



H&M Group

Annual report 2020

H&M Group

We are a global family of brands with a shared passion to make great fashion and design available to all in a sustainable way.





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H & M Hennes & Mauritz AB's annual accounts and consolidated accounts for the financial year 2019/2020 comprise pages 36–84.

With the collection H&M Conscious Exclusive we are constantly exploring new creative ways of recycling and reusing materials to create fashion. H&M Conscious Exclusive A/W20 took materials made from various kinds of waste and through innovations and new recycling methods transformed them into beautiful garments and accessories.

CEO letter

The H&M group stands strong after a very challenging year. We are continuing to manage the negative effects of the pandemic, while also strengthening our customer focus further and driving our transformation at full speed to create the best customer offering and sustainable, profitable growth for the H&M group.

The year 2020 was marked by the Covid-19 pandemic, which had a significant negative impact on the H&M group's results. However, we made a strong start to the year. Our positive trend from 2019 with more customers, more satisfied customers and increased full-price sales continued in the first quarter of 2020, when profits more than doubled compared with the previous year. As a result of our transformation work and many years of investments focusing on the digital, this made a strong contribution to our ability to manage the challenges brought by the pandemic.

The safety of our employees and customers has been our highest priority throughout. Due to extraordinary social measures to reduce the spread of the virus, stores were temporarily closed in many markets. At the most, around 4,000 of our 5,000 stores were temporarily closed in the second quarter and in those markets where stores were still open, customer footfall was significantly down.

STRONG AND SWIFT ACTION

We rapidly implemented a range of strong measures to mitigate the severe adverse effects. This crisis work encompassed all parts of the business. We adjusted our product purchasing and purchasing plans while maintaining our responsible purchasing practices with our suppliers. With up to 80 percent of our stores closed, there was a great focus on adjusting store-related costs such as staffing, rents and marketing activities, as well as administrative expenses.

I would like to thank all the H&M group's employees for such incredible commitment, determination and team spirit. Everywhere colleagues came together to quickly find solutions to the problems that arose and to be able to meet customers despite all the restrictions and lockdowns. By accelerating the digital shift in the industry, the pandemic also hastened our need for a skills shift, with an increased need for online, tech and logistics skills while the opposite is the case for operations in the physical stores. This affected many of our employees and therefore meant difficult decisions had to be taken, but these were absolutely necessary in order for the business to adapt to the ever faster changes in the world around us.

To offset the effects of the pandemic we also needed to shift our financial focus. The priority was first and foremost to secure the company's liquidity and continued financial flexibility. In view of the difficult situation we found ourselves in, I welcomed the decision by the annual general meeting in spring 2020 to cancel the dividend in accordance with the board's proposal.

It also became necessary to re-evaluate all approved and planned investments. These were scaled back, while at the same time investments in digital and the supply chain made up a greater share. With the majority of the stores closed, we strengthened our focus on the digital sales channels further – and since we had expanded online sales globally, our customer offering remained available in many markets. Online demand for our collections was high and rapid online growth partly



Helena Helmersson, CEO of H & M Hennes & Mauritz AB since 30 January, 2020.

compensated for the drop in physical store sales. Due to the extent of the restrictions and the drastic worsening of the market situation, however, we made a loss in the second quarter despite swiftly implemented measures and substantial cost reductions.

OUR RECOVERY AND THE SECOND WAVE

Sales gradually started to come back as social restrictions were eased and our brands were able to welcome customers back into the stores again. Customers made it clear that they appreciate the H&M group's offering, and we saw just how well the physical and digital sales channels complement each other. Our recovery was faster than expected and we returned to profit already in the third quarter. The improvement in profit was driven by increased full-price sales as well as cost reductions, and was also supported by our earlier investments to increase flexibility in the supply chain and redirect the product flow between sales channels. The H&M group's online sales were up 50 percent in local currencies in the fourth quarter.

Our recovery continued until the second wave of the pandemic brought a new slowdown as a result of new restrictions and lockdowns. Despite the Covid-19 situation, through our efforts and attractive customer offering we succeeded in growing our customer base in 2020 and kept inventory well under control. With strong, profitable online growth and good cost control we ended the year in profit and in a strong financial position.

CHANGES ARE ACCELERATED

During the pandemic many of the changes in society that had already been driving the H&M group's transformation speeded up. Alongside accelerated digitalisation, awareness of the importance of sustainable development increased, the need for local relevance strengthened and in the wake of the pandemic demand for good value, sustainable products is expected to increase. The H&M group's customer offering is well positioned for this and our transformation is continuing at full speed.

Our main focus remains on developing the H&M group's strong, unique brands and providing customers with the best combination of fashion, quality, price and sustainability. We are continually increasing the share of recycled and other more sustainably sourced materials in our collections, aiming to reach 100 percent by 2030 from the current level of 64 percent. New breakthroughs among our partners in recycling textiles made of material blends on an industrial scale, have contributed

to us setting a new waypoint: to increase the share of recycled materials to 30 percent by 2025, which is also part of our work to secure a sustainable supply of materials for the H&M group. Our brands are also offering customers an increasing number of services for a more sustainable lifestyle.

By engaging our customers more in various ways, we are building long-term, value-creating relationships. H&M's customer loyalty programme continues to attract customers in a growing number of markets and now has more than 114 million members who are able to benefit from more personalised offerings and digital services for inspiration and a smooth customer experience. Like we have seen also during the pandemic, customers value the physical store experience. The stores are also important for our profitable online trading. Alongside continued focus on digital growth, we are intensifying our work to ensure a relevant and profitable store portfolio that meets customers' needs in interaction with our digital channels.

SPEED AND FLEXIBILITY BECOME INCREASINGLY IMPORTANT

Speed and flexibility – particularly in the supply chain – will become even more important going forward, to ensure the best customer offering and increase availability in all channels. Our tech drive involving AI, new logistics systems and high-tech logistics centres is an important part of our work to have the right product in the right place at the right time and at the right cost. Combined with more efficient processes, this increases our precision and thereby contributes to a more sustainable use of resources.

NEW CLIMATE GOALS

Just like digitalisation, the H&M group's sustainability work contributes to our transformation. Among other things, during the year we set new climate interim goals. You can read more about this in the H&M group's Sustainability Performance Report on our website. Our ambition is to lead the fashion industry towards a sustainable future and we are therefore pleased that the H&M group again was included in global organisation CDP's A List for environmental work and transparency.

The H&M group's transformation is also opening up new ways for us to benefit from our assets, relationships and economies of scale. Within the company and together with partners, we are identifying and developing new initiatives and business models that have the potential to add value and more revenue streams to the company in the longer term.

STRONG, LONG-TERM OWNERS AND SHARED VALUES

2020 was an exceptionally tough year. It was also my first year as CEO of the H&M group after taking over on 30 January from Karl-Johan Persson, who became chairman of the board in May. I have worked here for 24 years, alongside so many fantastic, dedicated colleagues around the world. Although the pandemic cannot be compared with anything we as a company have been through before and is far from over, I am convinced that we will come out of the crisis stronger. The H&M group has shown determination and we have acted swiftly, while at the same time strengthening our customer focus further.



We have the privilege of having strong, long-term and committed main owners – the Persson family, founders of the H&M group. Throughout the incredible growth journey that the company has been on since it started in 1947, we have been keen to maintain the unique corporate culture and entrepreneurial spirit on which our business is based. Our culture and shared values have meant incredibly much for our ability to recover during the pandemic and will continue to be just as important to us in the future.

LOOKING AHEAD

The H&M group stands on firm foundations, allowing us both to make the most of opportunities that arise and to manage the ongoing Covid-19 situation. Our actions to mitigate its negative effects continue. Ongoing restrictions, with many stores temporarily closed, will have a substantial negative impact on the first quarter of 2021. At the end of January around 1,800 – or 36 percent – of our stores were closed.

Although the challenges are again substantial, it is clear that when customers are able to shop they are showing that they appreciate our offering, both in stores and online. A gradual improvement in the Covid-19 situation combined with our continued transformation means the H&M group is well positioned for a strong recovery during the year.

Together with our ambitious sustainability agenda, our ongoing transformation will make us more resilient and adaptable in the future and will contribute to sustainable and profitable growth for the H&M group in the long term.

Helena Helmersson, CEO
H & M Hennes & Mauritz AB

We want to create unbeatable value for our customers

The H&M group is a family of brands making it possible for customers around the world to express themselves through fashion and design, and to choose a more sustainable lifestyle. We create value for people and society in general by delivering our customer offering and developing with a focus on sustainable and profitable growth.

An inspiring and smooth shopping experience

The H&M group's brands reach customers around the world. Wherever, whenever and however our customers want to meet us – in our stores, on our websites, in digital marketplaces and on social media – we want to offer a convenient and inspiring experience in which the channels interact and strengthen each other. We are continuing to focus on digital growth, optimisation of the store portfolio and integration of online and physical stores.

Read more about our digital services and initiatives for an even better customer experience on page 15.



Strong geographical diversification:

74

markets, of which 52 markets also offer online sales.

28%

online sales as a share of the group's net sales in 2020



Reusable, plastic-free packaging

We are striving to reduce packaging throughout our supply chain, focusing on reducing plastics. For 2025 our goal is for all our packaging material to be recyclable, reusable or compostable. In 2020 a new system of reusable bags made of certified paper was produced and this will gradually be rolled out to all the brands in the H&M group for online deliveries. Deliveries using climate-smart transport are also becoming available in more and more markets.

Read more on pages 47 and 49 and at hmgroupp.com.

Our brands and new business models

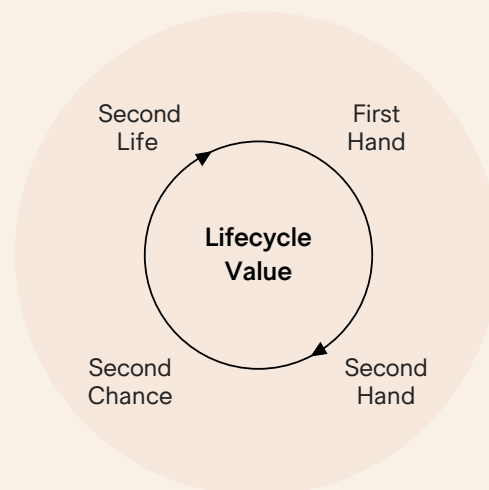
The H&M group includes the brands H&M and H&M HOME, COS, Weekday, Monki, & Other Stories and ARKET, the marketplace Afound and the B2B initiative Treadler. In addition, the H&M group is the majority shareholder in Sellpy, a fast-growing e-commerce platform for second-hand items.

Through strong, unique brands that offer the best combination of fashion, quality, price and sustainability we want to give our customers unbeatable value. The customer offering is continually improved to meet customers' expectations. Supply chain investments in digitalisation and AI are part of the group's work to secure the best customer offering and increase availability in all channels.

In parallel, new business models, initiatives and partnerships are developed to satisfy new customer needs, provide additional revenue streams and contribute to more sustainable use of resources.

In 2020 the percentage of recycled or other sustainably sourced materials in the collections continued to increase. Our brands also offer a range of services based on circular business models such as resell, remake, repair and garment rental, as well as the H&M group's garment collecting in stores globally for textiles recycling.

Our innovation hub The Laboratory runs a range of projects focusing on digital services connected to sustainability. The group also includes investment arm CO:LAB, which is focusing on entrepreneurs that are exploring the future of fashion. Through CO:LAB the H&M group has invested in businesses such as Renewcell, a Swedish textiles recycling company that has developed a unique method of recycling textiles on an industrial scale, creating natural biodegradable fibres.



By extending the life cycle of materials and products we increase value for customers and make a sustainable lifestyle accessible to more people.

Our values

Shared values have guided us since the H&M group's founder, Erling Persson, opened the first Hennes store in 1947. Based on respect for the individual and belief in people's ability to use their initiative, our values remain key to our success in a rapidly changing world.

We are one team

We believe in people

Entrepreneurial spirit

Constant improvement

Cost-conscious

Straightforward
and open-minded

Keep it simple



114

million members of H&M's customer loyalty programme, which is attracting more and more customers. The programme is in 26 markets with further rollout planned.

Biodiversity is part of our climate goal

The H&M group aims to be climate positive throughout the value chain by 2040 at the latest. Climate change and biodiversity loss are closely linked. We have therefore expanded our climate goal to include the ambition of achieving a net positive impact on biodiversity.

Read more on pages 47-49 and at hmgroupp.com.



Our value chain

The H&M group's value chain includes every step from idea to customer – the design and development of products and services, the choice and development of raw materials, suppliers of materials and products, transport, sales, and customer use such as garment care, reuse and recycling. From a sustainability perspective the value chain has both risks and business opportunities associated with the activities. Always acting ethically, responsibly and with integrity is essential for keeping the trust of our customers, other stakeholders and the world around us. We use our size, position and experience to drive change, innovation and transparency along with our partners, with the aim of maximising positive impact in the value chain and minimising negative impact. Good, long-term relationships directly with carefully chosen suppliers promotes this by building trust and transparency. Our product suppliers are listed on our website. At H&M, H&M HOME and ARKET information on the supplier and material is displayed at product level. We are also testing out showing the climate, environmental and social footprint of individual products using the Higg Index and we are exploring new technology to improve traceability in the more complex parts of the chain.

More information about sustainability in our value chain within the areas of the environment, social issues, human resources, respect for human rights and anti-corruption measures can be found on pages 45-53 – including our policies, goals and performance indicators.

30%

recycled materials by 2025 is a new waypoint we have set as we move towards the H&M group's long-term goal of 100 percent recycled or other sustainably sourced materials by 2030 for commercial goods – a share that increased to 64 percent in 2020 from 57 percent in 2019.



187

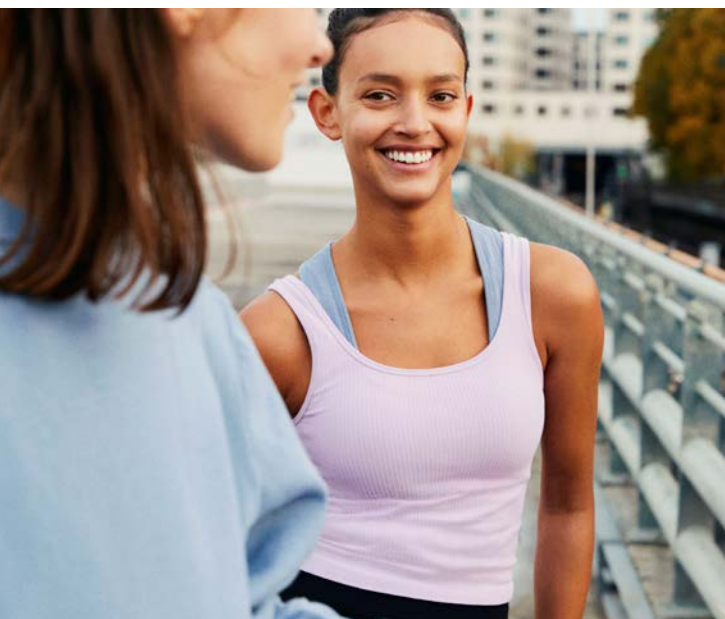
billion Swedish kronor in net sales in 2020, despite significant impact of the Covid-19 pandemic.





Our brands

The H&M group's brands each have their own unique identity. Together they offer customers a wealth of styles and trends in fashion and design.



H&M has a wide range of functional sportswear.



H&M is a fashion brand offering everyone a chance to explore their personal style. All seasons, all styles, all welcome! H&M always strives to offer the very best combination of fashion, quality, price and sustainability with collections for women, men, teenagers, children and babies. Customers will find everything from unique designer collaborations and motivational sportswear to affordable wardrobe essentials, beauty products and dazzling accessories. Visit [hm.com](https://www.hm.com) for more information or follow @HM for daily inspiration and the latest styles.

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



H&M Beauty offers a wide range of beauty products for all styles, tastes and needs – from make-up and hair styling to perfume and bodycare.



Present in 74 markets, H&M offers collections for women, men, teenagers, children and babies.



H&M's customer loyalty programme has more than 114 million members in 26 markets.



H&M HOME is one of the brands in the H&M group where customers can see detailed information online at product level – both the materials used and the factory where it was made.

H&M HOME

H&M HOME is a design-driven interior brand offering trend decorations, furniture and lighting for every room and style. The assortment ranges from high-quality bedlinen and timeless dinnerware to diversified textiles, furniture and lamps; with contemporary style and attention to quality and detail at its core. By merging modern design, inspiration and quality with affordable prices, H&M HOME enables interior lovers across the world to create modern and inspiring homes. H&M HOME was launched online in 2009. The assortment has been expanded throughout the years and rolled out to many markets. Today H&M HOME is available in most H&M online markets, through standalone H&M HOME concept stores and at shop-in-shops in H&M stores.

hm.com/home



WEEKDAY

Weekday is a Swedish fashion brand influenced by youth culture and street style. Founded in 2002, Weekday ships to customers in 30 online markets, as well as to around 70 more markets via global selling – and is also available on external platforms. In 57 stores in 16 markets, Weekday offers customers a unique retail experience and a curated mix of women's and men's assortments as well as a small selection of external brands. It has been part of the H&M group since 2008.

weekday.com



COS

Inspired by the arts and contemporary culture, London-based fashion brand COS is known for collections that balance innovative design with enduring style, with every piece made to last beyond the season. COS creates modern, functional and considered design for women, men and children and has supported the arts since the launch of the brand in 2007 through collaborations with established and emerging artists, galleries and creative studios. Offered online in 34 markets, COS also delivers to around a further 70 markets via global selling and is available on external platforms such as Tmall in China. COS has 291 stores in 44 markets.

cosstores.com



& other Stories

& Other Stories offers a wide range of shoes, bags, accessories, beauty products and ready-to-wear for women. In design ateliers in Paris, Stockholm and Los Angeles, & Other Stories creates collections with great attention to detail and quality. Successfully launched in 2013, & Other Stories has 74 stores in 22 markets along with an online store in 33 markets, including in China where & Other Stories is present on Tmall. In addition, the brand delivers to around a further 70 markets globally.

stories.com



In 2020 Monki launched a collection in materials recycled by a new method that fully separates and recycles cotton and polyester blends on a larger scale. The technology, called Green Machine, is the result of collaboration between the Hong Kong Research Institute of Textiles and Apparel (HKRITA), one of Monki's suppliers and the H&M Foundation.



MONKI

Monki is a storytelling brand that offers great fashion at a competitive price, aiming to be kind to the world and empowering the young women in it. Monki's signature collections can be described as Scandinavian cool meets Asian street style, complete with everything from essentials to stand-out pieces, all for individual styling. 123 concept stores offer the Monki experience in 20 markets. Online, Monki delivers to 31 European markets, and via global shipping to around 70 destinations worldwide. Monki fashion is also available on external platforms such as Tmall in China. Founded in 2006, Monki is part of the H&M group since 2008.

monki.com

ARKET

ARKET is a modern-day market offering essential products for men, women, children and the home. ARKET's mission is to democratise quality through widely accessible, well-made, durable products, designed to be used and loved for a long time. The first store opened in London in 2017 and today ARKET has 21 stores in 7 markets in Europe, online in 31 markets and ships to around a further 70 markets via global selling while also being available on selected external platforms. ARKET's head office and design studio is in Stockholm.

arket.com





AFOUND

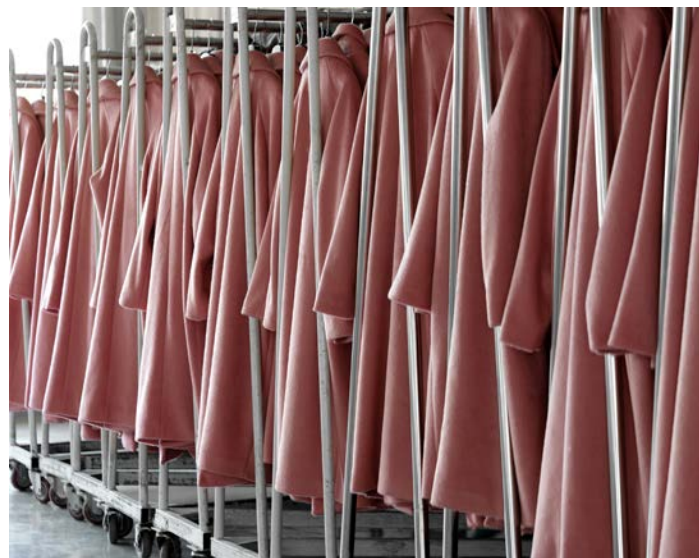
Afound offers great discounts, on everything, always. The online marketplace and Afound's physical stores offer the customer discounts on products from all the H&M group's brands together with a wide mix of other well-known and popular external fashion, sports, interior and beauty brands. Through its business model, Afound also offers the customer a way to shop more sustainably by giving fashion new life. Afound was launched online in June 2018 together with its first store opening in Stockholm. Since then, Afound has launched online in the Netherlands, Germany and Austria.

afound.com

Sellpy

Founded in 2014, Sellpy has grown to become a broad digital platform for second-hand fashion and other products. With its vision of enabling everyone to consume and live in a more circular way, Sellpy has created a unique service that makes it easy for people to buy and sell second-hand items. Since 2019, the H&M group has been the majority owner of Sellpy. Following its expansion to Germany in 2020, and the Netherlands and Austria in the beginning of 2021, Sellpy is currently available in four markets including Sweden.

sellpy.se



TREADLER

Treadler is a B2B initiative by the H&M group, enabling external companies to access the H&M group's global supply chain for quality textile products by offering services from product development to buying, production and logistics. Clients share the benefit of the H&M group's more than 70 years of experience, long-term supplier relationships and strategic sustainability work with investments in a more resilient supply chain. In this way more companies together can be part of accelerating change to a more sustainable textile industry.

treadler.com

The H&M group reaches customers around the world

We are constantly working to improve the experience for our customers wherever we meet them. The pandemic has accelerated the already rapid changes in customer behaviour and we are therefore continuing to focus on digital growth, further optimisation of the store portfolio and the integration of physical stores and online.

Markets per brand

BRAND	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2020	NUMBER OF MARKETS WITH STORES	NUMBER OF MARKETS WITH ONLINE
H&M	-63	4,429	74	52
COS	0	291	44	34*
Weekday	3	57	16	30*
Monki	-7	123	20	31*
H&M HOME**	6	17	53	42
& Other Stories	3	74	22	33*
ARKET	1	21	7	31*
Afound	-1	6	2	4

* COS, Monki, Weekday, & Other Stories and ARKET offer global selling which enables customers in around 70 additional markets to shop online. The exact number of markets per brand that have this service varies.

