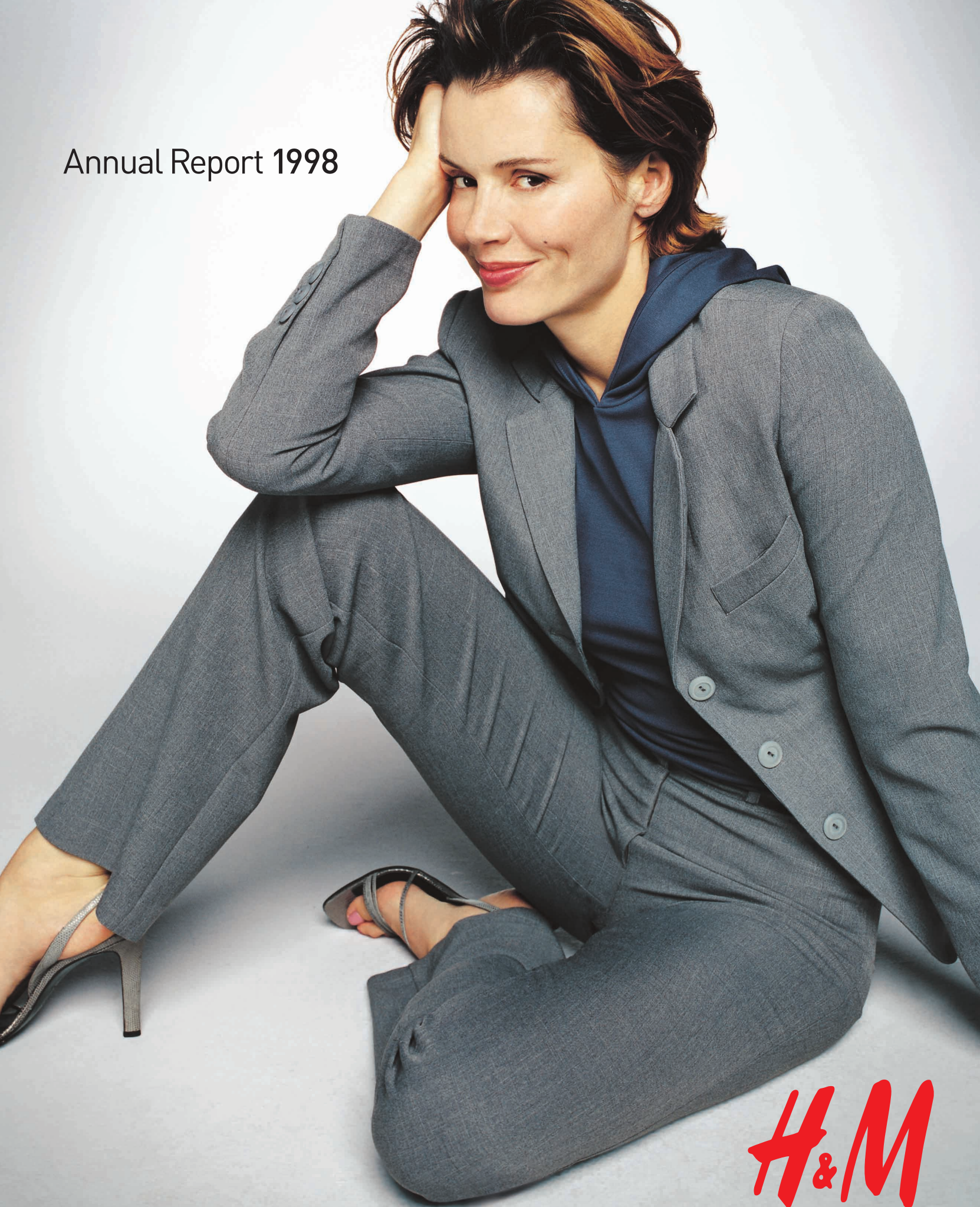


Annual Report 1998



H&M

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held at the Berns Congress, Berzelli Park in Stockholm on Friday, 16 April 1999, at 3 p.m.

Shareholders who are registered in the share register print-out on 6 April 1999 and who give notice of intention to participate in the Meeting no later than 12 noon, Monday, 12 April 1999 are entitled to participate in the Annual General Meeting.

NOMINEE SHARES

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names to be entitled to participate in the Meeting. In order to re-register shares for participation in the Meeting in good time before 6 April 1999 shareholders should request temporary owner registration, which is referred to as voting right registration.

NOTICE

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

H & M HENNES & MAURITZ AB
BOX 1421
111 84 STOCKHOLM, SWEDEN

TELEPHONE +46 8 796 55 00
TELEFAX +46 8 24 80 78

Shareholders wishing to participate in the Meeting must register their intention no later than **12 noon, Monday, 12 April 1999**.

DIVIDEND

The Board of Directors have proposed Wednesday, 21 April 1999 as record day. VPC (Swedish Securities Register Centre) is expected to commence paying dividends on 28 April 1999.

The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 1998 of SEK 4 per share.

SPLIT

The Board of Directors have decided to propose to the Annual General Meeting a 4:1 split of company shares with 19 May as record day. Assuming that the Meeting approves the proposal, H&M shares will be listed on the Stockholm Stock Exchange as split commencing 17 May 1999.

FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information for the 1999 financial year:

INTERIM REPORT, three months
16 April 1999

INTERIM REPORT, six months
22 June 1999

INTERIM REPORT, nine months
21 September 1999

PRESS RELEASE, annual earnings
January 2000

ANNUAL REPORT
March 2000

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



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THE YEAR IN REVIEW



THE H&M GROUP CONTINUED TO EXPAND DURING THE FINANCIAL YEAR. A TOTAL OF 71 STORES WERE OPENED.

DURING THE YEAR, TWO NEW MARKETS WERE ADDED; FRANCE WITH SIX STORES AND DENMARK WITH A MAIL-ORDER OPERATION.

SALES IN COMPARABLE STORES AND MARKET SHARES ROSE IN ALL MARKETS.

SALES ROSE BY 25 PER CENT AND TOTALLED SEK 26,650 M.

INCOME BEFORE TAX GREW BY 37 PER CENT TO SEK 3,327.

FINANCIAL HIGHLIGHTS

		1998	1997
Gross sales, including vat	SEK M	26,649.8	21,279.4
Change	%	+ 25	+ 24
Sales outside Sweden	SEK M	21,730.1	16,853.1
Sales outside Sweden as a percentage of gross sales	%	82	79
Operating margin	%	14.8	13.5
Profit after financial items	SEK M	3,468.2	2,511.9
Net profit for the year	SEK M	2,286.9	1,690.9
Earnings per share	SEK	11.05	8.17
Change from previous year	%	+ 35	+ 27
Return on shareholders' equity, note 17	%	30.7	29.1
Return on capital employed, note 17	%	46.3	42.5
Debt/equity ratio, note 17	%	1.1	2.1
Share of risk-bearing capital, note 17	%	77.9	77.4
Solidity, note 17	%	73.4	72.4
Number of stores in Sweden		120	117
Number of stores outside Sweden		430	373
Total number of stores		550	490
Average number of employees		14,101	12,096

REPORT OF THE MANAGING DIRECTOR



NINETEEN ninety-eight was a successful year for the H&M Group. We reported our best earnings ever, as

total turnover rose by 25 per cent to SEK 26.6 billion. Profit before tax increased by 37 per cent to SEK 3.3 billion. Both sales in comparable stores and market shares increased on all markets. Sales outside Sweden accounted for 82 per cent of Group turnover. Germany, H&M's single largest market, generated 32 per cent of the Group's total turnover.

We continued to expand in 1998. The number of stores increased by 60, bringing the total number of H&M stores at year-end to 550 in 12 European countries. We began operating in France, opening six stores during the year. Our first store opened in rue de Rivoli in central Paris. H&M has been very well received in France.

Our mail-order operation, H&M Rowells, began operating on its fourth market, Denmark. We set up an H&M home page during the spring so that users can obtain information about the company and order goods via the Internet. Internet sales in Sweden is a pilot project which will be evaluated during the year.

We have expanded strongly, but not at the cost of financial strength. Group solidity at the end of the accounting period totalled a high 73.4 per cent.

IT IS A MAJOR challenge to live up to our business concept each day: fashion and quality at the best price. To meet this challenge and

maintain cutting-edge fashion, we operate a design and purchasing department to create H&M collections.

We are able to offer customers the best price possible by purchasing large volumes directly from suppliers without using middle men. We possess wide experience in the textile industry, extensive market knowledge and an efficient distribution system. Moreover, we are cost-conscious in every aspect of our operation.

A NUMBER OF measures have been implemented to safeguard and improve the quality of our products. As quality demands have become tougher, our suppliers have developed and improved. We also have the resources to conduct thorough and effective quality control. One measure that has been taken during the year is that we have expanded and

strengthened our production offices in Europe and Asia. The production offices help the buyers find the right suppliers, monitor production on site and carry out quality inspections. During the year, we invested in laboratory equipment that enables us to conduct more tests at our production offices. Consequently, we are now able to secure the quality of our production at an early stage.

