ANNUAL REPORT PART 2

H&M in figures 2010

Dress €19.95

PART 2 H&M IN FIGURES 2010

including the Annual Accounts and Consolidated Accounts

The annual report on H&M's operations in 2010 is in two parts: Part 1 is H&M in words and pictures 2010 and Part 2 is H&M in figures 2010 including the Annual Accounts and Consolidated Accounts.

ADMINISTRATION REPORT

The Board of Directors and the Managing Director of H & M Hennes & Mauritz AB (publ), 556042-7220, domiciled in Stockholm, Sweden, herewith submit their annual report and consolidated accounts for the financial year 1 December 2009 to 30 November 2010.

BUSINESS

The Group's business consists mainly of sales of clothing, accessories, shoes, cosmetics and home textiles to consumers.

H&M's business concept is to offer fashion and quality at the best price. H&M's principle for expansion is that every store shall have the best commercial location. The business is operated from leased store premises, through internet and catalogue sales and on a franchise basis. At the end of the financial year H&M was present in 38 markets, and the operations in nine of these were on a franchise basis. The total number of stores at the end of the financial year was 2,206, of which 50 franchise stores, 35 COS stores, 48 Monki stores, 18 Weekday stores and one Cheap Monday store. Internet and catalogue sales are offered in Sweden, Norway, Denmark, Finland, the Netherlands, Germany, Austria and the UK. The home textile range, H&M Home, is sold via internet and catalogue sales and also through stores in Stockholm, Helsinki, Copenhagen, London and Amsterdam.

Focusing on the customer, H&M's own designers work with pattern designers and buyers to create a broad and varied range for the fashion conscious. H&M's design and buying department creates the collections centrally. To ease the flow of goods, H&M is using the concept of regional grouping.

H&M does not own any factories but instead outsources product manufacturing to around 700 independent suppliers through H&M's 16 local production offices in Asia and Europe. To guarantee the quality of the products and that manufacturing takes place under good working conditions, H&M works in close cooperation with the suppliers. The production offices are responsible for ensuring that orders are placed with the correct supplier, that the products are manufactured at the right price and are of good quality, and that they are delivered at the right time. The production offices also check that manufacturing takes place under good working conditions.

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

The best price is achieved by having few middlemen, buying in large volumes, buying the right product from the right market, being cost-conscious in every part of the organisation and having efficient distribution processes.

ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

Trade between countries is an important source of economic growth around the world. As a retail company, H&M acts as a buyer and seller in many markets. In this way the company helps to create jobs for hundreds of thousands of people in the countries in which H&M buys in its products. Through its presence H&M helps bring about improvements in these societies by, among other things, acting responsibly and in a sustainable way with respect to the environment and social responsibility.

H&M endeavours to ensure that each of its suppliers' employees is guaranteed at least their statutory rights and that the suppliers comply with H&M's Code of Conduct. Since the 1990s H&M has been carrying on extensive work to improve working conditions in suppliers' factories. The company has around 70 of its own auditors who check that the suppliers are meeting H&M's environmental requirements and its high requirements regarding good working conditions for the suppliers' workforce. H&M uses its Code of Conduct to work towards long-term improvements for those employed by the suppliers that produce its products.

H&M's sustainability strategy involves incorporating sustainability work into day-to-day routines in all areas of the company's operations. This sustainability strategy was launched in 2009 and was gradually introduced during 2010. The strategy is based on transferring responsibility for environmental and social matters out into each of the Group's departments from the central CSR (Corporate Social Responsibility) department, which in turn has become a support function. One area currently in focus is the development of sustainable materials and production methods, such as the use of organic cotton.

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

H&M produces a sustainability report every year. The report is available at www.hm.com/sustainability.

EMPLOYEES

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

H&M has grown significantly since its beginnings in 1947 and at the end of the financial year had more than 87,000 employees. The average number of employees in the Group, converted to full-time positions, was 59,440 (53,476), of which 5,398 (4,874) are employed in Sweden.

Around 79 percent of the employees were women and 21 percent were men. Women held 71 percent of the positions of responsibility within the company, such as store managers and country managers.

SIGNIFICANT EVENTS

The Group opened 243 (275) stores and closed 25 (25) stores during the financial year. Of the new stores, 15 (18) were opened on a franchise basis. There was a net addition of 218 (250) stores during the financial year, which was 22 fewer than originally planned. The reduction in the number of new stores compared with what was originally planned was due to the fact that the completion of certain shopping centres in which H&M had planned to open stores did not come about by the end of 2010 due to the weak economy.

South Korea, Israel and Turkey became new H&M markets during the year. The first stores in Seuol and Istanbul as well as the first franchise stores in Tel Aviv, Jerusalem, Haifa and Kfar Saba were all very well received.

The proportion of refurbished stores remained at the same high level as the previous year. The investments and costs associated with new and refurbished stores calculated per unit were lower than in the previous year.

H&M works continually on developing its offering to the customer. In 2010 H&M continued to develop internet and catalogue sales, as well as brands such as COS, Monki, Weekday, Cheap Monday and H&M Home.

Internet sales were launched in the UK and got off to a good start during autumn 2010. H&M now has eight internet and catalogue sales markets: Sweden, Norway, Denmark, Finland, Germany, Austria, the Netherlands and the UK.

More stores were added during the year for H&M Home – fashion for the home – which was launched in February 2009 via internet and catalogue sales. There are now H&M Home stores in Stockholm, Helsinki, Copenhagen, London and Amsterdam. H&M Home stores may be described as part of the store area of a regular H&M store in which selected parts of the H&M Home range are displayed and sold.

The COS – Collection of Style – brand offers a collection for women, men and children in a higher price segment. Twelve stores were opened in 2010 and at the end of the financial year there were 35 COS stores in the UK, Germany, the Netherlands, Belgium, Denmark, France, Spain and Ireland.

In November 2010 H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB, which runs the store chains Weekday and Monki as well as the Cheap Monday brand. The brands will continue to be operated as separate concepts. The company has expanded fast since H&M purchased 60 percent of the shares in FaBric Scandinavien AB in 2008, with the number of stores having increased from 20 to 67. There are now Weekday and Monki stores in seven countries. H&M has great faith in the concepts, which are judged to have great potential for the future. The consideration for the remaining 40 percent of the shares was SEK 8 m, such that H&M paid a total consideration for FaBric Scandinavien AB of SEK 561 m including acquisition costs.

SALES AND PROFITS

Sales including VAT in local currencies increased by 15 percent over the financial year. Converted into SEK sales increased by 7 percent to SEK 126,966 m (118,697). Sales in comparable units increased by 5 percent in local currencies. In local currencies, sales excluding VAT increased by 15 percent over the financial year. Converted into SEK sales excluding VAT increased by 7 percent to SEK 108,483 m (101,393).

The Group's gross profit for the financial year amounted to SEK 68,269 m (62,474), an increase of 9 percent. This is equivalent to a gross margin of 62.9 percent (61.6). Operating profit amounted to SEK 24,659 m (21,644), an increase of 14 percent. This represents an operating margin of 22.7 percent (21.3). The operating profit for the financial year has been charged with depreciation of SEK 3,061 m (2,830). The Group's net financial income amounted to SEK 349 m (459). Profit after financial items was SEK 25,008 m (22,103), an increase of 13 percent. The Group's profit for the financial year after applying a tax rate of 25.3 percent (25.9) was SEK 18,681 m (16,384), which represents earnings per share of SEK 11.29 (9.90) and an increase of 14 percent.

The profit for the year represents a return on equity of 44.1 percent (42.2) and a return on capital employed of 58.7 percent (56.7).

COMMENTS ON PROFITS

The company's long-term initiative to improve its customer offering in order to provide customers with even more fashion and quality for their money contributed to strong sales figures for the year as a whole. Sales in comparable units increased by 5 percent in local currencies. In 2010 consumption recovered somewhat compared with 2009, but the economy remained weak in a number of markets.

Gross margin increased by 1.3 percentage units to 62.9 (61.6). In the first three quarters purchasing costs were positively impacted by external factors such as increased capacity among suppliers, lower transport costs and lower raw materials prices. The positive effects on the gross margin in the first three quarters were in part countered in the fourth quarter by the fact that external factors had the reverse effect on purchasing costs. During the year increased investments in the customer offering in order to further enhance H&M's market position long-term had a negative impact on gross margin.

The gross margin for the year was positively impacted by around 0.3 percentage units as a result of currency hedging of the mark-up on internal sales of goods to the sales companies. In the previous year this currency hedging had a negative impact on gross margin of around 0.4 percentage units.*

Selling and administrative expenses during the year amounted to SEK 43,610 m (40,830), an increase of 7 percent; in local currencies the increase was 15 percent. The cost increase was primarily related to expansion. During the year the company also gradually increased its investments in long-term enhancement of the brand and in securing future expansion. As a proportion of sales in comparable units, the costs remained at the same level as in the previous year.

* H&M revised its currency hedging policy as of 1 December 2009 – see Foreign Currencies on page 8.

TAXES

The tax rate for the financial year 2009/2010 was 25.3 percent (25.9).

For the full year 2010/2011 the tax rate is expected to be around 26 percent.

PARENT COMPANY

The parent company had external sales of SEK 6 m (-) during the financial year. Profit after financial items amounted to SEK 14,868 m (15,267). Investments in fixed assets amounted to SEK 100 m (94).

FINANCIAL POSITION AND CASH FLOW

The Group's total assets as of 30 November 2010 amounted to SEK 59,182 m (54,363), an increase of 9 percent compared with the same date the previous year.

Current operations generated a positive cash flow of SEK 21,838 m (17,973). The cash flow was affected by, among other things, dividends of SEK -13,239 m (-12,825), investments in fixed assets of SEK -4,959 m (-5,686) and short-term financial investments with a term of four to twelve months amounting to SEK -5,166 m (-3,001). The Group's cash flow for the financial year amounted to SEK 1,530 m (-3,607). Liquid funds and short-term investments amounted to SEK 24,858 m (22,025).

Stock-in-trade amounted to SEK 11,487 m (10,240), equivalent to 10.6 percent (10.1) of sales excluding VAT. Stock-in-trade accounted for 19.4 percent (18.8) of total assets.

The Group's equity/assets ratio was 74.6 percent (74.7) and the percentage of risk-bearing capital was 76.2 percent (78.5).

Shareholders' equity shared between the outstanding 1,655,072,000** (1,655,072,000) shares as of 30 November 2010 equalled SEK 26.69 (24.54).

LIQUIDITY MANAGEMENT

In 2010 the longest investment period was 12 months. The Group does not use any derivative instruments in the interest-bearing securities market, nor does the Group trade in shares or similar instruments. See also Note 2, Financial risks.

** SHARE SPLIT

In June 2010 H&M implemented a 2:1 share split in which each share was split into two shares of the same class. The first day of trading in the split shares was 1 June 2010. After the split the number of shares in the company is 1,655,072,000, of which 194,400,000 are series A shares and 1,460,672,000 series B shares. Earnings per share has been calculated in the annual report based on the new number of shares. The earnings per share have also been adjusted retrospectively for all reported periods, in accordance with IAS 33 – Earnings per share.

H&M INCENTIVE PROGRAM (HIP)

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

The meeting resolved to mandate the Board of Directors to introduce an incentive programme known as the H&M Incentive Program, covering all employees of the H&M Group based on the same principles. The Board was further mandated to draw up the necessary detailed rules of the programme and otherwise to take the action required to implement the programme.

The programme was initiated by Stefan Persson and family through the donation of 4,040,404 H&M shares worth around SEK 1 billion (based on the share price on 6 September 2010) to a newly formed Swedish foundation, Stiftelsen H&M Incentive Program. Each year the foundation will normally receive an amount from the H&M Group corresponding to 10 percent of the increase in dividend compared with the previous year's dividend. The foundation will manage the funds, which will be invested in H&M shares. All employees throughout the H&M Group, in all countries, regardless of their position and salary level, will be included in the programme according to the same basic principle – based on length of employment, full-time or part-time.

The number of years that the employee has worked for the company will be taken into account in the qualification period, which will be five years unless local rules require otherwise. As a general rule, funds will be paid out from the age of 62. However, it will also be possible for payouts to be made already after ten years of employment – but no earlier than 2021.

The programme will start in 2011. The first units in the foundation will be allocated to employees during 2011. If the 2011 Annual General Meeting approves the proposed dividend of SEK 9.50 per share then H&M's 2011 contribution to the foundation will be SEK 248 m, which will be recognised as a cost in the second quarter 2011.

EVENTS AFTER THE CLOSING DATE

EXPANSION AND FUTURE DEVELOPMENT

H&M remains positive towards future expansion and the company's business opportunities.

H&M's growth target is to increase the number of stores by 10–15 percent per year while maintaining high profitability and, at the same time, to increase sales within comparable units. For the 2010/2011 financial year a net addition of around 250 stores is planned. H&M expects its largest expansion markets in 2011 to be China, the UK and the USA.

The refurbishment of existing stores is expected to remain at the same high level as in 2009/2010.

Investments in internet and catalogue sales continue, as the company regards this area as having great potential for future growth.

At the beginning of 2011 a new website www.hm.com was launched with a new H&M Shop Online that will offer an improved customer experience and better functionality in H&M's existing internet and catalogue sales markets. Even in those countries where customers are not yet able to shop at H&M online the new website is being launched to provide improved functionality and more inspiration, with a view to attracting customers into H&M's stores.

At the turn of the year 2011/2012 H&M plans to launch H&M Shop Online in the USA, the world's biggest internet and catalogue sales market. H&M will then offer internet and catalogue sales in nine countries: Sweden, Norway, Denmark, Finland, the Netherlands, Germany, Austria, the UK and the USA. The aim is to be able to offer internet and catalogue sales in all H&M's markets in the future.

As previously communicated, the following store openings are planned for 2011:

Romania, Croatia and Singapore will become new H&M markets with stores opening in Bucharest, Zagreb and Singapore.

Morocco and Jordan will be new franchise markets in 2011, with stores opening in Casablanca and Amman.

Sweden's first COS store will open in Stockholm in summer 2011.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

At the Annual General Meeting on 29 April 2010 a resolution on guidelines for remuneration of senior executives within H&M in accordance with the Swedish Companies Act was approved. At the extraordinary general meeting held on 20 October 2010 these guidelines were supplemented in accordance with the proposed incentive programme for all employees of the H&M Group. The guidelines below are effective until the 2011 Annual General Meeting.