** Concept stores. H&M HOME is also included with 402 shop-in-shop in H&M stores.



The H&M group continues to expand with a focus on increased omni-channel sales. In 2020 H&M opened online in Australia and was also launched on the ecommerce platform SSG.COM in South Korea. COS, Monki, Weekday, & Other Stories and ARKET all opened online in Bulgaria, Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Romania, Russia and Switzerland in 2020. COS also opened online in Japan and ARKET was launched on the ecommerce platform Tmall in China, while Afound opened online in Germany and Austria.

COS opened its first store in New Zealand during the year, Monki opened in the Philippines, Weekday in Russia and Spain, while & Other Stories opened its first stores in Russia and Norway.

In the 2020 financial year the H&M group opened 129 stores including

franchises and closed 187 stores, making a net decrease of 58 stores compared with a net increase of 108 stores in 2019. For 2021 the plan is that 350 stores will close and just over 100 new stores will open, resulting in a net decrease of around 250 stores.

As in 2020, the majority of the closures will be in established markets, while most of the openings will be in growth markets. The first H&M store in Panama is scheduled to open in the second half of 2021 via franchise. In 2021 COS plans to open its first stores in Greece, Estonia and the Philippines, & Other Stories in China, and ARKET in South Korea and China. The first H&M HOME stores in Russia and, via franchise, Kuwait are planned to open in 2021.

Initiatives for an even better customer experience

Initiatives are under way throughout the supply chain to meet customers' expectations of a smooth and inspiring experience wherever, whenever and however they choose to meet us – in our stores, on our websites, in digital marketplaces and on social media.



FIND IN STORE

With Find in store customers can use their mobiles to see in which stores they can find a specific item in the size they want.



CLICK & COLLECT

With Click & collect customers can pick up their online purchases in stores.



VISUAL SEARCH

Image recognition helps customers find the right product by making relevant recommendations based on pictures that the customer has taken or been inspired by.



#HMxME invites customers to share their fashion stories from Instagram while also providing an easy way to buy the items in the images.

Recommended size helps customers find the right size online based on past purchases.

Increased product transparency is important for customers to be able to make sustainable choices. The H&M group is continuing to work with the Sustainable Apparel Coalition (SAC) on the development of the Higg Index – a suite of tools that assess and measure sustainability performance at product, brand and factory level and enables comparability with industry average.



IN-STORE MODE

In-store mode allows customers to see on their mobile which items are in the store they are currently in, as well as online.



Members of H&M's customer loyalty programme can choose to pay now or later through the H&M app, whether shopping in store or online.



The brands of the H&M group are testing and offering innovative new services such as garment rental, second hand, made-to-measure jeans, repairs, alterations and climate-smart deliveries – all to help customers live a more sustainable lifestyle.

Customers can receive digital receipts in the H&M app in most H&M markets.

Next day delivery and express delivery continue to be rolled out in more markets.



SCAN & BUY

The customer scans the QR code on a product in store to find and buy the item online in the size and colour they want.



GARMENT COLLECTING

The H&M group collects used clothes and home textiles, from any brand and in any condition, for reuse and recycling.



ONLINE RETURNS IN STORE

Online returns in store is a service which will continue to be rolled out to more markets.

RFID (Radio Frequency Identification) means items with a digital price tag can be located quickly, to get precise information on an item's availability.

Market overview

MARKET	NET SALES 2020 (SEK M)	NET SALES 2019 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2020
Sweden*	8,015	8,993	-9	168
Norway*	4,532	5,085	-2	125
Denmark*	4,626	5,157	-7	105
UK*	11,486	14,897	-16	289
Switzerland*	5,550	5,676	-1	98
Germany*	29,684	33,540	-9	457
Netherlands*	5,758	6,813	-3	135
Belgium*	3,331	4,214	-5	93
Austria*	4,368	5,302		87
Luxembourg*	432	490	-1	14
Finland*	2,158	2,530	-3	65
France*	9,166	12,196	-7	228
USA*	20,802	29,976	-11	582
Spain*	5,535	7,930	-1	166
Poland*	5,095	6,336	2	192
Czech Republic*	1,341	1,789		52
Portugal*	890	1,309		29
Italy*	6,079	8,401	-7	174
Canada*	4,181	5,094	1	96
Slovenia*	394	505	1	13
Ireland*	1,061	1,181		24
Hungary*	1,543	1,903		47
Slovakia*	718	813	2	29
Greece*	1,426	1,869		35
China*	9,748	12,059	-15	505
Hong Kong*	933	1,448	-2	24
Japan*	4,333	4,987	10	115
Russia*	6,226	6,852	8	155
South Korea*	2,091	2,213	2	55
Turkey*	1,925	2,797	-7	59
Romania*	2,116	2,642		57

MARKET	NET SALES 2020 (SEK M)	NET SALES 2019 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2020
Croatia*	614	779	1	17
Singapore*	466	822	-1	13
Bulgaria*	559	672		21
Latvia*	321	365		9
Malaysia*	890	1,360	3	50
Mexico*	2,584	3,685	3	55
Chile	1,002	1,834	2	17
Lithuania*	356	397		10
Serbia	373	459	1	15
Estonia*	353	406		13
Australia*	2,036	2,539		49
Philippines*	742	1,273	1	41
Taiwan*	666	650	1	13
Peru	579	970	2	15
Macau*	86	125		2
India*	1,568	2,007	2	49
South Africa	774	937		27
Puerto Rico*	98	122		2
Cyprus*	100	87		1
New Zealand	442	401	3	11
Kazakhstan	174	221		6
Colombia	499	528	2	9
Iceland	221	251	1	7
Vietnam	453	434	1	9
Georgia	98	120		3
Ukraine	235	224	2	5
Uruguay	261	332		3
Bosnia-Herzegovina	32	32		1
Belarus	73	15	1	3
Franchise and other**	4,833	5,711	-3	269
Totalt	187,031	232,755	-58	5,018

* Market with online sales.

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



Five year summary

1 DECEMBER – 30 NOVEMBER

FINANCIAL YEAR	2020	2019	2018	2017	2016
Net sales, SEK m	187,031	232,755	210,400	200,004	192,267
Change net sales from previous year in SEK, %	-20	+11	+5	+4	+6
Change net sales previous year in local currencies, %	-18	+6	+3	+3	+7
Operating profit, SEK m	3,099	17,346	15,493	20,569	23,823
Operating margin, %	1.7	7.5	7.4	10.3	12.4
Depreciation and amortisation for the year, SEK m	25,953	11,051	9,671	8,488	7,605
Profit after financial items, SEK m	2,052	17,391	15,639	20,809	24,039
Profit after tax, SEK m	1,243	13,443	12,652	16,184	18,636
Cash and cash equivalents and short-term investments, SEK m	16,540	12,312	11,590	9,718	9,446
Stock-in-trade, SEK m	38,209	37,823	37,721	33,712	31,732
Equity, SEK m	54,623	57,069	58,546	59,713	61,236
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	0.75	8.12	7.64	9.78	11.26
Shareholders' equity per share, SEK*	33.00	34.48	35.37	36.08	37.00
Cash flow from operating activities per share, SEK*	15.65	17.51	12.86	13.04	14.36
Dividend per share, SEK	**	0.00	9.75	9.75	9.75
Return on equity, %	2.2	23.3	21.4	26.8	31.2
Return on capital employed, %	3.2	23.0	21.2	31.0	39.2
Share of risk-bearing capital, %	33.6	51.0	53.5	61.0	67.1
Equity/assets ratio, %	31.3	47.4	49.3	56.0	62.1
Total number of stores	5,018	5,076	4,968	4,739	4,351
Average number of employees	110,325	126,376	123,283	120,191	114,586

2016–2019 are excluding IFRS 16.

* Before and after dilution.

** See sections on dividend in the administration report on page 44 and in note 31.

For definition of key figures see page 81.

The H&M share

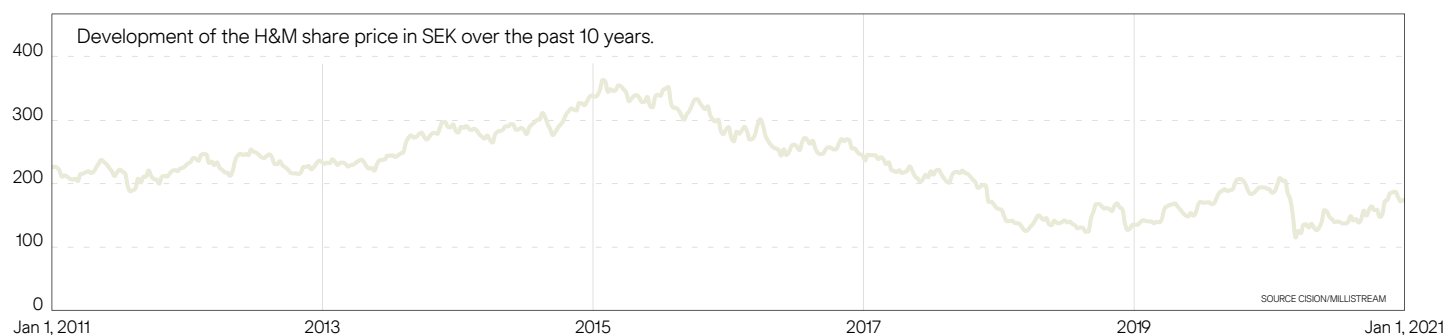
KEY RATIOS PER SHARE	2020	2019	2018	2017	2016
Shareholders' equity per share, SEK	33.00	34.48	35.37	36.08	37.00
Earnings per share, SEK	0.75	8.12	7.64	9.78	11.26
Change from previous year, %	-91	+6	-22	-13	-11
Dividend per share, SEK	*	0.00	9.75	9.75	9.75
Share price on 30 November, SEK	181.60	184.84	167.64	197.10	267.90
P/E ratio	242	23	22	20	24

* See sections on dividend in the administration report on page 44 and in note 31.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2020

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1-500	204,341	82.5	23,802,808	1.4	116
501-1,000	20,489	8.3	16,129,990	1.0	787
1,001-5,000	18,031	7.3	39,888,732	2.4	2,212
5,001-10,000	2,326	0.9	17,057,177	1.0	7,333
10,001-15,000	659	0.3	8,232,674	0.5	12,493
15,001-20,000	412	0.2	7,325,724	0.4	17,781
20,001-	1,184	0.5	1,542,634,895	93.3	1,302,901
Total	247,442	100.0	1,655,072,000	100.0	6,689

MAJOR SHAREHOLDERS, 30 NOVEMBER 2020	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
The Stefan Persson family and related companies	818,771,755	75.4	49.5
The Lottie Tham family and related companies	88,680,400	2.6	5.4
State Street Bank and Trust CO, W9	70,830,426	2.1	4.3
Swedbank Robur Fonder	32,108,051	0.9	1.9
Nordea Funds	28,091,333	0.8	1.7
AMF – Försäkring och Fonder	27,302,626	0.8	1.6
Fjärde AP-fonden	22,263,966	0.7	1.4
Inter Long Term Capital SA	21,073,068	0.6	1.3
BNY MELLON SA NA FORMER BNY, W8IMY	19,438,210	0.6	1.2
BNY MELLON NA FORMER MELLON, W9	16,611,760	0.5	1.0



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



Corporate governance report 2020

H & M Hennes & Mauritz AB

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. At H&M, 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 highly important, 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 prepared this corporate governance report in accordance with the Annual Accounts Act and the Code. H&M has applied the Code since 2005. This report, which covers the 2019/2020 financial year, was prepared by the company's board of directors and has been reviewed by the company's auditors.

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

Examples of external regulations that apply to corporate governance at H&M:

- The Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- MAR – the EU Market Abuse Regulation (596/2014/EU)
- Nasdaq Stockholm Rules for Issuers
- The General Data Protection Regulation (GDPR)
- 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 rule of procedure including instructions for the CEO and auditing committee
- The H&M Way
- Code of Ethics
- Code of Conduct: Sustainability Commitment
- Insider Policy
- Financial Policy
- Communications Policy
- Human Rights Policy
- Tax Policy
- Whistleblowing Policy
- Other policies, guidelines and manuals

H&M's corporate governance is value driven, since it is based both on external regulations as well as 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 just over 70 retail markets and about 20 production markets. 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. 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. The risk analysis also shows which risks are more long-term in nature, providing input to long-term commercial decisions.

Responsibility for management and control is shared between the shareholders, board, auditing committee and CEO. The board's rule of procedure 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 being accountable for ongoing management of the business, with regular feedback to the board.

The board of directors has eight members elected by the annual general meeting (AGM) – four women and four men. The board also has two employee representatives and two deputies for these. In total, the board has 12 members – eight women and four men.

The composition of the board exhibits breadth and diversity, with the board members' different areas of expertise complementing each other well. Their experience in areas such as retailing, entrepreneurship, fashion, digitalisation, AI, advanced analytics and automation, sustainability and communication forms a good basis for deep and nurturing discussions with the CEO and management.

During the year the board held 11 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 chairman 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 and risk, as well as various new regulations and legislation.

Read more about H&M's corporate governance at hmgroup.com/corporategovernance.

Here you will find, among other things:

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

The company has chosen to have the corporate governance report as a separate document to the annual report, in accordance with chapter 6 section 8 of the Swedish Annual Accounts Act. The information that must be provided under chapter 6 section 6 items 3–6 of the Annual Accounts Act is included in the administration report on page 40 of H&M's annual report for 2020 and is therefore not included in this corporate governance report. In accordance with chapter 6 section 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 34.

During the period from 1 December 2019 to the AGM on 7 May 2020 the company deviated from the Code on the following point:

- 2.4 The fact that Stefan Persson, chairman of the board until 7 May 2020, also chaired the nomination committee. Until the AGM on 7 May 2020 the nomination committee was unanimous that, as the chairman of the board and the largest shareholder in H&M, Stefan Persson was the natural choice to chair the company's nomination committee.

CORPORATE GOVERNANCE IN SWEDEN

For listed companies in Sweden it is important to be aware of, among other things, the following areas within corporate governance.

The nomination committee plays a key role and in contrast to the Anglo-American system, its members are appointed by the company's largest shareholders. It is the nomination committee's task to propose the size of the board of directors and who is to be elected to the board at the general meeting of shareholders. Board members are elected by all those who vote at the general meeting, but in practice it is difficult to present alternative proposals to the nomination committee's proposed board members while the general meeting is in progress. In practice, therefore, the nomination committee has a decisive influence over who is elected to the board. The nomination committee also provides the general meeting with a proposal for board fees and a proposed auditor.

Principles for how members of the nomination committee are appointed are decided by the general meeting.

The law states that board members are appointed to represent the interests of all shareholders. Even if a large shareholder group has proposed a new member via the nomination committee, therefore, it does not mean that the member represents the interests of only that group of shareholders.

For around 50 years Swedish enterprise has generally taken a positive view of board members elected by the general meeting owning shares in the company concerned. This is seen as a guarantee that the interests of the board are aligned with the interests of all shareholders in positive

development of the share price and that there is consensus regarding the company's risks and opportunities.

Neither the Swedish Corporate Governance Code nor the Swedish Companies Act impose any restrictions on the age of board members, how long members may sit on the board, or any time limit for when an independent board member ceases to be independent of the company or its principal owners.

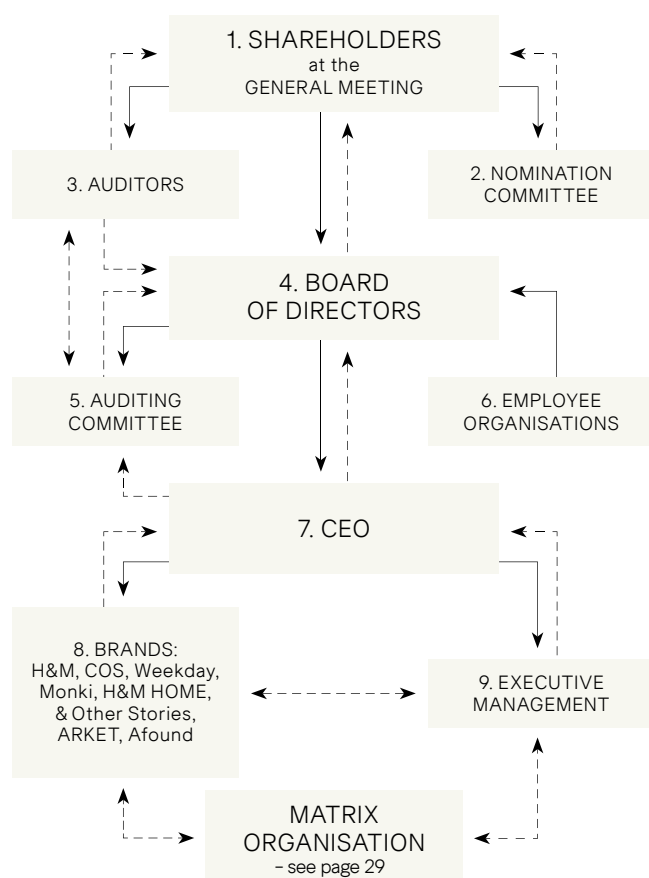
It is traditional for the company's chief auditor to attend the general meeting of shareholders, which is not the rule in all countries. This is because the auditors are also deemed to be the general meeting's control body for the board. As a result, shareholders can put questions to the auditors at a general meeting irrespective of the size of their shareholding.

The option of having different classes of shares, usually known as "class A" and "class B" shares, often with differing voting rights, has long existed in Sweden and is widely used. It is common for class A shares to carry 10 times the number of votes but otherwise have the same nominal value and the same dividend rights as other shares.

By law the employees have the right to appoint employee representatives to the board. All are invited to the same meetings and receive the same information, and the employee-elected members have the same voting rights as members elected by the general meeting. Board fees are paid only to members elected by the general meeting.

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, business areas organised by brand, employees and employee organisations (see the illustration below). The illustration summarises the company'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 in advance within the nomination committee. The board in turn appoints a CEO to take care of day-to-day administration. 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 the company's affairs on behalf of the shareholders. The shareholders at the general meeting also elect auditors, decide on the principles for 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 conjunction with H&M's nine-month report as well as at hmgroup.com. The notice of the meeting is published in full usually five weeks before the meeting as a press release and in Post- och Inrikes Tidningar and at hmgroup.com. Publication of the notice is announced by 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 when there is a particular need to do so.

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

Articles of association

According to the H&M articles of association, H&M's board of directors is to consist of at least three and no more than twelve members elected by the general meeting 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 close of the next annual general meeting. The general meeting also decides on amendments to the articles of association.

Annual general meeting 2020

H&M's annual general meeting 2020 was held on 7 May as a hybrid meeting in view of the infection risk from Covid-19. By far the majority of the shareholders who had registered for the meeting attended remotely and were allowed to choose between postal voting and voting digitally. A physical venue was also provided in Kista for those who preferred to attend in person, but very few chose to do so. A digital tool also allowed those attending the meeting remotely to ask the company questions.

The company appeared on video from a separate venue at H&M's head office. A total of 1,083 shareholders were represented at the meeting, representing 86.7 percent of the votes and 72.7 percent of the capital.

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.
- No dividend was to be paid to the shareholders and the funds at the disposal of the annual general meeting were to be carried forward.
- The board members and the CEO were discharged from liability for the 2018/2019 financial year.
- The number of board members elected by the meeting to serve until the close of the next AGM was set at eight, with no deputies.
- The following ordinary board members were re-elected: Stina Bergfors, Anders Dahlvig, Danica Kragic Jensfelt, Lena Patriksson Keller, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Elected as a new member: Karl-Johan Persson. Karl-Johan Persson was elected as the new chairman of the board.
- The AGM approved the proposal from the nomination committee that board fees be paid as follows, unchanged from the previous year: chairman of the board SEK 1,700,000; board members elected by the AGM SEK 650,000; members of the auditing committee an additional SEK 175,000; and the chairman of the auditing committee an additional SEK 225,000.
- The AGM resolved to appoint Ernst & Young AB as auditors until the close of the 2021 AGM. Auditors' fees to be paid based on approved invoices.
- 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.

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

YEAR	% OF VOTES	% OF CAPITAL
2016	83.3	65.5
2017	83.7	66.6
2018	82.3	63.6
2019	84.6	68.4
2020	86.7	72.7

Number of shareholders and ownership structure

At the end of the financial year H&M had 247,442 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 587,971,466 class B shares, representing 17.3 percent of the votes. In addition, the family privately own 36,400,289 class B shares. This means that as at 30 November 2020, Stefan Persson and family privately and via Ramsbury Invest AB represent 75.4 percent of the votes and 49.5 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB. 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.

Each class A share represents 10 votes per share and each class B share represents one vote per share. A class A share therefore has greater voting power at the company's general meetings. All the shares have the same dividend entitlement and right to share in the company's assets.

Since the company was first listed on the stock exchange in 1974 all the class A shares in H&M have belonged to the founding Persson family, as is usual when family-owned businesses are floated on the stock exchange since it allows the founding family to have a controlling interest. The division into class A and class B shares is set out in H&M's articles of association and is thus transparent to those considering buying shares in H&M.

Annual general meeting 2021

H&M's annual general meeting 2021 will be held on Thursday, 6 May 2021.

To register to attend the 2021 AGM, see the notice of the meeting at hmgroupp.com/aggm.

2. NOMINATION COMMITTEE

The nomination committee prepares information that will be used as a basis for decisions at the general meeting concerning the election of the board of directors, chairman of the board, auditors and chairman of the annual general meeting, the 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 exhibits diversity and breadth as regards expertise, experience, background and gender balance. It also takes into consideration H&M'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 hmgroupp.com/corporategovernance. The composition of the nomination committee is based on the principles for the nomination committee adopted at the 2020 annual general meeting. The nomination committee below is based on the principle that the nomination committee is to consist of the chairman of the board plus four others nominated by the four largest shareholders in terms of voting rights, as recorded in the register of shareholders. Changes in the register of shareholders showed during the autumn 2020 that Nordea Funds was no longer among the four largest shareholders, which meant that Nordea's representative Erik Durhan, who had been elected to the committee at the AGM on 7 May 2020, left H&M's nomination committee in autumn 2020. In accordance with the principles for the nomination committee, a new member was appointed: Anders Oscarsson of AMF and AMF fonder, which is now one of the four largest shareholders in H&M according to the register of shareholders. In autumn 2020 the nomination committee thus consisted of:

- Karl-Johan Persson, chairman of the board
- Stefan Persson, Ramsbury Invest AB
- Lottie Tham
- Jan Andersson, Swedbank Robur fonder
- Anders Oscarsson, AMF and AMF fonder

The nomination committee meets the requirements of the Code regarding the independence of members. Stefan Persson is the nomination committee's chairman. Until the 2020 AGM, this deviated from section 2.4 of the Swedish Corporate Governance Code since Stefan Persson was also chairman of the board. Since Stefan Persson did not stand for re-election as chairman of the board at the 2020 AGM and Karl-Johan Persson was elected as the new chairman of the board, there is no longer this deviation from the Code. The 2020 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 principal shareholder is the natural choice to chair H&M's nomination committee.