The production offices also check on the working conditions of our suppliers in accordance with the H&M Code of Conduct, which specifies and regulates our demands concerning employee rights, working conditions, industrial safety, working environment and child labour. Information and training are also an important part of the Code of Conduct. During the past year, we carried out inspections on a regular basis to ensure that our

OUR BUSINESS CONCEPT PLACES MAJOR DEMANDS ON US, AND THE BIGGEST CHALLENGE WE FACE IS TO CONTINUOUSLY IMPROVE. IT IS DANGEROUS TO REST ON ONE'S LAURELS. AT H&M, WE COMPETE AGAINST OURSELVES, ASKING OURSELVES EACH DAY HOW WE CAN IMPROVE WHAT WE ARE DOING.

rules are being followed. Gradually, we are now able to see positive results in the form of tangible improvements at the factories. Our goal is to ensure that our suppliers comply with all aspects of the Code of Conduct. In 1999, we will continue to inspect all factories systematically and to work on making improvements where we encounter defects.

Environmental issues are of great concern to H&M. They are a natural part of our daily work. We continue striving to operate as efficiently as possible and with a minimum of impact on the environment. During the year, we

consolidated our environmental organisation by, among other things, establishing a network of environmental co-ordinators from all parts of the H&M Group.

WE MADE A NUMBER OF improvements to our stores as well. Several stores were refurbished with increased sales areas as a result. Certain stores moved to more attractive locations. We continue to review older stores to achieve a more uniform image of H&M stores. We are devoting considerable time and effort to making stores more customer-friendly.

Stores are divided into different departments to make it easier for the customers to find what they are looking for. We also introduced a new type of fitting room in our new and refurbished stores in an effort to improve service.

Our heavy expansion requires efficient and well-functioning logistics. Minimising the number of links and stops in the chain of distribution will enable us to deliver goods more efficiently. Consequently, major investments were made to expand our distribution centres in Germany, Belgium and Austria. New distribution centres were also opened in Finland and France

WE BELIEVE THAT we will be able to continue to expand and grow on existing markets, as well as in new countries. In 1999, we plan to open a net total of 60 stores. The majority of new stores will be located in Germany, England and France. Finding the right location is extremely crucial. Our stores must be situated in the best shopping area of a city or a shopping mall. We have several different concepts, which means that stores can vary between 300 and 3,000 square metres. And because we strive to offer our customers full-concept stores, we want them to be large enough to make this possible. We will not, however, relax the quality demands we place on stores. Once again, quality is more important than quantity.

OUR BUSINESS CONCEPT places major demands on us, and the biggest challenge we face is to continuously improve. That is why it is important to remain close to our customers. We must constantly question existing practices, find new solutions and react swiftly and without bureaucracy. It is dangerous to rest on one's laurels. At H&M, we compete against ourselves, asking ourselves each day how we can improve what we are doing. We work hard to pass the H&M spirit on without losing the feeling of being a small company.

Everyone at H&M has good reason to be proud and happy, partly because of our excellent earnings and partly because of the improvements and good efforts we have made during the year. Thank you for a good year!



A handwritten signature in black ink, which appears to read 'Fabian Månsson'.

Fabian Månsson
Managing Director



GROUP REVIEW



The H&M Group continued to expand dramatically during the 1997/98 financial year. A total of 71 new stores were opened and 11 stores were closed, bringing the net total for the year to 60 stores.

The H&M Group operated 550 stores in 12 European countries at the end of the financial year. During the year, we began operating in two new markets, six stores were opened in France and a mail-order operation was set up in Denmark. The establishment of the mail-order business in Denmark marks the fourth Nordic country in which H&M Rowells operates.

Group sales rose in comparable stores on all markets, including mail-order operations. Together with the net increase of 60 stores, this meant that the H&M Group increased its market shares in all countries of operation. The expansion was carried out with improved profitability and financial strength.

Turnover rose by 25 per cent, reaching SEK

26,650 M. The share of sales accounted for by foreign operations continued to rise and reached 82 per cent (79 per cent).

Gross profit rose to SEK 11,483.8. After deduction for sales and administration expenses, operating profit improved by 37 per cent to SEK 3,326.7 M. As operating profit rose more than turnover, our already high operating margin amounted to 14.8 per cent. Group interest income was SEK 141.5 M, which yielded an income before tax of SEK 3,468.2. After deduction of taxes amounting to SEK 1,181.3 M, net profit for the year was SEK 2,286.9 M.

Return on shareholders' equity reached 30.7 per cent, which is very healthy considering the high solidity of the Group.

The Group retained its financial strength despite the heavy rate of expansion. The share of risk-bearing capital totalled 77.9 per cent at year-end, and the debt/equity ratio was a very low 1.1 per cent.

The Group generated a positive cash flow of SEK 2,371.3 M before investments. As total investments for the year reached SEK 1,008.4, Group financial assets rose by SEK 1,362.9 to total SEK 5,159.9 M at year-end.

GERMANY. The rate of expansion remained high during the year. Of 71 new stores, 26 were opened in H&M's largest market, Germany. Stores were opened in Berlin, Hamburg, Cologne, Karlsruhe, Mannheim and Kaiserslautern.

The expanded network of stores and increase in sales in existing stores necessitate an excellent logistics and warehousing operation. Consequently, a call-off warehouse totalling 21,000 square metres was opened during the year outside Frankfurt. This building and its counterpart in Hamburg function as warehouses for stores and provide the stores with goods on a daily basis.

H&M's German sales rose by 29 per cent during the year. The total German market declined by 1-2 per cent during 1998, according to the first preliminary figures for the textile industry. The last quarter was especially weak. H&M's share of the German market is estimated at 2-3 per cent.

SWEDEN. Three new stores were opened in Sweden in 1998; one each in Farsta, Visby and Växjö. A store in Helsingborg and a store in Örnsköldsvik moved to new locations. Swedish sales grew by 11 per cent compared with the industry average of 8 per cent.

NORWAY. Two new stores were opened in Norway; one each in Larvik and Harstad. Our stores in Stovner and Ålesund were relocated. H&M's Norwegian subsidiary increased sales by 13 per cent in 1998, compared with the 7 per cent average of the textile industry.

DENMARK. We opened two stores in Denmark; one in Randers and one in Viborg. Our store in Århus moved to a better location and a store in Copenhagen was closed. Sales rose by 23 per cent, compared with an 8 per cent rise in the industry as a whole.

FINLAND. We began operating in Finland in the autumn of 1997 with five stores. In 1998, an additional three stores were opened; one each in Helsinki, Tampere and Turku. The Group's Finnish operation has developed very well. Capturing a market share of some 2 per cent in the first whole year of operation is highly satisfactory. Total sales for the Finnish operation, including mail-order amounted to SEK 577 M.

The opening of a new warehouse with 16,000 square metres of space during the past year permitted central warehousing distribution for the operation to shift from Sweden to Finland.

ENGLAND. We opened four new H&M stores in England; one each in Bristol, Crawley, Manchester and an additional store in Brighton. The Group's men's concept was launched in six stores in the autumn.

The English market has been healthy in recent years, but in 1998 the rate of growth slowed down to some 2 per cent. H&M sales, however, continued to rise dramatically, reaching SEK 884 M, up 47 per cent from last year.





SWITZERLAND. The first H&M store in Switzerland opened in 1978. At the end of 1998, we operated 42 stores in the country. Our stores are situated in the largest cities, and H&M is represented in the three major linguistic zones. We opened a new store in Schwyz during the year and closed a store in Lausanne. Sales increased by 20 per cent during the past year, compared with the average rise for the industry of 1-2 per cent during the first six months of 1998.

HOLLAND. The Group opened five stores in the Dutch market; two in Amsterdam and one each in Sittard, den Bosch and Leidsendam. Our stores in Herleen and Eindhoven moved to new locations. Dutch sales rose by some 26 per cent during the year, compared to the market average of 7 per cent.

BELGIUM. Three new stores were opened in Belgium; one each in Kortrijk, Gent and Mons. The original store in Brügge was closed in con-

junction with the opening of a new and larger store.

Our Belgian stores have been supplied by the Dutch warehouse since the first day of operation. During the year, warehouse operations for stores in Belgium and Luxembourg shifted to a newly constructed central warehouse outside Antwerp. H&M sales rose by 22 per cent. The textile market as a whole only grew by about 4 per cent.

LUXEMBOURG. Our Luxembourg operation, which is part of the Belgian operation, opened another store during the year, raising the total to three at year-end.

AUSTRIA. In Austria, six new stores were opened during the year; two in Salzburg and one each in Dornbin, Vienna, Innsbruck and Villach. One of our Linz stores moved to larger premises and a better location. A new 24,000 square-metre warehouse was completed outside Vienna. H&M increased sales by 31 per

cent during the year, while the market as a whole declined by about 2 per cent.