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

Senior executives are entitled to the benefits provided under the H&M Incentive Program.

Compensation for senior executives is based on factors such as work tasks, expertise, position, experience and performance. Senior executives are compensated at what are considered by the company to be competitive market rates.

H&M is present in more than 30 countries and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as car benefits. The largest portion of the remuneration consists of the fixed salary. For information on variable components, see the section below.

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

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

PENSION TERMS ETC. FOR THE MANAGING DIRECTOR

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

VARIABLE REMUNERATION

The Managing Director, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on 0.1 percent of the increase in the dividend approved by the Annual General Meeting and the fulfilment of targets in their respective areas of responsibility. The maximum bonus per person and year has been set at SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. In the case of the Head of Sales, the bonus is based on 0.2 percent of the dividend increase, with a maximum of SEK 0.6 m net after tax. For the Managing Director, the bonus is 0.3 percent of the dividend increase up to a maximum of SEK 0.9 m net after tax. The bonuses that are paid out must be invested entirely in shares in the company, which must be held for at least five years. Since H&M is present in markets with varying personal income tax rates, the net model has been chosen because it is considered fair that the recipients in the different countries should be able to purchase the same number of H&M shares for the amounts that are paid out.

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

MISCELLANEOUS

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

THE BOARD'S PROPOSED GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES FOR ADOPTION AT THE 2011 AGM

The Board's proposal for guidelines for adoption at the 2011 AGM is the same as the text above.

ARTICLES OF ASSOCIATION, ANNUAL GENERAL MEETING

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

NUMBER OF SHARES ETC.

The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share). Class A shares are not listed. Class B shares are listed on the Stockholm stock exchange, NASDAQ OMX Stockholm AB. Ramsbury Invest AB, of which the principal owner is Stefan Persson, holds all 194,400,000 class A shares, which represent 57.1 percent of the votes, as well as 6,400,000 class B shares, which represent 0.2 percent of the votes. In addition, Stefan Persson holds 372,548,800 class B shares, which represent 10.9 percent of the votes. This means that, in total, Stefan Persson personally or through companies as per 30 November 2010 holds 68.2 percent of the votes and 34.6 percent of the total number of shares.

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

Various bonus issues were effected during the 1980s. A number of bonus share rights issued at the time have not yet been exercised. In accordance with an announcement in June 2009 the corresponding bonus shares were sold on the market in June 2010. The holders of the bonus share rights then have a further four years in which to withdraw their share of the proceeds less the costs of the reminder and sale. The proceeds of the sale in 2010 less costs, SEK 48 m in total, are therefore being reported as a short-term liability until June 2014. The portion of the proceeds for which no valid claim has been recieved by 30 June 2014 will accrue to the company and thereby increase the company's equity.

CORPORATE GOVERNANCE REPORT

H&M has elected to present its corporate governance report as a separate document to the Annual Report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act. Please see page 35 for the corporate governance report.

RISKS AND UNCERTAINTIES

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

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

FASHION

Operating in the fashion industry is a risk in itself. Fashion has a limited shelf-life, and there is always a risk that a part of the collections 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 latest trends. To optimise fashion precision, H&M buys items on an ongoing basis throughout the season.

The purchasing patterns are relatively similar in the various markets, although differences do exist. The start of the season and the duration of a season may, for example, vary from country to country. Delivery dates and product volumes for the various countries and stores are therefore adjusted accordingly.

WEATHER

H&M's products are purchased and launched in stores on the basis of normal weather patterns. Deviations from normal conditions may affect sales. The effect is greatest if there is a major deviation at the beginning of a season.

CHANGES IN PURCHASING BEHAVIOUR

There is also a risk that changes in the global economy may change consumer purchasing behaviour. It is therefore important to be aware of such changes and to have a flexible buying model that can be adjusted to different market conditions.

CLIMATE CHANGE

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

TRADE INTERVENTION

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

EXTERNAL FACTORS IN PRODUCTION COUNTRIES

Uncertainties also exist concerning how external factors such as raw materials prices, transport costs and the capacity among suppliers will affect buying costs for H&M's products. H&M therefore needs to monitor such changes closely and have strategies in place to deal with fluctuations in external factors as advantageously as possible for both the company and its customers.

FOREIGN CURRENCIES

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

As of 1 December 2009 H&M changed its currency hedging policy such that currency hedging is now carried out for 100 percent of the Group's purchases of goods (compared with 90 percent previously). The change of policy also ended currency hedging of the mark-up on internal goods flows to the sales companies.

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

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

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

DIVIDEND POLICY

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

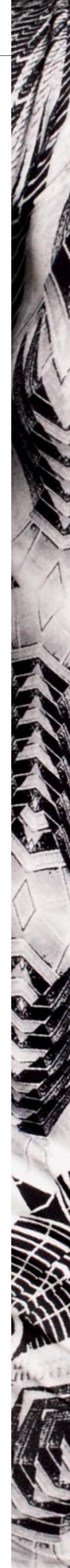
Based on this policy, the Board of Directors has determined that the dividend should equal around half of the profit after taxes. In addition, the Board may propose the distribution of any surplus liquidity.

The Board of Directors has decided to propose to the 2011 Annual General Meeting a dividend of SEK 9.50 per share (8.00), which is equivalent to 84 percent (81) of the Group's profit after tax.

PROPOSED DISTRIBUTION OF EARNINGS

At the disposal of the Annual General Meeting:	SEK	16,626,445,983
The Board of Directors and the Managing Director propose a dividend of SEK 9.50 per share	SEK	15,723,184,000
To be carried forward as retained earnings	SEK	903,261,983
	SEK	16,626,445,983

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



GROUP INCOME STATEMENT

SEK M

1 DECEMBER - 30 NOVEMBER	2010	2009
Sales including VAT	126,966	118,697
Sales excluding VAT, Note 3, 4	108,483	101,393
Cost of goods sold, Note 6, 8	-40,214	-38,919
GROSS PROFIT	**68,269**	**62,474**
Selling expenses, Note 6, 8	-40,751	-38,224
Administrative expenses, Note 6, 8, 9	-2,859	-2,606
OPERATING PROFIT	**24,659**	**21,644**
Interest income	356	467
Interest expense	-7	-8
PROFIT AFTER FINANCIAL ITEMS	**25,008**	**22,103**
Tax, Note 10	-6,327	-5,719
PROFIT FOR THE YEAR	**18,681**	**16,384**
All profit is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	11.29	9.90
No. of shares, thousands*	1,655,072	1,655,072

* Before and after dilution. See page 6, Share split.

GROUP STATEMENT OF COMPREHENSIVE INCOME

SEK M

1 DECEMBER - 30 NOVEMBER	2010	2009
PROFIT FOR THE YEAR	**18,681**	**16,384**
Other comprehensive income		
Translation differences	-2,169	-386
Change in hedging reserves	386	680
Tax attributable to other comprehensive income	-100	-190
OTHER COMPREHENSIVE INCOME	**-1,883**	**104**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**16,798**	**16,488**

All of the total comprehensive income for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.

GROUP BALANCE SHEET
SEK M

30 NOVEMBER	2010	2009
ASSETS		
FIXED ASSETS		
Intangible fixed assets		
Brands, Note 11	349	396
Customer relations, Note 11	97	110
Leasehold rights, Note 11	688	744
Goodwill, Note 11	64	424
	1,198	**1,674**
Tangible fixed assets		
Buildings and land, Note 12	656	492
Equipment, tools, fixtures and fittings, Note 12	14,813	14,319
	15,469	**14,811**
Long-term receivables	**518**	**551**
Deferred tax receivables, Note 10	**1,065**	**1,246**
TOTAL FIXED ASSETS	**18,250**	**18,282**
CURRENT ASSETS		
Stock-in-trade	**11,487**	**10,240**
Current receivables		
Accounts receivable	2,258	1,990
Other receivables	1,453	889
Prepaid expenses, Note 13	876	937
	4,587	**3,816**
Short-term investments, Note 14	**8,167**	**3,001**
Liquid funds, Note 15	**16,691**	**19,024**
TOTAL CURRENT ASSETS	**40,932**	**36,081**
TOTAL ASSETS	**59,182**	**54,363**

30 NOVEMBER	2010	2009
EQUITY AND LIABILITIES		
EQUITY		
Share capital, Note 17	207	207
Reserves	-369	1,514
Retained earnings	25,653	22,508
Profit for the year	18,681	16,384
TOTAL EQUITY	**44,172**	**40,613**
LIABILITIES		
Long-term liabilities*		
Provisions for pensions, Note 18	257	254
Deferred tax liabilities, Note 10	906	2,038
Other provisions, Note 19	–	368
	1,163	**2,660**
Current liabilities**		
Accounts payable	3,965	3,667
Tax liabilities	2,304	439
Other liabilities	2,202	2,531
Accrued expenses and prepaid income, Note 21	5,376	4,453
	13,847	**11,090**
TOTAL LIABILITIES	**15,010**	**13,750**
TOTAL EQUITY AND LIABILITIES	**59,182**	**54,363**
Pledged assets and contingent liabilities	–	–

* Only provisions for pensions are interest-bearing.
** No current liabilities are interest-bearing.

GROUP CHANGES IN EQUITY
SEK M

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

	SHARE CAPITAL	TRANSLATION DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2009	**207**	**1,556**	**-42**	**38,892**	**40,613**
Profit for the year	–	–	–	18,681	18,681
Other comprehensive income					
Translation differences	–	-2,169	–	–	-2,169
Change in hedging reserves	–	–	386	–	386
Tax attributable to other comprehensive income	–	–	-100	–	-100
Other comprehensive income	–	-2,169	286	–	-1,883
Total comprehensive income	–	-2,169	286	18,681	16,798
Dividend	–	–	–	-13,239	-13,239
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2010	**207**	**-613**	**244**	**44,334**	**44,172**

	SHARE CAPITAL	TRANSLATION DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2008	**207**	**1,942**	**-532**	**35,333**	**36,950**
Profit for the year	–	–	–	16,384	16,384
Other comprehensive income					
Translation differences	–	-386	–	–	-386
Change in hedging reserves	–	–	680	–	680
Tax attributable to other comprehensive income	–	–	-190	–	-190
Other comprehensive income	–	-386	490	–	104
Total comprehensive income	–	-386	490	16,384	16,488
Dividend	–	–	–	-12,825	-12,825
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2009	**207**	**1,556**	**-42**	**38,892**	**40,613**

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

GROUP CASH FLOW STATEMENT
SEK M

1 DECEMBER – 30 NOVEMBER	2010	2009
Current operations		
Profit after financial items*	25,008	22,103
Provision for pensions	3	26
Depreciation	3,061	2,830
Tax paid	-5,451	-6,468
Cash flow from current operations before changes in working capital	**22,621**	**18,491**
Cash flow from changes in working capital		
Current receivables	-778	-71
Stock-in-trade	-1,557	-1,740
Current liabilities	1,552	1,293
CASH FLOW FROM CURRENT OPERATIONS	**21,838**	**17,973**
Investment activities		
Investments in leasehold rights	-147	-180
Investments in buildings and land	-209	-25
Investments in equipment	-4,603	-5,481
Adjustment of consideration/acquisition of subsidiaries	-8	7
Change in short-term investments, 4–12 months	-5,166	-3,001
Other investments	4	-75
CASH FLOW FROM INVESTMENT ACTIVITIES	**-10,129**	**-8,755**
Financing activities		
Dividend	-13,239	-12,825
CASH FLOW FROM FINANCING ACTIVITIES	**-13,239**	**-12,825**
CASH FLOW FOR THE YEAR	**-1,530**	**-3,607**
Liquid funds at beginning of financial year	**19,024**	**22,726**
Cash flow for the year	-1,530	-3,607
Exchange rate effect	-803	-95
Liquid funds at end of financial year**	**16,691**	**19,024**

* Interest paid for the Group amounts to SEK 7 m (8). Received interest for the Group amounts to SEK 356 m (466).
** Liquid funds and short-term investments at the end of the financial year amounted to SEK 24,858 m (22,025).

PARENT COMPANY INCOME STATEMENT
SEK M

1 DECEMBER – 30 NOVEMBER	2010	2009
External sales excluding VAT	6	–
Internal sales excluding VAT, Note 5	6,900	5,521
GROSS PROFIT	**6,906**	**5,521**
Selling expenses, Note 6, 8	-2,240	-1,898
Administrative expenses, Note 6, 8, 9	-2,024	-1,561
OPERATING PROFIT	**2,642**	**2,062**
Dividend from subsidiaries	12,153	13,092
Interest income	73	113
Interest expense	0	0
PROFIT AFTER FINANCIAL ITEMS	**14,868**	**15,267**
Year-end appropriations, Note 23	705	-41
Tax, Note 10	-912	-608
PROFIT FOR THE YEAR	**14,661**	**14,618**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
SEK M

1 DECEMBER – 30 NOVEMBER	2010	2009
PROFIT FOR THE YEAR	**14,661**	**14,618**
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,661**	**14,618**

PARENT COMPANY BALANCE SHEET
SEK M

30 NOVEMBER	2010	2009
ASSETS		
FIXED ASSETS		
Tangible fixed assets		
Buildings and land, Note 12	48	51
Equipment, tools, fixtures and fittings, Note 12	369	363
	417	**414**
Financial fixed assets		
Shares and participation rights, Note 24	580	572
Receivables from subsidiaries	1,208	705
Long-term receivables	14	30
Deferred tax receivables, Note 10	59	56
	1,861	**1,363**
TOTAL FIXED ASSETS	**2,278**	**1,777**
CURRENT ASSETS		
Current receivables		
Receivables from subsidiaries	7,764	8,072
Tax receivables	–	627
Other receivables	14	13
Prepaid expenses, Note 13	9	14
	7,787	**8,726**
Short-term investments, Note 14	**8,167**	**3,001**
Liquid funds, Note 15	**223**	**3,644**
TOTAL CURRENT ASSETS	**16,177**	**15,371**
TOTAL ASSETS	**18,455**	**17,148**

30 NOVEMBER	2010	2009
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital, Note 17	207	207
Restricted reserves	88	88
	295	**295**
Non-restricted equity		
Retained earnings	1,965	681
Profit for the year	14,661	14,618
	16,626	**15,299**
TOTAL EQUITY	**16,921**	**15,594**
UNTAXED RESERVES, NOTE 25	**119**	**825**
LIABILITIES		
Long-term liabilities		
Provision for pensions, Note 18	**223**	**211**
Current liabilities*		
Accounts payable	128	133
Payables to subsidiaries	129	–
Tax liabilities	368	–
Other liabilities	340	245
Accrued expenses and prepaid income, Note 21	227	140
	1,192	**518**
TOTAL LIABILITIES	**1,415**	**729**
TOTAL EQUITY AND LIABILITIES	**18,455**	**17,148**
Pledged assets	–	–
Contingent liabilities	12,729	11,292

* No current liabilities are interest-bearing.