Work of the nomination committee in preparation for the 2020 AGM including description of diversity policy for the board of directors

After more than 20 years as chairman of the board of H&M, at the end of January 2020 Stefan Persson gave notice that he would not be standing for re-election as chairman of the board at the spring AGM and the nomination committee therefore unanimously resolved to propose Karl-Johan Persson, former CEO of H&M for more than 10 years, as the new chairman of the board. In addition, the nomination committee proposed to the 2020 AGM that all the current board members except Stefan Persson be re-elected. The nomination committee's proposal to the 2020 AGM for the composition of the board was therefore as follows: re-election of Stina Bergfors, Anders Dahlvig, Danica Kragic Jensfelt, Lena Patriksson Keller, Christian Sievert, Erica Wiking Häger and Niklas Zennström, and election of Karl-Johan Persson as a new member.

As a basis for its work analysing the composition of the board, the nomination committee studied the report by the chairman of the board on the work of the board of directors and also conducted interviews in autumn 2019 with board members elected by the annual general meeting. Over the years the nomination committee has also met previously with CEO Karl-Johan Persson, and did so again before submitting its proposal for the composition of the board to the 2020 AGM.

The nomination committee judged that the proposed composition of the board complied well with section 4.1 of the Swedish Corporate Governance Code, which the nomination committee has applied as its diversity policy. The policy aims to ensure that the proposed board exhibits diversity and breadth of qualifications, experience and background, as well as gender balance. The nomination committee aims for gender balance and H&M's board has had a good gender balance for many years. The board members proposed, and subsequently elected, consisted of four women and four men. The board thus achieves the ambition communicated by the Swedish Corporate Governance Board, which wants owners to speed up developments towards a share of around 40 percent for the less well represented gender on the boards of major listed companies by 2020.

To achieve continued gender balance, H&M's nomination committee discusses this each year and 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 as regards the independence of board members, their stock market experience and their expertise in accounting and auditing.

The Swedish Corporate Governance Code sets no time period after which a board member is considered to be no longer independent. In its proposal to the AGM the nomination committee carefully reviews each board member's expertise, experience, contribution to the work of the board over the past year, potential conflicts of interest etc. To decide whether a member is independent, an overall assessment is to be made of all circumstances that might cause the member's independence of the company and its management to be questioned. In rule 4.4 the Code states at least seven different circumstances that are to be considered here. At least two of the board members who are independent of the company and its management must also be independent of the company's major shareholders. To decide whether a member is independent, the extent of the board member's direct and indirect relationships with the major shareholder is to be included in the assessment. A board member who is employed by or is a board member in a company that is a major shareholder is not to be considered independent. As regards the composition of the auditing committee, section 7.2 of the Code states that the majority of the committee's members are to be independent of the company and its management. At least one of the board members

who are independent of the company and its management must also be independent of the company's major shareholders. The chairman of H&M's auditing committee, like all the other members of the committee, is independent of the company and its management. Two of the three members are also independent of the company's major shareholders. There is nothing in the Code stating that the chairman of the committee must be independent of major shareholders.

Work of the nomination committee in preparation for the 2021 AGM

Between the 2020 AGM and the end of the financial year the nomination committee held two meetings at which minutes were taken and has also been in contact at other times. In autumn 2020 the nomination committee began its work, starting with information from the chairman of the board concerning how well the work of the board had functioned during the year. The board functioned well over the course of the year and the information from the chairman of the board, along with interviews conducted with the AGM-elected board members, provides a basis for the nomination committee's work on its proposal to the 2021 annual general meeting regarding the composition of the board. A new accounting firm is to be appointed at the 2021 AGM. The chairman of the auditing committee gave an account to the nomination committee of how the selection process for a new accounting firm has taken place and which accounting firm the board recommends.

The nomination committee thus discusses the size of the board, its composition in terms of expertise and experience, among other things, the election of a chairman of the board and of a chairman for the AGM, fees for board members, principles for the nomination committee and 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 2021 AGM.

3. AUDITORS

The auditors, who are independent and appointed by the shareholders at the 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 H&M by the board and CEO, and review compliance with the guidelines on remuneration to senior executives adopted by the AGM.

At the 2020 AGM the accounting firm Ernst & Young AB was elected as auditor of H&M for a one-year period of office, i.e. until the close of the 2021 AGM. Authorised public accountant Andreas Troberg from Ernst & Young holds the main responsibility for the audit.

As previously, the 2020 AGM resolved that the auditors' fees should be paid based on invoices submitted and approved. The fees invoiced by the auditors over the past two financial years are reported in note 10 of the annual report for 2020.

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. Andreas Troberg conducts auditing assignments for Hexagon and Sectra, among others.

The auditors attend all meetings of the auditing committee and, as in previous years, the board meeting held in January 2020 was also attended by Åsa Lundvall from EY, who previously held the main responsibility for the audit, and Andreas Troberg, in order to notify the board of the scope, focus, significant considerations and conclusions of the audit of the 2018/2019 financial year. In addition to this involvement, the audi-

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2020

NAME	YEAR ELECTED	INDEPENDENT ¹⁾	INDEPENDENT ²⁾	FEES (SEK) ³⁾	BOARD MEETINGS ⁴⁾	AUDITING COMMITTEE	SHARE-HOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson ⁵⁾ chairman	1979	No	No	1,700,000	7/7			194,400,000 ⁶⁾ 587,971,466 ⁷⁾
Karl-Johan Persson ⁵⁾ chairman	2020	Yes	No		4/4		12,136,289	Shareholder in Ramsbury Invest AB
Stina Bergfors	2016	Yes	Yes	650,000	11/11		1,000	8,000 and 6,000 ⁹⁾
Anders Dahlvig	2010	Yes	Yes	825,000	11/11	5/5	17,510	
Danica Kragic Jensfelt	2019	Yes	Yes		11/11		2,500	120
Lena Patriksson Keller	2014	Yes	Yes	650,000	11/11			1,200 and 9,450 ⁹⁾
Christian Sievert	2010	Yes	No ¹⁰⁾	875,000	11/11	5/5	81,000	19,000 and 2,400 ¹¹⁾
Erica Wiking Häger	2016	Yes	Yes	825,000	11/11	5/5		750 ¹²⁾
Niklas Zennström	2014	Yes	Yes	650,000	11/11		72,700	
Ingrid Godin employee rep.	2012				11/11			60
Alexandra Rosenqvist employee rep.	2015				11/11			
Helena Isberg deputy employee rep.	2019				11/11			
Margareta Welinder deputy employee rep.	2007				11/11			

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 2019 annual general meeting. This means that the fees related to the period until the next AGM, i.e. for the period 7 May 2019 to 7 May 2020. The amounts were paid out after the 2020 AGM.

4) Attendance via technology is equated with attendance in person.

5) Stefan Persson did not stand for re-election as chairman of the board at the 2020 AGM. In accordance with the nomination committee's unanimous proposal, at this AGM Karl-Johan Persson was elected as a new board member and as the new chairman of the board.

6) Class A shares owned through Ramsbury Invest AB.

7) Class B shares owned through Ramsbury Invest AB as at 30 November 2020.

8) 8,000 shares held through Stina Bergfors's company SCEBE Holding AB and 6,000 shares held by spouse.

9) 1,200 shares owned through Lena Patriksson Keller's private company Verdani Holding AB. 9,450 shares held by spouse and children.

10) 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.

11) 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. Supplementary disclosure: in addition to Christian Sievert's shareholding shown above, Christian Sievert holds 9,000 H&M shares via a pension plan.

12) 750 shares owned through Erica Wiking Häger's company Erica Wiking Häger Advokattakiebolag.

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

tor meets regularly with the chairman of the board, the auditing committee's chairman and other members, 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 overall responsibility for H&M's administration, taking a long-term sustainable approach 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 order of procedure which contains rules on the distribution of work between the board, its committees and the CEO as well as

on financial reporting, investments and financing. The order of procedure, which also includes the procedure for the auditing committee, is updated as 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 2020 AGM the board has consisted of eight ordinary members elected by the AGM, with no deputies, as well as two employee representatives and two deputies for these positions. The board is made up of eight women and four men. Only the employee representatives and their deputies are employed by the company. Since the 2020 AGM the board has comprised the following members elected by the general meeting: Karl-Johan Persson (chairman), Stina Bergfors, Anders Dahlvig, Danica Kragic Jensfelt, Lena Patriksson Keller, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Ingrid Godin and Alexandra Rosenqvist are the regular employee representatives, with Helena Isberg and Margareta Welinder as their deputies. For more facts about H&M's board members, see pages 32–33.

The members are required to devote the time and attention that their position on the board of H&M demands. New board members receive introductory training that 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.

The Swedish Corporate Governance Code sets no limit on how long an individual can remain a board member.

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 on the occasion of the board meeting 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 year 11 board meetings were held. This is significantly more than usual, but at the same time perfectly natural since 2020 was an unusual year with a change of CEO and the Covid-19 pandemic, which gave rise to more board meetings. As in previous years, attendance levels at the board meetings were very high. For details of meeting attendance by each member see the table on page 26.

Work of the board in 2020

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

The following areas are usually reviewed at each board meeting:

- Minutes of the previous meeting
- CEO's status report and report by CFO
- Strategic matters
- Feedback from latest auditing committee meeting
- Financial reporting, such as interim report and annual report
- Any other business

On 30 January 2020 the board of directors decided to appoint Helena Helmersson as the new CEO of H&M. The background to the decision is that after more than 20 years as chairman of the board, Stefan Persson had decided not to stand for re-election at the spring AGM on 7 May 2020. In the light of Stefan Persson's decision, Karl-Johan Persson decided to leave his role as CEO. At the AGM on 7 May Karl-Johan Persson was elected as the new chairman of the board.

Before the pandemic struck, the company had been performing strongly as a result of many years of long-term investments to create the best customer offering and meet the digital shift in the industry. The effects of the pandemic, with up to around 80 percent of the group's stores closed during the spring, naturally impacted the work of the board during the year with more board meetings than normal and regular updates on the situation. CEO Helena Helmersson provided the board with information, including concerning the rapid and decisive actions taken to manage the Covid-19 situation – with the safety of employees and customers being the highest priority. All parts of the business were scrutinised, including product purchasing, investments, rents, staffing, financing etc., in order to manage the pandemic's negative effects on the business. In view of the drastic changes in market conditions as a result of the pandemic and the uncertainty this brought, in March the board of directors decided to withdraw its earlier dividend proposal of SEK 9.75 per share and instead propose to the 2020 AGM that no dividend be

paid. During the year the board also took several financing decisions, such as taking out new credit facilities with terms ranging from one to five years. The purpose of this was to further secure H&M's liquidity buffer and financial flexibility. A decision was also taken to expand H&M's sources of financing by establishing a European commercial paper programme and a medium-term note (EMTN) programme; the latter to allow bonds to be issued in various currencies, but mainly in EUR and SEK.

The pandemic also meant that the investment plan for 2020 was revised during the year.

Since the pandemic has hastened the digital shift within the industry, the company's transformation work was accelerated – with more digital initiatives, increased store consolidation and increasingly integrated channels. The Covid-19 situation has also highlighted the importance of sustainability. In parallel with managing the Covid-19 situation the company therefore continued to work according to its business plan, which aims to deliver long-term sustainable and profitable growth. Read more under the heading Direction in the administration report contained in the 2020 annual report.

At its November 2020 meeting, which is always an extended meeting and this time was a full-day conference held entirely digitally, the board examined this business plan carefully with those responsible in H&M's executive management team. Among other things, discussions covered H&M's goals and business plan for each brand as well as the group's supply chain, omni-sales and store portfolio, transformation, leadership, culture etc. Sustainability is integrated into all these components. Examples of functions/brands that presented their work to the board during the year include Business Tech, Expansion, Sustainability, Strategy & Transformation, Supply Chain, various parts of the H&M brand and Portfolio Brands.

H&M'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 reference to key indicators and targets, such as compliance with the Sustainability Commitment, sustainable materials, 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, IFRS 16 effects, auditing, tax, customs duties, internal control, risk and various new regulations, legislation and directives such as the GDPR, Task Force on Climate-related Financial Disclosures (TCFD) etc. During the year the board was kept updated on the privacy breach in Nuremberg, Germany, and information on this was provided in conjunction with the nine-month report. The overall risk assessment, including the very largest risks in both the short and the long term, is then also discussed at subsequent board meetings. The chairman of the auditing committee provided the board with ongoing updates on the process of appointing a new accounting firm and at the November meeting the board decided which firm would be presented to the nomination committee, which proposes a new accounting firm for the 2021 AGM to decide on. 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.

As every year, during 2020 the board took various decisions – such as decisions on investment plans, on the dividend to be proposed to the AGM, on the proposed guidelines for remuneration of senior executives and decisions concerning the financial reports.

At the board meeting held in January 2020 the board of directors decided that H&M's growth target to increase sales in local currencies by 10–15 percent per year with continued high profitability remains a long-term target.

Since H&M does not have a separate review function (internal audit function) for work on internal control, but has instead established its own model for managing the company's risk and internal control (see pages 30–31), 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 satisfactory.

Ahead of the annual general meeting the board had assessed how well the guidelines for remuneration of senior executives that were adopted at the 2019 AGM were being applied. The results of this assessment were published on the website in good time before the 2020 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 as is entirely in accordance with requirement 9.2 of the Code. 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 setting the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

The board continually evaluates its work, and during the year the newly appointed chairman of the board carried out a more in-depth evaluation to obtain his own idea of the work of the board and its members' wishes. The evaluation covers working methods and the working climate, as well as the main focus of the board's work. It also focuses on access to and the need for specialist expertise within the board. The evaluation is used as a tool for developing the board's work and also forms a basis for the work of the nomination committee.

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 topics 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 annually receives a written assurance of independence from the auditor stating which services 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.

The 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 2020 AGM, the auditing committee has consisted of chairman Christian Sievert and members Anders Dahlvig and Erica Wiking Häger. The committee held five meetings at which minutes were taken during the 2019/2020 financial year.

EY attended the minuted auditing committee meetings to provide debriefs on the auditing work. The meetings were also attended by, among others, the CFO – Jyrki Tervonen up to and including meeting 2 of 5 and Adam Karlsson from and including meeting 2 of 5 – and chief accountant Anders Jonasson. The committee's meetings are minuted and the minutes are then distributed to all board members.

During the year members of the auditing committee also took part in several meetings with the various accounting firms that were candidates to become H&M's new auditor; these meetings took place ahead of and during the procurement process.

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.
- In addition, the following functions/departments provided information on their work: Security, Expansion/Construction, Accounting/Tax, Logistics, IT (later merged into Business Tech) and Data Privacy.
- The transfer pricing model, tax matters and matters relating to customs. 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.
- Follow-up of the new IFRS rules was also reviewed in respect of IFRS 16 Leases.
- Planning and procurement process for new accounting firm.
- Follow-up in the area of privacy (including GDPR).
- Follow-up of human rights policy.
- 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

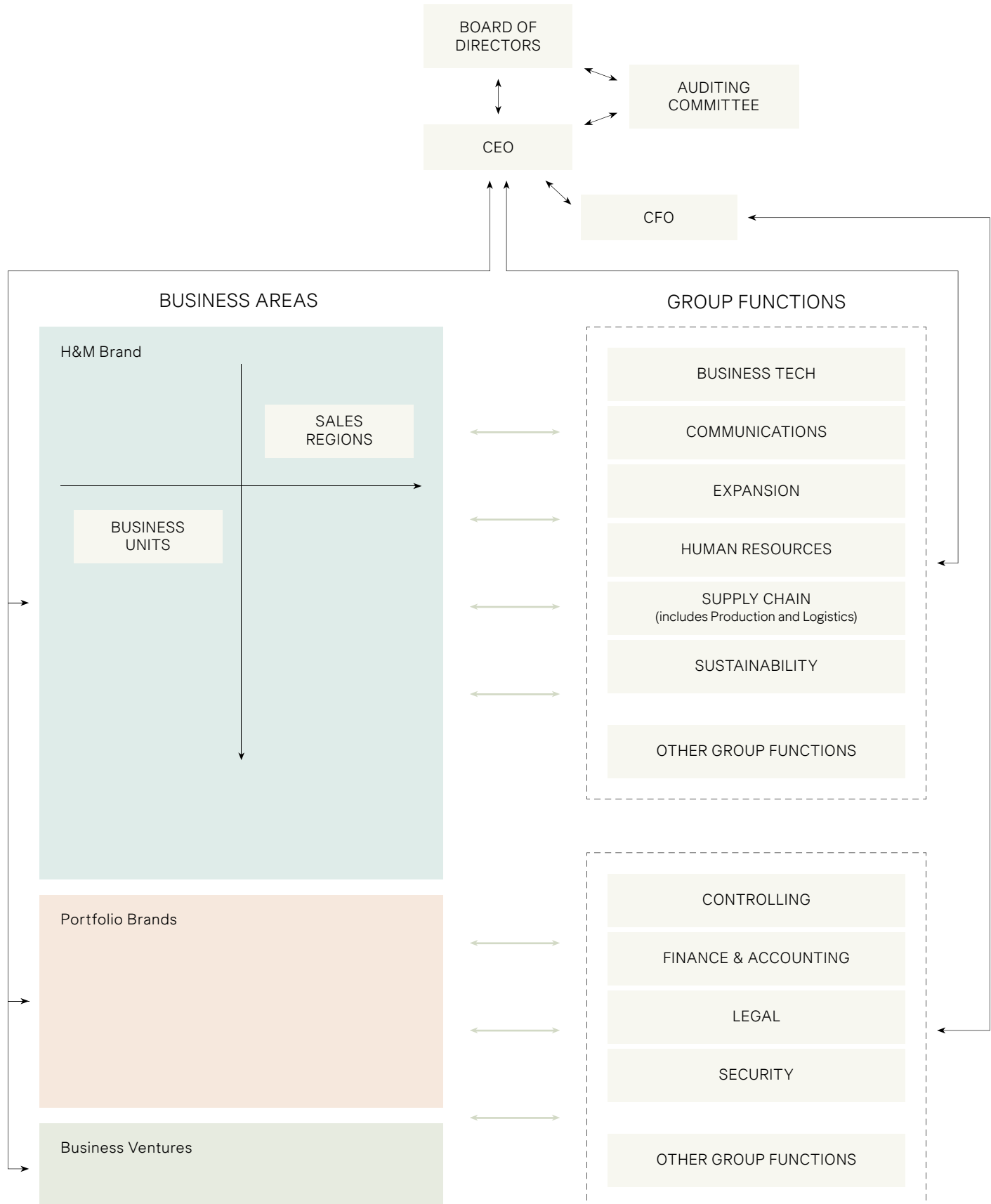
The CEO is appointed by the board of directors and is responsible for the daily management of the company as directed by the board. This means that, among other things, the CEO must focus in particular on recruitment of senior executives, buying and logistics matters, the customer offering, pricing strategy, sales and profitability, sustainability matters, marketing, expansion, development of the store network and of online sales, and digital development. The CEO reports to the board on the group'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.

Helena Helmersson, born in 1973, has been CEO since 30 January 2020. In 1997 Helena Helmersson joined H&M as a controller in the buying department, after which she worked in various roles in buying and production. Helena Helmersson was head of sustainability for five years and subsequently head of production based in Hong Kong. For just over a year prior to becoming CEO she worked as COO (chief operating officer) with responsibility for expansion, logistics, production, IT and Advanced Data Analytics/AI, as well as Insights and Analytics.

Helena Helmersson holds 870 shares in H&M. She also holds 300,000 call options issued by Ramsbury Invest AB, each option providing the right to buy one class B share in H&M during the 12 months following a three-year period from the agreement date of 7 October 2020.

For the part of the financial year running from 1 December 2019 to 30 January 2020 Karl-Johan Persson was CEO. His shareholdings are

The H&M group's matrix organisation



stated in the table showing composition of the board and attendance on page 26.

8, 9. ORGANISATION AND MANAGEMENT

H&M has a multi-brand matrix organisation with well-defined brands: H&M, COS, & Other Stories, Monki, Weekday, H&M HOME*, ARKET and Afound. 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 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 group and appoints the members of the executive management team, which is made up of the CEO plus 14 others. The executive management team is made up of six women and nine men, and comprises the CEO, the CFO, the two people with responsibility for the H&M brand, the person with responsibility for Portfolio Brands (which include COS, & Other Stories, Monki, Weekday and ARKET), the person with responsibility for Business Ventures (which include Afound and Treadler), the two people with responsibility for Business Tech, and the heads of the following group functions: Expansion, Strategy & Transformation, Human Resources, Sustainability, Supply Chain, Communications and The Laboratory. Those responsible for other group functions are appointed by the CFO. The matrix organisation provides a good combination of central and local perspectives on leadership and entrepreneurship.

The regional and local sales organisations are responsible for daily retail operations in their region and country, giving them a collective responsibility for all the regional and local support functions whose work is based on instructions from the central group functions.

* H&M HOME is included in the H&M brand's organisation.

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 section 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, and 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 the company 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 order of procedure. 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 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.

H&M has a matrix organisation (see page 29), which means that those responsible for the joint group functions are responsible for the efficiency of work within their function at each brand (the horizontal arrows in the matrix organisation). 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 according to the prescribed policies and guidelines. The stores are in turn checked by internal store auditors.

All the companies within H&M 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. In 2019 a climate risk analysis was conducted according to the guidelines issued by the Task Force on Climate-related Financial Disclosures (TCFD). No updated analysis was carried out in 2020, but the results of the TCFD analysis performed in 2019 remain fully relevant.

As in previous years, at the end of 2020 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, after which the functions together prepared the general risk analysis mentioned above with a view to getting an overall picture of the group's main risks – and thereby shedding light on the mitigation plans that are in place to manage these risks. The risk analysis of operational risks and for 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 38–39. For risks within financial reporting, see the administration report on page 39 and note 2, Financial risks, on pages 65–66 of the annual report for 2020.

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 Business Tech 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.

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

Financial communication is provided via:

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

MONITORING

In 2020 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 Covid-19 pandemic had a certain impact on internal control during the year. Some functions were hard pressed dealing with the consequences of the pandemic, and therefore temporarily reduced their internal control. All the functions that usually travel to countries to carry out internal control instead implemented control activities remotely.

The work resulted in a plan of action for each central department working on internal control, 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. The way in which H&M assesses internal control is considered to be 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 construc-

tive 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 aimed at 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 improvement is 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 the central departments such as Accounting, Expansion/Construction, Shop Fitting, Business Tech, Communications, Security, Logistics, Supply Chain etc. apply in the subsidiaries, as well as 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 2021.