FRANCE. H&M entered the French market, opening six stores during the year. The first store opened at the end of February on rue de Rivoli, a central Paris shopping street. Other stores followed at the Passage du Havre and Belle Epine shopping centres and in the autumn in Bercy and La Défense shopping areas, all of which are located in greater Paris. We also opened a store in Lille and a 12,000 square-metre large warehouse in Paris. The H&M concept has been very well received, and sales for the first year reached SEK 282 M.

DURING THE YEAR, H&M Rowells started a mail-order operation in Denmark. Like the operation in Finland, goods are supplied from the central facility in Borås, Sweden. This is made possible by the fact that all three countries are members of the EU. Consequently, goods for these countries can clear customs







collectively in Sweden and be distributed to the three markets according to demand.

WE PLAN TO OPEN 70 new stores in 1999. We expect to close a number of stores, however, which will yield a net total of about 60 stores. We also plan to remodel some 10 stores to provide additional sales space.

Six new stores will be opened on the Swedish market. We will also remodel a number of existing stores, including a complete renovation of the Hamngatan store in Stockholm.

The H&M Rowells warehouse in Borås will be enlarged to keep pace with future expansion. Investments in new MA technology will also be made in conjunction with this.

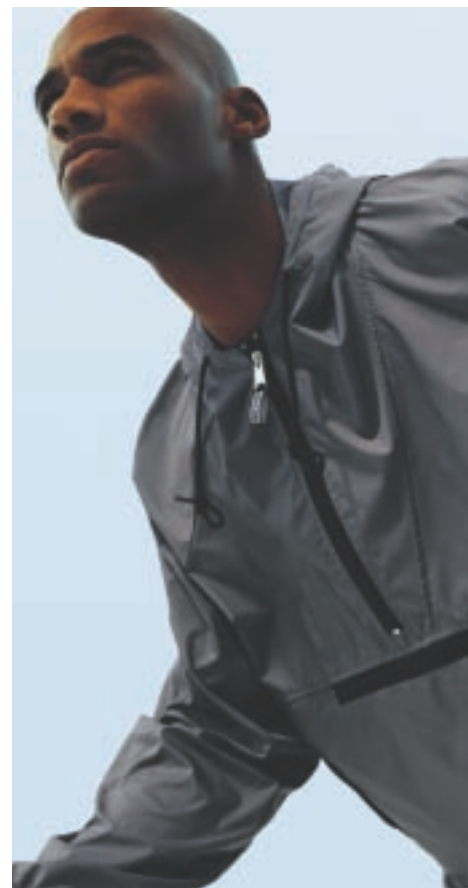
WE PLAN TO OPEN five stores on the Norwegian market and five on the Danish market. Finland will receive six new stores, including the Group's first store in central Helsinki on Alexandersgatan.

H&M's largest market, Germany, will see the opening of 15 stores during the year. The French market will receive six stores, primarily in the metropolitan Paris area. England is expected to gain 10 new stores. A major remodelling project designed to expand the sales area of our stores at Oxford Circus and

Oxford Street will also take place. The central warehouse operation will move to larger, more suitable premises due to the heavy expansion planned for England.

We plan to open four new stores in Belgium and another store in Luxembourg. The Dutch market will receive seven stores and Switzerland will receive an additional store. Three more stores will be opened in Austria, and H&M Cosmetics will be launched in six existing stores.

H&M GROUP financial risks are limited to foreign exchange exposure in principle, which can be broken down into transaction and translation exposure. The former consists of fluctuations in exchange rates in the flow of future payments. The Group's commercial flow of currencies involves the purchase of foreign currencies, mainly the U.S. dollar and other currencies linked to it, and to the Group's internal flow of currencies. To reduce translation risks, future exposures are insured through forward exchange agreements or by borrowing in foreign currencies. Only risks that have been contracted or established are insured. Consequently, the Group does not assume currency positions for budgeted flows of currencies or for speculative purposes. The introduction of the Euro currency has



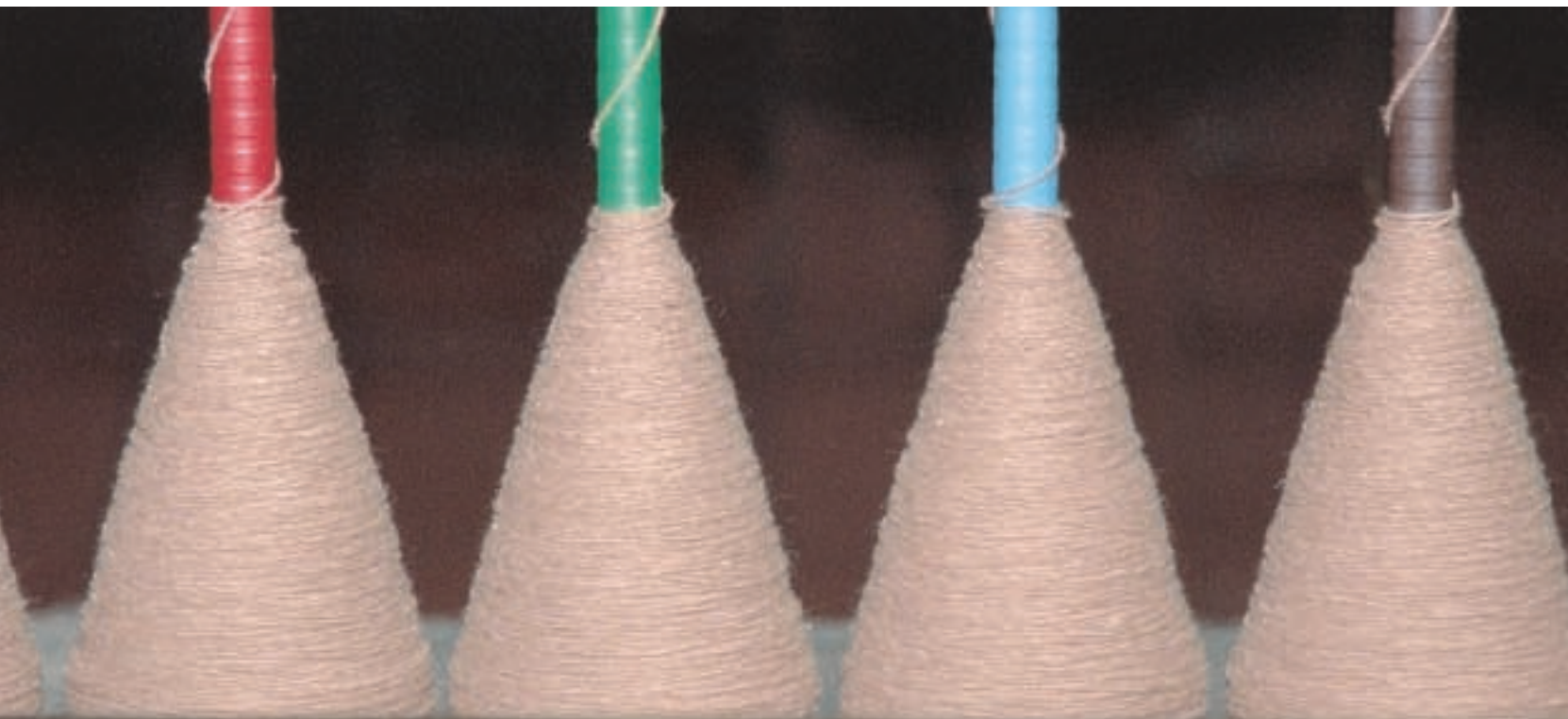
eliminated foreign exchange exposure between the seven H&M countries that belong to the EU. Moreover, it will be considerably easier to manage currencies thanks to the introduction of the Euro currency.

Translation exposure affects the value of the Group's foreign net assets and Group earnings when consolidating foreign subsidiaries. A 10 per cent change in the value of the krona to subsidiary currencies is estimated to impact Group earnings before tax by some SEK 300 M. The Group does not utilise equity hedging.

H&M LIMITS ITS credit risk by placing liquid funds in government, municipal and bank securities. These are short-term investments of up to three months. The Group does not assume any positions, deal with options and futures or the like or trade in shares or similar instruments.