PARENT COMPANY CHANGES IN EQUITY
SEK M

	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2009	**207**	**88**	**15,299**	**15,594**
Profit for the year	–	–	14,661	14,661
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	14,661	14,661
Group contributions provided	–	–	-129	-129
Tax effect of group contributions provided	–	–	34	34
Dividend	–	–	-13,239	-13,239
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2010	**207**	**88**	**16,626**	**16,921**

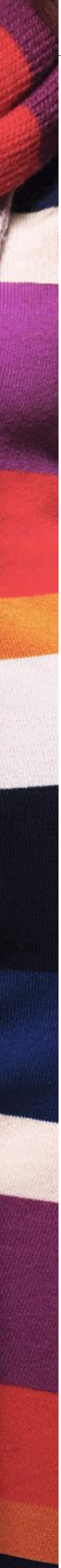
	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMER 2008	**207**	**88**	**14,981**	**15,276**
Profit for the year	–	–	14,618	14,618
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	14,618	14,618
Group contributions provided	–	–	-2,044	-2,044
Tax effect of group contributions provided	–	–	572	572
Result of merger	–	–	-3	-3
Dividend	–	–	-12,825	-12,825
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2009	**207**	**88**	**15,299**	**15,594**

PARENT COMPANY CASH FLOW STATEMENT

SEK M

1 DECEMBER – 30 NOVEMBER	2010	2009
Current operations		
Profit after financial items*	14,868	15,267
Provision for pensions	12	18
Depreciation	97	94
Tax received/paid	114	-525
Cash flow from current operations before changes in working capital	**15,091**	**14,854**
Cash flow from changes in working capital		
Current receivables	312	-1,503
Stock-in-trade	–	–
Current liabilities	176	58
CASH FLOW FROM CURRENT OPERATIONS	**15,579**	**13,409**
Investment activities		
Investments in/sale of buildings and land	–	4
Net investments in equipment	-100	-98
Adjustment of consideration/acquisition of subsidiaries	-8	7
Change in short-term investments, 4–12 months	-5,166	-3,001
Other investments	-487	-377
CASH FLOW FROM INVESTMENT ACTIVITIES	**-5,761**	**-3,465**
Financing activities		
Dividend	-13,239	-12,825
CASH FLOW FROM FINANCING ACTIVITIES	**-13,239**	**-12,825**
CASH FLOW FOR THE YEAR	**-3,421**	**-2,881**
Liquid funds at beginning of financial year	**3,644**	**6,525**
Cash flow for the year	-3,421	-2,881
Liquid funds at end of financial year	**223**	**3,644**

* Interest paid for the parent company amounts to SEK 0 m (0). Received interest for the parent company amounts to SEK 73 m (113).



NOTES TO THE FINANCIAL STATEMENTS

CORPORATE INFORMATION
The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Stockholm, Sweden. The parent company's corporate identity number is 556042-7220. The company's share is listed on the Stockholm stock exchange, NASDAQ OMX Stockholm AB. The Group's business consists mainly of sales of clothing and cosmetics to consumers. The company's financial year is 1 December – 30 November. The Annual Report was approved for publication by the Board of Directors on 26 January 2011 and will be submitted to the Annual General Meeting for approval on 28 April 2011.

The holding of Ramsbury Invest AB of shares in H & M Hennes & Mauritz AB represents around 12.1 percent of all shares and around 57.3 percent of the total voting power. Ramsbury Invest AB (556423-5769) is thus formally the parent company of H & M Hennes & Mauritz AB.

1 ACCOUNTING PRINCIPLES

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

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

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

Parent company
In the preparation of its financial statements the parent company has applied the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, the statements issued by the Swedish Financial Reporting Board and the Swedish Annual Accounts Act. The main deviation from the Group's accounting principles is that the parent company does not apply IAS 39.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE REQUIREMENTS
The accounting principles and disclosure requirements applied for 2009/10 are the same as those applied in the previous year with the exception of the following:

- IFRS 3 Business Combinations (revisions) and related revisions to IAS 27 Consolidated and Separate Financial Statements (effective from 2009/10) – affect the accounting of acquisitions and disposals and transactions with minority shareholders. Transaction costs may no longer be included in the acquisition cost, but must instead be recognised as an expense. The fair value of any contingent additional consideration is to be established at the time of acquisition and any gains or losses on remeasurement of liabilities related to a contingent consideration shall generally be recognised in profit or loss for the period. In the case of gradual acquisitions, when a determining interest is achieved any net assets acquired previously shall be remeasured at fair value and the result recognised in profit or loss. This may affect the level of any goodwill, depending on the option elected for reporting minority interests. The Group has applied the revised IFRS 3 with effect from 1 December 2009 for new acquisitions made since the date of entry into force. The revisions of IFRS 3 and IAS 27 have had no effect on H&M to date.
- IFRS 7, Financial Instruments: Disclosures, revision – involves greater disclosure with respect to financial instruments. The revision involves greater disclosure requirements with respect to financial instruments measured at fair value in the balance sheet. The information discloses the extent to which the fair value is based on observable input data according to a three-level hierarchy. Disclosures are made relating to internal changes between the hierarchical levels for financial instruments recognised at fair value. The division into levels decides the information that is to be disclosed about the instruments. Under the transitional provisions of IFRS 7 comparative information need not be restated for the additional disclosures in the first year of application.
- IFRS 8 Operating Segments – contains disclosure requirements with respect to the Group's operating segments and requires that financial statements be based on the internal segments determined by the executive management and the accounting principles applied. The new standard has not resulted in any changes in segment reporting.
- Revised IAS 1 Presentation of Financial Statements – the revision requires, among other things, that items previously reported in the shareholders' equity calculation but that are not shareholder transactions be presented in an expanded income statement or in a separate report attached to the income statement. The Group has elected to present a separate report, known as the statement of comprehensive income. Comparative periods have all been restated in accordance with the new presentation. The revisions involve changes in presentation only, and no amounts have been changed in the financial reports.

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

- IFRS 9, Financial Instruments: Recognition and Measurement (not yet adopted by the EU). This standard is part of a comprehensive revision of the current standard IAS 39. The standard reduces the number of categories for measuring financial assets to two primary categories: recognition at amortised cost (accrued acquisition cost) or at fair value in the income statement. Certain investments in equity instruments may be recognised at fair value in the balance sheet and the change in value recognised directly in other comprehensive income, with no transfer to profit or loss for the period on disposal. In addition, new rules have been introduced for how changes in own credit spread are to be measured at fair value. The standard will be supplemented with rules on write-downs, hedge accounting and derecognition in the balance sheet. IFRS 9 must be applied to financial statements for annual periods beginning on or after 1 January 2013. The Group will assess the effects of the new standard once all parts of the standard are complete.

ESTIMATES, ASSUMPTIONS AND ASSESSMENTS

The preparation of the Annual Report and consolidated accounts requires estimates and assumptions to be made, as well as judgments in the application of the accounting principles. These affect recorded amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. The actual outcome may therefore deviate from the estimates and assumptions made. It is judged that the estimates and assumptions made in the financial statements up to 30 November 2010 will not significantly affect the results and position for forthcoming financial year.

CONSOLIDATED ACCOUNTS

General

The consolidated accounts cover the parent company and its subsidiaries. Subsidiaries are included in the consolidated accounts from the date of acquisition, which is the date on which the parent company gains a determining influence, and are included in the consolidated accounts until such date as the determining influence ends. The acquisition method is used in the preparation of the consolidated accounts. The net assets of acquired subsidiaries are determined based on an assessment of the fair value of the assets, liabilities and contingent liabilities at the time of acquisition. If the acquisition cost of the subsidiary's shares exceeds the calculated value at the time of acquisition of the net identifiable assets of the acquired company, the difference is reported as goodwill upon consolidation. If the acquisition cost is less than the finally established value of the net identifiable assets, the difference is reported directly in the income statement. The minority interest in the case of acquisitions of less than 100 percent is determined for each transaction either as a proportionate share of the fair value of net identifiable assets or at fair value. The financial reports for the parent company and the subsidiaries included in the consolidated accounts cover the same period and have been prepared in accordance with the accounting principles that apply to the Group. Intra-group transactions such as income, expenses, receivables and liabilities, as well as unrealised gains and losses, are eliminated entirely in the preparation of the consolidated accounts.

Minority interests

In 2008 H&M acquired 60 percent of the shares in FaBric Scandinavien AB. At the time of this acquisition the parties reached an agreement giving H&M the opportunity/obligation to acquire the remaining shares within three to seven years. The calculated value of the put options allocated to minority shareholders in connection with the acquisition was reported in 2008/2009 as a provision for an additional contingent consideration, and thus no minority interest was reported. The put option was exercised during the year and H&M acquired the remaining 40 percent of the shares in November 2010. The difference between the final consideration and the provision is reported as a reduction in goodwill.

Translation of foreign subsidiaries

Assets and liabilities in foreign subsidiaries are translated at the exchange rate on the closing date, while the income statement is translated at the average exchange rate for the financial year. The translation difference arising from this, and also as a result of the fact that the net investment is translated at a different exchange rate at the end of the year than at the beginning of the year, is posted directly to equity as a translation reserve, via the statement of comprehensive income. On disposal of a foreign business the accumulated translation differences in the income statement are posted together with the profit or loss on disposal. Accumulated translation differences relating to foreign operations that are attributable to the period before 1 December 2004 – the date of adoption of IFRS – have been set at zero in accordance with the transitional rules in IFRS 1.

FOREIGN CURRENCY

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

INCOME

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

MARKETING

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets with a finite useful life are reported at acquisition cost less accumulated amortisation and any accumulated write-downs. Amortisation is distributed linearly over the assets' expected useful life. See also Note 8 and Note 11.

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

TANGIBLE FIXED ASSETS

Costs relating to intangible fixed assets are reported in the balance sheet if it is likely that the company will gain from future financial benefits associated with the asset and if the asset's acquisition cost can be reliably calculated. Other costs and costs relating to ongoing maintenance and repair are reported as an expense in the period in which they arise. Tangible fixed assets are reported at acquisition cost less accumulated depreciation and any accumulated write-downs. Depreciation is distributed linearly over the assets' expected useful life. No depreciation is applied to land. See also Note 8 and Note 12. The book value of tangible fixed assets is tested for impairment. If the asset's book value exceeds the recoverable amount (the higher of the net realisable value and the value in use), the required amount is written down. Any write-down is recognised in profit/loss.

LEASING

Leasing agreements in which a substantial portion of the risks and benefits of ownership are retained by the lessor are classified as operational leases. Financial leases exist when the financial risks and benefits associated with the ownership of an object are essentially transferred from the lessor to the lessee, regardless of whether the legal ownership belongs to the lessor or the lessee. Assets held under financial leases are reported as fixed assets and future payment commitments are reported as liabilities in the balance sheet. As of the closing date the Group had no financial leases. Minimal leasing agreements relating to operational leases are recognised in the income statement as an expense and distributed linearly over the term of the agreement. The Group's main leases are rental agreements for premises. Variable (sales-based) rents are recognised in the same period as the corresponding sales.

FINANCIAL INSTRUMENTS

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

The Group classifies its financial instruments in the following categories (see Note 20):

Financial assets and liabilities at fair value through profit or loss

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

Loans receivable and accounts receivable

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

Financial assets held to maturity

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

Financial assets that may be sold

This category contains financial assets that were either placed in this category at the time of acquisition or have not been classified in any other category. These are valued continually at fair value, with changes in value recognised in equity as a fair value reserve, via the statement of comprehensive income. No financial assets have been classified in this category.

Other financial liabilities

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

Reporting of derivatives used for hedging purposes

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

LIQUID FUNDS

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

In hedge accounting, derivatives are classified as cash flow hedging or as fair value hedging. In 2009 and 2010 all of the Group's derivatives were in the cash flow hedging category. How these hedging transactions are reported on the next page.

Hedging of forecast currency flows – cash flow hedging

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

Hedging of contracted currency flows

When a hedging instrument is used to hedge fair value, the hedges are reported at fair value in the balance sheet and, correspondingly, the contracted flow is also reported at fair value with regard to the currency risk being hedged. Changes in the value of a derivative are reported in the income statement together with changes in the value of the hedged item. Cash flow hedging may also be used for contracted flows of goods.

STOCK-IN-TRADE

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

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

H&M INCENTIVE PROGRAM (HIP)

An extraordinary general meeting held on 20 October 2010 resolved to introduce an incentive programme covering all employees of the H&M Group based on the same principles. The programme was initiated by Stefan Persson and family through the donation of 4,040,404 H&M shares worth around SEK 1 billion (based on the share price on 6 September 2010) to a newly formed Swedish foundation, Stiftelsen H&M Incentive Program.

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

Each year the foundation will normally receive an amount from the H&M Group corresponding to 10 percent of the increase in dividend compared with the previous year's dividend until decided otherwise by the Annual General Meeting. H&M has no other commitments beyond this.

The first contribution by H&M to the foundation is planned to be made in 2011. The contribution is based on the increase in dividend compared with the previous year's dividend. The contribution will be made after the 2011 Annual General Meeting, provided that the 2011 AGM approves the dividend. The cost of the contribution will thus be recognised during the 2010/2011 financial year.

PENSIONS

H&M has several different plans for benefits after employment has ended. The plans are either defined benefit or defined contribution plans. Defined contribution plans are reported as an expense in the period when the employee performs the service to which the benefit relates. Defined benefit plans are assessed separately for the respective plan based on the benefits earned during the previous and current periods. The defined benefit obligations less the fair value of managed assets are reported under the heading 'Provisions for pensions'. Defined benefit plans are primarily found in Sweden. Pension obligations are assessed annually with the help of independent actuaries according to the so-called Projected Unit Credit Method. The assessment is made using actuarial assumptions. These assumptions include such things as the discount rate, anticipated salary and pension increases as well as the expected return on managed assets. Changes in the actuarial assumptions and outcomes that deviate from the assumptions give rise to actuarial gains or losses. Such gains or losses are recognised in profits in the year they arise.

