the sale of a good or service. Initially a customer agreement is to be identified, which generates an asset (rights, a promise that compensation will be received) and a liability (commitments, a promise to deliver goods/services) for the seller. Under the model the company then reports a revenue item and thereby demonstrates that the company is meeting a commitment to deliver promised goods or services to the customer.

H&M does not expect the standard to make any material difference to the group.

- IFRIC 21 Levies – the EU has stated that this standard is to apply to annual reporting periods beginning on or after 17 July 2014. The interpretation clarifies when a liability for levies (which are covered by IAS 37) is to be recognised. Levies are duties/taxes imposed on companies by government agencies and similar bodies in accordance with laws and/or regulations, with the exception of income taxes, fines and other penalties. The interpretation states that a liability is to be recognised when the company has an obligation to pay the levy as a result of an event that has occurred. The liability is recognised progressively if the obligating event occurs over a period of time. If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

#### 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 carrying 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 2014, 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 im-

pairment 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 operating leases. Finance 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 finance 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 finance leases. Minimum lease fees for operating 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 cash and cash equivalents, 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 amortised cost. Accounts receivable have a short expected term and are recog-

nised 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 amortised 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 valued at amortised cost. 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.

#### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents 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 fluctuations 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, through 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, but also in the UK, Norway, Switzerland, Spain and Germany. 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 other comprehensive income 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 2014, Alecta's consolidation ratio was 146 percent (153). 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 carrying amounts 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 financial 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 cash and cash equivalents, 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 cash and cash equivalents 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 cash and cash equivalents 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 cash and cash equivalents and short-term investments as of the closing date amounted to SEK 16,693 m (17,224). 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 83 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. The group's accounts payable in foreign currencies are mainly handled in Sweden and are largely 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 4 m (31) before taking into account the tax effect, of which SEK 164 m relates to EUR and SEK -208 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 -145 m (-1).

##### *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 2014 totalled SEK 21,504 m (21,176) and corresponds to the book value for cash and cash equivalents of SEK 14,091 m (13,918), short-term investments of SEK 2,602 m (3,306), accounts receivable of SEK 3,659 m (3,107) and other SEK 1,152 m (845). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 2,335 (2,100). 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

|                                       | 2014    | 2013    |
|---------------------------------------|---------|---------|
| <b>Asia &amp; Oceania</b>             |         |         |
| External net sales                    | 16,878  | 12,844  |
| Operating profit                      | 1,999   | 1,916   |
| Operating margin, %                   | 11.8    | 14.9    |
| Assets excluding tax receivables      | 8,876   | 5,221   |
| Liabilities excluding tax liabilities | 1,234   | 626     |
| Investments                           | 1,630   | 1,163   |
| Depreciation                          | 522     | 348     |
| <b>Europe</b>                         |         |         |
| External net sales                    | 114,506 | 99,492  |
| Operating profit                      | 8,720   | 5,868   |
| Operating margin, %                   | 7.6     | 5.9     |
| Assets excluding tax receivables      | 36,865  | 33,965  |
| Liabilities excluding tax liabilities | 9,719   | 8,404   |
| Investments                           | 3,624   | 4,034   |
| Depreciation                          | 3,157   | 2,828   |
| <b>North &amp; South America</b>      |         |         |
| External net sales                    | 20,035  | 16,226  |
| Operating profit                      | 433     | 407     |
| Operating margin, %                   | 2.2     | 2.5     |
| Assets excluding tax receivables      | 10,897  | 7,006   |
| Liabilities excluding tax liabilities | 3,112   | 2,202   |
| Investments                           | 2,918   | 1,829   |
| Depreciation                          | 958     | 724     |
| <b>Group Functions</b>                |         |         |
| Net sales to other segments           | 67,870  | 60,448  |
| Operating profit                      | 14,431  | 13,899  |
| Operating margin, %                   | 21.3    | 23.0    |
| Assets excluding tax receivables      | 18,959  | 18,117  |
| Liabilities excluding tax liabilities | 5,535   | 5,677   |
| Investments                           | 1,219   | 1,001   |
| Depreciation                          | 408     | 291     |
| <b>Eliminations</b>                   |         |         |
| Net sales to other segments           | -67,870 | -60,448 |
| <b>Total</b>                          |         |         |
| External net sales                    | 151,419 | 128,562 |
| Operating profit                      | 25,583  | 22,090  |
| Operating margin, %                   | 16.9    | 17.2    |
| Assets excluding tax receivables      | 75,597  | 64,309  |
| Liabilities excluding tax liabilities | 19,600  | 16,909  |
| Investments                           | 9,391   | 8,027   |
| Depreciation                          | 5,045   | 4,191   |

To better reflect the company's current geographical spread, with effect from 2013 segment reporting was split into the following three segments: Asia & Oceania, Europe and North & South America. For more information see Accounting principles, note 1.

The group's tangible fixed assets amounted to SEK 26,948 m (22,186) as of 30 November 2014. The fixed assets are largely distributed between the countries in accordance with each country's level of sales. In Sweden tangible fixed assets amounted to SEK 1,226 m (1,175) as of 30 November 2014.

#### 4. NET SALES BY COUNTRY

|                | NO. OF STORES  |              | NO. OF STORES  |              |
|----------------|----------------|--------------|----------------|--------------|
|                | 2014           | 30 NOV. 2014 | 2013           | 30 NOV. 2013 |
| Sweden         | 7,184          | 176          | 6,652          | 177          |
| Norway         | 4,524          | 118          | 4,432          | 114          |
| Denmark        | 4,097          | 99           | 3,694          | 97           |
| UK             | 11,196         | 253          | 8,835          | 245          |
| Switzerland    | 5,510          | 93           | 5,108          | 87           |
| Germany        | 29,418         | 440          | 26,206         | 418          |
| Netherlands    | 6,053          | 135          | 5,581          | 130          |
| Belgium        | 3,255          | 78           | 2,847          | 73           |
| Austria        | 4,309          | 73           | 4,024          | 72           |
| Luxembourg     | 345            | 10           | 346            | 10           |
| Finland        | 2,178          | 60           | 2,054          | 58           |
| France         | 10,271         | 205          | 8,893          | 197          |
| US             | 16,429         | 356          | 13,001         | 305          |
| Spain          | 5,606          | 159          | 4,997          | 156          |
| Poland         | 3,040          | 140          | 2,598          | 122          |
| Czech Republic | 802            | 43           | 691            | 38           |
| Portugal       | 899            | 30           | 747            | 27           |
| Italy          | 5,852          | 132          | 4,529          | 116          |
| Canada         | 2,798          | 72           | 2,713          | 66           |
| Slovenia       | 406            | 12           | 389            | 12           |
| Ireland        | 688            | 20           | 524            | 19           |
| Hungary        | 832            | 35           | 625            | 33           |
| Slovakia       | 364            | 15           | 311            | 13           |
| Greece         | 1,081          | 30           | 799            | 27           |
| China          | 8,018          | 291          | 5,957          | 205          |
| Japan          | 3,134          | 51           | 2,804          | 39           |
| Russia         | 2,630          | 71           | 2,208          | 51           |
| South Korea    | 900            | 22           | 736            | 16           |
| Turkey         | 1,219          | 30           | 661            | 20           |
| Romania        | 1,033          | 38           | 720            | 28           |
| Croatia        | 619            | 14           | 564            | 13           |
| Singapore      | 742            | 10           | 573            | 6            |
| Bulgaria       | 324            | 16           | 220            | 11           |
| Latvia         | 203            | 6            | 108            | 3            |
| Malaysia       | 677            | 18           | 379            | 7            |
| Mexico         | 514            | 6            | 280            | 3            |
| Chile          | 294            | 1            | 232            | 1            |
| Lithuania      | 178            | 6            | 36             | 2            |
| Serbia         | 204            | 5            | 59             | 2            |
| Estonia        | 185            | 6            | 35             | 3            |
| Australia      | 417            | 3            |                |              |
| Philippines    | 44             | 3            |                |              |
| Franchise      | 2,947          | 130          | 2,394          | 110          |
| <b>Total</b>   | <b>151,419</b> | <b>3,511</b> | <b>128,562</b> | <b>3,132</b> |

#### 5. REVENUE FROM GROUP COMPANIES

The parent company's internal sales consist of royalties of SEK 5,735 m (7,845) and income from services of SEK 3,029 m (0) from group companies.

#### 6. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

| 2014                   | Board, CEO, executive management, salary | Salary, other employees | Social sec. costs total | of which pens. total | of which pens. Board, CEO, executive management |
|------------------------|------------------------------------------|-------------------------|-------------------------|----------------------|-------------------------------------------------|
| Sweden, parent company | 83                                       | 918                     | 442                     | 153                  | 52                                              |
| Subsidiaries           | 64                                       | 19,076                  | 4,491                   | 221                  | 6                                               |
| <b>Group total</b>     | <b>147</b>                               | <b>19,994</b>           | <b>4,933</b>            | <b>374</b>           | <b>58</b>                                       |
|                        |                                          |                         |                         |                      |                                                 |
| 2013                   | Board, CEO, executive management, salary | Salary, other employees | Social sec. costs total | of which pens. total | of which pens. Board, CEO, executive management |
| Sweden, parent company | 76                                       | 862                     | 423                     | 144                  | 10                                              |
| Subsidiaries           | 62                                       | 16,207                  | 3,815                   | 184                  | 3                                               |
| <b>Group total</b>     | <b>138</b>                               | <b>17,069</b>           | <b>4,238</b>            | <b>328</b>           | <b>13</b>                                       |

#### BOARD FEES

Board fees paid for the year as approved by the 2013 AGM amounted to SEK 4,867,000\* (5,025,000). Board fees were paid as follows:

|                          |           |
|--------------------------|-----------|
| SEK                      |           |
| Stefan Persson, chairman | 1,350,000 |
| Mia Brunell Livfors      | 317,000*  |
| Anders Dahlvig           | 475,000   |
| Lottie Knutson           | 475,000   |
| Sussi Kvart              | 575,000   |
| Bo Lundquist             | 625,000   |
| Melker Schörling         | 475,000   |
| Christian Sievert        | 575,000   |

\* 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. The board fees paid to Mia Brunell Livfors are therefore based on the number of board meetings that she attended until her departure at the end of 2013, which is also reflected in the total board fees for the year.

