A woman with voluminous, curly brown hair is shown in profile, looking towards the camera. She is wearing a bright pink, short-sleeved, form-fitting top with a thin pink belt at the waist. Her skirt is white with a pattern of pink and red roses and green leaves. The background is dark with several bright, out-of-focus circular lights, suggesting a stage or fashion show setting.

Annual Report
2003

H&M

Tops from
€9,90



CONTENTS

Financial Highlights 3	Administration Report 34
Report of the Managing Director 4	Income Statements 35
H&M in 2003 6	Balance Sheets 36
Our Products 8	Cash Flow Analyses 38
Our Stores 10	Notes 39
Our Markets 12	Distribution of Earnings and Auditors' Report 43
Our Flow of Goods 18	Five-year Summary 44
Corporate Social Responsibility 24	H&M Share 45
Our Communication 28	Board of Directors 46
Our Employees 30	Financial Information 49
External Factors 32	Addresses and Contacts 50

FINANCIAL HIGHLIGHTS

		2003	2002
Gross sales, including VAT	SEK m	56,550.0	53,331.7
Change from previous year	%	+6	+15
Sales outside Sweden	SEK m	50,942.0	47,545.0
Sales outside Sweden as a percentage of gross sales	%	90	89
Operating margin	%	19.1	18.1
Profit after financial items	SEK m	9,608.7	8,628.9
Net profit for the year	SEK m	6,385.9	5,686.8
Earnings per share	SEK	7.72	6.87
Change from previous year	%	+12	+49
Return on shareholders' equity	%	32.6	32.9
Return on capital employed	%	48.9	49.7
Debt/equity ratio	%	0.2	0.4
Share of risk-bearing capital	%	81.6	79.0
Solidity	%	78.0	75.7
Number of stores in Sweden		123	120
Number of stores outside Sweden		822	724
Total number of stores		945	844
Average number of employees		28,409	25,674



A STRONG H&M CONTINUES TO GROW

2003 was a good and profitable year for H&M. It was a year of expansion in which we moved into four new markets, where sales far exceeded our expectations. However the weather and a generally slow consumption had a large impact on sales in several of our markets. The collections were well received, as reflected by the low level of price reductions. Thanks to the weaker dollar we were able to reduce prices to the customer by 3 per cent on average – which in turn meant that we sold more goods.

H&M's best results ever

Turnover increased by 6 per cent (with comparable exchange rates 9 per cent) to nearly SEK 57 billion. Our high profitability can clearly be seen in our strengthened margins. The gross margin improved by 1.1 percentage units to 56.2 per cent. Operating profit and operating margins improved in all our markets. We are pleased with the result, which has been achieved through good cost control and a high level of cost-consciousness throughout the organisation – but above all thanks to the fantastic work by our employees over the year! Profit after financial items increased by 11 per cent to over SEK 9.6 billion.

Four new markets in Europe

In 2003 we moved into the former Eastern Europe when we opened our first stores in Poland and the Czech Republic – countries that are rapidly gaining ground and with large populations. Portugal and Italy also became new H&M countries. Overall we opened 12 stores during the year in these four new markets, where the reception was fantastic.

Our expansion into these new markets has taken place with the assistance of their neighbouring countries, which helped out in areas such as administration, product supply and know-how. This simplified method of opening meant that costs were considerably lower than would otherwise have been possible. At the same time, it has allowed the new countries to focus entirely on sales.

Profitable growth as a strategy

H&M is an expansive company. Over the past three years H&M has increased the number of stores by nearly 40 per cent, increased turnover by nearly 60 per cent and profit after tax by 150 per cent.

Our financial strength gives us the freedom to act at a pace set by ourselves. H&M's strategy is to continue to grow while maintaining profitability. The goal is to increase the number of stores by 10–15 per cent per year while at the same time increasing sales at existing stores. Obviously, this may vary somewhat from year to year. The availability of attractive store locations is the deciding factor in our rate of expansion. We have always insisted on establishing stores in the best store locations.

Considerable expansion – 140 new stores in 2004

H&M will continue to grow in 2004. We plan to open 140 new stores, primarily in Germany, the UK, France, the USA, Spain and Poland. There will also be more stores in for instance the Czech Republic, Portugal and Italy. EU enlargement, with Poland and the Czech Republic among those countries becoming new members, will simplify our expansion since duties and restrictions will disappear.

The 1,000th H&M store, which will open during the year, will be a milestone! In addition, we will be moving into two new markets – Canada and Slovenia. The neighbouring countries USA and Austria will help us become established there. In Slovenia two stores will open in the autumn, one in Ljubljana and one in Maribor.

“The 1,000th H&M store, which will open during the year, will be a milestone! In addition, we will be moving into two new markets – Canada and Slovenia.”

A strong platform in North America

We will be opening two stores in Toronto, Canada in the spring and a further three in the autumn. H&M USA will assist for the first few years. This is expected to provide H&M with a smooth and cost-efficient start in Canada.

H&M is firmly on course in the USA and the operation of the stores has continued to improve substantially in 2003. The rate of expansion was high, with somewhat more stores opening than was planned at the beginning of the year. At the end of the year we had 66 stores on the East Coast and in the Chicago region. The establishment in Chicago was successful and forms a good base for further growth. In 2004 we will be adding a further 10 to 15 new stores in the USA.

H&M's Corporate Social Responsibility

As an international corporation we have a great responsibility to the world around us. Taking responsibility for how people and the environment are affected by our activities is well in line with our fundamental values. CSR, or Corporate Social Responsibility, is therefore an important strategic issue for H&M.

Our clothes must always be manufactured and sold under good working conditions. For many years now we have had a Code of Conduct that our suppliers must sign up to and abide by. Among other things, the Code contains

requirements concerning the working environment and safety, the freedom of association, minimum wages and ban on child labour. H&M carries out inspections to bring about improvements and ensure that the Code of Conduct is being observed in practice. We are proud of this work and pleased with the improvements that we have achieved to date. However, this is long-term work for change that requires a lot of patience.

The greatest challenge is to influence attitudes. The key to this is cooperation – not only between our suppliers and us, but also with fellow-members of our industry, UN organisations and trade unions.

Worldwide agreement with UNI

H&M makes efforts to maintain good relations with trade unions. In January we signed a worldwide agreement with UNI, the international umbrella organisation for the retail and services sector, in order to achieve constructive dialogue and avoid future conflicts. The agreement means that the rules and standards that we already follow have been formally documented and signed.

Clarity is the key word in 2004

Our focus in 2004 will be on increasing sales. Naturally, this is to be done while maintaining good profitability. Above all, we will be working on clarity in the presentation of our products. Quite simply, we want to make it easier for our customers to find what they are looking for in our stores. This will be accomplished through close cooperation between the departments for buying and display as regards the composition and presentation of the collections.

Our business concept – fashion and quality at the best price – is the cornerstone of H&M. The combination of fashion, quality and price is also our strength. We must make it easy for our customers to combine different garments, since H&M's fashion primarily is about finding your own personal style. I am very proud of our business and the commitment shown by our 40,000 employees.

I am very optimistic as regards 2004, which will be an exciting year with many new challenges and opportunities. Our fast pace means that at the end of the year we will have around 1,075 stores in 20 countries in Europe and North America. ■



Rolf Eriksen

H&M IN 2003

- High profitability – strengthened margins in all markets.
- The collections were well received.
- Further improvements in the buying process with new goods in the stores every day.
- Continued expansion. In total, 113 new stores were opened and 12 stores were closed. At the end of the year there were 945 stores in 18 countries.
- H&M's reception in our four new markets – Poland, the Czech Republic, Portugal and Italy – exceeded all expectations. Five stores were opened in Warsaw and one in Poznan, two stores in Prague, three in Lisbon and one in Milan.
- H&M continues to grow in Germany – 21 new stores during the year, including a large full-range store in Hamburg's premier location.
- Eleven new stores in the UK, including three large stores in Gloucester, Inverness and Worcester.
- Continued expansion in France and Spain, which developed very well.
- 21 new stores in the USA in 2003. H&M stores in two completely new regions – Washington D.C. and Chicago.
- The Canadian business is under construction. Five stores are planned to open in Toronto in 2004.
- H&M Man, a new tailored men's collection of high quality, was launched in the autumn.
- H&M Beautybox – concept lingerie stores – also opened in Sweden and the UK.



H&M staff at the opening of our flagship store in Madrid.



Skirt € **19,90**

A WIDE AND VARIED FASHION RANGE

H&M offers fashion and quality at the best price through a wide and varied range of fashion divided into lots of different concepts. The range covers everything from updated classics and basics to clothes that reflect the very latest international trends. It also includes underwear, sportswear, accessories and cosmetics.

The largest concept consists of women's wear, followed by children's wear, teenage fashions and men's wear. The majority of our stores are full-range stores, but H&M also has concept stores offering solely women's or teenage fashions or stores that sell only cosmetics, lingerie and accessories. ■

CHILDREN'S WEAR

Our children's clothes are as fashionable as they are practical, safe, comfortable and functional. The clothes must be durable, value-for-money and of good quality. H&M does not sell clothes that may be perceived as provocative on small children.

PATTERNS

H&M does not use camouflage patterns on its garments. Prints on tops and other garments must not be offensive, sexist, racist, political or religious.

ANIMAL TESTING

Animal testing is not permitted on our cosmetic products, either during production or on the finished products.

For more information visit www.hm.com



Women

In women's wear there are five different concepts. The great variation enables fashion-conscious and fashion-aware women of all ages with different needs and desires to find exactly what they are looking for.

The majority of the range consists of fashion basics, updated classics at good prices and garments with higher fashion content or made of more exclusive materials. The very trendiest cutting-edge garments are produced in smaller quantities for those who want to be first with the very latest international looks.

L.O.G.G. offers timeless updated garments of high quality. L.O.G.G. Sport comprises sportswear and leisurewear, with the emphasis on form and function – both for general outdoor use and for specific sports activities.

For plus-size women who are interested in fashion there is BiB, which offers both trendy garments and functional basics.

For the mother-to-be who wants to continue to dress fashionably during her pregnancy there is Mama.

H&M also offers a wide range of underwear and nightwear that is coordinated with our various women's wear concepts. There is everything from simple and sporty basics to more exclusive lingerie.

Each concept in our women's range also offers accessories such as jewelry, belts, bags, sunglasses, scarves and hats. Our range also includes socks, tights and swimwear.



Men

Our men's collections consist of a number of concepts aimed at men of all ages with different needs and wishes as regards fashion content, quality and price. The main concept comprises a broad range of updated classic basics, as well as clothes with a higher fashion content. There is also a very trendy concept aimed at men with a great interest in fashion who update their individual style regularly to keep up with the latest trends.

H&M Man is a new tailored men's collection of very high quality with a classic or narrower fit. Suits are tailored from pure wool fabrics woven in France and Italy. Shirts are of pure cotton and all the ties are silk.

L.O.G.G. offers timeless updated garments with the emphasis on durability, quality and function. L.O.G.G. Sport consists of modern leisurewear for general outdoor use and various sports activities. A wide and varied range of accessories complement each concept. These include underwear, nightwear, socks and swimwear.



Teenage

Divided, our collection for teenagers, offers fashion for girls and guys. Covering everything from daytime to evening wear, Divided also has to fit in with different lifestyles. The Divided red and blue collections contain denim-based garments or garments made of jersey or sweatshirt material. Divided black is our party collection for teenagers. Our comprehensive range of garments and accessories reflect the latest international trends in sport, music and street fashion.



Children

The children's collections comprise several different concepts that combine form, function and fashion with playfulness and safety. For the very little ones (0–18 months) there is Baby, which consists of comfortable and functional babywear. L.O.G.G. Baby offers timeless classics with extra high requirements of quality and durability. Nightwear, underwear, swimwear and hosiery are also included.

Our main concept for children consists of a basic seasonal range aimed at boys and girls from ages 18 months to 10 years. Dubbster offers boys and girls from 18 months to 13 years denim-based garments influenced by sports and street fashion. L.O.G.G. provides high quality modern classics for boys and girls from 18 months to 13 years.



Cosmetics and accessories

H&M has sold cosmetics since 1975. Today, cosmetics are sold throughout Scandinavia as well as in Germany, the UK, Austria, Spain, Portugal, France, the Netherlands and Italy. The range consists of make-up, body care and hair care products as well as accessories for men, women and teenagers. Great emphasis is placed on the range being up-to-date, value-for-money and of high quality. The suppliers of our cosmetics are based in Europe, Asia and the USA. The products are not tested on animals either during the production process or in the finished state. Suppliers sign an assurance that the content, packaging and labelling of their products meet requirements of quality and safety. All the suppliers have also undertaken to abide by H&M's policy and the EU's directive within this area.



OUR STORES – BEST BUSINESS LOCATION

Location is everything when H&M looks for premises for its stores. Best business location has been a firm principle of H&M since 1947 and is no less true today. We want to be located in the best shopping streets where many of the world's leading fashion companies come together. We consider it an advantage to be near our competitors, since more customers will be attracted to good commercial areas with lots of shops – giving us a better chance of offering more customers the opportunity to get a good deal.

H&M aims to be the most attractive option for its customers in every town or city and at every store location. The location factor is so crucial that we prefer to wait for the right site to become available before establishing a store in a new area.

The first step towards establishment

There are many factors influencing the choice of where to establish a new store. If it is a completely new market we look at factors such as demographics, employment, purchasing power and purchasing patterns.

We then carry out a local survey to evaluate shopping areas and shopping centres. We chart how big they are, which other stores are there and where our competitors have their stores. Other important factors are traffic flows and public transport. By this stage we will already have an idea of the market potential.

Range adapted to size and location

We adapt the range mix to each store, depending on factors such as location, size of the store and customer flow in the area. The whole scale is represented – from full-range stores to smaller concept stores such as teenage fashion stores or H&M Beautybox.

A comfortable, inspiring store environment

H&M's stores are planned so as to be largely self-service. The store environment must be comfortable and inspiring and generate well being. It is important to give customers ideas and inspire them to choose things that suit their own style. Displays and mannequins are used to provide inspiration for matching clothes. We also need to help our customers to find their way about the range and to combine garments successfully. Clarity is the key word as regards the composition and the presentation of the collections. H&M always tries to surprise with something new and new goods arrive to the stores every day.

H&M customers must be able to find their way about in whichever H&M store they happen to find themselves. This is achieved using our store fittings and the way we display the goods.

The most important thing is to make the most of each particular store. The shop fittings are often standardised, but sometimes fittings are created for a particular store. H&M's new store in the centre of Milan's fashion district has bold, trendy fittings with a youthful range of high

fashion content for example, which makes it differ noticeably from a suburban full-range store.

Most store openings at the start of the seasons

We try to open as many stores as possible at the beginning of our two main seasons – spring and autumn – so as to get sales off to a good start. However, the number of stores opening each season may vary from one year to the next depending on when store leases are finalised. In 2003 new store openings were distributed fairly evenly between the two main seasons.

Once a lease has been signed, renovation and fitting out can commence. We aim to complete the store as quickly as possible. In recent years we have succeeded in reducing the average build period by several weeks.

“Best business location has been a firm principle of H&M since its launch in 1947.”

Attractive stores

H&M's stores must always feel fresh and appealing to our customers. Minor superficial renovations are carried out on an ongoing basis. More major renovations and alterations are carried out as needed and are influenced not only by the location and size of the store and its customer flow, but also by concepts. Our big city stores – a crucial element of H&M's profile as a trendy fashion house – are renovated more often, as are our teenage stores.

Mail order – a complementary sales channel

Since 1980 H&M has offered its customers an alternative and convenient way to shop by mail order through H&M Rowells. Here, again, the business concept is to provide fashion and quality at the best price. Shopping by mail order is currently possible in Sweden, Norway, Finland and Denmark.