Stockholm, February 2021

The Board of Directors

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

The board of directors



KARL-JOHAN PERSSON
Chairman of the board. Born 1975.

Primary occupation
Chairman of the board of H&M.

Other significant board assignments
Member of the boards of Ramsbury Invest AB, the GoodCause Foundation and the H&M Foundation.

Education
BA in business administration from the European Business School, London.

Professional experience
2001–2004 CEO of European Network.
2005–2009 Operational executive roles within the H&M group, including within expansion, business development and new business.
2009–2020 CEO of H&M.
2020– Chairman of the board of H&M.



STINA BERGFORS
Board member. Born 1972.

Primary occupation
Entrepreneur and board assignments.

Other significant board assignments
Member of the board of Budbee AB and Carlssons Skola and also proposed as board member of Tele2 and Handelsbanken. Stina is also involved in the Prince Daniel Fellowship at the Royal Swedish Academy of Engineering Sciences (IVA).

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

Professional experience
1998–2000 TV3 MTG Sales.
2000–2004 Media strategist OMD Nordics.
2005–2008 CEO of Carat Sverige AB.
2008–2013 Country director for Google and YouTube in Sweden.
2014–2020 Founder and CEO, and later business development, for 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 board of Oriflame SA.

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 IKEA.



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

Primary occupation
CEO of AB Max Sievert.

Other significant board assignments
Member of the board of AB Max Sievert and of the boards of portfolio companies of AB Max Sievert; also member of the board of AB Anders Löfberg.

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

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



INGRID GODIN
Employee representative, on the H&M board since 2012. Born 1959. Employed since 2002. Current position: Warehouse worker, Eskilstuna DC.



HELENA ISBERG
Deputy employee representative, on the H&M board since 2019. Born 1978. Employed since 1998. Current position: Sales advisor, H&M Karlskrona.



ALEXANDRA ROSENQVIST
Employee representative, on the H&M board since 2015. Born 1976. Employed since 2012. Current position: Product owner (IT/Business Tech).



MARGARETA WELINDER
Deputy employee representative, on the H&M board since 2007. Born 1962. Employed since 2000. Current position: Omni buyer, H&M.

**ERICA WIKING HÄGER**

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

Primary occupation

Partner at the law firm Mannheimer Swartling since 2009 and chair of Mannheimer Swartling's Corporate Sustainability & Risk Management practice group; leads the team of lawyers advising on commercial law focusing on human rights, working conditions, the environment and anti-corruption. Erica is a member of the Swedish Bar Association, the New York State Bar Association and the International Association for Privacy Professionals (IAPP).

Other significant board assignments

Member of the board of Mannheimer Swartling Advokatbyrå AB.

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, Orbital Systems and Lilium.

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.

**LENA PATRIKSSON KELLER**

Board member. Born 1969.

Primary occupation

Executive chairman at branding and communications agency Patriksson Group AB.

Other significant board assignments

Member of the boards of Elite Hotels, Wanås Art Foundation, Jaenerica AB and Maria Nilsdotter AB and chairman of the board of the industry organisation Swedish Fashion Association. 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 Group AB.

**DANICA KRAGIC JENSFELT**

Board member. Born 1971.

Primary occupation

Professor of computer science at KTH Royal Institute of Technology conducting research in the fields of computer vision and robotics. The aim of the research is to use sensors to build future systems that interact with people and their environment in a natural way.

Other significant board assignments

Member of the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences (IVA) and board member at FAM, SAAB and the Institute for Future Studies.

Education

MSc in mechanical engineering from the Technical University of Rijeka, Croatia. Danica was awarded a PhD in robotics by KTH Royal Institute of Technology, Stockholm in 2001. Honorary doctorate from Lappeenranta University of Technology in Finland.

Professional experience

2008– Professor of computer science, conducting research in the fields of computer vision and robotics at KTH Royal Institute of Technology in Stockholm.

**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 2019 to 30 November 2020. 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 FAR's recommendation RevR 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, 25 February 2021

Ernst & Young AB

Andreas Troberg
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 2019 to 30 November 2020, hereinafter referred to as the 2020 financial year.

BUSINESS

The H&M group is a customer-focused, creative and responsible fashion and design company. All the group's brands share a passion for fashion and quality at the best price in a sustainable way. The business consists mainly of sales of clothing, accessories, footwear, cosmetics, home textiles and homeware to consumers. Sales take place through digital and physical channels, i.e. online and in retail stores. The channels are integrated with each other to provide a consistent and inspiring customer experience as well as greater availability. In certain markets products are sold via franchise partners. The group's brands are H&M and H&M HOME, COS, & Other Stories, Monki, Weekday, ARKET and Afound, along with the B2B initiative Treadler. The H&M group is also the principal shareholder in Sellpy. Each of the group's brands has its own unique profile and identity, and they complement each other well. Together they offer customers a variety of trends and styles at various price points within fashion, beauty, accessories and homeware. The H&M group wants to make it easy, good value and inspiring for customers to choose a more sustainable lifestyle. The brands offer various services based on circular business models, for example, and in the collections the percentage of recycled and other sustainably sourced materials is increasing. Each brand has a design and buying function in which teams of people from differing backgrounds and with diverse experiences and skills work together to produce relevant and inspiring collections 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. Afound departs from this model since it is a marketplace for products from brands' previous seasons, both external brands and the H&M group's own, which are discounted to provide a new opportunity to attract customers. Treadler in turn offers services that provide external companies with access to the H&M group's supply chain, while Sellpy is an ecommerce platform for second-hand sales with a business model that makes it easy for customers to buy and sell used items.

Earnings and financial position – a year marked by the Covid-19 pandemic

Development in 2020 was significantly impacted by the severe negative effects of the Covid-19 pandemic. The H&M group made a strong start to the financial year, however, with earnings more than doubling in the first quarter. This strong beginning followed on from the company's positive development in 2019, when more customers, greater customer satisfaction and increased full-price sales brought about double-digit growth in profit. As a result of the H&M group's transformation work and many years of investments focusing on digital, this contributed to the company being well equipped to handle the great challenges that the Covid-19 situation would bring. With the onset of the first wave of the pandemic stores were temporarily closed in many markets as a result of extraordinary social measures to reduce the spread of infection. The H&M group acted with the safety of employees and customers as its top priority. At the most, 80 percent of the group's around 5,000 stores were temporarily closed and in those markets where stores were still open customer footfall was significantly down due to various restrictions. The company rapidly implemented a range of strong measures to mitigate the severe adverse effects of the pandemic. These encompassed all parts of the business, including product purchasing, investments, rents, staffing and financing, as well as the receipt of government assistance. When the majority of the stores were closed, increased focus was put on the digital sales channels – and since the H&M group had expanded its online sales globally, the customer offering remained available in many markets. Demand for the group's collections was high and the rapid online growth partly compensated for the drop in store sales. The extent of the restrictions and the drastic worsening of the market situation meant that the group's net sales halved in the second quarter, however, and despite swift measures and substantial cost reductions the quarter was loss-making. Nonetheless, the company returned to profit in the third quarter when sales gradually recovered as social restrictions were eased and customers made it clear that they appreciated the H&M group's offering. The improvement in earnings was driven by increased full-price sales and by cost reductions, and was also underpinned by the company's earlier investments for greater flexibility in product flow. The gradual recovery in sales continued into the fourth quarter, until the second wave of the pandemic led to another slowdown when stricter social restrictions were

FIVE YEAR SUMMARY

FINANCIAL YEAR	2020	2019	2018	2017	2016
Net sales, SEK m	187,031	232,755	210,400	200,004	192,267
Operating profit, SEK m	3,099	17,346	15,493	20,569	23,823
Operating margin, %	1.7	7.5	7.4	10.3	12.4
Operating cash flow per share, SEK	15.65	17.51	12.86	13.04	14.36
Return on equity, %	2.2	23.3	21.4	26.8	31.2
Equity/assets ratio, %	31.3	47.4	49.3	56.0	62.1
Average number of employees	110,325	126,376	123,283	120,191	114,586

For definitions of key performance measures see page 81.

once again imposed in many markets. The H&M group's online sales increased by 50 percent in local currencies in the fourth quarter of 2020 compared with the same period the previous year and by 38 percent for the 2020 financial year. The group's net sales and profit after financial items amounted to SEK 52,549 m (61,694) and SEK 3,665 m (5,403) respectively for the fourth quarter, and to SEK 187,031 m (232,755) and SEK 2,052 m (17,391) respectively for the financial year. Excluding the effects of IFRS 16, profit after financial items amounted to SEK 1,691 m (17,391) for the financial year. Further comments on the group's profit for the year and financial position are given in connection with the income statement and balance sheet on pages 54–57.

Direction

In parallel with managing the Covid-19 situation the company continued to work according to its business plan, which aims to deliver long-term sustainable and profitable growth. The business plan is based on the company's ongoing transformation work and is illustrated by a number of objectives to which the company's sustainability work and digital transformation contribute. These objectives are to continue improving the customer offering for all the brands, to build long-term and value-creating customer relationships, to offer an inspiring experience with integrated digital and physical channels, to adapt the supply chain so that it is faster and more flexible based on demand, and to add more revenue streams based on new emerging business models and innovations. Moving successfully towards these objectives is expected to result in finances remaining sound and sustainable, in accordance with the H&M group's target of a strong capital structure with good liquidity and financial flexibility, allowing continued freedom of action for growth and investments. The H&M group's target to increase sales by 10–15 percent per year with continued high profitability remains a long-term target.

Growth and expansion through integrated channels

The H&M group continues to expand with a focus on increased omnichannel sales. In 2020 H&M opened online in Australia and consequently now sells online in 52 of its 74 markets. H&M was also launched on the ecommerce platform SSG.COM in South Korea. COS, Monki, Weekday, & Other Stories and ARKET all opened online in Bulgaria, Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Romania, Russia and Switzerland in 2020. COS also opened online in Japan and ARKET was launched on the ecommerce platform Tmall in China. Afound opened online in Germany and Austria, and opened a store in the Netherlands. COS opened its first store in New Zealand, Monki in the Philippines, Weekday in Russia and Spain, and & Other Stories in Russia and Norway.

In the 2020 financial year the H&M group opened 129 (281) stores including franchises and closed 187 (173) stores, making a net decrease of 58 stores compared with a net increase of 108 stores in 2019. The group had a total of 5,018 (5,076) stores as of 30 November 2020, of which 269 (272) were operated by franchise partners.

Of the group's 5,018 stores at the end of the financial year, there were 4,429 H&M stores, 291 COS stores, 123 Monki stores, 74 & Other Stories stores, 57 Weekday stores, 21 ARKET stores and 6 Afound stores. H&M HOME is in 402 H&M stores and has 17 standalone H&M HOME stores in 53 markets, and is online in 42 H&M markets.

The current situation has changed the preconditions for, among other things, rental negotiations for stores. In 2020 the H&M group renegotiated a large number of store leases as part of the company's intensified store optimisation, which also involves rebuilds and adjustment of the number of stores and of store space to ensure that the store portfolio is

the best fit in each market. The H&M group's contracts allow around a quarter of leases to be renegotiated or exited each year, providing further opportunities and flexibility to adapt the number of stores and store area and to improve rent terms.

For 2021 the plan is that 350 stores will close and just over 100 new stores will open, resulting in a net decrease of around 250 stores. As in 2020, the majority of the closures will be in established markets, while most of the openings will be in growth markets. The first H&M store in Panama is scheduled to open in the second half of 2021 via franchise.

Employees

The H&M group'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. For the H&M group it is important to offer an attractive, inclusive workplace that attracts talent and where committed employees thrive and develop together. By actively and consciously working according to our values we maintain an open corporate culture of equality that encourages collaboration and a focus on customers. The company works continually to develop skills and leadership and to ensure it has a supply of talent in view of the shift taking place in the industry as a result of the increasing digitalisation of society, with new customer behaviours and a changed competitive situation. This development is reflected in the skills shift that is part of the H&M group's ongoing transformation work in response to the shift in the industry and which encompasses all parts of the company, including regionalisation of the organisation, development of new agile ways of working and the establishment of cross-functional teams to improve efficiency and make faster decisions closer to the customer. The ongoing pandemic has further accelerated the shift in the industry and thus the H&M group's transformation work. In general, the need for people to work in online-related parts of the business such as tech and logistics has increased, while the reverse applies to those associated with operations in the physical stores. The greatest reduction in employee numbers is due to the expiry of temporary contracts, probationary employment that has ended and natural attrition.

At the end of the financial year the group had approximately 153,000 employees. The average number of employees in the group, converted into full-time positions, was 110,325 (126,376), of which 10,214 (11,221) are employed in Sweden.

Of the average number of employees, around 74 percent are women and 26 percent men. Of the positions of responsibility within the company, such as store managers and country managers, women hold 71 percent and men 29 percent of the positions.

EVENTS AFTER THE CLOSING DATE

On 18 February the company issued a sustainability-linked bond (see also section on Financing, page 44).

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. The H&M group 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. Business decisions

determine whether action is to be taken to reduce the likelihood of the risk in question occurring and if so, to what extent. Business decisions also determine the extent to which the consequences of a risk that has occurred may be mitigated.

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

The H&M group's approach to risk management and internal control is described in more detail on pages 21-33 in the corporate governance report. The description includes how the H&M group works according to the COSO framework, which is issued by the Committee of Sponsoring Organizations of the Treadway Commission and has five components: Control Environment, Risk Assessment, Control Activities, Information and Communication, as well as Monitoring Activities.

OPERATIONAL RISKS

Major shift in the industry further accelerated by the Covid-19 pandemic

For a number of years society has been influenced by the growing digitalisation that has rapidly changed consumers' shopping habits. More and more purchases are being made online – and mainly from mobiles, which have become an important part of the shopping experience. Customers are looking for a smooth, simple and inspiring experience in which stores and online interact and enhance each other, and in recent years the H&M group has therefore made substantial investments to provide this. The industry's shift to being increasingly digital was accelerated further in 2020 when the Covid-19 pandemic made even more customers start shopping online because a large proportion of physical retail stores were temporarily closed to reduce the spread of infection. During the pandemic awareness of the importance of sustainable development was furthered reinforced among consumers and as a result there is increased focus on sustainable solutions among companies in the industry, with the H&M group at the forefront. As the competitive landscape is redrawn by new business models and players, profitability in the industry has been squeezed by increased competition. In 2020 the pandemic put a further significant squeeze on profitability and brought great challenges for the whole industry.

It is important to learn the lessons of the Covid-19 pandemic and going forward there is the risk of not just future pandemics but also other unpredictable and unexpected adverse events. For the H&M group this means having good risk mitigation plans and crisis management capacity by being adaptable, flexible and able to act.

Reputational risk

As one of the world's leading fashion companies the H&M group's brands attract great interest and are constantly in the spotlight. To safeguard and manage its 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 ambitions set out in its policies and guidelines on business ethics and has good knowledge, insight and procedures in respect of the production of its products. It is also of the utmost importance that the H&M

group lives up to the high ambitions that it has set itself in the area of sustainability. Should the H&M group fail in these respects, there is a risk that the group's reputation and brands could be damaged. Accurate, transparent and reliable communication can prevent occurrences of reputational risk, and can also help mitigate 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 sufficiently commercial, i.e. will not be well received by customers. Purchasing decisions are also increasingly influenced by customers' desire to live more sustainably.

Within each concept it is crucial to have the right volumes and a correct 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 H&M group works intensively to optimise the extent of ongoing buying during the season in parallel with detailed analysis of day-to-day sales and stock levels in different markets. Today fashion is global, but shopping patterns vary between different markets and sales channels. The start of a season and the season vary from country to country. Delivery dates and product volumes for the various markets and channels are therefore adjusted accordingly. During the year the organisation was also adapted to enhance the capability to create even more relevant customer offerings regionally and locally. An increasing degree of accuracy will also help reduce overall resource consumption and create a more sustainable business model.

Weather

The H&M group's products are purchased for sale based on assumptions concerning weather patterns. Deviation from these assumptions affects sales. This is particularly true at the transition between two seasons, such as the transition from summer to autumn or from autumn to winter. 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. The climate risk analysis that the company has carried out according to guidelines issued by the Task Force on Climate-related Financial Disclosures (TCFD) has shown that climate change may have further effects on the conditions for producing and distributing products in certain regions and countries (see also page 50). The increasingly clear effects of climate change mean that these variations are likely to increase in the future.

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, e.g. virus outbreaks in one or more countries and in the worst case a pandemic, may result in rapid changes in the business environment, such as significant disruption in the supply chain, 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 the following section), 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 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 risks

The H&M group has a highly ambitious sustainability strategy which aims to lead the change towards a more sustainable fashion industry, with both new business opportunities and risks. Some of the main risks identified by the company include shortage of natural resources, climate change and its impact, failure to uphold human rights early in the value chain, corruption, political and social instability in production and sourcing markets and changed consumption patterns and customer attitudes. This last factor could ultimately have major effects on the H&M group's sales – both positive and negative. The outcome depends on how successful the company is in its work to implement the sustainability strategy and the H&M group's ability to develop an even more sustainable customer offering and a sustainable business model.

For a more detailed description of risks related to sustainability see the sustainability report on pages 45–53, and particularly pages 49–50 for the climate risk analysis according to TCFD.

Competitors

There is great confidence in the H&M group's ability to create relevant fashion and relevant customer experiences to suit the year's seasonal shifts in both the northern and southern hemispheres.

The H&M group is modifying its organisation and ways of working in all channels with the aim of having both the capability and the capacity to adapt to customers' needs and expectations faster than its competitors.

Information security and cybersecurity

All companies that trade online are exposed to various types of risk related to information technology. The risks to which the H&M group is exposed in this area are general. These are hacking attempts on networks, disruption of system stability, and attempts to access customer accounts or login details from employees by means of phishing. The H&M group manages this type of risk continually. Continual adjustments and improvements are made in respect of the organisation, systems, procedures and subcontractors with a view to dealing with security risks in the best way possible.

Data protection and GDPR

The H&M group works actively to protect data and privacy. Managing customers' and employees' data in a lawful and confidence-inspiring way has a high priority.

A central team provides central support and guidance on data protection issues, and each country has coordinators tasked with ensuring that the framework established by the central organisation is implemented. Data protection risks identified during this work are compiled quarterly.

FINANCIAL RISKS

Foreign currencies

Nearly half of the group's sales are made in euros, while the most significant currencies for the group's purchasing are the US dollar and the euro. Fluctuation in the US dollar's exchange rate against the euro is the single largest foreign currency transaction exposure for the group. Large and rapid exchange rate fluctuations, particularly as regards the US dollar 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 companies H & M Finance AB and 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. For more information on currency hedging 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. In the event of a major trade war between two countries this would affect not just sourcing costs but generally also the entire flow of goods from production to the customer, which the companies would need to mitigate.

Customs issues: Related party customs valuation continues to attract attention at a global, regional (EU) and national level, from both authorities and importers such as the H&M group. It will therefore continue to be important for the H&M group to proactively monitor and manage future developments in this area. One challenge is that customs authorities around the world are not taking a consistent approach to the assessment of pricing between related parties, despite the fact that the basis for customs duties is established according to the same global (WTO) customs valuation rules.

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, the H&M group closely monitors developments in the field of tax. The H&M group 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.

The H&M group complies with national and international tax legislation, and always pays taxes and levies in accordance with local laws and regulations in the countries where the H&M group operates. The H&M group's tax policy, which can be found at hmgroup.com, reflects and supports H&M's business. The H&M group follows the OECD Transfer Pricing Guidelines, which means that profits are allocated and taxed where the value is created.

The H&M group 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 the H&M group's transfer pricing model even though the model complies with the OECD guidelines. On 18 December 2020

the OECD published its *Guidance on the transfer pricing implications of the COVID-19 pandemic*, which represents the consensus view of the 137 members of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) regarding application of the arm's length principle and OECD Transfer Pricing Guidelines to the situations and challenges associated with the Covid-19 pandemic.

The unique economic circumstances arising from the Covid-19 pandemic, and the associated measures taken by governments, have caused difficulties with the practical application of the arm's length principle. This may mean a risk of tax disputes in the group in the event that the H&M group and the local tax authorities interpret either the general guidelines or the specific Covid-19 guidelines differently.

ARTICLES OF ASSOCIATION, ANNUAL GENERAL MEETING

According to H&M's articles of association, the board of H & M Hennes & Mauritz AB is to consist of no less than three but no more than twelve members elected by the general meeting 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 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 247,442 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 587,971,466 class B shares, representing 17.3 percent of the votes. In addition, the family privately own 36,400,289 class B shares. This means that as of 30 November 2020, Stefan Persson and family privately and via Ramsbury Invest AB represent 75.4 percent of the votes and 49.5 percent of the total number of shares. Ramsbury Invest AB is thus formally the parent company of H & M Hennes & Mauritz AB. 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

The H&M group 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 hmgroup.com and on pages 21–33 of the annual report.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The annual general meeting held on 7 May 2020 adopted the following guidelines for remuneration of senior executives.

These guidelines cover remuneration to the CEO, remuneration to board members (aside from board fees) and remuneration to other senior executives. Senior executives means members of the executive management team apart from the CEO and the individuals responsible for other group functions who report directly to the CFO. The executive management team comprises those responsible for the functions that report directly to the CEO.

The guidelines are to be applied to remuneration that is agreed, and to changes that are made to previously agreed remuneration, after the guidelines have been adopted at the 2020 annual general meeting. The guidelines do not cover remuneration that is decided by the annual general meeting.

How the guidelines contribute to the company's business strategy, long-term interests and sustainability

Under the Swedish Companies Act, an explanation is to be given in the guidelines as to how they contribute to the company's business strategy, long-term interests and sustainability.

The H&M group does not use the expression "business strategy", but instead uses "strategic focus areas". This is probably the expression that most closely corresponds to what the Companies Act means by the term business strategy. The strategic focus areas are: create the best customer offering; ensure we have a fast, efficient and flexible product flow; secure a stable and scalable infrastructure – our "tech foundation"; and add growth by expanding through stores, online and digital marketplaces and by integrating physical stores and online shopping. These guidelines are to contribute to the H&M group's strategic focus areas, long-term interests and sustainability in the ways outlined below.

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. Successful work on the company's strategic focus areas and to safeguard the company's long-term interests, including sustainability, requires the company to be able to recruit, motivate and retain talented, committed employees. Senior executives shall be compensated at what are considered by the company to be competitive market rates, based partly on industry comparisons. 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. 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. Over time, the largest portion of the total remuneration shall consist of the fixed basic 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.

Types of remuneration etc.

