



H&M

ANNUAL REPORT
2016

Top
€9.99















Contents

The H&M group	10
Comments by the CEO	14
2016 in brief.....	16
Our brands	20
H&M	22
H&M Home	28
& Other Stories	30
Cheap Monday	31
COS	32
Monki	34
Weekday	35
Sustainable development	36
Goals and key indicators	41
Our employees	42
Expansion	46
Market overview	52
Five year summary	54
The H&M share	55
Corporate governance report 2016	56
Auditor's statement on the corporate governance report	70
Administration report	72
Financial reports	78
Group income statement	78
Consolidated statement of comprehensive income	78
Group balance sheet	80
Group changes in equity	82
Group cash flow statement	83
Parent company income statement	84
Parent company statement of comprehensive income	84
Parent company balance sheet	85
Parent company changes in equity	86
Parent company cash flow statement	87
Notes to the financial statement	88
Signing of the annual report	102
Auditor's report	103
Our history	104
Calendar and contact details	106

H&M's annual accounts and consolidated accounts for the financial year 2015/2016 comprise pages 72–102.



Fashion and design – our passion

With our brands we want to inspire fashion fans around the world to dress their own personal style. We are driven by a desire to always create the best offering for our customers – and to do so in a sustainable way.

We love fashion and design. Our unique brands make us one of the world's leading fashion companies. With 4,351 stores in 64 markets and e-commerce in 35 H&M markets, we have a global store network and a strong digital presence. We are driven by a desire to always create the best offering and the best experience for our customers – and to do so in a sustainable way. With a vision to lead the change towards a circular, fair and equal fashion industry, we use our size and our position to drive positive change for people and the

environment throughout the value chain. The ambition for our sustainability work is based on our company's long-term approach and values-driven way of working. The H&M group's shared values have existed ever since the very first store opened in 1947 and are a large part of what our company is and stands for. Our values help create an open, dynamic and down-to-earth company culture where anything is possible. Today there are more than 161,000 of us around the world. Together we are the H&M group.

Our unique brands

The H&M group includes several clearly defined fashion brands, each with its own unique identity.

We offer fashion from the brands H&M, COS, Monki, Weekday, & Other Stories and Cheap Monday, as well as homeware from H&M Home. Together our brands provide a wide and varied range, enabling us to offer our customers many different styles and trends. All our brands share the same passion for fashion and quality, a drive to give customers the best value for money and an ambition to dress customers in a sustainable way.

4,351
stores in 64
markets and
e-commerce in
35 H&M markets.

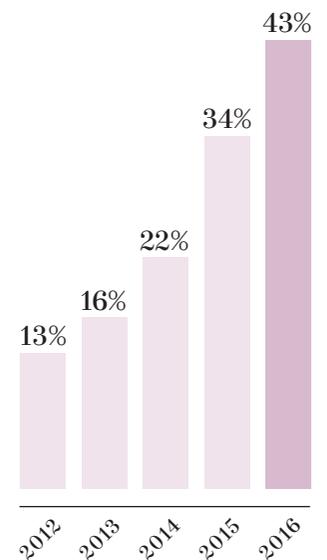


& Other Stories.



COS, Bukarest.

MORE SUSTAINABLE COTTON



Our goal is for 100 percent of the cotton in our ranges to come from sustainable sources by 2020, which includes cotton that is either organic, recycled or certified by the Better Cotton Initiative (BCI).

Sustainability in everything we do

We want to contribute to positive development in society. Our growth creates job opportunities and our size gives us a unique reach and ability to contribute to positive change for people and the environment throughout the value chain. Along with innovators, scientists, trade unions, suppliers and other stakeholders, we work for a sustainable future. Our vision is to lead the change towards a circular, fair and equal fashion industry. We are pushing for fair working conditions and greater transparency.

The H&M group is one of the world's largest users of organic cotton, recycled polyester and lyocell. Thanks to the commitment of our customers and employees, our global garment collecting contributes to increased recycling and reduced environmental impact. Responsible use of water, chemicals and energy is important to us. Even as we grow, we are reducing the greenhouse gas emissions from our own operations – mainly through switching to renewable electricity.

96% of the electricity we used in 2016 was renewable.



H&M Conscious Exclusive.



Our value chain

Our value chain is made up of every stage from idea to customer. We have a circular approach and sustainability is an integral part of our business. The collections are created by our own designers, pattern makers and buyers, while manufacturing is outsourced to independent suppliers. We have no middlemen; we always strive to buy the right product from the right market, to have effective logistics and to be cost-conscious in every part of the business. Flexible assortment planning and efficient distribution ensure that both the latest trends and timeless classics can always be found in our stores and online – at the best price.

15,888 tonnes of textiles were collected in 2016 for reuse and recycling.



H&M, Barcelona.

Long-term expansion

In 2016 we opened 427 new stores net. H&M added three new store markets – Puerto Rico, Cyprus and New Zealand – as well as 11 new online markets. In the light of the shift in our industry towards an ever growing online market and digitalisation, the H&M group's growth target has been rephrased. Our previous target of increasing the number of stores by 10 to 15 percent per year will instead become a sales target that includes both stores and online sales. The new growth target which applies for 2017 and going forward is that the H&M group's sales shall increase by 10 to 15 percent in local currencies per year with continued high profitability. In 2017 a net addition of approximately 430 new stores is planned. The new markets for H&M stores will be Kazakhstan, Colombia, Iceland, Vietnam and Georgia. Six new H&M online markets are planned: Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia. Of the new stores in 2017, approximately 70 to 80 will consist of stores for our other brands. H&M Home will also continue its rapid expansion.

The H&M group is guided by strong shared values.

223 billion Swedish kronor in sales including VAT in 2016.

The H&M group welcomed 13,000 new employees in 2016. Today there are more than 161,000 colleagues the world over.



Colleagues from H&M in Taipei, Taiwan.

Strong digital presence and global store network create new opportunities

The H&M group's strong expansion continues. A new growth target reflects the shift to a world in which the physical and the digital shopping experience is increasingly integrated, and where being close to the customers is becoming ever more important.



CEO Karl-Johan Persson.

Together 161,000 employees make the H&M group's customer offering available to people who love fashion the world over. In 2016 the expansion of the group's brands continued, both in stores and online.

How would you describe the past year?

– 2016 was an eventful year with many positive things – but also challenges, both for us and for the industry. We opened 427 stores net worldwide and for H&M we added three new

store markets, as well as rolling out H&M's online store to 11 more markets. During the year we were able to welcome more than 13,000 new employees globally, and I would like to thank all employees of the group for their amazing commitment this year.

Sales including VAT increased to SEK 223 billion, which is the H&M group's highest annual turnover to date. What is your view on how sales developed?

– Our sales increased by 7 percent in local currencies, and although sales for the year were our highest to date, the increase was not as large as planned. This in turn led to increased mark-downs which, combined with the fact that a strong US dollar made our purchases more expensive, had a negative impact on our profit development for the full year. But we saw an improvement in profits in the fourth quarter.

In recent years H&M has rapidly rolled out e-commerce, which is now available in 35 markets. How did the online business of the H&M group develop in 2016?

– For our industry, 2016 was characterised by the continued shift towards an ever growing online market and increased digitalisation. We are very pleased that our online business developed very well for H&M and for our other brands, both as regards sales and profitability. We took further market share from an already high level, which we see as clear proof that the investments in our online business have been successful.

Can you tell us more about the development of COS and the other newer fashion brands in the group?

– COS, & Other Stories, Monki, Weekday and H&M Home all had strong online sales growth as well as very good store sales. We are pleased to see that the long-term investments that we are making in new brands, and which are appreciated by customers, are also starting to bear fruit.

H&M has a global presence, with stores in 64 markets. How did the markets differ in terms of sales at H&M stores in 2016?

– Sales developed well for H&M in a number of our well-established markets such as Sweden, the other Scandinavian countries, Russia, Turkey and Canada. We are also pleased with sales in our newer markets such as India, Australia, South Africa, Mexico, Chile and Peru.

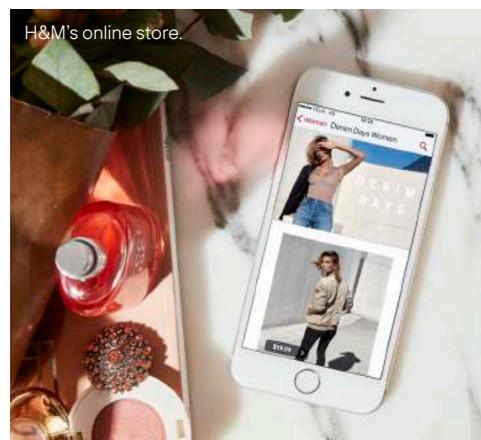
– If we look at fashion retail in general, 2016 was at the same time a challenging year in which various external factors – including geopolitical events – had a negative impact on retail trade in many markets. This was particularly visible in France, Germany, Switzerland and Italy, but also in the US and China. Since these are markets that represent a large share of our sales, it also had a great impact on how our sales developed overall. But during the year we also identified things that we could have done better in various parts of our customer offering, the store experience and the supply chain, and we are now working methodically to improve these.

What are you doing to meet the future and the rapid shift that is underway in the retail industry towards more and more online shopping?

– We have a highly developed online business model and today our online sales already make up a significant share of our total sales in several markets. We are in an exciting development phase and have been investing in digitalisation and infrastructure for the past few years, prioritising areas such as the omni-channel offering, the supply chain and advanced analytics. The investments we are making in these areas ensure that we are well positioned for continued long-term and profitable growth, which also builds on our strong expansion both through new stores and through new online markets.

What will these investments bring for customers?

– The customer is at the centre of everything we do. We have a clear omni-channel strategy in which we are integrating the digital and physical worlds, and we are doing that in order to offer customers a more seamless shopping experience. This includes online purchases and returns in stores, click & collect, mobile payments, developing the customer club and using mobile devices in stores for increased



service. We are upgrading our supply chain to make it even faster and more flexible – which includes investments in technology, such as RFID and automated warehouses. We are also adding new delivery options for customers – such as next day delivery, which we now offer in five markets, and we have also started offering time-slot deliveries in Japan. We see advanced analytics as providing important support for our operations, and the algorithms we have started to use will contribute to improvements in everything from assortment planning to logistics and sales.

You have also rephrased the H&M group's growth target. What does the new target involve?

– In the light of our current development phase, it was only natural for us to rephrase our growth target. This means that our previous target of increasing the number of stores by 10 to 15 percent per year is instead becoming a sales target that includes both stores and online sales. Our new target, which will apply for 2017 and going forward, is for the H&M group's sales to increase by 10 to 15 percent in local currencies per year with continued high profitability.

What are the expansion plans for the stores in the future, given that e-commerce is growing more and more and the sales channels are becoming increasingly integrated?

– Today we have a strong store portfolio with more than 4,300 stores, which gives us a unique proximity to our customers, and being close to the customers is becoming even more important in a world where the physical and the digital experience becomes increasingly integrated. The stores that we are opening have very favourable and flexible leases, are in good locations and are profitable with a short payback period. In those circumstances, it is natural for us to continue expanding through physical stores too. In 2017 we plan to open around 430 new stores net. With H&M we will be entering five new store markets – Kazakhstan, Colombia, Iceland, Vietnam and Georgia – and six new online markets – Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia. Alongside opening new stores, we are constantly reviewing the existing store portfolio to make sure that we have the optimal mix of brands, space and number of stores in each market. It will lead to some re-locations, the adding of new store space and also closures. Most of the new stores that we open in 2017 will be H&M stores.

What are your expansion plans for the other brands in the group?

– Around 70 to 80 of the new stores in 2017 will consist of our other brands. H&M Home is also developing very well, and so going forward

we will be opening standalone H&M Home stores and profiling H&M Home even more as an individual brand.

In 2016 you also established a new sustainability strategy, in which you raise your ambitions further in order to drive long-lasting positive change in the fashion industry. Why is sustainability so important to the H&M group?

– We have always worked on making fashion available to many. The idea is that everyone who enjoys fashion should be equally able to dress sustainably. The reason that sustainability is so important to us is also because we have a long-term approach and a values-driven way of working. The world's population is growing, but our planet has finite resources – and to be able to meet the needs of current and future generations, it is commercially vital for us to have a sustainable supply of materials and stable sourcing markets where people work in good conditions. With our size we can create large-scale demand for sustainable materials and renewable electricity, we can stimulate innovation for a circular use of resources and we can drive structural changes in the fashion industry. If we can also lead the way in diversity and transparency, we believe that it will create loyalty among both employees and customers – which in turn builds an even stronger company.

A new year has begun. How do you see the future and 2017?

– I am optimistic about the future. We have fantastically capable, committed employees and we have a corporate culture that allows us to keep developing and that has been our formula for success since the start. In 2017 we are looking forward to delivering strong collections and customer experiences, and also to launching one or two new brands. All this, combined with the improvements that we are working on and our investments in the omni-channel offering, the supply chain and advanced analytics, makes us positive towards our opportunities for reaching our newly rephrased growth target, both in 2017 and going forward.

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

Highlights of the year

2016 was yet another eventful year for the H&M group, with stores opening in fantastic locations around the world and several new online markets. It was also a year of inspiring partnerships and exciting innovations on the way to the fashion of the future.



COS A/W 2016.

JANUARY

H&M MOVES UP THE INDEX OF THE WORLD'S MOST SUSTAINABLE CORPORATIONS

H&M climbed to 20th from 75th place in research company Corporate Knights' annual index of the Global 100 Most Sustainable Corporations in the World. H&M was also the only speciality retailer to be ranked in the prestigious index.

FEBRUARY

COS CONTINUES TO EXPAND

The first COS store in the Czech Republic opened at Parizska 23 in Prague and was very well received. Later in the year Romania and Latvia also became new COS markets, making a total of 33 markets.



GLOBAL CHANGE AWARD

Textiles from citrus juice by-products, polyester-recycling microbes and an online marketplace for textile leftovers were three of the five innovations to win the Global Change Award 2015. The annual competition started by the H&M Foundation aims to spur innovations to close the loop for fashion. At an award ceremony in Stockholm in 2016 the winners shared EUR 1 million, along with access to an innovation accelerator run by the H&M Foundation, Accenture and KTH Royal Institute of Technology in Stockholm.

MARCH

H&M STUDIO SHOWS DIVERSITY IN PARIS

H&M's show at Paris Fashion Week breathed feminine strength and individuality. Amber Valletta, Ashley Graham, Soo Joo Park, Hari Nef and others modelled the Studio A/W 2016 collection to more than 600 guests at the historic Bourse de Commerce, with a global audience watching live at studio.hm.com.



H&M and WWF.

WWF AND H&M IN GLOBAL PARTNERSHIP

H&M and WWF World Wide Fund for Nature began a five-year global partnership that builds on an earlier three-year partnership on water stewardship. The new partnership includes climate action and strategic dialogue on sustainability challenges in the fashion industry, such as circularity and future materials.

H&M ONLINE IN 11 NEW MARKETS

In 2016 H&M's online store opened in 11 new markets – Slovenia, Croatia, Estonia, Latvia, Lithuania, Luxembourg and Ireland in March, Japan and Greece in April, and Canada and South Korea in October. At the end of the year customers in 35 markets could shop online at H&M.

APRIL

ARTISTIC PIECES IN SUSTAINABLE MATERIALS

Conscious Exclusive is a recurring H&M collection of glamorous, well thought-out pieces in innovative, sustainable materials. In spring 2016 H&M collaborated with Musée des Arts Décoratifs in Paris, drawing inspiration from its collections for artistically sophisticated



H&M Conscious Exclusive.



H&M Studio A/W 2016.

garments in materials such as organic silk, recycled linen and Tencel®. Accessories included earrings made of Denimite, a hard material made from recycled denim. The collection was launched to coincide with the opening of the museum's exhibition "Fashion Forward – 300 Years of Fashion".



NEW LIFE FOR OLD CLOTHES

Since 2013 H&M stores all over the world have collected old clothing for reuse and recycling. To encourage even more people to use resources responsibly, H&M organised World Recycle Week. Customers around the world brought in 1,100 tonnes of clothing in a single week. The initiative was part of H&M's longer-term goal to close the loop for fashion.

STORE NO. 4,000

H&M is expanding rapidly and reaching customers around the world. In April another milestone was passed as the group's store no. 4,000 opened in Noida, India – one of H&M's 64 markets.

TRANSPARENCY INDEX GIVES H&M TOP RATING

H&M sees transparency and traceability as important tools in the development towards a more sustainable textile industry. The Fashion Transparency Index placed H&M among the top three when ranking how open the world's 40 largest fashion corporations are with their production. The index was created by Ethical Consumer and Fashion Revolution.

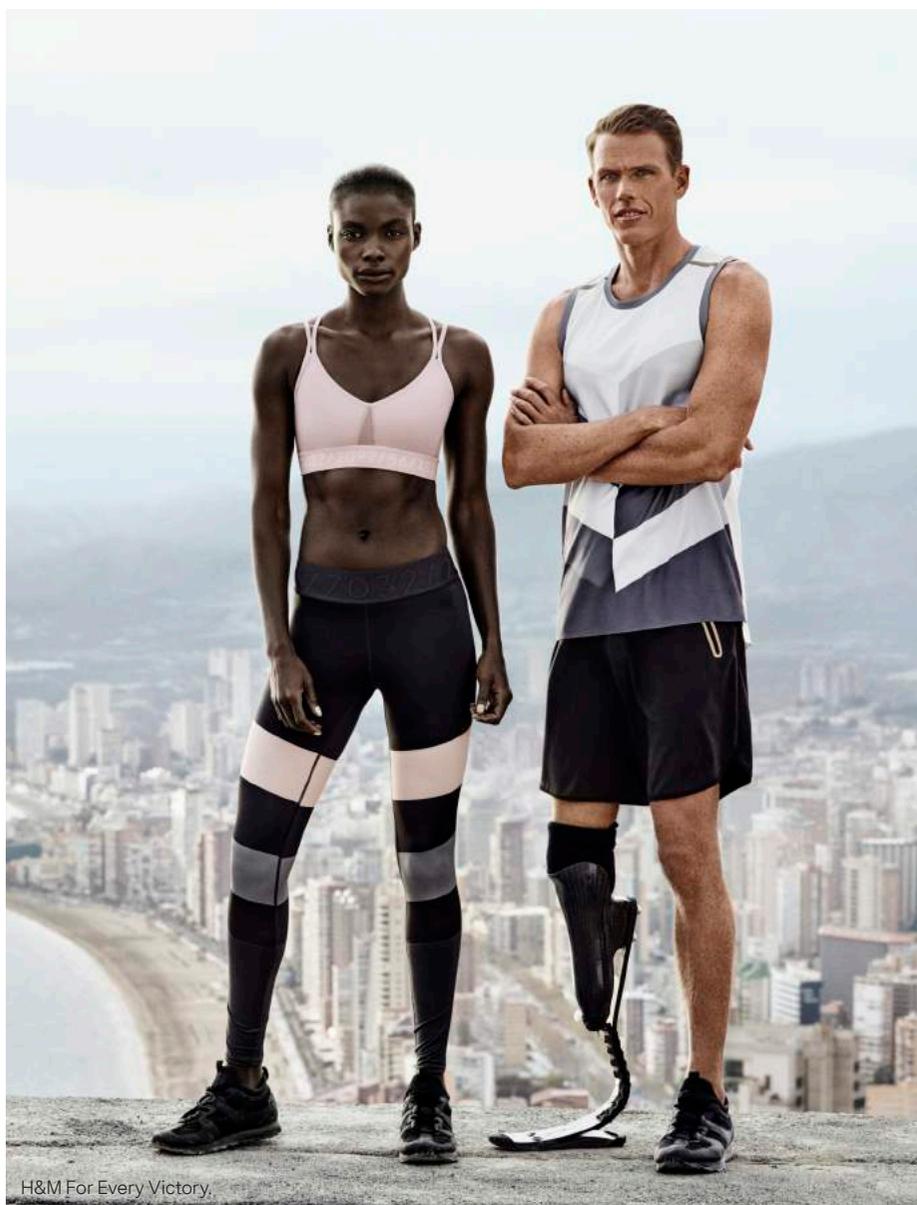


H&M in Noida, India.

MAY

UNIQUE H&M DESIGNS AT THE MET GALA

For the second year running H&M's design team created pieces for celebrities attending the Metropolitan Museum of Art Costume Institute Benefit in New York. Inspired by the theme of this year's exhibition "Manus x Machina: Fashion in an Age of Technology", the design team at H&M used handcrafted traditions and cutting-edge techniques and materials to create individual looks.



H&M For Every Victory.

JUNE

**PUERTO RICO
NEW H&M MARKET**

H&M's first store in Puerto Rico opened in San Juan, in The Mall of San Juan, and was enthusiastically received by customers. September saw the opening of a further store, this time in the Plaza del Sol mall in Bayamon, which was also very well received.



JULY

FOR EVERY VICTORY

In summer 2016 H&M celebrated the life-changing power of personal victories with the trendy and functional sports collection For Every Victory. The campaign was fronted by inspiring personalities who have all achieved their own victories, whether in sport or through life experiences.

AUGUST

**SWEDISH OLYMPIC AND
PARALYMPIC ATHLETES
WEAR H&M**

H&M had the honour of dressing the Swedish teams for the summer Olympics and Paralympics in Rio de Janeiro, Brazil. Created in collaboration with various athletes taking part, the collections included items for the ceremonies, awards and training as well as clothes to wear in the Olympic village. For the first time, H&M also designed competition wear for a select number of sports.

SEPTEMBER

**H&M OPENS
IN CYPRUS**

Cyprus became a new market for H&M with the opening of the first store in Nicosia. More than 1,000 keen customers gathered outside the store on Ledra Street ahead of the opening.



**FRAMEWORK
AGREEMENT
MADE PERMANENT**

Cooperation, collective bargaining and a well-functioning dialogue between employers and employees in the textile industry are prerequisites for improving working conditions and achieving stable production markets. To drive this forward, in 2015 H&M signed an agreement with global trade union IndustriALL and Swedish union IF Metall. Positive results during the first year, including peaceful conflict resolution, led to the global agreement being made permanent in 2016.



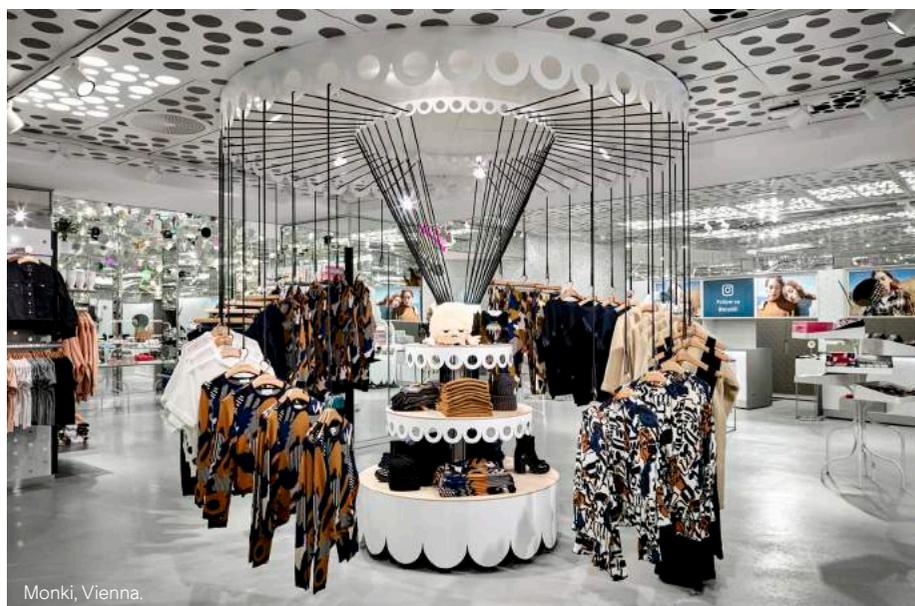
OCTOBER

**FIRST H&M STORE
IN NEW ZEALAND**

H&M's first store in New Zealand opened in the Sylvia Park Shopping Centre in Auckland. More than 1,000 enthusiastic customers lined up to be the first to experience the store and buy H&M's collections.

MONKI OPENS IN VIENNA

Monki represents its own world of storytelling and colourful graphic design. In 2016, the brand opened its first store in Austria, at Mariahilfer Strasse 52 in Vienna. The store was very well received by customers, who could already shop online at monki.com.



Monki, Vienna.

RECYCLED FIBRES IN AUTUMN JEANS

The denim collection Close the Loop offered new interpretations of classic denim for men, women and children. Materials used for the collection's jeans, shirts and jackets included recycled cotton and wool. Returning recovered fibres to the loop means natural resources can be used more sustainably.



Close the Loop.

SUSTAINABLE LEADERSHIP AWARD

H&M's CEO Karl-Johan Persson received the Sustainable Leadership award for 2016 from NMC The Swedish Association for Sustainable Business. He won the award for "inspiring and challenging the whole fashion industry by addressing complex sustainability issues,

with the goal of achieving long-term change". NMC particularly mentioned the way H&M is driving structural change in order to improve working conditions and close the loop for resources.

NOVEMBER

KENZO X H&M

H&M's 2016 designer collaboration with French fashion house KENZO was infused with individuality, vivid colours and playful energy. KENZO has Japanese origins and is known for its bold prints and ability to mix luxury fashion with urban streetwear in a youthful, universal way. Exclusive pieces and accessories for men and women resulted in a fantastic reception for the collection.

& OTHER STORIES OPENS IN NEW LOCATIONS

& Other Stories opened in several new locations during the year, with all the stores being very well received. In November the fashion brand opened its first store in Poland, at the

Galeria Mokotów in Warsaw. & Other Stories now has a total of 45 stores in 11 markets, alongside online sales in 14 markets.

H&M HOME INSPIRES

With the opening of H&M's biggest store in Asia, customers were also introduced to H&M Home – a whole department of inspiring homewares in the new flagship store on Hanzhong Street in the Ximending shopping district in Taipei. H&M Home is opening in more and more H&M markets and offers the latest products, trends and interior inspiration for the living room, kitchen, bedroom, bathroom and children's room.



H&M Home.



KENZO X H&M.

H&M DESIGN AWARD

In November Richard Quinn won the H&M Design Award 2017. A graduate of Central Saint Martins in London, 26-year-old Richard Quinn was selected from eight finalists for his unique vision for the future of fashion. The jury was made up of international fashion experts led by H&M's creative advisor Ann-Sofie Johansson. Richard Quinn receives a one-year mentorship from H&M, a prize of EUR 50,000 and the chance to sell pieces from his collection in selected H&M stores in autumn 2017. □



Fashion for all

With several brands and concepts, the H&M group offers a wide and varied range of inspiring fashion. The collections include everything from the latest trends to timeless classics, so that customers all over the world can dress their own personal style.

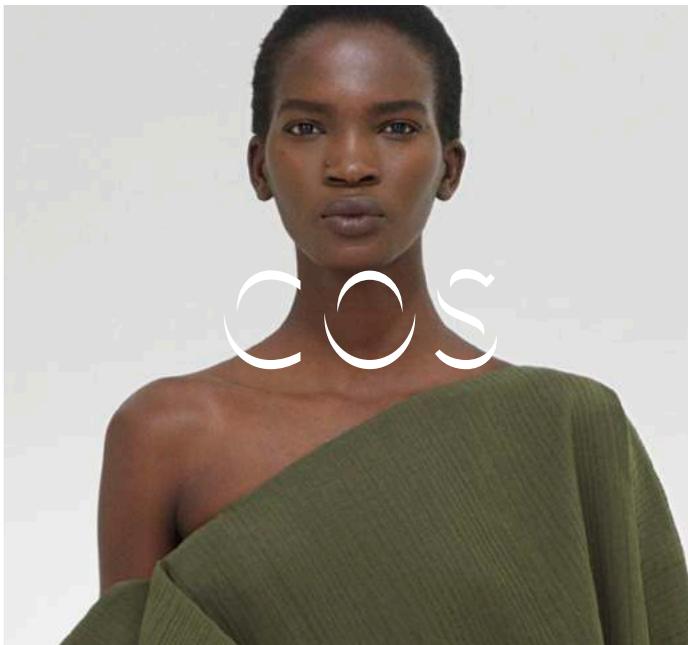
The H&M group offers fashion from the brands H&M, & Other Stories, COS, Monki, Weekday and Cheap Monday, as well as homeware from H&M Home. All the brands are clearly defined with their own unique identity and complement each other well. They all share the same passion for fashion and the ambition to dress customers in a sustainable way.

Together, the H&M group brands offer a wide variety of styles at various price points. The collections have everything from the latest trends to timeless classics. All the brands strive to give customers the best value for money.