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

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2010, Alecta's consolidation ratio was 134 percent (136). The consolidation ratio is calculated as the fair value of managed assets as a percentage of the obligations calculated in accordance with Alecta's actuarial assumptions. This calculation is not in line with IAS 19. See Note 18 for further information.

OTHER PROVISIONS

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

INCOME TAX

Income taxes in the income statement represent current and deferred corporation tax payable by Swedish and foreign subsidiaries. Current tax is tax that will be paid or received in respect of the current year as well as adjustments to current tax attributable to previous periods. The income tax rate in force in each country is applied. For more information see Note 10.

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

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

CASH FLOW STATEMENT

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

SEGMENT REPORTING

The Group's business consists mainly of sales of clothing and cosmetics to consumers. Internal follow-up is carried out by country. In order to clearly present the information for different segment, the operations are divided into three geographical regions: the Nordic region, Euro Zone countries excluding Finland, and the Rest of the World. The risks, opportunities and other economic conditions are similar within each segment. The parent company and subsidiaries with no external sales are reported in a separate Group-wide segment. The same accounting principles are applied to segment reporting as in the consolidated accounts. Transactions between segments take place on normal commercial terms.

2 FINANCIAL RISKS

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

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

The risks relating to these instruments are primarily the following:

- Interest risk associated with liquid funds and short-term investments.
- Currency risk associated with foreign currency flows.
- Credit risk associated with financial assets and derivative positions.

INTEREST RISK

Interest risk is the risk that the value of a financial instrument will vary due to changes in market interest rates and that changes in market interest rates may affect net profit. The Group's exposure to risk from changes in interest rates relates to liquid funds and short-term investments. The original term of the investments is a maximum of twelve months by the closing date. The financial policy permits investments of up to two years. The Group's liquid funds and short-term investments as of the closing date amounted to SEK 24,858 m (22,025). The short term means that the risk of changes in value is limited. An interest rate increase of 0.5 percentage units on this amount would increase interest income by SEK 124 m (110). A corresponding decrease in the interest rate would reduce interest income by the same amount.

CURRENCY RISK

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

Currency exposure associated with financial instruments

H&M's currency risk associated with financial instruments is mainly related to financial investments, accounts payable and derivatives. To reduce currency risk associated with financial investments, any surplus liquidity is invested in local currencies in the respective country. Most of the surplus liquidity is in Sweden and is invested in SEK. The Group's accounts payable in foreign currencies are mainly handled in Sweden and are to a large extent hedged through forward contracts. Based on this, a change in the value of the Swedish krona of 2 percent in relation to other currencies would result in an insignificant momentary effect on profit related to the financial instrument holdings as of the closing date. A strengthening of the Swedish krona would have a positive effect on the hedge reserve in equity in the amount of around SEK 60 m (250) before taking into account the tax effect.

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

The Group's operating result for the year was affected by exchange rate differences relating to flows of goods in the amount of SEK -87 m (-170).

Transaction exposure associated with commercial flows

The payment flows in the form of payments in foreign currencies for accounts receivable and payable expose the Group to currency risk. To manage the currency risk relating to changes in exchange rates the Group hedges its currency risk within the framework of the financial policy. The currency risk exposure is dealt with at central level. Most of the Group's sales are made in euro and the Group's most significant purchase currencies are the US dollar and the euro. Fluctuation in the US dollar/euro exchange rate is the single largest transaction exposure within the Group.
To hedge the flows of goods in foreign currencies and thereby reduce the effects of future exchange rate fluctuations, 100 percent of the Group's purchases of goods and corresponding forecast inflows from the sales companies to the central buying company H & M Hennes & Mauritz GBC AB were hedged under forward contracts on an ongoing basis throughout the 2009/2010 financial year. The average term of outstanding forward contracts is around four months. Since the sole purpose of this currency management is to reduce risk, only exposure in the flow of goods is hedged.

The main changes in H&M's new financial policy (effective since 1 December 2009) are that 100 percent of the Group's product buying is currency-hedged compared to 90 percent previously, and that the company as from 1 December 2009 has ceased hedging the internal mark-up on the internal flow of goods to the sales companies.

Translation exposure on consolidation of units outside Sweden

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

CREDIT RISK

Credit risk is the risk that a party in a transaction involving financial instruments may not be able to fulfil its commitment and thereby cause a loss to the other party. Credit exposure arises when liquid funds including short-term investments are invested, but also arises in the form of counterparty risk associated with trading in derivatives. To limit credit risk, forward contract transactions are only executed with counterparties with a good credit rating.

Investments are only permitted to be made in banks in countries with a minimum rating of AA- (under Standard & Poor's long-term rating scale) and funds are only invested in banks with a minimum rating of A-1/A- (Standard & Poor) and P2/A3 (Moody's). Maximum credit exposure as of 30 November 2010 totalled SEK 28,091 m (24,826), equivalent to the book value of liquid assets of SEK 16,691 m (19,024), short-term investments SEK 8,167 m (3,001), accounts receivables SEK 2,258 m (1,990) and other SEK 975 m (811). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 2,100 (2,000). Bad debts during the year from accounts receivable were insignificant.

3 SEGMENT REPORTING

	2010	2009
Nordic region		
External net sales	17,023	16,302
Operating profit	966	692
Operating margin, %	5.7	4.2
Assets, excluding tax receivables	6,076	5,037
Liabilities, excluding tax liabilities	1,562	1,639
Investments	393	375
Depreciation	276	259
Euro zone excluding Finland		
External net sales	58,412	57,229
Operating profit	3,011	2,545
Operating margin, %	5.2	4.4
Assets, excluding tax receivables	16,178	16,601
Liabilities, excluding tax liabilities	3,403	3,307
Investments	1,988	2,789
Depreciation	1,433	1,374
Rest of the world		
External net sales	33,048	27,862
Operating profit	2,038	1,298
Operating margin, %	6.2	4.7
Assets, excluding tax receivables	12,248	10,711
Liabilities, excluding tax liabilities	2,508	1,875
Investments	2,000	2,135
Depreciation	1,141	1,015
Group functions		
Net sales to other segments	58,641	57,510
Operating profit	18,644	17,109
Operating margin, %	31.8	29.7
Assets, excluding tax receivables	23,615	20,768
Liabilities, excluding tax liabilities	4,327	4,452
Investments	578	387
Depreciation	211	182
Eliminations		
Net sales to other segments	-58,641	-57,510
Total		
External net sales	**108,483**	**101,393**
Operating profit	**24,659**	**21,644**
Operating margin, %	**22.7**	**21.3**
Assets, excluding tax receivables	**58,117**	**53,117**
Liabilities, excluding tax liabilities	**11,800**	**11,273**
Investments	**4,959**	**5,686**
Depreciation	**3,061**	**2,830**

The reported segments are an aggregation of countries with similar risks, opportunities and other economic conditions.

The parent company and subsidiaries with no external sales are reported in a separate Group-wide segment.

4 NET SALES BY COUNTRY

	2010	2009
Sweden	6,742	6,323
Norway	4,690	4,482
Denmark	3,493	3,411
UK	7,337	6,723
Switzerland	5,689	5,615
Germany	25,757	25,289
Netherlands	6,208	6,220
Belgium	2,765	2,894
Austria	4,389	4,598
Luxembourg	365	371
Finland	2,098	2,086
France	7,642	7,070
USA	8,490	7,173
Spain	5,257	5,448
Poland	2,199	2,033
Czech Republic	591	561
Portugal	778	773
Italy	3,610	3,013
Canada	2,442	1,972
Slovenia	477	517
Ireland	443	476
Hungary	310	251
Slovakia	189	157
Greece	532	403
China	2,340	1,513
Japan	1,708	1,111
Russia	785	319
South Korea	232	–
Turkey	26	–
Franchise	899	591
Total	**108,483**	**101,393**

5 ROYALTIES FROM GROUP COMPANIES

The parent company's internal sales consist of royalties from Group companies of SEK 6,900 m (5,521).

6 SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2010	Board, MD, executive management, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. Board, MD, exec. mgmt.
Sweden, parent company	64	477	268	94	12
Subsidiaries	61	13,581	3,067	156	7
Group total	**125**	**14,058**	**3,335**	**250**	**19**

2009	Board, MD, executive management, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. Board, MD, exec. mgmt.
Sweden, parent company	54	408	240	81	28
Subsidiaries	61	13,015	2,862	140	6
Group total	**115**	**13,423**	**3,102**	**221**	**34**

BOARD FEES

Board fees paid for the year as approved by the 2009 AGM amounted to SEK 3,875,000 (4,250,000). Board fees were paid as follows:

	SEK
Stefan Persson, Chairman	1,350,000
Mia Brunell Livfors	375,000
Lottie Knutson	375,000
Sussi Kvart	450,000
Bo Lundquist	450,000
Stig Nordfelt	500,000
Melker Schörling	375,000

The fees were paid as resolved at the 2009 Annual General Meeting. This means that the fees relate to the period until the next Annual General Meeting is held; that is, for the period 4 May 2009 to 29 April 2010. The amounts were paid out after the 2010 AGM. Anders Dahlvig and Christian Sievert were elected to the Board at the AGM held on 29 April 2010. Their board fees of SEK 375,000 per person for the period 29 April 2010 to 28 April 2011 will be paid out after the 2011 AGM, as in the case of the other Board members.

As of the AGM on 29 April 2010 the Board consists of eight ordinary members elected by the AGM. There are also two employee representatives with two deputies for these positions. Seven members of the Board are women, five are men, and four of the 12 are employed by the company.

REMUNERATION TO SENIOR EXECUTIVES

Based on the resolution regarding guidelines passed by the 2010 AGM. See the Administration Report, page 6.

REMUNERATION TO THE MANAGING DIRECTOR

Remuneration to the Managing Director for the 2010 financial year in the form of salary and benefits amounted to SEK 11.2 (4.6*), which included a bonus of SEK 0.2 m (-). Pension benefits for the current Managing Director are covered by a defined contribution plan and by the ITP plan. The total pension cost shall not exceed a total of 30 percent of the Managing Director's fixed salary. Pension expenses for the current Managing Director amounted to SEK 3.3 m (1.4). The retirement age for the Managing Director is 65.

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

* The previous year's remuneration to the Managing Director relates to the period 1 July 2009 to 30 November 2009.

Remuneration to the former Managing Director

Remuneration to the former Managing Director for the 2010 financial year in the form of salary, fees and benefits amounted to SEK 0.6 m (15.8), which included a bonus of SEK 0.6 m (2.1).

Pension for the former Managing Director

The former Managing Director retired on 1 September 2009. The total pension commitments entered as liabilities, which are based on the fact that the former Managing Director will receive a pension for the first three years of his retirement equivalent to 65 percent of his fixed salary followed by a lifelong pension equivalent to 50 percent of the same salary, amount to SEK 144.2 m (152.2). The change in the year's pension commitments entered as liabilities include actuarial losses of SEK 1.7 m (actuarial gains of SEK 3.8 m).

REMUNERATION TO OTHER MEMBERS OF THE EXECUTIVE MANAGEMENT

Remuneration to other members of the executive management team in the form of salary and benefits were paid in the amount of SEK 49.3 m (42.9), which included bonuses of SEK 0.8 m (2.7). Pension expenses relating to other members of the executive management during the year amounted to SEK 8.8 m (11.8). The other members of the executive management are 16 (12) individuals, seven of whom are women.

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

In addition, bonuses amounting to SEK 3.9 m (5.6) were paid out to country managers. No severance pay agreements exist within the Group other than for the Managing Director as described on the previous page. The terms of employment for other members of the executive management are determined by the Managing Director and the Chairman of the Board.

H&M INCENTIVE PROGRAM (HIP)

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

The programme was initiated by Stefan Persson and family through the donation of 4,040,404 H&M shares worth around SEK 1 billion (based on the share price on 6 September 2010) to a newly formed Swedish foundation, Stiftelsen H&M Incentive Program.

Each year the foundation will normally receive an amount from the H&M Group corresponding to 10 percent of the increase in dividend compared with the previous year's dividend until decided otherwise by the Annual General Meeting. The foundation will manage the funds, which will be invested in H&M shares.

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

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

The programme will start in 2011. The first units in the foundation will be allocated to employees during 2011 based on the 2010 earnings year.

If the 2011 Annual General Meeting approves the proposed dividend of SEK 9.50 per share then H&M's contribution to the foundation will be SEK 248 m.

For more information on the incentive programme see the Administration Report, page 6.

7 AVERAGE NUMBER OF EMPLOYEES

	2010 Total	Male %	2009 Total	Male %
Sweden	5,398	25	4,874	21
Norway	1,707	9	1,546	10
Denmark	1,522	7	1,419	6
UK	4,903	22	4,562	23
Switzerland	1,984	14	1,813	13
Germany	11,845	19	11,114	19
Netherlands	2,240	16	2,196	17
Belgium	1,632	22	1,480	21
Austria	1,921	10	1,881	10
Luxembourg	137	13	134	12
Finland	913	7	782	8
France	4,381	26	3,498	27
USA	4,543	34	4,253	31
Spain	4,303	18	4,009	18
Poland	3,089	18	2,452	19
Czech Republic	312	12	263	11
Portugal	693	16	646	20
Italy	2,037	27	1,632	29
Canada	1,114	22	1,096	23
Slovenia	137	15	139	14
Ireland	241	24	236	20
Hungary	182	14	135	15
Slovakia	96	19	69	19
Greece	294	22	262	19
China	2,013	30	1,521	30
Japan	475	44	442	42
Russia	565	27	374	31
South Korea	143	28	44	32
Turkey	200	25	184	22
Romania	22	9	24	6
Other countries	398	71	396	67
Group total	**59,440**	**21**	**53,476**	**21**

SICKNESS ABSENCE WITHIN THE PARENT COMPANY

	Sickness absence as % of reg. working hours		% of sickness absence lasting over 60 days	
	2010	2009	2010	2009
Female employees	2.8	2.8	37.3	24.8
Male employees	1.7	2.1	9.2	17.5
Employees in age group < 30 years	2.3	2.6	14.1	15.9
Employees in age group 30–49 years	2.4	2.5	30.2	21.3
Employees in age group > 50 years	1.0	1.9	–	38.7
Total	**2.3**	**2.5**	**27.3**	**21.9**

8 DEPRECIATION

Depreciation has been calculated at 12 percent of the acquisition cost of equipment and leasehold rights, and 20 percent for computer equipment and vehicles, based on their estimated useful life. Depreciation on brands and customer relations relating to FaBric Scandinavien AB is assessed at 10 percent of the acquisition cost. Buildings are depreciated at 3 percent of their acquisition cost.