The total annual remuneration may consist of the following components:

- fixed basic salary
- 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

The variable remuneration may consist of both criteria-related remuneration and a discretionary one-off payment.

The criteria for criteria-related variable remuneration contribute to the company's strategic focus areas, long-term interests and sustainability in the ways set out on the next page.

There shall be a clear link between the level of criteria-related 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 include 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 financial targets are comprised mainly of criteria related to sales and profitability. Fulfilment of targets is measured over a period of one year. 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.

Criteria-related variable remuneration 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. The criteria-related variable remuneration must never exceed the individual's annual fixed basic salary.

At the end of the measurement period for fulfilment of criteria for payment of variable remuneration, an assessment is to be made of the extent to which the criteria have been fulfilled. In the case of variable remuneration to the CEO, the board is responsible for this assessment. In the case of variable remuneration to other senior executives, the CEO is responsible for the assessment. Where financial targets are concerned, the assessment is to be based on the most recently published financial year.

Discretionary one-off payments may be made in individual cases to other members of the company's management following a discretionary decision by the CEO and the chairman of the board. The discretionary one-off payment must never exceed the individual's annual fixed basic salary.

Pension benefits

In the case of the CEO, pension benefits – including sickness insurance – are to be on a defined contribution basis. Variable cash remuneration shall not be pensionable. The pension premiums for the year must not exceed 30 percent of the CEO's annual fixed basic salary.

In the case of other senior executives, pension benefits – including sickness insurance – are to be on a defined contribution basis unless the executive is covered by a defined benefit pension plan under the mandatory provisions of collective bargaining agreements. Variable cash remuneration shall be pensionable to the extent that this is laid down in mandatory provisions of collective bargaining agreements that are applicable to the senior executive. The pension premiums for the year must not exceed 40 percent of the senior executive's annual fixed basic salary.

The cost of the present commitments is partly covered by separate insurance policies.

The retirement age for the CEO is 65.

The retirement age for other senior executives varies between 60 and 65 years.

Other benefits

Senior executives may receive other benefits such as wellness subsidies, car allowances and medical insurance. The total annual costs associated with other benefits must not exceed 20 percent of the individual's annual fixed basic salary.

Termination of employment

The period of notice for senior executives varies from three to 12 months. Variable remuneration is not to be paid if the individual has given notice to terminate his/her employment.

The CEO is entitled to 12 months' notice. In the event that the company terminates the CEO's employment contract, the CEO will also receive severance pay of a year's salary. No other severance pay is payable by the company.

Salary and employment terms for other employees of the company

When preparing the board's proposed guidelines for remuneration to senior executives consideration was given to the salary and employment terms of the company's other employees by using information concerning the employees' total remuneration, the components of the remuneration and the increase in and rate of increase in the remuneration over time as part of the basis on which the board assessed whether the guidelines, and the resulting limitations, are reasonable.

Consultancy fees

Where a board member performs work for the company (including through a wholly owned company) in addition to his or her board work, a separate fee may be paid for this (consultancy fee). Such fee shall not exceed the board fee paid to the member concerned. The fee is to be based on the current market rate and be proportionate to the benefit for the company and the extent to which such work contributes to the good financial and sustainable development of the H&M group.

Decision process for establishment, review and implementation of the guidelines

The company has no remuneration committee, since the board of directors deems it more appropriate for the entire board to carry out the tasks of a remuneration committee. The board prepares proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings. The board is to prepare a proposal for new guidelines at least every four years and submit the proposal for decision by the annual general meeting. The guidelines shall apply until new guidelines have been adopted by the annual general meeting. The board shall also monitor and evaluate programmes for variable remuneration to the company's management and the application of the guidelines for remuneration to senior executives, as well as current remuneration structures and levels in the company. The board shall further decide on the CEO's salary in accordance with the guidelines in effect and shall continually evaluate the work of the CEO. Once a year this matter is to be discussed separately in conjunction with the setting of the CEO's remuneration for the coming year. To avoid conflicts of interest, no member of the company's management is to be present when the board discusses remuneration matters. The board shall decide on any consultancy fees to board members without the member concerned being present.

Other

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. The programme was adopted by a previous general meeting and is not covered by these guidelines.

Regarding employment terms falling under rules other than Swedish rules, in the case of pension benefits and other benefits the guidelines are to be adapted as appropriate to comply with any such mandatory rules or established local practice, while fulfilling the general aim of the guidelines as far as possible.

The board may decide to temporarily deviate from the guidelines in full or in part if there is particular reason to do so in an individual case and this is necessary in order to satisfy the company's long-term interests and sustainability or to ensure the financial viability of the company. The procedure for doing this is as follows: decisions to deviate from the guidelines are to be taken by the board at a board meeting.

THE BOARD'S PROPOSALS TO THE 2021 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The guidelines cover remuneration to the CEO, remuneration to board members (aside from board fees) and remuneration to other senior executives. Other senior executives means members of the executive management team apart from the CEO. The executive management team comprises the individuals who report directly to the CEO.

The long-term variable remuneration, which applies only to the executive management team including the CEO, will be measured over a five-year period in order to reward long-term value creation for H&M.

How the guidelines contribute to the company's business strategy, long-term interests and sustainability

The H&M group's business plan aims to deliver long-term, sustainable and profitable growth. The business plan builds on the company's ongoing transformation work and is illustrated by a number of objectives to which the company's sustainability efforts and digital transformation contribute. These objectives are to continue improving the customer offering for all the brands, to build long-term and value-creating customer relationships, to offer an inspiring experience with integrated digital and physical channels, to adapt the supply chain so that it is faster and more flexible based on demand, and to add more revenue streams based on new emerging business models and innovations. Moving successfully towards these objectives is expected to result in finances remaining sound and sustainable, in accordance with the H&M group's target of a strong capital structure with good liquidity and financial flexibility, allowing continued freedom of action for growth and investments.

The board considers it important that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. To work successfully according to the company's business plan and safeguard the company's long-term interests the company needs to be able to recruit, motivate and retain talented, committed employees. Senior executives shall be compensated at what are considered by the company to be competitive market rates, based partly on industry comparisons. Levels of compensation shall be based partly on the significance of the duties performed, i.e. the ability to affect the overall development of the group, and partly on the employee's competencies, experience and performance. Together these decide the level of remuneration for the individual concerned. Over time, the largest portion of the remuneration shall consist of the fixed basic 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.

Types of remuneration etc.

The total remuneration may consist of the following components:

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

Fixed basic cash 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 fixed basic cash salary shall reflect the individual's area of responsibility, competencies and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

The variable remuneration may consist of a short-term and a long-term portion.

There shall be a clear link between the level of performance-based variable remuneration paid and the H&M group's financial and sustainable development. Senior executives' variable remuneration shall therefore depend on the fulfilment of targets. The targets shall aim to promote the H&M group's development in both the short and the long term.

Short-term variable remuneration: Fulfilment of targets shall be measured over a period of one year. The short-term variable remuneration shall be based on fulfilment of targets in the following areas:

- The H&M group's total sales
- The H&M group's total operating profit
- Fulfilment of the objectives in the various areas of the business plan, which include sustainability and
- Assessment of leadership and compliance with values.

For the last two performance parameters it is the individual's performance within their own area of responsibility that is assessed. For the financial targets, the assessment is to be based on the most recent financial year. The board of directors is responsible for this assessment in the case of short-term variable remuneration to the CEO. In the case of short-term variable remuneration to other senior executives, the CEO is responsible for the assessment.

Each of these four predetermined performance parameters has equal weighting, i.e. each represents a quarter of the total target fulfilment. However, there is a threshold value for the second parameter, i.e. operating profit, which means that if this value is not reached then no short-term variable remuneration will be paid regardless of target fulfilment for the other three parameters. The short-term variable remuneration, which at individual level is based on the extent to which the person's duties and position influence the overall development of the group, may amount to 0-3 months' salary, 0-6 months' salary or 0-12 months' salary. Monthly salary refers to fixed basic cash salary. If the target levels set by the board are fulfilled, half of the maximum remuneration in each range shall be paid. To receive a payment in the higher part of the range within the set framework, therefore, the predetermined target levels are required to be exceeded.

Half of the remuneration payment shall be invested in H&M shares that must be held for at least three years. Each year the board will set target levels for each of the four performance parameters for the coming year.

Long-term variable remuneration: The long-term variable remuneration shall be based on target fulfilment measured over five financial years starting from the current 2021 financial year and ending at the close of the 2025 financial year. This period, i.e. 1 Dec 2020 – 30 Nov 2025, is known as the measurement period. The long-term variable remuneration – which shall apply only to the executive management team including the CEO, totalling 15 individuals – shall be based on fulfilment of targets within the following areas:

- The H&M group's total sales

- The H&M group's total operating profit
- Fulfilment of the objectives in the various areas of the business plan in total, which include sustainability and
- Assessment of leadership and compliance with values.

Each of these four predetermined performance parameters shall have equal weighting, i.e. each represents a quarter of the total target fulfilment. For the long-term variable remuneration the assessment of the financial targets shall be based on a summing up of the past five financial years, with fulfilment of the annual target levels in the short-term arrangement – i.e. within sales and profit – forming the basis for target fulfilment in the long-term arrangement. For the other two performance parameters – i.e. fulfilment of the business plan and leadership and compliance with values – an overall assessment is to be made of the total for the H&M group for the entire measurement period. After the measurement period has ended the board is responsible for an overall assessment based on the four performance parameters and for deciding the long-term variable remuneration that will be paid to the CEO. The long-term variable remuneration to be paid to other senior executives will be established by the board in consultation with the CEO.

A precondition for receiving the long-term portion shall be that the participants make an initial investment of their own in H&M shares, amounting to around 10 percent of their fixed basic annual cash salary after tax, close to the 2021 annual general meeting. These shares shall then be held for the entire measurement period. After three years, provided they remain employed by the group, the initial investment will be matched by the receipt of a cash amount after tax equal to two times their own initial outlay. This sum is to be invested in H&M shares as soon as possible. These shares are also to be held for the entire measurement period.

The aim of the initial investment of their own in H&M shares as well as the investment of the matching sum in H&M shares is to build up their own shareholding in H&M in order thereby to further align the interests of the executive management team with the interests of the shareholders in the good, long-term development of the company.

The maximum total remuneration within the framework of the long-term variable remuneration arrangement for the entire measurement period, which includes both the matching amount in year 3 and the remuneration in year 5 after the measurement period has ended, may vary between SEK 1.75 million net after tax and SEK 7 million net after tax depending on the individual's duties and the extent to which their position affects the overall development of the group.

The H&M group's total cost, including social security costs, for the long-term variable remuneration is expected to amount to a maximum of around SEK 150 million. A provision of SEK 30 million per year is expected to be made for a total of five years.

Pension benefits

In the case of the CEO, pension benefits – including sickness insurance – are to be on a defined contribution basis. Variable cash remuneration shall not be pensionable. The pension premiums for the year must not exceed 30 percent of the CEO's annual fixed basic salary.

In the case of other senior executives, pension benefits – including sickness insurance – are to be on a defined contribution basis unless the executive is covered by a defined benefit pension plan under the mandatory provisions of collective bargaining agreements. The pension premiums for the year must not exceed 40 percent of the senior executive's annual fixed basic salary.

The cost of the present commitments is partly covered by separate insurance policies.

The retirement age for the CEO is 65.

The retirement age for other senior executives varies between 62 and 65 years.

Other benefits

Senior executives may receive other benefits such as wellness subsidies, car allowances and medical insurance. The total annual costs associated with other benefits must not exceed 20 percent of the individual's annual fixed basic salary.

Termination of employment

The period of notice for senior executives may vary between three and 12 months. Variable remuneration is not to be paid if the individual has given notice to terminate their employment.

The CEO is entitled to 12 months' notice. In the event that the company terminates the CEO's employment contract, a year's salary fixed basic cash salary may also be paid to the CEO as severance pay. No other severance pay is payable.

Salary and employment terms for other employees of the company

When preparing the board's proposed guidelines for remuneration to senior executives consideration was given to the salary and employment terms of the company's other employees by using information concerning the employees' total remuneration, the components of the remuneration and the increase in and rate of increase in the remuneration over time as part of the basis on which the board assessed whether the guidelines, and the resulting limitations, are reasonable.

Consultancy fees

Where a board member performs work for the company (including through a wholly owned company) in addition to their board work, a separate fee may be paid for this (consultancy fee). Such fee shall not exceed the board fee paid to the member concerned. The fee is to be based on the current market rate and be proportionate to the benefit for the company and the extent to which such work contributes to the good financial and sustainable development of the H&M group.

Decision process for establishment, review and implementation of the guidelines

The company has no remuneration committee, since the board of directors deems it more appropriate for the entire board to carry out the tasks of a remuneration committee. The board prepares proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings. The board is to prepare a proposal for new guidelines at least every four years and submit the proposal for decision by the annual general meeting. The guidelines shall apply until new guidelines have been adopted by the annual general meeting. The board shall also monitor and evaluate programmes for variable remuneration to the company's management and the application of the guidelines for remuneration to senior executives, as well as current remuneration structures and levels in the company. The board shall further decide on the CEO's salary in accordance with the guidelines in effect and shall continually evaluate the work of the CEO. Once a year this matter is to be discussed separately in conjunction with the setting of the CEO's remuneration for the coming year. To avoid conflicts of interest, no member of the company's management is to be present when the board discusses remuneration matters.

Other

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. The programme was adopted by a previous general meeting and is not covered by these guidelines.

Regarding employment terms falling under rules other than Swedish rules, in the case of pension benefits and other benefits the guidelines are to be adapted as appropriate to comply with any such mandatory rules or established local practice, while fulfilling the general aim of the guidelines as far as possible.

The board may decide to temporarily deviate from the guidelines in full or in part if there is particular reason to do so in an individual case and this is necessary in order to provide for the company's long-term interests and sustainability or to ensure the financial viability of the company.

Description of significant changes to the guidelines and how shareholders' views have been taken into account

The pandemic has speeded up many changes in society and the industry that were already driving the H&M group's transformation. Digitalisation has accelerated and awareness of the importance of sustainable development has increased. In the H&M group's ongoing transformation it is important to have a good balance between short-term and long-term decisions. The proposed guidelines therefore include supplementary long-term variable remuneration for the executive management team while also clarifying the performance parameters for the short-term variable remuneration. In addition, the relationship between variable and fixed remuneration has been made clearer, and certain other changes have been made. The changes are in line with views presented by shareholders.

FINANCING

As of 30 November 2020 the group had interest-bearing liabilities of SEK 16,332 m (17,317) in the form of loans from credit institutions and commercial papers. In addition, the group has undrawn credit facilities of SEK 30,055 m (11,857). The average maturity of interest-bearing liabilities and undrawn credit facilities was 2.1 (2.6) years. A maturity analysis of outstanding interest-bearing liabilities and undrawn credit facilities is given in the table in note 2.

The H&M group's liquidity is very good. As of 30 November 2020 cash and cash equivalents amounted to SEK 16,540 m (12,312). Cash and cash equivalents plus undrawn credit facilities totalled SEK 46,595 m (24,169). The improvement in liquidity is partly driven by greater focus on the H&M group's working capital, including the streamlining during the year of invoice management and the payment process for suppliers of products to the group. Among other things, payment terms have begun being adapted to the industry standard. This is expected to have material effects on the H&M group's working capital and strengthen cash flow as it is implemented further in 2021. Based on 2020 purchasing volumes, this could free up around SEK 10 billion in 2021.

The H&M group has also implemented an arrangement with banks in which the banks offer suppliers of products to the H&M group the option of being paid earlier than the invoice due date. This arrangement is being offered to all H&M group product suppliers and has been well received in the markets where it has been implemented to date. Most suppliers have chosen to take part. This could improve the working capital of both the H&M group and the product suppliers.

The group aims to secure financial flexibility and freedom of action on the best possible terms. The following significant financing activities

were begun in the fourth quarter of 2020 and were completed in the first quarter of 2021:

- With the aim of accelerating the group's sustainability work, a framework has been produced that allows sustainability-linked bonds to be issued under the group's EMTN programme that was established in the third quarter of 2020 with a framework amount of EUR 2,000 m. The framework conforms to the Sustainability-Linked Bond Principles (SLBP).
- To secure access to the bond market on the best possible terms, a credit rating from Standard & Poor's has been obtained. The rating is BBB with a stable outlook.

CAPITAL STRUCTURE

The H&M group advocates a conservative leverage ratio, aiming for a strong capital structure with strong liquidity and financial flexibility. It is essential that, as in the past, expansion and investments can proceed with continued freedom of action. The capital structure is defined as net debt in relation to EBITDA. Over time, this should not exceed 1.0 x EBITDA. Net debt/EBITDA excluding IFRS effects was 0.0 (0.2) as of 30 November 2020.

IFRS 16, applied from 1 December 2019, has substantial effects on the reporting of liabilities, assets and EBITDA. However, the H&M group will continue to define the capital structure exclusive of IFRS 16 effects (see also note 32). The company considers this to provide a clearer picture at the present time of the actual debt/equity ratio, and it is also the measure used in internal monitoring.

DIVIDEND POLICY

The board of directors' intention is for the H&M group to continue to provide shareholders with a good return while ensuring that growth and investments in the business can proceed with a strong financial profile and freedom of action. Based on this, the board of directors has agreed a dividend policy stating that the ordinary dividend over time should exceed 50 percent of profit after tax and additionally that identified surplus liquidity – taking into consideration the capital structure target and investment requirements – can be distributed to shareholders through an extra dividend or a buyback programme.

Proposal to the 2021 AGM on distribution of earnings

The board of directors proposes to the 2021 annual general meeting that no dividend is paid and that earnings at the disposal of the meeting are carried forward.

Dividend comment

The board aims for the H&M group to have sustainable and profitable growth, thereby allowing a good return to the shareholders. The company's financial position remains strong and at present the board's assessment is that there are good prospects of a cash dividend in autumn 2021. However, since it is not possible at the current time to get a full overview of the consequences of the ongoing pandemic, during the year the board will come back with a proposed date and level for resuming the dividend.

Statutory Sustainability Report

This report is prepared in accordance with Chapter 6 §§ 10–14 of the Annual Accounts Act and covers the financial year from 1 December 2019 to 30 November 2020.

The statutory sustainability report contains the necessary information to provide an understanding of the H&M group's sustainability performance, position and results and the sustainability impact by and on the company's operations. This includes disclosures on issues relevant to the H&M group value chain, including climate and the environment, working conditions, inclusion and diversity, respect for human rights and anti-corruption measures. This report was submitted to the company's auditor together with the annual report. The H&M group also prepares a separate Sustainability Performance Report annually in accordance with GRI, which is published on the company's website at hmgroup.com/sustainability.

Sustainability strategy of the H&M group

The Covid-19 pandemic has had an extensive impact on people, companies and societies globally in 2020. In parallel there has been increased focus on global challenges such as inequality and social injustice, and the ever-increasing need to battle climate change. Against this background, the H&M group's sustainability vision is more relevant than ever. This vision is to lead the change to entirely circular and climate positive fashion while being a fair and equal company.

The H&M group creates value for people and society by delivering its customer offering and developing with a focus on profitable and sustainable growth. The group includes various well-defined brands that enable people around the world to express themselves through fashion and design. The H&M group's ambition is to enable more people to choose a sustainable lifestyle and the group aims to create a positive correlation between profitable growth and a greater positive impact on customers, colleagues, business partners, their employees and other stakeholders while respecting the planetary boundaries. The company's approach to being a fair and equal business is founded on its fundamental work to ensure respect for human rights in the supply chain.

The company's value chain – the full range of activities it takes to design, make, transport, market, sell, use, reuse and recycle a product – is connected to countless people, communities, ecosystems and other businesses around the world. The company aims to maximise positive impact and minimise negative impact throughout its value chain by collaborating with business partners and stakeholders to tackle the sustainability challenges at every stage of the chain. The focus is on social impacts, such as on human rights, wages and job creation, as well as climate and environmental impacts, such as greenhouse gas emissions and resource use. The company welcomes the shared focus that Agenda 2030 and the UN Sustainable Development Goals contribute to the collaborative efforts of governments, business and civil society to address these pressing challenges.

In the wake of the Covid-19 pandemic demand for good value, sustainable products and services is expected to grow, and the H&M group's customer offering is well positioned for this. The pandemic has also highlighted the need for more resilient supply chains and business models. Altogether, this means that the company's sustainability work and strategy will continue to be further integrated into its business and the long-term governance of the company. The company's sustainability strategy is built on three key ambitions:

LEADING THE CHANGE

- Promote and stimulate innovation
- Drive transparency

CIRCULAR & CLIMATE POSITIVE

- A climate positive value chain
- A circular approach to how products are made and used
- Source only recycled or other sustainably produced materials

FAIR & EQUAL

- Fair jobs for all
- Inclusion and diversity

All the H&M group's brands and business ventures are aligned with this sustainability vision and strategy. To fulfil the goals laid out in the strategy, the H&M group works to promote positive impact and minimise negative impact at every stage of its value chain, including:

- Design and product development
- Raw materials
- Suppliers of materials and products: the H&M group works with around 700 commercial product suppliers for H&M group brands in a total of around 1,900 manufacturing factories and final product processing units for apparel, footwear, accessories, home interior, furniture and beauty products. The H&M group has 19 production offices in 17 markets.
- Transport and warehouse operations
- Sales: 5,018 stores in 74 markets, of which 52 also are online markets
- Customer and community impact

This report includes the key elements of the H&M group's sustainability strategy, related policies, governance and results, as well as risks and opportunities addressed. See the Sustainability Performance Report at hmgroup.com for a full description.

Further details of the topics and policies mentioned here can also be found at hmgroup.com¹.

Risks and opportunities

The H&M group believes it is well positioned to use its size and scale to leverage systemic change. The group aims to lead the way both in addressing critical risks related to sustainability and in capitalising on opportunities in the fashion industry.

There are risks from a sustainability perspective related to the issues that are relevant for the H&M group's value chain, including climate, the environment, working conditions, inclusion, diversity, respect for human rights and anti-corruption. Key risks addressed include the growing scarcity and linear use of natural resources, the climate crisis and its consequences, biodiversity loss, reputational risk, corruption, pandemics, forms of modern slavery such as forced labour, as well as other severe or local human rights issues identified and mitigated in line with the UN Guiding Principles for Business and Human Rights. For more information see the H&M group's Sustainability Performance Report.

The H&M group's sustainability vision and strategy contribute to guiding the business towards key opportunities. It is only possible to achieve the strategy's goals by collaborating with the company's many stakeholders, including customers and colleagues as well as business partners, suppliers and their employees. Strong relationships with all stakeholders enable the company to identify innovative ways to create fashion for its customers and to offer it to them.