The customer offering is for anyone who loves fashion, wherever they are in the world. H&M has stores on six continents, while Monki, COS, & Other Stories, Weekday and Cheap Monday are also internationally established brands. All have their own stores and offer online shopping in a large number of markets.

Read more about H&M and some of its many different concepts on pages 22–27, followed by H&M Home on page 28.

& Other Stories, Cheap Monday, COS, Monki and Weekday are presented on pages 30–35.





H&M

3,962 stores
64 store markets
35 online markets

[hm.com](https://www.hm.com)

H&M's business concept is to offer fashion and quality at the best price in a sustainable way. Stores around the world and online offer fashion fans everything from the latest trends to lasting classics that can be worn season after season. With collections for women, men, teenagers, children and babies, H&M's product range also includes sportswear, underwear, cosmetics, accessories and shoes, as well as homeware from H&M Home.

H&M is constantly inspired by the diversity of its customers. With a global customer base, influences come from every corner of the world. Anything from travel, films and art exhibitions to trend seminars, fashion shows and street style can give rise to new ideas. This diversity is reflected in the creative process. Designers, buyers and pattern makers are some of the many roles working together to create new collections. Everyone on the team is equally important. Colleagues with different knowledge, backgrounds and experience can all contribute their own ideas and fresh perspectives.



Everyone on the team is equally important.



Many roles take part in the creative process.

“H&M’s business concept is to offer fashion and quality at the best price in a sustainable way.”



H&M’s collections are created in Stockholm.

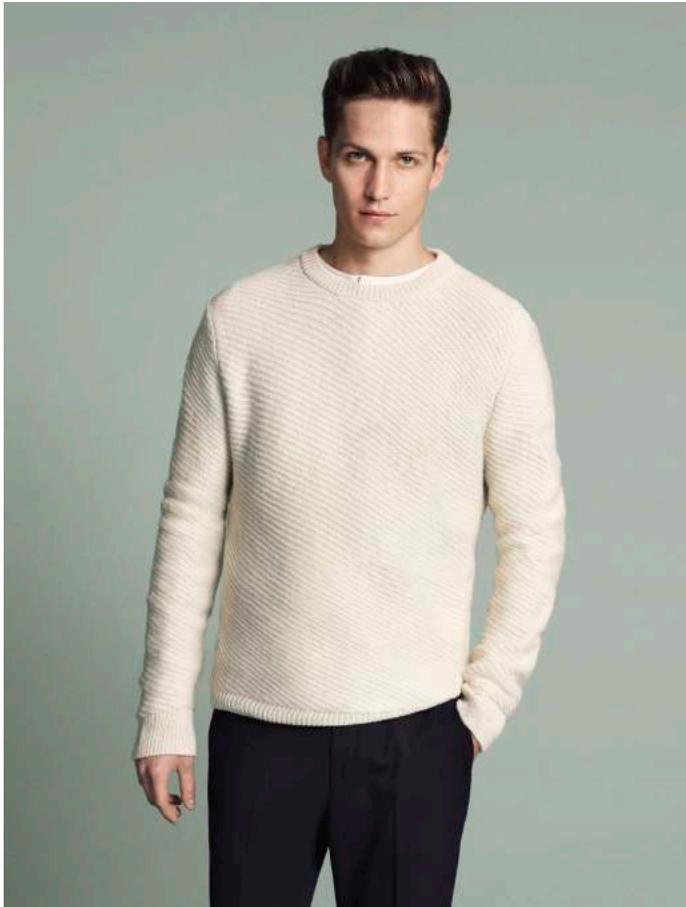


Influences come from every corner of the world.

The diversity of H&M’s collections lets customers explore their own personal style. Garments that can be combined in lots of different ways and enjoyed over many seasons also extend the fashion life cycle. Sustainability is of great importance to today’s conscious customers and H&M strives to create clothes that will have a long life, in materials that can be recycled. The long-term aim is a circular use of resources, and this is reflected in the choice of materials among other things. Sustainable materials such as organic cotton, recycled polyester and recycled wool make up an increasing part of H&M’s product range.



LADIES Latest trends for the season, reinterpreted classics and stylish cuts – H&M's womenswear has fashion for every style and occasion.



MEN Everything for the modern man's wardrobe – from tailored suits and the key pieces of the season to casual everyday wear.



DIVIDED The latest fashion, where urban street style meets romantic influences – for a personal look with extra attitude.



KIDS Charming new styles and playful favourites for children of all ages – with a focus on function, safety and quality.



DENIM Jeans are a key item in the fashion wardrobe. A wide range of different styles and washes make it easy to find the perfect denim look – for him or her, and for all ages.



UNDERWEAR The women's range offers everything from bras, briefs, bodies and shapewear in the season's latest colours and patterns to favourite basics in soft cotton. The men's selection includes a wide range of shorts and briefs, socks and loungewear.



SPORT Sports collections for women, men and children. Smart pieces in quick-drying materials provide the perfect combination of fashion and function. The collections include wear and accessories for a number of activities – from running to yoga and training outdoors as well as at the gym.



ACCESSORIES Bags, jewellery, scarves, hats and belts – in the finest leather and natural materials or in the season’s latest colours and designs.



SHOES A wide range covering everything from timeless designs and great everyday favourites to sporty trainers, high boots and open sandals.



BEAUTY H&M’s wide-ranging, high quality beauty concept was launched in 2015 and now forms a natural part of H&M’s fashion offering. H&M Beauty has make-up in all the colours of the season as well as hair styling, body care and make-up accessories. The variation in the product range lets customers highlight their own personal style. No products are tested on animals, and as a minimum all the products meet the requirements in the laws and regulations of each sales market. The range also includes a Conscious line of products that are made using organic ingredients certified by Ecocert.



H&M HOME is a modern, design-driven homeware concept. Collections include accessories for the living room, kitchen, bedroom, bathroom and children's room. H&M Home always strives to offer contemporary and personal collections in different styles – from a rustic natural feel to simple modern design or a soft, nostalgic look. Through design and quality at the best price, H&M Home wants to make it easy and enjoyable for customers to give their homes a new look. H&M Home is sold online and in selected H&M stores.





& other Stories

45 stores

11 store markets

14 online markets

stories.com

& OTHER STORIES offers a wide range of shoes, bags, jewellery, beauty products, stationery and ready-to-wear, providing all the makings of a great look. The range extends from masculine tailoring to feminine chic and offers endless styling choices. Ateliers in Paris, Stockholm and Los Angeles create fashion, beauty and stationery collections with great attention to detail and quality, and always at a good price.

Successfully launched in 2013, & Other Stories has a multitude of stores across Europe and the US along with an online store at stories.com, and during spring 2017 the brand is launching in Asia and the Middle East.



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

CHEAP MONDAY is a Swedish jeanswear brand founded in Stockholm in 2004 and has been part of the H&M group since 2008. The brand creates bold and modern collections for men and women at a great price and mixes influences from street fashion and youth subcultures. Cheap Monday is primarily sold via selected retailers around the world, through its website cheapmonday.com and its icon store located at 39 Carnaby Street, London.



COS

194 stores
33 store markets
19 online markets

cosstores.com

COS is a fashion brand offering reinvented classics and wardrobe essentials for women, men and children. Made to be worn beyond the season, COS collections merge lasting quality with timeless design; clean silhouettes, innovative techniques and functional details.

Based in London, COS opened its first store on Regent Street in 2007. The brand is now available in select locations across Europe, Asia, North America, the Middle East and Australia.

Committed to supporting the world of art and design through collaboration, COS partners with established and emerging artists, studios and galleries all over the world, creating unique brand projects alongside the seasonal fashion collections. In 2016, COS collaborated with the Solomon R. Guggenheim Museum in New York to support the new Agnes Martin retrospective, and also created a limited-edition capsule collection for women and men, inspired by the artist's work.





MONKI

118 stores
13 store markets
19 online markets

monki.com

MONKI is a storytelling brand that offers great fashion at competitive prices. The brand wants to empower young women through an engaging and inclusive brand experience. Monki takes inspiration from their community and turns it into an inspiring fashion mix rooted in denim, Scandi-cool and Asian street style. Monki opens the door to its own imaginative world online and on the high street throughout Europe and Asia.

In September 2016, Monki celebrated their 10-year anniversary by presenting "Monkifesto", a campaign consisting of 10 moves to empower young women.



WEEKDAY

28 stores

7 store markets

18 online markets

weekday.com

WEEKDAY is a modern and mindful fashion and denim brand offering international current fashion, influenced by Scandinavian style, for women and men always at great prices. Weekday has a clear and strong sense of its own style and identity that balances between femininity and masculinity. Weekday is a brand, full of contrasts, for conscious and style-aware young adults.

Independently founded in Stockholm, Sweden in 2002, Weekday has been part of the H&M group since 2008. Today there are 28 Weekday stores throughout Europe as well as an online store, weekday.com.

Fashion as a force for change

The H&M group wants to use its size and position to create long-term, positive change for people and the environment throughout the value chain. The vision is to lead the change towards a circular, fair and equal fashion industry.



Monki.

The world is growing, and the planet, with its finite resources, must provide for an ever larger population. The UN estimates that by 2050 there will be 9.7 billion people in the world, and also predicts a rapidly growing middle class. Satisfying the needs of current and future generations in a sustainable way demands new ways of making and consuming products. A shift is needed to a circular approach in which discarded products are no longer seen as waste but instead are recycled as valuable assets, and where growth is decoupled from the use of natural resources.

The H&M group wants to make it affordable for as many people as possible to express their own style through clothes that they like and that are also sustainable. To achieve this also in the long term, a new sustainability strategy has been drawn up with the vision of leading the change towards a sustainable fashion industry based on a fully circular approach and using only renewable energy. The vision also includes working to achieve a fair, equal workplace both within the H&M group and among suppliers, and contributing to good communities based on diversity and inclusion. The new strategy builds on the group's sustainability work over many years – already a strong programme – and has been developed with help from external experts, innovators and other stakeholders. Setting a good example, paving the way for new solutions, stimulating innovation and transparency and having a positive impact on people's lives are all important parts of the new sustainability strategy. Thanks to its size, the H&M group has a unique reach and opportunity to drive structural changes towards increased sustainability across the entire fashion industry. Through the strategy the H&M group will set long-term goals in line with scientific methods, in close cooperation with stakeholders within various areas.

THE UN'S SUSTAINABLE DEVELOPMENT GOALS

The reason that sustainability is so important to the H&M group is because of the company's long-term focus and its values-driven way of working. Commercially, it is vital for the company's future to have a sustainable supply of materials and stable sourcing markets where people work under good conditions. Showing the way on the basis of human rights, diversity and participation creates loyalty among both employees and customers, which in turn builds an even stronger company.

A starting point for the H&M group is that the business must contribute to the UN's sustainable development goals. In 2015 the UN's 193 member countries unanimously adopted 17 global sustainable development goals that are to be achieved by 2030. Ending poverty and hunger, creating decent work and economic growth, achieving equality and combating climate change are all goals that form part of Agenda 2030. All the goals are integrated with each other to achieve development that is socially, environmentally and economically sustainable.

TRADE FIGHTS POVERTY

Achieving these goals depends on sustainable growth. The UN estimates that 600 million more jobs will be needed in the world by 2030. As a buyer and seller in many markets, the H&M group helps provide employment which lifts people and nations out of poverty. The jobs are created largely in the textile industry in Asia, where much of the company's sourcing takes place. Production is outsourced to independent suppliers and, with a strong local presence, the H&M group works for good and secure jobs to be created at these suppliers.

The majority of the suppliers' employees are women. For many women this is their first job that provides an income, and so is a first step to more independence. In Cambodia, the World Bank says that the textile industry has helped bring about higher wages for women. The World Bank has also found that in Bangladesh, the export-led growth in the textile industry is the main contributory factor to

poverty having been halved in the country since 1990. In a number of countries it can be seen that over time, jobs in the textile industry lead to further progress – resulting in increased productivity, a higher level of knowledge, greater specialisation and higher wages. The presence of long-term, responsible buyers – which are in turn driven by demand from increasingly aware consumers – is therefore vital to the future of these countries.

GOOD COLLABORATION BASED ON TRANSPARENCY

Progress has been made in the textile industry on a number of social and environmental issues, but as in other industries many challenges remain. To tackle complex sustainability issues systematically, more organisations need to work together. Only through collaboration can long-term changes be achieved, such as fair living wages and the circular use of resources. The H&M group therefore collaborates with

“More transparency is needed so that customers can make sustainable choices.”

others including trade unions, academics and scientists, the ILO, Sida, WWF and the Ellen MacArthur Foundation, as well as with other companies in the industry and with the H&M Foundation.

Another important focus area is openness and transparency. Increased traceability is important in enabling customers to make sustainable choices. In 2013 the H&M group was one of the first fashion companies in the world to publish its supplier list, on hm.com. The company is also a member of the Sustainable Apparel Coalition – an organisation that, among other things, is developing the Higg Index, an assessment tool that measures both social and environmental sustainability. The goal is to make the Higg Index an industry standard and to use it for labelling clothing and footwear.

SYSTEMATIC AND TARGETED WORK

Sustainability is an integral part of the H&M group's business, and to be able to drive long-term change throughout the value chain it is important that all the company's functions are pulling in the same direction. Each function and sales country sets its own measurable sustainability goals and activities, based on the strategic direction set by the company's global sustainability department.

In addition to supporting the other functions, the sustainability department has 25 experts who establish strategies, targets, key indicators, policies and follow-up procedures to ensure that the sustainability work is carried out systematically and leads forward. In the sales markets and in other functions around 50 employees focus primarily on sustainability. In the sourcing markets there are 145 employees whose job it is to ensure that suppliers live up to the company's requirements of good social and environmental conditions, and to support the suppliers through various programmes and projects as they develop towards improved sustainability.

SUSTAINABLE LEADERSHIP WITH LONG-TERM GOVERNANCE

The H&M group's head of sustainability is a member of the executive management, reporting directly to the CEO. The company's board of directors discusses and addresses sustainability matters actively and regularly as part of the long-term governance of the company. □



Sustainable materials in a closed loop

The H&M group's vision of a circular and renewable fashion industry is reflected in increased use of recycled and sustainably produced materials.

To decouple growth from resource use, textile recycling needs to take place on a large scale. The materials that go into the loop also have to be sustainably sourced and fully traceable.

The Textile Exchange Preferred Fiber Market Report states that the H&M group is one of the world's largest users of organic cotton, recycled polyester and lyocell, and is the world's largest user of responsibly produced down. Responsible use of energy, water and chemicals is another important element of sustainable textile production. The H&M group's chemical restrictions are among the strictest in the industry. The goal for 2020 is that there will be no hazardous chemicals in the suppliers' production processes.

COTTON FROM SUSTAINABLE SOURCES

Cotton is a popular material that many love to wear. The H&M group's goal is for 100 percent of the cotton used by the company's brands to come from sustainable sources by 2020. Sustainable cotton is defined as organic, recycled or certified by the Better Cotton Initiative (BCI). H&M was one of the founders of BCI, which works to improve conditions for the cotton growers from an environmental, social and economic perspective. In 2016 sustainable sources made up 43

percent of the H&M group's total cotton use, which means use has doubled since 2014.

Garment collecting in stores is one example of the H&M group's circular approach. Since 2013 customers have been able to bring in old clothing and home textiles – of any brand and in any condition – to H&M stores globally. Monki, & Other Stories and Weekday also have garment collecting in stores. In 2016 alone, 15,888 tonnes of textiles were collected. The goal is to collect at least 25,000 tonnes annually by 2020. The commitment of customers and employees means waste is avoided, and at the same time giving materials a new life reduces environmental impact and saves natural resources. In 2016 H&M designed its third denim collection made partly with textiles recycled from the garments collected. In addition, the product range regularly includes garments made of cotton recycled from collected textiles.

More research is needed if a greater proportion of recycled fibres is to be added to the garments without compromising quality, and also to be able to separate fibres contained in mixed materials. To take further steps towards closing the loop, the H&M group collaborates with various experts and innovators – such as the innovation company

Worn Again and the Ellen MacArthur Foundation. Another example is recycling company Sellpy, which makes it easier for consumers to sell things they no longer need and which the H&M group supports.

In parallel with the company's work, the H&M Foundation also drives initiatives for a circular fashion industry from an industry perspective, with the aim of protecting the planet and people's living conditions. In 2016 the H&M Foundation began collaborating with the Hong Kong Research Institute of Textiles and Apparel to develop new techniques within four years for recycling clothing made of mixed fibres. □

AWARDS AND INDEXES

H&M's sustainability work has been noticed by those outside the company. In 2016 RobecoSAM named H&M as the "Industry Mover" in global retail for the third year in a row, and for the sixth year in a row H&M was named as one of the world's most ethical companies by the Ethisphere Institute. Recognition received during the year included the CSR Award from fashion industry journal Drapers, while the Fashion Transparency Index ranked H&M in the top three companies for production transparency out of the world's 40 largest fashion corporations. Greenpeace named H&M as a Detox Leader, defined as companies "leading the industry towards a toxic-free future with credible timelines, concrete actions and on-the-ground implementation". H&M is included in the Dow Jones Sustainability World Index, DJS Europe Index and FTSE4Good, among others, and is also listed among the Global 100 Most Sustainable Corporations in the World by analysis company Corporate Knights.

“To decouple growth from resource use, textile recycling needs to take place on a large scale.”

H&M Foundation

Textiles from citrus juice by-products, a polyester digester and an online marketplace for textile leftovers were three of the five innovations that won the Global Change Award 2015.

The annual competition started by the H&M Foundation is one of the world's biggest competitions for early innovation. The competition aims to protect the planet and our living conditions by acting as a catalyst for innovations that can accelerate the shift to a circular fashion industry. The two other winning ideas in the 2015 competition were a process for making fabric out of algae and a method of converting waste cotton into new textile. On 10 February 2016 the grand award ceremony was held in Stockholm. The winners shared EUR 1 million, along with access to an innovation accelerator run by the H&M

Foundation, Accenture and KTH Royal Institute of Technology in Stockholm.

The Global Change Award has attracted a great deal of interest and for the 2016 competition the H&M Foundation has received 2,885 applications from 130 countries. The winners will be presented in spring 2017.

The H&M Foundation is a non-profit global foundation that works to bring about long-lasting positive change for people and communities and to promote innovative ideas. The foundation is funded by the Stefan Persson family. Through partnerships with prominent organisations around the globe, the foundation drives change within four areas: Education, Water, Equality and Planet. The H&M Foundation can also provide emergency relief. Since 2013, the Stefan Persson family has donated SEK 1.1 billion to the foundation. □

“Orange peel can be turned into clothes and algae into fabric.”



The Global Change Award price ceremony in Stockholm in February 2016.

Switching to 100% renewable electricity

Climate change affects everyone and measures to slow down global warming are urgently needed, which is why the H&M group is switching to renewable electricity and constantly seeks to improve energy efficiency. In 2017 a new ambitious climate goal will also be launched.

A circular fashion industry needs to run on renewable energy. The H&M group is working towards 100 percent renewable electricity in its own operations, including all the company's stores, offices, warehouses and data centres. In 2016, 96 percent of the company's global electricity use came from renewable sources – up from 78 percent in 2015 and 27 percent in 2014. This has contributed to a 76 percent reduction in greenhouse gas emissions since 2014.

Energy savings within IT, such as for cash register systems, server centres and PCs, are an example of how growth can be decoupled from resource use. In the past five years annual IT-related energy use has fallen by more than a third, despite the H&M group's substantial expansion.

In 2017 work for more efficient energy use will be enhanced, with a focus on new building and alterations to stores – including investments in new lighting, heating, ventilation and cooling technology. Work towards the goal of 100 percent renewable electricity continues, with an emphasis on solar and wind power. By creating large-scale demand for renewable electricity the H&M group can also drive the development of sustainable energy solutions in more and more countries.

The greatest climate impact from a garment's life cycle is outside the company's own operations, so the H&M group tries to help customers and suppliers act more sustainably – including through workshops with suppliers and government representatives in Bangladesh and India, to drive the use of renewable energy. To encourage customers to make more sustainable choices, all H&M group brands put climate-smart care labels in the garments. □

ZERO TOLERANCE OF CORRUPTION

The H&M group has zero tolerance of all forms of corruption – a principle that is strongly linked to the company's values and its commitment to human rights and sustainable development.

All affected employees and business partners have to sign the H&M group's Code of Ethics, which clearly regulates areas such as the ban on the taking or giving of bribes and facilitation payments.

Collaboration for good working conditions

The H&M group's business impacts many people and communities around the world. For sustainable development it is positive that much-needed jobs are created, and equally important that everyone who works for the company's suppliers does so under good and secure conditions. The requirements that the company makes of its partners are based on internationally adopted standards such as the UN's Universal Declaration of Human Rights, the ILO conventions and legislation in the individual countries. All the H&M group's suppliers commit to fulfilling the social and environmental requirements that are regulated in the company's strict code of conduct, known as the Sustainability Commitment.

The H&M group has production offices mainly in Asia and Europe that handle everything from order processing through quality and chemicals checks to making visits to suppliers – both announced and unannounced – to monitor compliance with the company's sustainability requirements. Good, long-term business relationships are of great importance for bringing about lasting improvements. The H&M group therefore supports the suppliers in their own development towards improved sustainability.

Well-functioning dialogue between the parties in the labour market is an important precondition for achieving long-lasting improvements in working conditions, including fair living wages. Achieving structural changes in countries that do not have a history of good labour market dialogue is a major challenge for the industry, and an issue that the H&M group is driving as a priority. The company is dependent on access to stable sourcing markets in countries that are able to develop their industries in a sustainable way.

FAIR LIVING WAGES

Various partnerships conduct wide-ranging, active work to promote a textile industry in which all workers are able to organise and have their voices heard, where wages are revised regularly, where there are good relations between trade unions and employers, and where collective bargaining takes place. H&M's global framework agreement with the trade unions IndustriALL and IF Metall is one example of this. The framework agreement has proved to be successful and has helped resolve various conflicts in factories, such as in Myanmar. It was therefore made permanent in 2016.

“Fair living wages require well-functioning dialogue between the parties of the labour market.”

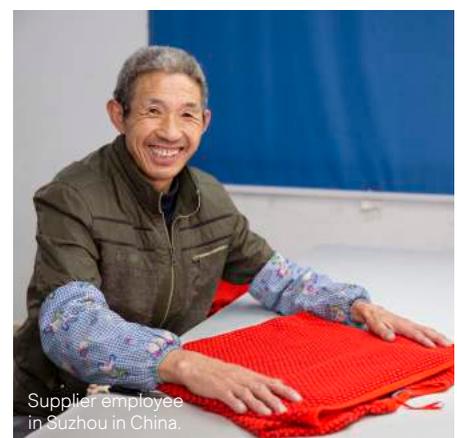


At supplier in Bandung, Indonesia

At factory level, the H&M group works for fair living wages through what is known as the Fair Wage method and through training in social dialogue. Good progress has been made, and to date 140 factories are included in the Fair Wage method and 290 factories in social dialogue training, in a total of eight countries including China and Bangladesh. Equally important is genuine commitment by governments, not least because it is the governments that are ultimately responsible for setting the legal frameworks and ensuring that minimum wages are set and revised annually. Thanks to the H&M group's size and active presence, CEO Karl-Johan Persson and the company's local representatives have had opportunity to meet government officials to discuss these matters. This dialogue will continue. □



Manufacturing at supplier in Hangzhou in China.



Supplier employee in Suzhou in China.

Visit hm.com for the H&M group's full Sustainability Report, which is based on the GRI Standards issued by the Global Reporting Initiative (GRI) and is also reported in accordance with the UN Guiding Principles Reporting Framework (UNGP RF). The code of conduct (Sustainability Commitment), supplier list, policies and Code of Ethics can also be found here.

Goals and key indicators

The H&M group engages in systematic, targeted sustainability work throughout the value chain. The results are reported in detail in the company's annual sustainability report. Below are seven selected key indicators showing developments in some important areas.

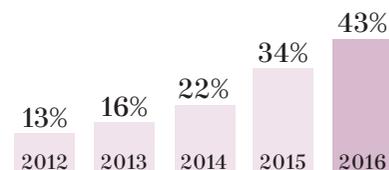
MORE SUSTAINABLE COTTON

GOAL

By 2020 all cotton in the product range is to come from sustainable sources – in other words organic cotton, recycled cotton or cotton grown under the Better Cotton Initiative.

RESULT

The H&M group has increased the share of cotton from sustainable sources from around 13 percent* in 2012 to 43 percent in 2016.



A CLOSED LOOP FOR TEXTILE FIBRES

GOAL

By 2020 the H&M group's global garment collecting is to bring in at least 25,000 tonnes of textiles per year for reuse and recycling.

RESULT

In 2016 customers brought in 15,888 tonnes of textiles.



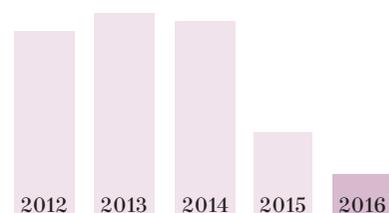
REDUCE EMISSIONS OF GREENHOUSE GASES

GOAL

Reduce total emissions of greenhouse gases from own operations in absolute terms, despite the H&M group's continued expansion.

RESULT

In 2016 emissions fell by 47 percent to 80,541 tonnes, from 151,753 tonnes the previous year. Since 2014 greenhouse gas emissions have been cut by 76 percent, mainly thanks to the switch to renewable electricity.



RENEWABLE ELECTRICITY

GOAL

100 percent of all electricity used in the group's own operations is to come from renewable sources.

RESULT

96 percent of all electricity used in the group came from renewable sources in 2016.

96% renewable electricity.

REDUCE ENERGY USE

GOAL

Reduce energy consumption per square metre in the H&M group's stores by a total of 20 percent by 2020, as compared with 2007. The goal will be revised and enhanced in 2017, when further emphasis will be placed on this area.

RESULT

Electricity consumption in the stores decreased by 8 percent between 2007 and 2016.



ANTI-CORRUPTION

GOAL

To discover all violations of the Code of Ethics.

RESULT

In 2016 a total of 39 suspected violations of the Code of Ethics were investigated. These investigations led to action being taken in 26 cases. The action taken involved both employees and suppliers.

The first six indicators on this page (page 41) have been generally reviewed by the company's auditors. For the auditor review statement see the company's sustainability report for 2016.

FAIR WORKING CONDITIONS

GOAL

Long-lasting improvements in working conditions at the supplier stage, including fair living wages, require well-functioning dialogue between the parties of the labour market. With

the aim of achieving long-term change, one of the ways that the H&M group works is at factory level – through training in social dialogue and implementation of the Fair Wage method.

RESULT

In 2016 a total of 290 factories were included in social dialogue training and 140 factories had implemented the Fair Wage method.

* Historical material data has been updated as a result of improved calculation methods.

Diversity creates positive energy

Committed employees are key to the H&M group's success. Shared values create an open and inclusive workplace where colleagues from all over the world can grow and develop together.



Employees behind the scenes during the 2016 production of the H&M group's corporate values film.

Several unique brands and global expansion mean that the H&M group can offer employees around the world many ways to develop and find their own career. An inclusive corporate culture and equal working conditions are among the reasons why employees choose to stay with the company for a long time. Some explore exciting new areas of responsibility, while others continue to develop in their existing roles. Regardless of chosen career path, every employee makes a difference and contributes to the H&M group's success.

OWN RESPONSIBILITY WITH MANY OPPORTUNITIES

Continual expansion means reaching more and more customers globally, and a continual great need for recruitment. In 2016 alone the H&M group welcomed more than 13,000 new employees, and today more than 161,000 colleagues work within the group. By attracting people who are passionate about fashion and design, are business-driven and customer-focused and who share a values-driven way of working, the H&M group can continue to develop.

New employees are given great responsibility right from the start. In order for employees to develop further in their roles and grow within the company, it is important that they thrive, feel motivated and are confident enough to take on new challenges. Through individual support, encouragement and dialogue employees are given regular feedback on performance and results achieved, as well as on how they live the company's shared values in their daily work with colleagues. Working actively with individual development plans and providing access to various kinds of training and programmes for further development supports the company's future expansion.

Since the H&M group is in constant development and motion, it is important to always have the right employee in the right place. This

“When employees with different backgrounds come together the H&M group attracts customers the world over.”

is why the many career opportunities need to be made accessible in clear and transparent ways. Switching between different areas of responsibility, markets, functions and brands develops employees and is beneficial to their future careers within the H&M group. When employees are given opportunities to share their experience and test their skills in a new setting, they learn from each other and develop both professionally and on a personal level.