H&M Rowells produces two big catalogues per year. These catalogues are supplemented by a number of smaller seasonal catalogues with a particular orientation. Some of the mail order range is the same as that found in our stores, but since the sales pattern is different there is also a separate range.

Shop online

In 1998 it became possible to shop at H&M on the Internet, when e-commerce was started as a test activity in Sweden. In subsequent years this was expanded to include Denmark, Finland and Norway. H&M continually evaluates and improves its e-commerce site. H&M's web sales are administered by H&M Rowells.

We see the Internet as one of several distribution channels, but we anticipate that the bulk of our sales will continue to be made in our stores. ■

H&M STORES IN FOUR NEW COUNTRIES

2003 was another exciting year for H&M, as we opened stores in no less than four new markets – Poland, the Czech Republic, Portugal and Italy. At the end of the year H&M had 945 stores in 18 countries. Turnover including VAT amounted to SEK 56.5 billion, an increase of 6 per cent on last year. With comparable exchange rates the increase was 9 per cent. In 2003, the weather and a generally slow consumption largely impacted sales in several of our markets. This had a negative effect on sales throughout the retail sector. The collections were well received, as reflected by the low level of price reductions.

Sales outside Sweden accounted for 90 per cent of Group turnover.

The majority of H&M's sales take place in stores. We opened 113 stores in 2003 and closed 12. In the majority of cases closure of a store is due to the replacement of a store by a new one which is larger or in a better location, or to the replacement of two smaller stores with one large one.

Mail order and Internet sales developed very positively in 2003.

Great geographical spread

H&M has expanded substantially since its first store opened in Västerås, Sweden, in 1947. The Sixties saw the establishment of H&M's first stores abroad, in Norway and Denmark, with our first store outside Scandinavia being opened in the UK in 1976. Today there are H&M stores in 17 European countries as well as in the USA.

The biggest H&M market is Germany, which accounts for around 29 per cent of Group sales. With 10 per cent of sales Sweden remains in second place, although the gap between it and our third biggest market – the UK – is gradually diminishing. In terms of sales it is likely that Sweden will be overtaken by the UK, France and the USA within a few years.

Competitors

H&M's main competitors are a number of international retail chains with a presence in many markets. However, H&M also faces competition in the form of local chain stores, department stores and individual shops. Our best yardstick is to compare ourselves with what we ourselves have achieved previously and our objective is always to improve.

Growth targets

H&M is an expansive and financially strong company. Its strategy is to grow whilst maintaining good profitability. In the past three years we have increased turnover by closer to 60 per cent and the number of stores has increased by almost 40 per cent. Profit after tax has increased with 150 per cent. The expansion has been entirely financed using our own resources.

H&M's growth target is to increase the number of stores by 10–15 per cent per year while at the same time increase sales at existing stores. The availability of attractive business locations is the major deciding factor in our rate of expansion, since we want quality growth. In 2003 the number of H&M stores increased by a net 101 stores, which is nearly 12 per cent more stores than at the beginning of the year.

An expansive and exciting year

2003 was an intense year in which the H&M map was expanded to include a further four countries. In the spring we opened stores in three new countries within the space of just over a week. H&M's first store in the Czech Republic opened in a shopping centre in Prague. The week after we opened our second store in Prague as well as our first store in Warsaw, Poland. We also opened a large flagship store in central Lisbon in Portugal. Shortly afterwards another store was opened in a shopping centre just outside Lisbon.

September saw the historic opening of H&M's first store in Italy, in one of the world's major fashion cities – Milan. The store is located on the absolutely best shopping street in Milan and the opening attracted much attention from the media and customers.

Establishment concept for the new markets

H&M's establishment in its new markets of Poland, the Czech Republic, Portugal and Italy took place by giving the respective neighbouring countries – Germany, Austria, Spain and Switzerland – responsibility for opening, administering and supporting the stores in the new countries alongside their work in their own countries. Poland, the Czech Republic and Portugal also share distribution centre with their neighbouring countries, while Italy is supplied with goods from France.

Using assistance from established neighbouring countries is a tried-and-tested H&M method, which makes moving into new countries easier. The basic idea is to avoid the high initial costs of a central organisation as well as to transfer knowledge quickly and easily to a new market or region. This enables the organisations to be built up at a steadier pace and at the same time allows the new countries to concentrate on their sales.

Over the year we have worked intensively to prepare for our expansion into Canada, H&M's next market in North America. In March 2004 the doors of our first two stores will open in Toronto, followed by a further three stores in the autumn. To a certain extent our expansion into Canada is being assisted by its neighbouring country, the USA, which helps building up the organisation and administration.

Expansion adapted to the market

The opportunities for expansion vary in H&M's different markets. In some markets – such as Scandinavia – H&M is well represented, with many large full-range stores. Here the geographical spread is good and H&M covers most of the areas of interest. Expansion takes place primarily by establishing new stores in smaller towns, supplementary stores in the big cities and by having more concept stores aimed at particular target groups.

In relatively mature markets, such as Austria and the Netherlands, there is still good potential for H&M to open new stores. Here we can grow cost-effectively because we have a functioning infrastructure in place and a large base from which to obtain resources.

In our relatively new markets France, the USA and Spain H&M has succeeded in establishing its brand within a short space of time. H&M is well positioned to continue to grow

here for many years to come. These countries have in common the fact that they have a large population base, which gives H&M the opportunity to establish full-range stores in many locations. Markets such as Germany and the UK are also regarded as expansion countries since H&M's market share is still relatively low.

Focus on concept stores

Concept stores are aimed at a particular target group. We currently have concept stores for teenagers, women and children as well as for lingerie and accessories. Concept stores are established in larger towns and cities and supplement our full-range stores. They are a good way of continuing to grow in more mature markets. They also allow H&M to utilise store locations with a smaller floor area and at the same time make us more visible to customers. It is also easier to find small premises in the best locations, so our chances of finding suitable premises are greater.

In 2003 H&M opened concept stores for teenagers in Sweden and the Netherlands. H&M's Milan store in Italy is also a young fashion store, with a very trendy range.

H&M Beautybox

In 2002 we launched a new store concept for lingerie, cosmetics and accessories using Germany as a test market. This move was highly successful and in 2003 a further two H&M Beautybox stores (formerly Details by H&M) were opened in Germany, as well as one in the UK and one in Sweden. In 2004 additional Beautybox stores will open.

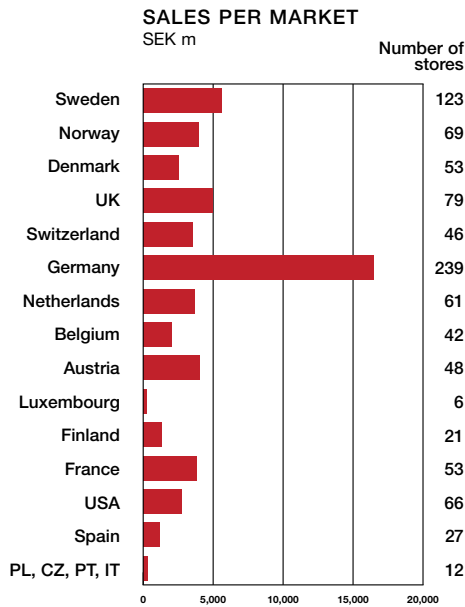
Expansion in 2004

H&M will continue to expand in 2004. H&M plans to open 140 new stores during the year and around ten stores are scheduled for closure. This year will see the opening of our 1,000th store!

Our expansion will mainly take place in Germany, France, the USA, Spain, the UK, as well as in Poland. H&M will also open more stores in the Czech Republic, Portugal and Italy. In March we will open our first stores in Toronto in Canada. The H&M Group has at the end of January 2004 signed leases for stores in Slovenia which will become H&M's 20th market. We will also continue to grow in our other markets by establishing new stores and developing the existing business. ■



COUNTRY BY COUNTRY



The diagram shows sales in H&M's 18 markets. The countries are listed in the order of entry. The four new markets Poland, the Czech Republic, Portugal and Italy are shown in the same bar.

NUMBER OF EMPLOYEES:
Average number of employees converted into full-time positions.



SWEDEN

YEAR ESTABLISHED: 1947
NO. OF STORES: 123
TURNOVER (SEK M): 5,608
EMPLOYEES: 3,709

It was in Sweden that H&M was founded in 1947 and Sweden is also the location of H&M's head office. Sweden remains H&M's second biggest market with 123 stores. In Sweden H&M is growing primarily by opening supplementary stores in smaller towns and more concept stores in major cities.

Developments during the year

Turnover for H&M in Sweden decreased by 3 per cent during the year, amounting to SEK 5.6 billion. The year was characterized by a weak sales development where weather and generally weakened consumption had great impact.

The level of activity has been relatively high in Sweden this year. Several stores have been rebuilt and we have also found better premises in certain places, resulting in the relocation of some stores. In the autumn Stockholm gained another young fashion store, while the first Beautybox store for lingerie, cosmetics and accessories opened in one of the best locations in central Stockholm in late November.

H&M won Swedish Café magazine's big fashion award 'Clothing Chain of the Year 2003' for its new men's collection.



NORWAY

YEAR ESTABLISHED: 1964
NO. OF STORES: 69
TURNOVER (SEK M): 3,986
TURNOVER (NOK M): 3,454
EMPLOYEES: 1,420

Norway was H&M's first foreign venture in 1964. Today there are 69 stores around the country, which remains one of the Group's major markets.

Developments during the year

H&M's sales in Norway amounted to almost SEK 4 billion, corresponding to a 2 per cent increase in local currency.

During the year three stores were opened in Norway and one closed. Norway is another mature market where H&M's market coverage is good. H&M is continuing to grow by establishing complementary stores and developing the business.



DENMARK

YEAR ESTABLISHED: 1967
NO. OF STORES: 53
TURNOVER (SEK M): 2,517
TURNOVER (DKK M): 2,052
EMPLOYEES: 954

H&M has had a presence in Denmark since 1967 and today there are 53 H&M stores around the country. Again, there is a good level of market coverage.

Developments during the year

Sales amounted to more than SEK 2.5 billion, a 2 per cent increase in local currency. New stores were opened in Herslev, Roskilde and Århus.



UK

YEAR ESTABLISHED: 1976
NO. OF STORES: 79
TURNOVER (SEK M): 4,957
TURNOVER (GBP M): 373
EMPLOYEES: 2,794

Expansion in the UK has been substantial in recent years, yet despite this strong expansion, H&M still has great potential for growth since the population base is large and the market share in the UK is relatively low.

Developments during the year

Sales in the UK have developed favourably. H&M sold goods for almost SEK 5 billion, corresponding to an 18 per cent increase in turnover in local currency. The number of stores increased by eleven in 2003, making a total of 79 stores. In the spring a Beautybox store was opened in Manchester. Large stores were opened in cities including Gloucester, Inverness and Worcester.



SWITZERLAND

YEAR ESTABLISHED: 1978
NO. OF STORES: 46
TURNOVER (SEK M): 3,509
TURNOVER (CHF M): 582
EMPLOYEES: 1,134

The first Swiss store opened in 1978. Today there is a good level of store coverage.

Developments during the year

Turnover in Switzerland increased by 2 per cent in local currency, amounting to SEK 3.3 billion.

Over the past year H&M has opened new stores in places such as Chur and Fribourg and has also expanded one of its big stores in Zürich.

H&M Switzerland was responsible for establishing H&M in Italy in 2003 and will continue to take responsibility for administration and expansion in Italy.



GERMANY

YEAR ESTABLISHED: 1980
NO. OF STORES: 239
TURNOVER (SEK M): 16,467
TURNOVER (EUR M): 1,808
EMPLOYEES: 7,199

Germany is the H&M Group's biggest market and accounts for around 29 per cent of sales. There has been substantial expansion since the 1990s and at the end of the year the country had 239 H&M-stores. Market share is 3–4 per cent, so there is still great potential for H&M to grow further in the German market.

Developments during the year

Sales increased by 2 per cent in local currency, amounting to almost SEK 16.5 billion. The weak German economy in combination with, for the clothing industry, unfavourable weather had great impact on sales.

H&M has continued to expand in Germany. 21 new stores were opened in 2003 and two stores were closed. New stores included a large full-range store which opened in Hamburg in the autumn. Large stores also opened in Lübeck and Hannover. In the autumn another Beautybox store was opened in Berlin.



NETHERLANDS

YEAR ESTABLISHED: 1989
NO. OF STORES: 61
TURNOVER (SEK M): 3,657
TURNOVER (EUR M): 402
EMPLOYEES: 1,772

H&M opened its first store in the Netherlands in 1989. Today market coverage is good, but there is still opportunity for continued expansion via supplementary stores.

Developments during the year

Turnover increased by 5 per cent in local currency, amounting to more than SEK 3.6 billion.

In 2003 another three new stores were opened and two stores in Amsterdam were rebuilt. One store was closed. H&M Cosmetic was also introduced during the year and ten stores in the Netherlands now sell our cosmetics range.



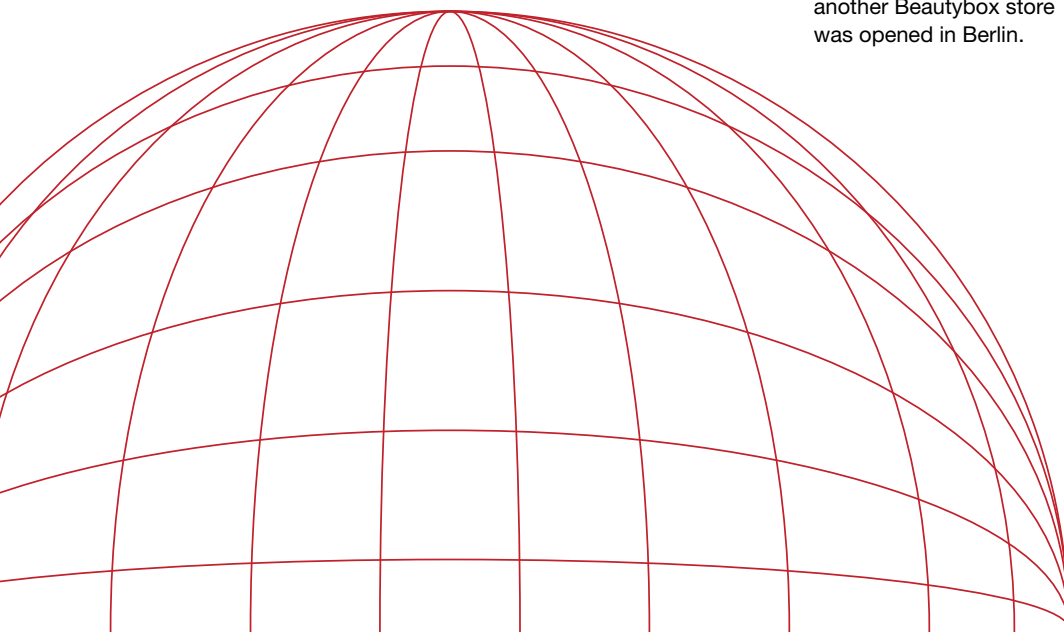
BELGIUM

YEAR ESTABLISHED: 1992
NO. OF STORES: 42
TURNOVER (SEK M): 2,028
TURNOVER (EUR M): 223
EMPLOYEES: 1,051

Our first store in Belgium opened in 1992 and H&M is now well established in the country.

Developments during the year

H&M's turnover in Belgium increased by 12 per cent in local currency, amounting to more than SEK 2 billion. During the year a further three stores were opened in Belgium, where H&M now enjoys relatively good geographical coverage.





AUSTRIA

YEAR ESTABLISHED: 1994
NO. OF STORES: 48
TURNOVER (SEK M): 4,072
TURNOVER (EUR M): 447
EMPLOYEES: 1,613

H&M established its first store in Austria in 1994. Since then there has been strong expansion and today H&M is well represented in the country.