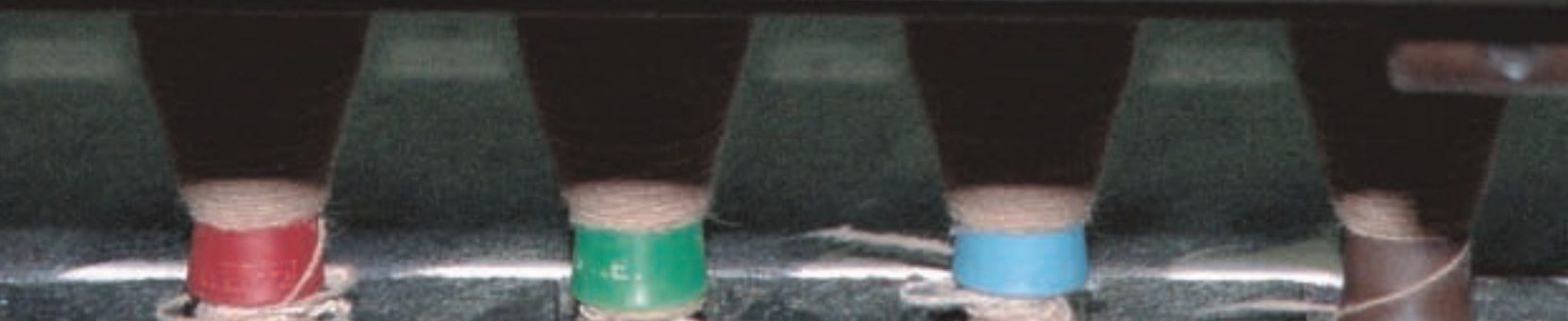
Administrative and technical systems have been reviewed and examined with respect to the year 2000. We have adopted or begun measures aimed at reducing any problems that might arise in conjunction with the turn of the century. We do not expect the costs related to the aforementioned measures to affect H&M earnings.





FROM IDEA **TO** FINISHED GARMENT

H&M DEMANDS THREE THINGS OF ITS PRODUCTS: **THE LATEST FASHION, BEST PRICE AND GOOD QUALITY.**





To offer the latest fashion at the best price, H&M operates a design and purchasing department that creates the various collections. We market our own brands for women, men, youth and children, as well as underwear and cosmetics. Hennes, BiB, Contemporary, Conwell, L.O.G.G. and Rocky are just a few of these.

Our collections are created by the design and purchasing department in co-operation with the countries where H&M's clothing are sold. We foresee top trends as much as a year ahead when it comes to colours, materials and models. We get our inspiration from traveling around the world, street trends, exhibi-

tions, films, publications and various trade fairs, where we examine materials, designs and colours. Experience from previous seasons enables us to determine which trends are important to focus on for coming seasons. To minimise risks, we purchase goods throughout the year.

MANUFACTURING. H&M does not own any factories. Instead, we co-operate with 1,600 suppliers, primarily in Europe and Asia. Our ambition is to work solely with suppliers who can meet our stringent quality demands. To monitor manufacturing around the world,

H&M operates 15 production offices in Europe and Asia. Production offices keep a close eye on the purchasing market, monitor production and perform quality checks. We have approximately 100 quality controllers. Quality control is a vital part of the purchasing operation, and the major effort we have made to improve quality has paid off.

For several years, we have required that wages and working conditions must meet or exceed existing laws in the country in question and that children may not work in factories that supply H&M. Suppliers must sign H&M's Code of Conduct, which specifies sup-



plier requirements in detail. Issues covered include employee rights, working conditions, industrial safety, the environment and child labour. Every supplier must agree to comply with these requirements. We have our own inspectors who check to ensure that suppliers meet our Code of Conduct.

TESTING. In addition to the Code of Conduct, suppliers must also comply with our special chemical restrictions. Our goal is to limit our impact on the environment during manufacturing and minimise environmental risks in conjunction with the incineration or recycling of old clothing.

These chemical restrictions also aim at minimising the risk of skin irritations or nickel allergies for our customers. Tests are conducted in sophisticated laboratories to ensure that no banned chemicals are present in the end products. H&M washes samples to ensure that they meet our quality demands. Flame resistance and seam strength are also tested. We conduct tests prior to beginning production to ensure quality. And just to be sure, all garments undergo final testing before we deliver them to our stores.

TRANSPORT. Once garments are ready for delivery, we distribute them via transit and central warehouses to H&M stores. Each country

has its own distribution centre where garments are repacked, inspected and even steam pressed when necessary before delivery to our stores. By minimising the number of links and stops in the chain of distribution, we ensure an efficient and reliable flow of goods. Continuous development of IT support is necessary to optimise the flow of goods. Information transmission provides buyers with rapid details about which goods are selling well and need to be re-ordered. H&M sells some 300 million garments annually, and new garments are delivered to stores every day. Some of this clothing is transported on hangers, which reduces in-store handling and gets to the sales rack quicker.

STORES. One of H&M's goals is that a customer should always get a good deal and that it should be easy and fun to shop. Consequently, we focus on the design and layout of our stores, as well as on how the goods are displayed. Our stores are planned very thoroughly and designed the customer in mind right down to the smallest detail. Customers should always be able to find their way around no matter which H&M store in Europe they visit. We pay great attention to how customers receive information from window displays, the display of goods in stores and clothing labels, as well as to the design of fitting

rooms. Customers should have no problem finding an H&M store. That's why we always strive to situate our stores in the best location possible.

ADVERTISING. Marketing in the retail trade is extremely important. Advertising is only part of the total marketing effort. Its purpose is to inform customers about H&M's range of goods. Goods, prices and the brand name are always depicted. To ensure maximum exposure, garments are shown by professional models and photographed by the best photographers in the industry. H&M's advertising and ads should not be seen as an isolated phenomenon. We continue to work to create a uniform total image that encompasses everything from print ads to window displays, store interiors and information. We have thousands of display windows in 12 European countries, in the best locations and on the best shopping streets.

EMPLOYEES. H&M employees some 17,000 people, and we strive to recruit internally whenever possible. Many H&M employees have experience from working in stores. And that gives them personal experience of what the customer wants. We conduct in-house training courses involving service and textiles, as well as H&M's basic values.

Environment

H&M cares for the environment and has therefore established an environmental policy:

TO CARRY OUT OUR BUSINESS EFFICIENTLY WITH AS LITTLE ENVIRONMENTAL IMPACT AS POSSIBLE BY:

HAVING CLEAR ENVIRONMENTAL guidelines on all purchases of goods and services and giving priority to the avoidance of substances, which are hazardous to health and the environment.

KEEPING UP TO DATE and complying with relevant environmental legislation and regulations.

UNDERTAKING PERIODICAL reviews and evaluations of the business from an ecological perspective.

H&M consolidated its environmental organisation in 1998. An Environmental Manager and a group were appointed to deal with Group environmental issues. An environmental co-ordinator handles H&M's environmental efforts, and an organisation of environmental co-ordinators from throughout the Group was established. All members of the environmental organisation will undergo further training in 1999 to learn more about environmental issues. A review of the company's environmental impact in all aspects of the operation was conducted to serve as a basis for training and continued environmental efforts.

H&M has established a Group environmental plan for the next few years that will be reviewed on a continuous basis. It is important to H&M that the environmental efforts are naturally integrated in the daily work. H&M is cost-conscious in all aspects of its operation. This combination of cost-

consciousness and environmental awareness will benefit the Group and the environment.

H&M's environmental effort has focused on limiting the use of chemicals, cutting down on and recycling packaging, as well as on shifting to more environmentally friendly transportation. The environmental goals established for the next few years are based on these areas, among others. H&M is also working on environmental issues involving building materials used in stores, environmentally adapted systems for purchasing, transporting and recycling hangers, decorations, disposable materials and the like.



ADMINISTRATION REPORT

The Board of Directors and Managing Director of H & M Hennes & Mauritz AB (publ) submit herewith their report for the financial year 1 December 1997 to 30 November 1998.

SALES

During the past financial year, total turnover for the H&M Group rose by 25 per cent (previous year 24 per cent) and reached SEK 26,649.8 M including VAT (SEK 21,279.4 M).

The sales growth of H&M was attributable both to the retail business and to the mail-order business. Same store sales increased in all markets. Together with a net increase of 60 new stores, this means that H&M gained market shares in all countries.

The operation in France, which was started in the spring, has with its six stores developed in a very positive way. In the month of August, H & M Rowells started its mail-order operations in Denmark. Demand and sales have well answered to expectations.

Sales outside Sweden accounted for 82 per cent of Group sales (79 per cent).

PROFIT

Gross profit amounted to SEK 11,483.8 M (SEK 9,148.7 M). After deduction for selling and administrative expenses of SEK 8,157.1 M (SEK 6,723.6 M), operating profit was SEK 3,326.7 M (SEK 2,425.1 M), an improvement of 37 per cent. The result achieved meant an operating margin of 14.8 per cent (13.5 per cent). The operating profit has been charged with depreciation according to plan of SEK 352.8 M (SEK 289.1 M) and start-up costs (the part of the investment in new premises which is treated as a cost item) of SEK 119.6 M (SEK 109.3 M).

Operating margin calculated on the profit after depreciation but before start-up costs was thus 15.3 per cent (14.1 per cent).

As in the previous year, profit growth and margin improvement are attributable to the increased sales volumes.

In spite of falling interest rates in Europe, net interest income for the Group increased due to higher liquidity to SEK 141.5 M (SEK 86.8 M). Profit after financial items increased by 38 per cent and was SEK 3,468.2 M (SEK 2,511.9 M).