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

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Cost of goods sold	336	310	–	–
Selling expenses	2,540	2,350	–	–
Administrative expenses	185	170	97	94
Total	**3,061**	**2,830**	**97**	**94**

9 AUDIT FEES

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Ernst & Young				
Audit assignments	15.9	16.7	2.4	2.2
Auditing other than audit assignments	1.1	–	0.1	–
Tax consultancy	10.9	15.2	0.1	0.1
Other auditors				
Audit assignments	3.2	3.2	–	–
Auditing other than audit assignments	0.2	–	–	–
Tax consultancy	1.3	1.8	–	–
Total	**32.6**	**36.9**	**2.6**	**2.3**

10 TAX

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Tax expense (-) / tax receivable (+):				
Current tax				
Tax expense for the period	-7,255	-5,630	-881	-40
Tax effect of Group contributions provided	–	–	-34	-572
Adjusted tax expense for previous years	–	–	–	-1
Total	-7,255	-5,630	-915	-613
Deferred tax receivable (+) / tax expense (-) in respect of:				
temporary differences in stock-in-trade	-280	130	–	–
loss carry-forward	47	–	–	–
pension provisions	3	7	3	5
tax allocation reserve	1,150	-79	–	–
intangible fixed assets	26	18	–	–
tangible fixed assets	32	–	–	–
other temporary differences	-50	-165	–	–
Total	928	-89	3	5
Total	**-6,327**	**-5,719**	**-912**	**-608**
Reconciliation between current tax rate and effective tax rate:				
Expected tax expense according to the Swedish tax rate of 26.3% (28%)	-6,577	-6,189	-4,096	-4,263
Effect of changed tax rate in Sweden	58	225	–	–
Difference in foreign tax rates	288	261	–	–
Non-deductible/ non-taxable	-166	-128	-13	-9
Other	70	112	–	–
Tax for previous years	–	–	–	-2
Tax-free dividend subsidiaries	–	–	3,196	3,666
Total	**-6,327**	**-5,719**	**-912**	**-608**
Reported deferred tax receivable relates to:				
Pensions	87	84	59	56
Loss carry-forward in subsidiaries	47	0	–	–
Temporary differences in stock-in-trade	672	978	–	–
Hedge reserve	–	21	–	–
Other temporary differences	259	163	–	–
Total	**1,065**	**1,246**	**59**	**56**
Reported deferred tax expense relates to:				
Intangible fixed assets	116	142		
Tangible fixed assets	406	456		
Stock-in-trade	265	291		
Tax allocation reserve	–	1,073		
Hedge reserve	98	–		
Other temporary differences	21	76		
Total	**906**	**2,038**		

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

11 INTANGIBLE FIXED ASSETS

	GROUP	
	2010	2009
Brand*		
Opening acquisition cost	470	470
Acquisitions during the year	–	–
Closing acquisition cost	470	470
Opening amortisation	-74	-27
Amortisation for the year	-47	-47
Closing accumulated amortisation	-121	-74
Closing book value	**349**	**396**
Customer relations*		
Opening acquisition cost	131	131
Acquisitions during the year	–	–
Closing acquisition cost	131	131
Opening amortisation	-21	-8
Amortisation for the year	-13	-13
Closing accumulated amortisation	-34	-21
Closing book value	**97**	**110**
Leasehold rights		
Opening acquisition cost	1,086	890
Acquisitions during the year	147	180
Sales/disposals	-4	7
Translation effects	-114	9
Closing acquisition cost	1,115	1,086
Opening amortisation	-342	-231
Sales/disposals	1	12
Amortisation for the year	-130	-122
Translation effects	44	-1
Closing accumulated amortisation	-427	-342
Closing book value	**688**	**744**
Goodwill*		
Opening book value	424	431
Adjusted consideration/additional consideration	-360	-7
Closing book value	**64**	**424**

* Brands, customer relations and goodwill assets have been added through the acquisition in 2008 of the company FaBric Scandinavien AB, which is a cash-generating unit. H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB at the end of November 2010. The consideration for the remaining 40 percent of the shares was SEK 8 m. A provision of SEK 368 m had been made previously for an additional consideration to the sellers as a result of the options. The difference between the actual consideration and the provision is recognised as a SEK 360 m reduction in goodwill. A goodwill impairment test was carried out at the end of 2010. The impairment test is based on a calculation of value in use. The value in use has been assessed based on discounted cash flows according to forecasts for the next ten years and with an annual growth rate of 2 percent in subsequent years. A discount rate of 12 percent before tax was used. The cash flows are based on H&M's business plan. The growth rate of 2 percent is based on H&M's assessment of the opportunities and risks associated with the business. The discount rate is based on an average weighted capital cost that is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and H&M is of the opinion that reasonable possible changes in the variables above would not have such a significant impact that the recovery amount would be reduced to a lower amount than the book value.

12 BUILDINGS, LAND & EQUIPMENT

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Buildings				
Opening acquisition cost	629	596	105	109
Acquisitions during the year	180	29	–	–
Sales/disposals	–	-4	–	-4
Translation effects	-28	8	–	–
Closing acquisition cost	781	629	105	105
Opening depreciation	-207	-184	-57	-54
Sales/disposals	–	–	–	–
Depreciation for the year	-18	-18	-3	-3
Translation effects	5	-5	–	–
Closing accumulated depreciation	-220	-207	-60	-57
Closing book value	**561**	**422**	**45**	**48**
Land				
Opening acquisition cost	70	68	3	3
Acquisitions during the year	29	–	–	–
Sales/disposals	–	–	–	–
Translation effects	-4	2	–	–
Closing book value	**95**	**70**	**3**	**3**

The tax assessment values for the Swedish properties amount to SEK 73 m (73). The book value of these amounts to SEK 48 m (51).

	GROUP 2010	GROUP 2009	PARENT COMPANY 2010	PARENT COMPANY 2009
Equipment				
Opening acquisition cost	23,576	21,020	736	769
Acquisitions during the year	4,603	5,481	100	98
Sales/disposals	-1,620	-2,266	-80	-131
Translation effects	-1,927	-659	–	–
Closing acquisition cost	**24,632**	**23,576**	**756**	**736**
Opening depreciation	-9,257	-9,059	-373	-413
Sales/disposals	1,508	2,115	80	131
Depreciation for the year	-2,853	-2,630	-94	-91
Translation effects	783	317	–	–
Closing accumulated depreciation	-9,819	-9,257	-387	-373
Closing book value	**14,813**	**14,319**	**369**	**363**

The Group has no significant leasing agreements other than the rental agreements for rented premises entered into at normal market rates. Rental costs for the 2010 financial year amounted to SEK 12,891 m (12,249), of which sales-based rent amounted to SEK 1,044 m (888).

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

Rental commitments in next 12 months	9,546 (9,383)
Rental commitments in next 2–5 years	27,255 (26,416)
Rental commitments more than 5 years ahead	17,878 (18,546)

13 PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Prepaid rent	701	697	7	5
Other items	175	240	2	9
Total	**876**	**937**	**9**	**14**

14 SHORT-TERM INVESTMENTS

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Short-term investments, 4–12 months	8,167	3,001	8,167	3,001
Total	**8,167**	**3,001**	**8,167**	**3,001**

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

Investments are made on market terms and the interest rates are between 0.20 and 2.07 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

15 LIQUID FUNDS

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Cash and bank balances	5,437	6,629	123	143
Short-term investments, 0–3 months	11,254	12,395	100	3,501
Total	**16,691**	**19,024**	**223**	**3,644**

Investments are made on market terms and the interest rates are between 0.18 and 4.10 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

16 FORWARD CONTRACTS

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

Currency pair	Book value and fair value		Nominal amount		Average remaining term in months	
SELL/BUY	2010	2009	2010	2009	2010	2009
NOK/SEK	10	-24	428	762	4	4
GBP/SEK	21	31	1,095	1,308	4	4
DKK/SEK	8	-7	360	667	4	4
CHF/SEK	-2	-16	650	1,432	4	4
EUR/SEK	167	-82	7,525	11,862	4	4
PLN/SEK	11	-18	336	472	4	4
USD/SEK	23	38	1,352	1,053	4	4
CAD/SEK	2	2	298	449	4	4
JPY/SEK	6	-20	365	509	3	4
SEK/USD	48	2	8,419	5,082	2	3
SEK/EUR	-13	19	1,036	1,040	2	2
Total	**281**	**-75**	**21,864**	**24,636**		

All changes in the value of derivatives are recognised initially via other comprehensive income in equity. From other comprehensive income the fair value is transferred to the income statement in conjunction with a hedged transaction taking place. As of the closing date forward contracts with a positive market value amount to SEK 457 m (260), which is reported under Other current receivables. Forward contracts with a negative market value amount to SEK 176 m (335), which is reported under Other current liabilities. Of the outstanding forward contracts, losses of SEK 51 m were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 332 m was recorded in the hedge reserve in equity.

Regarding measurement see Note 20.

17 SHARE CAPITAL

H&M implemented a 2:1 share split in 2010. The share capital is divided between 194,400,000 (97,200,000) class A shares (ten votes per share) and 1,460,672,000 (730,336,000) class B shares (one vote per share). There are no other differences between the rights associated with the shares. The total number of shares is 1,655,072,000 (827,536,000).

H & M Hennes & Mauritz AB effected bonus issues in the years 1983, 1984, 1985 and 1986, at which times so-called scrips were issued in accordance with the Companies Act effective at that time. A number of bonus share rights have not yet been received for exchange. In accordance with an announcement in June 2009 the corresponding bonus shares were sold on the market in June 2010. The holders of the bonus share rights then have a further four years in which to withdraw their share of the proceeds less the costs of the reminder and sale. The proceeds of the sale in 2010, which total SEK 48 m after costs have been deducted, are therefore being reported as a short-term liability until 30 June 2014. Any of these proceeds for which no valid claim is made will accrue to the company and thereby increase equity.

18 PROVISION FOR PENSIONS

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Capitalised value of defined benefit obligations	348	335	252	238
Fair value of managed assets	-91	-81	-29	-27
Provision for pension obligations recorded in the balance sheet	**257**	**254**	**223**	**211**
Opening balance, 1 December	254	228	211	193
Reported pension expenses, net	33	38	28	23
Premiums paid	-13	-5	-3	-2
Pensions paid out	-17	-7	-13	-3
Recorded amount of defined benefit obligations, 30 November	**257**	**254**	**223**	**211**

The amounts recorded as pension expenses include the following items:

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Expenses for service during the current year	16	34	9	23
Interest expense	12	11	8	7
Expected return on managed assets	-3	-3	-1	-1
Actuarial gains (-) and losses (+)	7	-4	6	-6
Reductions/adjustments gains (-) and losses (+)	-10	–	-4	–
Recognised past service cost	13	–	10	–
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	-2	0	–	–
Reported pension expenses, net	**33**	**38**	**28**	**23**

The cost of defined contribution pension plans amounts to SEK 238 m (193).

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

Discount rate	3.25 %	3.61 %	3.25 %	3.50 %
Expected return on managed assets	3.12 %	3.57 %	3.25 %	3.25 %
Future salary increases	4.73 %	4.63 %	5.00 %	5.00 %
Future pension increases (inflation)	2.00 %	3.00 %	2.00 %	2.00 %

19 OTHER PROVISIONS

	GROUP	
	2010	2009
Provision for additional consideration for FaBric Scandinavien AB	368	368
Additional consideration paid during the year	-8	–
Adjustment of additional consideration for FaBric Scandinavien AB	-360	–
Total	**0**	**368**

H&M acquired 60 percent of the shares in the fashion company FaBric Scandinavien AB in 2008. At the time of the acquisition the parties signed an agreement giving H&M the opportunity/obligation to acquire the remaining shares within three to seven years. The assessed value of the put options allocated to minority shareholders in connection with the acquisition in 2008 was reported as a provision for an additional contingent consideration. At the time of the acquisition in 2008 the provision was SEK 368 m. In November 2010 H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB for SEK 8 m. The remaining SEK 360 m of the earlier provision has therefore been reversed. The book value of goodwill has been reduced accordingly.

20 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

2010	Loans receivable and accounts receivable	Financial assets held to maturity	Deriv. for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	518	–	–	518
Accounts receivable	2,258	–	–	–	2,258
Other receivables	–	–	457	–	457
Short-term investments	–	8,167	–	–	8,167
Liquid funds	11,254	5,437	–	–	16,691
Total financial assets	**13,512**	**14,122**	**457**	**–**	**28,091**
Accounts payable	–	–	–	3,965	3,965
Other liabilities	–	–	176	–	176
Total financial liabilities	**–**	**–**	**176**	**3,965**	**4,141**

2009	Loans receivable and accounts receivable	Financial assets held to maturity	Deriv. for hedging recognised at fair value	Other financial liabilities	Total book value
Other long-term receivables	–	551	–	–	551
Accounts receivable	1,990	–	–	–	1,990
Other receivables	–	–	260	–	260
Short-term investments	–	3,001	–	–	3,001
Liquid funds	12,395	6,629	–	–	19,024
Total financial assets	**14,385**	**10,181**	**260**	**–**	**24,826**
Accounts payable	–	–	–	3,667	3,667
Other liabilities	–	–	335	–	335
Total financial liabilities	**–**	**–**	**335**	**3,667**	**4,002**

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

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

21 ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Holiday pay liability	627	569	51	42
Social security costs	438	383	54	48
Payroll liability	450	489	14	10
Costs relating to premises	1,959	1,476	4	4
Other accrued overheads	1,902	1,536	104	36
Total	**5,376**	**4,453**	**227**	**140**

22 RELATED PARTY DISCLOSURES

Ramsbury Invest AB, which is owned by Stefan Persson and family, is the parent company of H & M Hennes & Mauritz AB. The H&M Group leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52 and Drottninggatan 56 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö, Amagertorv 23 in Copenhagen, Oxford Circus and Regent Street in London and, since January 2008, premises for H&M's head office in Stockholm. Rent is paid at market rates and totalled SEK 229 m (193) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 11.2 m (4.6), which included a bonus of SEK 0.2 m (-), for work carried out during the financial year as Managing Director of H & M Hennes & Mauritz AB. In 2009 Karl-Johan Persson also received SEK 0.5 m for his work as Head of Expansion in the period up to 30 June 2009. More information regarding salaries and other remuneration to related parties is provided in Note 6.