Developments during the year

Sales amounted to more than SEK 4 billion, an increase by 6 per cent in local currency. Two new stores were opened in Austria. Vienna gained an additional store and Graz another large full-range store. H&M Austria was also responsible for the opening of our stores in the Czech Republic and continues to administer the business in this country.



LUXEMBOURG

YEAR ESTABLISHED: 1996
NO. OF STORES: 6
TURNOVER (SEK M): 269
TURNOVER (EUR M): 29
EMPLOYEES: 120

Luxembourg is the smallest of H&M's markets, with six stores. The potential for further expansion is relatively limited due to the size of the country. H&M Belgium is responsible for the business in Luxembourg.

Developments during the year

Sales development was strong in 2003, and increased by 21 per cent in local currency. No new stores were opened in 2003.

NUMBER OF EMPLOYEES:

Average number of employees converted into full-time positions.



FINLAND

YEAR ESTABLISHED: 1997
NO. OF STORES: 21
TURNOVER (SEK M): 1,328
TURNOVER (EUR M): 146
EMPLOYEES: 527

H&M moved into Finland in 1997. Today it has 21 stores in the country. There is still a certain amount of room for further expansion.

Developments during the year

H&M in Finland developed well in 2003. Sales increased by 9 per cent in local currency, amounting to SEK 1.3 billion.

H&M's expansion in Finland continues. A large concept store for young fashion opened in Turku.



FRANCE

YEAR ESTABLISHED: 1998
NO. OF STORES: 53
TURNOVER (SEK M): 3,835
TURNOVER (EUR M): 421
EMPLOYEES: 1,865

H&M has had a presence in France since 1998. Today there are 53 stores, 22 of which are in the Paris area. H&M is well represented throughout the country. France remains an important expansion market for H&M.

Developments during the year

H&M has continued its positive development in France. Turnover increased by 30 per cent in local currency, amounting to more than SEK 3.8 billion.

The activity has continued to be high, during the year eleven new stores were opened in France. Large full-range stores were opened in cities including Bordeaux and Le Mans. Our Cosmetic range was also introduced into some stores in France during the year.



USA

YEAR ESTABLISHED: 2000
NO. OF STORES: 66
TURNOVER (SEK M): 2,782
TURNOVER (USD M): 340
EMPLOYEES: 2,255

H&M has now had a presence in North America since 2000. The USA is a market of great interest for expansion. By the end of the year, we had 66 stores in the USA, where H&M continues to grow.

Developments during the year

Sales increased 40 per cent in USD, amounting to almost SEK 2.8 billion.

H&M opened 21 stores in the USA during the year, somewhat more than was planned from the beginning. We opened a store in the best location in Soho in New York's Manhattan district. Washington D.C. became a new region for H&M in 2003. With seven new stores in the area, H&M has built up a good base. Store openings in 2003 included a large store in central Washington D.C. as well as a store in the old historic quarter in Georgetown.

H&M's first store in Chicago, which opened in September, was also very well received. This takes us a step westwards into a new heavily populated region in which more stores are planned in the future. The US business has also helped to prepare for our establishment in Canada, where the first H&M stores open in March 2004.



SPAIN

YEAR ESTABLISHED: 2000
NO. OF STORES: 27
TURNOVER (SEK M): 1,202
TURNOVER (EUR M): 132
EMPLOYEES: 975

H&M's first store in Spain was opened in April 2000. H&M has continued to develop very positively in Spain, a market that has grown substantially in a short time. H&M had 27 stores and over 1,000 employees in the end of the year.

Developments during the year

Sales development in Spain has been strong and exceeded our expectations. Turnover increased by 70 per cent in local currency, amounting to SEK 1.2 billion.

A further nine stores opened in 2003, including a large flagship store in the best location in Madrid. We opened another large store in Barcelona and several cities in northern Spain gained their first H&M stores. The Spanish business was also responsible for building up H&M in Portugal.



POLAND

YEAR ESTABLISHED: 2003
NO. OF STORES: 6
TURNOVER (SEK M): 86
TURNOVER (MPLN M): 41
EMPLOYEES: 88

Poland was a new market for H&M in 2003. The level of activity has been high and we opened six stores during the year.

The reception in the Polish market has been very good, with sales of SEK 86 million exceeding our expectations.

H&M's first store in Poland opened at the end of March in a Warsaw shopping centre and was followed by further stores in the area in the spring and autumn. In September H&M's first flagship store in Warsaw opened on one of the big shopping streets. The opening attracted great interest and sales growth has exceeded expectations.

Poland is a large and exciting market with a population of 40 million and is one of H&M's expansion markets. H&M plans to open around ten new stores in 2004, including stores in Warsaw, Gdansk, Wroclaw and Gdynia. H&M Poland is administered from Germany.



CZECH REPUBLIC

YEAR ESTABLISHED: 2003
NO. OF STORES: 2
TURNOVER (SEK M): 74
TURNOVER (CZK M): 260
EMPLOYEES: 38

The first two H&M stores in the Czech Republic were opened in Prague within a week of each other. The Czech Republic is an interesting market with a high level of fashion awareness and the stores were very well received. Sales exceeded expectations, amounting to SEK 74 million.

Our expansion and administration in the Czech Republic is carried out from Austria, which also deals with the flow of goods.



PORTUGAL

YEAR ESTABLISHED: 2003
NO. OF STORES: 3
TURNOVER (SEK M): 118
TURNOVER (EUR M): 13
EMPLOYEES: 125

In 2003 H&M opened its first three stores in yet another new country – Portugal. Sales amounted to SEK 118 million during the year.

The first two Portuguese H&M stores opened in Lisbon in March. One of the stores is a flagship store in the Grandella building, the premier location in central Lisbon. This store is one of the biggest H&M stores in the world and sales have developed well throughout the year. Another store was opened in the autumn.

Spain is responsible for the establishment, operation and administration of the stores in Portugal.



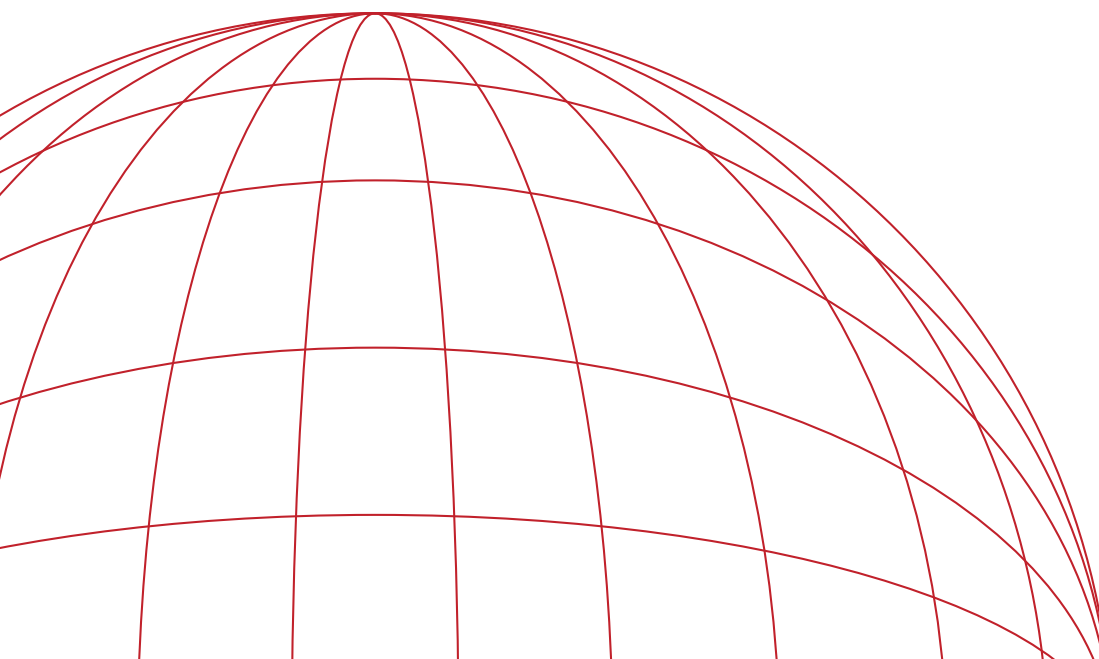
ITALY

YEAR ESTABLISHED: 2003
NO. OF STORES: 1
TURNOVER (SEK M): 55
TURNOVER (EUR M): 6
EMPLOYEES: 106

During the year H&M added Italy to its portfolio of markets with the opening of its first store in Milan. Sales exceeded expectations. Turnover amounted to SEK 55 million.

In September the first store was opened on the best shopping street, Corso Vittorio Emanuele. The store has a youthful feel and offers a high-fashion range. The opening attracted great interest and was very successful, with lots of media coverage.

In 2004 we will be opening additional stores in Italy, amongst them another store on Corso Vittorio Emanuele during the spring.





DESIGN AND BUYING CREATE H&M'S COLLECTIONS

The design and buying department in Stockholm is where H&M's collections are created. Its task is always to find a good balance between the three components that make up H&M's business concept – fashion, quality and price – for every target group. Buying volumes and delivery dates are then decided.

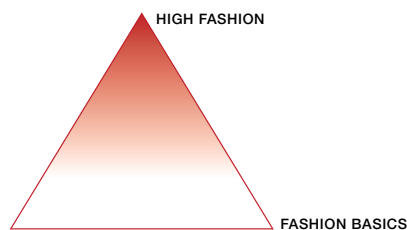
H&M's collections for women, men, teenagers and children are created by around a hundred designers and just as many buyers, working in cooperation with pattern designers. To meet different needs and wishes within each concept a number of different collections are created.

New goods come into the stores every day, so that customers always can find something new. The aim is for each concept to have a high fashion content that is up to date – both for fashion basics and the cutting edge range.

The fashion triangle identifies future favourites

The most important factor in H&M's success is that customers appreciate the collections. H&M's method of producing goods that are in demand from customers can be illustrated using a triangle. The bottom of the triangle – its base – symbolises the breadth of the range, with updated classics and fashion basics that sell in large volumes. Great emphasis is placed on identifying the products that are most in demand at the base of the triangle.

The top of the triangle represents the very trendiest clothes – the cutting edge garments that sell in smaller quantities, primarily in the big cities. These cutting edge garments strengthen H&M's image as a fashion house. It is also where we identify many of H&M's future volume products.



The triangle symbolises the breadth of the assortment, from fashion basics to the very trendiest clothes.

Genuine interest in fashion

Everyone working in the design and buying department has one thing in common: a great and genuine interest in fashion. Each concept has its own team of designers, buyers, assistants, pattern designers and budget controllers who work closely together with the focus on the customer.

Some trends are predicted up to a year in advance as regards colours, materials and models. The very latest trends are picked up at much shorter notice. They are influenced by inspirational trips all over the world, street trends, exhibitions, films, magazines and various trade fairs at which material, form and colour are studied.

One team for each concept

Experience of previous seasons and customer analyses also help to determine the trends that we must focus on for forthcoming seasons. What sold best last season? What do customers want? What should we work on more or less at the various stages in the sales periods? What is technically feasible?

Creating a collection takes teamwork. Each team tries to produce the right mix of garments for its concept. The collection must also fit in with the rest of H&M's range in order to create a uniform, attractive offer.

The number of people on each team varies depending on the concept. More designers, buyers and pattern designers may work on the larger concepts, e.g. in women's wear, and fewer on the smaller concepts such as those for teenagers.

Each team member has his or her own task to perform – the designer is responsible for gathering trends and the design of the clothes, the pattern designer is responsible for producing patterns, the buyer looks after contacts with the production offices and the budget controller is responsible for project management and follow-up. In addition, the sales merchandisers for the sales countries provide information on sales patterns and trends.

Each member of the collection team has unique qualities that are required in order to produce the collection. They are united by their common interest in fashion and trends and by their understanding of what customers want. The ability to do good business and take an overall view are other important qualities for ensuring that the resulting collections are attractive. ■

ONGOING BUYING DURING THE SEASON

To minimise risk, goods are bought in on an ongoing basis during the year. An increasing proportion of buying during the season – particularly in the case of garments with a high fashion content – also means higher fashion precision.

In purely technical terms, H&M's fashion year consists of two main seasons: the spring and autumn seasons. During each season, however, there will be a number of different collections within the various concepts. Buying is continually adapted to the prevailing market conditions and signals from our stores concerning what is selling well.

At the start of the autumn, for example, customers want thin knits and light autumn jackets. Later on in the autumn we stock up the stores with coats, heavy knitwear and other more wintry garments on an ongoing basis. The reverse applies in the spring, which starts with relatively warm garments which are then gradually replaced by thinner garments as summer approaches. Buying varies with the country and climate. In Mediterranean countries, for example, autumn comes later than in Scandinavia – making the season for winter outerwear in stores much briefer.

21 production offices around the world

H&M has 21 production offices: ten in Europe, ten in Asia and one in Africa. Around 700 people work at the production offices, by far the majority of whom are drawn from the local population. They are responsible for contacts with the approximately 750 suppliers that manufacture H&M's products. The production offices ensure that the buyer places his order with the right supplier, that the goods are produced at the right price and are of good quality, and controls that production takes place under good working conditions.

Ensuring the safety and quality of the goods largely takes place at the production offices and is the result of extensive testing, including checking for shrinkage, twisting, colourfastness and dry rubbing, as well as checking that our requirements regarding chemicals have been met.

The right lead time for each item

In recent years H&M has reduced the average lead time by 15–20 per cent through developments in the buying process. We are constantly refining our management instruments to make the flow of goods more efficient. One factor that has contributed to cutting lead times is the fact that the production offices are now responsible for dealing with sample garments, i.e. every aspect of their examination and testing.

Lead times vary from two to three weeks up to six months. The different lead times reflect differences in the nature of the goods. The trick is to know the right time to order each item. A short lead time is not always best, since the right lead time is a matter of bringing price and quality into balance.

For many fashion basics and high-volume children's wear it is clearly advantageous to be able to place orders far in advance. Trendier garments in smaller volumes require considerably shorter lead times. When goods are

selling well, we need to be able to get supplementary orders out into the stores within just a few weeks.

Sharing information effectively

Sharing information effectively between the production offices and our suppliers allows fabrics, etcetera to be bought in early. The actual dyeing and cutting of the garments can then be decided at a later stage in the production process. We aim to cut lead times further by developing our advance planning. The later an order can be placed, the less the risk of buying the wrong thing and the greater the flexibility – allowing stores to be restocked quickly with the best-selling goods.

H&M's buying method provides a consistent flow of goods with the logistics chain being utilised efficiently in terms of both staffing and premises.

Just as important, it means that we are able to offer our customers even more new and updated fashions every day, which is important for our image as a fashion company.

“Lead times vary from two to three weeks up to six months, depending on the nature of the goods.”

Well-functioning logistics

Logistics are extremely important for H&M. Fast, efficient flows are crucial – both when it comes to supplying goods from a production unit to the store and in the stores' feedback of sales information to the buying department. Getting the right goods in the right quantity to the right store in the right country at the right time requires a well-functioning distribution system. H&M acts both as importer and as retailer, and thus has full control over each link in the chain. Another important factor is the IT support that is constantly being developed and which forms one of the cornerstones of H&M's logistics.

Around 3,200 people work in logistics at H&M. In 2003 over half a billion items were handled. Stock management is carried out virtually entirely within H&M's own organisation, while freight services are bought in from various transport companies. A large proportion of the flow of goods from the country of manufacture to the sales country goes via H&M's transit warehouse in Hamburg, Germany. H&M has a distribution centre in each sales country with the exception of Luxembourg, Poland, the Czech Republic, Portugal and Italy. When the goods arrive at the respective distribution centre they are checked before being transported on to the stores and to the stores' central stock warehouse. They are then used to restock the stores' shelves according to how well each item is selling.

H&M also has two logistics facilities – one in Sweden and one in Norway – for its mail order business, H&M Rowells.





→ Fashion in 2003

Fashion at H&M is all about personal style. The idea for each collection is to give customers opportunity to update their own particular wardrobe favourites. Consequently, H&M offers its customers a wide and varied range.