After provisions for tax of SEK 1,181.3 M (SEK 821.0 M), profit for the year was SEK 2,286.9 M (SEK 1,690.9 M). The result corresponds to a profit per share of SEK 11.05 (SEK 8.17).

Return on shareholders' equity reached 30.7 per cent (29.1 per cent) and return on capital employed amounted to 46.3 per cent (42.5 per cent).

LIQUIDITY AND FINANCING

At the financial year-end, the balance sheet total was SEK 11,452.9 M (SEK 8,937.3 M), an increase of 28 per cent. During the past year Group operations generated a positive cash flow of SEK 2,317.9 M (SEK 1,460.9 M), of which SEK 1,008.4 M (SEK 689.6 M) were reinvested into the operations. The financial assets increased by SEK 1,362.9 M or 36 per cent and amounted to SEK 5,159.9 M (SEK 3,797.0 M).

Stock-in-trade was SEK 3,237.9 M (SEK 2,708.4 M) and thus increased by 20 per cent. It represented 14.4 per cent (15.0 per cent) of the turnover and 28.3 per cent (30.3 per cent) of the balance sheet total.

The debt/equity ratio was low at 1.1 per cent (2.1 per cent) and the share of risk-bearing capital increased to 77.9 per cent (77.4 per cent).

At the financial year-end, shareholders' equity amounted to SEK 8,405.9 M (SEK 6,473.4 M), which corresponds to SEK 40.63 (SEK 31.29) per share.

The Board of Directors has decided to propose to the Annual General Meeting of Shareholders a 4:1 split of the company's shares.

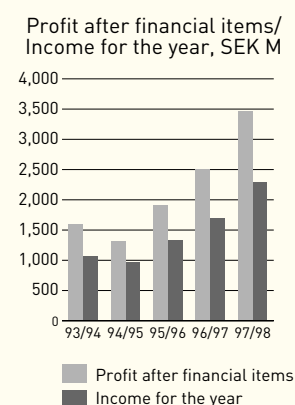
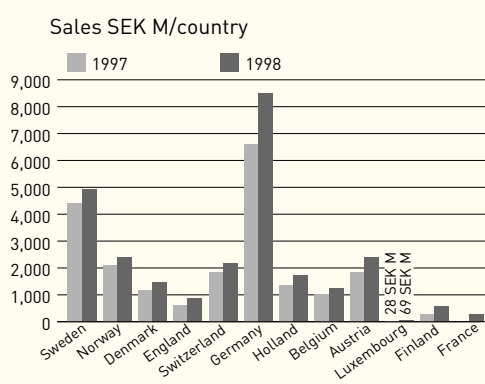
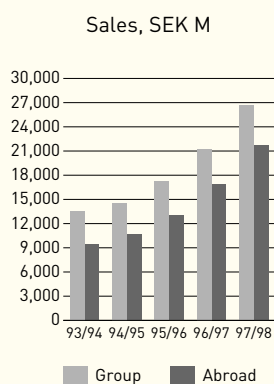
BOARD OF DIRECTORS' WORK

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

GROUP INCOME STATEMENT

(SEK M)

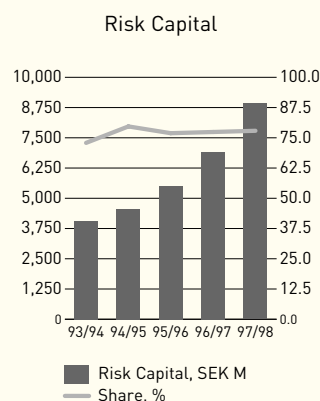
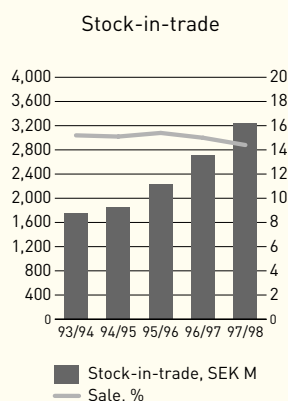
	1997/98	1996/97
Turnover, including VAT	26,649.8	21,279.4
Turnover, excluding VAT, Note 1	22,540.8	18,010.9
Cost of goods sold, Notes 4, 5	- 11,057.0	- 8,862.2
GROSS PROFIT	11,483.8	9,148.7
Selling expenses, Notes 2, 4, 5	- 7,710.4	- 6,392.1
Administrative expenses, Notes 4, 5	- 446.7	- 331.5
OPERATING PROFIT	3,326.7	2,425.1
Result from financial investments:		
Interest income	155.3	99.5
Interest expense	- 13.8	- 12.7
PROFIT AFTER FINANCIAL ITEMS	3,468.2	2,511.9
Tax on profit for the year, Note 6	- 1,181.3	- 821.0
NET PROFIT FOR THE YEAR	2,286.9	1,690.9



GROUP BALANCE SHEET

(SEK M)

ASSETS	1998	1997
FIXED ASSETS		
<u>Intangible Assets</u>		
Renting rights, Note 8	36.3	5.7
<u>Tangible Assets</u>		
Land and buildings, Note 8	191.9	191.7
Equipment, tools, fixtures and fittings, Note 8	2,219.1	1,713.9
	2,411.0	1,905.6
<u>Financial Assets</u>		
Other long-term receivables	60.4	40.5
Total fixed assets	2,507.7	1,951.8
CURRENT ASSETS		
Stock-in-trade	3,237.9	2,708.4
<u>Current receivables</u>		
Accounts receivable, trade	349.0	300.5
Other receivables	43.6	30.6
Prepaid expenses and accrued income, Note 9	154.8	149.0
	547.4	480.1
Short-term investments	3,727.7	2,733.6
Cash and bank balances	1,422.2	1,063.4
Total Current Assets	8,945.2	6,985.5
TOTAL ASSETS	11,452.9	8,937.3



GROUP BALANCE SHEET

(SEK M)

EQUITY AND LIABILITIES	1998	1997
EQUITY, Note 10		
<u>Restricted Equity</u>		
Share capital	206.9	206.9
Restricted reserves	1,419.6	1,185.1
	<u>1,626.5</u>	<u>1,392.0</u>
<u>Non-restricted Equity</u>		
Profit brought forward	4,492.5	3,390.5
Profit for the year	2,286.9	1,690.9
	<u>6,779.4</u>	<u>5,081.4</u>
Total Equity	8,405.9	6,473.4
<u>Provisions</u>		
Provisions for pensions	90.5	86.5
Provisions for taxation	516.3	447.8
	<u>606.8</u>	<u>534.3</u>
<u>Long-term Liabilities</u>		
Liabilities to credit institutions	46.1	45.3
<u>Current Liabilities</u>		
Accounts payable, trade	596.3	529.0
Income tax liabilities	489.5	347.0
Other liabilities	454.1	318.5
Accrued expenses and deferred income, Note 11	854.2	689.8
	<u>2,394.1</u>	<u>1,884.3</u>
TOTAL EQUITY AND LIABILITIES	11,452.9	8,937.3
Pledged assets		
Real estate mortgages	58.7	56.6
Contingent liabilities	29.7	29.4

CONSOLIDATED CASH FLOW STATEMENT

(SEK M)

	1997/98		1996/97	
Operating profit		3,326.7		2,425.1
Depreciation and start-up costs		472.4		398.4
Cash flow before changes in working capital		3,799.1		2,823.5
Changes in				
Current receivables	- 67.3		- 141.4	
Stock-in-trade	- 529.5		- 472.8	
Current liabilities	509.8	- 87.0	357.5	- 256.7
Cash flow from operations before financial items		3,712.1		2,566.8
Sale of shares			0.6	
Net interest income	141.5		86.8	
Tax expense	- 1,181.3		- 821.0	
Dividend to shareholders	- 620.7		- 455.1	
Exchange rate difference etc	266.3	-1,394.2	82.8	-1,105.9
Cash flow before external financing		2,317.9		1,460.9
Changes in				
Long-term liabilities and provisions	73.3		89.5	
Long-term receivables	- 19.9	53.4	- 1.3	88.2
Cash flow before investments		2,371.3		1,549.1
Investments and start-up costs		- 1,008.4		- 689.6
Changes in financial current assets		1,362.9		859.5

PARENT COMPANY INCOME STATEMENT

(SEK M)

	1997/98	1996/97
Turnover including VAT	5,111.2	4,591.2
Turnover excluding VAT	4,165.0	3,742.8
Cost of goods sold, Notes 4, 5	- 2,425.6	- 2,159.6
GROSS PROFIT	1,739.4	1,583.2
Selling expenses, Notes 4, 5	- 1,375.6	- 1,289.3
Administrative expenses, Notes 4, 5	- 165.5	- 137.5
OPERATING PROFIT	198.3	156.4
Result from financial investments:		
Dividend from subsidiaries	1,174.6	802.4
Interest income	47.5	38.3
Interest expense	- 26.1	- 18.1
PROFIT AFTER FINANCIAL ITEMS	1,394.3	979.0
Appropriations, Note 7	- 15.6	- 6.9
Taxes	- 59.0	- 48.1
NET PROFIT FOR THE YEAR	1,319.7	924.0