STRONG TEAMS

By far the majority of the company's leaders have been recruited internally. Being a leader within the H&M group means living the company's shared values and leading by example. The basis of leadership is the same throughout the organisation. It is about



inspiring, delegating, providing feedback and motivating in order for both employees and the business to grow. The important thing is to highlight each individual's strengths and at the same time build strong teams that work together to achieve shared goals and deliver results.

DIFFERENCES ARE HIGHLY VALUED

The H&M group aims for diversity in all its teams. Diversity creates positive energy, contributes to innovation and creativity and improves the ability to deal with change. Employees being their unique selves are highly valued. Because when a mix of people with different backgrounds, interests and experience come together and share their knowledge and ideas, the H&M group can inspire and attract customers all over the world. □

Our shared values

The H&M group's shared values have existed ever since the very first store opened in 1947 and they are a large part of what the company is and stands for. The values bring employees together and guide them in their daily work. Together the H&M group's shared values help create an open, dynamic and down-to-earth company culture where anything is possible.



The values are the red thread tying together the employees of the H&M group.

- We are one team
- We believe in people
- Entrepreneurial spirit
- Constant improvement
- Cost-consciousness
- Straightforward and open-minded
- Keep it simple

Women in India get increased opportunities

Equality and diversity within the H&M group help create strong teams where everyone works together reaching shared goals.

The H&M group wants all employees to have the same opportunities to grow and develop. Among other things, this means offering equal working conditions. However, in certain countries where the company operates women do not have the same access to the labour market as men. In India retail has lower participation from women. H&M is therefore working actively to increase women's opportunities to take part in working life and make a career.

The local legislation for general working hours for women in most Indian cities restricts women to work before a certain time in the morning or after a certain time in the evening, for example. By offering safe transport to and from work at these times and proactively working together with local legislative authorities, H&M has been granted exemptions from the rules.

"The benefits that H&M offers mean that we women can work freely and choose working hours without having to worry about being afraid," says Niki Pandey, department manager at the H&M store in Connaught Place, New Delhi.

H&M also has an indirect influence on women's career opportunities by enabling greater work-life balance and offering paid parental leave to new fathers in the initial period after a child is born in addition to statutory maternity leave, as well as sickness insurance in connection with pregnancy and childbirth. Already at the recruitment stage, targeted initiatives encourage as many women as possible to apply.

"We have the same rights to grow within the company, there are no hierarchical or gender barriers," says Niki.

The initiative in India is an example of how the H&M group's social policies are put into practice. These include the "Global Policy on Diversity, Inclusion and Equality" and the "Global Non-Discrimination and Non-Harassment Policy". They encompass all the group's employees and aim to ensure a workplace where respect for human rights has the highest priority and there is zero tolerance of any kind of discrimination. The H&M group's social policies are based on the UN and ILO conventions, among other things, and have their origins in the H&M group's shared values. □

"We have the same rights to grow within the company, there are no hierarchical or gender barriers."



Niki Pandey, far right, together with the team.



Mino Kim, H&M.

Passion for fashion and design in New Zealand

Exciting development opportunities and a global fashion brand that values the individual. Mino Kim, store manager in Auckland, explains what is so attractive about H&M.

"For me, fashion is something very personal. H&M stands for individualism, and I love the fact that everyone who works here is valued for their own unique perspective and set of skills," says Mino Kim. As store manager, Mino is involved in leading a large team of committed colleagues at H&M's first store in New Zealand, located in the Sylvia Park shopping centre in Auckland. "Getting to develop your team, and see how colleagues even surpass their own expectations and perceived capabilities – that's an amazing feeling. I truly believe that H&M is a workplace with endless opportunities, and that's what makes the job so exciting."

Always passionate about fashion and design, Mino was born and brought up in South Korea before moving to Auckland from Seoul ten years ago. In New Zealand's largest city he has worked in retail for many years and he also runs his own popular style blog together with three design-conscious friends. Applying to H&M was an easy decision. "H&M is a global brand that has been making its mark in fashion for many years. It is also an innovative, fast-moving company that values diversity, and that is really important to me," says Mino.

The store in Sylvia Park opened on 1 October 2016. "There were lots of us working intensively in the lead-up to that day. Colleagues from all over the world came here to help out. Getting to work with people from completely different backgrounds with different experiences and durations with the company was such a unique experience. I will never forget that feeling of teamwork." □



Kicki Algottsson, & Other Stories.



Thirty years of fashion & Other Stories

Join Kicki Algottsson, store manager at & Other Stories, on her career journey through the years of fashion.

Kicki Algottsson's story within the H&M group begins in the early 1980s. Style icons such as Madonna, Brooke Shields and Cindy Crawford inspired the teenager from the northern Swedish town of Skellefteå. "I was fashion-conscious even back then, flicking through fashion magazines and dreaming about all the gorgeous clothes."

Today, Kicki has a well-filled fashion wardrobe. "I have lots of great pieces, but I wear them to work all the time. So when I'm going to a party, I don't have anything to wear and I have to buy something new!" As a new store manager at & Other Stories she has every opportunity. "I really like the concept of & Other Stories where every woman can create her own style, her own story."

Since autumn 2016 she has been responsible for the & Other Stories store in the Mall of Scandinavia outside Stockholm. For the whole of her career Kicki has worked in the H&M group. Her very first day at what is today a global fashion company was in 1984. It was the pre-Christmas rush and the place was the H&M store in Skellefteå. "My friend's mum worked at H&M and I got to help out as a trainee, packing garments. That was how it all started."

As time went on Kicki was offered a permanent position. "I was a sales advisor

and clearly the youngest. The 'older ladies' in the shop showed me how to do the job. They knew how to provide great service and taught me everything from pinning up trousers in the fitting rooms to making the store look neat and tidy." The year was 1987, the 'older ladies' were younger than Kicki is today, and H&M had celebrated its 40th birthday and was in six countries with a total of 188 stores. When the global expansion picked up real speed in the following years, Kicki longed for new challenges. She had already gained experience of different roles in the store, and had been involved in training and recruiting employees around Sweden. Now the world was waiting. Philadelphia, Washington, Athens and Istanbul

fashion brands, and & Other Stories is the newest. "When the role of managing the store in Mall of Scandinavia came up, I was immediately interested. With & Other Stories it feels like being part of something brand new again – we're in a development phase and buzzing with creativity. At our studio in Kungsholmen in Stockholm, I was struck by how much innovation and creative thought there can be in one place."

What Kicki finds most rewarding in her role is creating an inspiring environment for the customers. "It's about always seeing the little things, having an eye for detail. Like when we have presented a story in a nice new way, and we see the garments lift from the shelves. I love that feeling." □

“It's always together with your colleagues in the team that you reach success.”

are just some of the places where Kicki went to support new store openings.

In 2011 it was time for the next step. "I got the chance to become a store manager for the first time, and took it." The new role meant moving to Sundsvall and the H&M store at the Birsta City mall. "I'm no economist and I haven't been to university, but I've always been interested in sales. And as a leader you are never alone. It's always together with the others in the team that you reach success."

During her career Kicki has grown together with the H&M group, which today has over 4,300 stores in 64 markets. The company has several unique, independent

Visit about.hm.com to read more about what it is like to work and make a career within the H&M group and about the benefits offered. One example is the H&M Incentive Program for all employees within the H&M group which rewards and encourages long-term commitment to the company. Information can be found at career.hm.com about different professional roles and career opportunities at H&M. More about working at COS, & Other Stories, Weekday, Monki and Cheap Monday can be found on each brand's website.

Inspiring shopping in stores and online

The H&M group is reaching increasingly more customers in both new and existing markets. The expansion encompasses all our fashion brands and is taking place through new stores as well as online.



& Other Stories, Utrecht.



H&M, Marseille.



H&M, Taipei.

The H&M group continues to expand at a fast pace and is currently present in 64 markets around the world. With more than 4,300 stores and brands H&M, COS, & Other Stories, Monki, Weekday and Cheap Monday as well as H&M Home, the H&M group is one of the world's leading fashion companies.

In the 2016 financial year three new, exciting H&M markets were added: Puerto Rico, Cyprus and New Zealand. At the same time, rollout of e-commerce continued, with H&M's online store now being available in 35 markets in Europe, North America and Asia. Including all company brands the H&M group opened more than one store a day – adding 427 new stores net during the year.

Together the stores and e-commerce create a strong global presence. The brands of the H&M group are for everyone who likes fashion, and diversity among the group's customers is great. A broad and varied fashion range enables new stores to be established just as successfully in the world's biggest fashion metropolises as in small and mid-sized cities. The majority of the expansion is taking place in existing markets. During the year, the H&M group opened its 4,000th store in the world – in the Indian city of Noida. This means the number of stores has doubled in just six years, as store number 2,000 opened in Japan in 2010. In 2016 Asia's biggest H&M store to date opened in Taipei in Taiwan, where it was very well received by customers.

THREE NEW H&M MARKETS

The year's new markets also enjoyed a very good reception. In October H&M's first store in New Zealand opened at the Sylvia Park Shopping Centre in Auckland. The store was much awaited, with more than 1,000 customers lining up for the store to open. The two other new H&M markets, Puerto Rico and Cyprus, also attracted great interest, with crowds gathering ahead of openings both in The Mall of San Juan and on Ledra Street in Nicosia.

“In 2016 we opened 427 new stores net and rolled out H&M's online store to 11 new markets.”

GROWING WITH SEVERAL FASHION BRANDS

The H&M group started in 1947 with a single ladieswear shop, Hennes, in the Swedish city of Västerås and has since grown to become a global fashion company, today encompassing several brands, each with its own unique identity. COS was launched in 2007, while Monki, Weekday and Cheap Monday were acquired in 2008 and & Other Stories opened its first stores in 2013.

In 2016 COS opened 41 new stores and expanded into the Czech Republic, Romania and Latvia. COS is a globally established fashion brand that now has 194 stores in 33 markets. For & Other Stories expansion was rapid, too. With the opening of 15 new stores and Poland as a new store market, at the end of the year & Other Stories had 45 stores in 11 markets. Monki opened 12 stores net, one of which opened on Mariahilfer Strasse 52 in Vienna, making it the first Monki store in Austria. Weekday also opened its first store in Austria during 2016, as well as its first store in Belgium. Weekday increased its number of stores from 20 to 28 during the year.

H&M Home is also continuing to expand, and during the year many new H&M Home departments were opened selling inspiring and modern homeware. At the end of the year, H&M Home could be found in a total of 269 H&M stores in more than 40 markets. ▷



H&M, Amsterdam.

▷ INSPIRING IN THE BEST LOCATIONS

Each brand's identity is reflected in the stores, providing opportunity to use premises of various sizes, designs and characters. Store premises are leased rather than being owned, so as to ensure flexibility and enabling the H&M group to offer customers inspiring stores in the very best shopping locations.

Sustainability is an integral part of the business, and the group works actively to make both existing and new stores more sustainable in the long term. Examples include choosing renewable electricity and choices of interior design materials.

H&M's ONLINE STORE AVAILABLE IN MORE AND MORE MARKETS

H&M is also expanding fast online and hm.com is one of the most visited fashion sites in the world. Rollout of H&M's online store continued

during the year, adding a further 11 markets: Slovenia, Croatia, Estonia, Latvia, Lithuania, Luxembourg, Ireland, Japan, Greece, Canada and South Korea. This means that customers in 35 markets can now shop online at H&M. COS and Monki currently offer e-commerce in 19 markets, while customers in 18 markets can shop online at Weekday and Cheap Monday. & Other Stories is available online in 14 markets.

A CLEAR OMNI-CHANNEL STRATEGY

The H&M group has a clear omni-channel strategy in which the digital and physical worlds are being integrated in order to offer customers a more seamless shopping experience. This includes among other things online purchases and returns in stores, click & collect, mobile payments, further development of the customer club and use of the mobile in stores for increased service. ▷



Katja Ahola, Head of Global Expansion.



Monki, Vienna.



& Other Stories, Beverly Hills.

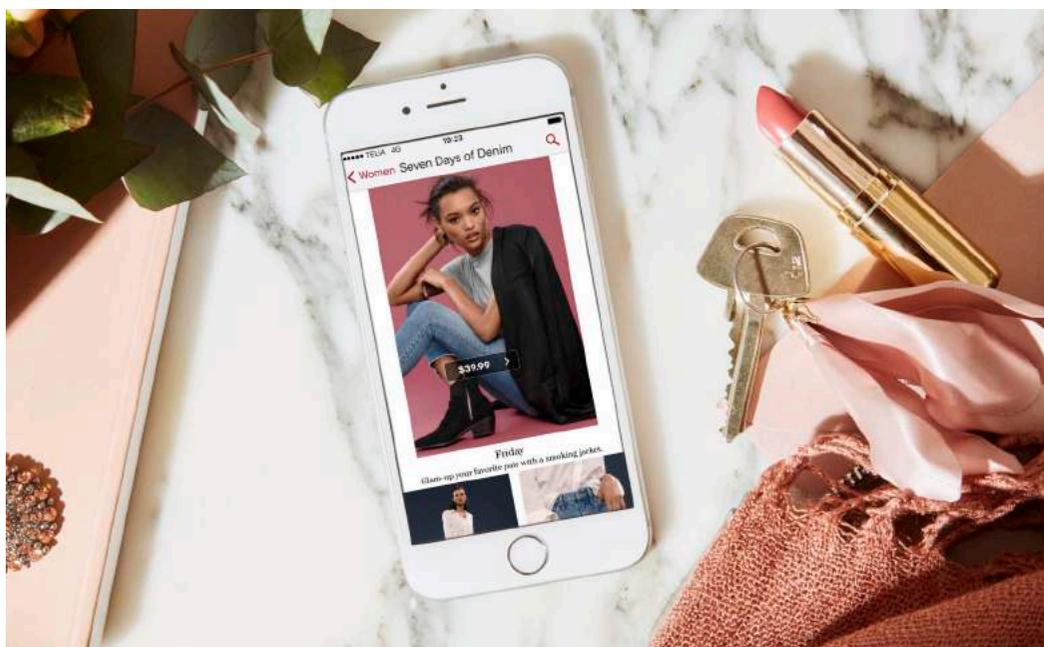
“Each fashion brand of the group has its own unique identity, which is reflected in the stores.”



H&M, Nicosia.



H&M, Madrid.



& Other Stories, Bordeaux.



“The digital and physical shopping experiences become increasingly integrated.”



Weekday, Antwerp.



Monki, Vienna.

▷ **CONTINUED STRONG EXPANSION – REPHRASED GROWTH TARGET**

In the light of the development phase that the industry and the H&M group are going through with an ever growing online market and digitalisation, it is natural to rephrase the company’s previous growth target. This means that the previous target of increasing the number of stores by 10–15 percent per year will instead become a sales target that includes both stores and online sales. The new growth target which applies for 2017 and going forward is that the H&M group’s sales shall increase by 10–15 percent in local currencies per year with continued high profitability.

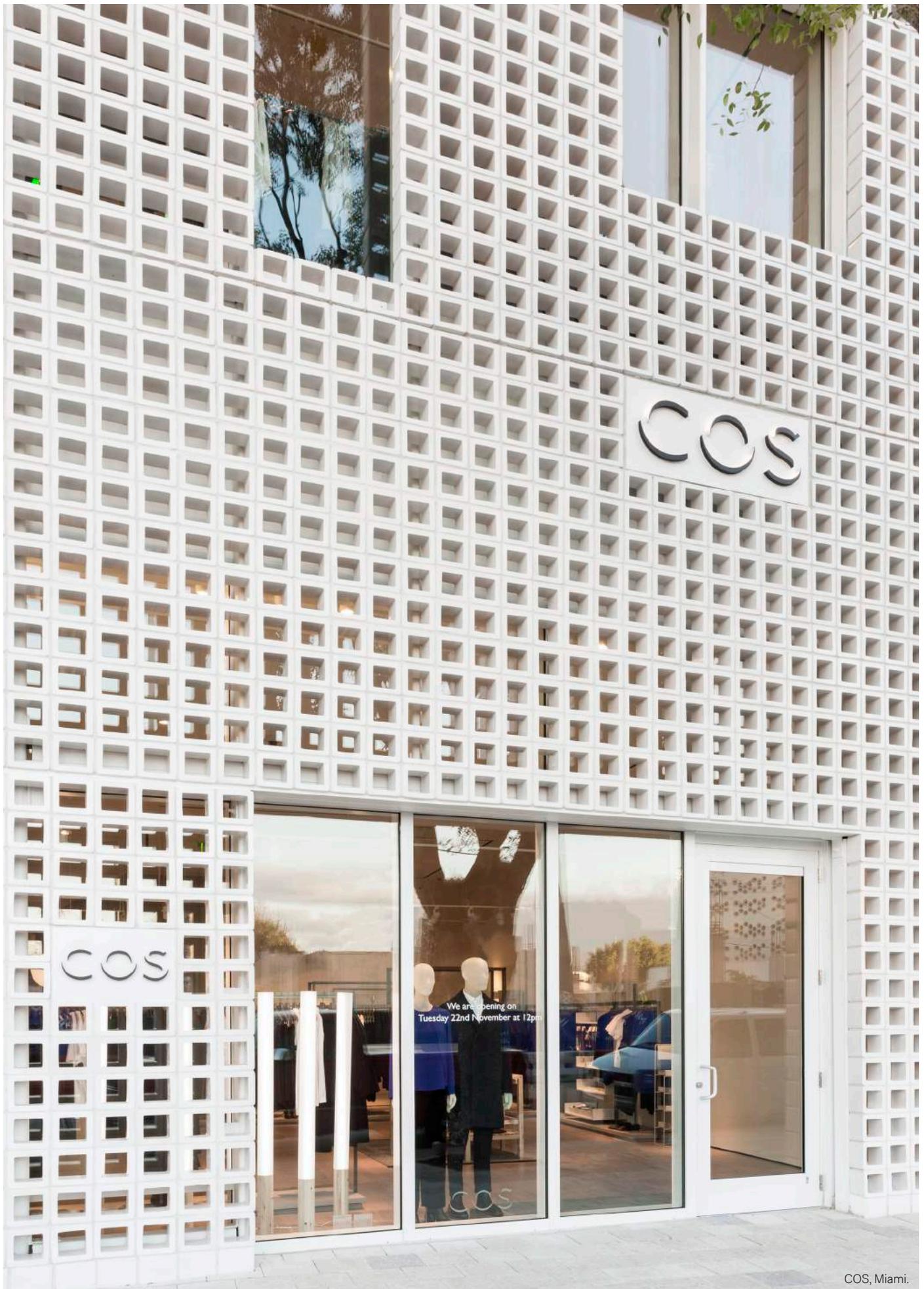
NEW STORES AND MARKETS FOR 2017

A strong store portfolio gives the H&M group a unique proximity to

its customers. Being close to the customers is becoming even more important as the physical and the digital shopping experiences become increasingly integrated.

In each market there should be an optimal mix of brands, space and number of stores. In 2017 the H&M group plans to open approximately 430 new stores net and enter five new markets – Kazakhstan, Colombia, Iceland, Vietnam and Georgia. Six new online markets are planned: Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia.

Most of the new stores in 2017 will be H&M stores and approximately 70 to 80 stores will consist of the other brands in the group. H&M Home will also continue its rapid expansion, with approximately 50 new H&M Home departments planned for 2017. □



COS, Miami.

Market overview

With several fashion brands, a total of 4,351 stores in 64 markets and e-commerce in a large number of countries the H&M group has a strong global position. In 2016 sales including VAT totalled SEK 223 billion.

MARKET	SALES 2016 INCL VAT (SEK M)	SALES 2015 INCL VAT (SEK M)	NEW STORES (NET) DURING YEAR	NUMBER OF STORES 30 NOV 2016
Germany*	37,174	36,943	10	459
USA*	26,874	25,135	53	468
United Kingdom*	15,058	16,001	17	281
France*	13,559	13,579	16	238
China*	10,842	10,559	91	444
Sweden*	10,151	9,495	0	176
Italy*	9,081	8,644	16	166
Netherlands*	7,898	7,521	6	145
Spain*	7,894	7,736	4	169
Switzerland*	6,328	6,844	2	98
Norway*	5,926	5,806	7	127
Denmark*	5,682	5,413	-1	102
Austria*	5,557	5,361	5	83
Poland*	4,701	4,356	12	166
Japan*	4,600	3,754	9	66
Belgium*	4,404	4,215	5	90
Canada*	4,330	3,918	7	85
Russia*	4,304	3,460	17	113
Finland*	2,866	2,805	1	61
Turkey	2,816	2,193	16	62
Romania*	2,102	1,796	10	52
Australia	1,999	1,133	12	22
Hong Kong	1,919	1,870	3	28
Greece*	1,891	1,637	3	35
South Korea*	1,675	1,277	4	35
Hungary*	1,590	1,336	2	42

MARKET	SALES 2016 INCL VAT (SEK M)	SALES 2015 INCL VAT (SEK M)	NEW STORES (NET) DURING YEAR	NUMBER OF STORES 30 NOV 2016
Mexico	1,561	1,097	9	25
Czech Republic*	1,428	1,207	4	48
Portugal*	1,272	1,276	1	31
Malaysia	1,130	973	6	35
Chile	1,129	573	0	4
Ireland*	1,103	1,026	0	23
Singapore	1,030	970	1	13
Philippines	869	557	9	21
Croatia*	846	817	0	15
Slovakia*	681	579	1	19
Taiwan	665	332	4	10
South Africa	645	98	6	8
Bulgaria*	641	511	1	19
India	606	77	10	12
Slovenia*	542	529	0	12
Peru	510	261	4	6
Luxembourg*	464	433	0	10
Estonia*	377	312	2	8
Serbia	369	318	3	9
Latvia*	332	309	2	8
Lithuania*	317	296	1	8
Macau	166	89	0	2
Puerto Rico*	63		2	2
New Zealand	55		1	1
Cyprus	35		1	1
Franchise**	4,808	4,494	32	188
TOTAL	222,865	209,921	427	4,351

*) Market with e-commerce.

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

Store count per brand 2016

	H&M	<i>& other Stores</i>	COS	MONKL	WEEKDAY		GROUP TOTAL
New stores net during the year	352	15	41	12	8	-1	427
Number of stores 30 Nov 2016	3,962	45	194	118	28	4*	4,351**

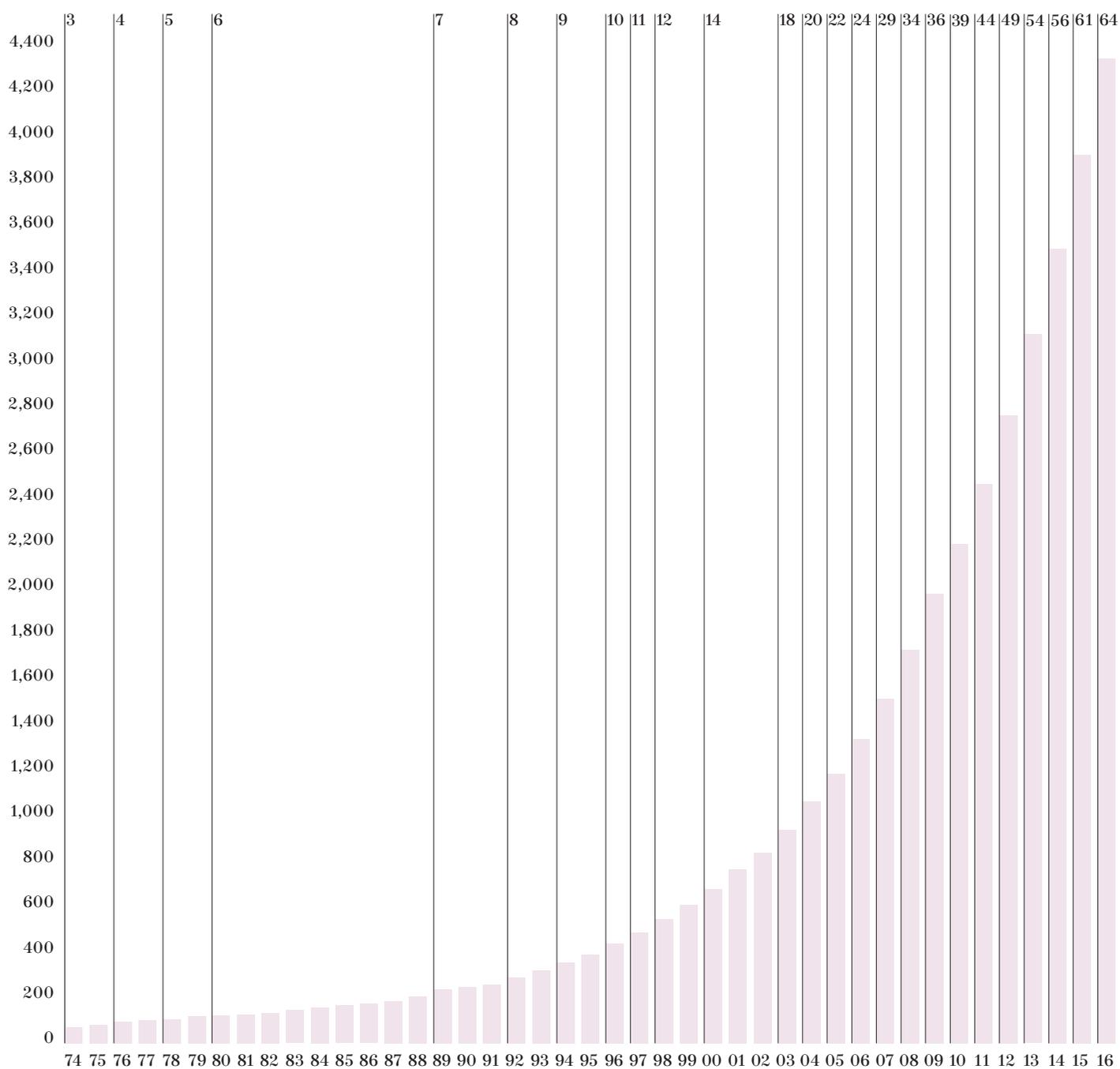
* Cheap Monday is offered mainly via 2,000 retailers in more than 35 countries.

** 188 of the total number of stores are franchise stores.

Expansion 1974* – 2016

NUMBER OF STORES

NUMBER OF MARKETS



* Since IPO 1974.

YEAR

Five year summary

1 DECEMBER - 30 NOVEMBER

FINANCIAL YEAR	2016	2015	2014	2013	2012
Sales including VAT, SEK m	222,865	209,921	176,620	150,090	140,948
Sales excluding VAT, SEK m	192,267	180,861	151,419	128,562	120,799
Change sales excluding VAT from previous year in SEK, %	+6	+19	+18	+6	+10
Change sales excluding VAT previous year in local currencies, %	+7	+11	+14	+9	+11
Operating profit, SEK m	23,823	26,942	25,583	22,090	21,754
Operating margin, %	12.4	14.9	16.9	17.2	18.0
Depreciation for the year, SEK m	7,605	6,399	5,045	4,191	3,705
Profit after financial items, SEK m	24,039	27,242	25,895	22,448	22,285
Profit after tax, SEK m	18,636	20,898	19,976	17,093	16,867
Cash and cash equivalents and short-term investments, SEK m	9,446	12,950	16,693	17,224	17,143
Stock-in-trade, SEK m	31,732	24,833	19,403	16,695	15,213
Equity, SEK m	61,236	58,049	51,556	45,248	43,835
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	11.26	12.63	12.07	10.33	10.19
Shareholders' equity per share, SEK*	37.00	35.07	31.15	27.34	26.49
Cash flow from current operations per share, SEK*	14.36	14.54	14.60	14.40	11.42
Dividend per share, SEK	9.75**	9.75	9.75	9.50	9.50
Return on equity, %	31.2	38.1	41.3	38.4	38.4
Return on capital employed, %	39.2	49.3	53.1	50.0	50.3
Share of risk-bearing capital, %	67.1	72.7	72.5	73.0	76.1
Equity/assets ratio, %	62.1	67.6	68.2	68.9	72.8
Total number of stores	4,351	3,924	3,511	3,132	2,776
Average number of employees	114,586	104,634	93,351	81,099	72,276

* Before and after dilution.

** Proposed by the Board of Directors.

For definitions of key ratios see page 101.