In 2003 fashion was characterised by contrasting 20th century influences – from the Seventies in the spring to a more Sixties feel in the autumn. The women's wear and teenage collections also contained elements of Thirties romanticism, with well-tailored collections which focused on details. The colour scene was pale or dramatically black, with elements of rich pastels and deeper colours. Wool and cotton dominated the choice of materials.

Spring fashion 2004

The spring collections are inspired by the Fifties and Sixties, with women's wear featuring twin sets and woven tops. The silhouette is still narrow, but casual. The biggest

“H&M's fashion is primarily about finding your own personal style.”

new feature is narrow trousers, from capri pants and drain-pipe jeans to cigarette pants. Skirts are also narrow and mini length or wide. Red, white and blue are important colours, along with cool pastels and neutral shades with a focus on beige.

On the men's side we are seeing a transition to a narrower but straighter silhouette. The focus is on the tailored look – even within our sportswear range, which becomes preppy. The main colours are black, white and especially grey. Patterns are cleaner, while woven and knitted cotton dominate the fabric scene. The garments are in the stores right from January and stores will then be restocked with new models on an ongoing basis through the spring. ■

HIGH QUALITY AND SAFETY REQUIREMENTS

H&M's quality, chemical and safety tests form an important and natural part of our care for and service to the customer. Tests are carried out both in our own laboratories and at external facilities. We have our own laboratories at the majority of our production offices around the world, as well as at our head office in Sweden. Around half a million tests are carried out annually and these include everything from flame tests to testing of pH values.

Meticulous quality testing

Tests are carried out at various stages in the production process. Sample garments are tested first; the finished garments are then tested prior to being sent out to stores.

H&M's quality control is an important part of the company's buying work. Inspections start as early as during the production process to ensure the quality of the goods. The production offices have around 110 quality controllers who regularly inspect our suppliers' factories to make sure they are meeting H&M's quality requirements.

Our quality testing includes tests for shrinkage, twisting, colourfastness and dry rubbing. In addition, we test salt and chlorine bleaching, pilling and seam strength. Durability tests are carried out on details such as zippers and press buttons. Flame tests are carried out on all clothing suspected of being easily flammable such as thin and fluffy materials or fabrics with a brushed surface.

Particularly stringent requirements are set in respect of the safety of children's clothes. There must be no sharp objects or objects that might present a choking risk. All hoods on outerwear must be detachable. Buttons are checked particularly carefully.

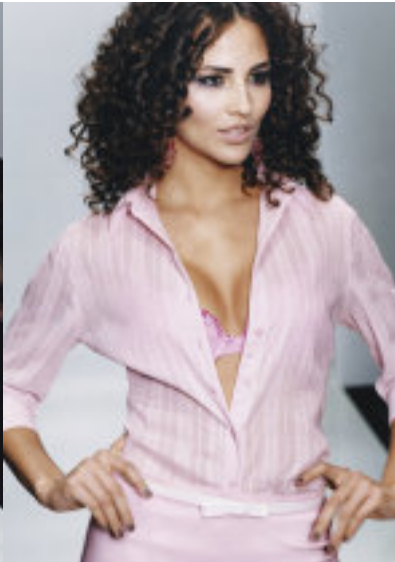
Strict chemical restrictions

H&M's fashion items are produced with the greatest care and consideration for the customer. All H&M's suppliers must abide by a special agreement – H&M's Chemical Restrictions *. The restrictions include a list of chemicals that are not permitted in our clothes or must not be present above specified levels. Substances on the list include metals such as cadmium, lead and mercury, certain dyes, formaldehyde, PVC and brominated flame retardants.

Neither do we permit nickel content capable of causing allergic reactions in metal parts that are in contact with the skin. Particular consideration is given to substances that could cause skin irritation or allergies or that may be carcinogenic. The products undergo extensive testing to check that all our chemical requirements are met. Most of the tests are carried out at external laboratories.

As an important part of H&M's long-term work against allergies we are participating in European standardisation work aimed at establishing reliable standards for testing allergenic substances.

* H & M Hennes & Mauritz AB and H & M Rowells AB
Chemical Restrictions for Textile, Leather, Plastic and Metal products.



OUR SOCIAL RESPONSIBILITIES

As an international corporation we have a great responsibility to the world around us. To create good relations with the outside world we must take responsibility for how people and the environment are affected by our activities. CSR, or Corporate Social Responsibility, has therefore become an increasingly important strategic matter for H&M. Taking social responsibility also accords completely with the company's fundamental values.

H&M's CSR report

Last year H&M started issuing a yearly CSR report. The report describes in detail H&M's work towards meeting its voluntary commitments in respect of environmental and social responsibility. Above all, it describes our efforts to ensure that our suppliers respect human rights and offer their employees good working conditions. Our environmental work both internally and in respect of our suppliers is also described in the report. The CSR report for 2003 will be available from April 2004 at www.hm.com/csr.

No factories of its own

H&M does not own any factories. Instead, we buy our clothes and other products from our around 750 suppliers, primarily in Europe and Asia. We have decreased the number of suppliers during the year. The production has been concentrated into fewer suppliers in order to increase the control over working conditions and quality. In addition, the factories have also become more modern and the suppliers have greater control over their subcontractors today. A fundamental principle is that our clothes must be manufactured under good working conditions. H&M therefore sets high requirements in this respect and works towards long-term improvement of the working environment for the people producing our goods.

H&M's Code of Conduct

H&M has had a Code of Conduct since 1997. The Code is aimed at our suppliers. Its guidelines concern improvements in working conditions in the factories. In no circumstances will H&M accept child labour, forced labour or discrimination in any of our suppliers' factories. H&M's Code of Conduct also requires suppliers to observe the laws of the land, to maintain a good working environment and safety, to provide reasonable pay and working hours and to allow the freedom of association.

The Code of Conduct is partly based on the UN Convention on the Rights of the Child and ILO conventions on working conditions and employment rights.

Suppliers must observe our Code of Conduct

H&M's suppliers must sign an agreement declaring their intention to comply with the requirements in our Code of Conduct. Not every supplier will meet all the requirements at the start. In order to be accepted as a supplier they must therefore sign a declaration stating that they will implement the improvements required by H&M within a certain specified period. In 2003 the period in which suppliers must make these improvements was cut.

The application of our Code of Conduct is constantly

being developed and requirements are specified in more detail as we learn more about the prevailing circumstances in different areas.

Certain basic requirements must always be met, however. Suppliers that systematically infringe human rights or do not pay the minimum wage, for instance, are not accepted.

“The key to achieving long-term change is cooperation with other companies and organisations.”

Compliance is checked by inspections

H&M carries out regular inspections of the factories to check how well suppliers are observing the Code of Conduct. Inspections may be carried out with or without notice and H&M also inspects subcontractors' factories. Around 30 Code of Conduct inspectors are employed full-time at H&M's 21 production offices to carry out repeated inspections of the suppliers. After each inspection a report is prepared specifying the necessary improvements. H&M and the supplier agree by when these changes must be made and the results are then followed up by a re-inspection.

H&M wants to increase the realisation among suppliers that the Code of Conduct and their cooperation with us is an investment in the future. In the short term the suppliers gain from the improvements through lower staff turnover, increased productivity and higher quality. In the longer term the improvements mean new business opportunities and that the supplier is actually helping to drive social development forward. Training and education of suppliers and in particular their supervisors is a way of increasing understanding of the positive effects achieved by improved working conditions.

Long-term work

We are proud of the improvements that our Code of Conduct and associated work have achieved. We feel a certain humility, however, when faced with the challenge involved in improving the situation long-term for all the people who manufacture our products.

We are sometimes asked why we do not cease cooperating immediately with any supplier who infringes the Code of Conduct. The answer is that we have a responsibility towards the supplier and above all towards those working in the factory, who are the ones who would be affected most if we were to terminate the relationship. We therefore believe that the best way to have an influence in the long-term is by being on the spot and constantly checking and demanding improvements.

Cooperation across borders for long-term change

The key word for achieving change is cooperation. Not just between H&M and our suppliers, but also – and perhaps to an even greater degree – with fellow-members of our industry, voluntary organisations and trade unions as well as the UN. Our chances will be better if we can coordinate



our efforts with other retail corporations, so that we are all working towards the same type of requirements.

H&M is a participant in the UN's Global Compact and supports its nine principles. In so doing we want to show that we respect human rights and are prepared to contribute to sustainable development within the areas that we are able to influence. H&M also supports the OECD's guidelines for multinational enterprises and is a member of the Swedish Amnesty Business Group's Business Forum.

Pilot project to reduce overtime

To reduce the amount of overtime worked at factories in China a number of international retail corporations including H&M, Marks & Spencer and Debenhams have cooperated successfully in a pilot project. The project involved educating suppliers in how to improve the working environment, improve productivity and reduce quality problems on the basis that improved routines result in reduced absenteeism and higher productivity. Routines have also been developed to improve the dialogue between management and the factory workers.

The amount of overtime has been reduced in all of the factories participating in the project. At the same time, the productivity improvement has been substantial. Wages have increased in four out of five factories.

The competence and commitment of the factory management has been crucial to successfully reduce overtime

H&M'S CODE OF CONDUCT COMPRISES EIGHT SECTIONS:

- | | |
|-----------------------|-------------------------------|
| 1. Legal requirements | 5. Factory conditions |
| 2. Child labour | 6. Housing conditions |
| 3. Safety | 7. Environment |
| 4. Workers' rights | 8. Monitoring and enforcement |

without lowering wages. H&M will continue to work spreading the knowledge to other suppliers.

Global agreement with UNI

In 2003 H&M decided to sign a global agreement contract with Union Network International (UNI) guaranteeing that the ILO's core conventions will be respected at all H&M's workplaces around the world. The conventions include freedom of association and the right to collective negotiations, as well as a ban on child labour and on discrimination.

H&M included in CSR-related share indexes

As a mark of recognition of our CSR work H&M has been included in a number of share indexes that take account of companies' CSR work, including the Dow Jones World Sustainability Index, the STOXX Sustainability Index and the FTSE4Good.

For more information on how H&M works on CSR see www.hm.com/csr ■

H&M AND THE ENVIRONMENT

H&M's environmental work is carried out systematically within the framework of the CSR department's work and is largely integrated with social responsibility issues. Our aim is to carry on environmental work as a natural part of our day-to-day work in every area of the company's activities.

H&M's overall environmental objectives

H&M has established six overall environmental objectives that stipulate the long-term orientation of its environmental work. Within each overall objective, work during the year has been aimed at the efforts described below.

■ *Environmental awareness – promotion of environmental awareness among our employees and suppliers.*

To increase knowledge and awareness of environmental issues H&M has introduced a new training programme for various key groups within the business. In 2003 those responsible for building and shop fittings in the countries in which we are active received training, focusing on matters such as environmentally friendly materials and resource-saving solutions. In 2004 the training will primarily be oriented towards logistics.

■ *Respect for nature – caution in decision-making out of respect for nature.*

In 2002 H&M stopped selling goods containing PVC. Since then we have continued the phase-out of PVC from other areas of use, for example PVC is no longer used as a flooring material in our stores and PET has replaced PVC in our Club cards and gift cards.

■ *Sustainable use of resources – resource conservation, recycling and reduction of waste.*

In our stores we take the environment into consideration as far as possible by applying resource-conserving solutions and using resources efficiently. Energy consumption is the biggest individual environmental aspect in stores. We are therefore trying to reduce consumption on an ongoing basis, for example through low-energy lighting.

During the year we have introduced new routines for sorting and recycling campaign and display material in the stores.

■ *Healthy products – products that are safe to use and harmless to the environment.*

An important part of H&M's environmental work involves restricting the use of chemicals that are harmful to health and the environment. A large number of chemicals are therefore banned from our products. All the limit values and prohibitions are collected in H&M's chemical restrictions. Our suppliers sign an agreement undertaking to comply with the restrictions. Products undergo regular testing to check that the chemical requirements are met. Most of the tests are carried out at external laboratories.

In accordance with the precautionary principle, we phase out substances that may conceivably be harmful to man or the environment, at an early stage in production. Our chemical restrictions are therefore updated continuously. In 2003 the requirements were made more stringent and

some further substances were added. The restrictions now encompass a total of 144 substances.

Substances that must not be present in H&M's products include lead, cadmium, mercury, PVC, certain dyes, organotins and brominated flame retardants. Through these restrictions we can contribute to reducing the environmental impact of the production stage and the recycling of worn-out goods and shop fittings.

■ *Clean production chain – sustainable production and production methods throughout the supply chain.*

We set environmental requirements in our Code of Conduct. We require our suppliers to comply with local environmental legislation and to have all the necessary permits and licences for their activities. To monitor and follow up environmental aspects better we have produced a checklist of environmental aspects that is used during our factory inspections. It includes water treatment, the storage of chemicals and the disposal of hazardous waste.

The greatest environmental impact comes from the dyeing of fabrics and processing of fibres, i.e. the production steps that take place before the sewing of H&M's clothes is started.

During the autumn H&M concluded a pilot project that has been in progress for a number of years involving several suppliers with a view to increasing awareness among ourselves and our suppliers of how the early stages of production impact the environment and how environmental improvements can be made. The project investigated everything from energy consumption to water treatment and chemicals management. One consequence of the project is that a couple of the factories have started working towards certification to the international standard ISO 14001 on their own initiative.

Examples of environmental improvements implemented by participating suppliers include energy savings through improved heat exchange and insulation to reduce heat loss. Another example is the introduction of systematic chemical treatment to reduce chemical losses and increase control. Lessons learnt from the project are applied as our environmental work with our suppliers develops.

■ *Green transport – clean and efficient transport with limited influence on the climate.*

Work is in progress at H&M with a view to reducing the impact that our transportation has on the environment. A good way of conserving the environment is to utilise the load capacity of each load unit fully. This avoids unnecessary journeys and at the same time reduces transport costs.

H&M also wants to increase environmental thinking among freight companies. For the past three years all H&M's carriers have completed environmental declarations for transport by road, rail and sea/waterway.

In 2003 stricter environmental requirements were introduced for carriers transporting H&M goods around the world by road. Carriers must meet six minimum requirements including engine class, fuel type and driver training in fuel-efficient driving. ■



H&M'S ENVIRONMENTAL POLICY

Continuous improvements are significant for all H&M activities. This includes our environmental effort, which is conducted within the framework of our business operations. H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price.

Our quality concept is based on ensuring that our customers are satisfied with our products and H&M as a company. To this end, we are committed to acting responsibly in our community. We shall also cooperate with our suppliers to improve the social and environmental standards in the factories that manufacture H&M clothing, thereby contributing to sustainable development in these areas. To achieve this goal, H&M has adopted the following principles:

We shall...

- always consider the health and safety of our employees and customers. By adopting the precautionary principle, we will continuously update our restrictions against the

use of environmentally and health hazardous chemicals in the production of our garments and other products,

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

COMMUNICATING WITH THE WORLD AROUND US

The purpose of H&M's communication is to build the brand in the longer term. Much of H&M's credibility is based on the way we communicate with the world around us. Both internal and external communications must therefore be characterised by an open attitude with clear messages, objectivity, accessibility and sensitivity.

We communicate and convey our brand – which is one of our most important assets – via a number of different channels. The main forum for communication is via our stores. Other methods of communicating include the media, advertising in magazines, on television, billboards and the Internet, but also via our employees. To provide continuity in all our communication the source must always be clear and the messages consistent, so that customers recognise our stores and our marketing.

The store as primary information channel

The store is definitely H&M's main information channel, since it is our interface with our customers. As a representative of H&M, each member of staff has a very important role to play in respect of our customers.

Stores undergo regular alterations with a view to rejuvenating and adapting their fittings. The stores must offer a comfortable environment that helps strengthen the shopping experience. H&M puts a lot of work into informing customers of the range on offer through window displays, presentation of the goods and information on garment labels. To provide information on where the garments are produced all H&M garments are now labelled with the country of origin in a visible place on the label.