The fees were paid as resolved at the 2013 annual general meeting. This means that the fees related to the period until the next AGM is held, i.e. for the period 23 April 2013 till 29 April 2014. The amounts were paid out after the 2014 AGM.

As of the AGM on 29 April 2014 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.

Board member Lena Patriksson Keller is the sole owner of Patriksson Communication AB, which had business relations with H&M during the year. The transactions took place on market terms and remuneration for 2014 amounted to SEK 1.5 m.

#### REMUNERATION OF SENIOR EXECUTIVES

Based on resolutions on guidelines adopted annually by the AGM. See Administration report, pages 62–63.

#### REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

Remuneration paid to the CEO for the 2014 financial year in the form of salary and benefits amounted to SEK 12.6 m (12.3), 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 3.8 m (3.7). 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.

The CEO is not covered by the supplementary guidelines on senior executives (see Administration report, page 63).

#### 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 152.8 m (137.3). The change in the year's pension commitments entered as liabilities include actuarial losses of SEK 17.8 m (actuarial gains of SEK 12.0 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 amounted to SEK 65.2 m (58.7) which included variable remuneration of SEK 3.5 m (2.9). In addition to this, an estimated expense of SEK 15 m has been recognised in respect of remuneration that certain senior executives may receive in accordance with the supplementary guidelines – see further description in the administration report on page 63. This will be paid out no earlier than 2019, in accordance with the guidelines approved at the 2014 AGM. Pension expenses relating to other members of the executive management during the year amounted to SEK 25.7 m (13.7). At year-end the other members of the executive management are 15 (15) 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 2014 variable remuneration of SEK 7.4 m (2.5) 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 payments 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 was made for the financial year which ended on 30 November 2013.

The contribution to HIP for a financial year is expensed in the year to which it relates. For example, if profit after tax in year 1 is 100 and profit after tax in year 2 is 130, then the contribution is 3 and will be 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 2014 the contribution to the incentive programme was SEK 303 m (31), based on the principle for contributions to HIP that was adopted at the 2013 AGM and is described above. The cost of this contribution was recognised in the fourth quarter 2014.

## 7. AVERAGE NUMBER OF EMPLOYEES

|                    | 2014<br>Total | Male %    | 2013<br>Total | Male %    |
|--------------------|---------------|-----------|---------------|-----------|
| Sweden             | 7,489         | 23        | 6,868         | 23        |
| Norway             | 1,737         | 10        | 1,784         | 10        |
| Denmark            | 1,585         | 8         | 1,529         | 7         |
| UK                 | 6,489         | 23        | 5,789         | 23        |
| Switzerland        | 2,040         | 13        | 1,928         | 14        |
| Germany            | 14,050        | 19        | 13,389        | 19        |
| Netherlands        | 2,521         | 15        | 2,482         | 14        |
| Belgium            | 2,084         | 25        | 1,935         | 26        |
| Austria            | 1,912         | 10        | 1,881         | 10        |
| Luxembourg         | 158           | 12        | 154           | 12        |
| Finland            | 1,083         | 7         | 1,074         | 7         |
| France             | 6,093         | 23        | 5,646         | 23        |
| US                 | 9,448         | 36        | 8,203         | 35        |
| Spain              | 3,746         | 17        | 3,440         | 16        |
| Poland             | 5,469         | 17        | 5,176         | 17        |
| Czech Republic     | 820           | 12        | 709           | 12        |
| Portugal           | 701           | 17        | 676           | 16        |
| Italy              | 3,705         | 27        | 2,897         | 28        |
| Canada             | 1,264         | 21        | 1,188         | 20        |
| Slovenia           | 117           | 9         | 129           | 14        |
| Ireland            | 398           | 19        | 293           | 18        |
| Hungary            | 510           | 20        | 398           | 17        |
| Slovakia           | 196           | 16        | 178           | 16        |
| Greece             | 809           | 18        | 598           | 16        |
| China              | 8,129         | 27        | 5,985         | 27        |
| Japan              | 1,609         | 48        | 988           | 40        |
| Russia             | 2,044         | 25        | 1,097         | 24        |
| South Korea        | 659           | 30        | 606           | 31        |
| Turkey             | 1,430         | 49        | 864           | 45        |
| Romania            | 897           | 28        | 680           | 30        |
| Croatia            | 324           | 10        | 295           | 10        |
| Singapore          | 397           | 35        | 349           | 32        |
| Bulgaria           | 259           | 29        | 221           | 27        |
| Latvia             | 209           | 16        | 94            | 18        |
| Malaysia           | 681           | 61        | 374           | 63        |
| Mexico             | 352           | 49        | 130           | 52        |
| Chile              | 251           | 55        | 191           | 48        |
| Lithuania          | 230           | 10        | 64            | 13        |
| Serbia             | 151           | 23        | 66            | 24        |
| Estonia            | 190           | 9         | 82            | 10        |
| Australia          | 163           | 33        |               |           |
| Philippines        | 79            | 46        |               |           |
| Other countries    | 873           | 67        | 669           | 68        |
| <b>Group total</b> | <b>93,351</b> | <b>24</b> | <b>81,099</b> | <b>23</b> |

## 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 |            |
|-------------------------|--------------|--------------|----------------|------------|
|                         | 2014         | 2013         | 2014           | 2013       |
| Cost of goods sold      | 568          | 470          | –              | –          |
| Selling expenses        | 4,159        | 3,463        | –              | –          |
| Administrative expenses | 318          | 258          | 128            | 115        |
| <b>Total</b>            | <b>5,045</b> | <b>4,191</b> | <b>128</b>     | <b>115</b> |

## 9. AUDIT FEES

|                                       | GROUP       |             | PARENT COMPANY |            |
|---------------------------------------|-------------|-------------|----------------|------------|
|                                       | 2014        | 2013        | 2014           | 2013       |
| <b>Ernst &amp; Young</b>              |             |             |                |            |
| Audit assignments                     | 24.1        | 20.8        | 3.3            | 3.3        |
| Auditing other than audit assignments | 2.7         | 2.4         | 0.6            | 0.4        |
| Tax consultancy                       | 14.1        | 13.2        | 0.4            | 0.1        |
| Other consultancy                     | 1.1         | 0.9         | –              | –          |
| <b>Other auditors</b>                 |             |             |                |            |
| Audit assignments                     | 4.0         | 3.6         | –              | –          |
| <b>Total</b>                          | <b>46.0</b> | <b>40.9</b> | <b>4.3</b>     | <b>3.8</b> |

## 10. TAX

|                                                                        | GROUP         |               | PARENT COMPANY |            |
|------------------------------------------------------------------------|---------------|---------------|----------------|------------|
|                                                                        | 2014          | 2013          | 2014           | 2013       |
| <i>Tax expense (-) / tax receivable (+):</i>                           |               |               |                |            |
| Current tax                                                            |               |               |                |            |
| Tax expense for the period                                             | -6,067        | -4,183        | -127           | -4         |
| Adjusted tax expense for previous years                                | -62           | -157          | -              | -42        |
| <b>Total</b>                                                           | <b>-6,129</b> | <b>-4,340</b> | <b>-127</b>    | <b>-46</b> |
| Deferred tax receivable (+) / tax expense (-) in respect of:           |               |               |                |            |
| Temporary differences in stock-in-trade                                | 215           | -406          | -              | -          |
| Loss carry-forward                                                     | -96           | 66            | -              | -          |
| Pension provisions                                                     | 1             | -4            | -3             | -          |
| Tax allocation reserve                                                 | -281          | -505          | -              | -          |
| Intangible fixed assets                                                | -174          | -138          | -              | -          |
| Tangible fixed assets                                                  | 102           | -95           | -              | -          |
| Other temporary differences                                            | 443           | 67            | -              | -          |
| Effect of changed tax rates                                            | -             | -             | -              | -          |
| <b>Total</b>                                                           | <b>210</b>    | <b>-1,015</b> | <b>-3</b>      | <b>0</b>   |
| <b>Total</b>                                                           | <b>-5,919</b> | <b>-5,355</b> | <b>-130</b>    | <b>-46</b> |
| Deferred tax recognised in other comprehensive income in respect of:   |               |               |                |            |
| Hedging reserves                                                       | -44           | 15            | -              | -          |
| Defined benefit pension plans                                          | 35            | -19           | 5              | -4         |
| <b>Total</b>                                                           | <b>-9</b>     | <b>-4</b>     | <b>5</b>       | <b>-4</b>  |
| <i>Reconciliation between current tax rate and effective tax rate:</i> |               |               |                |            |
| Expected tax expense according to the Swedish tax rate of 22%          | -5,697        | -4,939        | -3,572         | -3,515     |
| Effect of changed tax rate in Sweden                                   | -             | -33           | -              | -3         |
| Difference in foreign tax rates                                        | -36           | -124          | -              | -          |
| Non-deductible/non-taxable                                             | -124          | -105          | -12            | -15        |
| Other                                                                  | -             | 3             | -              | -          |
| Tax for previous years                                                 | -62           | -157          | -              | -42        |
| Tax-free dividend subsidiaries                                         | -             | -             | 3,454          | 3,529      |
| <b>Total</b>                                                           | <b>-5,919</b> | <b>-5,355</b> | <b>-130</b>    | <b>-46</b> |
| <b>Recognised deferred tax receivable relates to:</b>                  |               |               |                |            |
| Pension provisions                                                     | 138           | 85            | 49             | 47         |
| Tangible fixed assets                                                  | 189           | 116           | -              | -          |
| Loss carry-forward in subsidiaries                                     | 6             | 102           | -              | -          |
| Temporary differences in stock-in-trade                                | 909           | 685           | -              | -          |
| Hedging reserve                                                        | -             | 24            | -              | -          |
| Other temporary differences                                            | 995           | 355           | -              | -          |
| <b>Total</b>                                                           | <b>2,237</b>  | <b>1,367</b>  | <b>49</b>      | <b>47</b>  |
| <b>Recognised deferred tax expense relates to:</b>                     |               |               |                |            |
| Intangible fixed assets                                                | 537           | 362           |                |            |
| Tangible fixed assets                                                  | 895           | 901           |                |            |
| Stock-in-trade                                                         | 299           | 270           |                |            |
| Tax allocation reserve                                                 | 1,454         | 1,173         |                |            |
| Hedging reserves                                                       | 45            | -             |                |            |
| Other temporary differences                                            | 57            | 16            |                |            |
| <b>Total</b>                                                           | <b>3,287</b>  | <b>2,722</b>  |                |            |