The H&M share

KEY RATIOS PER SHARE	2016	2015	2014	2013	2012
Shareholders' equity per share, SEK	37.00	35.07	31.15	27.34	26.49
Earnings per share, SEK	11.26	12.63	12.07	10.36	10.19
Change from previous year, %	-11	+5	+17	+2	+7
Dividend per share, SEK	9.75*	9.75	9.75	9.50	9.50
Share price on 30 November, SEK	267.90	323.50	319.40	278.00	215.90
P/E Ratio	24	26	26	27	21

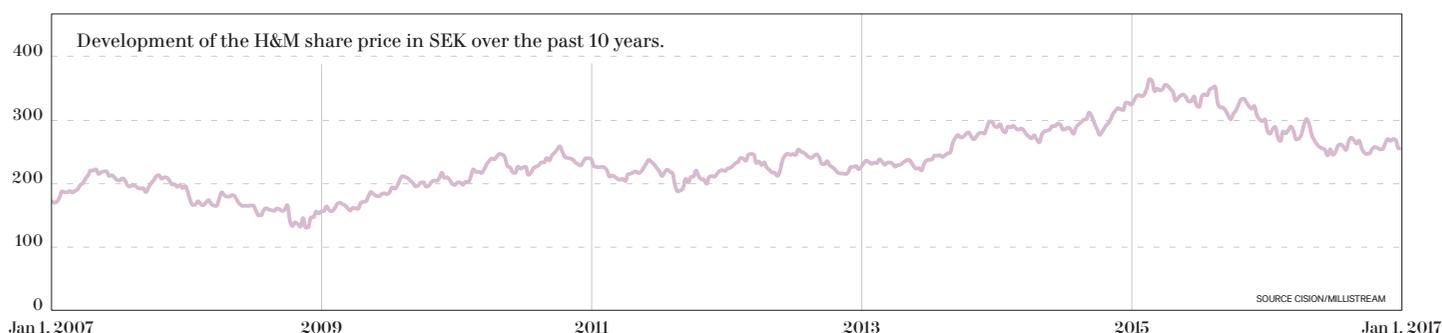
* Proposed by the board.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2016

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1-500	214,779	80.0	28,630,420	1.7	133
501-1,000	25,460	9.5	20,171,489	1.2	792
1,001-5,000	22,317	8.3	49,149,981	3.0	2,202
5,001-10,000	2,651	1.0	19,288,434	1.2	7,276
10,001-15,000	854	0.3	10,715,066	0.6	12,547
15,001-20,000	457	0.2	8,072,415	0.5	17,664
20,001-	1,772	0.7	1,519,044,195	91.8	857,248
Total	268,290	100.0	1,655,072,000	100.0	6,169

MAJOR SHAREHOLDERS, 30 NOVEMBER 2016

	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
The Stefan Persson family and related companies	636,849,332	70.1	38.5
The Lottie Tham family and related companies	88,580,400	2.6	5.4
Alecta Pensionsförsäkring	51,008,000	1.5	3.1
Swedbank Robur Fonder	38,819,761	1.1	2.3
AMF - Försäkring och Fonder	27,722,075	0.8	1.7
Clearstream Banking S.A.	27,618,452	0.8	1.7
State Street Bank and Trust	22,346,915	0.7	1.4
SEB Investment Management	19,537,189	0.6	1.2
JPM Chase	18,202,601	0.5	1.1
Handelsbanken fonder	17,745,566	0.5	1.1



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

Corporate governance report 2016

H & M Hennes & Mauritz AB

Good and sound corporate governance ensures that companies are managed as sustainably, responsibly and efficiently as possible in the interests of the shareholders. It is a matter of complying with external regulations and doing the right thing. In the H&M group, our values and global policies and guidelines are important tools in our approach to the world around us. Our Code of Ethics, which is signed by all our employees who have business relationships and by all business partners, clearly states our approach to doing business. Acting consistently and with a strong ethical compass is of great importance, because we operate in many different markets that have different challenges and where the laws, environmental requirements and social conditions may differ.

H & M Hennes & Mauritz AB is a Swedish public limited company. H&M's class B share is listed on Nasdaq Stockholm. H&M applies the Swedish Corporate Governance Code (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code. H&M has applied the Code since 2005. The report was prepared by the company's board of directors and has been reviewed by the company's auditors.

The H&M group is governed by both external regulations and internal control documents.

Examples of external regulations that affect H&M:

- Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- EU Market Abuse Regulation (596/2014 /EU)
- Nasdaq Stockholm Rules for Issuers
- Swedish Corporate Governance Code (the Code), which is available at corporategovernanceboard.se. 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.

Examples of internal control documents:

- Articles of association
- The board's work plan including instructions for the CEO and auditing committee
- The H&M Way
- Code of Ethics
- Code of Conduct: Sustainability Commitment (formerly Code of Conduct)
- Insider Policy
- Financial Policy
- Communications Policy
- Human Rights Policy
- Tax Policy
- Whistleblowing Policy
- Other policies, guidelines and manuals

H&M's corporate governance is governed by values, since it is based both on external regulations and on our values – which, in brief, can be described as a sound, simple, straightforward, cost-conscious, entrepreneurial corporate culture that focuses on teamwork, our belief in people and constant improvement. Sustainability work is well integrated into every part of the business and forms a natural part of our employees' everyday life.

Today, H&M is present in more than 60 retail markets and around 20 production countries. As a global company, it is of the utmost importance that we always act ethically, transparently and responsibly at every stage – from doing business with our suppliers to meeting with customers. Through good purchasing routines and close cooperation with our suppliers, our products should always be produced with the greatest possible consideration for people and the environment. Our risk management and internal control work ensure that we work purposefully in every part of the organisation, and the board of directors and auditing committee receive regular feedback from the organisation concerning how the internal control work is being conducted. Every year a thorough review is carried out of the company's risks, both operational and financial, with well-defined action plans to minimise risk. A long-term risk analysis is also performed, to provide supporting documentation for long-term commercial decisions.

Responsibility for management and control is shared between the shareholders, board, auditing committee and CEO. The board's work plan states how the work is to be distributed between the board, the auditing committee and the CEO, with the board having the ultimate responsibility for the company's organisation and administration and the CEO taking care of the ongoing management of the business, with regular feedback to the board.

The board of directors has eight members elected by the AGM, two employee representatives and two deputies for these. Overall, the board has 12 members – seven women and five men.

The composition of the board is characterised by breadth and diversity, and the various competencies of the board members complement each other well, providing experience within areas such as retailing, entrepreneurship, fashion, digitalisation, sustainability and communication which forms a good basis for valuable discussions with the CEO and management.

During the year the board held seven board meetings, including a statutory meeting in conjunction with the AGM. As in previous years, there was a very high level of attendance by board members. The CEO, CFO and chief accountant also attend all the meetings. Generally, one or two functions/departments are invited to each meeting to give a status presentation concerning what their particular function is working on; for example, every six months the head of sustainability provides an update on the company's sustainability work, making reference to key indicators and targets. These presentations act as a complement to the CEO's status reports and provide opportunity for more in-depth discussions concerning specific areas of the operations. At each board meeting the chair of the auditing committee also gives an account of the matters addressed by the auditing committee at its most recent meeting within areas such as accounting, auditing, tax, internal control, risks, as well as various new regulations and legislation.

H&M has chosen to have the corporate governance report as a separate document to the annual report in accordance with chapter 6 § 8 of the Swedish Annual Accounts Act. The information that must be provided under chapter 6 § 6 items 3–6 of the Annual Accounts Act is included in the administration report on page 75 of H&M's annual report for 2016 and is therefore not included in this corporate governance report. In accordance with chapter 6 § 9 of the Annual Accounts Act, the company's auditors have issued a statement on the corporate governance report that can be found on page 70.

In 2016 H&M deviated from the Code on the following two points:

- 1.2 At H&M's extraordinary general meeting on 8 March 2016 the board members present did not constitute a quorum, which was due to business trips and other commitments. The only material matter dealt with at the meeting was a motion to supplement the articles of association so as to allow general meetings also to be held in Solna. The chairman of the board was present at the meeting and was able to answer questions. In view of the nature of the matter, there was no possible adjustment of the proposed resolution, and for this reason the board members present were not required to constitute a quorum.
- 2.4 The fact that Stefan Persson, the chairman of the board, also chairs the nomination committee. The nomination committee is unanimous that, as the chairman of the board and the largest shareholder in H&M, Stefan Persson is the natural choice to chair H&M's nomination committee.

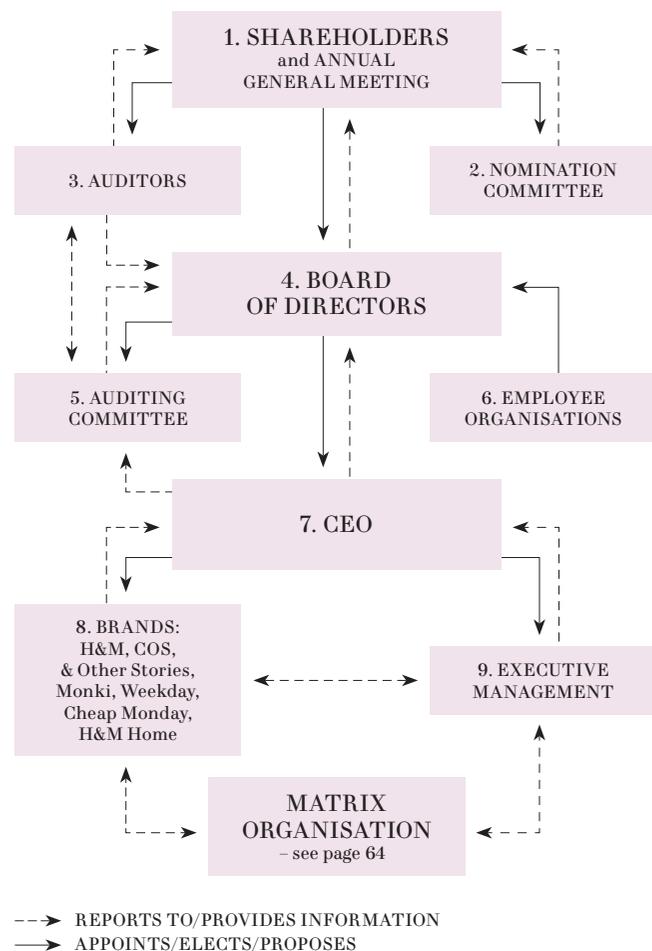
READ MORE about H&M's corporate governance at about.hm.com/corporategovernance

Among other things, you will find here:

- Previous corporate governance reports
- Articles of association
- Information on the nomination committee, board of directors, CEO, auditors, auditing committee, guidelines and policies, etc.
- Information and material from previous AGMs
- Risks and uncertainties

H&M's corporate governance structure

H&M's corporate governance structure encompasses shareholders, the board of directors, the auditing committee, the CEO, the nomination committee, auditors, the executive management team, brands, employees and employee organisations – see the illustration below. The illustration summarises H&M's corporate governance structure. H&M's shareholders ultimately decide the company's direction, since the shareholders at the general meeting appoint the board of directors and the chairman of the board. Proposals for the composition of the board, board fees and the election of auditors are prepared previously within the nomination committee. The board in turn appoints the CEO to take care of day-to-day administration, and the CEO appoints members of the executive management team within H&M's matrix organisation. The board includes two employee representatives and two deputies for these, who are appointed by their respective employee organisations. The board appoints an auditing committee from among its members, which deals with accounting and auditing matters on an ongoing basis and which is the main channel of communication between the board and the auditors. Each year the auditors report to the board and the annual general meeting on their scrutiny.



1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

It is H&M's shareholders who have the final decision on the company's governance by voting at the general meeting to adopt the articles of association, which decide what the business will focus on, and to appoint the board of directors and its chairman, whose task it is to administer H&M's affairs on behalf of the shareholders. The shareholders at the general meeting also elect auditors, decide on the principles of the nomination committee and select the members of this committee.

The general meeting is thus the company's highest decision-making body and is the forum in which shareholders exercise their right to decide on the company's affairs. H&M's ordinary general meeting (annual general meeting) is held once a year, in late April or early May.

The date and venue are announced in H&M's nine-month report as well as on hm.com, and the notice of the meeting is published in full usually five weeks before the meeting in Post- och Inrikes Tidningar and on hm.com, with an advertisement placed in Dagens Nyheter and Svenska Dagbladet. 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 that they hold. Shareholders who cannot be present in person may be represented by proxy.

Shareholders wishing to have a particular matter considered by the meeting may submit a written request to the board at least seven weeks before the meeting. H&M's email address is also given for those shareholders who wish to submit their questions to H&M in advance. All the material belonging to the meeting, including the minutes of the meeting, is available on the website in both Swedish and English.

Extraordinary general meetings can also be held where there is a particular need to do so. The last time this happened was on 8 March 2016, when a resolution was passed to amend the articles of association in order to allow the 2016 annual general meeting to be held in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna. This extraordinary general meeting, which was held at H&M's head office on Mäster Samuelsgatan in Stockholm, was represented by 1,070 shareholders (either in person or by proxy), in total representing 80.5 percent of the votes and 59.8 percent of the capital.

Shareholders' decision-making powers

Among other things, the general meeting makes decisions concerning:

- The election of board members and the chairman of the board
- Board fees including the compensation paid to members for work on the auditing committee
- Discharge of the members of the board and the CEO from liability
- Amendments to the articles of association
- The election of the auditor
- The adoption of the income statement and balance sheet
- The distribution of the earnings for the past financial year
- The election of members of the nomination committee and establishment of principles for the nomination committee
- Guidelines for remuneration to senior executives

Annual general meeting 2016

H&M's annual general meeting 2016 was held on 3 May in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna. A total of 1,796 shareholders were represented at the meeting, representing 83.3 percent of the votes and 65.5 percent of the capital. H&M's board of directors, executive management and nomination committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

- The lawyer Sven Unger was elected as chairman of the meeting.

- Balance sheets and income statements for the parent company and for the group were adopted.
- A dividend to shareholders of SEK 9.75 per share was approved.
- The board members and the CEO were discharged from liability for the 2014/2015 financial year.
- The number of board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- The following ordinary board members were re-elected: Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Melker Schörling, Christian Sievert and Niklas Zennström. Stina Bergfors and Erica Wiking Häger were elected as new board members. Lottie Knutson and Sussi Kvart did not stand for re-election. Stefan Persson was re-elected as chairman of the board.
- The AGM approved the proposal from the nomination committee that the board fees be increased by SEK 250,000 to a total of SEK 6,075,000. The board fees are to be distributed as follows: chairman of the board SEK 1,625,000; members elected by the AGM SEK 575,000; members of the auditing committee an extra SEK 125,000; and the chairman of the auditing committee an extra SEK 175,000.
- The proposed principles for the nomination committee were approved and members of the nomination committee were elected.
- The proposed guidelines for remuneration to senior executives were approved.
- The proposed amendments to the articles of association were adopted.

Votes and capital represented at H&M's annual general meeting

YEAR	% OF VOTES	% OF CAPITAL
2012	83.3	65.7
2013	85.3	69.8
2014	84.2	67.5
2015	82.4	63.7
2016	83.3	65.5

Number of shareholders and ownership structure

At the end of the financial year H&M had 268,290 shareholders. The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share).

H&M's largest shareholder is Stefan Persson and family, who via Ramsbury Invest AB hold all the class A shares, which represent 57.1 percent of the votes, as well as 406,049,043 class B shares, representing 11.9 percent of the votes. This means that as of 30 November 2016, Stefan Persson and family via Ramsbury Invest AB represent 69.0 percent of the votes and 36.3 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB.

Annual general meeting 2017

H&M's annual general meeting 2017 will be held on Wednesday, 10 May 2017 in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna.

To register to attend the 2017 AGM, see page 106 of H&M's annual report for 2016 or visit hm.com/agm.

2. NOMINATION COMMITTEE

The nomination committee prepares information that will be used as a basis for decisions at the general meeting concerning election of the board of directors, the chairman of the board, the auditors and the chairman of the annual general meeting, fees to the board and auditors, as well as principles for the nomination committee. The nomination

committee's proposal for the composition of the board is characterised by diversity and breadth as regards expertise, experience, background and gender balance. It also takes into consideration the H&M group's stage of development and future focus.

Before each general meeting the nomination committee's report is available to read as a separate document at about.hm.com/corporategovernance. The members of the nomination committee are elected by the AGM on the basis of principles for the nomination committee. Briefly, these state that the nomination committee is to be made up of the chairman of the board and four other members who are nominated by the four largest shareholders as of the last day of February that year, other than the shareholder that the chairman of the board represents.

Composition of the nomination committee following the 2016 AGM:

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

The nomination committee meets the requirements of the Code regarding the independence of members. Stefan Persson is the nomination committee's chairman. This deviates from section 2.4 of the Swedish Corporate Governance Code. The 2016 AGM resolved that unless the members of the nomination committee agree otherwise, the chairman of the nomination committee shall be the member representing the largest shareholder. The nomination committee has found no reason to decide otherwise. The nomination committee was unanimous that in view of H&M's ownership structure, Stefan Persson in his capacity as chairman of the board and principal shareholder is the natural choice to chair H&M's nomination committee.

Work of the nomination committee in preparation for the 2016 AGM

The nomination committee elected at the 2015 AGM, which was the same as that elected at the 2016 AGM, presented its proposals for the 2016 AGM. The proposal for the composition of the board was to elect Stina Bergfors and Erica Wiking Häger as new members, and to re-elect Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Melker Schörling, Christian Sievert and Niklas Zennström. Lottie Knutson and Sussi Kvart did not stand for re-election. It was felt that the election of Stina Bergfors and Erica Wiking Häger would make a valuable contribution to the work of the board through their respective areas of expertise and experience in the following areas: media, digitalisation, entrepreneurship, commercial law, sustainability and risk management.

The nomination committee judged that the proposed composition of the board accorded well with section 4.1 of the Swedish Corporate Governance Code, i.e. that the proposed board was characterised by diversity and breadth of expertise, experience, background and gender balance. The nomination committee aims for gender balance and H&M's board has had a good gender balance for many years. The proposed board members consisted of three women and five men (corresponding to 37.5 percent and 62.5 percent respectively, excluding employee representatives). The Swedish Corporate Governance Board wants owners to speed up developments towards achieving a share of around 40 percent for the less well represented gender overall on the boards of listed companies by 2020. Large companies should have achieved around 35 percent on average already in 2017. The board of H&M thus meets the Corporate Governance Board's level of ambition for major companies for 2017. To achieve continued gender balance, H&M's nomi-

nation committee discusses this each year and accordingly identifies future board candidates with relevant backgrounds and experience on a continuous basis.

It was felt that the proposed composition of the board more than satisfies the requirements made of expertise and experience, taking into account the company's operations and future development. The proposed composition was also considered to meet the applicable requirements well in respect of the independence of board members and their stock market experience.

Work of the nomination committee in preparation for the 2017 AGM

Since the 2016 AGM the nomination committee has held one meeting so far at which minutes were taken and has also been in contact at other times. The work of the board and its composition are assessed on an ongoing basis over the year.

Stefan Persson gave a verbal account of this at the nomination committee's first meeting. The conclusion was that the board had worked effectively over the course of the year. The board's work is presented so that the nomination committee can make the best possible assessment of the board's collective competence and experience.

The nomination committee also discusses the size of the board, its composition, the election of a chairman for the AGM, fees for board members and, when appropriate, the election of auditors. No fees were paid to the nomination committee's chairman or to any other member of the nomination committee. The nomination committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2017 AGM.

3. AUDITORS

The auditors, who are independent and appointed by the shareholders at the annual general meeting (AGM), scrutinise H&M's annual report, consolidated financial statements, accounts, sustainability report and corporate governance report, and examine whether these have been prepared in accordance with current laws and recommendations. The auditors also scrutinise the management of the H&M group by the board and CEO, and review compliance with the guidelines on remuneration to senior executives adopted by the AGM.

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

As previously, the 2016 AGM resolved that the auditors' fees should be paid based on the invoices submitted. The fees invoiced by the auditors over the past two financial years are reported in note 9 of the annual report for 2016.

Ernst & Young AB (EY) is a member of a global network used for auditing assignments for most of the group's companies and meets H&M's requirements with respect to competence and geographical coverage. The auditors' independent status is guaranteed partly by legislation and professional ethics rules, partly by the accounting firm's internal guidelines and partly by the fact that non-auditing assignments must be approved in advance by the auditing committee. Åsa Lundvall is an authorised public accountant who conducts auditing assignments for companies such as Apotek Hjärtat, ATG, DGC One, Systemair and Systembolaget.

The auditors attend all meetings of the auditing committee, and as in previous years, the chief auditor Åsa Lundvall also took part in the board meeting held in January 2016 in order to notify the board of the scope, focus, significant considerations and conclusions of the audit of the 2015 financial year. In addition to this involvement, the auditor meets regularly with the chairman of the board, the chairman and

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2016

NAME	YEAR ELECTED	INDEPENDENT ¹⁾	INDEPENDENT ²⁾	FEES (SEK) ³⁾	BOARD MEETINGS ⁴⁾	AUDITING COMMITTEE	SHARE-HOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, chairman	1979	No	No	1,500,000	7/7			194,400,000 ⁵⁾ 406,049,043 ⁶⁾
Stina Bergfors ⁷⁾	2016	Yes	Yes		4/4		1,000	3,000 ⁸⁾
Anders Dahlvig	2010	Yes	Yes	675,000	7/7	4/4	17,510	
Lottie Knutson ⁷⁾	2006	Yes	Yes	550,000	3/3		1,400	
Sussi Kvar ⁷⁾	1998	Yes	Yes	675,000	3/3	1/1	4,400	1,700
Lena Patriksson Keller	2014	Yes	Yes	550,000	7/7			1,200 ⁹⁾ and 9,450 ⁹⁾
Melker Schörling	1998	Yes	Yes	550,000	4/7			228,000 ¹⁰⁾
Christian Sievert	2010	Yes	No ¹¹⁾	725,000	7/7	4/4	81,000	19,000 and 2,400 ¹²⁾
Erica Wiking Häger ⁷⁾	2016	Yes	Yes		4/4	3/3		750 and 85 ¹³⁾
Niklas Zennström	2014	Yes	Yes	550,000	7/7		72,700	
Ingrid Godin employee rep.	2012				7/7			60
Margareta Welinder employee rep.	2007				6/7			
Rita Hansson deputy employee rep.	2014				7/7		300	
Alexandra Rosenqvist deputy employee rep.	2015				6/7			

1) Independent of the company and company management in accordance with the Swedish Corporate Governance Code.
2) Independent of major shareholders in the company in accordance with the Swedish Corporate Governance Code.
3) Fees as resolved at the 2015 annual general meeting. This means that the fees related to the period until the next AGM, i.e. the period 29 April 2015 to 3 May 2016. The amounts were paid out after the 2016 AGM.
4) Attendance via technology is equated with attendance in person.
5) Class A shares owned through Ramsbury Invest AB.
6) Class B shares owned through Ramsbury Invest AB as of 30 January 2017.
7) Lottie Knutson and Sussi Kvar stepped down from the board at the annual general meeting on 3 May 2016, and consequently their shareholdings are stated as of that date. Stina Bergfors and Erica Wiking Häger were first elected to the board at the AGM.
8) Shares held by spouse.
9) 1,200 shares are owned through Lena Patriksson Keller's private company Verdani Holding AB. 9,450 shares held by spouse.
10) Shares owned through Melker Schörling AB.
11) Christian Sievert is not considered independent of Ramsbury Invest AB since Ramsbury Invest AB is a major shareholder in a company of which Christian Sievert is CEO.
12) Shares held by related parties: 19,000 shares held through Christian Sievert's company Whitechris Industri AB and 2,400 shares held by spouse and children. Additional information: in addition to Christian Sievert's shareholding shown above, Christian Sievert holds 9,000 H&M shares via a pension plan.
13) 750 shares are owned through Erica Wiking Häger's company Erica Wiking Häger Advokattiebölag, and 85 shares are held by her spouse.

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

other members of the auditing committee, the executive management and other key individuals. The auditor also takes part in the AGM, reporting the conclusions drawn from the audit.

Alongside its mandate as elected auditor, EY has also carried out related tasks such as verification of the Sustainability Report. In addition, EY has assisted with other consulting services, primarily tax advice. EY has internal processes to ensure its independence before these tasks are begun. The auditing committee also has a process for approving non-auditing services in advance, before such assignments are begun. The auditing committee evaluates the auditor annually to gain assurance that the auditor's objectivity and independence cannot be questioned.

4. BOARD OF DIRECTORS

The task of the board of directors is to manage H&M's affairs in the interests of the company and all its shareholders. This means that the board has the overall responsibility for H&M's administration. This takes place in a long-term, sustainable way with a focus on the customer offering and growth.

In addition to laws and recommendations, H&M's board work is regulated by the board's work plan, which contains rules on the distribution of work between the board, its committees and the CEO and on

financial reporting, investments and financing. The work plan, which also includes a work plan for the auditing committee, is updated when needed but is established at least once a year.

Composition of H&M's board and independence of its members

The board members are elected by the shareholders at the annual general meeting for the period up until the next AGM.

Since the 2016 AGM the board has consisted of eight ordinary members elected by the AGM and no deputies. There are also two employee representatives, with two deputies for these positions. The board is comprised of seven women and five men. Only the employee representatives are employed by the company. Since the 2016 AGM the board has comprised the following members elected by the meeting: Stefan Persson (chairman), Stina Bergfors, Anders Dahlvig, Lena Patriksson Keller, Melker Schörling, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Ingrid Godin and Margareta Welinder are the regular employee representatives, with Rita Hansson and Alexandra Rosenqvist as their deputies. For more facts about H&M's board members, see pages 66–69.

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.

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. The majority of the board members are also independent of the company's major shareholders.

Number of board meetings

During the financial year H&M normally holds six regular board meetings, one of which is the statutory board meeting. Extraordinary board meetings are held when the need arises. The CEO attends all board meetings, except when the CEO's terms of employment are being discussed. The CEO reports to the board on the operational work within the group and ensures that the board is given relevant and objective information on which to base its decisions.

The CFO and chief accountant also attend the board meetings in order to provide financial information. The board is assisted by a secretary who is not a member of the board.

During the 2016 financial year seven board meetings were held. The level of attendance at board meetings is high, with each member's attendance shown in the table on page 60.

Work of the board in 2016

H&M's board meetings are generally structured as follows, which is then supplemented by one or more business presentations, e.g. by heads of functions or country managers.

The following areas are usually reviewed at each board meeting:

- Minutes of the previous meeting
- CEO's status report
- Report by CFO
- Strategic matters
- Feedback from latest auditing committee meeting
- Financial reporting, such as interim report, annual report
- Decisions on particular matters

During 2016 CEO Karl-Johan Persson provided information on the following, among other things: sales, costs, results, the customer offering for each brand and market performance, investments, store and online expansion, sustainability, external factors and development opportunities. The CEO also provided ongoing information on purchasing, production, the stock-in-trade, marketing and PR activities, organisational changes, the broadening of the product range, and new initiatives and the development of new brands. Decisions taken by the board during the year included the opening of around 425 new stores net, with Puerto Rico, Cyprus and New Zealand as new store markets for 2016, as well as rapid online expansion, with eleven new H&M online markets in 2016.

The sector is undergoing interesting structural changes and rapid shifts in technology – which creates great opportunities, but also puts demands on the organisation. The board therefore discusses the significance of the increased digitalisation and which investments need to be made in order to be able to offer customers a shopping experience that is as complete and seamless as possible. The board receives ongoing updates on these projects. These might concern development of the online offering in terms of faster delivery options, mobile payment solutions, handling of returns, changes of platforms and advanced data analytics, etc. The long-term investments being made aim to ensure the group's future expansion and position.

The group's integrated sustainability work is very important and is discussed regularly by the board. Every six months, the head of sustainability provides an update on the group's sustainability work with ref-

erence to key indicators and targets, such as compliance with the Code of Conduct, sustainable material, climate impact, anti-corruption, etc.

At each board meeting the chairman of the auditing committee reports to the board on what the auditing committee discussed at its latest meeting. This primarily concerns areas such as accounting, auditing, tax, internal control, risk, various new regulations and new legislation, etc. The overall risk assessment, involving the very largest risks – in both the short and the long term – is then also discussed at subsequent board meetings. At four of the year's meetings the board goes through quarterly reports before they are published and at the January meeting the board discusses the annual report, with the auditor also reporting on the year's audit.

During the year the board takes a number of different decisions such as on the expansion and investment plan, the proposed dividend, which was SEK 9.75 per share for the 2015 financial year, as proposed to the 2016 AGM, guidelines for remuneration of senior executives, the financial reports, etc. In 2016 the board also took the decision to propose amendment of the articles of association. At a board meeting on 30 January 2017 the board decided to rephrase the earlier growth target.