The way we present our goods is designed to provide customers with guidance and to inspire them. It is essential to allow them to find their way about the store easily and to provide suggestions of new and exciting combinations of H&M's garments. Each store follows guidelines provided for presentation of the goods, but within this framework there is plenty of room for their own creativity. Just as important as the fact that each store is unique is the matter of creating the right H&M feel, which must be the same in all our sales countries.

The same message via different channels

We communicate our business concept – fashion and quality at the best price – through a large number of advertising campaigns each year. The advertisements are our way of inviting customers into our stores in an attractive and informative way. The central message of the campaigns is to convey the fashions that our design and buying department believes in.

All H&M's advertisements are produced centrally at the head office in Stockholm in cooperation with external creative professionals. This means that the advertisements are largely the same in all markets, but the media mix is adapted to local needs and circumstances. The advertisements are broadcast via a number of channels such as our stores, billboards, magazines, catalogues and the Internet, as well as TV and cinema commercials.

H&M's advertisements have a major impact and there is often great interest in our advertising campaigns. It is there-

fore important that we communicate a healthy and positive image. Since this is always the basic idea behind our choice of models, we use different characters and a mixture of styles, looks and ages.

Big campaigns are run four times a year, with smaller campaigns in between. The choice of time has a natural link to the prevailing season and is always the same from year to year, so that customers can relate to the different campaigns easily. The idea is to signal the arrival of the new collections and to generate curiosity concerning the new seasonal range in the stores.

“The stores are our most important channel. All the advertising must act as an informative and inspiring invitation to our stores.”

PR strengthens the brand and makes it clearer

To strengthen and clarify the brand in a cost-effective way H&M regularly carries out various communications and PR activities. Communicating what H&M stands for and what we offer customers are the central messages.

H&M is in contact with the media, i.e. both the business press and the fashion press, on an ongoing basis. The media are invited to various press gatherings in the sales countries, where H&M's fashions and trends are shown. These gatherings provide opportunity for dialogue and generate interest in the forthcoming collections.

A continual flow of financial information to the capital market

H&M is one of the most traded shares on Stockholmsbörsen, the Stockholm stock exchange, and has today around 188,000 shareholders. H&M communicates continuously with media and the financial markets, for example by holding press conferences and telephone-conferences for journalists and analysts when our quarterly reports are published.

Each month we publish sales figures for the previous month. For some years now H&M has had an established investor relations (IR) function which is responsible for ongoing contact with the financial markets.

www.hm.com reaches many different target groups

H&M's website is aimed primarily at our customers, but also at the general public, shareholders and the media. The aim is to make it easy for people to find information and news about H&M and its advertising campaigns, policies, collections, markets and stores. It also has a job opportunities page for those interested in working for H&M. ■



Giacche da
€29.90

H&M

CORSO VITTORIO EMANUELE

THE SPIRIT OF H&M CREATES COMMITMENT

At the end of the year H&M had around 40,000 employees. The average number of employees was 28,409 (converted into full-time positions), of which 20 per cent were male.

H&M's strong corporate culture – the spirit of H&M – has existed ever since the days of H&M's founder, Erling Persson. This strong culture is of great value and is a contributory factor to H&M's successes over the years.

H&M's seven fundamental values

The spirit of H&M is based on a number of values that describe in simple terms how we want to work. These are in turn based on our business concept – fashion and quality at the best price.

The fundamental values behind the spirit of H&M are common sense, taking own initiatives, believe in people, direct communication, cost consciousness, team work and fast pace with continual improvement.

Transferring the culture to new stores and countries

When H&M opens a new store the staff gets support from experienced staff at established H&M stores. They help to build up the store, recruit staff and run the business. In addition, they are important bearers of the culture who help pass on H&M's values to the new employees in a simple way. All this creates cross-border understanding, creativity and commitment.

Generally, H&M staff within a country assists each other. When H&M opens stores in new countries, however, it is even more important to provide support and to transfer knowledge from staff in established countries. Staff with language skills stay for from two weeks to two months to help out during the start-up phase. Often a number of specialists will relocate to the new country for a longer period in order to pass on their specialist skills, so that the business can get going quickly.

Transferring knowledge and the culture to the new countries Poland, the Czech Republic, Portugal and Italy, has been made considerably easier by the fact that their neighbouring countries have assisted with construction, warehousing and administration. The basic framework is already in place and committed employees have ensured that the new countries have gained the knowledge and natural understanding of H&M's values that is so important when expanding the business.

H&M Wallpaper and H&M Magazine

Since 1997 our staff newspaper H&M News has been one of a number of ways in which we have passed on information and strengthened the corporate culture. In 2004 H&M News will be replaced by two journals: a wall-posted newspaper called H&M Wallpaper and a fashion magazine called H&M Magazine. H&M Magazine, which describes the fashions and the latest trends, is aimed equally at both staff and customers.

Responsibility creates creativity

Within H&M we provide room for people to make their own decisions and take responsibility and staff gets regular feedback on their performance. It is an important part of H&M's culture that responsibility is delegated to the stores.

Creativity and job satisfaction increase when there is a good working environment. The idea is to create as much commitment as possible within certain given confines.

Internal recruitment takes precedence

H&M principally recruits internally. Staff recruited from outside the company is primarily sales staff for the stores, who later form a good recruitment base for positions of responsibility both within the stores and in other areas of H&M. This gives our employees every opportunity to develop continually, while at the same time ensuring that the spirit of H&M is spread throughout the company.

Job rotation and skills development

Job rotation is common at H&M. In the stores, for example, duties may vary between the cash desk, fitting rooms and deliveries to goods display, advertising and campaigns. Working in the store provides very important experience and is a way of getting to know H&M from its very foundation.

Attracting and retaining skilled staff is important for H&M's success. We therefore work constantly on skills development and all training is carried out within our own organisation. However, the biggest knowledge gain is made through active learning on the job.

All new members of staff are given a mentor. Newly employed store staff undergoes a three-week introduction programme and they thereafter have regular training as needed in customer care, textiles and display.

The introduction programme guarantees that everyone has an equal grounding in and insight into H&M's way of working. Management training is also carried out, with the emphasis on being a good communicator of H&M's values.

Employees in focus

Our employees' commitment makes a major contribution to H&M's successes. We believe in individuals' abilities and encourage our employees to develop further. Respect for the individual is a fundamental value at H&M. This applies to everything from fair pay, reasonable working hours and the freedom of association to the opportunity to grow and develop with the company.

Organisation

The company management is based at H&M's head office in Stockholm. Stockholm is also where the main functions for design and buying, finance, expansion, shop fitting and display, advertising, communications, human resources, logistics, security and IT are located.

H&M has 13 country offices that are responsible for the various functions in each sales country. The country office in Belgium is responsible for administration of the Luxembourg stores. Our new markets are also administered from their neighbouring countries: Poland by Germany, the Czech Republic by Austria, Portugal by Spain, and Italy by Switzerland.

H&M also has 21 production offices which take care of contacts with our approximately 750 suppliers. There are ten production offices in Europe, ten in Asia and one in Africa. ■



“At H&M we principally recruit internally. That way we ensure that the spirit of H&M is spread throughout the organisation.”

EXTERNAL FACTORS INFLUENCING H&M

A number of factors may affect H&M's results and business. Most of these can be dealt with by internal routines, while others are largely determined by external factors.

Fashion

Working in the fashion industry is a risk in itself. Fashion is a perishable item and there is always a risk that a collection will not be well received by customers.

Within each concept H&M must have the right volumes and achieve the right balance in the mix between fashion basics and the cutting-edge fashion that is so important for H&M's image. To reduce this fashion risk H&M is systematically working on reducing lead times from the idea until the finished product is in the store. Production of clothing with a high fashion content is also increasingly being commissioned in Europe, where lead times are shorter. This allows production to be adapted to customer demand more quickly.

H&M trades in 18 countries on two continents. Although purchasing patterns are relatively similar in the various markets, differences do occur. The start of the season varies between countries, for example, as does the length of the season. Consequently both delivery date and volume of goods for the different stores must be adjusted to match. In Spain, for example, winter comes later and is considerably shorter than in Scandinavia. The season for winter outerwear in stores is therefore only around a month long in Spain.

The weather

H&M's goods are bought in and launched in stores on the basis of normal weather patterns, i.e. assuming that autumn will arrive when it should according to the statistics and will maintain a certain temperature. Major departures from the norm will affect sales. The effect will be greatest if there are major departures at the beginning of a season.

In 2003 there were major departures from normal weather, particularly in parts of Europe. In Scandinavia and Central Europe spring was unusually late and cold and was then followed by a very warm summer and autumn, which had a negative effect on H&M's sales.

The economic cycle

In 2003 economic growth remained slow in some of H&M's markets, resulting in generally weaker demand. It is difficult to measure how an economic downturn will affect H&M's sales, but historically it has emerged that H&M does not tend to see any significant reduction in sales when there is a downturn in the economic cycle.

Currency hedging

The most significant purchase currencies for the Group are the US dollar and the euro. Fluctuations in the dollar/euro exchange rate form the largest individual transaction exposure within the Group.

To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate movements, the US dollar is secured under forward contracts on an ongoing basis throughout the year.

Since the sole aim of this currency management is to reduce risk, only actual exposure is hedged.

In addition to the transaction exposure arising from purchases in foreign currencies, the Group is affected by currency fluctuations as a result of the receivables and liabilities that arise continuously between Group companies. The introduction of the euro has reduced this exposure somewhat. The majority of the remaining risk is hedged through forward contracts.

During the year the US dollar has become weaker against the Swedish krona, which resulted in gradual reductions in buying costs as the forward hedging matured. However, most of the cost reductions were passed on to customers in the form of lower prices, although a certain amount is reflected in the Group's result.

Translation effects

In addition to the effects of transaction exposure, translation effects also affect the Group's result. These arise when a foreign subsidiary's profit/loss is converted into Swedish kronor in order to be consolidated in the Group accounts.

The underlying profit/loss in each market may be unchanged, but then either reduced or increased when converted into Swedish kronor.

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

Liquidity management

Liquid surplus funds are invested short-term in banks or government securities in the currency of the company in question. The maximum investment period is three months. The Group does not use any derivative instruments in the interest-bearing securities market.

The Group does not trade in shares or similar instruments. ■



ADMINISTRATION REPORT

The Board of Directors and Managing Director of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220, domiciled in Stockholm, submit herewith their annual report and consolidated accounts for the financial year 1 December 2002 to 30 November 2003.

SIGNIFICANT OCCURRENCES

During the year, 113 stores were opened: 21 each in Germany and the USA, eleven in the UK and France respectively, nine each in Spain and Sweden, six in Poland, three each in Norway, Denmark, Switzerland, the Netherlands, Belgium and Portugal, two each in Austria, Finland and the Czech Republic and one in Italy. Twelve stores were closed. Of the net increase of 101 stores, 50 were opened and six were closed in the fourth quarter. The total number of H&M stores thereby amounted to 945 as of 30 November 2003.

During the year H&M opened stores in four new markets: Poland, the Czech Republic, Portugal and Italy. Their reception exceeded expectations and sales have been very satisfactory. Our simplified opening procedure, in which neighbouring countries assisted with administration and product supply, has been successful and resulted in considerably lower costs than would otherwise have been the case.

During the autumn we have started establishing our business in Canada with a view to opening five stores in the 2003/04 financial year.

TURNOVER

Turnover incl. VAT for the H&M Group increased during the past financial year by 6 per cent (with comparable exchange rates, the increase was 9 per cent) compared with the previous year and amounted to SEK 56,550.0 m (53,331.7). Turnover excl. VAT was SEK 48,237.7 m (45,522.3). The year was characterised by a weak sales trend, with the weather and a generally poorer consumer climate in several key markets having had a major effect.

PROFITS

Gross profit for the year amounted to SEK 27,092.6 m (25,103.5), which corresponds to 56.2 per cent (55.1) of sales.

After deduction of selling and administrative expenses, operating profit was SEK 9,223.0 m (8,259.1). This corresponds to an operating margin of 19.1 per cent (18.1).

Operating profit has been charged with depreciation according to plan of SEK 1,125.6 m (1,050.6) and start-up costs – i.e. that part of investments in new stores that is charged directly to the income statement – of SEK 226.1 m (162.7). The operating margin calculated on the result after depreciation but before start-up costs was thus 19.6 per cent (18.5).

Group financial net income amounted to SEK 385.7 m (369.8).

Profit after financial items was SEK 9,608.7 m (8,628.9), an increase of 11 per cent.

After deduction of taxes of SEK 3,222.8 m (2,942.1), profit for the year amounted to SEK 6,385.9 m (5,686.8), an increase of 12 per cent. The result achieved corresponds to earnings per share of SEK 7.72 (6.87).

This financial year has been negatively affected by currency translation effects of SEK 157.2 m (+49.6) compared with the previous year.

Return on shareholders' equity was 32.6 per cent (32.9) and return on capital employed was 48.9 per cent (49.7).

LIQUIDITY AND FINANCING

The Group balance sheet total increased by 2 per cent, amounting to SEK 25,761.7 m (25,198.7) on 30 November 2003.

During the year, the H&M Group generated a positive cash flow from current operations of SEK 6,205.1 m (8,093.3). SEK 1,274.0 m (1,221.9) was invested through acquisitions of fixed assets.

Cash flow for the year amounted to SEK –9.9 m (5,234.6). The big difference is primarily due to the bonus dividend to shareholders, the deferral of tax payments from 2002 to 2003 and the increase in stock-in-trade.

Financial assets amounted to SEK 13,193.5 m (13,479.6).

Stock-in-trade increased by 20 per cent (–3) and amounted to SEK 5,050.1 m (4,192.5). Stock-in-trade equals 10.5 per cent (9.2) of turnover and 19.6 per cent (16.6) of total assets.

The Group's debt ratio was 0.2 per cent (0.4). The share of risk-bearing capital was 81.6 per cent (79.0).

The Group's equity on 30 November 2003 was SEK 20,096.7 m (19,087.7), which apportioned to the 827,536,000 outstanding shares equals SEK 24.28 (23.07) per share.

FUTURE DEVELOPMENT

In the 2003/04 financial year a total of 140 stores are planned to open, with 10 closures planned. Our main expansion will take place in the UK, Germany, France, the USA, Spain and Poland. Two new markets will be added in 2004: Canada and Slovenia.

In spring 2004 the Group's first two stores in Canada will open, followed by a further three stores in the autumn. Our organisation in the USA will assist with establishing the new business for the first few years.

In late January 2004 the H&M Group concluded leases for two store premises in the cities of Ljubljana and Maribor in Slovenia. The stores are planned to open in autumn 2004. H&M's organisation in Austria will be responsible for product supply and administration.

During the year the Group began working on bringing its accounts into line with the new IAS rules, which in H&M's case will be applied for the first time in the 2005/06 financial year. These rule changes are not expected to have any significant effect on the accounts.

DIVIDEND POLICY

H&M's financial goal is for the company to continue to enjoy healthy growth. It is essential that expansion, as in the past, continues 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. Dividends will normally follow the profit trend, but may deviate in certain years.

For this reason, the Board of Directors will propose to the Annual General Meeting an ordinary dividend of SEK 2.90 (2.60) per share and in addition a bonus dividend of SEK 3.10 (3.40) per share. This makes a total dividend of SEK 6.00 (6.00) per share.