The H&M group uses such collaboration to drive innovation and the development of more sustainable materials and circular business

models. This helps secure access to the materials and technologies of the future, which is of great importance for reducing dependence on raw materials and thus for the long-term success of the H&M group. The development of circular business models makes it possible to deepen existing customer relationships and create new customer relationships, more transactions and increased value throughout the products' life cycle.

Inclusion and diversity are also of the utmost importance for the success and development of the business. The H&M group believes that inclusive teams with differing backgrounds, perspectives and experiences are a valuable asset and increase opportunities to create an inspiring and relevant customer offering and a work environment where engaged employees can grow and develop together. For the same reasons, a lack of diversity could present a risk. The H&M group works actively to achieve inclusive workplaces and to enhance diversity among management and employees so that the group better reflects customers and communities globally.

Impact of the Covid-19 pandemic and action to manage this

The Covid-19 pandemic is significantly impacting people, businesses and communities around the world. The H&M group and the fashion industry have an opportunity to emerge from this crisis more resilient and sustainable through collaboration, transparency and fast action. The company's response to the pandemic has shown that this is possible. Working closely with all stakeholders has been an important factor in the group's recovery and will remain so, both for a greater ability to adapt to rapid changes in the world around it and to create sustainable and profitable growth.

The pandemic impacted the H&M group's sustainability work in various ways – including the fact that, at the most, 80 percent of the company's around 5,000 stores were temporarily closed because of social restrictions. Below are some examples of how the sustainability work was affected during the year:

- Interruption of the company's garment collecting initiative, since this service was not accessible to customers in various markets. The pandemic also caused logistical disruption to garment collecting and the temporary closure of sorting centres in some markets.
- The development of global science-based guidelines on biodiversity through a broad partnership between various global organisations and corporations has been delayed and is expected to resume in 2021. The H&M group intends to adapt its biodiversity ambition to these and to engage in this conversation when it resumes.
- Electricity intensity decreased by 17 percent per square metre per store opening hour compared with a 2016 baseline, which was a greater reduction than would have been the case without lockdowns.
- Extensive restrictions on society in order to control the pandemic resulted in temporary factory closures in various production countries and substantial drops in sales. The H&M group kept to its responsible sourcing procedures during the pandemic and engaged in close dialogue with trade unions, employer organisations and peers with the aim of working together to develop more resilient supply chains in the future.
- Opportunities to conduct physical checks in suppliers' factories were limited and greater focus was placed on risk mitigation relating to health and safety, social security and payment of wages. To ensure adequate provision in these areas, the company increased its use of existing tools for digital verification within the company's SIPP system (see also on next page) and developed these.
- With many stores temporarily closed, the company had to cut working hours in the markets affected. The H&M group took steps to support its employees. Wherever stores were closed due to the pandemic,

employees were guaranteed full compensation for the first 14 days of closure. Further support was developed based on the local circumstances and rules in each country.

- The company supported colleagues working from home, for example with remote working and meeting guidance and technical support. Employees who were not able to work from home were provided with personal protective equipment, health and safety videos, sanitation protocols and training.
- In 2020, 80 percent of respondents to the company's employee survey agreed with the statement "I feel safe at my workplace" (84 percent in 2019).
- The pandemic also disrupted roll-out of internal inclusion and diversity training.

Governance and general follow-up procedures

The head of sustainability is responsible for the implementation and execution of the H&M group's sustainability vision and strategy together with the executive management team. The head of sustainability reports directly to the CEO, and reports performance (in respect of key sustainability indicators) to the board of directors twice yearly. See also the Corporate Governance Report.

The global sustainability department comprises around 40 experts who are responsible for setting the groupwide sustainability strategies, goals, policies and follow-up procedures. Their role also includes integrating relevant strategic metrics into the core of the business, in close collaboration with internal and external stakeholders. The sustainability department strategy team reports progress against the sustainability key performance indicators (KPIs), key challenges, learnings and activities every quarter. The head of sustainability then reviews these findings with the CEO and CFO.

Each brand, retail market, production market and H&M group function has a sustainability manager who works to drive performance against the group's sustainability strategy. More than 230 employees have roles dedicated to sustainability, working in production and retail markets, brands, functions and at the H&M group head office.

Transparency

The H&M group believes transparency contributes to meaningful change. Increasing transparency across the company's value chain creates accountability, comparability, trust and opportunities for collaboration that drive industrywide change. The H&M group website discloses information on which suppliers manufacture the H&M group's products, as well as some of their subcontractors such as those that produce fabrics and yarns. The company is a signatory to the Transparency Pledge², which supports the garment industry in reaching a common minimum standard for supply chain disclosure, and works with the Sustainable Apparel Coalition to develop a method for publicly disclosing comparable information at product level based on the Higg Index.

Transparency is also important for customers' decisions. By offering customers more information about the impacts and journey of the H&M group products, they can make more informed choices. The company launched its Product Transparency Solution in 2019, enabling H&M, H&M HOME and ARKET customers to see information online about product materials, factories and garment care. The group's brands also provide information on services that can extend the life of the garments and how the garments can be recycled. For example, COS launched a pilot in 2020 with blockchain company VeChain to trace and share the production journey of a recycled wool sweater with customers via a QR code on the product label.

Supply chain management

The H&M group wants to work with suppliers that share its vision for a more sustainable fashion industry. It is compulsory for all suppliers and business partners to sign the group's Sustainability Commitment³ and Code of Ethics⁴. These outline the group's expectations of suppliers and business partners, including compliance with minimum requirements and the aspiration to go beyond compliance for lasting impacts. The Code of Ethics also states a zero-tolerance policy on corruption and requires business partners and employees to comply with relevant legislation as well as the H&M group's own business principles.

Compliance with these requirements is monitored using a system of risk-based audits and the Sustainable Impact Partnership Programme. The SIPP programme gives a deeper insight into performance than audits alone, creating a positive feedback loop to empower constant improvement and build capacity. The company has used SIPP since 2016, continuously expanding coverage to include 100 percent of tier 1 supplier units and an ever-increasing percentage of tier 2 suppliers.

As part of SIPP, supplier factories are being assessed against tools developed by the Sustainable Apparel Coalition together with the industry, NGOs, academia and many others – namely the Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM). In 2020 a total of 1,184 tier-1 supplier factories were assessed against the FEM, with 430 third-party verifications, as well as 194 tier-2 supplier factories, with 89 third-party verifications. The FEM score^{**} across participating supplier factories was 52^{***} out of 100 (47 in 2019^{****}) – based on combined average scores for energy (82), water use (73), emissions (59), wastewater (59), waste management (34), air emissions (29) and chemicals (29). Further information can be found in the Sustainability Performance Report.

ENVIRONMENT: CIRCULAR & CLIMATE POSITIVE

Strategy and policy

Two of the biggest challenges facing the planet today are the climate crisis and biodiversity loss. There is a risk that these could also have negative consequences for human rights. The H&M group is determined to promote progress in moving the fashion industry towards a better, more sustainable way of working. The company's strategy therefore focuses on:

- *Achieving full circularity.* Achieving full circularity requires systemic change. The company's circular approach covers its entire value chain. The transition towards circularity includes creating products that are durable and are made from safe, recycled and more sustainable inputs that can recirculate multiple times. The H&M group aims to secure a circular value chain with circular products, material flows and production processes, to inspire its customers and make it easier for them to become more circular in how they use and shop for fashion, such as by providing accessible solutions and services for garment care, reuse and recycling.
- *Becoming climate positive throughout the value chain by 2040, with a net positive impact on biodiversity.* The H&M group is committed to being part of the solution to the climate crisis. The company's goal is for its value chain to become climate positive by 2040 by reaching its reduction targets for carbon dioxide emissions (CO₂e). This is supported by the ambition to become fully circular. The loss of biodiversity is a growing problem that is closely related to the climate crisis. The H&M group has therefore expanded its climate ambition with the goal of achieving a net positive impact on biodiversity.

^{**} Based on 2019 data.

^{***} Unverified average, including a mix of verified and non-verified data.

^{****} Based on 2018 data.

Circularity

The H&M group aims to become a fully circular business across the entire value chain. This includes its products and services, how they are produced and their use by customers, as well as non-commercial goods such as packaging, building materials and interior furnishings for stores, offices and distribution centres. To do this, the company must move from a linear model to a circular model where the value of resources is maximised by ensuring these are in use as long as possible, then reused, until finally being recycled. The company is also offering an increasing range of services to prolong the lifespan of the products based on new circular business models such as repair, rental, resale and recycling schemes. Transforming into a circular business will contribute to the group's climate and biodiversity ambitions.

- The H&M group achieved its goal to source 100 percent more sustainable cotton by 2020. In 2021 the company is working to strengthen its cotton strategy further from a social and environmental perspective.
- The H&M group has a goal to source 100 percent recycled or other sustainably sourced materials by 2030. In 2020 the company achieved 64 (57) percent. The group more than doubled the share of recycled materials from 2.2 percent to 5.8 percent. A new goal has been added: to achieve 30 percent recycled materials by 2025.
- An important step towards the goal of achieving 30 percent recycled materials by 2025 was the launch in 2020 of the first collections of garments made of materials produced using new garment recycling technology. Working with the Hong Kong Research Institute of Textiles and Apparel (HKRITA) and the H&M Foundation, Monki released a collection using recycled material made in the so called Green Machine, which can fully separate and recycle cotton and polyester blends at scale. H&M launched a Conscious Exclusive collection using Circulose, an MMC fibre made from recycled cotton waste and developed by Renewcell, a Swedish textile recycling company that H&M was an early investor in and still has a stake in. In 2020 the H&M group signed a multi-year contract with Renewcell for the supply of Circulose material.
- The H&M group collects used garments and home textiles in store, from any brand and in any condition, for reuse and recycling on a global scale. The Covid-19 pandemic disrupted this activity due to store closures and interrupted logistics, resulting in the company collecting 18,800 tonnes of textiles in 2020. This is below the company goal of collecting 25,000 tonnes annually by 2020. However, the company had already exceeded this in 2019 by collecting 29,005 tonnes – proof of growing demand from customers for circular services.
- The H&M group has set a goal to reduce packaging across the value chain by 25 percent by 2025 (taking 2018 as the baseline) and by 2020 had achieved a reduction of 14 percent. A key focus area here for the group is to address single-use plastic packaging and the company has reduced the volume of plastic packaging by 24 percent compared to 2018. For the packaging material that still has to be used, the goal is for 100 percent to be made from recycled or other sustainably sourced materials by 2030. Additionally, the group has set a goal that 100 percent of all its packaging material is to be designed for recycling, reuse or composting by 2025.
- In 2020 the H&M group developed a circular strategy for its stores, offices and buildings, which included the goal of reducing CO₂e emissions from furnishings, construction etc. by 50 percent by 2030.
- The H&M group's roadmap for chemicals includes the goal of "Zero Discharge of Hazardous Chemicals" as well as full chemicals traceability. To achieve this the H&M group uses shared industry tools, such as AFIRM's Restricted Substances List (RSL) and Zero Discharge of Hazardous Chemicals' Manufacturing Restricted Substances List 2.0

(ZDHC MRSL). In 2020, 100 percent of the company's suppliers of textile and leather products were signed up to the ZDHC programme and 88 percent compliance with ZDHC MRSL was achieved. The H&M group continues to drive towards its goal of 100 percent compliance and transparency.

Climate and biodiversity

The climate crisis is one of the world's most urgent challenges, with many impacts already being felt. Scientific consensus tells us that to avoid catastrophic effects, the world must not go beyond an average global temperature increase of 1.5°C from pre-industrial levels. This requires current carbon emissions to halve every decade. The H&M group accepts responsibility for its part in this and has set an ambition to halve the company's emissions every decade.

The Science Based Targets initiative (SBTi) has confirmed that the H&M group's targets covering greenhouse gas emissions from company operations (scope 1 and 2) are consistent with the reductions required to keep warming to a well below 2°C trajectory. The renewable energy procurement target covering scope 2 emissions is consistent with reductions required to keep warming to 1.5°C.

The group works to increase energy efficiency and use of renewable energy, and to move from a linear to a circular business.

The climate crisis and biodiversity loss are closely interlinked. Like the rest of the fashion industry, every part of the H&M group's value chain can have an effect, with the biggest impact often coming from the sourcing of raw materials. Impacts also occur during the production and transportation of products, and the life of garments once they reach customers. The H&M group's new biodiversity ambition is to have a net positive impact. The company has begun to develop a formalised set of actions to deliver this ambition focusing on preventing and reducing its overall impact on

biodiversity and natural ecosystems in the value chain, and helping protect and restore natural ecosystems in line with what science requires.

- Temporary store closures, reduced use of air freight and the lack of business travel by air because of the pandemic decreased emissions of CO₂e from these sources in 2020. However, the company's total net CO₂e emissions from its own operations (scope 1 and 2) increased by 18 percent in 2020 compared with the previous year. The increase is due to alignment with RE100's⁵ updated market boundary criteria, which reduced the company's proportion of renewable electricity. Also see on the next page.
- The H&M group has set an SBTi-approved science-based target to achieve a 40 percent reduction in CO₂e emissions within scopes 1 and 2 by 2030 (compared with the 2017 level), to contribute to keeping global warming to a well below 2°C trajectory. As a milestone towards this target, the group aims to achieve a 20 percent reduction by 2025. In 2020 emissions increased by 14 percent compared with 2017.
- The H&M group has also committed to reducing scope 3 emissions by 59 percent per product, and 20 percent in absolute terms, for purchased raw materials, fabric production and garments by 2030 (from a 2017 baseline). As a milestone towards this target, the aim is to achieve a 10 percent reduction by 2025. In 2020 scope 3 emissions decreased by 1.6 percent compared to 2017, amounting to 17,387 kilotonnes. For further information on scope 3 emissions see the Sustainability Performance Report.
- The H&M group aims to use as little energy as possible across its entire value chain – including in stores, transport, distribution and production. Electricity intensity in stores decreased by 17 percent in 2020 compared with 2016, adjusted for area and opening hours. The group's overall CO₂e transport emissions decreased by 12 percent to 442,000 tonnes in 2020, which includes a 43 percent decrease in emissions

KPI	GOAL	2020	2019	2018
% of recycled or other sustainably sourced materials (commercial goods)	100% by 2030	64	57	57
% recycled or other sustainably sourced cotton (certified organic, recycled or Better Cotton)*	100% by 2020	100	97	95
% of recycled materials (commercial goods)	30% by 2025	5.8	2.2	1.4
Tonnes of garments collected through garment collecting initiative*	25,000 t per year by 2020	18,800	29,005	20,649
% reduction in packaging materials used (compared to 2018 baseline)	25% by 2025	14	0	Baseline
% recycled packaging materials, of total packaging materials used	100% by 2030	50	40	Baseline
% of supplier factories compliant with ZDHC MRSL	100% by 2020	88	80	–
% of renewable electricity in own operations*	100%	90	96	96
Tonnes of CO ₂ e emissions from own operations (scope 1+2**)*	Climate positive value chain by 2040	72,580	61,462	56,977
% change in CO ₂ e emissions from own operations (scope 1+2**) compared with previous year*	See KPI and target below	+18	+8	-11
% change in CO ₂ e emissions from own operations (scope 1+2**) compared with 2017 baseline	40% by 2030	+14	-3	-11
% change in electricity intensity (kwh/m ² per opening hour in store compared with 2016)*	-25% by 2030	-17	-10.1	-8.2

* Reviewed by the company's auditors.

** Scope 1 and 2 are direct and indirect emissions of greenhouse gases from the group's own operations, e.g. warehouses.

from air freight during the year, largely because of the Covid-19 pandemic. Collaboration with transport and logistics company Maersk on reducing emissions brought about an estimated reduction of 13,500 tonnes CO₂e, which was also included in the total decrease.

- In 2020 the H&M group continued to introduce climate-smart delivery (including electrical vehicles and pedal cycles) and fossil-free fuels (including biogas and biodiesel). With the addition of these types of home delivery to online customers in Germany, Italy, Sweden and the United Kingdom during the year, more than half (27) of the company's online markets now have some form of climate-smart delivery.
- 90 percent of electricity purchased for company operations was renewable in 2020, compared with 96 percent in 2019. The change is due to alignment with RE100's updated market boundary criteria. The updated boundary criteria were introduced in mid-2019, after the group had already secured renewable electricity for 2019 and 2020. To achieve the 100 percent goal, the company will continue to work towards a balanced portfolio of Energy Attribute Certificates (EACs), power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaic.
- The H&M group is examining various options for long-term sustainable solutions to address unavoidable greenhouse gas emissions and emissions that occur outside its value chain. The company continues to collaborate with experts to find credible and scalable solutions. Through the group's new partnership with the International Platform for Insetting, it is exploring the potential of regenerative agriculture or agroforestry projects to deliver climate benefits.

Climate risk analysis according to TCFD

In 2019 the H&M group performed a climate risk assessment according to the guidelines from the Task Force on Climate-related Financial Disclosures (TCFD). In this analysis two different climate scenarios as defined by the IPCC (RCP2.6 and RCP6.0) were chosen. The scope includes the whole value chain; everything from raw materials, production and distribution to sales and customers. The analysis was not updated during 2020 as the results from the 2019 analysis have still proved to be completely relevant.

Climate risk has been identified as one of the company's biggest corporate risks. The auditing committee (consisting of three members of the H&M group board of directors) oversees this work and reviews performance in relation to all risks at least once a year. The company's risk analysis is also reviewed by the entire board of directors once a year. The board monitors implementation of the sustainability strategy and initiates changes and updates where needed. These procedures and governance mechanisms allow the board to maintain close oversight over the company's sustainability and climate performance while also ensuring sufficient management focus and resources. The results of the risk analysis are summarised in the table on the next page.

SOCIAL CONDITIONS AND EMPLOYMENT:

FAIR & EQUAL

Strategy and policy

The H&M group wants to foster inclusive growth and support job creation – particularly for more vulnerable groups. This means the company must understand and address the inequalities that exist across its own value chain.

The past year highlighted even more how inequalities impact lives every day, all over the world. The Covid-19 pandemic disproportionately affected vulnerable groups already at higher risk of exclusion, marginalisation and human rights abuses. At the same time, the Black Lives Matter

movement served as a reminder of how much there is still to do in recognising and addressing social injustice.

The company's approach to being a fair and equal company is founded on its fundamental work along the value chain to ensure respect for human rights. In addition to this work, the H&M group is focusing on:

- *Fair jobs for all.* Supporting decent, meaningful jobs with fair income and benefits, in safe and secure workplaces free from discrimination. Ensuring that the employees have the right to freedom of association and collective bargaining.
- *Inclusion and diversity.* Enabling inclusive, diverse workplaces that promote equity for all. Promoting diversity and equality through products, marketing and communications, as well as advancing inclusion in the group's communities and in wider society.

THE H&M GROUP'S COMMITMENT TO HUMAN RIGHTS

Strategy and policy

Respect and support for people's human rights is at the heart of the H&M group's values and culture, and permeates everything the company does. It is a basic responsibility that the company upholds the rights of the employees, workers across its supply chains, and customers involved in its global value chain. The updated H&M group Human Rights Policy⁶ – guided by the UN Guiding Principles on Business and Human Rights (UNGPs) – describes this commitment.

Human rights due diligence is carried out across the H&M group's operations and supply chains, supported by training and incident management. The company pays special attention to vulnerable groups such as migrant workers and children. The group's structured approach to human rights management is based on continuous and evolving due diligence across its value chain and on ensuring access to functional grievance mechanisms and remedies. Any human rights risks in the operations and supply chain are identified and managed using the following steps:

- *Policy development.* Development and application of relevant human rights policies and standards into daily business operations, including the Sustainability Commitment for suppliers and internal social policies.
- *Training.* Provision of human rights training across the company, tailored to different functions and roles. This includes a basic introduction to human rights, an outline of the company's responsibilities in line with the UNGPs, and an explanation of due diligence and management processes. It also includes topic-specific training for parts of the organisation, such as awareness raising of forced labour and fair recruitment of migrant workers.
- *Due diligence.* The group systematically conducts due diligence to identify human rights risks and impacts and it works to prevent and mitigate issues in line with the UNGPs.
- *Grievance mechanisms and incident management.* The H&M group aims for grievances to be managed as close to the issue as possible. The company's Internal Grievance Policy outlines the internal process, and it is expected that business partners have similar operational-level grievance mechanisms in place.
- *Stakeholder engagement.* At every step, the group seeks to engage with all stakeholders, including workers, employees, customers, employers, unions, human right experts and civil society.

The company focuses on salient human rights risks: those with greatest risk of severe negative impacts on people. Linked to the group's business model, these efforts are concentrated on labour rights – driving systemic change through the strategic areas of fair jobs and inclusion & diversity, supported by the company's supply chain management programme and ongoing due diligence efforts across its value chain. The H&M group

Climate risk analysis according to TCFD

RISK	RISK DESCRIPTION	MITIGATION MEASURES
Increased prices of raw materials	Cotton is currently the H&M group's biggest and most important raw material. Higher temperatures and water shortages will most likely affect the ability to grow cotton in many of the world's cotton-growing regions. Long-term, the company believes that this will affect the availability and price of cotton. Price increases in other raw materials can also be expected.	– The H&M group has a major focus on innovation related to new materials and new recycling technologies. By increasing the share of recycled materials, dependence on virgin raw materials is reduced. – Its global sourcing organisation enables the company to easily change raw material suppliers when necessary to handle short-term price fluctuations.
Production disruption	Production disruption could occur in certain countries due to extreme weather events, social unrest, disease (e.g. virus outbreaks) and climate migration, possibly also leading to challenges in recruiting textile workers.	– Contingency plans have been developed for suppliers located in high-risk regions. This enables the group to temporarily or permanently move production to back-up suppliers located in alternative sourcing markets in low-risk regions.
Distribution disruption	Distribution disruption could occur due to extreme weather events affecting major transport nodes in the supply chain, e.g. flooding of harbours. There are particular risks associated with a few strategic harbours catering for a large share of the product flow. The consequences of this could be reduced product availability for customers and thus a negative impact on sales.	– Contingency plans have been developed for suppliers located in high-risk regions. This enables the group to temporarily or permanently move production to back-up suppliers located in alternative sourcing markets in low-risk regions. – The H&M group is in the process of securing alternative distribution routes for nodes of critical importance where there is currently not enough back-up capacity.
Customers' changing attitudes and purchasing patterns	Increasing awareness about climate change is expected to impact customer preferences, with increased focus on products with low climate impact sold by companies that are seen as leaders in sustainability. This could also involve reputational risk related to brand perception.	– The H&M group has an ambitious sustainability strategy in place, aiming to become climate positive throughout the value chain by 2040 and to become fully circular, including by securing recycled or otherwise sustainably sourced raw materials by 2030. – A key component of this work is continuing to build trust in the brands and to have a lower environmental impact than competitors.
OPPORTUNITY	DESCRIPTION	MEASURES TO REALISE OPPORTUNITIES
Attracting more customers	Increasing awareness of the climate crisis may impact customer preferences for products or services with low climate impact from companies they trust and that share their values. This is an opportunity for the H&M group to attract more customers by providing a more sustainable offering.	– Delivering on the H&M group's ambitious strategy and at the same time fulfilling customer expectations in the climate area could lead to opportunities for increased market share. – Transparency and clear customer communication.
Developing new business models and creation of new revenue streams	There is a growing business opportunity to offer customers new ways of enjoying fashion – also resulting in reduced climate impact and increased customer loyalty.	– The H&M group is continuously developing new business models and new revenue streams, e.g. local production, rental, second-hand, clothing care and repairs to extend the life of the garments.
More precise purchasing practices	By developing more precise purchasing practices using advanced analytics (AA) and artificial intelligence (AI) the offering can be made even more relevant to customers and the climate impact can be reduced. Supply and demand can be more precisely aligned, helping to avoid overproduction and thus reducing climate impact.	– The H&M group has started using AA and AI in selected sales markets. The strategy is to introduce this method for all brands, functions and markets within the group.

manages other human rights risks, such as water and right to the environment, through the company's environmental agenda. The list of salient risks is regularly reviewed with internal and external stakeholders.