Since H&M does not have a separate review function (internal audit) for work on internal control, but has instead established its own model for managing the company's risk and internal control (see pages 63–65), once a year the board assesses the need for a separate internal audit function. This year the board again reached the conclusion that the present model for monitoring internal control is working in a satisfactory way.

Before the 2016 annual general meeting the board carried out an assessment of the application of the guidelines for remuneration to senior executives that were adopted by the 2015 AGM. The results of this assessment were published on the website in good time before the 2016 AGM.

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. It is the board that prepares the proposed guidelines for remuneration to senior executives that are presented at the AGMs, and it is the board that decides on the CEO's salary in accordance with the guidelines adopted at the last AGM. The board continually assesses the CEO's work and once a year discusses this matter separately in conjunction with the setting of the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

5. AUDITING COMMITTEE

The auditing committee monitors the company's financial reporting, which among other things involves monitoring the effectiveness of the company's internal control and risk management. Its work includes handling auditing issues and financial reports published by the company. The auditors attend the meetings of the auditing committee to report on their scrutiny of the group's annual report and financial statements, including the consolidated financial statements.

The auditing committee also reviews and monitors the impartiality and independence of the auditor, and regulates which assignments the accounting firm may conduct for H&M in addition to the audit. The auditing committee receives a written assurance of independence from the auditor stating which assignments the accounting firm has provided to H&M during the financial year in addition to the audit. The auditing committee also assists the nomination committee with any proposals to the AGM concerning the election of auditors.

H&M's auditing committee is made up of three board members, two of whom have expertise in accounting or auditing while the third

has expertise in commercial law. All the members are independent of the company and its management. The majority of the members are also independent of the company's major shareholders. The auditing committee is appointed annually by the board of directors at the statutory board meeting held in conjunction with the AGM. Since the statutory meeting held in conjunction with the 2016 AGM, the auditing committee has consisted of chairman Christian Sievert and members Anders Dahlvig and Erica Wiking Häger. The committee held four meetings at which minutes were taken during the 2015/2016 financial year.

EY attended the auditing committee meetings and reported on the auditing assignments. The meetings were also attended by CFO Jyrki Tervonen and chief accountant Anders Jonasson, among others. The committee's meetings are minuted and the minutes are then distributed to the board members.

During the year the auditing committee addressed the following matters, among others:

- The company's financial reporting, including interim reports, the corporate governance report and annual report.
- Compliance with the group's internal control and risk management processes and review of the overall risk analysis for the group – both financial risk and operational risk – with well-defined action plans to minimise risk. Among others, the following functions also gave presentations/provided information on their work: expansion/construction, security, accounting/tax and H&M's buying department.
- The internal pricing model and tax matters. A status update regarding tax matters is given at each meeting, which is partly related to the OECD's BEPS project that deals with, among other things, how and where profits in multinational companies are to be taxed.
- In addition, customs matters were discussed in view of the fact that this is becoming an increasingly pressing matter for multinationals due to increased protectionism in certain countries.
- EY informed the committee of the audit plan, the scope of the audit and the results of scrutiny carried out.
- In addition, EY provided information on current regulatory developments in the areas of accounting and auditing.
- Review of the auditors' independence and impartiality. The auditing committee finds that it is clear which assignments EY takes on in addition to auditing and sees no reason to question the accounting firm's impartiality. A process has been established for non-auditing services to be approved in advance. H&M also uses consulting services from other accounting firms and tax advisors.

6. EMPLOYEE ORGANISATIONS

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

7. CEO

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

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

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

From 2001 until 2004 Karl-Johan Persson was CEO of European Network. Karl-Johan Persson holds a BA in business administration from the European Business School in London. Karl-Johan Persson currently has external board assignments for, among others, the Swedish Chamber of Commerce in the UK, Ramsbury Invest AB and the GoodCause Foundation. Since 2013 Karl-Johan Persson has also been a member of the board of the H&M Foundation. Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

8, 9. ORGANISATION AND MANAGEMENT

The H&M group has a multi-brand matrix organisation with currently seven well-defined brands: H&M, COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home. Each brand has its own organisation and managing director, and all the brands have their own local sales organisations. Centrally, there are also a number of group-wide functions that support each brand in order to capitalise on the benefits within these shared areas, so that each brand and country works purposefully according to central policies and guidelines. The CEO is responsible for day-to-day management of the H&M group and appoints the members of the executive management team, which is made up of the CEO plus 10 others – six of whom are women. The executive management team consists of the chief financial officer and the individuals responsible for the following group-wide functions: production, sustainability, expansion, communications, human resources, business development and logistics, as well as the person responsible for the H&M brand and the person responsible for new business (which includes the other brands such as COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home). Those responsible for the other group-wide functions are appointed by the chief financial officer. The matrix organisation provides a good combination of central and local perspectives on leadership and entrepreneurship.

The local sales organisations are responsible for sales, profitability and daily operations in their country, giving them a collective responsibility for all the functions in their country.

CEO: Karl-Johan Persson

CFO: Jyrki Tervonen

JOINT GROUP FUNCTIONS

Accounting: Anders Jonasson

Business development: Kjell-Olof Nilsson

Communications: Kristina Stenvinkel

Controlling: Fredrik Nilsén

Expansion: Katja Ahola

HR: Helena Thybell

IT: Morten Halvorsen

Legal: Fredrik Björkstедt

Logistics: Patrik Berntsson

Production: Helena Helmersson

Security: Cenneth Cederholm

Sustainability: Anna Gedda

BRANDS

H&M: Fredrik Olsson

New Business: Madeleine Persson

COS: Marie Honda

& Other Stories: Samuel Fernström

Monki: Lea Rytz Goldman

Weekday: David Thörewik

Cheap Monday: Peter Klagsmark

H&M Home: Anders Sjöblom

Internal control

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

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

CONTROL ENVIRONMENT

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

Of particular importance is that management documents such as internal policies, guidelines and manuals exist in significant areas and that these provide the employees with solid guidance. Within H&M there exists above all the Code of Ethics; an ethical policy that permeates the entire company, since it describes the way in which the employees should act within the company and in business relations with suppliers. For a number of years the group has had a document called "The H&M Way", which briefly describes and brings together what H&M stands for and provides a basis for how employees are to act in relation to each other and the outside world. It also refers to the group's main policies.

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

- The division of work between the board of directors, the auditing committee and the CEO, which is clearly described in the board's formal work plan. The executive management team and the auditing committee report regularly to the board based on established routines.
- The company's organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
- Values and guidelines, as well as policies, routines and manuals; of these, the Code of Ethics, the financial policy, the insider policy, the communications policy and the store instructions are examples of important overall policies.
- Awareness among the employees of the importance of maintaining effective control over financial reporting.
- Control activities, checks and balances, analysis, reporting.

The H&M group has a matrix organisation (see page 64), which means that those responsible for the group-wide functions are responsible for the efficiency of work within their function at each brand (the horizontal arrows). Each brand has its own organisation and managing director, and all the brands have their own local sales organisations.

Internal control is evaluated annually by the relevant group function, which checks that its function in each country is working accord-

ing to the prescribed policies and guidelines. The stores are in turn checked by internal store auditors.

All the companies within the H&M group – apart from Weekday Brands, which is engaged in wholesale operations – have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which in turn facilitates internal control and comparisons between the various companies. There are detailed instructions for the store staff that control daily work in the stores. Many other guidelines and manuals are also available within the group. In most cases these are drawn up in the central departments at the head office in Stockholm and then communicated to the respective departments in the country offices. Each central department regularly reviews its guidelines and manuals to see which need updating and whether new guidelines need to be developed.

RISK ASSESSMENT

H&M carries out regular risk analysis for both operational and financial risks. At the end of each financial year the analysis is updated in respect of the main operational risks – in the short and long term – and also the risks within financial reporting. This is carried out in two group-wide documents, based on the probability and impact of each risk.

As in previous years, at the end of 2016 each central function reviewed its main risks, assessed these and identified the systems, methods and controls that are in place to minimise any impact of the risks. This information was compiled at group level into the overall risk analysis mentioned above, and was discussed with the functions with a view to gaining an overall picture of the main risks within the company. The risk analyses for operational risks and the risks within financial reporting were then dealt with in the auditing committee and thereafter discussed by the board.

For a description of H&M's operational risks, see the administration report on pages 73–74. For risks within financial reporting, see the administration report on pages 74–75 and note 2, Financial risks, on pages 89–90 of H&M's annual report for 2016.

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 provides a true picture at each reporting date. The control activities, which aim to prevent, find and correct inaccuracies and non-compliance, are at all levels and in all parts of the organisation. Within H&M the control activities include effective control and analysis of sales statistics, account reconciliation, monthly accounts and financial reports.

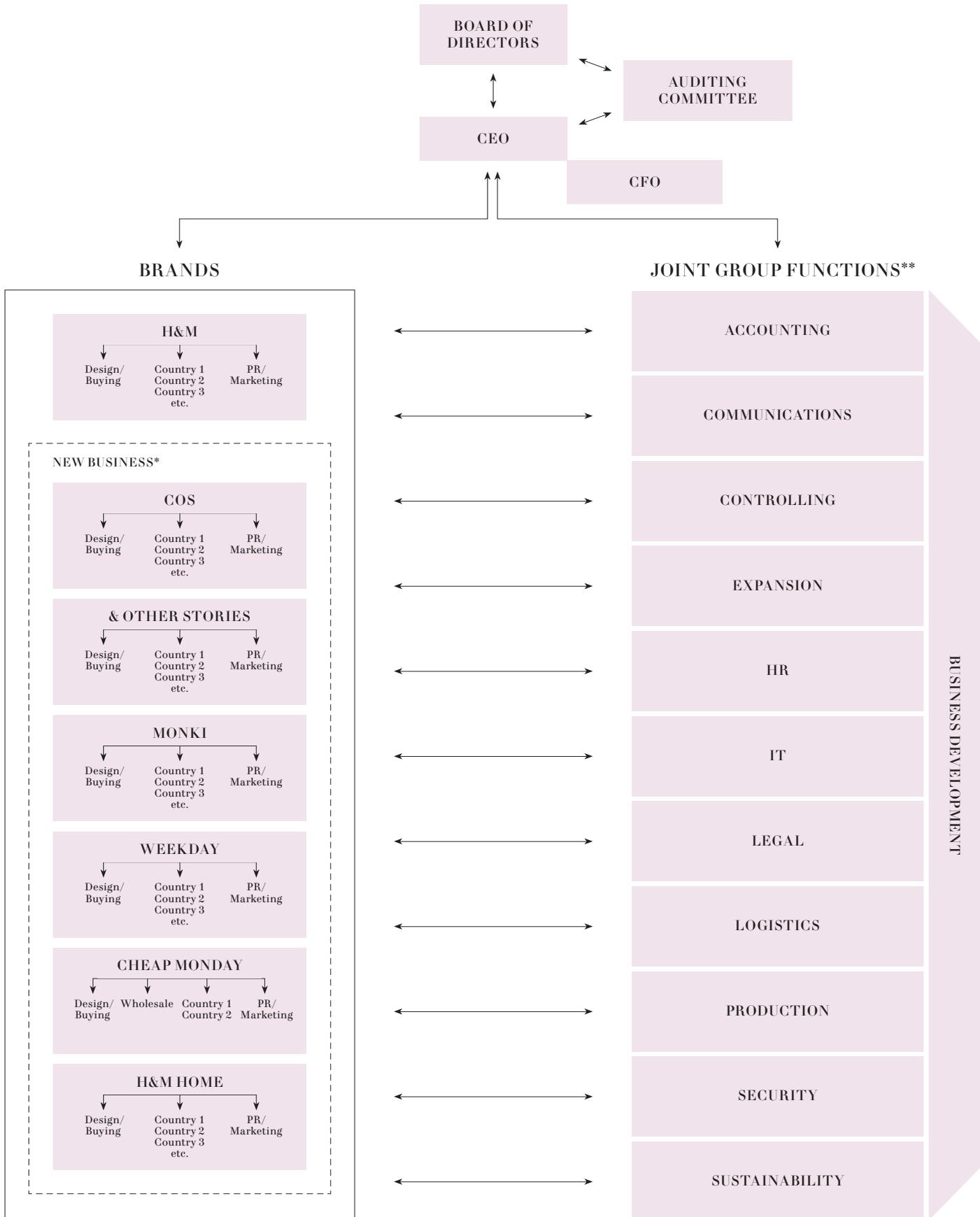
During the year ongoing internal control of the IT department is also carried out, to ensure that the work and processes are being performed in accordance with guidelines set. This also includes systems relating to financial reporting. These financial systems are also reviewed by an external party in cooperation with those responsible for systems and system areas within H&M.

INFORMATION AND COMMUNICATION

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

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

Matrix organisation of the H&M group



* New Business has overall responsibility for producing, refining and supporting the group's newer brands.
 ** In alphabetical order.

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

Financial communication is provided via:

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

MONITORING

In 2016 the group functions/central departments assessed internal control within their respective functions in the sales countries based partly on general issues and partly on department-specific issues, using the COSO model.

The work resulted in a plan of action for each central department defining the areas that ought to be improved in order to further strengthen internal control, not only in respect of each country but also for the central function. The functions also followed up on the assessments made in the previous year. It is felt that the way in which H&M assesses internal control is firmly established within the organisation. It is an aid and an instrument that the central functions can use to ensure that their respective departments in the sales countries are working in a uniform and desirable way. The assessment of internal control also allows each sales country to provide valuable and constructive feedback to the central function regarding where there is room for improvement at central level. An important part of the internal control work is the feedback to the country management (country manager and country controller) which the central function provides based on the results of the evaluation in each country. This is done with a view to transparency and to ensuring that the countries adopt best practice.

Within the production organisation there is a firm and regular control and monitoring process for the internal routines that are brought together in the Routine Handbook for Production. These routines are about how H&M ensures that the company does business in an ethical and transparent way. Most of these routines are monitored on a monthly basis at regional level and every other month at global level.

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

The board of directors and the auditing committee continuously evaluate the information provided by the executive management team, including information on internal control. The auditing committee's task of monitoring the efficiency of internal control by the management team is of particular interest to the board. This work includes checking that steps are taken with respect to any shortcomings detected and suggestions made during the assessment by the central departments and internal store auditors, as well as by external auditors. The work on internal control maintains awareness of the importance of effective internal control within the group and ensures that continuous improvements are made.

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Corporate Governance Code, during the year the board assessed the need for a specific internal audit department. The board concluded that H&M's present model of monitoring internal control is the most appropriate for the company. In the board's opinion, this model – which is applied by the central departments such as accounts, communications, security, logistics, production, etc. in the subsidiaries – and the work carried out by internal store auditors are well in line with the work performed in other companies by an internal audit department. It was therefore deemed that there was no need for an internal audit department.

The issue of a specific internal audit department will be reviewed again in 2017.

Stockholm, January 2017

The Board of Directors

More information on H&M's corporate governance work can be found in the section on corporate governance at hm.com. The next four pages contain information about the board members.



LENA PATRIKSSON KELLER
Board member

MELKER SCHÖRLING
Board member

INGRID GODIN
Employee representative

NIKLAS ZENNSTRÖM
Board member

STINA BERGFORS
Board member

STEFAN PERSSON
Chairman of the board



CHRISTIAN SIEVERT
Board member and chairman of
the auditing committee

ERICA WIKING HÄGER
Board member and member of
the auditing committee

RITA HANSSON
Deputy employee representative

ALEXANDRA ROSENQVIST
Deputy employee representative

MARGARETA WELINDER
Employee representative

ANDERS DAHLVIG
Board member and member of
the auditing committee

About the board members

STEFAN PERSSON

Chairman of the board. Born 1947.

Primary occupation

Chairman of the board of H&M.

Other significant board assignments

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

Education

Stockholm University and Lund University, 1969–1973.

Professional experience

1976–1982 Country manager for H&M in the UK and responsible for H&M's expansion abroad.

1982–1998 CEO of H&M.

1998– Chairman of the board of H&M.

STINA BERGFORS

Board member. Born 1972.

Primary occupation

Co-founder of digital media company United Screens, where Stina currently works on strategic matters and business development.

Other significant board assignments

Member of the board of INGKA Holding BV and of the Swedish Media Commission's group of experts; also involved in the Prince Daniel Fellowship at the Royal Swedish Academy of Engineering Sciences (IVA).

Education

MSc in business administration, honorary doctorate from Luleå University of Technology.

Professional experience

2005–2008 CEO of Carat Sverige AB

2008–2013 Country director for Google and YouTube in Sweden.

2014–2016 CEO of United Screens.

2016– Strategy and business development at United Screens.

ANDERS DAHLVIG

Board member and member of the auditing committee. Born 1957.

Primary occupation

Board assignments.

Other significant board assignments

Chairman of Inter IKEA Holding BV and member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB, Resurs Bank AB and Pret A Manger.

Education

MSc in business administration, Lund University, 1980 and MA from the University of California, Santa Barbara, 1982.

Professional experience

1983–1993 Various roles within IKEA in Sweden, Germany, Switzerland and Belgium.

1993–1997 Managing director of IKEA UK.

1997–1999 Vice president of IKEA Europe.

1999–2009 President and CEO of the IKEA Group.

LENA PATRIKSSON KELLER

Board member. Born 1969.

Primary occupation

Executive Chairman at branding and communications agency Patriksson Communication AB.

Other significant board assignments

Member of the board of Elite Hotels; chairman of the board of the industry organisation Association of Swedish Fashion Brands (ASFB).

Lena is also involved in the Prince Daniel Fellowship at the Royal Swedish Academy of Engineering Sciences (IVA).

Education

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

Professional experience

1993–1996 Buying & product development at H&M.

1996–1998 Global communications manager, J.Lindeberg.

1999– CEO and later executive chairman, Patriksson Communication AB.

MELKER SCHÖRLING

Board member. Born 1947.

Primary occupation

Founder and owner of MSAB.

Other significant board assignments

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

Education

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

Professional experience

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

CHRISTIAN SIEVERT

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

Primary occupation

CEO of investment company AB Max Sievert.

Other significant board assignments

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

Education

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

Professional experience

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

INGRID GODIN

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

MARGARETA WELINDER

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

ERICA WIKING HÄGER

Board member and member of the auditing committee. Born 1970.

Primary occupation

Lawyer and partner at the law firm Mannheimer Swartling since 2009 and chair of Mannheimer Swartling's Corporate Sustainability & Risk Management practice group.

Other significant board assignments

Member of the board of Stockholm Chamber of Commerce.

Education

Master of Laws from Uppsala University, LL.M. from Harvard Law School in the US and supplementary studies at the University of Oklahoma in the US and Ruprecht-Karls-Universität Heidelberg in Germany.

Professional experience

1994–1995 Acting lecturer in civil law, Uppsala University.
 1995–1997 District court service, Sollentuna District Court.
 1997–1998 Law clerk, Svea Court of Appeal.
 1999–2000 Corporate counsel, Corechange Inc., Boston, USA.
 2000–2008 Associate, Mannheimer Swartling.
 2009– Partner, Mannheimer Swartling.

NIKLAS ZENNSTRÖM

Board member. Born 1966.

Primary occupation

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

Other significant board assignments

Member of the boards of Atomico, Zennström Philanthropies, Farmdrop Rovio, Lilium and Orbital Systems.

Education

Dual degrees in business administration and engineering physics from Uppsala University.

Professional experience

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

RITA HANSSON

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

ALEXANDRA ROSENQVIST

Deputy employee representative on the H&M board since 2015. Born 1976.

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

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

Assignment and division of responsibility

We have reviewed the corporate governance report for the financial year 1 December 2015 to 30 November 2016. 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, Auditor's review of the corporate governance report. This means that we planned and performed the audit in order to obtain a reasonable degree of assurance that the corporate governance report is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

Opinion

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

Stockholm, 30 January 2017

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant



Administration report

The board of directors and the chief executive officer of H & M Hennes & Mauritz AB (publ), 556042-7220, domiciled in Stockholm, Sweden, hereby submit their annual report and consolidated accounts for the financial year 1 December 2015 to 30 November 2016, hereinafter referred to as the 2016 financial year.

BUSINESS

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

The H&M group's brand portfolio includes clearly defined fashion brands – H&M and H&M Home, COS, & Other Stories, Monki, Weekday and Cheap Monday – each of which has its own unique profile and identity. The group's brands complement each other well, and together they offer customers a wide variety of styles and trends at various price points. All the brands share the same passion for fashion, quality and best price and all aim to dress customers in a sustainable way. The broad customer offering allows people around the world to dress in their own personal style.

H&M is a design-driven, creative and responsible fashion company guided by strong values based on a fundamental respect for the individual and a belief in people's ability to use their initiative. With a focus on fashion and customers, and a shared aim among employees to always exceed customers' expectations, H&M has developed since 1947 into one of the world's leading fashion companies.

For each brand there is a design and buying function where designers, pattern makers and buyers work together to create an inspiring product range for their particular customer group. H&M's design and buying function creates its collections centrally in Stockholm – while COS, for example, has its design and buying function in London.

Production

The group does not own any factories but instead has its products manufactured by around 790 independent suppliers through local production offices, mainly in Asia and Europe. For a few years now a small part of production has also taken place in Africa. To ensure future expansion, production capacity and geographical location are continually reviewed. H&M is a responsible company and considers it of the utmost importance to ensure that the products are of good quality and have been produced under good working conditions with the greatest possible consideration for people and the environment. Each supplier therefore undergoes a careful process based on the requirements in the H&M Code of Conduct (Sustainability Commitment) before being approved for production. H&M then works closely with the suppliers, with continual follow-up and knowledge-building programmes to ensure compliance with the Code. H&M also supports the suppliers in their own development towards improved sustainability. H&M's production offices are responsible for ensuring that each order is placed with the right supplier, that the products are manufactured at the right price and are of good quality, and that they are delivered at the right time. The production offices also check that manufacturing takes place under good working conditions.

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

The group achieves the best prices by having in-house designers, having no middlemen, utilising economies of scale, buying the right

product from the right market, being cost-conscious in every part of the organisation and by having efficient logistics.

Sustainability

As a buyer and seller in many markets, the H&M group helps provide employment which lifts people and nations out of poverty. The jobs are created largely in the textile industry, primarily in Asia, where much of H&M's sourcing takes place.

Sustainable growth is essential if the world is to achieve the global goals for socially, environmentally and economically sustainable development that the UN member countries unanimously adopted in 2015 and that are to be achieved by 2030. A starting point for the H&M group is that the business must contribute to these goals, which are summarised in Agenda 2030.

The group's sustainability work includes environmental, ethical and human rights aspects, with the aim of contributing to social development, improving working conditions and minimising environmental impact. H&M actively pursues extensive work to bring about improvements throughout the life cycle of the products and in the communities where H&M operates. H&M uses its size and influence to help move this development in the right direction and to work for long-term improvements in human rights and the environment. To make a real difference in the long term, H&M also works with external experts, innovators, other companies, NGOs and governments, including on important industry-wide issues such as health, safety, wages, water, the climate, chemicals, etc.

In 2016 the H&M group implemented a new sustainability strategy, with the vision of leading the change towards a sustainable fashion industry based on a fully circular approach and only renewable energy. The vision also includes working to achieve a fair, equal workplace both within the H&M group and among the suppliers, and to contribute to good communities based on diversity and inclusion. Setting a good example, paving the way for new solutions, stimulating innovation and transparency and having a positive impact on people's lives are all important parts of the new sustainability strategy. Through the strategy the H&M group will set long-term goals that are in line with scientific methods and in close cooperation with experts and other stakeholders within various areas. Thanks to its size, the H&M group has a unique reach and opportunity to drive forward structural changes towards increased sustainability throughout the whole fashion industry.

The H&M group's sustainability work is an integral part of its business. This means that the sustainability work forms part of daily work in every area of the company and that each of the group's departments is itself responsible for environmental and social matters, while the central sustainability department establishes the direction and overall targets for the company's sustainability work as well as providing the departments with support on sustainability matters.

More information on H&M's sustainability work can be found on pages 36–41 of the 2016 annual report and in H&M's sustainability report that is published annually at hm.com.

Sales channels

The group sells its products from leased store premises and digitally, i.e. via online shopping. At year-end there were 64 store markets, of which 13 are operated on a franchise basis, and 35 H&M online markets.

The total number of stores at the end of the 2016 financial year was 4,351 – including 3,962 H&M stores, 194 COS stores, 118 Monki stores, 45 & Other Stories stores, 28 Weekday stores and 4 Cheap Monday

stores. Of the group's total number of stores, 188 were franchise stores. H&M Home is in 269 H&M stores in more than 40 markets, and is also sold online in all H&M's online markets.

COS and Monki have 19 online markets, while Weekday and Cheap Monday have 18 online markets. & Other Stories has 14 online markets.

Expansion and future development

The H&M group has a highly developed online business model, and today the group's online sales already represent a significant share of total sales in several markets. The industry is in an exciting development phase and H&M is continuing with the investments that the group has been making for the past few years in areas such as digitalisation and infrastructure, particularly within the following focus areas:

- **Omni-channel strategy:** The H&M group has a clear omni-channel strategy that involves integrating the digital and physical worlds in order to offer customers a more seamless shopping experience. This includes online purchases and online returns in stores, click & collect, mobile payments, further development of the customer club and use of mobiles in stores for increased service.
- **Supply chain:** To make the supply chain even faster and more flexible investment is being made in technology such as RFID and automated warehouses. New delivery options have also been added for customers – such as next day delivery, which is now offered in five markets, and time-slot deliveries, which have begun in Japan.
- **Advanced data analytics** provide important support for operations, and the algorithms that the H&M group has started to use will contribute to improvements within everything from planning of the product range to logistics and sales.

The investments in these areas ensure that the H&M group is well positioned for continued long-term and profitable growth. This also includes strong expansion both through new stores and new online markets.

In the light of this development, it is natural to rephrase the group's growth target. This means that the previous target of increasing the number of stores by 10–15 percent per year will instead become a sales target that includes both stores and online sales. The new target which applies for the financial year of 2016/2017 and going forward is that the H&M group's sales shall increase by 10–15 percent in local currencies per year with continued high profitability.

In 2017 the H&M group plans to open 430 new stores net and to add five new H&M store markets – Kazakhstan, Colombia, Iceland, Vietnam and Georgia – and six new H&M online markets – Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia. Most of the new stores opened in 2017 will be H&M stores. Approximately 70 to 80 stores will be under the group's other brands.

H&M Home is developing very well and has great potential for growth. Going forward, the group will therefore open standalone H&M Home stores and profile H&M Home even more as a standalone brand.

Employees

H&M's business is to be characterised by a fundamental respect for the individual, where everyone is of equal value. This applies to everything from fair wages, reasonable working hours and freedom of association to the opportunity to grow and develop within the company. The company's values, which have been in place since the days of H&M's founder, Erling Persson, are based partly on the ability of the employees to use their common sense to take responsibility and use their initiative. Diversity among employees as regards age, gender, ethnicity, etc. is a valuable asset for the company.

H&M has grown significantly since its beginnings in 1947 and today has a presence in 64 markets. In 2016 more than 13,000 new jobs net were created within the H&M group. At the end of the year the group had just over 161,000 employees. The average number of employees in the group, converted into full-time positions, was 114,586 (104,634), of which 8,933 (8,061) were employed in Sweden.

Around 75 percent of the average number of employees were women and 25 percent were men. Of the positions of responsibility within the company, such as store managers and country managers, women held 69 percent and men 31 percent of the positions.

EVENTS AFTER THE CLOSING DATE

As previously communicated, sales including VAT in December 2016 increased by 6 percent in local currencies for the H&M group compared to the same month the previous year. Converted into SEK the increase was 10 percent.

The H&M group's sales including VAT in the period 1 January to 29 January 2017 increased by 11 percent in local currencies compared to the same period the previous year. For January as a whole there is a negative calendar effect of approximately 2 percentage points, which occurs at the end of the month.

The group's growth target has been rephrased. This means that the previous target of increasing the number of stores by 10–15 percent per year will instead become a sales target that includes both stores and online sales. The new target that applies for the financial year of 2016/2017 and going forward is that the H&M group's sales shall increase by 10–15 percent in local currencies per year with continued high profitability.

RISKS AND UNCERTAINTIES

Some risks may be due to events in the outside world and affect a certain sector or market, while others are associated with the group's own business. H&M carries out regular risk analysis for both operational and financial risks. Operational risks are mainly associated with the business and the external risks that affect the group. Some can be managed through internal routines and in some cases the group can influence the likelihood of a risk-related event occurring. Other risks are determined to a greater extent by external factors. If a risk-related event is beyond the company's control, work is aimed at alleviating the consequences.