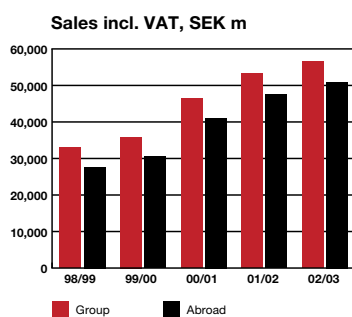
BOARD OF DIRECTORS' WORK

Since the Annual General Meeting on 28 April 2003 the Board of Directors has had 13 members, of which 4 are deputy members (8 men and 5 women). The Board of Directors met six times during the financial year. At the statutory meeting following the AGM Stefan Persson was re-elected Chairman of the Board and the Board adopted rules of procedure for its work. The rules of procedure regulate matters such as the distribution of work between the Board and the Managing Director, financial reporting, investments and financing policy. The rules also call for the Board to hold five ordinary meetings annually, the statutory meeting not included. In its work the Board of Directors has kept abreast of the financial development and position of the Group, made decisions on investments for the forthcoming financial year, resolved on expansion into new markets, decided on new pension arrangements for the Managing Director, established a communications policy and kept up-to-date on organisational changes. During the year an audit committee was formed, with Stig Nordfelt as Chairman and Werner Hofer and Bo Lundquist as members. The audit committee has met twice.

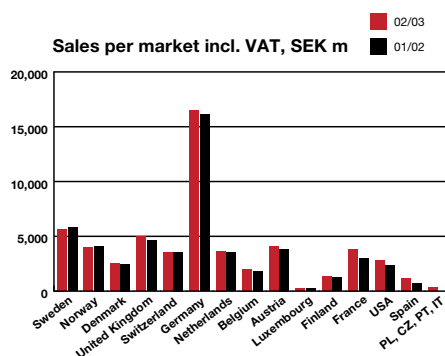
INCOME STATEMENTS

1 December – 30 November
(SEK m)

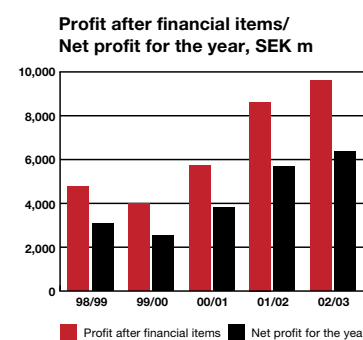
	GROUP		PARENT COMPANY	
	2002/03	2001/02	2002/03	2001/02
Turnover, including VAT	56,550.0	53,331.7	6,284.0	6,458.3
Turnover, excluding VAT, Note 1, 2	48,237.7	45,522.3	5,069.0	5,217.9
Costs of goods sold, Note 3, 4, 5	-21,145.1	-20,418.8	-1,729.7	-2,178.6
GROSS PROFIT	27,092.6	25,103.5	3,339.3	3,039.3
Selling expenses, Note 3, 4, 5	-16,827.3	-15,821.5	-1,913.9	-1,960.2
Administrative expenses, Note 3, 4, 5, 6	-1,042.3	-1,022.9	-459.9	-387.7
OPERATING PROFIT	9,223.0	8,259.1	965.5	691.4
Result from financial investments				
Dividend from subsidiaries	–	–	3,923.1	1,937.7
Interest income	388.5	383.0	177.5	165.9
Interest expense	-2.8	-13.2	-1.1	-5.0
PROFIT AFTER FINANCIAL ITEMS	9,608.7	8,628.9	5,065.0	2,790.0
Appropriations, Note 7	–	–	-279.4	-180.7
Taxes, Note 8	-3,222.8	-2,942.1	-245.0	-191.2
PROFIT FOR THE YEAR	6,385.9	5,686.8	4,540.6	2,418.1
Profit per share, SEK	7.72	6.87	–	–
Number of shares: 827,536,000				



H&M has increased sales by more than 110 per cent over the last five years. Sales outside of Sweden amounted to 90 per cent of turnover.



Sales were above expectations in United Kingdom, France, Spain and in Poland, the Czech Republic, Portugal and Italy.



Profit after financial items increased 11 per cent and amounted to SEK 9,609 m.

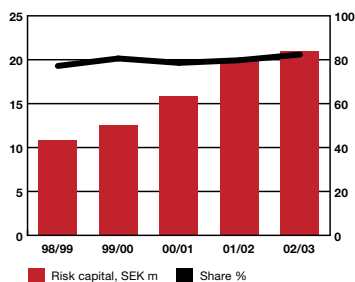
BALANCE SHEETS

30 November
(SEK m)

ASSETS

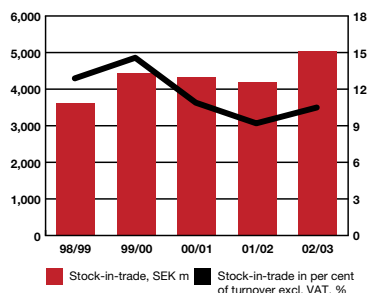
	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
FIXED ASSETS				
Intangible Assets				
Renting rights, Note 9	111.7	118.3	–	0.1
Tangible Assets				
Buildings and land, Note 9	460.1	507.9	71.0	74.0
Equipment, tools, fixtures and fittings, Note 9	5,663.9	5,610.3	466.7	463.2
	<u>6,124.0</u>	<u>6,118.2</u>	<u>537.7</u>	<u>537.2</u>
Financial Assets				
Shares and participation rights, Note 10	–	–	8.5	8.5
Long-term receivables, subsidiaries	–	–	24.0	24.0
Other long-term receivables	119.7	115.4	9.4	9.1
Deferred tax receivables, Note 8	86.3	185.6	7.0	–
	<u>206.0</u>	<u>301.0</u>	<u>48.9</u>	<u>41.6</u>
TOTAL FIXED ASSETS	6,441.7	6,537.5	586.6	578.9
CURRENT ASSETS				
Stock-in-trade	5,050.1	4,192.5	625.5	558.7
Current receivables				
Accounts receivable, trade	617.0	570.0	354.1	292.1
Accounts receivable from subsidiaries	–	–	3,418.7	2,910.2
Other receivables	81.4	88.0	14.6	14.6
Prepaid expenses accrued income, Note 11	378.0	331.1	53.3	59.7
	<u>1,076.4</u>	<u>989.1</u>	<u>3,840.7</u>	<u>3,276.6</u>
Short term investments, Note 12	7,267.3	7,581.1	2,194.8	3,025.8
Cash and bank balances	5,926.2	5,898.5	488.1	308.2
TOTAL CURRENT ASSETS	19,320.0	18,661.2	7,149.1	7,169.3
TOTAL ASSETS	25,761.7	25,198.7	7,735.7	7,748.2

Risk capital



H&M's share of risk capital remained high at 81.6 per cent.

Stock-in-trade



The stock-in-trade was 10.5 per cent of turnover, which is a historically low level.

BALANCE SHEETS

30 November
(SEK m)

EQUITY AND LIABILITIES	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
EQUITY, NOTE 13				
Restricted Equity				
Share capital, Note 14	206.9	206.9	206.9	206.9
Restricted reserves	<u>2,411.3</u>	<u>2,256.4</u>	<u>87.8</u>	<u>87.8</u>
	2,618.2	2,463.3	294.7	294.7
Non-restricted Equity				
Profit brought forward, Note 15	11,092.6	10,937.6	667.8	3,214.2
Profit for the year	<u>6,385.9</u>	<u>5,686.8</u>	<u>4,540.6</u>	<u>2,418.1</u>
	17,478.5	16,624.4	5,208.4	5,632.3
TOTAL EQUITY	20,096.7	19,087.7	5,503.1	5,927.0
Untaxed reserves, Note 16	–	–	1,038.6	759.3
Provisions				
Provisions for pensions, Note 17	36.0	5.2	25.1	–
Provisions for deferred tax liabilities, Note 17	<u>925.2</u>	<u>818.6</u>	<u>–</u>	<u>–</u>
	961.2	823.8	25.1	–
Current Liabilities				
Accounts payable, trade	1,154.7	968.5	492.9	335.1
Accounts payable, subsidiaries	–	–	100.6	173.0
Income tax liabilities	1,084.3	1,681.8	148.3	79.5
Other liabilities	862.2	950.6	91.5	91.4
Accrued expenses and deferred income, Note 18	<u>1,602.6</u>	<u>1,686.3</u>	<u>335.6</u>	<u>382.9</u>
	4,703.8	5,287.2	1,168.9	1,061.9
TOTAL EQUITY AND LIABILITIES	25,761.7	25,198.7	7,735.7	7,748.2
Securities provided, Note 19	–	25.0	–	25.0
Contingent liabilities, Note 19	8,939.4	8,025.8	8,939.4	8,025.8

CASH FLOW ANALYSES

1 December – 30 November
(SEK m)

	GROUP		PARENT COMPANY	
	2002/03	2001/02	2002/03	2001/02
CURRENT OPERATIONS				
Profit after financial items	9,608.7	8,628.9	5,065.0	2,790.0
Depreciation	1,125.6	1,050.6	102.8	108.9
	10,734.3	9,679.5	5,167.8	2,898.9
Tax paid	-3,564.4	-1,866.9	-183.2	-100.3
Cash flow generated by current operations before changes in working capital	7,169.9	7,812.6	4,984.6	2,798.6
Cash flow generated by changes in working capital				
Current receivables	-108.3	-159.5	-564.1	706.8
Stock-in-trade	-948.6	106.9	-66.8	72.5
Current liabilities	92.1	333.3	38.2	35.0
CASH FLOW GENERATED BY CURRENT OPERATIONS	6,205.1	8,093.3	4,391.9	3,612.9
INVESTMENT ACTIVITIES				
Investments in renting rights	-18.0	-52.3	-	-
Sales of/investments in buildings and land	11.9	61.8	-	32.0
Investments in fixed asset	-1,267.9	-1,231.4	-103.3	-148.8
CASH FLOW FROM INVESTMENT ACTIVITIES	-1,274.0	-1,221.9	-103.3	-116.8
FINANCING ACTIVITIES				
Cash flow from financing activities	24.2	-188.6	25.5	-119.7
Dividend for the year	-4,965.2	-1,448.2	-4,965.2	-1,448.2
CASH FLOW FOR THE YEAR	-9.9	5,234.6	-651.1	1,928.2
Liquid funds, beginning of the period <i>including short term investments, Note 12</i>	13,479.6	8,530.9	3,334.0	1,405.8
Changes in currency rates	-276.2	-285.9	-	-
LIQUID FUNDS, END OF THE PERIOD <i>including short term investments, Note 12</i>	13,193.5	13,479.6	2,682.9	3,334.0

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

All amounts in tables are shown in SEK m.

This annual report has been prepared in accordance with the accounting laws and the recommendations issued by the Swedish Financial Accounting Standards Council.

In the 2002/03 financial year the company applied the Swedish Financial Accounting Standards Council's recommendations RR 26 Events After the Balance Sheet Date and RR 28 Accounting for Government Grants. This had no effect on the accounts.

CONSOLIDATED ACCOUNTS

The consolidated accounts have been prepared in accordance with recommendation RR 1:00 issued by the Swedish Financial Accounting Standards Council. The Group's foreign subsidiaries are independent and their accounts are converted using the current rate method, which means that assets and liabilities are converted at the rate on the balance sheet date. The income statements are converted at the average rate for the year. The translation differences thereby arising have no effect on the Group's results but are instead reported directly against Group equity.

FOREIGN CURRENCY

The most significant purchase currency for the Group is the US dollar and currencies related thereto. Fluctuation in the dollar/euro exchange rate forms the largest individual transaction exposure within the Group. To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate movements, US dollars and related currencies are secured under forward contracts on an ongoing basis throughout the year. Since the sole aim of this currency management is to reduce the risks, only actual exposure is hedged. The Group's operating result for the year has been negatively affected by SEK 95 million from exchange rate differences (last year positively by SEK 35 million).

In addition to the effects of transaction exposure, translation effects also affect the Group's result. These arise when a foreign subsidiary's profit/loss is converted into Swedish kronor in order to be consolidated in the Group accounts. The underlying profit/loss in each market may be unchanged, but then either reduced or increased when converted into Swedish kronor. The Group's operating result for the year has been negatively affected by currency translation effects of SEK 157.2 m (+49.6) compared to last year.

Translation effects also arise in respect of the Group's net assets on consolidation of the foreign subsidiaries' balance sheets. No equity hedging is carried out for this risk. The translation differences for the year, which are reported directly against Group equity, amount to SEK -412 million (previous year SEK -583 million).

Receivables and liabilities in foreign currencies have been reported in accordance with recommendation no. 8 of the Swedish Financial Accounting Standard Council. This means that receivables and liabilities have been assessed at the exchange rate on the balance sheet date.

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

STOCK-IN-TRADE

Stock-in-trade has been valued at acquisition cost (purchase price plus delivery costs) less a deduction for market obsolescence.

REPORTING OF CORPORATE INCOME TAX

Taxes in the income statements represent current and deferred income tax payable by Swedish and foreign subsidiaries. Income tax for Group companies is calculated at the rate applicable in the country in question. The statutory corporate income tax rate in Sweden is 28%. Deferred tax is reported on differences that may arise between the written-down values and book values of assets and liabilities, known as temporary differences. Temporary differences arise when the date of taxation differs from the date when the transaction is to be reported according to good accounting practice. Deferred tax may also be reported for loss carry-forward for tax purposes, to the extent that it is likely that the loss carry-forward will be able to be utilised against future profits.

Deferred taxes in the consolidated accounts amount to 30% of untaxed reserves.

ACCOUNTING PRINCIPLES WITH EFFECT FROM 2003/04

From and including the 2003/04 financial year the following recommendations from the Swedish Financial Accounting Standards Council will be applied. RR 22 Presentation of Financial Statements, RR25 Segment Reporting – Industrial Sectors and Geographical Areas and RR 27 Financial Instruments: Disclosure and Presentation. For segment reporting internal follow-up is carried out by country. To assist with compiling information on geographical areas these will be divided into three geographical regions: the Nordic region, Euro zone countries excluding Finland and rest of world. There is no internal division into different lines of business and hence reporting in secondary segments is not relevant.

1 NET TURNOVER BY COUNTRY

	2002/03	2001/02
Sweden	4,495	4,639
Norway	3,215	3,318
Denmark	2,015	1,933
United Kingdom	4,355	4,050
Switzerland	3,261	3,312
Germany	14,201	13,894
Netherlands	3,073	2,936
Belgium	1,676	1,512
Austria	3,414	3,224
Luxembourg	242	200
Finland	1,090	1,050
France	3,207	2,485
USA	2,680	2,355
Spain	1,036	614
Poland	72	–
Czech Republic	61	–
Portugal	99	–
Italy	46	–
Total	48,238	45,522

2 SALES TO GROUP COMPANIES

Parent company net turnover includes SEK 124.6 m (180.6) in respect of internal sales of goods to subsidiaries.

3 START-UP COSTS

Start-up costs are included in operating expenses and refer to the costs involved in the renovation and fitting out of 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 226.1 m (162.7), and for the parent company SEK 29.3 m (28.9).