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

## 11. INTANGIBLE FIXED ASSETS

|                                                                                                                                                                                          | GROUP        |              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
|                                                                                                                                                                                          | 2014         | 2013         |
| <b>Brands*</b>                                                                                                                                                                           |              |              |
| Opening acquisition cost                                                                                                                                                                 | 470          | 470          |
| Acquisitions during the year                                                                                                                                                             | -            | -            |
| Closing acquisition cost                                                                                                                                                                 | 470          | 470          |
| Opening amortisation                                                                                                                                                                     | -262         | -215         |
| Amortisation for the year                                                                                                                                                                | -47          | -47          |
| Closing accumulated amortisation                                                                                                                                                         | -309         | -262         |
| <b>Closing book value</b>                                                                                                                                                                | <b>161</b>   | <b>208</b>   |
| <b>Customer relations*</b>                                                                                                                                                               |              |              |
| Opening acquisition cost                                                                                                                                                                 | 131          | 131          |
| Acquisitions during the year                                                                                                                                                             | -            | -            |
| Closing acquisition cost                                                                                                                                                                 | 131          | 131          |
| Opening amortisation                                                                                                                                                                     | -73          | -60          |
| Amortisation for the year                                                                                                                                                                | -13          | -13          |
| Closing accumulated amortisation                                                                                                                                                         | -86          | -73          |
| <b>Closing book value</b>                                                                                                                                                                | <b>45</b>    | <b>58</b>    |
| <b>Leasehold rights</b>                                                                                                                                                                  |              |              |
| Opening acquisition cost                                                                                                                                                                 | 1,285        | 1,094        |
| Acquisitions during the year                                                                                                                                                             | 35           | 179          |
| Sales/disposals                                                                                                                                                                          | -193         | -22          |
| Translation effects                                                                                                                                                                      | 52           | 34           |
| Closing acquisition cost                                                                                                                                                                 | 1,179        | 1,285        |
| Opening amortisation                                                                                                                                                                     | -694         | -557         |
| Sales/disposals                                                                                                                                                                          | 188          | 20           |
| Amortisation for the year                                                                                                                                                                | -134         | -135         |
| Translation effects                                                                                                                                                                      | -30          | -22          |
| Closing accumulated amortisation                                                                                                                                                         | -670         | -694         |
| <b>Closing book value</b>                                                                                                                                                                | <b>509</b>   | <b>591</b>   |
| <b>Capitalised expenditure</b>                                                                                                                                                           |              |              |
| Opening acquisition cost                                                                                                                                                                 | 1,369        | 631          |
| Acquisitions during the year                                                                                                                                                             | 868          | 738          |
| Closing acquisition cost                                                                                                                                                                 | 2,237        | 1,369        |
| Opening amortisation                                                                                                                                                                     | -14          | -            |
| Amortisation for the year                                                                                                                                                                | -40          | -14          |
| Closing accumulated amortisation                                                                                                                                                         | -54          | -14          |
| <b>Closing book value</b>                                                                                                                                                                | <b>2,183</b> | <b>1,355</b> |
| Capitalised expenditure refers mainly to IT-related investments. To a small extent these were taken into use during 2013 and 2014, whereupon amortisation was commenced for these parts. |              |              |
| <b>Goodwill*</b>                                                                                                                                                                         |              |              |
| Opening book value                                                                                                                                                                       | 64           | 64           |
| Adjusted consideration/additional consideration                                                                                                                                          | -            | -            |
| <b>Closing book value</b>                                                                                                                                                                | <b>64</b>    | <b>64</b>    |

\* 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.

A goodwill impairment test was carried out at the end of 2014. 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 carrying amount.

## 12. BUILDINGS, LAND AND EQUIPMENT

|                                     | GROUP         |               | PARENT COMPANY |            |
|-------------------------------------|---------------|---------------|----------------|------------|
|                                     | 2014          | 2013          | 2014           | 2013       |
| <b>Buildings</b>                    |               |               |                |            |
| Opening acquisition cost            | 974           | 948           | 112            | 111        |
| Acquisitions during the year        | 1             | 11            | -              | 1          |
| Sales/disposals                     | -45           | -             | -              | -          |
| Translation effects                 | 42            | 15            | -              | -          |
| Closing acquisition cost            | 972           | 974           | 112            | 112        |
| Opening depreciation                | -300          | -269          | -71            | -67        |
| Sales/disposals                     | 5             | -             | -              | -          |
| Depreciation for the year           | -28           | -29           | -3             | -4         |
| Translation effects                 | -11           | -2            | -              | -          |
| Closing accumulated depreciation    | -334          | -300          | -74            | -71        |
| Closing book value                  | 638           | 674           | 38             | 41         |
| Opening value, projects in progress | 12            | -             | 12             | -          |
| Change for the year                 | 20            | 12            | 20             | 12         |
| Translation effects                 | -             | -             | -              | -          |
| Closing value, projects in progress | 32            | 12            | 32             | 12         |
| <b>Total closing book value</b>     | <b>670</b>    | <b>686</b>    | <b>70</b>      | <b>53</b>  |
| <b>Land</b>                         |               |               |                |            |
| Opening acquisition cost            | 128           | 126           | 3              | 3          |
| Acquisitions during the year        | -             | -             | -              | -          |
| Sales/disposals                     | 0             | -             | -              | -          |
| Translation effects                 | 6             | 2             | -              | -          |
| <b>Closing book value</b>           | <b>134</b>    | <b>128</b>    | <b>3</b>       | <b>3</b>   |
| <b>Equipment</b>                    |               |               |                |            |
| Opening acquisition cost            | 36,535        | 31,304        | 811            | 776        |
| Acquisitions during the year        | 8,191         | 7,038         | 218            | 112        |
| Sales/disposals                     | -2,272        | -2,035        | -46            | -77        |
| Translation effects                 | 2,812         | 228           | -              | -          |
| Closing acquisition cost            | 45,266        | 36,535        | 983            | 811        |
| Opening depreciation                | -15,212       | -12,978       | -398           | -364       |
| Sales/disposals                     | 1,900         | 1,881         | 46             | 77         |
| Depreciation for the year           | -4,783        | -3,953        | -125           | -111       |
| Translation effects                 | -1,355        | -162          | -              | -          |
| Closing accumulated depreciation    | -19,450       | -15,212       | -477           | -398       |
| Closing book value                  | 25,816        | 21,323        | 506            | 413        |
| Opening value, projects in progress | 49            | -             | 33             | -          |
| Change for the year                 | 276           | 49            | 36             | 33         |
| Translation effects                 | 3             | -             | -              | -          |
| Closing value, projects in progress | 328           | 49            | 69             | 33         |
| <b>Total closing book value</b>     | <b>26,144</b> | <b>21,372</b> | <b>575</b>     | <b>446</b> |

The group has no significant leasing agreements other than the rental agreements for rented premises entered into on normal market terms. Most of the agreements contain options to extend the term. Rental costs for the 2014 financial year amounted to SEK 17,176 m (15,044), of which sales-based rent amounted to SEK 2,200 m (1,869).

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          | 13,210 (11,363) |
| Rental commitments in next two to five years  | 39,680 (31,446) |
| Rental commitments more than five years ahead | 25,727 (20,831) |

## 13. PREPAID EXPENSES

|              | GROUP        |              | PARENT COMPANY |           |
|--------------|--------------|--------------|----------------|-----------|
|              | 2014         | 2013         | 2014           | 2013      |
| Prepaid rent | 1,041        | 905          | 13             | 10        |
| Other items  | 475          | 350          | 7              | 13        |
| <b>Total</b> | <b>1,516</b> | <b>1,255</b> | <b>20</b>      | <b>23</b> |

## 14. SHORT-TERM INVESTMENTS

|                                     | GROUP        |              | PARENT COMPANY |              |
|-------------------------------------|--------------|--------------|----------------|--------------|
|                                     | 2014         | 2013         | 2014           | 2013         |
| Short-term investments, 4-12 months | 2,602        | 3,306        | 2,602          | 3,304        |
| <b>Total</b>                        | <b>2,602</b> | <b>3,306</b> | <b>2,602</b>   | <b>3,304</b> |

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 0.58 and 0.80 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

## 15. CASH AND CASH EQUIVALENTS

|                                    | GROUP         |               | PARENT COMPANY |              |
|------------------------------------|---------------|---------------|----------------|--------------|
|                                    | 2014          | 2013          | 2014           | 2013         |
| Cash and bank balances             | 12,374        | 11,859        | 2,314          | 1,324        |
| Short-term investments, 0-3 months | 1,717         | 2,059         | 0              | 0            |
| <b>Total</b>                       | <b>14,091</b> | <b>13,918</b> | <b>2,314</b>   | <b>1,324</b> |