PARENT COMPANY BALANCE SHEET

(SEK M)

ASSETS	1998	1997
FIXED ASSETS		
<u>Intangible Assets</u>		
Renting rights, Note 8	0.4	0.5
<u>Tangible Assets</u>		
Land and buildings, Note 8	111.9	115.1
Equipment, tools, fixtures and fittings, Note 8	254.3	229.4
	<u>366.2</u>	<u>344.5</u>
<u>Financial Assets</u>		
Shares and participation rights, Note 12	8.6	8.6
Long-term receivables, subsidiaries	24.0	24.0
Other long-term receivables	12.2	6.3
	<u>44.8</u>	<u>38.9</u>
Total Fixed Assets	411.4	383.9
CURRENT ASSETS		
Stock-in-trade	615.8	592.6
<u>Current receivables</u>		
Accounts receivable, trade	162.0	125.5
Accounts receivable from subsidiaries	2,433.8	1,895.1
Income taxes recoverable		7.2
Other current assets	3.9	5.2
Prepaid expenses and accrued income, Note 9	34.9	41.0
	<u>2,634.6</u>	<u>2,074.0</u>
Short-term investments	410.0	350.0
Cash and bank balances	151.3	124.5
Total Current Assets	3,811.7	3,141.1
TOTAL ASSETS	4,223.1	3,525.0

PARENT COMPANY BALANCE SHEET

(SEK M)

EQUITY AND LIABILITIES	1998	1997
EQUITY		
<u>Restricted Equity</u>		
Share capital, Note 13	206.9	206.9
Restricted reserves	87.8	87.8
	294.7	294.7
<u>Non-restricted Equity</u>		
Profit brought forward, Note 14	1,425.5	1,122.0
Profit for the year	1,319.7	924.0
	2,745.2	2,046.0
<hr/>		
Total Equity	3,039.9	2,340.7
Untaxed reserves, Note 15	500.4	484.8
Provisions for pensions	90.4	86.5
Liabilities to credit institutions	25.0	25.0
<u>Current Liabilities</u>		
Accounts payable, trade	174.5	229.3
Accounts payable, subsidiaries	60.0	103.9
Income tax liability	17.3	
Other current liabilities	40.3	31.9
Accrued expenses and deferred income, Note 11	275.3	222.9
	567.4	588.0
<hr/>		
TOTAL EQUITY AND LIABILITIES	4,223.1	3,525.0
Pledged assets		
Real estate mortgages	32.5	32.5
Contingent liabilities	29.7	27.7

PARENT COMPANY CASH FLOW STATEMENT

(SEK M)

	1997/98		1996/97	
Operating profit		198.3		156.4
Depreciation		49.9		43.9
Cash flow before changes in working capital		248.2		200.3
Changes in				
Current receivables	- 560.6		- 538.7	
Stock-in-trade	- 23.2		- 44.8	
Current liabilities	- 20.6	- 604.4	109.4	- 474.1
Cash flow from operations before financial items		- 356.2		- 273.8
Sale of shares			0.6	
Net interest income	21.4		20.2	
Dividends from subsidiaries	1,174.6		802.4	
Tax expense	- 59.0		- 48.1	
Returned dividend	0,2			
Dividends to shareholders	- 620.7	516.5	- 455.1	320.0
Cash flow before external financing		160.3		46.2
Changes in				
Long-term liabilities and provisions	3.9		2.1	
Long-term receivables	- 5.9	- 2.0	- 0.2	1.9
Cash flow before investments		158.3		48.1
Investments		- 71.5		- 73.3
Changes in financial current assets		86.8		- 25.2

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

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

Consolidated accounts

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

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

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

Receivables and liabilities in foreign currency

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

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

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

1 TURNOVER EXCLUDING VAT PER COUNTRY, SEK M

	1997/98	1996/97
Sweden	3,952	3,554
Norway	1,940	1,717
Denmark	1,162	947
England	791	541
Switzerland	2,059	1,718
Germany	7,358	5,746
The Netherlands	1,467	1,167
Belgium	1,022	838
Austria	2,021	1,543
Luxembourg	62	25
Finland	473	215
France	234	
Total	22,541	18,011

2 START-UP COSTS

Start-up costs refer to the cost involved in modernising and fitting out newly acquired premises and newly established operations. Start-up costs have been charged to the income statement in accordance with the accounting and taxation practice of each country. Start-up costs during the year amounted to SEK 119.6 M (109.3).

3 SALES TO GROUP COMPANIES

Parent Company net turnover includes SEK 555 M (SEK 534 M) concerning the internal sale of goods to subsidiaries.

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

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

1997	Board + Man. dir., salary	Other, salary	Payroll overheads Total	of which pensions Total	of which pen- sions* Board + Man. Dir.
Sweden	6.4	610.4	255.5	32.3	0.7
Norway	1.7	242.1	37.0	2.7	0.1
Denmark	1.3	141.5	8.2	5.0	
England	2.3	67.5	5.0	0.3	0.1
Switzerland	1.9	263.7	25.8	0.4	0.1
Germany	4.4	740.9	143.9	0.6	
The Netherlands	1.7	105.3	21.6	0.5	0.4
Belgium	1.1	95.5	35.7	0.3	0.1
Austria	1.2	183.7	52.7	0.2	0.1
Luxembourg		3.2	0.4		
Finland	0.6	11.5	2.2	0.1	0.1
France		0.3			
Other countries		34.8	4.2	0.7	
Group, total	22.6	2,500.4	592.2	43.1	1.7

*] Company and Group outstanding pension obligations to this group total 2.1 (2.0).

Severance pay

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

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

Terms of employment for other Group senior executive officers

Remuneration to the Board of Directors reached SEK 3,900,000, of which SEK 3,000,000 was paid to the Chairman of the Board. Board members employed by the company were not compensated.

Remuneration to the former Managing Director in the form of salary and subsidiary Board fees amounted to SEK 805,000. The current Managing Director received SEK 2,375,000. The usual premium for a Swedish ITP retirement plan should be added to the aforementioned figures.

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

5 DEPRECIATION ACCORDING TO PLAN

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

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

	GROUP		PARENT COMPANY	
	97/98	96/97	97/98	96/97
Cost of goods sold	35.3	28.9	5.0	4.4
Selling expenses	299.9	245.8	42.4	37.3
Administrative expenses	17.6	14.4	2.5	2.2
Total	352.8	289.1	49.9	43.9

6 TAX ON PROFIT FOR THE YEAR

	97/98	96/97
Taxes paid	- 1,126.0	- 729.6
Taxes deferred	- 55.3	- 91.4
Total	- 1,181.3	- 821.0

7 APPROPRIATIONS

	97/98	96/97
Depreciation in excess of plan	- 14.6	- 15.6
Change in capital based tax equalisation reserve K	51.7	51.7
Allocation to tax allocation reserve	- 52.7	- 43.0
Total	- 15.6	- 6.9

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

	Equipment	Leasehold rights	Real estate
Koncernen			
Acquisition value carried forward	2,674.6	8.6	237.6
Acquisition for the year	792.8	33.0	3.4
Sales/disposal	- 239.7		
Translation effects	183.9	0.7	4.0
Closing acquisition value	3,411.6	42.3	245.0
Depreciation carried forward	- 960.7	- 2.9	- 45.9
Sales/disposal	196.4		
Depreciation for the year	- 343.3	- 2.7	- 6.8
Translation effects	- 84.9	- 0.4	- 0.4
Closing accumulated depreciations	- 1,192.5	- 6.0	- 53.1
Closing residual value according to plan	2,219.1	36.3	191.9
Parent Company			
Acquisition value carried forward	368.8	0.7	149.3
Acquisition for the year	70.3		1.2
Sales/disposal	- 22.6		
Closing acquisition value	416.5	0.7	150.5
Depreciation carried forward	- 139.3	- 0.2	- 34.2
Sales/disposal	22.5		
Depreciation for the year	- 45.4	- 0.1	- 4.4
Closing accumulated depreciations	- 162.2	- 0.3	- 38.6
Closing residual value according to plan	254.3	0.4	111.9

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

9 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	97/98	96/97	97/98	96/97
Prepaid rent	89.6	86.8	18.0	21.1
Accrued interest income	15.2	11.4	4.1	6.1
Other items	50.0	50.8	12.8	13.8
Total	154.8	149.0	34.9	41.0

10 CHANGE IN SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Unappropriated earnings	Total shareholders' equity
Shareholders' equity 1 Dec. 97	206.9	1,185.1	5,081.4	6,473.4
Dividends			- 620.7	- 620.7
Changes in restricted reserves		17.7	- 17.7	
Capital shares in untaxed reserves		180.4	- 180.4	
Translation differences		36.4	229.9	266.3
Profit for the year			2,286.9	2,286.9
Shareholders' equity 30 Nov. 98	206.9	1,419.6	6,779.4	8,405.9