The H&M group also reports in line with the various regulatory frameworks linked to human rights and due diligence such as the Modern Slavery Act; see the company's statement at hmgroup.com/sustainability.

Fair jobs in the group's own operations

The H&M group's operations are to be marked by a fundamental respect for the individual and for the equal value of all people. This applies to everything from working hours, the freedom to join trade unions and wage setting to opportunities to grow and develop within the company.

Examples of group-wide tools that provide support to the H&M group's employees and teams in ensuring fair and equal working conditions in the company:

- *Global social policies.* To ensure that the company's commitments relating to human rights are complied with, the H&M group has global social policies. These social policies steer and guide managers and employees in important areas such as equal treatment, remuneration and benefits, health and safety, labour relations.
- *Open doors.* Should any irregularities arise, the way these are to be dealt with is clear. Primarily, employees and managers are encouraged to follow the company's practice of allowing people to speak freely and keeping doors open so that work-related issues can be resolved through informal, frank and open dialogue. See also the section on grievance mechanisms and incident management on page 49.
- *Leadership expectations.* The H&M group is a values-driven company and works actively and consciously based on the company's shared values, which form the basis of the H&M group's expectations of all managers in the organisation. Based on these values there are a number of expectations of the company's management that make clear how the H&M group views leadership – with the aim of enabling all employees to develop and reach their full potential – and the way in which the group wants results to be achieved.
- *Shared values.* The H&M group aims for a work environment where each individual can make a difference. This is supported by the company's shared values, which by being based on respect for the individual and belief in people's ability to use their initiative help create an open, down-to-earth corporate culture which promotes teamwork, an entrepreneurial spirit, simplicity, constant improvement and cost consciousness.
- *Development and training.* The H&M group believes individuals have a great responsibility for their own development. The company and its managers support the employees in the form of:
 - annual performance reviews in which goals are set together
 - internal training, including through the online training platform GROW
 - various types of mentorship and coaching opportunities
 There are also great opportunities to develop internally by trying out different roles and duties within the company.

See also the section Inclusion and diversity on page 52, as well as the section on Employees in the administration report on page 37. For further information see the H&M group's Sustainability Performance Report at hmgroup.com.

Fair jobs in the group's supply chain

The H&M group's production supply chain spans across many countries and contributes to the employment of around 1.56 million people. The company has a significant responsibility to uphold the rights of workers in its supply chain and ensure they know these rights – which include good working conditions, proper representation, improved wages and opportunities to develop. The company does not accept child labour in its supply chain and works to protect vulnerable groups such as migrant workers from the risks of forced labour.

Key focus areas are:

- *Health and safety.* Securing high safety standards through supplier validations and support for improved industry standards.
- *Workplace dialogue.* Open dialogue between workers and employers is an essential foundation for good working conditions. The company supports the right to freedom of association and collective bargaining in its supply chain, and works with suppliers to enable democratically elected worker representation and constructive engagement. To improve industrial relations across the company's global value chain, the group empowers workers to know their rights, ensures that employers support worker representation at a factory level, provides training on the democratic election of representatives, and partners with peers and trade unions.
- *Compensation and benefits.* The company works to improve wage management systems at suppliers' factories, based on a belief in equal and competitive compensation for work of equal value. Since 2013, the H&M group's Fair Living Wage Strategy has guided the approach to understanding and improving workplace dialogue and wage management systems at the factory level, ensuring appropriate purchasing practices, and collaborating with other stakeholders such as ACT and ILO.

The company is currently updating the Fair Living Wage Strategy following an external evaluation that was conducted in 2020 to follow up the achievement in 2013–2018 of the goals in its 2013 Fair Living Wage Strategy. This evaluation and review found that, for example:

- The focus areas of the existing strategy (minimum wages, factory wage systems, purchasing practices and collective bargaining agreements) reinforce each other and are all essential to achieve wage increases.
- Factory-level wage management systems at the approximately 800 H&M group suppliers' factories that were part of this led to a 2.9 percent average wage increase and workplace dialogue programmes led to a 2.0 percent average wage increase, compared to suppliers not enrolled in these programmes.
- Although there has been good overall factory-level impact, wage management systems worked particularly well to increase wages in some countries. Factory-level wages is the area where the H&M group can have most influence, but for maximum impact work is also needed at a national level, such as in relation to minimum wages and collective bargaining.

The H&M group is moving from tracking progress based on factory enrolment in workplace dialogue and wage programmes to measuring the actual effect on wages⁷, and has updated its wage-related KPIs accordingly. These indicators will continue to be reviewed as the company develops its new strategy.

Inclusion and diversity

The H&M group has committed to stand and take action against injustice and inequality. Global events in 2020 have shown how much there is still to do to address these issues, which gave renewed momentum to the company's inclusion and diversity work. The company focuses on:

- *Internal diversity & equality.* The company works to improve internal awareness of inclusion, diversity and unconscious bias as well as representation in teams and leadership, and to offer fair and equal employment opportunities.
- *Promote diversity & equality.* H&M group brands encourage inclusion and celebrate diversity and equality through products, marketing, communication and collaborations.
- *Inclusion.* Through global and local initiatives, the company advances inclusion of people in the societies of which it is part. The company has a dedicated strategy to promote gender equality in its supply chain.

The H&M group is working towards three 2025 ambitions: to ensure its workplaces are inclusive and diverse, to leverage its diversity for better business, and to use its business to advance inclusion in its communities. In 2020 the company set new goals to work towards these ambitions. These goals include aiming to disclose inclusion and diversity commitments and actions plans for all markets by 2021, to improve diversity in the company's management teams, and to create a peer Advisory Council where company employees can work directly with H&M group's CEO, Head of Inclusion and Diversity, and management team to further promote inclusion and diversity.

Social follow-up procedures and results

Every supplier must sign the company's Sustainability Commitment before any kind of order is placed. This specifies fundamental requirements and aspirational ambitions for suppliers in the areas of healthy workplaces and healthy business ecosystems (including such aspects as health and safety, diversity and equality, discrimination, fair living wages and benefits, written contracts, working hours, freedom of association and collective bargaining, child labour and young workers, as well as all forms of forced labour).

ANTI-CORRUPTION

Strategy and policy

In many of the markets in which the H&M group and its suppliers operate there is a risk of corruption. For the H&M group, acting with respect, integrity, transparency and honesty is essential to its business and is deeply rooted in its corporate values. The company's Code of Ethics outlines the group's expectations of employees and suppliers when conducting business for and on behalf of the H&M group. The H&M group has a zero-tolerance policy on bribery and corruption, as outlined in the Code of Ethics. This applies to all the company's business dealings and transactions in all the countries in which the company and its business partners operate. The company has committed to a strong Ethics & Compliance and Anti-Corruption programme to prevent and fight corruption in all its forms.

- All employees in contact with business partners must sign and comply with the Code of Ethics.
- It is mandatory for all the H&M group's business partners to sign and comply with the Code of Ethics.
- Corruption risk assessment is part of the due diligence process for all new business partners, with the risk level by country, industry and position/function assessed.
- Once the level of risk is determined, the company sets short- and long-term goals to help mitigate the risk.
- The group maps corruption risk across its operations annually and uses the results to prioritise allocation of resources to high-risk areas.
- Employees and priority business partners receive anti-corruption training.
- The Code of Ethics and Whistleblowing policies are regularly reviewed and updated, following all regulatory requirements.
- Within the Code of Ethics policy for employees, the Conflict of Interest section was updated during autumn 2020.

Anti-corruption follow-up procedures and results

- All Code of Ethics violations undergo internal investigation. Investigations may lead to termination of the business relationship or employment.

KPI	GOAL	2020	2019	2018
% of supplier factories that have trade union representation**		32	–	–
% of supplier factories that have collective bargaining agreements in place**		18	–	–
% of employees agreeing with the statement "I feel comfortable being myself at work"*** and % of employees agreeing with the statement "I am treated with respect and dignity"	Annual increase	84/80	84/82	83/81
% of business partners regarding the H&M group as a fair business partner	90% by 2018	96	96	93
% of female workers in supply chain, and among supervisors and worker representatives****	See below	63/24/59	–	–

** New KPI introduced in 2020 due to the strategic decision to track progress in the H&M group's global supply chain for production.

*** New since 2018, replacing the previous KPI, % of employees agreeing with the statement "People here are treated fairly regardless of age, ethnicity, sex, sexual orientation, disabilities", due to the shift to a new engagement survey platform.

**** New KPI for 2020. Increasing the share of female supervisors and worker representatives is an ambition in the group's gender equality strategy for the supply chain. The baseline was established in 2020 and the aim is for yearly increases.

- The number of Code of Ethics violations is tracked and reported annually to the CEO, CFO, board of directors, and externally.
- The group conducts internal audits to ensure compliance with the Code of Ethics.
- Business partners and employees are encouraged to report concerns by utilising the company's open-door policy, whistleblowing policy and coe@hm.com.
- In 2020 there were 16 (26)* confirmed incidents of non-compliance that led to contract termination and/or a written warning.

Impact of the Covid-19 pandemic

The KPIs set at year-end 2019 for the Code of Ethics programme were heavily impacted by the Covid-19 pandemic and resulting temporary closures of stores, offices and production facilities during periods of the spring and autumn:

- The Code of Ethics yearly e-learning target of a 90 percent completion rate was not achieved in 2020 (completion rate of 60 percent).
- Physical Code of Ethics dilemma workshops planned for 2020 had to be cancelled due to social distancing measures.
- Supplier Code of Ethics training had to be performed digitally in all production markets.
- Reports of Code of Ethics violations were lower in 2020 than in 2019.

Strategy for 2021

In 2021 the H&M group will work to establish a long-term, risk-based approach by introducing a corporate Ethics & Compliance solution. This will include four main processes:

- *Risk identification*: perform targeted and insightful risk analysis in key areas.
- *Awareness*: actively engage employees at the right time, with the right message and with the right communications channel.
- *Data analytics*: collect and analyse numerous data metrics to gain deeper knowledge in potential areas of development.
- *Continuous improvement*: channel findings back into the Ethics & Compliance programme to close gaps, improve processes and mitigate risks.

During the first and second quarter of 2021 the company will implement three key programmes in all areas of the organisation. These will be available in one platform:

- Reporting system and policy management.
- Further Code of Ethics awareness training, and training completion follow-up for both employees and suppliers.
- Third-party due diligence.

The H&M group will further enhance its anti-corruption programme by using a third-party risk management solution to improve transparency and accountability, and to ensure a proactive approach is taken to third-party risk assessments of new and existing business partners.

Indicators marked * have been reviewed by the company's auditors.

- 1 <https://hmgroup.com/sustainability/>
- 2 <https://transparencypledge.org/>
- 3 <https://hmgroup.com/sustainability/sustainability-reporting/standards-and-policies/code-of-ethics/>
- 4 <https://hmgroup.com/sustainability/sustainability-reporting/standards-and-policies/sustainability-commitment/>
- 5 <https://www.there100.org/>
- 6 <https://hmgroup.com/sustainability/sustainability-reporting/standards-and-policies/human-rights-policy/>
- 7 <https://hmgroup.com/sustainability/fair-and-equal/wages/>

Group income statement

SEK M 1 DECEMBER – 30 NOVEMBER	2020	2019
Net sales, note 3, 4	187,031	232,755
Cost of goods sold, note 6, 7, 9	-93,487	-110,302
GROSS PROFIT	93,544	122,453
Selling expenses, note 6, 7, 9	-81,425	-96,279
Administrative expenses, note 6, 7, 9, 10	-9,020	-8,828
OPERATING PROFIT	3,099	17,346
Interest income and similar items	252	376
Interest expense and similar items	-1,299	-331
PROFIT AFTER FINANCIAL ITEMS	2,052	17,391
Tax, note 11	-809	-3,948
PROFIT FOR THE YEAR	1,243	13,443
All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	0.75	8.12
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	2020	2019
PROFIT FOR THE YEAR	1,243	13,443
Other comprehensive income		
<i>Items that are or may be reclassified to profit or loss</i>		
Translation differences	-3,673	1,150
Change in hedging reserves		
Change in the value of derivatives, note 21	-220	-209
Reclassified to profit or loss, note 21	312	365
Tax attributable to change in hedging reserves	-21	-36
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurement of defined benefit pension plans, note 20	-113	-68
Tax related to the above remeasurement	26	15
OTHER COMPREHENSIVE INCOME	-3,689	1,217
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-2,446	14,660

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

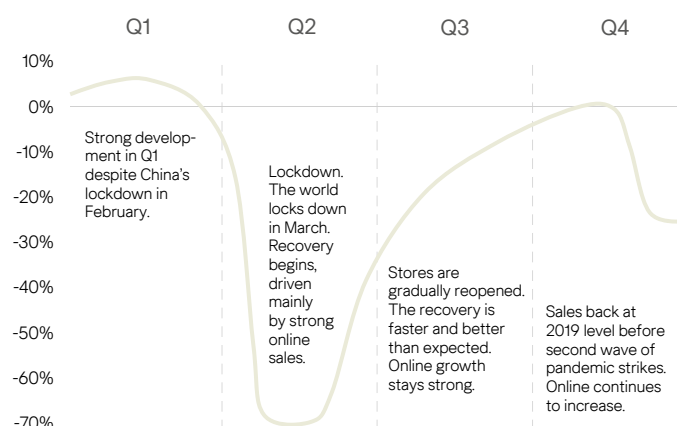
COMMENTS ON THE GROUP INCOME STATEMENT

Development in 2020 was significantly impacted by the severe negative effects of the Covid-19 pandemic. At the most, around 4,000 of the group's 5,000 stores were closed. Net sales in the financial year 2019/2020 decreased by 20 percent to SEK 187,031 m (232,755). In local currencies, sales decreased by 18 percent. Gross profit decreased to SEK 93,544 m (122,453). This corresponds to a gross margin of 50.0 percent (52.6). The gross profit and gross margin are a result of many different factors, internal as well as external, and are mostly affected by the decisions that the H&M group takes in line with its strategy to always have the best customer offering in each individual market – based on the combination of fashion, quality, price and sustainability.

To manage the Covid-19 situation and its negative effects a series of strong measures was rapidly implemented within all parts of the business, including product purchasing, investments, rents, staffing and financing. Selling and administrative expenses decreased by 14 percent to SEK 90,445 m (105,107). In local currencies the decrease was 13 percent. Government support associated with the pandemic decreased expenses by just over SEK 2 billion, which must be seen in the light of the substantial negative sales impact of the pandemic and the unpredictable situation brought about by its development. In conjunction with the pandemic the group also conducted comprehensive reviews of all its ongoing development projects and intangible assets. As a result, operating profit was affected by impairment charges totalling SEK 1,028 m in respect of intangible assets. Selling expenses included an administrative fine of SEK 362 m imposed by the Hamburg Commissioner for Data Protection and Freedom of Information in connection with a personal data breach at a customer service centre in Nuremberg that the company reported in autumn 2019.

Profit after financial items amounted to SEK 2,052 m (17,391). Excluding the effects of IFRS 16, profit after financial items amounted to SEK 1,691 m (17,391). See also note 32.

THE H&M GROUP'S SALES DEVELOPMENT IN LOCAL CURRENCIES



TAX

The H&M group's tax rate for the 2019/2020 financial year was 39.4 (22.7) percent. The final tax rate for the year depends on the results of the group's various companies and the corporate tax rates in each country. The historically high tax rate is Covid-19 related since the proportion of non-deductible expenses has a greater percentage impact on the tax rate when earnings before tax decrease so substantially compared with a normal year.

TOP TEN SALES MARKETS	2020	2019	CHANGE IN %		30 NOV 2020	2020
	SEK M NET SALES	SEK M NET SALES	SEK	LOCAL CURRENCY	NUMBER OF STORES	NEW STORES (NET)
Germany	29,684	33,540	-11	-12	457	-9
USA	20,802	29,976	-31	-30	582	-11
UK	11,486	14,897	-23	-23	289	-16
China	9,748	12,059	-19	-17	505	-15
France	9,166	12,196	-25	-24	228	-7
Sweden	8,015	8,993	-11	-11	168	-9
Russia	6,226	6,852	-9	0	155	8
Italy	6,079	8,401	-28	-27	174	-7
Netherlands	5,758	6,813	-15	-16	135	-3
Switzerland	5,550	5,676	-2	-6	98	-1
Others	74,517	93,352	-20	-18	2,227	12
Total	187,031	232,755	-20	-18	5,018	-58

Group balance sheet

SEK M 30 NOVEMBER	2020	2019	SEK M 30 NOVEMBER	2020	2019
ASSETS			EQUITY AND LIABILITIES		
NON-CURRENT ASSETS			EQUITY		
Intangible non-current assets			Share capital, note 19	207	207
Leasehold and similar rights, note 12	191	411	Reserves	990	4,592
Capitalised expenditure, note 12	10,177	10,973	Retained earnings	53,426	52,270
Goodwill, note 12	64	64	TOTAL EQUITY	54,623	57,069
	10,432	11,448	LIABILITIES		
Property, plant and equipment			Long-term liabilities		
Buildings and land, note 13	745	813	Provisions for pensions, note 20	612	510
Equipment, tools, fixture and fittings, note 13	30,894	40,079	Deferred tax liabilities, note 11	3,988	4,423
Right-of-use assets, note 15	59,535	–	Liabilities to credit institutions, note 24	8,433	10,413
	91,174	40,892	Other interest-bearing liabilities, note 15, 24	50,458	234
Non-current financial assets				63,491	15,580
Interests in associates, note 14	247	210	Current liabilities		
Other shares and interests	539	429	Accounts payable	9,511	7,838
	786	639	Tax liabilities, note 11	1,708	2,752
Other non-current assets			Liabilities to credit institutions, note 24	7,899	6,904
Long-term receivables	907	912	Other interest-bearing liabilities, note 15, 24	13,275	147
Deferred tax assets, note 11	5,714	4,322	Other liabilities	3,983	4,476
	6,621	5,234	Accrued expenses and prepaid income, note 22	19,881	25,719
TOTAL NON-CURRENT ASSETS	109,013	58,213		56,257	47,836
CURRENT ASSETS			TOTAL LIABILITIES	119,748	63,416
Stock-in-trade, note 16	38,209	37,823	TOTAL EQUITY AND LIABILITIES	174,371	120,485
Current receivables					
Accounts receivable, note 21	3,086	5,879			
Tax assets, note 11	1,686	1,555			
Other receivables	2,397	1,736			
Prepaid expenses, note 17	3,440	2,967			
	10,609	12,137			
Cash and cash equivalents, note 18	16,540	12,312			
TOTAL CURRENT ASSETS	65,358	62,272			
TOTAL ASSETS	174,371	120,485			

COMMENTS ON THE GROUP BALANCE SHEET

The H&M group is in a strong financial position. The group's equity/assets ratio was 31.3 percent (47.4). Excluding IFRS 16 the equity/assets ratio was 47.5 percent. The share of risk-bearing capital was 33.6 percent (51.0). Equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2020 was SEK 33.00 (34.48); excluding IFRS 16 the figure was SEK 32.87, see note 32.

Stock-in-trade

Despite the Covid-19 situation with its lockdowns and severe restrictions, the stock-in-trade increased by only 1 percent in SEK compared with the same time last year and amounted to SEK 38,209 m (37,823). Currency adjusted the stock-in-trade increased by 6 percent. The book value of stock-in-trade in SEK represented 20.4 percent (16.3) of sales.

Financing

As of 30 November 2020 the group had interest-bearing liabilities of SEK 16,332 m (17,317) in the form of loans from credit institutions and commercial papers. In addition, the group has undrawn credit facilities of SEK 30,055 m (11,857). The average maturity of interest-bearing liabilities and undrawn credit facilities was 2.1 (2.6) years. A maturity analysis of outstanding interest-bearing liabilities and undrawn credit facilities is given in the table in note 2.

The H&M group's liquidity is very good. As of 30 November 2020 cash and cash equivalents amounted to SEK 16,540 m (12,312). Cash and cash equivalents plus undrawn credit facilities totalled SEK 46,595 m (24,169). The improvement in liquidity is partly driven by greater focus on the H&M group's working capital, including the streamlining during the

year of invoice management and the payment process for suppliers of products to the group. Among other things, payment terms have begun being adapted to the industry standard. This is expected to have material effects on the H&M group's working capital and strengthen cash flow as it is implemented further in 2021. Based on 2020 purchasing volumes, around SEK 10 billion could be freed up in 2021.

The H&M group has also implemented an arrangement with banks in which the banks offer suppliers of products to the H&M group the option of being paid earlier than the invoice due date. This arrangement is being offered to all H&M group product suppliers and has been well received in the markets where it has been implemented to date. Most suppliers have chosen to take part. This could improve the working capital of both the H&M group and the product suppliers.

The group aims to secure financial flexibility and freedom of action on the best possible terms. The following significant financing activities were begun in the fourth quarter of 2020 and were completed in the first quarter of 2021:

- With the aim of accelerating the group's sustainability work, a framework has been produced that allows sustainability-linked bonds to be issued under the group's EMTN programme that was established in the third quarter of 2020 with a framework amount of EUR 2,000 m. The framework conforms to the Sustainability-Linked Bond Principles (SLBP).
- To secure access to the bond market on the best possible terms, a credit rating from Standard & Poor's has been obtained. The rating is BBB with a stable outlook.