Investments are made on market terms and the interest rates are between 0.00 and 9.50 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 |      |
|---------------|---------------------------|------------|----------------|---------------|----------------------------------|------|
|               | 2014                      | 2013       | 2014           | 2013          | 2014                             | 2013 |
| SELL/BUY      |                           |            |                |               |                                  |      |
| NOK/SEK       | 13                        | 3          | 402            | 383           | 4                                | 4    |
| GBP/SEK       | -18                       | -51        | 1,595          | 1,247         | 4                                | 4    |
| DKK/SEK       | -4                        | -8         | 512            | 439           | 4                                | 4    |
| CHF/SEK       | -8                        | -10        | 545            | 496           | 4                                | 4    |
| EUR/SEK       | -63                       | -155       | 9,419          | 7,925         | 4                                | 4    |
| PLN/SEK       | -9                        | -15        | 508            | 380           | 4                                | 4    |
| USD/SEK       | -122                      | -4         | 2,310          | 1,987         | 4                                | 4    |
| CAD/SEK       | -10                       | 3          | 373            | 294           | 4                                | 4    |
| JPY/SEK       | 26                        | 16         | 543            | 495           | 4                                | 4    |
| HKD/SEK       | -8                        | 0          | 155            | 47            | 4                                | 6    |
| RON/SEK       | 0                         | -          | 25             | -             | 7                                | -    |
| CNH/SEK       | -2                        | -          | 65             | -             | 6                                | -    |
| RUB/SEK       | 1                         | -          | 38             | -             | 6                                | -    |
| TRY/SEK       | -2                        | -          | 27             | -             | 6                                | -    |
| SEK/USD       | 386                       | 102        | 12,434         | 11,114        | 2                                | 2    |
| SEK/EUR       | 9                         | 20         | 1,256          | 1,146         | 2                                | 2    |
| <b>Total</b>  | <b>189</b>                | <b>-99</b> | <b>30,207</b>  | <b>25,953</b> |                                  |      |

All changes in the value of derivatives are recognised initially in equity as a hedging reserve through other comprehensive income. Through 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 443 m (186), which is reported under Other current receivables. Forward contracts with a negative market value amount to SEK 254 m (285), which is reported under Other current liabilities. Of the outstanding forward contracts, gains of SEK 116 m were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 73 m is included in the hedging reserve in equity.

Regarding measurement see note 19.

| ASSETS / LIABILITIES<br>2014 |               |                                                  |                                        | Related amounts<br>not set off in the<br>balance sheet |            | Other instruments<br>not subject to<br>netting agreements | Total in<br>balance sheet |
|------------------------------|---------------|--------------------------------------------------|----------------------------------------|--------------------------------------------------------|------------|-----------------------------------------------------------|---------------------------|
|                              | Gross amounts | Gross amounts<br>set off in the<br>balance sheet | Net amounts<br>in the<br>balance sheet | Financial<br>instruments                               | Net amount |                                                           |                           |
| Derivative assets            | 144           | –                                                | 144                                    | -127                                                   | 17         | 299                                                       | 443                       |
| Derivative liabilities       | 141           | –                                                | 141                                    | -127                                                   | 14         | 113                                                       | 254                       |
| <b>Total</b>                 | <b>3</b>      | <b>–</b>                                         | <b>3</b>                               | <b>0</b>                                               | <b>3</b>   | <b>186</b>                                                | <b>189</b>                |

## 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. The dividend paid per share in 2014 was SEK 9.50.

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 had 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 totalled SEK 48 m after costs were

deducted, were therefore reported as a short-term liability until 30 June 2014. The part of these proceeds for which no valid claim was made accrued to the company and thereby increased equity in 2014.

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 |            |            |
|--------------------------------------------------------------------------|------------|------------|------------|----------------|------------|------------|
|                                                                          | 2014       | 2013       | 2012       | 2014           | 2013       | 2012       |
| Capitalised value of defined benefit obligations                         | 1,283      | 993        | 989        | 249            | 239        | 256        |
| Fair value of managed assets                                             | -832       | -684       | -612       | -26            | -26        | -27        |
| <b>Provision for pension obligations recognised in the balance sheet</b> | <b>451</b> | <b>309</b> | <b>377</b> | <b>223</b>     | <b>213</b> | <b>229</b> |
| Opening balance, 1 December                                              | 309        | 377        | 377        | 213            | 229        | 240        |
| Recognised pension expenses, net                                         | 216        | -11        | 61         | 36             | -6         | 7          |
| Premiums paid                                                            | -57        | -41        | -40        | 0              | 0          | -2         |
| Pensions paid out                                                        | -17        | -16        | -21        | -26            | -10        | -16        |
| <b>Carrying amount of defined benefit obligations, 30 November</b>       | <b>451</b> | <b>309</b> | <b>377</b> | <b>223</b>     | <b>213</b> | <b>229</b> |

Of the total recognised obligation, SEK 232 m (221) relates to defined benefit pension plans in Sweden and SEK 175 m (52) in Switzerland.

The amounts recognised as pension expenses comprise the following items:

|                                                                                                    |            |            |           |           |           |           |
|----------------------------------------------------------------------------------------------------|------------|------------|-----------|-----------|-----------|-----------|
| Current service cost                                                                               | 49         | 47         | 45        | 4         | 4         | 3         |
| Interest expense                                                                                   | 26         | 22         | 25        | 8         | 8         | 9         |
| Expected return on managed assets                                                                  | -17        | -12        | -14       | -         | -1        | -1        |
| Reductions/adjustments gains (-) and losses (+)                                                    | 1          | 0          | -3        | -         | 0         | 0         |
| Past service cost                                                                                  | -          | 10         | -2        | -         | 0         | 0         |
| Changes in foreign exchange rates for plans valued in a currency other than the reporting currency | 9          | 0          | -6        | -         | -         | -         |
| <b>Pension expenses recognised in the income statement</b>                                         | <b>68</b>  | <b>67</b>  | <b>45</b> | <b>12</b> | <b>11</b> | <b>11</b> |
| <b>Pension expenses recognised in other comprehensive income</b>                                   |            |            |           |           |           |           |
| Actuarial gains (-) and losses (+)                                                                 | 148        | -78        | 16        | 24        | -17       | -4        |
| <b>Total recognised pension expenses</b>                                                           | <b>216</b> | <b>-11</b> | <b>61</b> | <b>36</b> | <b>-6</b> | <b>7</b>  |

The cost of defined contribution pension plans amounts to SEK 369 m (327).

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

|                                      |       |       |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| Discount rate                        | 1.57% | 2.59% | 2.30% | 2.00% | 3.00% | 3.00% |
| Future salary increases              | 2.41% | 2.59% | 2.60% | 5.00% | 5.00% | 5.00% |
| Future pension increases (inflation) | 0.64% | 0.79% | 0.80% | 1.75% | 2.00% | 2.00% |

A 0.5 percentage point reduction in the discount rate would increase the liability for the Swedish commitments by SEK 16 m.

## 19. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

| 2014                               | Loans receivable<br>and accounts<br>receivable | Financial<br>assets held to<br>maturity | Derivatives for<br>hedging recognised<br>at fair value | Other financial<br>liabilities | Total book<br>value |
|------------------------------------|------------------------------------------------|-----------------------------------------|--------------------------------------------------------|--------------------------------|---------------------|
| Other long-term receivables        | –                                              | 709                                     | –                                                      | –                              | 709                 |
| Accounts receivable                | 3,659                                          | –                                       | –                                                      | –                              | 3,659               |
| Other receivables                  | –                                              | –                                       | 443                                                    | –                              | 443                 |
| Short-term investments             | –                                              | 2,602                                   | –                                                      | –                              | 2,602               |
| Cash and cash equivalents          | 12,374                                         | 1,717                                   | –                                                      | –                              | 14,091              |
| <b>Total financial assets</b>      | <b>16,033</b>                                  | <b>5,028</b>                            | <b>443</b>                                             | <b>–</b>                       | <b>21,504</b>       |
| Accounts payable                   | –                                              | –                                       | –                                                      | 5,520                          | 5,520               |
| Other liabilities                  | –                                              | –                                       | 254                                                    | –                              | 254                 |
| <b>Total financial liabilities</b> | <b>–</b>                                       | <b>–</b>                                | <b>254</b>                                             | <b>5,520</b>                   | <b>5,774</b>        |

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

The fair value of all financial assets and liabilities essentially corresponds to the book value. Assets and liabilities that are recognised at amortised 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 13.

## 20. ACCRUED EXPENSES AND PREPAID INCOME

|                            | GROUP         |              | PARENT COMPANY |            |
|----------------------------|---------------|--------------|----------------|------------|
|                            | 2014          | 2013         | 2014           | 2013       |
| Holiday pay liability      | 1,046         | 837          | 117            | 116        |
| Social security costs      | 670           | 586          | 115            | 101        |
| Payroll liability          | 823           | 589          | 43             | 29         |
| Costs relating to premises | 5,332         | 3,710        | 7              | 9          |
| Other accrued overheads    | 2,811         | 2,648        | 97             | 104        |
| <b>Total</b>               | <b>10,682</b> | <b>8,370</b> | <b>379</b>     | <b>359</b> |

## 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/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 379 m (305) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 12.6 m (12.3), which included variable remuneration of SEK 0 m (0), for work carried out during the 2014 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 |               |
|--------------------------------------|----------------|---------------|
|                                      | 2014           | 2013          |
| Group contributions provided         | –              | -1,022        |
| Depreciation in excess of plan       | -10            | 2             |
| Provision for tax allocation reserve | –              | –             |
| <b>Total</b>                         | <b>-10</b>     | <b>-1,020</b> |

## 24. PARTICIPATIONS IN GROUP COMPANIES

All group companies are wholly-owned.