There are risks and uncertainties affecting the H&M group that are related to fashion, weather conditions, macroeconomics and geopolitical events, sustainability issues, foreign currencies, taxes and various regulations, but also in connection with expansion into new markets, the launch of new concepts and how the brand is managed. A description of H&M's operational and financial risks is given below, with more detailed information concerning financial risks being given in note 2, Financial risks.

OPERATIONAL RISK

Reputational risk

As one of the world's leading fashion companies H&M attracts great interest and is constantly in the spotlight. To safeguard and manage the brands it is important that the H&M group continues to be developed and run according to its strong values, which are characterised by high business ethics.

It is of the utmost importance that the H&M group lives according to the high aims set out in its policies and guidelines on business ethics. Should H&M fail in this respect, there is a risk that the company's

reputation and brand could be damaged. Accurate, transparent and reliable communication can prevent occurrences of reputational risk, and can also help alleviate the consequences of any incidents.

Fashion

Operating in the fashion industry is a risk in itself. Fashion has a limited shelf-life, and there is always a risk that some part of the collections will not be well received by customers. Fashion purchases are often emotional and may therefore be negatively affected by unforeseen geopolitical and macroeconomic events.

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

To optimise fashion precision, the group buys items on an ongoing basis throughout the season. Fashion is becoming increasingly global, but shopping patterns vary between different markets and sales channels. The start of a season and the length of that season can vary from country to country, for example. Delivery dates and product volumes for the various markets and channels are therefore adjusted accordingly.

Weather

The H&M group's products are purchased for sale based on normal weather patterns. Deviations from normal weather conditions affect sales. This is particularly true at the transition between two seasons, such as the transition from summer to autumn or from winter to spring. If the autumn is warmer than usual it may have a negative effect on sales of weather-related garments in particular, such as outerwear and chunky knitwear.

Negative macroeconomic changes and geopolitical risks

One or more markets may be affected by events that have a negative effect on the macroeconomic situation or geopolitical environment in the country. These changed macroeconomic or geopolitical circumstances, such as political instability and sudden negative events in one or more countries, may result in rapid changes in the business environment and in economic downturn, which is likely to change consumer purchasing behaviour and thus negatively impact the group's sales.

Uncertainties also exist concerning how external factors such as foreign currencies (see below), raw materials prices, transport costs and suppliers' capacity will affect buying costs for the group's products. There are also risks associated with social tensions in sourcing markets, which may lead to instability for the suppliers and in manufacturing and deliveries.

The group therefore needs to monitor such changes closely and have strategies in place to deal with fluctuations as advantageously as possible for both the company and external stakeholders.

Sustainability risk

There are a number of risks associated with sustainability issues in practically every sector. These sustainability risks may be related to factors such as climate change, dwindling natural resources, working conditions, corruption and politically unstable sourcing markets. H&M works actively to support social development, to run its operations ethically, to be climate smart and to use natural resources responsibly. Among other things, H&M uses its size and influence to help move this development in the right direction and to work for long-term improvements in human rights and the environment. To ensure that H&M products are of good quality and are produced

under good working conditions, there is a programme of continual follow-up and knowledge building to ensure compliance with H&M's Code of Conduct (Sustainability Commitment). H&M's training and follow-up of its anti-corruption code, the Code of Ethics, is also an important part of ensuring that employees and suppliers live up to H&M's strict requirements regarding business ethics.

FINANCIAL RISKS

Foreign currencies

Nearly half of the group's sales are made in euros, and the most significant currencies for the group's purchasing are the US dollar and the euro. Fluctuation in the US dollar/euro exchange rate is the single largest foreign currency transaction exposure for the group. Large and rapid exchange rate fluctuations, particularly as regards the USD as a sourcing currency, may also have a significant effect on purchasing costs, even if this may be regarded as relatively competition-neutral over time. To hedge flows of goods in foreign currencies and thereby reduce the effects of future exchange rate fluctuations, payments for the group's flows of goods – i.e. the group's purchases of goods and in the majority of cases also the corresponding foreign currency inflows from the sales companies to the central company H & M Hennes & Mauritz GBC AB – are hedged under forward contracts on an ongoing basis.

In addition to the effects of transaction exposure, translation effects also impact the group's results. These effects arise 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 financial risks see note 2, Financial risks.

Trade intervention

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

Current changes in administrative rules relating to customs around the world mean increased challenges in the area as regards the application of customs legislation. H&M provides the customs authorities with relevant information on an ongoing basis in order to ensure customs values are managed correctly and to facilitate trade in accordance with the rules of the WTO Customs Valuation Agreement.

Taxes

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

H&M complies with national and international tax legislation, and always pays taxes and levies in accordance with local laws and

regulations in the countries where H&M operates. H&M's tax policy, which can be found at hm.com, reflects and supports H&M's business. H&M follows the OECD Transfer Pricing Guidelines, which means that profits are allocated and taxed where the value is created. In 2016 H&M became ISO certified for direct taxation and transfer pricing.

H&M works continually to ensure that its tax strategy is designed to limit any distortion arising from differences in tax legislation in different parts of the world.

The OECD guidelines on transfer pricing can be interpreted in various ways, and consequently tax authorities in different countries may question the outcome of H&M's transfer pricing model even though the model complies with the OECD guidelines. This may mean a risk of tax disputes in the group in the event that H&M and the local tax authorities interpret the guidelines differently.

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.

At the end of the financial year H&M had 268,290 shareholders. The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares (ten votes per share) and 1,460,672,000 are class B shares (one vote per share). Class A shares are not listed. Class B shares are listed on the Stockholm stock exchange, Nasdaq Stockholm.

Ramsbury Invest AB holds all 194,400,000 class A shares, which represent 57.1 percent of the votes, as well as 406,049,043 class B shares, which represent 11.9 percent of the votes. This means that as of 30 November 2016, Ramsbury Invest AB represents 69.0 percent of the votes and 36.3 percent of the total number of shares. Ramsbury Invest AB is owned by Stefan Persson and family, and primarily by Stefan Persson. Karl-Johan Persson is also a shareholder in Ramsbury Invest AB.

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

CORPORATE GOVERNANCE REPORT

H&M has elected to present its corporate governance report as a separate document to the annual report in accordance with Chapter 6 § 8 of the Swedish Annual Accounts Act. The corporate governance report is available at hm.com.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The annual general meeting held on 3 May 2016 adopted the following guidelines for remuneration of senior executives.

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

Like the guidelines adopted at the 2015 and 2014 annual general meetings, the board's proposal to the 2016 annual general meeting for

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

The general guidelines are aimed at a group of around 50 senior executives and are based on performance in the previous year, linked to certain quantifiable targets set in advance. The supplementary guidelines are aimed at some of these individuals. The supplementary guidelines are based on performance compared with targets set, but are also conditional upon the senior executive remaining employed by the H&M group for at least five years.

The board's reasoning for the supplementary guidelines is as follows: in view of H&M's strong expansion and the important stage of development that H&M is at, including multi-brand and multi-channel developments, the aim is to ensure that these key individuals in senior positions remain with the H&M group during this important development phase.

Below is a more detailed account of the board's proposal to the 2016 AGM for guidelines:

General guidelines

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

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

H&M is present in nearly 50 countries excluding franchise markets and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as healthcare and car benefits. The largest portion of the remuneration consists of the fixed salary. For information on variable components, see the section below.

In addition to the ITP plan, executive management and certain key individuals are covered by either a defined benefit or defined contribution pension plan. The retirement age for these individuals varies between 60 and 65 years. Members of executive management and country managers who are employed by a subsidiary abroad are covered by local pension arrangements and a defined contribution plan. Other than the ITP plan, no defined benefit pension plans have been taken out for executive management since 2005. The retirement age for these is in accordance with local retirement age rules. The cost of these commitments is partly covered by separate insurance policies.

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

Pension terms etc. for the CEO

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

Variable remuneration

The CEO, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on the fulfilment of targets in their respective areas of

responsibility. The result is linked to the measurable profit targets (qualitative, quantitative, general, individual) set in advance within their respective areas of responsibility. These targets also include measurable targets for sustainability. The targets within each area of responsibility are aimed at promoting H&M's development in both the short and the long term.

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

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

Supplementary guidelines

In addition to the general guidelines, the board has prepared supplementary guidelines for certain managers and other key individuals, such that these individuals are covered by both the general guidelines and the supplementary guidelines. The CEO is not, however, included in the supplementary guidelines.

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

Provided that the abovementioned criteria are met, the senior executives covered by the supplementary guidelines are thus entitled to a cash payment after five years.

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

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

Miscellaneous

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

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

THE BOARD'S PROPOSALS TO THE 2017 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The board is proposing the following guidelines for remuneration of senior executives to the annual general meeting on 10 May 2017.

The board considers it of the utmost importance that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and

performance. The board's proposed remuneration is in the best interests of the company and its shareholders from a growth perspective, since it helps motivate and retain talented and committed senior executives.

Guidelines for remuneration of senior executives were re-examined in conjunction with the review of the organisation and its composition carried out in 2016. Below are the board's proposed new guidelines for senior executives, which in addition to the CEO include members of the executive management team and those responsible for other group-wide functions; overall, this amounts to nearly 20 individuals. The guidelines are based on industry comparisons.

Senior executives shall be compensated at what are considered by the company to be competitive market rates. The criteria used to set levels of compensation shall be based partly on the significance of the duties performed and partly on the employee's skills, experience and performance. Over time, the largest portion of the total remuneration shall consist of the fixed salary. The forms of compensation shall motivate senior executives to do their utmost to ensure the good financial and sustainable development of the H&M group.

The total annual remuneration may consist of the following components:

- fixed basic salary
- short-term variable remuneration
- long-term variable remuneration
- pension benefits
- other benefits

Fixed basic salary

Senior executives shall have a fixed basic cash salary that is at a market level based on each position's significance for the company as a whole. The basic salary shall reflect the individual's area of responsibility, skills and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

There shall be a clear link between the level of variable remuneration paid and the H&M group's financial and sustainable development. From time to time, therefore, senior executives are entitled to variable remuneration that depends on the fulfilment of targets – which includes group-wide financial targets such as pre-set targets for profits and sales, sustainability targets, and individual targets within that person's area of responsibility. The targets are aimed at promoting the H&M group's development in both the short and the long term.

At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. The CEO decides the maximum possible outcome for each position, but always within the framework of these guidelines. Variable remuneration is not paid if the individual has given notice to terminate his/her employment.

The variable remuneration may consist of:

Short-term variable remuneration, which is the possibility of a cash payment provided that the target criteria that were set in advance for both the group and the individual have been fulfilled. Half of the payment shall be invested in H&M shares that must be held for at least three years. Short-term variable remuneration must never exceed the fixed basic salary for each individual.

Long-term variable remuneration, which is based on performance relative to set targets, but is also conditional upon the senior executive remaining employed within the H&M group for at least five years. The board's reasoning is – in view of H&M's strong expansion and the important stage of development that H&M is at, including within multi-brand and omni-channel developments – to ensure that these key individuals in senior positions remain with the H&M group during this important development phase. The five-year rule applies with effect from the year that the annual general meeting adopted this rule, which was at the annual general meeting in spring 2014 (when it was referred to as supplementary guidelines) up to and including the month of May five years later, i.e. in 2019. At individual level, the remuneration may vary between SEK 0.5 m and SEK 5 m net after tax; the exact distribution per individual will be decided by the CEO and the chairman of the board. The total cost to the group is estimated at around SEK 30 m per year including social security costs over five years.

In addition to this, in a few cases senior executives may, at the discretion of the CEO and the chairman of the board, receive one-off payments of up to an extra year's fixed basic salary. Discretionary one-off amounts may also be paid to other key individuals.

Pension benefits

By far the majority of senior executives are covered by a premium-based pension plan, in addition to the ITP plan. Other than the ITP plan, no defined benefit pension plans have been taken out for senior executives since 2005. The retirement age for senior executives varies between 60 and 65 years. The cost of these commitments is partly covered by separate insurance policies.

Other benefits

Senior executives receive other benefits such as healthcare and car allowances. Senior executives are also entitled to the benefits accruing under the profit-sharing programme known as the H&M Incentive Program, which is for all employees of the H&M group.

Information concerning the CEO

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

The board of directors sets the CEO's total remuneration. The CEO is not included in the long-term variable remuneration, i.e. what was previously referred to as supplementary guidelines.

Other

The period of notice for senior executives varies from three to twelve months.

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

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

DIVIDEND POLICY AND PROPOSED DIVIDEND

H&M's financial goals are to enable the company to continue enjoying good growth and to be ready to exploit business opportunities. It is essential that, as in the past, the expansion proceeds with a continued high degree of financial strength and continued freedom of action. Based on this policy, the board of directors has decided that the total dividend should equal about half of the profit after tax. In addition, the board may propose that any surplus liquidity is also distributed.

The board of directors has decided to propose a dividend of SEK 9.75 (9.75) per share to the annual general meeting on 10 May 2017, corresponding to 87 percent (77) of the profit after tax.

Many companies in the US and Europe divide their dividends into quarterly or semi-annual payments. In Sweden, too, there are larger companies which pay their dividend in more than one instalment. Until now H&M has paid its dividends in conjunction with the annual general meeting in the spring. H&M's board of directors is to propose to the annual general meeting that the dividend is paid out semi-annually in the future, i.e. one instalment in the spring and one in the autumn, since this is more cost efficient for the company and also simplifies liquidity planning during the year.

The record date proposed for the first dividend payment of SEK 4.90 per share is 12 May 2017. This would then be paid out on 17 May 2017.

The record date proposed for the second dividend payment of SEK 4.85 per share is 14 November 2017. This would then be paid out on 17 November 2017.

PROPOSED DISTRIBUTION OF EARNINGS

At the disposal of the annual general meeting: SEK 16,562,033,368

The board of directors proposes
a dividend of SEK 9.75 per share SEK 16,136,952,000

To be carried forward as retained earnings SEK 425,081,368
SEK 16,562,033,368

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	2016	2015
Sales including VAT	222,865	209,921
Sales excluding VAT, note 3, 4	192,267	180,861
Cost of goods sold, note 6, 8	-86,090	-77,694
GROSS PROFIT	106,177	103,167
Selling expenses, note 6, 8	-75,729	-70,292
Administrative expenses, note 6, 8, 9	-6,625	-5,933
OPERATING PROFIT	23,823	26,942
Interest income	224	310
Interest expense	-8	-10
PROFIT AFTER FINANCIAL ITEMS	24,039	27,242
Tax, note 10	-5,403	-6,344
PROFIT FOR THE YEAR	18,636	20,898
All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	11.26	12.63
Number of shares, thousands*	1,655,072	1,655,072

* Before and after dilution.

Consolidated statement of comprehensive income

SEK M 1 DECEMBER - 30 NOVEMBER	2016	2015
PROFIT FOR THE YEAR	18,636	20,898
Other comprehensive income		
<i>Items that are or may be reclassified to profit or loss</i>		
Translation differences	1,186	1,514
Change in hedging reserves, note 17	-578	245
Tax attributable to change in hedging reserves	139	-59
<i>Items that will not be classified to profit or loss</i>		
Remeasurement of defined benefit pension plans, note 19	-78	43
Tax related to the above remeasurement	19	-11
OTHER COMPREHENSIVE INCOME	688	1,732
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	19,324	22,630

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

COMMENTS ON PROFITS

2016 was an eventful year which included many positive things, but also challenges both for the H&M group and for the industry. The year was characterised by the shift in the industry towards an ever growing online market and by digitalisation. For fashion retail in general, 2016 was at the same time a challenging year in which various external factors – including geopolitical events – had a negative impact on retail trade in many markets.

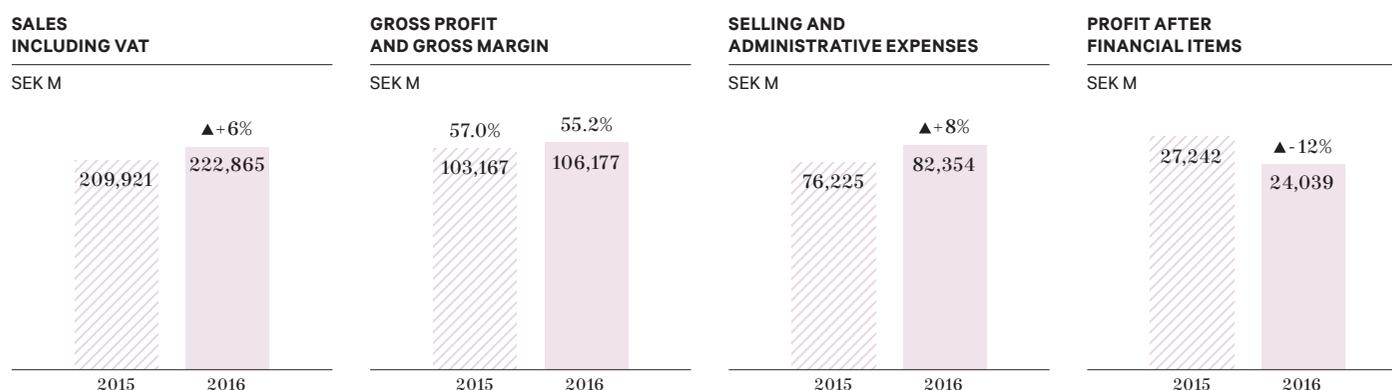
During the year the H&M group opened 427 new stores net world-wide and added three new store markets, Puerto Rico, New Zealand and Cyprus, while H&M's online store was opened in 11 new markets. This means that H&M is now present in 64 markets, of which 35 offer e-commerce.

The group's sales increased by 7 percent in local currencies to SEK 223 billion, which is the highest annual turnover to date. The increase in sales was lower than planned, however, which led to increased mark-downs; combined with a strong US dollar, this made the group's purchases more expensive. Altogether, this had a negative impact on profit for the full year – although profits improved in the fourth quarter. Profit for the financial year after financial items amounted to SEK 24,039 m (27,242).

The H&M group's online business developed very well for all the brands, both as regards sales and profitability, which was positive. From an already high level, the group took further market share – which clearly proves that the investments in the online business have been successful. COS, & Other Stories, Monki, Weekday and H&M Home had strong online sales growth as well as very good store sales.

TAX

The H&M group's final tax rate for the 2015/2016 financial year was 22.5 percent (23.3). The final outcome of the tax rate for the year depends on the results of the group's various companies, the corporate tax rates in each country and any additional taxes relating to previous years. The H&M group's tax rate for the 2016/2017 financial year is expected to be 22.5 – 23.5 percent. However, in the first three quarters of 2017 an estimated tax rate of 23.5 percent will be used.



TOP TEN SALES MARKETS	2016		2015		CHANGE IN %		30 NOV - 16	2016
	SEK M INC. VAT	SEK M INC. VAT	SEK	LOCAL CURRENCY	NUMBER OF STORES	NEW STORES (NET)		
Germany	37,174	36,943	1	0	459	10		
USA	26,874	25,135	7	5	468	53		
UK	15,058	16,001	-6	3	281	17		
France	13,559	13,579	0	-1	238	16		
China	10,842	10,559	3	7	444	91		
Sweden	10,151	9,495	7	7	176	0		
Italy	9,081	8,644	5	4	166	16		
Netherlands	7,898	7,521	5	5	145	6		
Spain	7,894	7,736	2	1	169	4		
Switzerland	6,328	6,844	-8	-7	98	2		
Others*	78,006	67,464	16	17	1,707	212		
Total	222,865	209,921	6	7	4,351	427		
* Of which franchises.	4,808	4,494	7	5	188	32		

Group balance sheet

SEK M 30 NOVEMBER	2016	2015	SEK M 30 NOVEMBER	2016	2015
ASSETS			EQUITY AND LIABILITIES		
FIXED ASSETS			EQUITY		
Intangible fixed assets			Share capital, note 18	207	207
Brands, note 11	66	114	Reserves	2,651	1,904
Customer relations, note 11	20	32	Retained earnings	58,378	55,938
Leasehold and similar rights, note 11	630	660	TOTAL EQUITY	61,236	58,049
Capitalised expenditures, note 11	4,567	3,245			
Goodwill, note 11	64	64	LIABILITIES		
	5,347	4,115	Long-term liabilities		
Property, plant and equipment			Provisions for pensions, note 19	527	449
Buildings and land, note 12	850	797	Deferred tax liabilities, note 10	4,898	4,378
Equipment, tools, fixture and fittings, note 12	37,843	32,165	Other interest-bearing liabilities, note 13, 23	213	–
	38,693	32,962		5,638	4,827
Financial fixed assets			Current liabilities		
Long-term receivables	1,014	862	Accounts payable	7,262	6,000
Deferred tax receivables, note 10	2,862	2,338	Tax liabilities	434	–
	3,876	3,200	Liabilities to credit institutions, note 23	2,068	–
TOTAL FIXED ASSETS	47,916	40,277	Interest-bearing liabilities, note 13, 23	59	–
			Other liabilities	5,036	3,192
CURRENT ASSETS			Accrued expenses and prepaid income, note 21	16,846	13,745
Stock-in-trade, note 14	31,732	24,833		31,705	22,937
Current receivables			TOTAL LIABILITIES	37,343	27,764
Accounts receivable	4,881	4,021			
Tax receivables	–	379	TOTAL EQUITY AND LIABILITIES	98,579	85,813
Other receivables	2,533	1,469			
Prepaid expenses, note 15	2,071	1,884	Pledged assets and contingent liabilities, note 27	–	–
	9,485	7,753			
Cash and cash equivalents, note 16	9,446	12,950			
TOTAL CURRENT ASSETS	50,663	45,536			
TOTAL ASSETS	98,579	85,813			

FINANCIAL POSITION AND CASH FLOW

The H&M group remains in a strong financial position. The group's equity/assets ratio was 62.1 percent (67.6) and the share of risk-bearing capital was 67.1 percent (72.7).

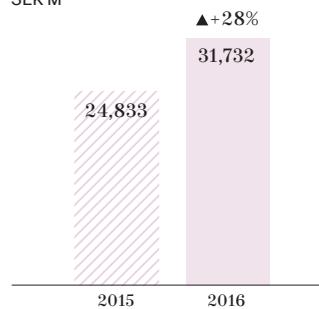
Shareholders' equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2016 was SEK 37.00 (35.07).

Liquidity management

In 2016 the longest investment period was four months. The group does not use any derivative instruments in the interest-bearing securities market, nor does it trade in shares or similar instruments. See also note 2, Financial risks.

STOCK-IN-TRADE

SEK M



Group changes in equity

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

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2015	207	1,663	241	55,938	58,049
Profit for the year	–	–	–	18,636	18,636
Other comprehensive income					
Translation differences	–	1,186	–	–	1,186
Change in hedging reserves					
Reported in other comprehensive income	–	–	-223	–	-223
Reclassified to profit or loss	–	–	-355	–	-355
Tax related to hedging reserves	–	–	139	–	139
Remeasurement of defined benefit pension plans	–	–	–	-78	-78
Tax related to the above remeasurement	–	–	–	19	19
Other comprehensive income	–	1,186	-439	-59	688
Total comprehensive income	–	1,186	-439	18,577	19,324
Dividend	–	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2016	207	2,849	-198	58,378	61,236

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2014	207	149	55	51,145	51,556
Profit for the year	–	–	–	20,898	20,898
Other comprehensive income					
Translation differences	–	1,514	–	–	1,514
Change in hedging reserves					
Reported in other comprehensive income	–	–	1,826	–	1,826
Reclassified to profit or loss	–	–	-1,581	–	-1,581
Tax related to hedging reserves	–	–	-59	–	-59
Remeasurement of defined benefit pension plans	–	–	–	43	43
Tax related to the above remeasurement	–	–	–	-11	-11
Other comprehensive income	–	1,514	186	32	1,732
Total comprehensive income	–	1,514	186	20,930	22,630
Dividend	–	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2015	207	1,663	241	55,938	58,049

Group cash flow statement

SEK M 1 DECEMBER - 30 NOVEMBER	2016	2015
Current operations		
Profit after financial items*	24,039	27,242
Provisions for pensions	-9	28
Depreciation	7,605	6,399
Tax paid	-4,470	-7,022
Cash flow from current operations before changes in working capital	27,165	26,647
Cash flow from changes in working capital		
Current receivables	-1,817	-249
Stock-in-trade	-6,511	-5,105
Current liabilities	4,938	2,774
CASH FLOW FROM CURRENT OPERATIONS	23,775	24,067
Investing activities		
Investment in leasehold and similar rights	-139	-324
Investments in other intangible assets	-1,476	-1,140
Investment in buildings and land	-60	-2
Investment in equipment	-11,671	-10,593
Change in short-term investments, 4–12 months	0	2,602
Other investments	-152	-153
CASH FLOW FROM INVESTING ACTIVITIES	-13,498	-9,610
Financing activities		
Short-term loans	2,068	-
Dividend	-16,137	-16,137
CASH FLOW FROM FINANCING ACTIVITIES	-14,069	-16,137
CASH FLOW FOR THE YEAR	-3,792	-1,680
Cash and cash equivalents at beginning of the financial year	12,950	14,091
Cash flow for the year	-3,792	-1,680
Exchange rate effect	288	539
Cash and cash equivalents at year-end**	9,446	12,950

* Interest paid for the group amounts to SEK 8 m (10). Received interest for the group amounts to SEK 224 m (310).

** Cash and cash equivalents and short-term investments at the end of the financial year amounted to SEK 9,446 m (12,950).

Parent company income statement

SEK M 1 DECEMBER - 30 NOVEMBER	2016	2015
External sales excluding VAT	–	15
Internal sales excluding VAT, note 5	3,985	3,605
GROSS PROFIT	3,985	3,620
Selling expenses, note 6, 8	–	0
Administrative expenses, note 6, 8, 9	-173	-126
OPERATING PROFIT	3,812	3,494
Dividend from subsidiaries	12,597	13,288
Interest income and similar items, note 28	153	154
Interest expense	0	-7
PROFIT AFTER FINANCIAL ITEMS	16,562	16,929
Year-end appropriations, note 24	18	17
Tax, note 10	-876	-806
PROFIT FOR THE YEAR	15,704	16,140

Parent company statement of comprehensive income

SEK M 1 DECEMBER - 30 NOVEMBER	2016	2015
PROFIT FOR THE YEAR	15,704	16,140
Other comprehensive income		
<i>Items that have not been and will not be reclassified to profit or loss</i>		
Remeasurement of defined benefit pension plans	-4	37
Tax related to the above remeasurement	1	-8
OTHER COMPREHENSIVE INCOME	-3	29
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,701	16,169

Parent company balance sheet

SEK M 30 NOVEMBER	2016	2015	SEK M 30 NOVEMBER	2016	2015
ASSETS			EQUITY AND LIABILITIES		
FIXED ASSETS			EQUITY		
Property, plant and equipment			Restricted equity		
Buildings and land, note 12	127	71	Share capital, note 18	207	207
Equipment, tools, fixture and fittings, note 12	313	435	Restricted reserves	88	88
	440	506		295	295
Financial fixed assets			Non-restricted equity		
Shares and participation rights, note 25	588	588	Retained earnings	861	829
Receivables from subsidiaries	779	1,085	Profit for the year	15,701	16,169
Long-term receivables	11	11		16,562	16,998
Deferred tax receivables, note 10	42	43			
	1,420	1,727	TOTAL EQUITY	16,857	17,293
TOTAL FIXED ASSETS	1,860	2,233	UNTAXED RESERVES, NOTE 26	429	447
CURRENT ASSETS			LIABILITIES		
Current receivables			Long-term liabilities		
Receivables from subsidiaries	16,179	14,808	Provisions for pensions, note 19	191	195
Tax receivables	–	–	Current liabilities*		
Other receivables	7	2	Accounts payable	3	5
Prepaid expenses, note 15	0	0	Tax liabilities	729	671
	16,186	14,810	Other liabilities	206	182
Cash and cash equivalents, note 16	376	1,758	Accrued expenses and prepaid income, note 21	7	8
TOTAL CURRENT ASSETS	16,562	16,568		945	866
TOTAL ASSETS	18,422	18,801	TOTAL LIABILITIES	1,136	1,061
			TOTAL EQUITY AND LIABILITIES	18,422	18,801
			Pledged assets and contingent liabilities, note 27		

* No current liabilities are interest-bearing.