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

	Organisation number	Number of shares	Booked value SEK M	Domicile
Parent company participation				
Hennes & Mauritz Svenska AB	556056-6126	1,000	0,1	Stockholm
K E Persson AB	556030-1052	1,000	0,1	Stockholm
AB Hennes	556056-0889	1,000	0,1	Stockholm
Big is Beautiful, BiB AB	556005-5047	3,300	0,4	Stockholm
Bekå AB	556024-2488	450	1,3	Stockholm
Impuls AB	556151-2376	1,250	0,1	Stockholm
Carl-Axel Herrmode AB	556099-0706	1,000	3,0	Stockholm
H & M Rowells AB	556023-1663	1,150	0,6	Stockholm
Mauritz AB	556125-1421	2,000	0,2	Stockholm
Erica Modehus AB	556070-1715	1,000	2,6	Stockholm
H & M Hennes & Mauritz International B.V.		40,000 ^{NLG}	0,1	The Netherlands
			8,6	
Subsidiary participation in group companies				
Carl Axel Petterssons AB	556027-7351	1,200		Stockholm
H & M Hennes & Mauritz AS				Norway
H & M Hennes & Mauritz AS				Denmark
H & M Hennes Ltd				England
H & M Hennes & Mauritz SA				Switzerland
H & M Trading SA				Switzerland
H & M Hennes & Mauritz Holding GmbH				Germany
H & M Hennes & Mauritz GmbH				Germany
Impuls Modeteam Vertriebsgesellschaft mbH				Germany
Modehaus P.F. Schwabe GmbH & Co. KG				Germany
Modehaus H & M Hennes & Mauritz GmbH				Germany
Firma Magis Verwaltungs- und Beteiligungsgesellschaft mbH				Germany
Magis GmbH & Co. KG				Germany
H & M Hennes & Mauritz Holding BV				The Netherlands
H & M Hennes & Mauritz Netherlands B.V.				The Netherlands
H & M Hennes & Mauritz Belgium B.V.				The Netherlands
H & M Hennes & Mauritz GesmbH				Austria
H & M Hennes & Mauritz OY				Finland
H & M Hennes & Mauritz SARL				France
H & M Reinsurance SA				Luxembourg
H & M Hennes & Mauritz Far East Ltd				Hong Kong
Puls Trading Far East Ltd				Hong Kong
H & M Hennes & Mauritz International Ltd				Hong Kong
Puls Trading International Ltd				Hong Kong

11 ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	97/98	96/97	97/98	96/97
Holiday pay liability	187.5	170.8	79.7	64.8
Payroll overheads	100.4	77.4	71.0	48.6
Accrued interest expense	2.3	1.8	2.0	1.5
Other items	564.0	439.8	122.6	108.0
Total	854.2	689.8	275.3	222.9

13 SHARE CAPITAL

The share capital consists of 24,300,000 class 'A' shares (10 votes per share) and 182,584,000 class 'B' shares (one vote per share), with a par value of SEK 1 each. The total number of shares is 206,884,000.

14 APPROPRIATION OF PROFITS IN ACCORDANCE WITH THE RESOLUTION OF THE 1998 ANNUAL GENERAL MEETING

	MSEK
Unappropriated profit at 30 Nov. 97	2,046.0
Dividend, SEK 3 per share	- 620.7
Returned dividend	0.2
Unappropriated profit carried forward	1,425.5

15 UNTAXED RESERVES

	97/98	96/97
Depreciation in excess of plan	151.3	136.7
Capital based tax equalisation reserve K	103.4	155.1
Tax allocation reserve	245.7	193.0
Total	500.4	484.8

16 AVERAGE NUMBER OF EMPLOYEES

	1997/98		1996/97	
	Total	Males	Total	Males
Sweden, Parent Company	3,079	18%	2,934	18%
Norway	1,096	8%	1,010	8%
Denmark	734	9%	696	9%
England	549	12%	424	9%
Switzerland	1,001	9%	947	9%
Germany	3,898	22%	3,556	22%
The Netherlands	1,136	20%	903	19%
Belgium	477	17%	454	18%
Austria	1,302	19%	856	22%
Luxembourg	37	19%	20	20%
Finland	251	13%	70	29%
France	250	14%		
Other countries	291	28%	226	27%
Group, total	14,101	17%	12,096	18%

17 KEY FIGURE DEFINITIONS

Return on shareholders' equity:	Profit for the year divided by shareholders' equity.	Share of risk-bearing capital:	Shareholders' equity plus minority share and deferred tax liability divided by the balance sheet total.
Return on capital employed:	Estimated taxable profit plus interest expense divided by shareholders' equity including minority interests plus interest-bearing liabilities.	Solidity:	Shareholders' equity in relation to balance sheet total.
Debt/equity ratio:	Interest-bearing liabilities divided by shareholders' equity.	Interest cover:	Estimated taxable profit plus interest expense divided by interest expense.

PROPOSED DISTRIBUTION OF EARNINGS

GROUP

According to the Group Balance Sheet, unappropriated Group profit amounts to SEK 6,779,405,000.

At the disposal of the Annual General Meeting	SEK	2,745,164,891
The Board of Directors and Managing Director propose that:		
shareholders be paid a dividend of SEK 4.00 per share	SEK	827,536,000
To be carried forward as retained profits	SEK	1,917,628,891
	SEK	<u>2,745,164,891</u>

Stockholm, 28 January 1999

Stefan Persson	Fred Andersson	Birgitta Brusberg*
Vivian Enochsson*	Werner Hofer	Sussi Kwart
Bo Lundquist	Stig Nordfelt	Melker Schörling

* Employee representative

DIVIDEND POLICY

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

AUDITORS' REPORT

To the Annual General Meeting of H & M Hennes & Mauritz AB
Corporate identity number: 556042-7220

We have examined the Annual Report, the consolidated financial statement, the books of account and the administration of the Board of Directors and Managing Director for year financial year. The Board of Directors and Managing Director are responsible for the financial accounts and administration. We are responsible for auditing the Annual Report, Consolidated Financial Statement and administration and for presenting our statement.

We have conducted the audit in accordance with good auditing practice. We planned and conducted the audit to ensure that the Annual Report and Consolidated Financial Statement do not contain any significant errors. An audit involves examining a selection of supporting documents regarding figures and other information in the financial accounts. An audit also involves checking audit principles and the Board of Directors' and Managing Director's application of them, as well as of assessing all information in the Annual Report and Consolidated Financial Statement. We have examined important decisions, measures and the

conditions in the company in order to determine if any member of the Board or the Managing Director is liable for damages to the company or has acted in any way that violates the Companies Act, the Annual Report Act or the Articles of Association. After conducting our Audit, we believe that we have sufficient grounds to make the following statements:

The Annual Report has been prepared in accordance with the Swedish Companies Act. We therefore recommend that the Parent Company Income Statement and Balance Sheet be adopted and that Parent Company profit be dealt with in accordance with the proposal in the Administration Report.

The Board of Directors and the Managing Director have not taken any measures or acted in any way that, in our opinion, is detrimental to the company. Therefore, we recommend

that the Board of Directors and the Managing Director be discharged from liability for the financial year.