| 2014                                      | Corporate ID number | No. of shares | Book value   | Domicile    |
|-------------------------------------------|---------------------|---------------|--------------|-------------|
| <b>Parent company shareholdings</b>       |                     |               |              |             |
| 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   |
| <b>Total</b>                              |                     |               | <b>588.5</b> |             |

| 2014                                                  | Corporate ID number | Domicile       |
|-------------------------------------------------------|---------------------|----------------|
| <b>Subsidiaries' holdings</b>                         |                     |                |
| 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                             |                     | US             |
| Hennes & Mauritz SL                                   |                     | Spain          |
| Hennes & Mauritz Customer Services 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         |

| 2014                                          | Corporate<br>ID number | Domicile     |
|-----------------------------------------------|------------------------|--------------|
| 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    |
| 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    |
| H & M Hennes & Mauritz S.A.C.                 |                        | Peru         |
| H & M Hennes & Mauritz (Macau) Limited        |                        | Macau        |
| H & M Hennes & Mauritz Retail Private Limited |                        | India        |

## 25. UNTAXED RESERVES

|                                | PARENT COMPANY |            |
|--------------------------------|----------------|------------|
|                                | 2014           | 2013       |
| Depreciation in excess of plan | 159            | 149        |
| Tax allocation reserve         | 305            | 305        |
| <b>Total</b>                   | <b>464</b>     | <b>454</b> |

## 26. CONTINGENT LIABILITIES

|                                   | PARENT COMPANY |               |
|-----------------------------------|----------------|---------------|
|                                   | 2014           | 2013          |
| Parent company's lease guarantees | 13,186         | 12,034        |
| <b>Total</b>                      | <b>13,186</b>  | <b>12,034</b> |

## 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.

# Signing of the annual report

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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, 27 January 2015

STEFAN PERSSON  
*Chairman of the Board*

ANDERS DAHLVIG  
*Board member*

LOTTIE KNUTSON  
*Board member*

SUSSI KVART  
*Board member*

LENA PATRIKSSON KELLER  
*Board member*

MELKER SCHÖRLING  
*Board member*

CHRISTIAN SIEVERT  
*Board member*

NIKLAS ZENNSTRÖM  
*Board member*

INGRID GODIN  
*Board member*

MARGARETA WELINDER  
*Board member*

KARL-JOHAN PERSSON  
*Chief Executive Officer*

Our audit report was submitted on 27 January 2015

Ernst & Young AB

Åsa Lundvall  
Authorised Public Accountant

# Auditor's report

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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 2013 to  
30 November 2014 on pages 60–90.

### 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 prepara-  
tion 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 per-  
form 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 audi-  
tor's judgement, including the assessment of the risks of material mis-  
statement 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 com-  
pany'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 express-  
ing 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 con-  
solidated 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 accord-  
ance with the Annual Accounts Act and present fairly, in all material  
respects, the financial position of the parent company as of 30 Novem-  
ber 2014 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 2014 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 com-  
pany 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 com-  
pany'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 2013 to 30 November 2014.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

The Board of Directors is responsible for the proposal for appropria-  
tions 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 evi-  
dence in order to be able to assess whether the proposal is in accord-  
ance 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 com-  
pany. We also examined whether any member of the Board of Directors  
or the Chief Executive Officer has, in any other way, acted in contra-  
vention 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, 27 January 2015  
Ernst & Young AB

Åsa Lundvall  
Authorised Public Accountant

# Corporate governance report

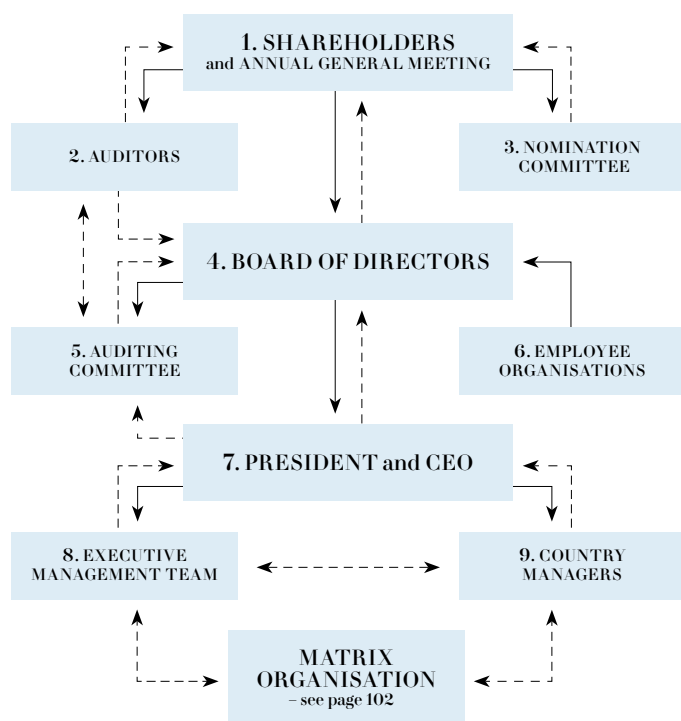
## H & M Hennes & Mauritz AB 2014

*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 Corporate Governance Code (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code. H&M has applied the Code since 2005. This corporate governance report for 2014 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. The report was prepared by the company's board of directors and has been reviewed by the company's auditors.*

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 64 of H&M's annual report for 2014 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 104.

### PRINCIPLES OF CORPORATE GOVERNANCE

H & M Hennes & Mauritz AB is a Swedish public limited company. H&M's class B share is listed on Nasdaq Stockholm. The H&M group is managed in accordance with both external regulations and internal control documents.



Examples of external regulations:

- Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- Nasdaq Stockholm Rules for Issuers
- Swedish Corporate Governance Code (the Code)

Examples of internal control documents:

- Articles of association
- Instructions and work plan for the board of directors and the chief executive officer
- Code of Ethics
- Code of Conduct
- Policies such as the Financial Policy and Communications Policy, guidelines and manuals

The Code, which is available at [corporategovernanceboard.se](http://corporategovernanceboard.se), 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.

In 2014 H&M complied with all aspects of the Code with the exception of the Code's section 2.4. H&M's chairman of the board is also chairman of its nomination committee, which deviates from the Code's statement that the chairman of the board may not chair the nomination committee. The reason for the deviation is as follows: the nomination committee appointed the chairman of the board Stefan Persson as chair of the nomination committee on the grounds that this is considered to be 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 nomination 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 chief executive officer. 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 chief executive officer. The chief executive officer 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 chief executive officer 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 pro-

posed 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 CEO.

## 3. NOMINATION COMMITTEE

The nomination committee is the general meeting's body for the preparation of information that will be used as a basis for decisions at the general meeting concerning election of the board of directors, the chairman of the board, the auditors and the chairman of the annual general meeting, fees to the board and auditors, as well as principles for the nomination committee. An account of the work of the nomination committee ahead of each AGM is available in a separate document at [www.hm.com/corporategovernance](http://www.hm.com/corporategovernance). The members of H&M's nomination 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 H&M's articles of association, the 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 CEO, 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 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 auditing committee also assists the nomination 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 whom have expertise in accounting or auditing. All the members are independent of the company, its management and the company's major shareholders. The auditing 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. CEO

The CEO 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 CEO must focus in particular on recruitment of senior executives, buying and logistics matters, the customer offering, pricing strategy, sales and profitability, sustainability matters, marketing, expansion, development of the store network and of online sales, and IT development. The CEO reports to the board on H&M's development and makes the necessary preparations for taking decisions on investments, expansion, etc. The role of CEO 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](http://hm.com)

To find out more about H&M's corporate governance visit [www.hm.com/corporategovernance](http://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 nomination committee, board of directors, CEO, auditors, auditing committee, etc.
- Information and material from previous AGMs dating back to 2004
- Risks and uncertainties

## SHAREHOLDERS AND ANNUAL GENERAL MEETING

At the end of the financial year H&M had 204,754 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 2014, Stefan Persson and family via Ramsbury Invest AB represented 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 at [hm.com](http://hm.com) under 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 email address is also given for those shareholders who wish to submit their questions in advance to H&M.

#### ANNUAL GENERAL MEETING 2014

H&M's annual general meeting 2014 was held on 29 April in Victoriahallen at the Stockholm International Fairs in Stockholm. 1,721 shareholders were represented at the meeting, representing 84.2 percent of the votes and 67.5 percent of the capital.

H&M's board of directors, executive management and nomination committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

- The 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 CEO were discharged from liability for the 2012/2013 financial year.
- The number of board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- The ordinary board members Anders Dahlgv, Lottie Knutson, Sussi Kvart, Stefan Persson, Melker Schörling and Christian Sievert were re-elected by the AGM, which also elected to the board the proposed new members Lena Patriksson Keller and Niklas Zennström. Stefan Persson was re-elected as chairman of the board.

Bo Lundquist had declined re-election and Mia Brunell Livfors left the board of H&M at her own request as of the end of 2013.

- The AGM approved the proposal from the nomination committee that the total board fees be increased by SEK 500,000 to SEK 5,525,000. The board fees are to be distributed as follows: chairman of the board SEK 1,500,000; board members elected by the AGM SEK 525,000; members of the auditing committee an extra SEK 100,000; and the chairman of the auditing committee an extra SEK 150,000.
- The proposed principles for the nomination committee were approved and members of the nomination 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 CEO'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 |
|------|------------|--------------|
| 2010 | 81.9       | 62.7         |
| 2011 | 82.3       | 63.5         |
| 2012 | 83.3       | 65.7         |
| 2013 | 85.3       | 69.8         |
| 2014 | 84.2       | 67.5         |

#### COMPOSITION AND WORK OF THE NOMINATION COMMITTEE IN 2014

The members of the nomination committee were elected by the 2014 AGM. The nomination committee was elected on the basis of principles which, in brief, state that the nomination 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 2014, apart from the shareholder that the chairman of the board represents. The principles include a procedure for replacing any member who leaves the nomination 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 nomination committee in 2014" under nomination committee at [www.hm.com/corporategovernance](http://www.hm.com/corporategovernance).