Parent company changes in equity

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2015	207	88	16,998	17,293
Profit for the year	-	-	15,704	15,704
Other comprehensive income				
Remeasurement of defined benefit pension plans	-	-	-4	-4
Tax related to the above remeasurement	-	-	1	1
Other comprehensive income	-	-	-3	-3
Total comprehensive income	-	-	15,701	15,701
Dividend	-	-	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2016	207	88	16,562	16,857

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2014	207	88	16,966	17,261
Profit for the year	-	-	16,140	16,140
Other comprehensive income				
Remeasurement of defined benefit pension plans	-	-	37	37
Tax related to the above remeasurement	-	-	-8	-8
Other comprehensive income	-	-	29	29
Total comprehensive income	-	-	16,169	16,169
Dividend	-	-	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2015	207	88	16,998	17,293

Parent company cash flow statement

SEK M 1 DECEMBER - 30 NOVEMBER	2016	2015
Current operations		
Profit after financial items*	16,562	16,929
Provisions for pensions	-8	9
Depreciation	127	145
Taxes received/paid	-816	-55
Cash flow from current operations before changes in working capital	15,865	17,028
Cash flow from changes in working capital		
Current receivables	-1,376	-2,604
Current liabilities	21	-971
CASH FLOW FROM CURRENT OPERATIONS	14,510	13,453
Investing activities		
Investment in buildings and land	-61	-2
Net investment in equipment	-	-1
Change in short-term investments, 4–12 months	-	2,602
Other investments	306	-180
CASH FLOW FROM INVESTING ACTIVITIES	245	2,419
Financing activities		
Dividend	-16,137	-16,137
CASH FLOW FROM FINANCING ACTIVITIES	-16,137	-16,137
CASH FLOW FOR THE YEAR	-1,382	-265
Cash and cash equivalents at beginning of the financial year	1,758	2,023
Cash flow for the year	-1,382	-265
Cash and cash equivalents at year-end**	376	1,758

* Interest paid for the parent company amounts to SEK 0 m (7). Received interest for the parent company amounts to SEK 21 m (45), note 28.

** Cash and cash equivalents and short-term investments at the end of the financial year amounted to SEK 376 m (1,758).

Notes to the financial statements

Corporate information

The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Stockholm, Sweden. The parent company's corporate identity number is 556042-7220. The company's shares are listed on the Stockholm stock exchange, Nasdaq Stockholm. The group's business consists mainly of sales of clothing, accessories, footwear, cosmetics and home textiles to consumers. The company's financial year runs from 1 December to 30 November. The annual report was approved for publication by the board of directors on 30 January 2017 and will be submitted to the annual general meeting for approval on 10 May 2017.

Ramsbury Invest AB's holding of shares in H & M Hennes & Mauritz AB represents 36.3 percent of all shares and 69.0 percent of the total voting power. Ramsbury Invest AB (556423-5769) is thus formally the parent company of H & M Hennes & Mauritz AB.

1. ACCOUNTING PRINCIPLES

Basis for preparation of the accounts

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

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

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

Where relevant, accounting principles are described within each note.

Parent company

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

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

Changes in accounting principles and disclosure requirements

The accounting principles and disclosure requirements applied for 2015/2016 are the same as those applied in the previous year.

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.

This standard is to be applied to annual reporting periods beginning on or after 1 January 2018, when it will replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard has been comprehensively revised in various parts, including in respect of the recognition and measurement of financial assets and financial

liabilities. The standard is divided into three parts: classification and measurement, hedge accounting and impairment.

IFRS 9 requires financial assets to be classified in three different measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is made at the time the asset is initially recognised based on the characteristics of the asset and the company's business model. In the case of financial liabilities, there are no significant changes compared to IAS 39. The main change is for liabilities measured at fair value. In this case the part of the change in fair value attributable to a change in the credit risk of the liability is to be presented in other comprehensive income rather than in profit or loss, unless this would create an accounting mismatch.

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

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

The group has begun its evaluation of the effects of the new standard.

– IFRS 15, Revenue from Contracts with Customers – this standard applies to annual reporting periods beginning on or after 1 January 2018 (in the case of H&M, from the 2018/2019 financial year). The standard replaces all previously issued standards and interpretations dealing with revenue (i.e. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue: Barter Transactions Involving Advertising Services).

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

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

– IFRS 16, Leases (not yet adopted by the EU). The standard applies to annual reporting periods beginning on or after 1 January 2019 and will supersede IAS 17, Leases, and its associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This is based on the approach that the lessee has a right to use an identified asset for a specific period of time and at the same time a liability to pay for this right. Recognition for lessors will essentially be unchanged.

The group has begun its evaluation of the new standard and expects it to result in recognition of material assets and liabilities associated with the group's leases for premises. Since the standard will be applied for the first time to the 2019/2020 financial year, the judgement has been made that it is not yet possible to assess and calculate its effects on the figures with any certainty.

Estimates, assumptions and assessments

The preparation of the annual report and consolidated accounts requires

estimates and assumptions to be made, as well as judgments in the application of the accounting principles. These affect carrying amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. The actual outcome may therefore deviate from the estimates and assumptions made. The sources of uncertainty that have been identified by H&M are the measurement of stock-in-trade and the measurement of current and deferred tax – see note 10 and note 14.

It is judged that, as at 30 November 2016, there are no such estimates or assumptions made in the financial statements that involve a significant risk of any material adjustment to the values of assets and liabilities in the forthcoming financial year, other than those mentioned above.

Consolidated accounts

Basis of consolidation

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

Business combinations

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

Translation of foreign subsidiaries

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

prehensive income. On disposal of a foreign business the accumulated translation differences in the income statement are posted together with the profit or loss on disposal.

Foreign currency

Monetary assets 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.

Interest income

Interest income is recognised as it is earned.

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.

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.

2. FINANCIAL RISKS

The group's financing and management of financial risk is carried out centrally within the group's financial department in accordance with a financial policy established by the board of directors. The financial policy is the most important financial control tool for the company's financial activities and establishes the framework within which the company works. The group's accounting principles for financial instruments, including derivatives, are described in note 20.

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

The risks relating to these instruments are primarily the following:

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will vary due to changes in market interest rates and that changes in market interest rates may affect net profit. The group's exposure to risk from changes in interest rates relates to cash and cash equivalents, short-term investments and liabilities to credit institutions and for financial leases. The original term of the investments is up to three months as of the closing date. The financial policy permits investments of up to two years. The group's cash and cash equivalents and short-term investments as of the closing date amounted to SEK 9,446 m (12,950). As of the closing date, liabilities to credit institutions and for financial leases amounted to SEK 2,340 m (0). The short term means that the

risk of changes in value is limited. An interest rate increase of 0.5 percentage points on these amounts would increase interest income from cash and cash equivalents and short-term investments by SEK 47 m (65), and would increase interest expense for external borrowing and financial leases by SEK 12 m (0). A corresponding decrease in the interest rate would reduce interest income by the same amount and would decrease interest expense related to liabilities to credit institutions and for financial leases.

Currency risk

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

Currency exposure associated with financial instruments

H&M's currency risk associated with financial instruments is mainly related to financial investments, accounts payable and derivatives. The group's accounts payable in foreign currencies are mainly handled in Sweden and are largely hedged through forward contracts. Based on this, a change in the value of the Swedish krona of 2 percent in relation to other currencies would result in an insignificant momentary effect on profit related to the financial instrument holdings as of the closing date. A 2 percent strengthening of the Swedish krona would have a positive effect on the hedge reserve in equity of around SEK 269 m (86) before taking into account the tax effect, of which SEK 316 m (178) relates to EUR and SEK -269 m (-233) to USD.

The group's exposure to outstanding derivative instruments is reported in note 17.

The group's operating result for the year was affected by exchange rate differences relating to flows of goods in the amount of SEK -63 m (-254).

Transaction exposure associated with commercial flows

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

Translation exposure on consolidation of units outside Sweden

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

Credit risk

Investments are only permitted to be made in banks based in countries with a minimum rating of AA- (according to Standard & Poor's long-term rating) and funds are only invested in banks with a minimum rating of A- (Standard & Poor's) and A3 (Moody's). The financial policy stipulates for various ratings the maximum amount that may be invested and the term for which it may be invested. Investments are only allowed in banks defined by Standard & Poor's or Moody's as having systemic importance in the country where they are based. Under Standard & Poor's rating model the bank shall have at least "moderate systemic importance" and under Moody's model the bank shall have at least "one-notch uplift for systemic support". No further investments shall be made in countries or banks which have the minimum allowed long-term rating and a negative outlook. Maximum credit exposure as of 30 November 2016 totalled SEK 16,189 m (18,540) and corresponds to the book value for cash and cash equivalents of SEK 9,446 m (12,950), accounts receivable of SEK 4,881 m (4,021) and other SEK 1,862 m (1,569). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 2,585 (2,330). Bad debts during the year from accounts receivable were insignificant.

Liquidity risk

In view of the group's good liquidity and good cash flow H&M utilised external borrowing to only a limited extent in 2016, and this on favourable terms.

3. SEGMENT REPORTING

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

	2016	2015
Asia and Oceania		
External net sales	27,416	23,610
Operating profit	1,927	1,740
Operating margin, %	7.0	7.4
Assets excluding tax receivables	14,657	11,171
Liabilities excluding tax liabilities	1,430	1,736
Investments	2,505	2,516
Depreciation	1,169	843
Europe and Africa		
External net sales	132,689	128,200
Operating profit	4,006	4,828
Operating margin, %	3.0	3.8
Assets excluding tax receivables	41,143	33,258
Liabilities excluding tax liabilities	11,975	9,950
Investments	5,787	4,845
Depreciation	3,995	3,578

Cont. Note 3, Segment reporting

	2016	2015
North and South America		
External net sales	32,162	29,051
Operating profit	971	619
Operating margin, %	3.0	2.1
Assets excluding tax receivables	17,369	14,157
Liabilities excluding tax liabilities	5,998	4,712
Investments	3,360	2,966
Depreciation	1,791	1,547
Group Functions		
Net sales to other segments	79,284	91,297
Operating profit	16,919	19,755
Operating margin, %	21.3	21.6
Assets excluding tax receivables	22,548	24,510
Liabilities excluding tax liabilities	12,608	6,988
Investments	2,009	1,732
Depreciation	650	431
Eliminations		
Net sales to other segments	-79,284	-91,297
Total		
External net sales	192,267	180,861
Operating profit	23,823	26,942
Operating margin, %	12.4	14.9
Assets excluding tax receivables	95,717	83,096
Liabilities excluding tax liabilities	32,011	23,386
Investments	13,661	12,059
Depreciation	7,605	6,399

Operating results for each segment are based on how H&M tracks results internally within the group and may deviate from the fiscal result in each market.

The group's property, plant and equipment amounted to SEK 38,693 m (32,962) as of 30 November 2016. The fixed assets are largely distributed between the countries in accordance with each country's level of sales. In Sweden property, plant and equipment amounted to SEK 1,722 m (1,546) as of 30 November 2016.

4. NET SALES BY MARKET

The group's income is generated mainly by the sale of clothing, accessories, footwear, cosmetics and home textiles to consumers. Sales revenue is reported less value-added tax, returns and discounts as sales excluding VAT in the income statement. Income from store and online sales 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.

	2016	No. of stores 30 nov. 2016	2015	No. of stores 30 nov. 2015
Sweden	8,127	176	7,606	176
Norway	4,744	127	4,648	120
Denmark	4,549	102	4,334	103
UK	13,005	281	13,799	264
Switzerland	5,860	98	6,337	96
Germany	31,291	459	31,102	449

Cont. Note 4, Net sales by market

	2016	No. of stores 30 nov. 2016	2015	No. of stores 30 nov. 2015
Netherlands	6,536	145	6,217	139
Belgium	3,641	90	3,483	85
Austria	4,637	83	4,473	78
Luxembourg	408	10	384	10
Finland	2,317	61	2,269	60
France	11,300	238	11,316	222
USA	25,495	468	23,884	415
Spain	6,610	169	6,453	165
Poland	3,825	166	3,544	154
Czech Republic	1,182	48	999	44
Portugal	1,037	31	1,038	30
Italy	7,443	166	7,085	150
Canada	3,882	85	3,517	78
Slovenia	445	12	433	12
Ireland	929	23	864	23
Hungary	1,254	42	1,053	40
Slovakia	568	19	482	18
Greece	1,531	35	1,332	32
China	9,327	444	9,084	353
Hong Kong	1,919	28	1,870	25
Japan	4,259	66	3,476	57
Russia	3,702	113	2,978	96
South Korea	1,523	35	1,161	31
Turkey	2,581	62	2,016	46
Romania	1,745	52	1,448	42
Croatia	677	15	654	15
Singapore	963	13	906	12
Bulgaria	534	19	426	18
Latvia	274	8	256	6
Malaysia	1,066	35	937	29
Mexico	1,345	25	946	16
Chile	950	4	482	4
Lithuania	262	8	245	7
Serbia	307	9	265	6
Estonia	314	8	260	6
Australia	1,817	22	1,030	10
Philippines	776	21	497	12
Taiwan	634	10	316	6
Peru	433	6	223	2
Macau	166	2	89	2
India	574	12	73	2
South Africa	566	8	86	2
Puerto Rico	57	2		
Cyprus	30	1		
New Zealand	48	1		
Franchise	4,802	188	4,485	156
Total	192,267	4,351	180,861	3,924

5. REVENUE FROM GROUP COMPANIES

The parent company's internal sales consist of royalties of SEK 3,849 m (3,457) and other income of SEK 136 m (148) from group companies.

6. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2016	Board, CEO, executive management team, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. board, CEO, executive management team
Sweden, parent company*	19	0	13	13	13
Subsidiaries	48	26,166	6,333	607	23
Group total	67	26,166	6,346	620	36

* Social security costs have been affected by SEK 6 m relating to the repayment of premiums for the previous years.

2015	Board, CEO, executive management, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. board, CEO, executive management
Sweden, parent company**	21	-	-21	-28	-28
Subsidiaries	134	24,056	5,783	458	37
Group total	155	24,056	5,762	430	9

** The negative social security and pension costs are due to actuarial changes in pension liability.

Board fees

Board fees paid for the year as approved by the 2015 AGM amounted to SEK 5,825,000 (5,525,000). Board fees were paid as follows:

	SEK
Stefan Persson, chairman	1,550,000
Anders Dahlvig	675,000
Lottie Knutson	550,000
Sussi Kwart	675,000
Lena Patriksson Keller	550,000
Melker Schörling	550,000
Christian Sievert	725,000
Niklas Zennström	550,000

The fees were paid as resolved at the 2015 annual general meeting. This means that the fees related to the period until the next AGM was held; that is, for the period 29 April 2015 to 3 May 2016. The amounts were paid out after the 2016 AGM.

As of the AGM on 3 May 2016 the board consists of eight ordinary members elected by the AGM. There are also two employee representatives, with two deputies for these positions. Seven members of the board are women, five are men, and four of the 12 are employed by the company.

Board member Lena Patriksson Keller is the majority shareholder in Patriksson Communication AB, which had business relations with H&M during the year. The transactions took place on market terms and remuneration for 2016 amounted to SEK 0.4 m (0.6). There were no outstanding balances as of 30 November 2016.

Remuneration of senior executives

Based on resolutions on guidelines adopted annually by the AGM – see the administration report on pages 75–76.

Remuneration of the chief executive officer

Remuneration paid to the CEO for the 2016 financial year in the form of salary and benefits amounted to SEK 13.4 m (15.0), which included variable remuneration of SEK 0 m (2.0). Pension benefits for the CEO are covered by a defined contribution plan and by the ITP plan. The combined pension expenses shall amount in total to 30 percent of the

CEO's fixed salary. Pension expenses amounted to SEK 4.0 m (3.9). The retirement age for the CEO is 65.

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

The CEO is not covered by the supplementary guidelines on senior executives – see the administration report on page 76.

Pension for the former CEO

The former CEO retired on 1 September 2009. The total pension commitments entered as liabilities, which are based on the fact that the former CEO receives a pension for the first three years of his retirement equivalent to 65 percent of his fixed salary followed by a lifelong pension equivalent to 50 percent of the same salary, amount to SEK 141.3 m (142.1). The change in the year's pension commitments entered as liabilities include actuarial losses of SEK 2.5 m (actuarial gains of SEK 16.6 m). Pension costs for the former CEO are included under "of which pensions to board, CEO, executive management".

Remuneration of the executive management team

During the year the composition of the executive management was changed such that, in addition to the CEO, it now encompasses ten (16) individuals, of whom six are women. The executive management team consists of the CFO and the individuals responsible for the following group-wide functions: production, sustainability, expansion, communications, human resources, business development and logistics, as well as the person responsible for the H&M brand and the person responsible for new business (which includes the other brands such as COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home).

Remuneration paid to members of the executive management team in the form of salary and benefits amounted to SEK 48.0 m (66.5), which included variable remuneration of SEK 0 m (6.4). In addition to this, an estimated expense of SEK 30.0 m (30.0) has been recognised in respect of remuneration that certain senior executives may receive in accordance with the supplementary guidelines – see further description in the administration report on page 76. This will be paid out no earlier than 2019, in accordance with the guidelines approved at the 2014 AGM. Pension expenses relating to other members of the executive management during the year amounted to SEK 15.1 m (24.9). There are rules in place for members of the executive management team with respect to supplements to retirement pension beyond the ITP plan. The retirement age varies between 62 and 65. The cost of this commitment is partially covered by separate insurance policies.

H&M Incentive Program (HIP)

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

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

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

The 2013 annual general meeting resolved to change the basis of future contributions to HIP. The contribution is no longer linked to the increase in dividend; instead, contributions to HIP are based on 10 percent of the increase in the company's profit after tax between two consecutive financial years. The increase in profit is calculated on profit after tax before any contribution to HIP. Thus when calculating the contribution to HIP for year 2, the year's profit after tax is compared with year 1's profit after tax before any contribution to HIP. This ensures that the two years are compared on a like-for-like basis; in other words, profit after tax before any contribution to HIP. The first contribution to HIP based on an increase in profit was made for the financial year which ended on 30 November 2013.

The contribution to HIP for a financial year is expensed in the year to which it relates. For example, if profit after tax in year 1 is 100 and profit after tax in year 2 is 130, then the contribution is 3 and will be expensed in year 2.

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

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

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

For 2016 no contribution was made to the incentive programme, based on the principle for contributions to HIP that was adopted at the 2013 AGM and is described above.

7. AVERAGE NUMBER OF EMPLOYEES

	2016 Total	Male %	2015 Total	Male %
Sweden	8,933	22	8,061	23
Norway	1,723	9	1,873	11
Denmark	1,718	9	1,538	9
UK	7,604	23	7,178	23
Switzerland	2,149	14	2,109	14
Germany	14,261	19	14,593	19
Netherlands	2,660	17	2,553	16
Belgium	2,328	28	2,254	26
Austria	1,907	11	1,913	11
Luxembourg	158	16	161	14
Finland	1,098	6	1,059	6
France	5,849	23	6,737	23
USA	11,900	37	11,073	36
Spain	4,469	19	4,045	17
Poland	6,388	16	5,980	16
Czech Republic	1,054	13	899	13
Portugal	725	15	698	16
Italy	4,895	28	4,592	28
Canada	1,657	24	1,445	23
Slovenia	137	9	136	9
Ireland	479	17	454	17
Hungary	682	17	533	19
Slovakia	294	16	238	18
Greece	1,061	17	897	30
China	10,224	29	8,743	25
Hong Kong	986	20	1,115	32
Japan	2,198	28	1,764	33
Russia	2,368	24	2,101	25

Cont. Note 7, Average number of employees

	2016 Total	Male %	2015 Total	Male %
South Korea	981	32	764	30
Turkey	2,770	48	1,828	48
Romania	1,068	28	919	27
Croatia	343	5	328	10
Singapore	458	34	420	35
Bulgaria	362	24	319	26
Latvia	239	17	189	16
Malaysia	778	56	671	56
Mexico	852	51	572	52
Chile	659	46	413	47
Lithuania	191	6	237	8
Serbia	169	18	149	20
Estonia	216	6	247	7
Australia	988	40	555	25
Philippines	760	44	347	49
Taiwan	397	33	210	29
Peru	757	53	204	50
Macau	78	38	53	40
India	989	59	398	55
South Africa	471	38	321	33
Puerto Rico	41	32		
Cyprus	28	18		
New Zealand	185	26		
Other countries	901	68	748	69
Total	114,586	25	104,634	24

8. DEPRECIATION

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

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Cost of goods sold	847	725	-	-
Selling expenses	6,256	5,262	-	-
Administrative expenses	502	412	127	145
Total	7,605	6,399	127	145

9. AUDIT FEES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Ernst & Young				
Audit assignments	26.0	26.4	3.2	3.8
Auditing other than audit assignments	3.6	3.9	0.8	0.2
Tax consultancy	10.7	13.0	0.2	0.1
Other consultancy	1.9	1.8	-	-
Other auditors				
Audit assignments	4.9	4.4	-	-
Total	47.1	49.5	4.2	4.1

10. TAX

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

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

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

Global companies such as H&M are sometimes involved in tax proceedings of varying extent and at different stages. H&M continually evaluates tax proceedings in progress. Where it is likely that additional tax will have to be paid and the outcome can be reasonably estimated, the necessary reserve is made. As of the closing date, tax proceedings are in progress in some countries. H&M has made an assessment of the possible outcome and reserved the tax expense concerned. This assessment took account of aspects such as whether agreements on double taxation exist and whether there are differences between the tax rates in different countries.

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<i>Tax expense (-) / tax receivable (+):</i>				
Current tax				
Tax expense for the period	-5,106	-5,410	-874	-808
Adjusted tax expense for previous years	-96	-85	0	0
Total	-5,202	-5,495	-874	-808
Deferred tax receivable (+) / tax expense (-) in respect of:				
Stock-in-trade	-55	-4	-	-
Loss carryforward	2	11	-	-
Pension provisions	3	9	-2	2
Tax allocation reserve	-	-436	-	-
Intangible fixed assets	-103	-212	-	-
Property, plant and equipment	-333	-153	-	-
Other temporary differences	285	-64	-	-
Effect of changed tax rates	-	-	-	-
Total	-201	-849	-2	2
Grand total	-5,403	-6,344	-876	-806
Deferred tax recognised in other comprehensive income in respect of:				
Hedging reserves	139	-59	-	-
Defined benefit pension plans	19	-11	1	-8
Total	158	-70	1	-8

Cont. Note 10, Tax

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<i>Reconciliation between current tax rate and effective tax rate:</i>				
Expected tax expense according to the Swedish tax rate of 22%	-5,289	-5,993	-3,648	-3,724
Difference in foreign tax rates	69	-111	-	-
Non-deductible/non-taxable	-87	-155	0	-1
Other	-	-	-	-
Tax for previous years	-96	-85	0	0
Tax-free dividend subsidiaries	-	-	2,772	2,919
Total	-5,403	-6,344	-876	-806
Recognised deferred tax receivable relates to:				
Pension provisions	161	136	42	43
Intangible fixed assets	180	-	-	-
Property, plant and equipment	266	250	-	-
Loss carryforward in subsidiaries	20	17	-	-
Stock-in-trade	921	946	-	-
Hedging reserves	62	-	-	-
Other temporary differences	1,252	989	-	-
Total	2,862	2,338	42	43
Recognised deferred tax liabilities relate to:				
Intangible fixed assets	1,026	749	-	-
Property, plant and equipment	1,586	1,237	-	-
Stock-in-trade	366	336	-	-
Tax allocation reserve	1,890	1,890	-	-
Hedging reserves	-	97	-	-
Other temporary differences	30	69	-	-
Total	4,898	4,378		

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

11. INTANGIBLE FIXED ASSETS

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

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

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

Cont. Note 11, Intangible fixed assets

	GROUP	
	2016	2015
Brands*		
Opening acquisition cost	470	470
Acquisitions during the year	-	-
Closing acquisition cost	470	470
Opening amortisation	-356	-309
Amortisation for the year	-48	-47
Closing accumulated amortisation	-404	-356
Closing book value	66	114
Customer relations*		
Opening acquisition cost	131	131
Acquisitions during the year	-	-
Closing acquisition cost	131	131
Opening amortisation	-99	-86
Amortisation for the year	-12	-13
Closing accumulated amortisation	-111	-99
Closing book value	20	32
Leasehold rights and similar		
Opening acquisition cost	1,372	1,179
Acquisitions during the year	100	315
Sales/disposals	-70	-130
Translation effects	36	8
Closing acquisition cost	1,438	1,372
Opening amortisation	-721	-670
Sales/disposals	69	122
Amortisation for the year	-175	-172
Translation effects	-28	-1
Closing accumulated amortisation	-855	-721
Closing book value	583	651
Opening value, projects in progress	9	-
Change for the year	39	9
Translation effects	-1	-
Closing value, projects in progress	47	9
Total closing book value	630	660
Capitalised expenditure		
Opening acquisition cost	3,376	2,237
Acquisitions during the year	1,476	1,139
Closing acquisition cost	4,852	3,376
Opening amortisation	-131	-54
Amortisation for the year	-154	-77
Closing accumulated amortisation	-285	-131
Closing book value	4,567	3,245
Capitalised expenditure refers mainly to IT-related investments. To a small extent these were taken into use during 2013–2016, whereupon amortisation was commenced for these parts. Significant parts of the projects will be taken into use within one to four years. Those projects that are not yet ready for use are tested for impairment annually. This year's impairment testing of these projects did not result in any need for write-downs.		
Goodwill*		
Opening book value	64	64
Adjusted consideration/additional consideration	-	-
Closing book value	64	64

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

Cont. Note 11, Intangible fixed assets

A goodwill impairment test was carried out at the end of 2016. Significant assumptions used when testing goodwill for impairment are sales development and gross margin. The impairment test is based on a calculation of value in use. The value in use has been assessed based on discounted cash flows according to forecasts for the next five years and with an annual growth rate of 2 percent (2) in subsequent years. A discount rate of 14 percent (14) before tax was used. The cash flows are based on H&M's business plan. The growth rate of 2 percent (2) is based on H&M's assessment of the opportunities and risks associated with the business. The discount rate is based on an average weighted capital cost that is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and H&M is of the opinion that reasonable possible changes in the variables above would not have such a significant impact that the recovery amount would be reduced to a lower amount than the carrying amount.

12. BUILDINGS, LAND AND EQUIPMENT

Costs relating to property, plant and equipment 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. Property, plant and equipment are reported at acquisition cost less accumulated depreciation and any accumulated write-downs. Depreciation is distributed linearly over the assets' expected useful life. No depreciation is applied to land. The carrying amount of property, plant and equipment is tested for any indication of impairment. If the book value of the asset exceeds the recoverable amount (the higher of the net realisable value and the value in use), the necessary amount is written down. Any write-down is recognised in profit/loss.

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Buildings				
Opening acquisition cost	1,037	972	146	112
Acquisitions during the year	0	34	0	34
Sales/disposals	-21	-	-	-
Translation effects	52	31	-	-
Closing acquisition cost	1,068	1,037	146	146
Opening depreciation	-377	-334	-78	-74
Sales/disposals	4	0	-	0
Depreciation for the year	-31	-31	-5	-4
Translation effects	-19	-12	-	-
Closing accumulated depreciation	-423	-377	-83	-78
Closing book value	645	660	63	68
Opening value, projects in progress	0	32	0	32
Change for the year	57	-32	57	-32
Translation effects	-	-	-	-
Closing value, projects in progress	57	0	57	0
Total closing book value	702	660	120	68
Land				
Opening acquisition cost	137	134	3	3
Acquisitions during the year	3	-	4	-
Sales/disposals	0	-	-	-
Translation effects	8	3	-	-
Closing book value	148	137	7	3

Cont. Note 12, Buildings, land and equipment

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Equipment				
Opening acquisition cost	54,812	45,266	1,001	983
Acquisitions during the year	11,579	9,594	-	70
Sales/disposals	-4,402	-2,705	-	-52
Translation effects	1,738	2,657	-	-
Closing acquisition cost	63,727	54,812	1,001	1,001
Opening depreciation	-24,044	-19,450	-566	-477
Sales/disposals	4,055	2,451	-	52
Depreciation for the year	-6,959	-6,059	-122	-141
Translation effects	-785	-986	-	-
Closing accumulated depreciation	-27,733	-24,044	-688	-566
Closing book value*	35,994	30,768	313	435
Opening value, projects in progress	1,397	328	-	69
Change for the year	409	1,000	0	-69
Translation effects	43	69	-	-
Closing value, projects in progress	1,849	1,397	0	-
Total closing book value	37,843	32,165	313	435

* Finance leases for cash registers in stores are included in the closing book value of equipment at SEK 272 m (0). The leases run for up to seven years.