4 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

2003	Board + MD, salary	Other salaries	Payroll overheads, total	of which pens. total	of which pens. Board + MD
Sweden	12.2	987.9	466.7	95.1	23.3
Norway	2.8	488.9	82.6	12.5	5.5
Denmark	1.9	247.7	22.1	2.9	0.1
UK	3.9	497.6	37.2	2.0	0.2
Switzerland	3.0	433.0	58.0	0.9	–
Germany	6.5	1,662.5	367.5	0.4	0.2
Netherlands	3.1	334.3	82.5	0.4	0.3
Belgium	2.2	212.7	46.7	0.2	0.2
Austria	1.7	321.2	90.6	–	–
Luxembourg	–	22.9	2.5	–	–
Finland	2.5	98.3	20.9	0.3	0.1
France	2.8	374.3	150.9	0.3	0.2
USA	2.2	395.8	77.0	4.4	0.3
Spain	3.4	128.1	36.8	0.5	–
Poland	–	4.8	0.9	–	–
Czech Republic	–	2.4	0.8	–	–
Portugal	–	13.1	2.1	–	–
Italy	–	6.0	1.5	–	–
Canada	0.2	0.6	0.9	–	–
Other countries	–	96.8	19.5	2.2	–
Total	48.4	6,328.9	1,567.7	122.1	30.4

2002	Board + MD, salary	Other salaries	Payroll over- heads, total	of which pens. total	of which pens. Board + MD
Sweden	13.2	948.3	408.6	74.7	4.5
Norway	3.2	504.5	80.1	6.5	0.3
Denmark	1.9	246.9	19.0	12.2	0.1
UK	3.6	455.8	31.8	1.8	0.2
Switzerland	2.5	426.8	54.9	1.0	0.5
Germany	4.7	1,544.9	331.1	0.3	0.2
Netherlands	3.0	302.7	74.9	-	-
Belgium	2.0	193.6	43.5	0.3	0.3
Austria	2.2	295.4	85.9	0.1	-
Luxembourg	-	19.0	1.9	-	-
Finland	2.2	97.7	21.8	0.1	0.1
France	3.1	317.6	132.0	0.5	0.2
USA	2.4	385.2	82.4	4.2	0.4
Spain	3.5	79.0	22.1	0.3	-
Other countries	-	107.1	10.6	3.8	-
Total	47.5	5,924.5	1,400.6	105.8	6.8

Board fees

Board fees for the year as approved by the AGM amounted to SEK 3,900,000 (3,900,000), of which SEK 2,700,000 (2,700,000) was paid to the Chairman of the Board.

No Board fees were paid to Board members who are also employees of the company.

The Board comprises of nine ordinary members and four deputy members. Five of the members are female and eight male; five out of thirteen are employed within the company.

Managing Director's terms of employment

Remuneration to the Managing Director in the form of salary and benefits amounted to SEK 8,358,000, which included a bonus of SEK 1,500,000 (previous year SEK 7,621,000 including a bonus of SEK 1,500,000).

Pension expenses for the Managing Director during the year were SEK 23,290,000 (previous year SEK 3,707,000), of which SEK 19,911,000 comprises pension commitments entered as liabilities.

The Managing Director may retire at the age of 62 and receive a pension of 65% of regular salary at ordinary pension age. From the age of 65 the Managing Director will receive a lifelong old-age pension of 50% of the regular salary effective at the time. The Managing Director is entitled to 12 months' notice. In the event that the company should cancel his contract of employment the Managing Director will receive an extra year's salary as severance pay, in addition to the 12 months' notice. There are no other agreements regarding severance pay in the Group.

Terms of employment for other Group senior executive officers

Remuneration to other members of the Group management in the form of salary and benefits amounted to SEK 19,215,000 (18,039,000), which included bonuses of SEK 1,500,000 (SEK 1,500,000).

Other Group management comprises 10 people, 3 of whom are female. In addition to the Managing Director, the management group includes those responsible for the following functions: finance, buying, product range, expansion, IR, accounts, marketing, HR, communications plus environment and social responsibility.

There are rulings in respect of supplements to retirement pensions beyond the usual plan which cover certain senior employees. The retirement age for these varies between 60 and 62 years. The cost of these payments has been covered by separate insurance policies.

In addition, a bonus amounting to SEK 6 m (6) was paid to 12 country managers (12).

Bonus system

The Managing Director, country managers and certain senior executives are included in a bonus system. The size of the bonus is based on 0.2% of the increase in the ordinary dividend decided by the Annual General Meeting, which is then adjusted to take account of the result in their respective areas of the business. The maximum bonus per person and year has been set at SEK 500,000.

In the case of the Managing Director the bonus is 0.6% of the ordinary dividend increase, up to a maximum of SEK 1,500,000.

The bonus paid after tax must be invested in its entirety in shares in the company, which must be held for a minimum of five years.

5 DEPRECIATION ACCORDING TO PLAN

Equipment and leasehold rights have been depreciated at a rate of 12% of acquisition cost, based on the estimated economic life. The fact that lease rights are depreciated over a period of more than five years is due to the central importance of the store locations to the business. Buildings have been depreciated at 3% of acquisition cost.

No depreciation is applied to land values. Depreciation for the year is reported in the Income Statement as follows:

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Cost of goods sold	123.8	118.5	13.0	12.3
Selling expenses	947.4	881.3	84.8	78.5
Administrative expenses	54.4	50.8	5.0	4.6
Total	1,125.6	1,050.6	102.8	95.4

6 AUDIT FEES

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Ernst & Young				
Audit assignments	7.4	7.1	1.4	1.3
Other assignments	5.5	3.7	0.1	0.1
Other auditors				
Audit assignments	2.5	2.2	-	-

7 APPROPRIATIONS

	PARENT COMPANY	
	02/03	01/02
Depreciation in excess of plan	-22.4	-1.6
Change in accrued fund	-257.0	-179.1
Total	-279.4	-180.7

8 TAX ON PROFIT FOR THE YEAR

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Current tax	-2,995.8	-2,715.8	-252.0	-191.2
Deferred taxes *	-227.0	-226.3	7.0	-
Total	-3,222.8	-2,942.1	-245.0	-191.2

* of which tax on untaxed reserves 128.8 (104.0)

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Expected tax expense according to Swedish tax rate 28%	-2,690.4	-2,416.1	-1,340.0	-730.6
Difference in foreign tax rates	-621.8	-698.2	-	-
Sundry non-deductible/non-taxable	57.7	78.6	-3.5	-3.2
Utilised loss carry-forward	31.7	93.6	-	-
Tax-free dividend from subsidiary	-	-	1,098.5	542.6
Total	-3,222.8	-2,942.1	-245.0	-191.2

Long-term receivables in the balance sheet include a deferred tax receivable of SEK 86.3 m (185.6), of which SEK 79.3 m refers to loss carry-forward estimated to be utilised within the next few years and SEK 7.0 m to temporary differences. There are no other deductions for losses.

9 LEASEHOLD RIGHTS, BUILDINGS AND LAND, EQUIPMENT

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Leasehold rights				
Acquisition value brought forward	173.1	125.8	0.7	0.7
Acquisitions during the year	16.6	53.3	-	-
Sales/disposals	-0.8	-	-	-
Translation effects	-3.1	-6.0	-	-
Closing acquisition value	185.8	173.1	0.7	0.7
Depreciation brought forward	-54.8	-39.0	-0.6	-0.5
Sales/disposals	0.8	-	-	-
Depreciation for the year	-21.6	-17.8	-0.1	-0.1
Translation effects	1.5	2.0	-	-
Closing accumulated depreciation	-74.1	-54.8	-0.7	-0.6
Closing residual value according to plan	111.7	118.3	0.0	0.1

Buildings and land

Acquisition value brought forward	598.5	702.6	110.1	175.9
Acquisitions during the year	0.3	0.4	–	-65.8
Sales/disposals	-11.1	-80.5	–	–
Translation effects	-25.9	-24.0	–	–
Closing acquisition value *	561.8	598.5	110.1	110.1
Depreciation brought forward	-90.6	-95.0	-36.1	-53.7
Sales/disposals	–	20.8	–	20.7
Depreciation for the year	-14.9	-16.9	-3.0	-3.1
Translation effects	3.8	0.5	–	–
Closing accumulated depreciation	-101.7	-90.6	-39.1	-36.1
Closing residual value according to plan	460.1	507.9	71.0	74.0
* of which land value was	60.0	62.4	3.3	3.3

The assessed values of the Swedish properties amount to SEK 57.3 m (56.8).

Equipment

Acquisition value brought forward	9,023.8	8,416.7	853.9	720.8
Acquisitions during the year	1,499.7	1,417.1	103.3	148.7
Sales/disposals	-347.2	-330.9	-62.4	-15.6
Translation effects	-435.6	-479.1	–	–
Closing acquisition value	9,740.7	9,023.8	894.8	853.9
Depreciation brought forward	-3,413.5	-2,843.9	-390.7	-314.1
Sales/disposals	277.8	292.9	62.3	15.6
Depreciation for the year	-1,089.1	-1,015.9	-99.7	-92.2
Translation effects	148.0	153.4	–	–
Closing accumulated depreciation	-4,076.8	-3,413.5	-428.1	-390.7
Closing residual value according to plan	5,663.9	5,610.3	466.7	463.2

The Group has not entered into any leasing agreements. Contracts for leased premises have been entered on normal market terms. Rental charges for the 2002/03 financial year amount to SEK 5,261 m (4,972).

Contracts for leased premises in the Group (basic rent excluding any sales-dependent supplements, SEK m).

Due 2004	4,348
Due 2005–2008	14,007
Due 2009 and later	12,394

10 PARTICIPATION IN GROUP COMPANIES

(all companies are wholly owned)

	Organisation	Number	Book	Domicile
	number	of shares	value	
Parent company participation				
K E Persson AB	556030-1052	1,000	0.1	Stockholm
AB Hennes	556056-0889	1,000	0.1	Stockholm
Big is Beautiful, BiB AB	556005-5047	3,300	0.4	Stockholm
Bekå AB	556024-2488	450	1.3	Stockholm
Impuls AB	556151-2376	1,250	0.1	Stockholm
Carl-Axel Herrmode AB	556099-0706	1,000	3.0	Stockholm
H & M Rowells AB	556023-1663	1,150	0.6	Stockholm
Mauritz AB	556125-1421	2,000	0.2	Stockholm
Erica Modehus AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International BV	18,151EUR	0.1		Netherlands
Total			8.5	

Subsidiary participation in Group companies

Carl Axel Petterssons AB	556027-7351	1,200		Stockholm
H & M Hennes & Mauritz A/S				Norway
H & M Hennes & Mauritz A/S				Denmark
H & M Hennes Ltd				UK
H & M Hennes & Mauritz SA				Switzerland
H & M Trading SA				Switzerland
H & M Hennes & Mauritz GmbH, Hamburg				Germany
Impuls GmbH, Hamburg				Germany
Modehaus H & M Hennes & Mauritz GmbH, Munich				Germany
Magis GmbH & Co. KG, Hannover				Germany
H & M Hennes & Mauritz Holding BV				Netherlands
H & M Hennes & Mauritz Netherlands BV				Netherlands
H & M Hennes & Mauritz USA BV				Netherlands
H & M Hennes & Mauritz Belgium NV				Belgium
H & M Hennes & Mauritz GesmbH				Austria

H & M Hennes & Mauritz OY	Finland
H & M Hennes & Mauritz SARL	France
H & M Hennes & Mauritz LP	USA
H & M Moda SL	Spain
H & M Hennes & Mauritz sp.z.o.o.	Poland
H & M Hennes & Mauritz CZ, s.r.o.	Czech Republic
Divided Moda-Comércio de Vestuário, Unipessoal Ida	Portugal
H & M Hennes & Mauritz Srl	Italy
H & M Hennes & Mauritz Inc.	Canada
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 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Prepaid rent	252.2	223.9	38.1	33.5
Accrued interest income	23.5	30.1	8.8	14.7
Other items	102.3	77.1	6.4	11.5
Total	378.0	331.1	53.3	59.7

12 SHORT-TERM INVESTMENTS

This balance sheet item includes only interest-bearing investments, i.e. investments in securities issued by governments or banks or in short-term bank deposits. All mature in less than three months.

13 CHANGE IN SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Unappropriated earnings	Total shareholders' equity
2002/03				
Shareholders' equity				
1 December 2002	206.9	2,256.4	16,624.4	19,087.7
Dividend	–	–	-4,965.2	-4,965.2
Capital shares in untaxed reserves etc.	–	202.3	-202.3	–
Refunded dividend	–	–	0.7	0.7
Translation differences etc.	–	-47.4	-365.0	-412.4
Profit for the year	–	–	6,385.9	6,385.9
Shareholders' equity 30 November 2003	206.9	2,411.3	17,478.5	20,096.7
2001/02				
Shareholders' equity				
1 December 2001	206.9	2,268.5	12,956.2	15,431.6
Dividend	–	–	-1,448.2	-1,448.2
Capital shares in untaxed reserves etc.	–	119.5	-119.5	–
Refunded dividend	–	–	0.2	0.2
Translation differences etc.	–	-131.6	-451.1	-582.7
Profit for the year	–	–	5,686.8	5,686.8
Shareholders' equity 30 November 2002	206.9	2,256.4	16,624.4	19,087.7

At the close of the financial year accumulated translation differences amounted to SEK -306.3 m (106.1).

14 SHARE CAPITAL

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

15 APPROPRIATION OF PROFITS IN ACCORDANCE WITH THE RESOLUTION OF THE 2003 ANNUAL GENERAL MEETING

Unappropriated profit as per balance sheet, 30 November 2002	5,632.3
Dividend, SEK 6.00 per share	-4,965.2
Refunded dividend	0.7
Unappropriated profit carried forward	667.8

16 UNTAXED RESERVES

	PARENT COMPANY	
	02/03	01/02
Depreciation in excess of plan	247.0	224.7
Other untaxed reserves	791.6	534.6
Total	1,038.6	759.3

17 PROVISIONS

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Pensions				
Provisions brought forward	5.2	98.7	–	95.4
New provisions	30.8	0.2	25.1	–
Provisions utilised	–	-93.7	–	-95.4
Provisions carried forward	36.0	5.2	25.1	–
Deferred tax liabilities				
Provisions brought forward	818.6	755.9	–	–
New provisions	128.8	104.0	–	–
Translation effects	-22.2	-41.3	–	–
Provisions carried forward	925.2	818.6	–	–

18 ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Holiday pay liability	322.7	322.7	113.2	110.2
Payroll overheads	215.9	172.4	110.6	99.5
Accrued interest expense	1.2	2.2	1.2	1.5
Wage and salary liability	238.8	247.7	47.9	50.3
Costs relating to premises	359.0	414.6	–	–
Other accrued overheads	465.0	526.7	62.7	121.4
Total	1,602.6	1,686.3	335.6	382.9

19 SECURITIES PROVIDED AND CONTINGENT LIABILITIES**Real estate mortgages provided for liabilities to credit institutions**

	GROUP		PARENT COMPANY	
	02/03	01/02	02/03	01/02
Sweden Holmens gård, Borås	–	25.0	–	25.0
Total	–	25.0	–	25.0

Contingent liabilities

Parent company's lease guarantees	8,929.4	8,015.8	8,929.4	8,015.8
Disputes	10.0	10.0	10.0	10.0
Total	8,939.4	8,025.8	8,939.4	8,025.8

20 SPECIFIC RELATED PARTY DISCLOSURES IN ACCORDANCE WITH RR 23

The H&M Group already leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö and Amagerortv 23 in Copenhagen. Store premises in the following properties have been added during the year: Drottninggatan 56 and Sergelgatan 11 in Stockholm.

Rent is paid at market rates and amounted to a total of SEK 42 m for the financial year. Previous year SEK 31 m.

21 AVERAGE NUMBER OF EMPLOYEES

	02/03		01/02	
	Total	Male %	Total	Male %
Sweden	3,709	20%	3,604	19%
Norway	1,420	9%	1,448	9%
Denmark	954	5%	939	6%
UK	2,794	23%	2,354	21%
Switzerland	1,134	10%	1,161	10%
Germany	7,199	19%	6,880	20%
Netherlands	1,772	18%	1,818	14%
Belgium	1,051	16%	989	16%
Austria	1,613	13%	1,535	15%
Luxembourg	120	32%	97	15%
Finland	527	11%	534	10%
France	1,865	30%	1,517	30%
USA	2,255	30%	1,605	30%
Spain	975	21%	601	20%
Poland	88	20%	–	0%
Czech Republic	38	11%	–	0%
Portugal	125	26%	–	0%
Italy	106	25%	–	0%
Canada	8	50%	–	0%
Other countries	656	37%	592	34%
Total	28,409	20%	25,674	19%

Sickness absence in Sweden	Sickness absence as % of ord. working hours	% of sickness absence lasting over 60 days
All employees	6.3%	55.2%
Female employees	6.8%	57.1%
Male employees	3.7%	38.3%
Employees < 30 years old	3.7%	28.8%
Employees 30–49 years old	7.2%	60.7%
Employees > 50 years old	11.6%	70.7%

The figures relate to the full financial year.