The composition of the nomination committee following the 2014 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 nomination 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 may not chair the nomination committee. The nomination committee appointed H&M's chairman of the board Stefan Persson as chairman of the nomination committee during the year on the grounds that this is considered to be an obvious choice in view of the ownership structure of H&M.

The nomination committee elected at the 2013 AGM presented its proposals to the 2014 AGM. These included the proposal that Lena Patriksson Keller and Niklas Zennström be elected as new board members in addition to the ordinary members Anders Dahlgv, Lottie Knutson, Sussi Kvart, Stefan Persson, Melker Schörling and Christian Sievert. The nomination committee provided the following grounds for its proposed composition of the board before the 2014 AGM: "The nomination committee judges that the proposed composition of the board of directors accords well with section 4.1 of the Swedish Corporate Governance Code, 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. It is felt that the new members proposed for election

## COMPOSITION OF THE BOARD AND ATTENDANCE IN 2014

| NAME                                                | YEAR ELECTED | INDEPENDENT <sup>1)</sup> | INDEPENDENT <sup>2)</sup> | FEES (SEK) <sup>3)</sup> | BOARD MEETINGS | AUDITING COMMITTEE | SHAREHOLDING | SHARES HELD BY RELATED PARTIES                         |
|-----------------------------------------------------|--------------|---------------------------|---------------------------|--------------------------|----------------|--------------------|--------------|--------------------------------------------------------|
| Stefan Persson, Chairman                            | 1979         | No                        | No                        | 1,350,000                | 6/6            |                    |              | 194,400,000 <sup>4)</sup><br>393,049,043 <sup>5)</sup> |
| Anders Dahlvig <sup>6)</sup>                        | 2010         | Yes                       | Yes                       | 475,000                  | 5/6            | 3/3                | 17,510       |                                                        |
| Lottie Knutson                                      | 2006         | Yes                       | Yes                       | 475,000                  | 5/6            |                    | 1,400        |                                                        |
| Sussi Kvart                                         | 1998         | Yes                       | Yes                       | 575,000                  | 6/6            | 4/4                | 4,400        | 1,700                                                  |
| Bo Lundquist <sup>6)</sup>                          | 1995         | Yes                       | Yes                       | 625,000                  | 2/2            | 1/1                |              | 100,000 <sup>7)</sup>                                  |
| Lena Patriksson Keller <sup>6)</sup>                | 2014         | Yes                       | Yes                       |                          | 4/4            |                    | 700          | 9,450                                                  |
| Melker Schörling                                    | 1998         | Yes                       | Yes                       | 475,000                  | 5/6            |                    |              | 228,000 <sup>8)</sup>                                  |
| Christian Sievert                                   | 2010         | Yes                       | No <sup>9)</sup>          | 575,000                  | 6/6            | 4/4                | 56,000       | 4,000 and 600 <sup>10)</sup>                           |
| Niklas Zennström <sup>6)</sup>                      | 2014         | Yes                       | Yes                       |                          | 3/4            |                    | 72,700       |                                                        |
| Marie Björstedt <sup>11)</sup><br>employee rep.     | 2011         |                           |                           |                          | 1/1            |                    |              |                                                        |
| Margareta Welinder,<br>employee rep.                | 2007         |                           |                           |                          | 5/6            |                    |              |                                                        |
| Ingrid Godin <sup>11)</sup><br>employee rep.        | 2012         |                           |                           |                          | 6/6            |                    |              | 60                                                     |
| Rita Hansson <sup>11)</sup><br>deputy employee rep. | 2014         |                           |                           |                          | 5/5            |                    | 300          |                                                        |
| Tina Jäderberg<br>deputy employee rep.              | 2007         |                           |                           |                          | 6/6            |                    |              |                                                        |

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

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

3) Fees as resolved at the 2013 Annual General Meeting. This means that the fees related to the period until the next AGM, i.e. for the period 23 April 2013 to 29 April 2014. The amounts were paid out after the 2014 AGM.

4) Class A shares owned through Ramsbury Invest AB.

5) Class B shares owned through Ramsbury Invest AB.

6) Lena Patriksson Keller and Niklas Zennström were elected to the board at the AGM on 29 April 2014 and therefore attended the board meetings held after the AGM. Bo Lundquist had declined re-election and thus stepped down from the board in conjunction with the 2014 AGM; Bo Lundquist therefore attended the meetings up to and including the AGM. Anders Dahlvig, who became a member of the auditing committee in conjunction with the 2014 AGM, attended all the auditing committee meetings held after the AGM.

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

8) Shares owned through Melker Schörling AB.

9) Christian Sievert is not considered independent of Ramsbury Invest AB since Ramsbury Invest AB is a major shareholder in a company of which Christian Sievert is CEO.

10) 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.

11) Employee representative Marie Björstedt resigned at the beginning of 2014. Former deputy employee representative Ingrid Godin succeeded Marie Björstedt as employee representative and Rita Hansson became the new deputy employee representative.

There are no outstanding share or share price related incentive programmes for the board of directors.

to the board will bring in wide-ranging expertise and additional experience from the fashion industry and from IT and online operations.

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

Since the 2014 AGM the nomination committee has held one meeting at which minutes were taken and has also been in contact at other times. At the nomination committee's meeting Stefan Persson gave a verbal account of the work of the board during the year. The conclusion was that the board had worked effectively over the course of the year.

### ANNUAL GENERAL MEETING 2015

H&M's annual general meeting 2015 will be held on Wednesday 29 April 2015 in Victoriahallen at the Stockholm International Fairs in Stockholm. To register to attend the 2015 AGM see page 108 of H&M's annual report for 2014 or visit [www.hm.com/agm](http://www.hm.com/agm).

The board's work is presented so that the nomination committee can make the best possible assessment of the board's competence and experience. The nomination 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 nomination committee's chairman or to any of the other members of the nomination committee.

The nomination committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2015 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 2014 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, asked to be relieved of her position on the board of H&M as of 1 January 2014 because she was 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 100–101. 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 CEO attends all board meetings, except when the CEO's terms and conditions are being evaluated. The CEO 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 2014

H&M's board held six board meetings during the year, one of which was the statutory meeting. As last year, attendance by the board members was high and the CEO Karl-Johan Persson attended all the meetings. The board's attendance is reported in the table "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 CEO provided information on the performance of H&M and its various concepts as well as that of 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 store expansion in existing markets as well as expansion and developments in the new markets of Australia and the Philippines, and on the investments in online shopping including the launch of H&M's online store in France, Italy, Spain and China and preparations for the further roll-out of the online store.

In addition, the CEO reported on targets and focus areas for 2014 and continually provided information on matters such as buying work and production, the level of stock-in-trade, marketing, sustainability, 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 2013 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, including targets 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, new brands and the broadening of H&M's existing product range.

**Sustainability:** Strategic matters within the group's sustainability work were discussed and dealt with on an ongoing basis. 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. were reported every six months.

**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.

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 2012/2013 financial year.
- Proposal to the AGM concerning guidelines for remuneration to senior executives.
- H&M's investment plan for 2015.
- H&M's tax policy in brief and its publication on hm.com.
- To continue with the present model for monitoring internal control.
- An updated work plan was adopted during the year.

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 2014

Since the statutory meeting held in conjunction with the 2014 AGM, the auditing committee has consisted of chairman Christian Sievert and members Sussi Kvart and Anders Dahlvig. The committee held four meetings at which minutes were taken during the 2013/2014 financial year.

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, sustainability, communications, IT, production and logistics.
- The internal pricing model and tax matters, as well as H&M's tax policy in brief.
- Ernst & Young provided the committee with information on the results of its scrutiny as well as the scope of the audit. In addition, Ernst & Young provided information on current regulatory developments in the area of accounting.

- 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 Stockholm. It falls to the board of directors to ensure the quality of financial reporting – for example, via 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 AGM. Authorised public accountant Åsa Lundvall from Ernst & Young holds the main responsibility for the audit.

As previously, the 2014 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's 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 |            |
|---------------------------------------|-------------|-------------|----------------|------------|
|                                       | 2014        | 2013        | 2014           | 2013       |
| <b>Ernst &amp; Young</b>              |             |             |                |            |
| Audit assignments                     | 24.1        | 20.8        | 3.3            | 3.3        |
| Auditing other than audit assignments | 2.7         | 2.4         | 0.6            | 0.4        |
| Tax consultancy                       | 14.1        | 13.2        | 0.4            | 0.1        |
| Other consultancy                     | 1.1         | 0.9         | –              | –          |
| <b>Other auditors</b>                 |             |             |                |            |
| Audit assignments                     | 4.0         | 3.6         | –              | –          |
| <b>TOTAL</b>                          | <b>46.0</b> | <b>40.9</b> | <b>4.3</b>     | <b>3.8</b> |

## INFORMATION ABOUT THE CEO

Karl-Johan Persson, born in 1975, has been the president and chief executive officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as CEO 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. Since 2013 Karl-Johan Persson has also been a member of the board of the 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 CEO (see section on control environment). The matrix organisation consists of the sales countries, which are headed by the country managers, and the group functions/central departments, for which the heads of department on the executive management team have responsibility.

## GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

In accordance with the Swedish Companies Act, the 2014 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 62–63 of H&M's annual report for 2014.

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 proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings.

The board decides on the CEO's salary according to the guidelines adopted at the 2014 AGM. The terms of employment for other senior executives are decided by the CEO and the chairman of the board. No severance pay agreements exist within H&M other than for the CEO.

Before the 2014 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 2013 AGM. The results of this assessment were published on the website in good time before the 2014 AGM.