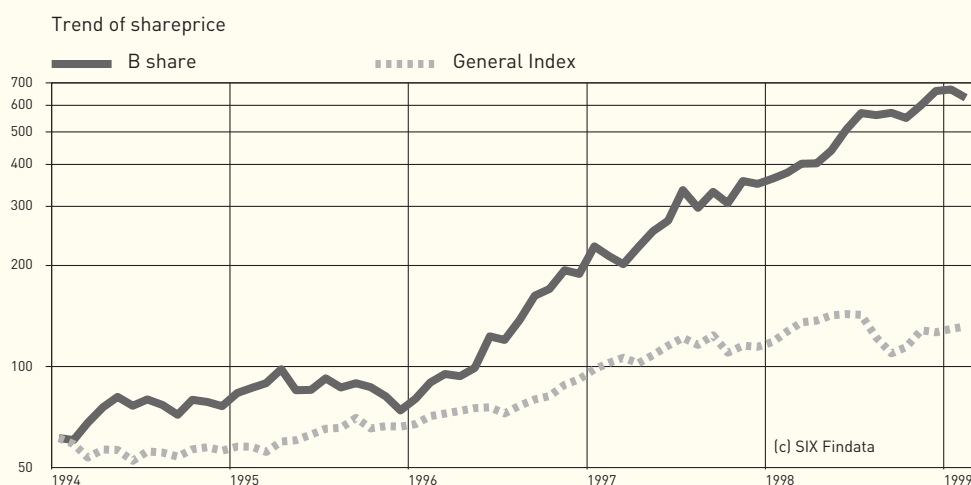
Stockholm, 29 January 1999

Åke Hedén
Authorised Auditor

Gunnar Widhagen
Authorised Auditor

FIVE-YEAR SUMMARY

	1993/94	1994/95	1995/96	1996/97	1997/98
Turnover, including VAT, SEK M	13,522.5	14,591.1	17,212.1	21,279.4	26,649.8
Change from previous year, %	+ 18	+ 8	+ 18	+ 24	+ 25
Sales outside Sweden, SEK M	9,458.1	10,720.1	13,085.4	16,853.1	21,730.1
Sales outside Sweden as a percentage of total sales, %	70	73	76	79	82
Operating margin, %	12.8	10.0	12.6	13.5	14.8
Profit after financial items, SEK M	1,591.3	1,321.7	1,905.0	2,511.9	3,468.2
Profit for the year, SEK M	1,065.3	973.1	1,331.0	1,690.9	2,286.9
Cash and Bank balances including short-term investments, SEK M	2,445.1	2,193.5	2,937.5	3,797.0	5,159.9
Stock-in-trade, SEK M	1,753.2	1,859.0	2,235.6	2,708.4	3,237.9
Restricted equity, SEK M	1,030.8	1,070.1	1,194.8	1,392.0	1,626.5
Non-restricted equity, SEK M	2,731.6	3,186.1	3,960.0	5,081.4	6,779.4
Return on shareholders' equity, %	31.6	24.3	28.3	29.1	30.7
Return on capital employed, %	46.2	32.7	39.8	42.5	46.3
Debt/equity ratio, %	2.9	3.0	2.5	2.1	1.1
Share of risk-bearing capital, %	72.9	79.7	76.9	77.4	77.9
Solidity, %	67.6	74.3	71.9	72.4	73.4
Interest cover	67.1	47.4	106.2	198.8	252.3
Number of stores in Sweden	119	118	117	117	120
Number of stores outside Sweden	238	275	326	373	430
Total number of stores	357	393	443	490	550
Average number of employees	8,837	9,465	10,469	12,096	14,101



H&M SHARE

BUSINESS RATIOS PER SHARE*	1993/94	1994/95	1995/96	1996/97	1997/98
Shareholders' equity per share, SEK	18.19	20.57	24.92	31.29	40.63
Earnings per share, SEK	5.15	4.70	6.43	8.17	11.05
Change from previous year, %	+ 29	- 9	+ 37	+ 27	+ 35
Dividend per share, SEK	1.55	1.55	2.20	3.00	4.00*
Market price at financial year-end, SEK	78.40	81.40	193.00	357.00	601.00
P/E ratio	15	17	30	44	54

DISTRIBUTION OF SHARES, DECEMBER 1998

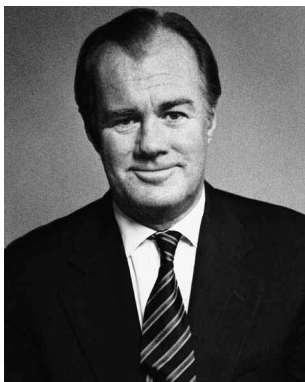
Shareholdings	Number of shareholders	%	Number of shares	%	Average number of shares per shareholder
1 – 1,000	36,215	92.8	5,612,386	2.7	155
1,001 – 5,000	1,953	5.0	4,647,202	2.3	2,380
5,001 – 10,000	301	0.8	2,269,955	1.1	7,541
10,001 – 50,000	305	0.8	7,034,373	3.4	23,064
50,001 – 100,000	63	0.2	4,558,758	2.2	72,361
100,001 –	167	0.4	182,761,326	88.3	1,094,379
TOTAL	39,004	100.0	206,884,000	100.0	5,304

MAJOR SHAREHOLDERS, DECEMBER 1998

	Shares held	% of voting rights	% of capi- tal stock
The Stefan Persson family	75,273,100	69.1	36.4
Allmänna Pensionsfonden, fjärde fondstyrelsen	10,474,375	2.5	5.1
Liselott Tham	10,100,175	2.4	4.9
FöreningsSparbanken fonder	8,202,550	1.9	4.0
Försäkringsbolaget SPP	7,752,663	1.8	3.8
AMF	3,421,725	0.8	1.7
SEB Trygg Liv	3,191,850	0.8	1.5
SEB Fonder	2,938,591	0.7	1.4
The Skandia Group	2,875,310	0.7	1.4

* Proposed dividend

THE BOARD OF DIRECTORS



STEFAN PERSSON

born 1947
Chairman, H&M
Member of the board since 1979
Other board assignments:
AB Electrolux and INGKA Holding B.V.
No. of shares in H&M: 70,723,600



VIVIAN ENOCHSSON

born 1940
Employee representative since 1977
No. of shares in H&M: 150



FRED ANDERSSON

born 1946
Managing Director, Coromandel Holding AB
Member of the board since 1990
Other board assignments:
Bergendahl & Son AB
No. of shares in H&M: 1,075



WERNER HOFER

born 1935
Lawyer and partner of Luther & Partner,
Hamburg/Berlin
Member of the board since 1996
Other board assignments:
Chairman of Puma AG, Electrolux
Deutschland GmbH and Astra GmbH
Bo. of shares in H&M: 1,000



BIRGITTA BRUSBERG

born 1937
Employee representative since 1992



JAN JACOBSEN

born 1951
Director of Finance, H&M
Deputy member of the board since 1985
No. of shares in H&M: 75,000



SUSSI KVART

born 1956
Deputy Secretary General of the Swedish
Bar Association
Member of the board since 1998
No. of shares in H&M: 400



BO LUNDQUIST

born 1942
Member of the board since 1995
Other board assignments:
Chairman of ACSC AB, board member
of Hemköp AB, Dahl International AB,
Svedala AB and CityMail AB
No. of shares in H&M: 5,000



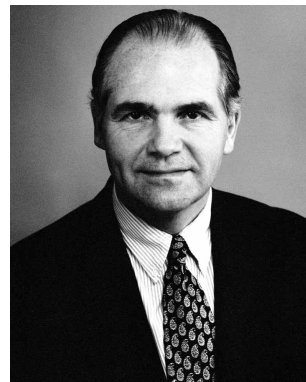
AGNETA RAMBERG

born 1946
Deputy employee representative
since 1997



STIG NORDFELT

born 1940
Managing Director, Pilen AB
Member of the board since 1987
Other board assignments: IBS AB
No. of shares in H&M: 1,000



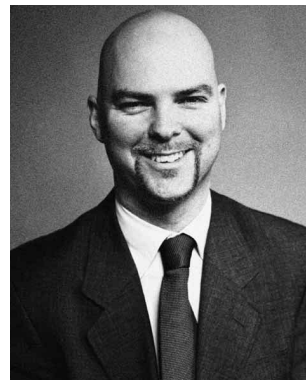
MELKER SCHÖRLING

born 1947
Member of the board since 1998
Other board assignments:
Chairman of Securitas AB,
vice chairman of Assa Abloy AB,
board member of Cardo AB and
the Federation of Swedish Industries



MARIANNE NORIN-BROMAN

born 1944
Deputy employee representative since 1995
No. of shares in H&M: 10



FABIAN MÅNSSON

born 1964
Chief Executive Officer and
Managing Director of H&M
Deputy member of the board since 1998
No. of shares in H&M: 400

H&M FACTS

Sweden

Established:	1947
Turnover (SEK M):	4,920
Number of stores:	120
Number of locations:	50
Number of employees:	3,079

Norway

Established:	1964
Turnover (SEK M):	2,385
Number of stores:	51
Number of locations:	24
Number of employees:	1,096

Denmark

Established:	1967
Turnover (SEK M):	1,453
Number of stores:	41
Number of locations:	25
Number of employees:	734

England

Established:	1976
Turnover (SEK M):	884
Number of stores:	25
Number of locations:	12
Number of employees:	549

Switzerland

Established:	1978
Turnover (SEK M):	2,193
Number of stores:	42
Number of locations:	20
Number of employees:	1,001

Germany

Established:	1980
Turnover (SEK M):	8,511
Number of stores:	149
Number of locations:	77
Number of employees:	3,898

The Netherlands

Established:	1989
Turnover (SEK M):	1,723
Number of stores:	44
Number of locations:	28
Number of employees:	1,136

Belgium

Established:	1992
Turnover (SEK M):	1,237
Number of stores:	30
Number of locations:	20
Number of employees:	477

Austria

Established:	1994
Turnover (SEK M):	2,416
Number of stores:	31
Number of locations:	9
Number of employees:	1,302

Luxembourg

Established:	1996
Turnover (SEK M):	69
Number of stores:	3
Number of locations:	1
Number of employees:	37

Finland

Established:	1997
Turnover (SEK M)	577
Number of stores:	8
Number of locations:	5
Number of employees:	251

France

Established:	1998
Turnover (SEK M):	282
Number of stores:	6
Number of locations:	2
Number of employees:	252



born to be seen
BEAUTY BOX

volume mascara



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