22 KEY RATIO DEFINITIONS

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

PROPOSED DISTRIBUTION OF EARNINGS

Group

According to the Group Balance Sheet, unappropriated Group profit amounts to SEK 17,478.5 m.

At the disposal of the Annual General Meeting SEK 5,208,396,264

The Board of Directors and Managing Director proposes that:

shareholders be paid an ordinary dividend of SEK 2.90 per share plus a bonus dividend of SEK 3.10 per share	SEK 4,965,216,000
To be carried forward as retained profits	SEK 243,180,264
	SEK 5,208,396,264

Stockholm, 28 January 2004

Stefan Persson
Chairman

Fred Andersson

Vivian Enochsson *

Werner Hofer

Sussi Kvart

Bo Lundquist

Stig Nordfelt

Marianne Norin-Broman *

Melker Schörling

Rolf Eriksen
Managing Director

* Employee representative

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and managing director of H & M Hennes & Mauritz AB for the financial year 1/12 2002–30/11 2003. These accounts and the administration of the company are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

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

Stockholm, 29 January 2004

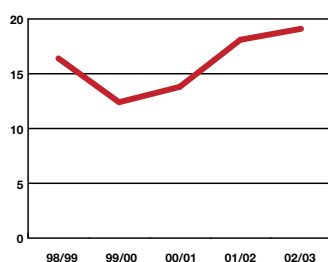
Åke Hedén
Authorised Auditor
Ernst & Young AB

Eva Backlund
Authorised Auditor
Ernst & Young AB

FIVE-YEAR SUMMARY

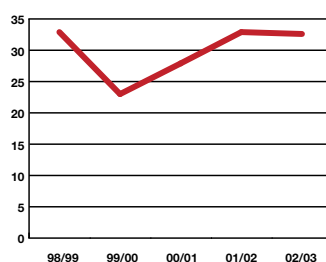
	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Turnover, including VAT, SEK m	32,976.5	35,876.1	46,528.2	53,331.7	56,550.0
Change from previous year, %	+24	+9	+30	+15	+6
Sales outside Sweden, SEK m	27,667.4	30,621.0	41,095.0	47,545.0	50,942.0
Foreign share of turnover, %	84	85	88	89	90
Operating margin, %	16.4	12.4	13.8	18.1	19.1
<hr/>					
Profit after financial items, SEK m	4,758.6	4,003.2	5,734.0	8,628.9	9,608.7
Net profit for the year, SEK m	3,075.4	2,552.7	3,816.4	5,686.8	6,385.9
<hr/>					
Cash and Bank balances including short-term investments, SEK m	6,832.4	5,403.2	8,530.9	13,479.6	13,193.5
Stock-in-trade, SEK m	3,609.3	4,448.7	4,332.4	4,192.5	5,050.1
Restricted equity, SEK m	1,651.2	1,880.7	2,475.4	2,463.3	2,618.2
Non-restricted equity, SEK m	8,642.6	10,009.1	12,956.2	16,624.4	17,478.5
<hr/>					
Return on shareholders' equity, %, Note 20	32.9	23.0	27.9	32.9	32.6
Return on capital employed, %, Note 20	50.3	35.8	41.6	49.7	48.9
Debt/equity ratio, %, Note 20	1.3	1.2	1.2	0.4	0.2
Share of risk-bearing capital, %, Note 20	76.4	79.8	77.8	79.0	81.6
Solidity, %, Note 20	72.5	75.7	75.6	75.7	78.0
Interest cover, Note 20	324.7	225.9	304.4	654.7	3,432.7
<hr/>					
Number of stores in Sweden	124	115	118	120	123
Number of stores outside Sweden	489	567	653	724	822
Total number of stores	613	682	771	844	945
<hr/>					
Average number of employees	17,652	20,680	22,944	25,674	28,409

Operating margin, %



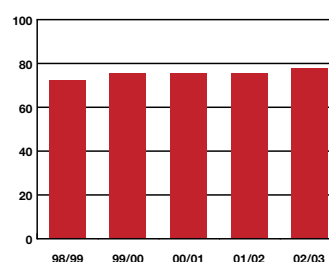
In 2003 H&M strengthened the operating margin that amounted to 19.1 per cent.

Return on shareholder's equity, %



The return on equity remained strong and amounted to 32.6 per cent.

Solidity, %



H&M has a very strong financial position, which was further strengthened. The solidity increased more than 2 percentage points to 78 per cent.

H&M SHARE

Business ratios per share

	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Shareholders' equity per share, SEK	12.44	14.37	18.65	23.07	24.28
Earnings per share, SEK	3.72	3.08	4.61	6.87	7.72
Change from previous year, %	+35	-17	+50	+49	+12
Dividend per share, SEK	1.35	1.35	1.75	6.00	6.00*
Market price on 30 November, SEK	270.00	169.00	213.00	191.00	176.50
P/E ratio	73	55	46	28	23

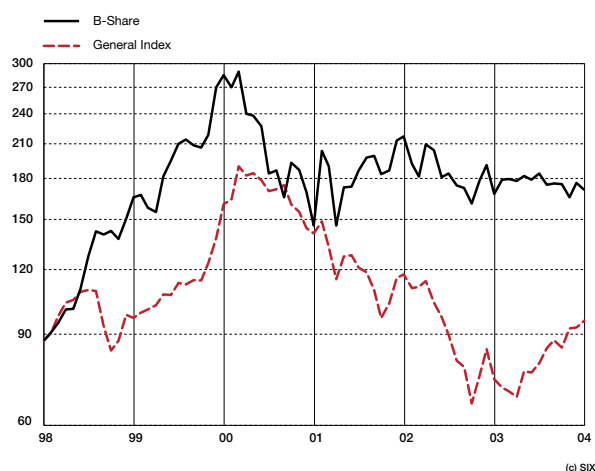
Distribution of shares, December 2003

Shareholdings	Number of shareholders	%	Number of shares	%	Average number of shares per shareholder
1 – 1,000	174,714	92.7	35,310,745	4.3	202
1,001 – 5,000	10,528	5.6	23,552,243	2.8	2,237
5,001 – 10,000	1,350	0.7	10,011,067	1.2	7,416
10,001 – 50,000	1,259	0.7	26,575,037	3.2	21,108
50,001 – 100,000	162	0.1	11,966,895	1.5	73,870
100,001 –	377	0.2	720,120,013	87.0	1,909,846
TOTAL	188,390	100.0	827,536,000	100.0	

Major shareholders, December 2003

	Shares held	% of voting rights	% of capital stock
The Stefan Persson family	301,672,400	69.1	36.5
Lottie Tham	36,805,700	2.2	4.4
Robur Fonder	23,412,868	1.4	2.8
Alecta	22,153,779	1.3	2.7
Fjärde AP-fonden	14,583,900	0.9	1.8
Nordea fonder	13,828,392	0.8	1.7
AMF-Pensionsförsäkring AB	13,138,100	0.8	1.6
SHB/SPP fonder	12,414,395	0.7	1.5
Skandia Liv	10,631,212	0.6	1.3
SEB Fonder	10,492,799	0.6	1.3

* Proposed dividend



(e) SIX



BOARD OF DIRECTORS

Top row from left:

AGNETA RAMBERG
born 1946
 Deputy employee
 representative since 1997
NO. OF SHARES IN H&M: 0

EVA NILSSON
born 1944
 Deputy employee representative
 since 2003
NO. OF SHARES IN H&M: 20

STEFAN PERSSON
born 1947
 Chairman, H&M
 Member of the board since 1979
**OTHER SIGNIFICANT BOARD ASSIGN-
 MENTS:** The Association of the
 Stockholm School of Economics,
 and board assignments in family-
 owned companies
NO. OF SHARES IN H&M: 283,474,400

FRED ANDERSSON
born 1946
 CEO, Nicator Group AB
 Member of the board since 1990
OTHER SIGNIFICANT BOARD ASSIGNMENTS:
 Member of the board of Hilding Anders
 AB, Consilium AB, Viamare Invest AB,
 OY Indoor Group AB
NO. OF SHARES IN H&M: 800

Bottom row from left:

SUSSI KVART
born 1956
 Bachelor of Laws, Sussi Kvant AB
 Member of the board since 1998
**OTHER SIGNIFICANT BOARD ASSIGN-
 MENTS:** Chairman of KW Partners AB,
 Member of the Swedish National Grid
NO. OF SHARES IN H&M: 2,200

ROLF ERIKSEN
born 1944
 Chief Executive Officer and
 Managing Director of H&M, Deputy
 member of the board since 2000
NO. OF SHARES IN H&M: 30,500

**BO LUNDQUIST***born 1942*

Member of the board since 1995 and member of the audit committee

OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of ACSC AB and DFAB

NO. OF SHARES IN H&M: 20,000

MARIANNE NORIN-BROMAN*born 1944*

Employee representative since 1995

NO. OF SHARES IN H&M: 70

STIG NORDFELT*born 1940*

Managing Director, Pilen AB, Member of the board since 1987 and chairman of the audit committee

OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of United Care Scandinavia AB and Surephone AB, board member of IBS AB and CGU Life AB

NO. OF SHARES IN H&M: 4,000

MELKER SCHÖRLING*born 1947*

Member of the board since 1998

OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of Securitas AB, Hexagon AB and Karlshamn AB, deputy chairman of Assa Abloy AB

NO. OF SHARES IN H&M: 114,000

JAN JACOBSEN*born 1951*

Deputy member of the board since 1985

OTHER SIGNIFICANT BOARD ASSIGNMENTS: Member of the board of RAM ONE AB

NO. OF SHARES IN H&M: 125,000

VIVIAN ENOCHSSON*born 1940*

Employee representative since 1977

NO. OF SHARES IN H&M: 600

WERNER HOFER*born 1935*

Lawyer, Hamburg

Member of the board since 1996 and member of the audit committee

OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of Puma AG, Electrolux Deutschland GmbH, AEG Hausgeräte GmbH and D + H Mechatronic AG. Member of the board of Ispat Europe Group S.A, Luxembourg, Ispat Germany GmbH

NO. OF SHARES IN H&M: 4,000



Jeans
€ 19,90

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held at the Stockholmsmässan (Victoriahallen) in Stockholm on Thursday 29 April 2004, at 3 p.m.

Shareholders who are registered in the share register print-out on Monday 19 April 2004 and give notice of their intention to participate in the Meeting no later than 12 noon, Friday 23 April 2004 are entitled to participate in the Annual General Meeting.

Nominee shares

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names to be entitled to participate in the Meeting. In order to re-register shares for participation in the Meeting, shareholders should, in good time before 19 April 2004, 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
Head office, A7
SE-106 38 Stockholm
Telephone: +46 8 796 55 00
Telefax: +46 8 24 80 78

Dividend

The Board of Directors has proposed Tuesday, 4 May 2004 as record day. VPC (Swedish Securities Register Centre) is expected to commence paying dividends on 7 May 2004.

The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting an ordinary dividend for 2003 of SEK 2.90 per share and a bonus dividend of SEK 3.10 per share, a total of SEK 6.- per share.

FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information for the 2004 financial year:

Sales development – January	17 February
Three Months Report including sales development – February	25 March
Sales development – March	15 April
Sales development – April	18 May
Half-Year Report, including sales development – May	23 June
Sales development – June	15 July
Sales development – July	17 August
Nine Months Report, including sales development – August	30 September
Sales development – September	15 October
Sales development – October	16 November
Sales development – November	15 December

ADDRESSES

Sweden

H & M HENNES & MAURITZ AB
 Regeringsgatan 48
 SE-106 38 Stockolm
 Tel: +46 8 796 55 00
 www.hm.com

H & M ROWELLS AB
 Hultagatan 47
 SE-501 89 Borås
 Tel: +46 8 33 16 97 00

Norway

H & M HENNES & MAURITZ A/S
 Stenersgaten 1 E
 PB 68 Alnabru
 NO-0614 Oslo
 Tel: +47 22 17 13 90

H & M HENNES & MAURITZ A/S
 (mailorder)
 Bolerveien
 Postboks 104
 NO-2021 Skedsmokorset
 Tel: +47 63 87 00 40

Denmark

H & M HENNES & MAURITZ A/S
 Amagervej 21, 4. sal
 DK-1160 Copenhagen K
 Tel: +45 70 10 23 31

UK

H & M HENNES Ltd
 Holden House, 2nd floor
 57 Rathbone Place
 GB-London W1T 1HE
 Tel: +44 20 7323 22 11

CONTACTS

Head office, Stockholm

MD: Rolf Eriksen

FINANCE: Leif Persson

EXPANSION: Kent Gustafsson

INVESTOR RELATIONS: Carl-Henric Enhörning

ACCOUNTS: Anders Jonasson

BUYING: Karl Gunnar Fagerlin

PRODUCT RANGE: Madeleine Persson

DESIGN: Margareta van den Bosch

ENVIRONMENT AND SOCIAL RESPONSIBILITY: Ingrid Schullström

MARKETING: Jörgen Andersson

COMMUNICATIONS: Kristina Stenvinkel

PERSONNEL: Pär Darj

IT: Carsten Mackeprang

LOGISTICS: Danny Feltmann

SECURITY: Hans Nilson

Switzerland

H & M HENNES & MAURITZ SA
 Rue du Marché 40, 4th floor
 CH-1204 Geneva
 Tel: +41 22 317 09 09

Germany

H & M HENNES & MAURITZ GmbH
 Spitalerstrasse 12
 DE-200 95 Hamburg
 Tel: +49 40 350 95 50

Netherlands

H & M HENNES & MAURITZ
 NETHERLANDS B.V.
 Kalverstraat 112-II
 P.B. Box 10506
 NL-1001 EM Amsterdam
 Tel: +31 20 556 77 77

Belgium

H & M HENNES & MAURITZ
 BELGIUM N.V.
 Rue de la Madeleine, 51
 BE-1000 Brussels
 Tel: +32 2 219 98 70

Austria

H & M HENNES & MAURITZ GesmbH
 Kirchengasse 6, 6th floor
 AT-1070 Vienna
 Tel: +43 1 585 84 00

Finland

H & M HENNES & MAURITZ OY
 Aleksanterinkatu 42 B
 PB 389
 FI-00101 Helsinki
 Tel: +358 9 34 34 950

France

H & M HENNES & MAURITZ SARL
 2-4 Rue Charras, 4th floor
 FR-75009 Paris
 Tel: +33 1 53 20 71 00

USA

H & M HENNES & MAURITZ LP
 47 West 34th Street, 3rd floor
 1328 Broadway, 3rd floor
 New York, NY 10001
 Tel: +1 212 564 9922

Spain

H & M MODA SL
 Plaza Catalunya 9, 2ª
 ES-08002 Barcelona
 Tel: +34 93 260 86 60

Poland

H & M HENNES & MAURITZ sp.z.o.o.
 ul. Marszałkowska 104/122 (3 piętro)
 PL-00-017 Warsaw
 Tel: +48 22 551 73 10

Czech Republic

H & M HENNES & MAURITZ CZ, s.r.o.
 Kirchengasse 6, 6th floor
 AT-1070 Vienna
 Tel: +43 1 585 84 00

Portugal

Divided Moda-Comércio de Vestuário,
 Unipessoal Ida
 Portugal (Sucursal)
 Avenida Montevideu, 236
 PT-4150-516 Porto
 Tel: +35 1 22 610 51 14

Italy

H & M HENNES & MAURITZ SRL
 Ufficio di Rappresentanza
 Piazza Missori 3
 IT-20123 Milan
 Tel: +39 02 80 68 41

Canada

H & M HENNES & MAURITZ INC.
 1 Dundas Street West
 Suite 2308
 P.O. Box 47
 Toronto ON M5G 1Z3
 Tel: +1 416 623 4300



Skirt € 14.90



H&M