**CHRISTIAN SIEVERT**  
Board member and chairman of  
the auditing committee

**STEFAN PERSSON**  
Chairman of the board

**INGRID GODIN**  
Employee representative

**LENA PATRIKSSON KELLER**  
Board member

**LOTTIE KNUTSON**  
Board member

**RITA HANSSON**  
Deputy employee representative



**MELKER SCHÖRLING**  
Board member

**TINA JÄDERBERG**  
Deputy employee representative

**MARGARETA WELINDER**  
Employee representative

**NIKLAS ZENNSTRÖM**  
Board member

**ANDERS DAHLVIG**  
Board member and member of  
the auditing committee

**SUSSI KVART**  
Board member and member of  
the auditing committee

# Facts on board members

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## 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.

### PROFESSIONAL EXPERIENCE

1976–1982 Country manager for H&M in the UK and responsible for H&M's expansion abroad.  
1982–1998 President and chief executive officer of H&M.  
1998– Chairman of the board of H&M.

## ANDERS DAHLVIG

Board member and member of the auditing committee. 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.

### PROFESSIONAL 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

Writer and advisor on digital marketing, change work and crisis management.

### 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.

### PROFESSIONAL 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.  
1999–2014 Marketing director, Fritidsresor Group Nordic.

## SUSSI KVART

Board member and member of the auditing committee. Born 1956.

### PRIMARY OCCUPATION

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

### OTHER SIGNIFICANT BOARD ASSIGNMENTS

Chairman of Kvinvest AB. Member of the boards of Stockholms Stads-hus AB, Transparency International Sweden and DGC One AB.

### EDUCATION

Bachelor of Laws from Lund University, 1980.

### PROFESSIONAL EXPERIENCE

1981–1983 Mölndal District Court, court clerk.  
1983–1989 Lagerlöf law firm (now Linklaters), as lawyer from 1986.  
1989–1991 Political expert, Riksdagen (Swedish parliament), parliamentary office of the Swedish Liberal Party.  
1991–1993 Political expert, Swedish Cabinet Office.  
1993–1999 Company lawyer, LM Ericsson.  
1997–2001 Member of Aktiebolagskommittén (Swedish Companies Act Committee).  
2000–2001 Lawyer and business developer, LM Ericsson, corporate marketing and strategic business development.  
2002– Sussi Kvart AB.

**LENA PATRIKSSON KELLER**

Board member. Born 1969.

**PRIMARY OCCUPATION**

Executive Chairman at branding and communications agency Patriksson Communication AB.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the boards of WESC and Elite Hotels. Chairman of the board of ASFB, the industry organisation Association of Swedish Fashion Brands.

**EDUCATION**

Design and Marketing at Parsons School of Design in New York and at the American University in London.

**PROFESSIONAL EXPERIENCE**

1993–1996 Buying & Product Development at H&M.  
1996–1998 Global Communications Manager, J.Lindeberg.  
1999– CEO and later Executive Chairman, Patriksson Communication AB.

**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.

**PROFESSIONAL EXPERIENCE**

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

**CHRISTIAN SIEVERT**

Board member and chairman of the auditing committee. Born 1969.

**PRIMARY OCCUPATION**

CEO of investment company AB Max Sievert.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the boards of AB Segulah, AB Max Sievert and AB Anders Löfberg.

**EDUCATION**

MSc in business administration from the School of Economics, Stockholm, 1994.

**PROFESSIONAL EXPERIENCE**

1994–1997 Consultant, Bain & Company, Stockholm and San Francisco, USA.  
1997–2003 Investment manager and partner, Segulah.  
2003–2013 CEO/managing partner of Segulah.  
2013–2014 Partner, Segulah.  
2014– Chief executive of investment company AB Max Sievert.

**NIKLAS ZENNSTRÖM**

Board member. Born 1966.

**PRIMARY OCCUPATION**

CEO of venture capital company Atomico, which focuses on fast-growing tech companies, and involved in Zennström Philanthropies, which supports organisations particularly associated with climate change, social entrepreneurship, the Baltic Sea environment and human rights.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the boards of Atomico, Zennström Philanthropies, Rovio, Fon and Fab.

**EDUCATION**

Degrees in business administration and engineering physics from Uppsala University.

**PROFESSIONAL EXPERIENCE**

1991–1994 Product Manager, Tele2 AB, Stockholm.  
1994–1996 Director of Access Network, Unisource Voice Services AB, Stockholm.  
1996–1997 Director of Internet Services, Tele2 Danmark A/S, Copenhagen.  
1997–2000 Director of Internet Services, Tele2 Europe ASA, Luxembourg/Amsterdam.  
2000–2002 CEO and founder, Kazaa, Amsterdam.  
2001–2003 CEO and founder, Joltid, Amsterdam.  
2002–2007 CEO and founder, Skype, London.  
2007– CEO and founder, Atomico, London.

**MARGARETA WELINDER**

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

**INGRID GODIN**

Employee representative on the H&M board since 2012. Born 1959.

**RITA HANSSON**

Deputy employee representative on the H&M board since 2014. Born 1951.

**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 Corporate Governance Code.

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 the 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 CEO, 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.

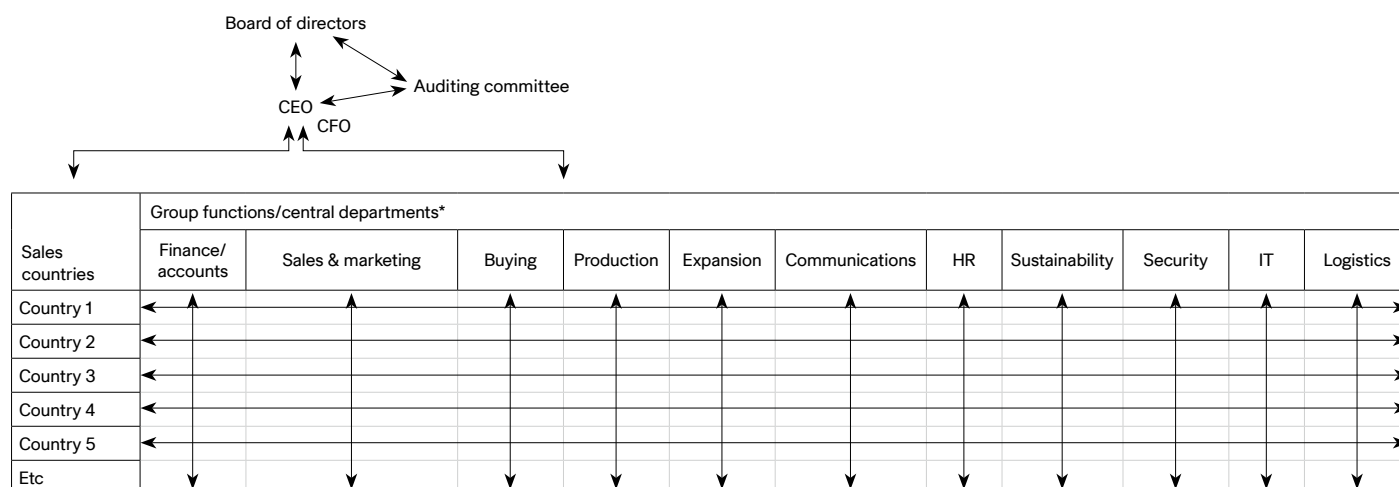
All the companies within the H&M group – apart from Weekday Brands, which is engaged in wholesale operations – have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which facilitates internal control and 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 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 2014 each central function reviewed its main risks, assessed these and identified the systems,



\* Those responsible for group functions are members of the executive management team. In addition to the functions mentioned above and the CEO, those responsible for IR, new business and the brand are also part of the executive management team.

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 on pages 64–65 and for risks within financial reporting see note 2, Financial risks, on pages 78–79 of H&M's annual report for 2014.

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 2014 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 email 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](http://hm.com)

### MONITORING

In 2014 the group functions/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.

In 2014 an examination of internal control issues was carried out at group level to ascertain what could be improved and updated in the functions' working materials for 2015. This work was carried out in cooperation with the functions and resulted in updated checklists for the central functions to use in their audits in 2015.

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 ensures that continuous improvements are made.

### INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Corporate Governance Code, 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 2015.

Stockholm, January 2015

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](http://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 2013 to 30 November 2014 on pages 92–103. 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, 27 January 2015

Ernst & Young AB

Åsa Lundvall  
Authorised Public Accountant

A black and white photograph of a man with a beard and styled hair, smiling and looking to his left. He is wearing a dark blazer over a dark V-neck sweater, a white collared shirt, and a dark tie with small white dots. A white pocket square is visible in his blazer's breast pocket. He is standing against a background of vertical wood grain.

Blazer  
**€129**

# Five year summary

1 DECEMBER - 30 NOVEMBER

| THE FINANCIAL YEAR                                          | 2014      | 2013      | 2012      | 2011      | 2010      |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Sales including VAT, SEK m                                  | 176,620   | 150,090   | 140,948   | 128,810   | 126,966   |
| Sales excluding VAT, SEK m                                  | 151,419   | 128,562   | 120,799   | 109,999   | 108,483   |
| Change from previous year in SEK, %                         | 18        | 6         | 10        | 1         | 7         |
| Change from previous year in local currencies, %            | 14        | 9         | 11        | 8         | 15        |
| Operating profit, SEK m                                     | 25,583    | 22,090    | 21,754    | 20,379    | 24,659    |
| Operating margin, %                                         | 16.9      | 17.2      | 18.0      | 18.5      | 22.7      |
| Depreciation for the year, SEK m                            | 5,045     | 4,191     | 3,705     | 3,262     | 3,061     |
| Profit after financial items, SEK m                         | 25,895    | 22,448    | 22,285    | 20,942    | 25,008    |
| Profit after tax, SEK m                                     | 19,976    | 17,093    | 16,867    | 15,821    | 18,681    |
| Cash and cash equivalents and short-term investments, SEK m | 16,693    | 17,224    | 17,143    | 21,277    | 24,858    |
| Stock-in-trade, SEK m                                       | 19,403    | 16,695    | 15,213    | 13,819    | 11,487    |
| Equity, SEK m                                               | 51,556    | 45,248    | 43,835    | 44,104    | 44,172    |
| Number of shares, thousands*                                | 1,655,072 | 1,655,072 | 1,655,072 | 1,655,072 | 1,655,072 |
| Earnings per share, SEK*                                    | 12.07     | 10.33     | 10.19     | 9.56      | 11.29     |
| Shareholders' equity per share, SEK*                        | 31.15     | 27.34     | 26.49     | 26.65     | 26.69     |
| Cash flow from current operations per share, SEK*           | 14.60     | 14.40     | 11.42     | 10.53     | 13.19     |
| Dividend per share, SEK                                     | 9.75**    | 9.50      | 9.50      | 9.50      | 9.50      |
| Return on equity, %                                         | 41.3      | 38.4      | 38.4      | 35.8      | 44.1      |
| Return on capital employed, %                               | 53.1      | 50.0      | 50.3      | 47.1      | 58.7      |
| Share of risk-bearing capital, %                            | 72.5      | 73.0      | 76.1      | 74.9      | 76.2      |
| Equity/assets ratio, %                                      | 68.2      | 68.9      | 72.8      | 73.3      | 74.6      |
| Total number of stores                                      | 3,511     | 3,132     | 2,776     | 2,472     | 2,206     |
| Average number of employees                                 | 93,351    | 81,099    | 72,276    | 64,874    | 59,440    |

\* 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 89.