23 APPROPRIATIONS

	PARENT COMPANY	
	2010	2009
Provision for tax allocation reserve	–	-43
Reversal of tax allocation reserve	705	–
Depreciation in excess of plan	1	2
Total	**706**	**-41**

24 PARTICIPATIONS IN GROUP COMPANIES

All Group companies are wholly-owned.

2010	Corporate ID number	No. of shares	Book value	Domicile
Parent company shareholdings				
Bekå AB	556024-2488	450	1.3	Stockholm
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	0.1	Stockholm
H & M Rowells AB	556023-1663	1,150	0.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International B.V.		40	0.1	Netherlands
H & M India Private Ltd		1,633,500	2.9	India
H & M Hennes & Mauritz Japan KK		99	11.7	Japan
FaBric Scandinavien AB	556663-8522	1,380	560.7	Tranås
H & M Hennes & Mauritz International AB	556782-4890	1,000	0.1	Stockholm
Total			**580.1**	

2010	Corporate ID number	Domicile
Subsidiaries' holdings		
H & M Hennes & Mauritz AS		Norway
H & M Hennes & Mauritz A/S		Denmark
H & M Hennes & Mauritz Ltd		UK
H & M Hennes & Mauritz SA		Switzerland
H & M Hennes & Mauritz B.V. & Co. KG		Germany
Impuls GmbH		Germany
H & M Hennes & Mauritz Logistics AB Co. KG		Germany
H & M Hennes & Mauritz online shop AB & Co. KG		Germany
H & M Hennes & Mauritz Holding B.V.		Netherlands
H & M Hennes & Mauritz Netherlands B.V.		Netherlands
H & M Hennes & Mauritz Management B.V.		Netherlands
H & M Hennes & Mauritz Belgium NV		Belgium
H & M Hennes & Mauritz Logistics GBC NV		Belgium
H & M Hennes & Mauritz GesmbH		Austria
H & M Hennes & Mauritz Oy		Finland
H & M Hennes & Mauritz SARL		France
H & M Hennes & Mauritz Logistics GBC		France
H & M Hennes & Mauritz LLP		USA
Hennes & Mauritz SL		Spain
H & M Hennes & Mauritz Sp. z o.o.		Poland
H & M Hennes & Mauritz Logistics Sp. z o.o.		Poland
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic
Hennes & Mauritz Lda		Portugal
H & M Hennes & Mauritz S.r.l.		Italy
H & M Hennes & Mauritz Inc.		Canada
H & M Hennes & Mauritz d.o.o.		Slovenia
H & M Hennes & Mauritz Ltd		Ireland
H & M Hennes & Mauritz Kft		Hungary
H & M Hennes & Mauritz Far East Ltd		Hong Kong
Puls Trading Far East Ltd		Hong Kong
H & M Hennes & Mauritz Holding Asia Ltd		Hong Kong
H & M Hennes & Mauritz Ltd		Hong Kong
Hennes & Mauritz (Shanghai) Commercial Ltd Co		China
H & M Hennes & Mauritz (Shanghai) Trading Ltd Co		China
H & M Hennes & Mauritz (Shanghai) Garment Company Ltd		China
H & M Hennes & Mauritz SK s.r.c.		Slovakia
H & M Hennes & Mauritz A.E.		Greece
H & M Hennes & Mauritz LLP		Russia
H & M Hennes & Mauritz TR Tekstil ltd sirketi		Turkey
H & M Hennes & Mauritz Ltd		South Korea
H & M Hennes & Mauritz SRL		Romania
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia
H & M Hennes & Mauritz PTE Ltd		Singapore
Fabric Retail Glbl AB	556427-8926	Sweden
Weekday Brands AB	556675-8438	Sweden
Fabric Sales Sweden AB	556686-8609	Sweden
FaBric Sales Norway AS		Norway
FaBric Sales A/S		Denmark
FaBric Sales AB & Co. KG Germany		Germany
Fabric Sales Netherlands B.V.		Netherlands
Fabric Sales Hong Kong Limited		Hong Kong
Fabric Sales Finland Oy		Finland

25 UNTAXED RESERVES

	PARENT COMPANY	
	2010	2009
Tax allocation reserve tax 09	–	662
Tax allocation reserve tax 10	–	43
Depreciation in excess of plan	119	120
Total	**119**	**825**

26 CONTINGENT LIABILITIES

	PARENT COMPANY	
	2010	2009
Parent company's lease guarantees	12,729	11,292
Total	**12,729**	**11,292**

27 KEY RATIO DEFINITIONS

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

Return on capital employed:
Profit after financial items plus interest expense in relation to average shareholders' equity plus average interest-bearing liabilities.

Share of risk-bearing capital:
Shareholders' equity plus deferred tax liability in relation to the balance sheet total.

Equity/assets ratio:
Shareholders' equity in relation to the balance sheet total.

Equity per share:
Shareholders' equity divided by number of shares.

P/E ratio:
Price per share divided by earnings per share.

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

SIGNING OF THE ANNUAL REPORT

The undersigned hereby provide an assurance that the Annual Report and consolidated accounts have been drawn up in accordance with IFRS international accounting standards, as adopted by the EU, with good accounting practice, and that they provide a true and fair view of the Group's and the parent company's position and earnings, and also that the Administration Report provides a true and fair view of the development of the Group's and the parent company's business, position and earnings, and also describe the significant risks and uncertainties faced by the companies making up the Group.

Stockholm, 26 January 2011

STEFAN PERSSON
Chairman of the Board

MARIANNE BROMAN
Board member

MIA BRUNELL LIVFORS
Board member

ANDERS DAHLVIG
Board member

LOTTIE KNUTSON
Board member

SUSSI KVART
Board member

BO LUNDQUIST
Board member

MELKER SCHÖRLING
Board member

CHRISTIAN SIEVERT
Board member

MARGARETA WELINDER
Board member

KARL-JOHAN PERSSON
Managing Director

Our audit report was submitted on 27 January 2011

Ernst & Young AB

Erik Åström
Authorised Public Accountant

AUDITORS' REPORT

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

We have audited the annual accounts, consolidated accounts, accounting records and the administration of the Board of Directors and the Managing Director of H & M Hennes & Mauritz AB for the financial year 1 December 2009 to 30 November 2010. The company's annual accounts and consolidated accounts are included in this document on pages 4–32. These accounts, the administration of the company and compliance with the Annual Accounts Act in the preparation of the annual report and the application of IFRS international accounting standards, as adopted by the EU, and of the Annual Accounts Act to the consolidated accounts 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.

Our audit was conducted in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain a high, but not absolute 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 and the Managing Director and evaluating the significant assessments made by the Board and the Managing Director in preparing the annual accounts and consolidated accounts, as well as assessing the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances in the company in order 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 has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the company's earnings and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been compiled in accordance with IFRS international accounting standards, as adopted by the EU, and the Annual Accounts Act and give a true and fair view of the Group's earnings and financial position. The administration report is consistent with the other sections of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting 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, 27 January 2011

Ernst & Young AB

Erik Åström
Authorised Public Accountant


Dress €9.95

CORPORATE GOVERNANCE REPORT 2010
H & M HENNES & MAURITZ AB

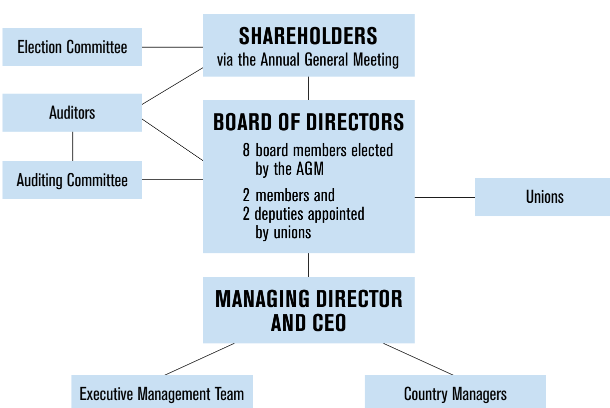
Good corporate governance is basically about ensuring that companies are run as efficiently as possible in the interests of the shareholders.

H&M applies the Swedish Code of Corporate Governance (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code (available from www.bolagsstyrning.se). This corporate governance report for 2010 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. H&M has chosen to have the corporate governance report as a separate document to the Annual Report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act. The information that must be provided under Chapter 6 § 6 item 3–6 of the Annual Accounts Act is included in the administration report on page 7 and is therefore not included in this corporate governance report. In accordance with Chapter 6 § 9 of the Annual Accounts Act the company's auditors have issued a statement on the corporate governance report that is placed on page 46.

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

Deviation from section 2.4 of the Code:
- The Chairman of the Board is the chairman of the Election Committee. The reason for this is described in the section on the Election Committee.

OUR CORPORATE GOVERNANCE STRUCTURE



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

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

Examples of internal control documents:
- Articles of Association instructions and work plan for the Board of Directors and the Managing Director
- Code of Ethics
- policies, guidelines and manuals

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The general meeting is the company's highest decision-making body and is the forum in which shareholders exercise their right to decide on the company's affairs. The shareholders registered directly in the register of shareholders who have given notice of their attendance on time are entitled to participate in the meeting and vote for the total number of shares they hold. Shareholders who cannot be present in person may be represented by proxy. Notice of the general meeting is published on the company's website and also by advertisements in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Nyheter.

The general meeting is convened once a year in order to carry out tasks such as adopting the Annual Accounts and Consolidated Accounts, discharging the members of the Board of Directors and the Managing Director from liability and deciding how the profit for the past financial year is to be allocated. This meeting is called the Annual General Meeting (AGM) and elects the Board of Directors and, when necessary, auditors for the forthcoming period of office. Extraordinary general meetings may be convened where there is a particular need to do so, as took place on 20 October 2010 in connection with a proposed incentive programme for all employees of the H&M Group. At the end of the financial year H&M had 193,035 shareholders.

H&M's share is listed on NASDAQ OMX Stockholm AB. Information material from H&M's most recent annual general meetings and extraordinary general meetings is published on the company's website under section Corporate Governance. Here there is also information about the right of shareholders to raise matters at the meeting and when such requests must be received by H&M so that the matter is certain to be included on the agenda in the notice to attend. The e-mail address is also given for those shareholders who wish to submit their questions in advance to H&M.

ANNUAL GENERAL MEETING 2010

H&M's Annual General Meeting 2010 was held on 29 April in Victoriahallen at the Stockholm International Fairs. 1,438 shareholders were represented at the meeting, representing 81.9 percent of the votes and 62.7 percent of the capital. H&M's Board of Directors, executive management and Election Committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:
- Lawyer Sven Unger was elected as chairman of the meeting.
- The balance sheets and income statements for the parent company and for the Group were adopted.
- A dividend to shareholders of SEK 8.00* per share was approved.
- The Board members and the Managing Director were discharged from liability for the 2008/2009 financial year.

* Adjusted in accordance with 2:1 share split.

- The number of Board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- Anders Dahlvig and Christian Sievert were elected to the Board for the first time. Mia Brunell Livfors, Lottie Knutson, Sussi Kvart, Bo Lundquist, Stefan Persson and Melker Schörling were re-elected as ordinary members by the AGM. Stig Nordfelt had declined re-election.
  Stefan Persson was re-elected as Chairman of the Board.
- The fees paid to the Board members until the next AGM were set at SEK 4,250,000 in total, to be distributed as follows: Chairman of the Board SEK 1,350,000; Board members SEK 375,000; members of the Auditing Committee an extra SEK 75,000; and the chairman of the Auditing Committee an extra SEK 125,000.
- The proposed principles for the Election Committee were approved and members of the Election Committee were elected.
- Resolution on share split and amendment of the Articles of Association.
- The proposed guidelines for remuneration to senior executives were approved.

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

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

YEAR	% OF VOTES	% OF CAPITAL
2007	80.9	60.7
2008	80.9	60.7
2009	81.3	61.5
2010	81.9	62.7

ELECTION COMMITTEE

The Election Committee is the general meeting's body that prepares the necessary information as a basis for decisions at the general meeting as regards election of the Board of Directors, Chairman of the Board, auditors and the chairman of the Annual General Meeting, as well as fees to the Board and auditors, and principles for the Election Committee. An account of the work of the Election Committee ahead of each AGM is available in a separate document on the website. Starting from the 2008 Annual General Meeting, the members of H&M's Election Committee are elected by the general meeting.

COMPOSITION AND WORK OF THE ELECTION COMMITTEE IN 2010/2011

The members of the Election Committee were elected by the 2010 AGM. The Election Committee was elected on the basis of its principles, which, in brief, state that the Election Committee shall be made up of the Chairman of the Board and four other members, each representing one of the four biggest shareholders as of 28 February 2010, apart from the shareholder that the Chairman of the Board represents. The principles include a procedure for replacing any member who leaves the Election Committee before the Committee's work is complete. To read the principles in full, see the document "Account of the work of H&M's Election Committee 2010" under Election Committee under section Corporate Governance at www.hm.com.

The composition of the Election Committee following the 2010 AGM was:
- Stefan Persson, Chairman of the Board
- Lottie Tham, representing Lottie Tham
- Liselott Ledin, representing Alecta
- Jan Andersson, representing Swedbank Robur Fonder
- Anders Oscarsson*, representing AMF Pension

* Peter Lindell was elected at the AGM, but left AMF shortly afterwards and was therefore replaced by Anders Oscarsson of AMF Pension with effect from June 2010.

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

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

Since the 2010 AGM the Election Committee has held one meeting at which minutes were taken and the Committee was also in contact at other times. At the Election Committee's meeting Stefan Persson gave a verbal account of the work of the Board during the year. The conclusion was that the Board had worked effectively over the course of the year.

The Board's work is presented so that the Election Committee can make the best possible assessment of the Board's competence and experience. The Election Committee also discussed the size of the Board, its composition and fees for Board members.