13. PAYMENTS FOR OPERATING LEASES AND FINANCE LEASES

Leases are classified in the consolidated accounts as either finance or operating leases. Finance leases exist when the financial risks and benefits associated with the ownership of an object are essentially transferred from the lessor to the lessee, regardless of whether the legal ownership lies with the lessor or the lessee. Assets held under finance leases are reported as fixed assets and future payment commitments are reported as liabilities in the balance sheet. On initial recognition, the asset and liability are reported at the net present value of future minimum lease payments and any residual value. On subsequent occasions, the expense is distributed between an interest portion and a repayment portion. All other rental agreements that do not fulfil the conditions for classification as finance leases are deemed to be operating leases. Lease charges paid under operating leases are expensed over the lease period using the straight-line method, even if the payment schedule deviates from this. With effect from the 2016 financial year, H&M has not only operating leases but also some leases that are classified as finance leases. The group's main leases are rental agreements for premises. Variable (sales-based) rents are recognised in the same period as the corresponding sales.

Operating leases

The group has leases relating to rented premises which were entered into on normal market terms. Most of the agreements contain options to extend the term. Rental costs for the 2016 financial year amounted to SEK 22,332 m (20,554), of which sales-based rent amounted to SEK 3,853 m (2,983).

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

	GROUP	
	2016	2015
Rental commitments in next twelve months	16,068	14,626
Rental commitments in next two to five years	41,605	41,732
Rental commitments more than five years ahead	23,820	28,965
Total	81,493	85,323

Cont. Note 13, Payments for operating leases and finance leases

Finance leases

The group has assets held under finance leases with a year-end residual value according to plan of SEK 272 m (0).

Finance lease payments are due as follows:

	Current	Interest cost	Future
In next twelve months	59	1	60
In next two to five years	190	3	193
More than five years ahead	23	1	24
Total	272	5	277

There were no finance leases in 2015.

Leased property, plant and equipment

	GROUP	
	2016	2015
Opening balance	-	-
Additional contracts	272	-
Repayments	-	-
Translation effects	-	-
Total	272	-

As of 30 November 2016, expenses attributable to finance leases including depreciation, were charged to earnings for the group in the amount of SEK 0 m (0) as well as interest expenses of SEK 0 m (0).

14. 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).

The composition of the stock-in-trade as of the closing date is judged to be good, but the stock level is assessed as being too high. Significant write-downs are rare. There were no material write-downs in the current or previous financial years. Only an insignificant part of the stock-in-trade is measured at net realisable value. The stock-in-trade is not considered to have any material degree of obsolescence.

15. PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Prepaid rent	1,527	1,431	0	0
Other items	544	453	-	0
Total	2,071	1,884	0	0

16. CASH AND CASH EQUIVALENTS

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

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Cash and bank balances	8,312	11,924	376	1,758
Short-term investments, 0–3 months	1,134	1,026	–	–
Total	9,446	12,950	376	1,758

Investments are made on market terms and the interest rates are between 0.00 and 10.25 percent. The difference in interest rate depends mainly on the currency in which the funds are invested. In the case of cash and cash equivalents for the parent company, cash pool accounts in the comparison figures were reclassified from cash and cash equivalents to intra-group balances.

17. FORWARD CONTRACTS

All changes in the value of derivatives are recognised initially in equity as a hedging reserve through other comprehensive income. Through other comprehensive income, the fair value is transferred from the hedging reserve to the income statement in conjunction with a hedged transaction taking place.

The table below shows the outstanding forward contracts for cash flow hedging as of the closing date:

SELL/BUY	Book value and fair value		Nominal amount, SEK		Average remaining terms in months	
	2016	2015	2016	2015	2016	2015
	NOK/SEK	-36	9	957	491	3
GBP/SEK	-53	-23	3,377	1,806	3	4
DKK/SEK	-21	7	1,121	449	3	4
CHF/SEK	-18	21	750	613	3	4
EUR/SEK	-393	139	19,967	10,405	3	4
PLN/SEK	-7	12	1,128	606	3	4
USD/SEK	-328	-135	4,734	3,414	3	4
CAD/SEK	-26	-5	612	450	3	4
JPY/SEK	14	-16	820	591	3	4
HKD/SEK	-29	-8	405	185	3	4
RON/SEK	-8	2	464	310	4	4
CZK/SEK	-4	0	304	37	3	6
HUF/SEK	-6	0	323	49	4	6
AUD/SEK	-25	-3	458	55	4	6
CNH/SEK	-39	-36	982	736	3	4
RUB/SEK	-63	-13	750	272	3	3
TRY/SEK	17	-27	452	338	3	3
SEK/USD	688	496	16,820	14,723	2	2
SEK/EUR	9	-15	1,628	1,384	2	2
Total	-328	405	56,052	36,914		

Cont. Note 17, Forward contracts

ASSETS/LIABILITIES 2016	Derivative assets	Derivative liabilities	Total
Gross amounts	547	1,034	-487
Gross amounts set off in the balance sheet	–	–	–
Net amount in balance sheet	547	1,034	-487
Related amounts not set off in the balance sheet			
Financial instruments	-519	-519	0
Net amount	28	515	-487
Other instruments not subject to netting agreements	301	142	159
Total in balance sheet	848	1,176	-328

ASSETS/LIABILITIES 2015	Derivative assets	Derivative liabilities	Total
Gross amounts	547	264	283
Gross amounts set off in the balance sheet	–	–	–
Net amount in balance sheet	547	264	283
Related amounts not set off in the balance sheet			
Financial instruments	-208	-208	0
Net amount	339	56	283
Other instruments not subject to netting agreements	160	38	122
Total in balance sheet	707	302	405

At the closing date, forward contracts with a positive market value amount to SEK 848 m (707), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 1,176 m (302), which is reported under other current liabilities. Of the outstanding forward contracts, losses of SEK -69 m (gains 87) were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK -259 m (318) is included in the hedging reserve in equity.

Regarding measurement see note 20.

18. SHARE CAPITAL

The share capital is divided between 194,400,000 class A shares (ten votes per share) and 1,460,672,000 class B shares (one vote per share). There are no other differences between the rights associated with the shares. The total number of shares is 1,655,072,000. The dividend paid per share in 2016 was SEK 9.75.

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, as in the past, the expansion is able to proceed with a continued high degree of financial strength and continued freedom of action. In view of this, the board of directors has established a dividend policy whereby the dividend should equal around half of the profit for the year after tax. In addition, the board may propose that any surplus liquidity is also distributed. H&M meets the capital requirements set out in the Swedish Companies Act. There are no other external capital requirements.

19. PROVISIONS FOR 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. In the case of the Swedish entities, the actuarial calculations also cover future payments of special payroll tax. Defined benefit plans are primarily found in Sweden, but also in the UK, Norway, Switzerland, Spain and Germany. Pension obligations are assessed annually with the help of independent actuaries according to the so-called Projected Unit Credit Method. The assessment is made using actuarial assumptions. These assumptions include such things as the discount rate, anticipated salary and pension increases as well as the expected return on managed assets. Changes in the actuarial assumptions and outcomes that deviate from the assumptions give

rise to actuarial gains or losses. The actuarial gains and losses arising are mainly due to the financial assumptions, such as changes in the discount rate. Such gains or losses are recognised in other comprehensive income in the year they arise.

For salaried employees in Sweden, H&M applies the ITP plan through insurance policies with Alecta and Collectum, i.e. ITP 2 and ITP 1. According to statement UFR 3 from the Swedish Financial Reporting Board, 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 information that allows this plan to be reported according to the rules for defined benefit plans. The ITP 1 plan is a defined contribution plan.

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2016, Alecta's consolidation ratio was 142 percent (148). 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.

	GROUP			PARENT COMPANY		
	2016	2015	2014	2016	2015	2014
Present value of defined benefit obligations	1,581	1,373	1,283	210	215	249
Fair value of managed assets	-1,054	-924	-832	-19	-20	-26
Provisions for pension obligations recognised in the balance sheet	527	449	451	191	195	223
Opening balance, 1 December	449	451	309	195	223	213
Recognised pension expenses, net	150	49	216	10	-33	36
Premiums paid by employer	-55	-53	-57	-	-	0
Pensions paid out	-17	-18	-17	-14	-15	-26
Disbursements from assets	-	20	-	-	20	-
Carrying amount of defined benefit obligations, 30 November	527	449	451	191	195	223

Of the total recognised obligation, SEK 205 m (210) relates to defined benefit pensions plans in Sweden and SEK 268 m (191) to plans in Switzerland.

The weighted average maturity of these pension plans is 10.7 (10.5) years for the Swedish plans and 17.0 (15.3) years for the Swiss plans.

The amounts recognised as pension expenses comprise the following items:

Current service cost	73	67	49	-	0	4
Interest expense	18	21	26	6	5	8
Interest income	-10	-14	-17	0	-1	-
Reductions/adjustments gains (-) and losses (+)	-	-	1	-	-	-
Past service cost	-26	0	-	-	-	-
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	17	18	9	-	-	-
Pension expenses recognised in the income statement	72	92	68	6	4	12
Pension expenses recognised in other comprehensive income						
Actuarial gains/losses financial assumptions asset	-13	-69	-44	1	-4	-3
Actuarial gains/losses demographic assumptions liability	-44	-	-5	-	-	-
Actuarial gains/losses financial assumptions liability	135	26	197	3	-33	27
Actuarial gains (-) and losses (+)	78	-43	148	4	-37	24
Total recognised pension expenses	150	49	216	10	-33	36

The cost of defined contribution pension plans amounts to SEK 474 m (437).

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

Discount rate	0.88%	1.33%	1.57%	2.25%	2.75%	2.00%
Future salary increases	1.36%	5.00%	2.41%	5.00%	5.00%	5.00%
Future pensions increases (inflation)	0.34%	0.42%	0.64%	1.50%	1.75%	1.75%

A 0.5 percentage point reduction in the discount rate would increase the liability for the Swedish commitments by SEK 12.9 m (12.9).

20. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	Loans receivable and accounts receivable		Financial assets held to maturity		Derivatives for hedging recognised at fair value		Other financial liabilities		Total book value	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Other long-term receivables	-	-	1,014	862	-	-	-	-	1,014	862
Accounts receivable	4,881	4,021	-	-	-	-	-	-	4,881	4,021
Other receivables	-	-	-	-	848	707	-	-	848	707
Short-term investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	8,312	11,924	1,134	1,026	-	-	-	-	9,446	12,950
Total financial assets	13,193	15,945	2,148	1,888	848	707	-	-	16,189	18,540
Accounts payable	-	-	-	-	-	-	7,262	6,000	7,262	6,000
Other liabilities	-	-	-	-	1,176	302	-	-	1,176	302
Total financial liabilities	-	-	-	-	1,176	302	7,262	6,000	8,438	6,302

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

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

Financial assets and liabilities at fair value through profit or loss

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

Loans receivable and accounts receivable

This category primarily covers cash and bank balances as well as accounts receivable. Cash and bank balances are valued at amortised cost. Accounts receivable have a short expected term and are 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 amortised cost, with the effective interest rate being used to calculate the value. As of the closing date, all of the group's short-term investments fell into this category.

Other financial liabilities

Financial liabilities that are not held for trading are valued at amortised cost. Accounts payable fall into this category. These have a short expected term and are recognised at the nominal amount with no discounting.

Reporting of derivatives used for hedging purposes

All derivatives are reported initially and continually at fair value in the balance sheet.

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

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

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

Hedging of forecast currency flows – cash flow hedging

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

The category derivatives for hedging recognised at fair value is measured based on observable data; in other words, in accordance with level 2 in the measurement hierarchy established in IFRS 13. The fair value of forward exchange contracts is calculated by discounting the difference between the agreed forward rate and the forward rate that can be obtained on the closing date for the remaining contract term. Contracts are discounted to a risk-free rate based on government bonds.

21. ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Holiday pay liability	1,359	1,235	-	-
Social security costs	845	758	0	1
Payroll liability	1,427	1,153	0	0
Costs relating to premises	9,026	7,185	-	-
Other accrued overheads	4,189	3,414	7	7
Total	16,846	13,745	7	8

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, Kaufinger Strasse in Munich, Via del Corso/Via Tomacelli in Rome and, since January 2008, premises for H&M's head office in Stockholm. Rent is paid at market rates, and rental costs and other property-related expenses totalled SEK 466 m (436) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 13.4 m (15.0), which included variable remuneration of SEK 0 m (2.0), for work carried out during the 2016 financial year as CEO of H & M Hennes & Mauritz AB.

Outstanding balances with related parties as of 30 November 2016 totalled SEK 3.1 m (0.7).

23. INTEREST-BEARING LIABILITIES

2016	Interest rate % 30 Nov	In next twelve months	In next 2–5 years	More than five years ahead
Liabilities to credit institutions, Nordic countries	-0.15 – -0.10	2,000	–	–
Liabilities to credit institutions, outside Nordic countries	9.00	68	–	–
Liabilities, financial leasing	0.28 – 1.53	59	190	23
Total		2,127	190	23

As of the closing date 30 November 2015 there were no interest-bearing liabilities.

24. APPROPRIATIONS

	GROUP	
	2016	2015
Group contributions provided	–	–
Depreciation in excess of plan	18	17
Provision for tax allocation reserve	–	–
Total	18	17

25. PARTICIPATION IN GROUP COMPANIES

All group companies are wholly owned.

2016	Corporate ID number	No. of shares	Book value	Domicile
Parent company shareholding				
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	0.1	Stockholm
H & M Online AB	556023-1663	1,150	0.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International B.V.		40	0.1	Netherlands
H & M Hennes & Mauritz India Private Ltd		8,650,000	12.5	India
H & M Hennes & Mauritz Japan KK		99	11.7	Japan
FaBric Scandinavien AB	556663-8523	1,380	560.7	Tranås
H & M Hennes & Mauritz International AB	556782-4890	1,000	0.1	Stockholm
H & M Fashion AB	556922-7878	50,000	0.1	Stockholm
Total			588.5	

2016	Corporate ID number	Domicile
Subsidiaries' holdings		
H & M Hennes & Mauritz AS		Norway
H & M Hennes & Mauritz A/S		Denmark
H & M Hennes & Mauritz UK Ltd		UK
H & M Hennes & Mauritz SA		Switzerland
H & M Hennes & Mauritz B.V. & Co. KG		Germany
Impuls GmbH		Germany
H & M Hennes & Mauritz Logistics AB Co. KG		Germany
H & M Hennes & Mauritz online shop AB & Co. KG		Germany
& Other Stories AB & Co. KG		Germany
H & M Hennes & Mauritz Holding B.V.		Netherlands
H & M Hennes & Mauritz Netherlands B.V.		Netherlands
H & M Hennes & Mauritz Management B.V.		Netherlands
H & M Hennes & Mauritz Belgium NV		Belgium
H & M Hennes & Mauritz Logistics GBC NV		Belgium
H & M Hennes & Mauritz GesmbH		Austria
H & M Hennes & Mauritz Oy		Finland
H & M Hennes & Mauritz SARL		France
H & M Hennes & Mauritz Logistics GBC France		France
H & M Hennes & Mauritz LP		US
Hennes & Mauritz SL		Spain
Hennes & Mauritz Customer Services SL		Spain
H & M Hennes & Mauritz sp. z.o.o.		Poland
H & M Hennes & Mauritz Logistics sp. z.o.o.		Poland
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic
Hennes & Mauritz Lda		Portugal
H & M Hennes & Mauritz S.r.l.		Italy
H & M Hennes & Mauritz Inc.		Canada
H & M Hennes & Mauritz d.o.o.		Slovenia
H & M Hennes & Mauritz (Ireland) 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 Co Ltd		China
H & M Hennes & Mauritz (Shanghai) Trading Co Ltd		China
H & M Hennes & Mauritz (Shanghai) Garments & Accessories Co Ltd		China
H & M Hennes & Mauritz SK s.r.o.		Slovakia
H & M Hennes & Mauritz A.E.		Greece
H & M Hennes & Mauritz LLC		Russia
H & M Hennes & Mauritz TR Tekstil Ltd Sirketi		Turkey
H & M Hennes & Mauritz Ltd		South Korea

Cont. Note 25, Participation in group companies

2016	Corporate ID number	Domicile
H & M Hennes & Mauritz SRL		Romania
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia
H & M Hennes & Mauritz PTE Ltd		Singapore
H & M Hennes & Mauritz EOOD		Bulgaria
Weekday Brands AB	556675-8438	Sweden
FaBric Sales AB & Co. KG Germany		Germany
H & M Hennes & Mauritz S.A de C.V.		Mexico
H & M Hennes & Mauritz Management S.A de C.V.		Mexico
H & M Hennes & Mauritz Servicios S.A de C.V.		Mexico
H & M Hennes & Mauritz Support S.A de C.V.		Mexico
H & M Hennes & Mauritz SIA		Latvia
H & M Retail SDN BHD		Malaysia
H & M Hennes & Mauritz SpA		Chile
H & M Hennes & Mauritz OÜ		Estonia
H & M Hennes & Mauritz UAB		Lithuania
H & M Hennes & Mauritz d.o.o.		Serbia
H and M Hennes and Mauritz Proprietary Limited		South Africa
H & M Hennes & Mauritz Pty Ltd		Australia
H & M Hennes & Mauritz S.A.C.		Peru
H & M Hennes & Mauritz (Macau) Limited		Macau
H & M Hennes & Mauritz Retail Private Limited		India
H & M Hennes & Mauritz INC		Philippines
H & M Hennes & Mauritz New Zealand Limited		New Zealand
H & M Hennes & Mauritz Cyprus Limited		Cyprus
H & M Hennes & Mauritz Kazakhstan LLP		Kazakhstan
H & M Hennes & Mauritz Colombia S.A.S		Colombia
H & M Hennes & Mauritz Iceland ehf		Iceland
H & M Hennes & Mauritz Vietnam LLC		Vietnam
H & M Hennes & Mauritz Georgia LLC		Georgia

26. UNTAXED RESERVES

	PARENT COMPANY	
	2016	2015
Depreciation in excess of plan	124	142
Tax allocation reserve	305	305
Total	429	447

27. CONTINGENT LIABILITIES

A contingent liability is reported where there is a possible obligation for which it remains to be confirmed whether the company has an existing obligation that could result in an outflow of resources. Alternatively, there may be an existing obligation that does not fulfil the criteria for reporting in the balance sheet as a provision or other liability since it is not likely that an outflow of financial resources will be required in order to settle the obligation or the amount cannot be reliably estimated.

The group is involved in various types of disputes, but it is assessed that no current disputes will have any significant impact on the group's results. For further information concerning tax disputes see note 10.

Neither the group nor the parent company has any pledged assets.

	PARENT COMPANY	
	2016	2015
Parent company's lease guarantees	13,064	14,654
Total	13,064	14,654

28. INTEREST INCOME AND SIMILAR ITEMS

The parent company's interest income and similar items consists of SEK 21 m (45) in interest income and SEK 132 m (109) in translation effects on receivables and liabilities from group companies.

29. KEY RATIO DEFINITIONS

This report contains key financial ratios in accordance with the framework for financial reporting applied by the H&M group, which is based on IFRS. Other key ratios and indicators are also used to follow up, analyse and govern the business and to provide the H&M group's stakeholders with financial information concerning the group's financial position, results and performance in a consistent way.

These other key ratios and indicators are considered necessary in order to be able to monitor performance against the group's financial targets. A combination of continual growth, high profitability, stable cash flow and using capital in the right way is intended to generate a high overall return for the H&M group's shareholders. It is therefore relevant to present key ratios relating to growth, profitability and capital, share-based measurements and terms relating to capital on a continuous basis.

The key ratios and indicators used, referred to and presented in the reporting are defined as shown in the list below.

Growth measurement

Change in sales, %, local currency: The group's total change in sales in local currency is calculated as the period's net sales (calculated at the same average rate as was used for the same period in the previous year) minus the period's net sales in the previous year, as a percentage of the period's net sales in the previous year.

Profit and yield measurements

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.

Gross profit: Net sales minus cost of goods sold.

Gross margin: Gross profit in relation to net sales.

Operating profit: Net sales minus all costs attributable to operations but excluding net financial items and income tax.

Operating margin: Operating profit as a percentage of net sales for the year.

Capital measurements

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.

Capital employed: Shareholders' equity plus interest-bearing liabilities.

Share-related measurements

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

Cash flow from operating activities per share: Cash flow from operating activities for the period divided by the average number of shares during the period.

Earnings per share: Net profit for the period in relation to the number of shares during the period.

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

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, 30 January 2017

Stefan Persson
Chairman of the Board

Stina Bergfors
Board member

Anders Dahlvig
Board member

Lena Patriksson Keller
Board member

Melker Schörling
Board member

Christian Sievert
Board member

Erica Wiking Häger
Board member

Niklas Zennström
Board member

Ingrid Godin
Board member

Margareta Welinder
Board member

Karl-Johan Persson
Chief Executive Officer

Our audit report was submitted on 30 January 2017

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of H & M Hennes & Mauritz AB for the financial year 1 December 2015 to 30 November 2016. The company's annual accounts and consolidated accounts can be found on pages 72–102 of the printed version of this document.

Responsibilities of the Board of Directors and the Chief Executive Officer for the annual accounts and consolidated accounts

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 30 November 2016 and of its financial performance and its cash flows for the year in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 30 November 2016 and of its financial performance and cash flows for the year in accordance with International Financial

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive Officer of H & M Hennes & Mauritz AB for the financial year from 1 December 2015 to 30 November 2016.

Responsibilities of the Board of Directors and the Chief Executive Officer

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

Auditor's responsibility

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

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

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

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

Opinion

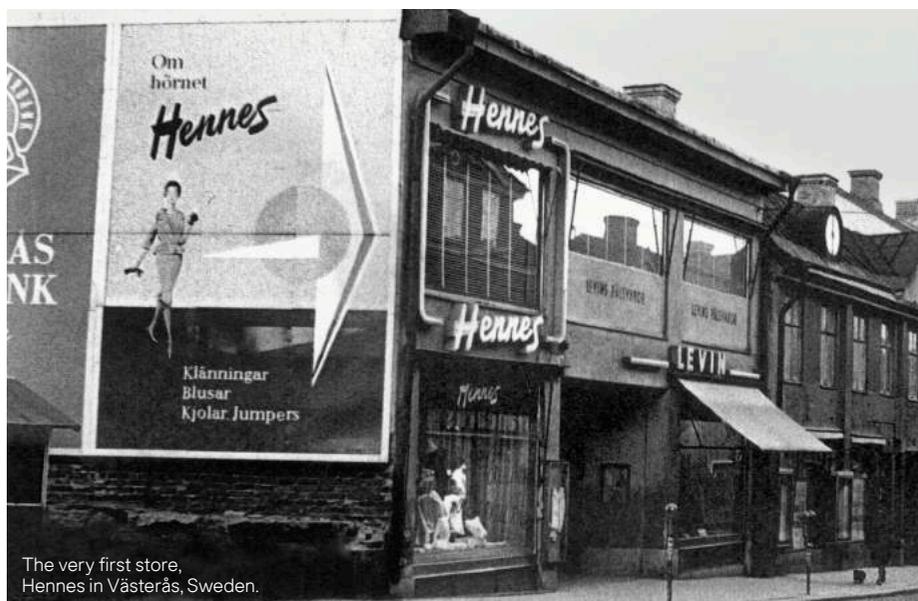
We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 30 January 2017
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

The H&M group through the years

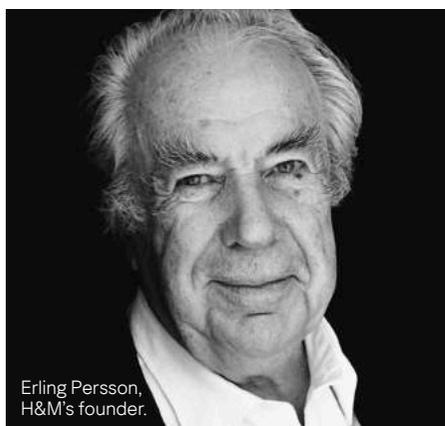
In 1947 Erling Persson opened the store Hennes in Västerås, Sweden. Today the H&M group is a global fashion company with several clearly defined fashion brands that together inspire customers around the world to dress their own personal style.



The very first store, Hennes in Västerås, Sweden.

1947

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



Erling Persson, H&M's founder.

1964

The first store outside Sweden opens in Norway.

1968

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

1974

H&M is listed on the Stockholm Stock Exchange.

1976

The first store outside Scandinavia opens in London.

1980–1999

Global expansion takes off with new markets such as Germany, the Netherlands, Belgium, Austria, Luxembourg, Finland and France.

2000

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

2004

H&M's designer collaborations start with Karl Lagerfeld, to be followed by collaborations with some of the world's biggest designers and fashion icons.



The first designer collaboration, with Karl Lagerfeld in 2004.

2006

Major expansion of online shopping at hm.com begins in Europe. The first franchise stores open, in the Middle East.

2007–2009

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



COS, Regent Street, London.



H&M Conscious Collection 2010.

2010

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

2011

The H&M Incentive Program (HIP) for all employees is started with a gift of around SEK 1 billion, invested in H&M shares, from Stefan Persson and family. HIP works the same way for everyone in the H&M group – regardless of salary, role, country and whether full- or part-time.

Collecting. Australia and the Philippines become new H&M markets, while the online store opens in four new countries including China. The new H&M Sport is launched and H&M's shoe concept is extended and updated.

2013

Launch of fashion brand & Other Stories. H&M opens its online store in the US. The H&M group's 3,000th store opens in Chengdu, China while the first H&M stores in the southern hemisphere open in Chile and Indonesia. H&M starts the Garment Collecting initiative, with the aim of closing the loop for textiles – becoming the first fashion company to collect old textiles in stores globally for reuse and recycling.

2015

Five new H&M markets are added, including India and South Africa. The online store opens in another ten countries. Launch of the new H&M Beauty concept. The H&M Foundation announces the Global Change Award, supporting and encouraging innovation for a more circular fashion industry.

2014

Launch of the first denim garments made using recycled fibres from H&M's Garment



H&M Beauty.



& Other Stories, Miami.

2016

Nearly 70 years on, the H&M group continues to grow with a passion for fashion, quality and sustainability. The first H&M stores open in Puerto Rico, Cyprus and New Zealand, and the online store opens in a further 11 countries. Together the brands of the H&M group pass the milestone of 4,000 stores worldwide. □

Annual general meeting

TIME AND PLACE

The 2017 annual general meeting will be held at 3 p.m. on Wednesday 10 May 2017 in the Erling Persson Hall, Aula Medica, Karolinska Institutet, Solna.

Shareholders who are registered in the share register printout as of Thursday 4 May 2017 and give notice of their intention to attend the AGM no later than Thursday 4 May 2017 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 4 May 2017.

NOTICE OF ATTENDANCE

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

H & M Hennes & Mauritz AB
 Årsstämman/Annual General Meeting
 SE-106 38 Stockholm
 Telephone: +46 (0)8 796 55 00,
 preferably between 08.00–17.00,
 stating notice of attendance at the AGM
 Fax: +46 (0)8 796 55 44
 hm.com/agm

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

DIVIDEND

The board of directors has decided to propose to the annual general meeting on 10 May 2017 a dividend of SEK 9.75 per share for the 2015/2016 financial year. The board of directors proposes that the dividend is to be paid in two instalments during the year – in May and in November.

The record date proposed for the first dividend payment of SEK 4.90 per share is 12 May 2017. With this record day, Euroclear Sweden AB is expected to pay the dividend on 17 May 2017.

To be guaranteed dividend payment, the H&M shares must have been purchased no later than 10 May 2017. Ex-dividend day is 11 May 2017.

The record date proposed for the second dividend payment of SEK 4.85 per share is 14 November 2017. With this record day, Euroclear Sweden AB is expected to pay the dividend on 17 November 2017.

To be guaranteed the second dividend payment, the H&M shares must have been purchased no later than 10 November 2017. Ex-dividend day is 13 November 2017.

Financial information

CALENDAR

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

30 March 2017	Three-month report
10 May 2017	Annual general meeting 2017 in the Erling Persson Hall, Aula Medica, Karolinska Institutet, Solna at 3 p.m.
29 June 2017	Six-month report
28 September 2017	Nine-month report
31 January 2018	Full-year report

Contact details

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CONTACTS

INVESTOR RELATIONS Nils Vinge
COMMUNICATIONS Kristina Stenvinkel
GOVERNANCE Liv Asarnoj

For information about the H&M group's various brands see:
 hm.com
 (H&M and H&M Home)
 cosstores.com
 weekday.com
 cheapmonday.com
 monki.com
 stories.com

COVER

H&M Spring Fashion 2017 photographed by Mikael Jansson.

The annual report is printed on FSC® certified paper.



DISTRIBUTION POLICY

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



Blouse
€99