# The H&M share

| KEY RATIOS PER SHARE                | 2014   | 2013   | 2012   | 2011   | 2010   |
|-------------------------------------|--------|--------|--------|--------|--------|
| Shareholders' equity per share, SEK | 31.15  | 27.34  | 26.49  | 26.65  | 26.69  |
| Earnings per share, SEK             | 12.07  | 10.36  | 10.19  | 9.56   | 11.29  |
| Change from previous year, %        | +17    | +2     | +7     | -15    | +14    |
| Dividend per share, SEK             | 9.75*  | 9.50   | 9.50   | 9.50   | 9.50   |
| Market price on 30 November, SEK    | 319.40 | 278.00 | 215.90 | 214.00 | 237.40 |
| P/E ratio                           | 26     | 27     | 21     | 22     | 21     |

\* Board's proposal.

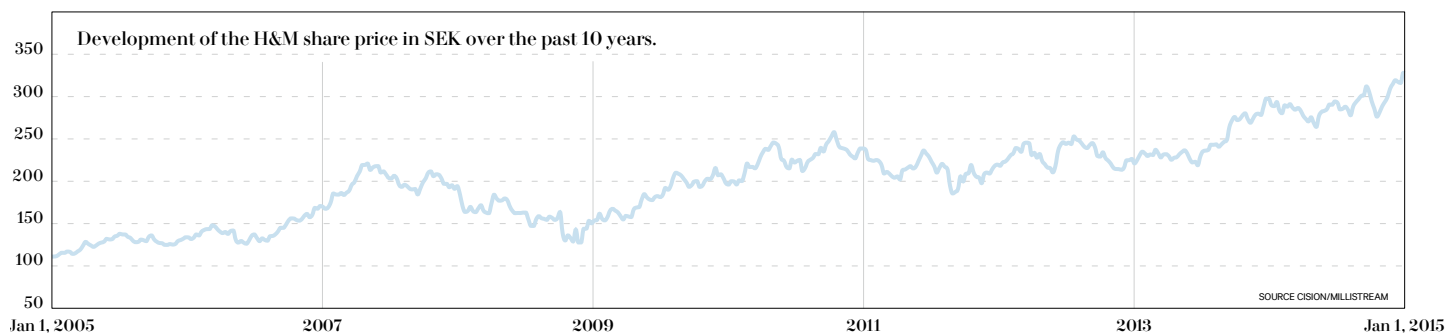
In 2010 H&M implemented a 2-for-1 share split.

## DISTRIBUTION OF SHARES, 30 NOVEMBER 2014

| SHAREHOLDING  | NO. OF SHAREHOLDERS | %          | NO. OF SHARES        | %          | AVERAGE SHARES PER SHAREHOLDER |
|---------------|---------------------|------------|----------------------|------------|--------------------------------|
| 1–500         | 159,363             | 77.8       | 23,806,008           | 1.4        | 149                            |
| 501–1,000     | 21,825              | 10.7       | 17,344,225           | 1.0        | 795                            |
| 1,001–5,000   | 18,501              | 9.0        | 40,925,346           | 2.5        | 2,212                          |
| 5,001–10,000  | 2,303               | 1.1        | 16,913,089           | 1.0        | 7,344                          |
| 10,001–15,000 | 720                 | 0.4        | 9,032,524            | 0.5        | 12,545                         |
| 15,001–20,000 | 456                 | 0.2        | 8,053,109            | 0.5        | 17,660                         |
| 20,001–       | 1,586               | 0.8        | 1,538,997,699        | 93.0       | 970,364                        |
| <b>Total</b>  | <b>204,754</b>      | <b>100</b> | <b>1,655,072,000</b> | <b>100</b> | <b>8,083</b>                   |

## MAJOR SHAREHOLDERS, 30 NOVEMBER 2014

|                                                         | 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                               | 67,195,000    | 2.0                | 4.1               |
| Swedbank Robur fonder                                   | 39,856,742    | 1.2                | 2.4               |
| AMF – Försäkring och Fonder                             | 30,651,681    | 0.9                | 1.9               |
| Handelsbanken Fonder                                    | 18,507,346    | 0.5                | 1.1               |
| SEB Investment Management                               | 15,922,566    | 0.5                | 1.0               |
| Fjärde AP-fonden (Fourth Swedish National Pension Fund) | 15,605,958    | 0.5                | 0.9               |
| Första AP-fonden (First Swedish National Pension Fund)  | 12,637,869    | 0.4                | 0.8               |
| Livförsäkringsbolaget Skandia                           | 12,262,827    | 0.4                | 0.7               |



For more information see the investor relations section at [hm.com](http://hm.com).

# Contact details

|                            |                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                     |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>HEAD OFFICE</b>         | H & M Hennes & Mauritz AB, Mäster Samuelsgatan 46A, 106 38 Stockholm, Sweden<br>Telephone: +46 (0)8 796 55 00                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                     |
|                            | For information about H&M and addresses of the country offices, please see hm.com.                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                     |
| <b>CONTACTS</b>            | <b>CEO</b> Karl-Johan Persson<br><b>FINANCE</b> Jyrki Tervonen<br><b>ACCOUNTS</b> Anders Jonasson<br><b>BUYING</b> Stina Westerstad<br><b>DESIGN</b> Pernilla Wohlfahrt<br><b>SALES &amp; MARKETING</b> Mattias Ankarberg<br><b>PRODUCTION</b> Karl Gunnar Fagerlin<br><b>SUSTAINABILITY</b> Anna Gedda<br><b>EXPANSION</b> Fredrik Olsson | <b>NEW BUSINESS</b> Madeleine Persson<br><b>BRAND</b> Anna Tillberg Pantzar<br><b>COMMUNICATIONS</b> Kristina Stenvinkel<br><b>INVESTOR RELATIONS</b> Nils Vinge<br><b>HUMAN RESOURCES</b> Helena Thybell<br><b>IT</b> Kjell-Olof Nilsson<br><b>LOGISTICS</b> Jonas Guldstrand<br><b>SECURITY</b> Cenneth Cederholm |
| <b>DISTRIBUTION POLICY</b> | 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

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                          |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>TIME AND PLACE</b>       | The annual general meeting 2015 will be held at Victoriahallen, Stockholm International Fairs, Stockholm, on Wednesday 29 April at 3 p.m.                                                                                                                                                                                                                                                                                |                                                                                                                                                          |
|                             | Shareholders who are registered in the share register print-out as of Thursday 23 April 2015 and give notice of their intention to attend the AGM no later than Thursday 23 April 2015 will be entitled to participate in the AGM.                                                                                                                                                                                       |                                                                                                                                                          |
| <b>NOMINEE SHARES</b>       | 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 2015.                                                              |                                                                                                                                                          |
| <b>NOTICE OF ATTENDANCE</b> | Shareholders must provide notice of their intention to participate in the AGM by post, fax, telephone or via H&M's website to:                                                                                                                                                                                                                                                                                           | H & M Hennes & Mauritz AB<br>Head Office/Carola Ardén<br>SE-106 38 Stockholm<br>Telephone: +46 (0) 8 796 55 00<br>Fax: +46 (0) 8 796 55 44<br>hm.com/agm |
|                             | Shareholders must provide their name, civil identity number and telephone number (daytime) when providing notice of their intention to participate.                                                                                                                                                                                                                                                                      |                                                                                                                                                          |
| <b>DIVIDEND</b>             | The board of directors and the CEO have decided to propose to the annual general meeting a dividend for 2014 of SEK 9.75 per share. The board of directors has proposed 4 May 2015 as the record day. With this record day, Euroclear Sweden AB (formerly VPC AB) is expected to pay the dividend on 7 May 2015. To be guaranteed dividend payment, the H&M shares must have been purchased no later than 29 April 2015. |                                                                                                                                                          |

# Financial information

|                 |                                                                   |                                                                                                            |
|-----------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <b>CALENDAR</b> | H & M Hennes & Mauritz AB will provide the following information: |                                                                                                            |
|                 | 24 March 2015<br>29 April 2015                                    | Three-month report<br>Annual general meeting 2015, Victoriahallen, Stockholm International Fairs at 3 p.m. |
|                 | 25 June 2015<br>24 September 2015<br>28 January 2016              | Six-month report<br>Nine-month report<br>Full-year report                                                  |

**COVER**  
H&M Conscious  
Exclusive Spring 2015,  
photographed by  
Kacper Kasprzyk.

*The annual report is printed  
on FSC® certified paper.*





Blazer  
**€49.99**



Dress  
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