The Election Committee provided the following grounds for its proposed composition of the Board before the 2010 AGM: "The Election Committee judges that the proposed composition of the Board of Directors accords well with section 4.1 of the Swedish Code of Corporate Governance, i.e. that the proposed Board is characterised by diversity and breadth of expertise, experience, background and equal gender distribution. It is judged that the new members proposed will bring in wide-ranging expertise and additional experience from similar operations as well as from other areas of retail, both nationally and internationally."

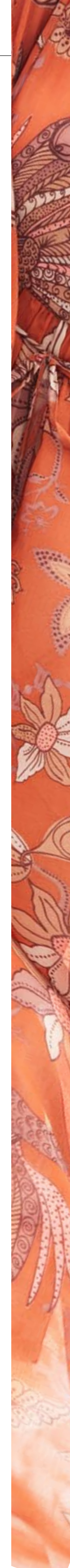
The proposed composition met the applicable requirements concerning the independence of members and stock market experience.

No fees were paid to the Election Committee's chairman or to any of the other members of the Election Committee.

The Election Committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2011 AGM.

EXTRAORDINARY GENERAL MEETING HELD ON 20 OCTOBER 2010

On 20 October 2010 H&M held an Extraordinary General Meeting in the Grünewald Hall at the Stockholm Concert Hall. The meeting



ANNUAL GENERAL MEETING 2011
H&M's Annual General Meeting 2011 will be held on Thursday, 28 April in Victoriahallen at the Stockholm International Fairs. To register to attend the 2011 AGM, see H&M in Figures 2010 page 50 or at www.hm.com/arsstamma

was occasioned by the proposal for the H&M Incentive Program.

722 shareholders were represented at the meeting, representing 78.4 percent of the votes and 55.6 percent of the capital.

The meeting resolved to mandate the Board of Directors to introduce an incentive programme known as the H&M Incentive Program, which will cover all employees of the H&M Group based on the same principles. The Board was further mandated to draw up the necessary detailed rules of the programme and otherwise to take the action required to implement the programme.

The meeting approved the Board's proposal to supplement the guidelines on remuneration to senior executives with the following statement: "Senior executives are entitled to the benefits provided under the H&M Incentive Program".

THE BOARD OF DIRECTORS

The task of the Board of Directors is to manage the company's affairs on behalf of the shareholders. The Board members are elected by the shareholders at the Annual General Meeting for the period up until the next AGM. Under Swedish law, trade unions have the right to appoint employee representatives with deputies to the company's Board.

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

According to the Articles of Association, H&M's Board is to consist of at least three but no more than twelve members elected by the AGM and no more than the same number of deputies.

The Annual General Meeting determines the exact number of Board members. Since the 2010 AGM the Board has consisted of eight ordinary members elected by the AGM and no deputies. There are also two employee representatives and two deputies for these positions. The Board is comprised of seven women and five men. Only the employee representatives are employed by the company. Stig Nordfelt had declined re-election to the Board before the 2010 AGM. Anders Dahlvig and Christian Sievert were elected to the Board for the first time. The other Board members were re-elected. Stefan Persson was re-elected as Chairman of the Board.

For facts about H&M's Board members, see page 42–43. The Board members are to devote the time and attention that their assignment for H&M requires. New Board members receive introductory training which, among other things, includes meetings with the heads of various functions.

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

WORK OF THE BOARD IN 2009/2010

H&M's Board held ten Board meetings during the financial year, one of which was the statutory meeting.

The attendance of the Board members is reported in the table entitled "Composition of the Board of Directors and Attendance during the Year". The Managing Director Karl-Johan Persson attended all the Board meetings held in 2010.

The Board meetings begin with a discussion of the company's financial situation, with sales, costs and results as the main focus. The Board takes decisions on the interim reports and the Annual Report. Accounting and auditing matters are prepared within the Auditing Committee and reported to the Board.

Matters dealt with at the Board meetings held during the financial year included the company's main aims for the year, sales development, costs, the incentive programme for all employees, guidelines for remuneration to senior executives, the rate of expansion and the results of expansion into markets such as South Korea, Turkey and, via franchise, Israel. The Board of Directors proposed a 2:1 share split to the AGM and subsequently determined a record date for the split. The share split was effected at the beginning of June 2010.

The Board also examined the executive management's updated risk assessment. In addition, the Managing Director reported on improvements in the customer offering, organisational changes, COS, H&M Home, the integration of FaBric Scandinavien AB and the acquisition of the remaining shares in the company. The Managing Director also reported on developments in the buying process and in internet and catalogue sales, marketing campaigns, the refurbishment of stores, developments in and outsourcing of IT support, and preparations for expansion into Romania, Croatia, Singapore and – via franchise – Morocco and Jordan.

The Board has kept itself informed of the company's CSR and environmental work.

Decisions taken by the Board during the 2009/2010 financial year included the following:

- new financial policy
- proposal to the AGM for a dividend of SEK 8.00* per share for the 2008/2009 financial year
- the number of new stores for full-year 2010
- investments in the total number of stores and the level of these investments
- proposal to the AGM for a 2:1 share split
- proposal to the Extraordinary General Meeting for an incentive programme covering all employees of the H&M Group on the same principles
- continuation of the present model for monitoring internal control – see page 45

* Adjusted in accordance with 2:1 share split.

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2010

NAME	YEAR ELECTED	INDEPENDENT [1]	INDEPENDENT [2]	FEES (SEK) [3]	BOARD MEETINGS	AUDITING COMMITTEE	SHAREHOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson [4], Chairman	1979	No	No	1,350,000	10/10	3/3	372,548,800	194,400,000 [5] 6,400,000 [6]
Mia Brunell Livfors	2008	Yes	Yes	375,000	10/10			600 [7]
Anders Dahlvig [8]	2010	Yes	Yes		6/6		9,000	
Lottie Knutson	2006	Yes	Yes	375,000	10/10		1,200	
Sussi Kvart	1998	Yes	Yes	450,000	10/10	4/4	4,400	1,700
Bo Lundquist	1995	Yes	Yes	450,000	10/10	4/4		40,000 [9]
Stig Nordfelt [10]	1987	Yes	Yes	500,000	5/5	1/1		
Melker Schörling	1998	Yes	Yes	375,000	10/10			228,000 [11]
Christian Sievert [8]	2010	Yes	Yes		6/6		22,600	600
Marianne Broman, employee rep.	1995				10/10		140	290
Margareta Welinder, employee rep.	2007				9/10			
Tina Jäderberg, deputy employee rep.	2007				10/10			
Agneta Ramberg, deputy employee rep.	1997				10/10			

1) Independent of the company and company management in accordance with the Swedish Code of Corporate Governance.
2) Independent of major shareholders in the company in accordance with the Swedish Code of Corporate Governance.
3) Fees as resolved at the 2009 Annual General Meeting. This means that the fees relate to the period until the next AGM is held, i.e. for the period 4 May 2009 to 29 April 2010. The amount was paid out after the 2010 AGM.
4) Stefan Persson was elected as a member of the Auditing Committee at the statutory Board meeting held on 29 April 2010.
5) Class A shares owned through Ramsbury Invest AB.
6) Class B shares owned through Ramsbury Invest AB.
7) Shares held together with related parties.
8) Anders Dahlvig and Christian Sievert were elected to the Board at the AGM held on 29 April 2010. Board fees of SEK 375,000 per person for the period 29 April 2010 to 28 April 2011 will be paid out after the 2011 AGM.
9) Shares owned through Bo Lundquist's company Caboran AB.
10) Stig Nordfelt resigned from the Board at the 2010 AGM.
11) Shares owned through Melker Schörling AB.

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

During the year the Board also discussed strategic matters such as competition, external factors and development opportunities.

In connection with the Board's review of the proposed Annual Report for 2008/2009, auditor Erik Åström gave an account of the year's audit work.

INDEPENDENCE OF BOARD MEMBERS

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

FINANCIAL REPORTING

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

AUDITING COMMITTEE

The Board's Auditing Committee is the main channel of communication between the Board and the company's auditors.

The Auditing Committee monitors the company's financial reporting, which includes monitoring the effectiveness of the company's internal control and risk management. Its work includes handling auditing issues and financial reports published by the company. The Auditing Committee also keeps itself informed as regards the audit of the Annual Accounts and the Consolidated Accounts. The Auditing Committee also reviews and monitors the impartiality and independence of the auditor and regulates which assignments the accounting firm may conduct in addition to the audit. The Committee also assists the Election Committee with any proposals to the AGM concerning the election of auditors.

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

Since the statutory meeting held in conjunction with the 2010 AGM, the Auditing Committee has consisted of chairman Bo Lundquist and members Sussi Kvart and Stefan Persson. The committee held four meetings at which minutes were taken in 2010.

Authorised Public Accountant Erik Åström attended the Auditing Committee meetings and reported on the auditing assignments. The meetings were also attended by Jyrki Tervonen, CFO and Anders Jonasson, Chief Accountant, among others. The Committee's meetings are minuted and the minutes are then distributed to the Board members.

During the year the Committee addressed issues concerning the company's financial reporting including interim reports and the Annual Report. The Auditing Committee checked that the company is carrying out its internal control and risk management processes effectively and also reviewed the overall risk analysis for the Group. During the year the Auditing Committee also discussed the monitoring of the company's internal pricing model and gathered information on the scope and focus of auditing assignments, as well as on the results of reviews performed.

AUDITORS

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

At the 2009 AGM the registered accounting firm Ernst & Young AB was elected as auditor of H&M for a four-year period, i.e. until the end of the 2013 Annual General Meeting. Authorised Public Accountant Erik Åström from Ernst & Young holds the main responsibility for auditing assignments.

As previously, the 2010 AGM resolved that the auditors' fees should be paid based on the invoices submitted.

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

Authorised Public Accountant Erik Åström conducts auditing assignments for a number of listed companies, such as Hakon Invest, Modern Times Group, Saab, Svenska Handelsbanken and Apoteket.

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

AUDIT FEES (SEK M)

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Ernst & Young				
Audit assignments	15.9	16.7	2.4	2.2
Auditing other than audit assignments	1.1	–	0.1	–
Tax consultancy	10.9	15.2	0.1	0.1
Other auditors				
Audit assignments	3.2	3.2	–	–
Auditing other than audit assignments	0.2	–	–	–
Tax consultancy	1.3	1.8	–	–
Total	**32.6**	**36.9**	**2.6**	**2.3**

MANAGING DIRECTOR

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

INFORMATION ABOUT THE MANAGING DIRECTOR

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

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

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

His current external board assignments are the Swedish Chamber of Commerce in the UK and the GoodCause foundation. Karl-Johan Persson's H&M shareholding amounts to 12,132,334 shares.

EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

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

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

In accordance with the Swedish Companies Act the 2010 Annual General Meeting adopted guidelines for remuneration of senior executives within H&M. To view the full guidelines please refer to the Administration Report on page 7 of H&M in Figures 2010 including the Annual Accounts and Consolidated Accounts.

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

The Board decides on the Managing Director's salary according to the guidelines adopted at the 2010 AGM. The terms of employment for other senior executives are decided by the Managing Director and the Chairman of the Board. No severance pay agreements exist within H&M other than for the Managing Director.

H&M's BOARD OF DIRECTORS

MARIANNE BROMAN
Employee representative

MARGARETA WELINDER
Employee representative

BO LUNDQUIST
Board member and Chairman of the Auditing Committee

CHRISTIAN SIEVERT
Board member

SUSSI KVART
Board member and member of the Auditing Committee

STEFAN PERSSON
Chairman of the Board and member of the Auditing Committee

AGNETA RAMBERG
Deputy employee representative

ANDERS DAHLVIG
Board member

MIA BRUNELL LIVFORS
Board member

TINA JÄDERBERG
Deputy employee representative

MELKER SCHÖRLING
Board member

LOTTIE KNUTSON
Board member

FACTS ON BOARD MEMBERS

STEFAN PERSSON
Chairman of the Board and member of the Auditing Committee. Born 1947.

PRIMARY OCCUPATION:
Chairman of the Board of H&M.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Member of the board of MSAB and board assignments in family-owned companies.

EDUCATION:
Stockholm University and Lund University, 1969–1973.

WORK EXPERIENCE:

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

MIA BRUNELL LIVFORS
Board member. Born 1965.

PRIMARY OCCUPATION:
Managing Director and Chief Executive Officer of Investment AB Kinnevik.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Member of the boards since:

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

EDUCATION:
Studies in Business Administration at Stockholm University.

WORK EXPERIENCE:

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

ANDERS DAHLVIG
Board member. Born 1957.

PRIMARY OCCUPATION:
Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Chairman of New Wave Group, member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB.

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

WORK EXPERIENCE:

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

LOTTIE KNUTSON
Board member. Born 1964.

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

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
No positions other than as member of the Board of H&M.

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

WORK EXPERIENCE:

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

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

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

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

EDUCATION:
Bachelor of Laws from Lund University, 1980.

WORK EXPERIENCE:

1981–1983	Mölndal District Court, court clerk.
1983–1989	Lagerlöf law firm (now Linklaters), as lawyer from 1986.

1989–1991	Political Expert, Riksdagen (Swedish parliament), parliamentary office of the Swedish Liberal Party.
1991–1993	Political Expert, Swedish Cabinet Office.
1993–1999	Company lawyer, LM Ericsson.
1997–2001	Member of Aktiebolagskommittén (Swedish Companies Act Committee).
2000–2001	Lawyer and Business Developer, LM Ericsson, Corporate Marketing and Strategic Business Development.
2002–	Sussi Kvart AB.

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

PRIMARY OCCUPATION:
Head of family-owned investment company. Board assignments.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Chairman of the boards of Stockholm University College of Physical Education and Sports (GIH) and Teknikmagasinet AB (unlisted company), and member of the board of Frans Svanström AB (unlisted company). Member of the board of the Anders Wall Foundation for Free Enterprise.

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

WORK EXPERIENCE:

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

MELKER SCHÖRLING
Board member. Born 1947.

PRIMARY OCCUPATION:
Founder and owner of MSAB.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Hexpol AB and Securitas AB.

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

WORK EXPERIENCE:

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

CHRISTIAN SIEVERT
Board member. Born: 1969.

PRIMARY OCCUPATION:
CEO of Segulah, a venture capital company.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:
Member of the boards of AB Segulah, Segulah Advisor AB, Gunnebo Industrier, Kemetyl and deputy member of the board of Infocare.

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

WORK EXPERIENCE:

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

MARIANNE BROMAN
Employee representative on the H&M Board since 1995.
Born 1944.

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

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

AGNETA RAMBERG
Deputy employee representative on the H&M Board since 1997.
Born 1946.

INTERNAL CONTROL

This description of H&M's internal control and risk management for financial reporting has been prepared in accordance with Chapter 6 § 6 of the Swedish Annual Accounts Act and section 7.4 of the Swedish Code of Corporate Governance.

The Board of Directors is responsible for the company's internal control, the overall aim of which is to safeguard the company's assets and thereby its shareholders' investment. Internal control and risk management are part of the Board's and the management's control and follow-up responsibilities, the purpose of which is to ensure that the business is managed in the most appropriate and effective manner possible.

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

CONTROL ENVIRONMENT

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

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

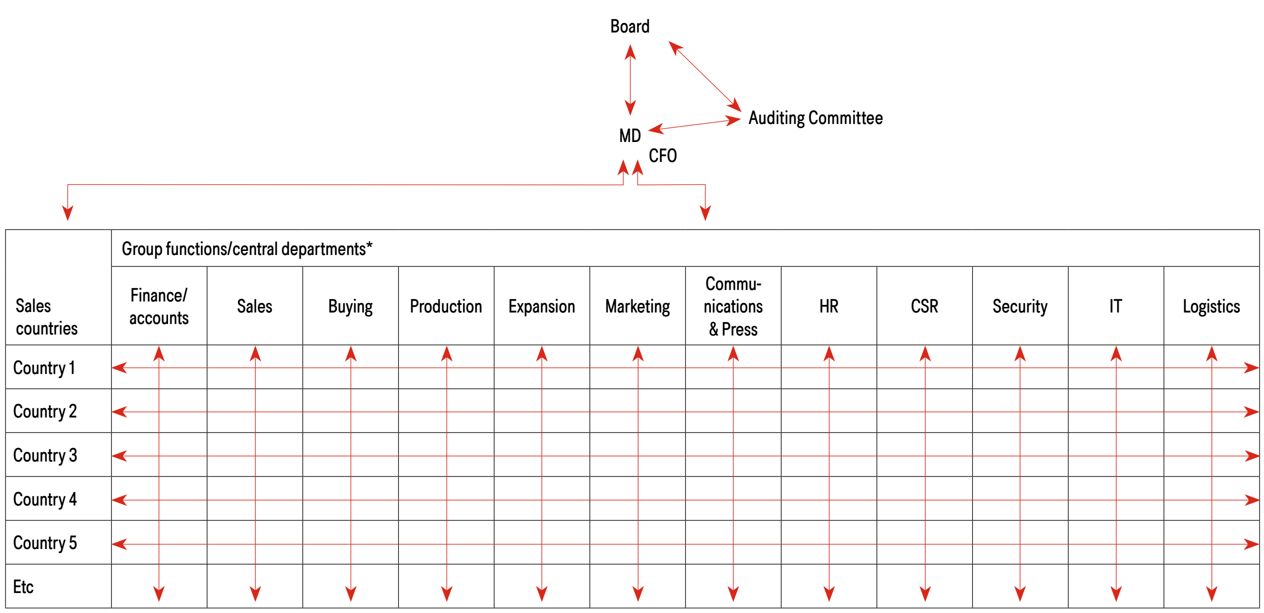
H&M's internal control structure is based on:

- The division of work between the Board of Directors, the Auditing Committee and the Managing Director, which is clearly described in the Board's formal work plan. The executive management team and the Auditing Committee report regularly to the Board based on established routines.
- The company's organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
- Policies, guidelines and manuals; of these, the Code of Ethics, the financial policy, the information policy, the communications policy and the store instructions are examples of important overall policies.
- Awareness among the employees of the maintenance of effective control over financial reporting.
- Control activities, checks and balances, analysis, reporting.

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

All the companies within the H&M Group have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which facilitates internal control and comparisons between the various companies.

There are detailed instructions for the store staff that control daily work in the stores. Many other guidelines and manuals are also available within the Group. In most cases these are drawn up



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

in the central departments at the head office in Stockholm and then communicated to the respective department in the country offices. Each central department regularly reviews its guidelines and manuals to see which ones need updating and whether new guidelines need to be developed.

RISK ASSESSMENT

H&M carries out regular risk analysis to review the risks of errors within its financial reporting. At the end of each financial year the main risks within financial reporting are updated in a group-wide document. The same is done for operational risk. These documents are reviewed by the Auditing Committee and then sent on to the Board of Directors.

Operational risks are also documented on an ongoing basis. During the year the overall risk analysis was updated in order to obtain a general idea of the main risks within each function as well as the systems and methods that are in place to minimise any impact of a risk.

For a more detailed description of H&M's risks see the Administration Report, page 8, and Note 2 Financial risks, page 22 in H&M in Figures 2010 including the Annual Accounts and Consolidated Accounts.

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

CONTROL ACTIVITIES

There are a number of control activities built into every process to ensure that the business is run effectively and that financial reporting on every reporting occasion provides a fair and true picture. The control activities, which aim to prevent, find and correct inaccuracies and non-compliance, are at all levels and in all parts of the organisation. Within H&M the control activities include effective control and analysis of sales statistics, account reconciliation and monthly accounts, as well as analysis of these. H&M's financial statements are analysed, and both manual controls and feasibility assessments are made.

IT systems are scrutinised regularly during the year to ensure the validity of H&M's IT systems with respect to financial reporting. In 2010 general IT controls for certain selected systems were scrutinised by an external party together with those responsible for systems and system areas within H&M.

INFORMATION AND COMMUNICATION

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

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

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

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

MONITORING

As part of the company's 2010 internal control work, the central departments carried out assessments of their respective functions in the sales countries using the COSO model based partly on general issues and partly on department-specific issues. This work resulted in a plan of action for each central department containing the areas that should be improved to further strengthen internal control. The functions also followed up on the assessments made in the previous year.

At the stores, annual controls are performed by internal shop controllers with the aim of determining the strengths and weaknesses of the stores and how any shortcomings can be corrected. Follow-up and feedback with respect to any non-compliances found during the assessment of internal control constitute a central part of internal control work.

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

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Code of Corporate Governance, during the year the Board assessed the need for a specific internal audit department. The Board concluded that H&M's present model of monitoring internal control is the most appropriate for the company. In the Board's opinion, the assessment and monitoring of internal control carried out in the sales countries by all the central departments – such as Accounts, Communications, Security, Logistics, Production, etc. – as well as the work carried out by internal shop controllers are well in line with the work performed in other companies by an internal audit department. The issue of a specific internal audit department will be reviewed again in 2011.

Stockholm, January 2011

The Board of Directors

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

AUDITORS' STATEMENT ON THE CORPORATE GOVERNANCE REPORT

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

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

We have reviewed the corporate governance report for the year 2010 on pages 35–45. The corporate governance report is the responsibility of the Board of Directors, which is responsible for the report being prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance report based on our review.

ORIENTATION AND SCOPE OF REVIEW

Our review was conducted in accordance with RevU 16, Auditors' review of the corporate governance report. This means that we planned and performed the audit in order to obtain a high, but not absolute, degree of assurance that the corporate governance report is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

STATEMENT

A corporate governance report has been prepared. The corporate governance report is consistent with the annual report and the consolidated accounts.

Stockholm, 26 January 2011

Ernst & Young AB

Erik Åström
Authorised Public Accountant


Hoodie jacket
€9.95

FIVE-YEAR SUMMARY

1 DECEMBER – 30 NOVEMBER

FINANCIAL YEAR	2010	2009	2008	2007	2006
Sales including VAT, SEK m	126,966	118,697	104,041	92,123	80,081
Sales excluding VAT, SEK m	108,483	101,393	88,532	78,346	68,400
Change from previous year, %	7	15	13	15	12
Operating profit, SEK m	24,659	21,644	20,138	18,382	15,298
Operating margin, %	22.7	21.3	22.7	23.5	22.4
Depreciation for the year, SEK m	3,061	2,830	2,202	1,814	1,624
Profit after financial items, SEK m	25,008	22,103	21,190	19,170	15,808
Profit after tax, SEK m	18,681	16,384	15,294	13,588	10,797
Liquid funds and short-term investments, SEK m	24,858	22,025	22,726	20,964	18,625
Stock-in-trade, SEK m	11,487	10,240	8,500	7,969	7,220
Equity, SEK m	44,172	40,613	36,950	32,093	27,779
No. of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	11.29	9.90	9.24	8.21	6.52
Equity per share, SEK*	26.69	24.54	22.33	19.39	16.78
Cash flow from current operations per share, SEK*	13.17	10.86	10.86	9.29	7.28
Dividend per share, SEK	9.50**	8.00	7.75	7.00	5.75
Return on equity, %	44.1	42.2	44.3	45.4	40.2
Return on capital employed, %	58.7	56.7	61.1	63.7	58.7
Share of risk-bearing capital, %	76.2	78.5	75.7	78.5	80.0
Equity/assets ratio, %	74.6	74.7	72.1	76.9	78.1
Total number of stores	2,206	1,988	1,738	1,522	1,345
Average number of employees	59,440	53,476	53,430	47,029	40,855

* Number of shares adjusted for split. See page 6, Share split.
** Proposed by the Board of Directors.

For definitions of key ratios, see page 31.

THE H&M SHARE

KEY RATIOS PER SHARE	2010	2009	2008	2007	2006
Shareholders' equity per share, SEK	26.69	24.54	22.33	19.39	16.78
Earnings per share, SEK	11.29	9.9	9.24	8.21	6.52
Change from previous year, %	+14	+7	+13	+26	+17
Dividend per share, SEK	9.50*	8.00	7.75	7.00	5.75
Market price on 30 November, SEK	234.4	206.15	149	199.5	159.5
P/E ratio	21	21	16	24	24

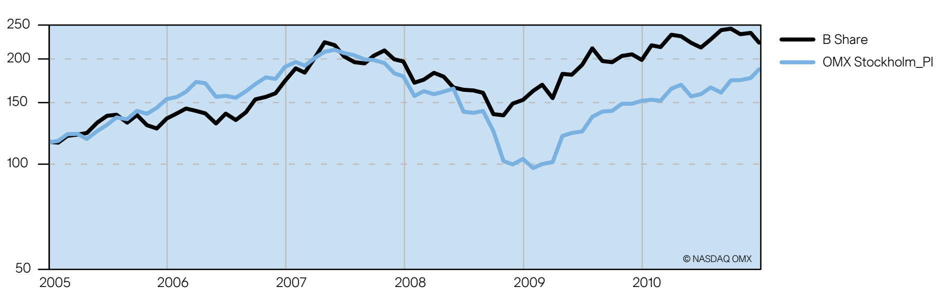
* Board's proposal

In 2010 H&M implemented a 2:1 share split. The years 2006–2009 in the table above have therefore been adjusted for the new number of shares.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2010

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDERS
1–500	143,376	74.3	23,377,039	1.4	163
501–1,000	24,067	12.5	19,071,984	1.2	792
1,001–5,000	20,137	10.4	44,626,082	2.7	2,216
5,001–10,000	2,563	1.3	18,725,076	1.1	7,306
10,001–15,000	732	0.4	9,155,355	0.6	12,507
15,001–20,000	505	0.3	9,021,260	0.5	17,864
20,001–	1,655	0.9	1,531,095,204	92.5	925,133
Total	**193,035**	**100**	**1,655,072,000**	**100**	**8,574**

MAJOR SHAREHOLDERS, 30 NOVEMBER 2010	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
Stefan Persson and family	609,745,134	69.3	36.84
Lottie Tham and family	88,080,400	2.59	5.32
Alecta Pensionsförsäkring	59,470,000	1.75	3.59
JP Morgan Chase Bank	42,164,438	1.24	2.55
Swedbank Robur Fonder	39,996,098	1.17	2.42
AMF Pensionsförsäkring	29,038,786	0.85	1.75
SSB CL Omnibus AC OM07	28,345,184	0.83	1.71
Clearstream Banking	27,739,339	0.81	1.68
Nordea Investment Funds	23,287,000	0.68	1.41
Handelsbanken Fonder	20,234,083	0.59	1.22



ANNUAL GENERAL MEETING

The Annual General Meeting 2011 will be held at Victoriahallen, Stockholm International Fairs, Stockholm, on Thursday 28 April at 3 p.m.

Shareholders who are registered in the share register print-out as of Wednesday 20 April 2011 and give notice of their intention to attend the AGM no later than Wednesday 20 April 2011 will be entitled to participate in the AGM.

NOMINEE SHARES
Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own name in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, well in advance of 20 April 2011.

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

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

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

DIVIDEND
The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 2010 of SEK 9.50 per share. The Board of Directors has proposed 3 May 2011 as the record day. With this record day, Euroclear Sweden AB (formerly VPC AB) is expected to pay the dividend on 6 May 2011. To be guaranteed dividend payment, the H&M shares must have been purchased no later than 28 April 2011.

FINANCIAL INFORMATION

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

31 March 2011	Three-month report
28 April 2011	Annual General Meeting 2011, Victoriahallen, Stockholm International Fairs at 3 p.m.
22 June 2011	Six-month report
29 September 2011	Nine-month report
26 January 2012	Full-year report

CONTACT DETAILS

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EXPANSION Fredrik Olsson
BUSINESS DEVELOPMENT Björn Magnusson
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COMMUNICATIONS Kristina Stenvinkel
INVESTOR RELATIONS Nils Vinge
HUMAN RESOURCES Sanna Lindberg
IT Kjell-Olof Nilsson
LOGISTICS Jonas Guldstrand
SECURITY Cenneth Cederholm

DISTRIBUTION POLICY
The H&M Annual Report 2010 comes in two parts, Part 1: H&M in words and pictures 2010, and Part 2: H&M in figures 2010 including the annual accounts and consolidated accounts.

H&M sends out the printed version of Parts 1 and 2 to shareholders who have specifically expressed an interest in receiving the printed version. The Annual Report is also available to read and download at www.hm.com

COVER
PHOTOGRAPHY Sølve Sundsbø
MODEL Ben Hill
GARMENT Organic cotton blend blazer, H&M Concious Collection

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