Group changes in equity

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 SHARE- HOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2019	207	4,398	194	52,270	57,069
Profit for the year	-	-	-	1,243	1,243
Other comprehensive income					
Translation differences	-	-3,673	-	-	-3,673
Change in hedging reserves					
Change in value derivatives	-	-	-220	-	-220
Reclassified to profit or loss	-	-	312	-	312
Tax related to hedging reserves	-	-	-21	-	-21
Remeasurement of defined benefit pension plans	-	-	-	-113	-113
Tax related to the above remeasurement	-	-	-	26	26
Other comprehensive income	-	-3,673	71	-87	-3,689
Total comprehensive income	-	-3,673	71	1,156	-2,446
Dividend	-	-	-	-	-
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2020	207	725	265	53,426	54,623

SEK M	SHARE CAPITAL	TRANSLATION EFFECTS	HEDGING RESERVES	RETAINED EARNINGS	TOTAL SHARE- HOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2018	207	3,248	74	55,017	58,546
Profit for the year	-	-	-	13,443	13,443
Other comprehensive income					
Translation differences	-	1,150	-	-	1,150
Change in hedging reserves					
Change in value derivatives	-	-	-209	-	-209
Reclassified to profit or loss	-	-	365	-	365
Tax related to hedging reserves	-	-	-36	-	-36
Remeasurement of defined benefit pension plans	-	-	-	-68	-68
Tax related to the above remeasurement	-	-	-	15	15
Other comprehensive income	-	1,150	120	-53	1,217
Total comprehensive income	-	1,150	120	13,390	14,660
Dividend	-	-	-	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2019	207	4,398	194	52,270	57,069

Group cash flow statement

SEK M
1 DECEMBER – 30 NOVEMBER

	2020	2019
Operating activities		
Profit after financial items*	2,052	17,391
Provisions for pensions	22	-12
Depreciation	25,953	11,051
Tax paid	-3,719	-3,700
Other	0	23
Cash flow from operating activities before changes in working capital	24,308	24,753
Cash flow from changes in working capital		
Current receivables	1,373	753
Stock-in-trade	-1,980	273
Current liabilities	2,199	3,207
CASH FLOW FROM OPERATING ACTIVITIES	25,900	28,986
Investing activities		
Investments in leasehold and similar rights	-48	-47
Investments in other intangible assets	-1,448	-2,909
Investments in buildings and land	0	0
Investments in equipment	-3,606	-7,384
Other investments	-142	-188
CASH FLOW FROM INVESTING ACTIVITIES	-5,244	-10,528
Financing activities		
Short-term loans	995	-2,249
Long-term loans	-1,980	243
Amortisation leases	-14,174	-149
Dividend	0	-16,137
CASH FLOW FROM FINANCING ACTIVITIES, NOTE 24	-15,159	-18,292
CASH FLOW FOR THE YEAR	5,497	166
Cash and cash equivalents at beginning of the financial year	12,312	11,590
Cash flow for the year	5,497	166
Exchange rate effect	-1,269	556
Cash and cash equivalents at year-end, note 18	16,540	12,312

* Interest paid for the group amounts to SEK 349 m (308). Received interest for the group amounts to SEK 252 m (376).

Parent company income statement

SEK M		
1 DECEMBER – 30 NOVEMBER	2020	2019
External net sales	53	31
Internal net sales, note 5	3,552	4,444
GROSS PROFIT	3,605	4,475
Administrative expenses, note 6, 7, 9, 10	-111	-157
OPERATING PROFIT	3,494	4,318
Dividend from subsidiaries	2,627	15,840
Interest income and similar items, note 29	300	55
Interest expense and similar items, note 29	-258	-142
PROFIT AFTER FINANCIAL ITEMS	6,163	20,071
Year-end appropriations, note 25	-3,439	-2,961
Tax, note 11	-16	-275
PROFIT FOR THE YEAR	2,708	16,835

Parent company statement of comprehensive income

SEK M		
1 DECEMBER – 30 NOVEMBER	2020	2019
PROFIT FOR THE YEAR	2,708	16,835
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurement of defined benefit pension plans, note 20	-3	-3
Tax related to the above remeasurement	1	1
OTHER COMPREHENSIVE INCOME	-2	-2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,706	16,833

Parent company balance sheet

SEK M 30 NOVEMBER	2020	2019	SEK M 30 NOVEMBER	2020	2019
ASSETS			EQUITY AND LIABILITIES		
NON-CURRENT ASSETS			EQUITY		
Property, plant and equipment			Restricted equity		
Buildings and land, note 13	132	139	Share capital, note 19	207	207
Equipment, tools, fixture and fittings, note 13	57	93	Restricted reserves	88	88
	189	232		295	295
Non-current financial assets			Non-restricted equity		
Shares and interests, note 26	819	918	Retained earnings	16,872	39
Receivables from subsidiaries	78	796	Profit for the year	2,706	16,833
Other long-term receivables	113	117		19,578	16,872
Deferred tax assets, note 11	80	82			
	1,090	1,913	TOTAL EQUITY	19,873	17,167
TOTAL NON-CURRENT ASSETS	1,279	2,145	UNTAXED RESERVES, NOTE 27	38	57
CURRENT ASSETS			LIABILITIES		
Current receivables			Long-term liabilities		
Accounts receivable	7	8	Provisions for pensions, note 20	169	176
Receivables from subsidiaries	35,153	30,992	Liabilities to credit institutions, note 24	8,468	10,266
Tax asset	24	421		8,637	10,442
Prepaid expenses, note 17	57	21	Current liabilities		
	35,241	31,442	Accounts payable	5	5
Cash and bank balances, note 18	-	2	Liabilities to credit institutions, note 24	7,498	5,530
TOTAL CURRENT ASSETS	35,241	31,444	Other liabilities	257	202
			Accrued expenses and prepaid income, note 22	212	186
TOTAL ASSETS	36,520	33,589		7,972	5,923
			TOTAL LIABILITIES	16,609	16,365
			TOTAL EQUITY AND LIABILITIES	36,520	33,589

Parent company changes in equity

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2019	207	88	16,872	17,167
Profit for the year	-	-	2,708	2,708
Other comprehensive income				
Remeasurement of defined benefit pension plans	-	-	-3	-3
Tax related to the above remeasurement	-	-	1	1
Other comprehensive income	-	-	-2	-2
Total comprehensive income	-	-	2,706	2,706
Dividend	-	-	-	-
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2020	207	88	19,578	19,873

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2018	207	88	16,176	16,471
Profit for the year	-	-	16,835	16,835
Other comprehensive income				
Remeasurement of defined benefit pension plans	-	-	-3	-3
Tax related to the above remeasurement	-	-	1	1
Other comprehensive income	-	-	-2	-2
Total comprehensive income	-	-	16,833	16,833
Dividend	-	-	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2019	207	88	16,872	17,167

Parent company cash flow statement

SEK M		
1 DECEMBER - 30 NOVEMBER	2020	2019
Operating activities		
Profit after financial items*	6,163	20,071
Provisions for pensions	-10	-8
Depreciation	34	63
Taxes paid	384	-722
Cash flow from operating activities before changes in working capital	6,571	19,404
Cash flow from changes in working capital		
Current receivables	-4,196	-788
Current liabilities	-3,377	-2,961
CASH FLOW FROM OPERATING ACTIVITIES	-1,002	15,655
Investing activities		
Investments in buildings and land	-	0
Net investments in equipment	9	-6
Net investments in group companies	99	-330
Other investments	722	44
CASH FLOW FROM INVESTING ACTIVITIES	830	-292
Financing activities		
Short-term loans	1,968	-470
Long-term loans	-1,798	1,153
Dividend	-	-16,137
CASH FLOW FROM FINANCING ACTIVITIES	170	-15,454
CASH FLOW FOR THE YEAR	-2	-91
Cash and cash equivalents at beginning of the financial year	2	93
Cash flow for the year	-2	-91
Cash and cash equivalents at year-end, note 18	-	2

* Interest paid for the parent company amounts to SEK 258 m (142). Received interest for the parent company amounts to SEK 291 m (18), note 28.

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, home textiles and homeware 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 25 February 2021 and will be submitted to the annual general meeting for approval on 6 May 2021.

Ramsbury Invest AB's holding of shares in H & M Hennes & Mauritz AB represents 47.3 percent of all shares and 74.4 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 cost, 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 IFRS 9 to the measurement of financial instruments and does not capitalise development costs. 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 calculation methods applied in this report are unchanged from those used in the preparation of the annual report and consolidated financial statements for 2019 and which are described in note 1, Accounting principles, other than in respect of IFRS 16 Leases.

IFRS 16 Leases – this standard applies to the H&M group with effect from the financial year beginning on 1 December 2019 and supersedes IAS 17 Leases and its associated interpretations. Under the earlier standard, leases classified as either finance leases or operating leases and these were reported differently. For operating leases, the lessee's assets and liabilities under the lease were not recognised in the balance sheet.

The standard requires lessees to recognise assets and liabilities in the balance sheet attributable to all leases, with the possibility of excluding leases with a term of less than 12 months and/or leases relating to assets with a low value. The commitment to make the lease payments is recognised in the balance sheet as a lease liability discounted by an interest rate for borrowing, while the right to use the underlying asset during the lease term is recognised as a right-of-use asset. The asset is depreciated over

the period of use, with the depreciation recognised in the income statement along with interest on the lease liability. The H&M group has decided to apply the option to exclude leases of low value and leases with a term of less than 12 months. These will therefore not be included in the lease liability but instead will continue to be reported as rental costs, expensed on a straight line basis over the term of the lease. See note 15, Leases.

The parent company will apply the exception in RFR 2, which means that the principles of IFRS 16 will not be applied in the legal entity.

Government assistance in connection with the Covid-19 situation

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – due to the extraordinary situation brought about by the pandemic the H&M group received government assistance in various markets, mainly in respect of rents and staffing.

The H&M group has chosen to report these grants as a reduction in the cost of the items to which the grants relate. The grants are reported in the income statement and balance sheet when it is reasonably certain that the grants will be received and any conditions for receiving the grants are fulfilled.

Future accounting principles and disclosure requirements

No new standards, revisions or interpretations of existing standards were published during the year that have not yet entered into force.

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 the H&M group are the measurement of stock-in-trade and the measurement of current and deferred tax; see note 11 and note 16. Leases are also subject to such uncertainty; see note 15.

It is judged that, as of 30 November 2020, there are no estimates or assumptions 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.

Associates

All companies in which the group has a significant but not a controlling interest – generally companies where the group holds 20 to 50 percent of the votes – are regarded as associates and reported according to the equity method.

Business combinations

In business combinations the assets acquired and liabilities assumed are identified and classified, and these are then 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. Non-controlling interests of less than 100 percent are 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 statements in the currency used in the economic environment in which the company concerned mainly operates, known as the functional currency. These statements 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 comprehensive income. On disposal of a foreign business the accumulated translation differences in the income statement are posted together with the profit or loss on disposal.

Foreign currency

Monetary assets and liabilities in foreign currencies are translated 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 operation. Exchange rate differences of this type are posted to equity as translation differences via the statement of comprehensive income. Exchange rate differences relating to loans in foreign currency taken out to hedge net investments in foreign operations are also recognised in other 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 obligation as a result of an event that has occurred and it is likely that an outflow of resources will be required to settle the obligation and 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 acts. The group's accounting principles for financial instruments, including derivatives, are described in note 21.

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, accounts payable and loans. 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 liabilities to credit institutions, cash and cash equivalents and short-term investments;
- currency risk associated with flows and with financial assets in foreign currencies;
- credit risk and counterparty risk associated with financial assets and derivative positions;
- liquidity risk and financing risk relating to liquidity and cash flow as well as financing and refinancing of the group's capital requirements.

Interest rate risk

Interest risk is the risk that earnings or the fair value of assets and liabilities will be adversely affected by changes in interest rates. 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 finance 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 16,540 m (12,312). As of the closing date, loans and finance leases amounted to SEK 80,065 m (17,692). An interest rate increase of 1 percentage point on these amounts would increase interest income from cash and cash equivalents and short-term investments by SEK 165 m (123), and would increase interest expense for external borrowing and finance leases by SEK 906 m (108). 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 finance leases.

Currency risk

There is a risk that fluctuations in exchange rates will have an adverse effect on the company's financial position, profitability and cash flow. The H&M group is affected by fluctuations in exchange rates via transaction exposure and translation exposure. Transaction exposure arises when sales and purchases are made in currencies other than the company's reporting currency. Translation exposure arises when subsidiaries' results, assets, liabilities and equity are translated into SEK, the group's reporting currency.

Currency exposure associated with financial instruments

The H&M group'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 have an insignificant momentary effect on profit related to financial instrument holdings as of the closing date. A 2 percent strengthening of the Swedish krona would have a positive effect on the hedging reserve in equity of around SEK 381 m (269) before taking into account the tax effect, of which SEK 290 m (252) relates to EUR and SEK -152 m (-220) to USD. The group's exposure to outstanding derivative instruments is reported in note 21.

The group's operating result for the year was affected by net exchange rate differences relating to flows of goods in the amount of SEK -1,279 m (-33).

Transaction exposure associated with commercial flows

Payment flows in the form of payments in foreign currencies for accounts receivable and payable expose the group to currency risk. To manage currency risk relating to changes in exchange rates, the group hedges its currency risk within the framework of the financial policy. Currency risk exposure is managed at a central level. A large share of the group's sales are made in euros, while 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, the group's purchases of goods and the bulk of related forecast inflows from the sales companies are fully hedged under forward contracts on an ongoing basis. The average term of outstanding forward contracts is around three months.

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 also affect the group's net assets on consolidation of the foreign subsidiaries' balance sheets (translation exposure in the balance sheet). Where the remeasurement of balance sheet items affects the group's income statement, such as in the case of intragroup liabilities and short-term intragroup receivables, these are to be fully hedged. Net investment in foreign currency may be hedged in full or in part through a liability in the same currency, known as an equity hedge. As of 30 November 2020 certain portions of net investments are hedged in this way.

Credit risk and counterparty risk

Credit risk is the risk that the H&M group's counterparties will be unable to meet their commitments and thus cause losses for the H&M group. Financial credit risk arises primarily as counterparty risk in the form of investments or cash and cash equivalents in the bank accounts, and also as receivables from banks attributable to surplus value in derivatives. The financial policy states maximum amounts and terms for investments and for cash and cash equivalents in bank accounts with different ratings. Credit exposure as of 30 November 2020, corresponding to the book value for cash and cash equivalents of SEK 16,540 m (12,312), accounts receivable of SEK 3,086 m (5,879) and other SEK 2,423 m (2,212), totalled SEK 22,049 m (19,764). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 932 (2,747). Bad debts during the year from accounts receivable were insignificant.

Liquidity risk and financing risk

Liquidity risk refers to the risk that the H&M group will be unable to meet its payment commitments due to a lack of liquidity. Financing risk refers to the risk that the financing of the group's capital requirements and the refinancing of outstanding loans becomes more difficult or more expensive.

The strategy for the H&M group's liquidity planning and financing is to maintain good payment capacity and to identify and cover liquidity needs arising in the group. Liquidity and financing risks are regulated in the H&M group's financial policy, which states that loans are to have an evenly distributed maturity structure and that cash and undrawn credit facilities are to cover the company's forecast short-term liquidity needs.

As of 30 November 2020 the group had interest-bearing liabilities of SEK 16,332 m (17,317) in the form of loans from credit institutions and commercial papers. In addition, the group has undrawn credit facilities of SEK 30,055 m (11,857). The average maturity of interest-bearing liabilities

and undrawn credit facilities was 2.1 (2.6) years. A maturity analysis for outstanding interest-bearing liabilities and undrawn credit facilities is given below.

Year	Loans from credit institutions	Commercial papers	Undrawn credit facilities
2020	226	-	-
2021	6,376	1,300	14,949
2022	400	-	-
2023	4,030	-	4,000
2024	-	-	7,106
2025	2,000	-	4,000
2026	2,000	-	-
Total SEK m	15,032	1,300	30,055

As of 30 November 2020, cash and cash equivalents amounted to SEK 16,540 m (12,312). Together, cash and cash equivalents and undrawn credit facilities totalled SEK 46,595 m (24,169).

3. SEGMENT REPORTING

The group's business consists mainly of sales of clothing, accessories, footwear, cosmetics, home textiles and homeware 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. The various countries sell similar products via similar sales channels to similar customers, however. Goods purchasing is carried out collectively for the group. Some countries have similar economic characteristics, such as long-term economic results. In view of this, the countries may be combined in segment reporting in accordance with IFRS 8. The H&M group 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.

	2020	2019
Asia and Oceania		
External net sales	28,586	35,646
Operating profit	270	1,114
Operating margin, %	0.9	3.1
Assets excluding tax assets and internal receivables	12,090	16,116
Liabilities excluding tax liabilities and internal liabilities	2,607	2,938
Investments	617	817
Depreciation	1,751	1,781
Europe and Africa*		
External net sales	128,440	154,555
Operating profit	2,646	5,090
Operating margin, %	2.1	3.3
Assets excluding tax assets and internal receivables	42,436	47,536
Liabilities excluding tax liabilities and internal liabilities	15,167	17,069
Investments	445	3,573
Depreciation	4,331	4,642
North and South America		
External net sales	30,005	42,554
Operating profit	181	1,186
Operating margin, %	0.6	2.8
Assets excluding tax assets and internal receivables	20,405	20,322
Liabilities excluding tax liabilities and internal liabilities	8,018	8,589
Investments	917	2,057
Depreciation	2,877	2,923

Cont. Note 3, Segment reporting

	2020	2019
Group Functions		
Net sales to other segments	54,619	82,898
Operating profit	2	9,956
Operating margin, %	0.0	12.0
Assets excluding tax assets and internal receivables	92,040	30,633
Liabilities excluding tax liabilities and internal liabilities	88,260	27,644
Investments	3,121	3,943
Depreciation	16,994	1,705
Eliminations		
Net sales to other segments	-54,619	-82,898
Total		
External net sales	187,031	232,755
Operating profit	3,099	17,346
Operating margin, %	1.7	7.5
Assets excluding tax assets and internal receivables	166,971	114,607
Liabilities excluding tax liabilities and internal liabilities	114,052	56,240
Investments	5,100	10,390
Depreciation	25,953	11,051

* South Africa

Operating profit for each segment is based on how the H&M group 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 91,174 m (40,892) as of 30 November 2020. The increase is mainly due to the transition to IFRS 16. The property, plant and equipment are largely distributed between the countries in accordance with each country's level of sales. In Sweden property, plant and equipment amounted to SEK 2,265 m (2,758) as of 30 November 2020.

4. NET SALES BY MARKET

The group's income is generated mainly by the sale of clothing, accessories, footwear, cosmetics, home textiles and homeware to consumers. Sales revenues are reported as net sales in the income statement, i.e. sales revenue less value-added tax, returns and discounts. Revenue from store and online sales is reported in conjunction with sale/delivery to the customer and is based on the country in which the customer lives. All revenue is recognised in accordance with the IFRS 15 category "at a point in time", i.e. on delivery. 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.

Reporting of the H&M loyalty programme follows the principles in IFRS 15. Points earned that have not been used are reported as a liability as well as a reduction in revenue in order to meet the future cost that will arise for the points issued. The liability is based on the fair value calculated per outstanding point.

The group's income exhibits seasonal variations. The first quarter of the financial year is normally the weakest and the last quarter the strongest.

Cont. Note 4, Net sales by market

	2020	No. of stores 30 Nov. 2020	2019	No. of stores 30 Nov. 2019
Sweden	8,015	168	8,993	177
Norway	4,532	125	5,085	127
Denmark	4,626	105	5,157	112
UK	11,486	289	14,897	305
Switzerland	5,550	98	5,676	99
Germany	29,684	457	33,540	466
Netherlands	5,758	135	6,813	138
Belgium	3,331	93	4,214	98
Austria	4,368	87	5,302	87
Luxembourg	432	14	490	15
Finland	2,158	65	2,530	68
France	9,166	228	12,196	235
USA	20,802	582	29,976	593
Spain	5,535	166	7,930	167
Poland	5,095	192	6,336	190
Czech Republic	1,341	52	1,789	52
Portugal	890	29	1,309	29
Italy	6,079	174	8,401	181
Canada	4,181	96	5,094	95
Slovenia	394	13	505	12
Ireland	1,061	24	1,181	24
Hungary	1,543	47	1,903	47
Slovakia	718	29	813	27
Greece	1,426	35	1,869	35
China	9,748	505	12,059	520
Hong Kong	933	24	1,448	26
Japan	4,333	115	4,987	105
Russia	6,226	155	6,852	147
South Korea	2,091	55	2,213	53
Turkey	1,925	59	2,797	66
Romania	2,116	57	2,642	57
Croatia	614	17	779	16
Singapore	466	13	822	14
Bulgaria	559	21	672	21
Latvia	321	9	365	9
Malaysia	890	50	1,360	47
Mexico	2,584	55	3,685	52
Chile	1,002	17	1,834	15
Lithuania	356	10	397	10
Serbia	373	15	459	14
Estonia	353	13	406	13
Australia	2,036	49	2,539	49
Philippines	742	41	1,273	40
Taiwan	666	13	650	12
Peru	579	15	970	13
Macau	86	2	125	2
India	1,568	49	2,007	47
South Africa	774	27	937	27
Puerto Rico	98	2	122	2
Cyprus	100	1	87	1
New Zealand	442	11	401	8
Kazakhstan	174	6	221	6
Colombia	499	9	528	7
Iceland	221	7	251	6
Vietnam	453	9	434	8
Georgia	98	3	120	3
Ukraine	235	5	224	3
Uruguay	261	3	332	3
Bosnia-Herzegovina	32	1	32	1
Belarus	73	3	15	2
Franchise	4,833	269	5,711	272
Total	187,031	5,018	232,755	5,076

5. REVENUE FROM GROUP COMPANIES

The parent company's internal sales consist of royalties of SEK 3,502 m (4,364) and other income of SEK 50 m (80) from group companies.

6. COSTS BY TYPE

Costs for the group are allocated to three functions: cost of goods sold, selling expenses and administrative expenses. The cost of goods sold includes all costs of designing, producing and transporting the goods to distribution centres. Examples of costs included in this, other than the pure sourcing cost of the products, are shipping, customs duties, environmental levies, payroll and the cost of premises for the buying department, IT costs related to buying and logistics as well as handling costs in the distribution centres and shipping costs from warehouses to stores. Selling expenses include store expenses such as salaries and rents, marketing costs, handling costs in replenishment centres for stores, shipping costs to online customers, IT costs related to stores and sales, as well as central support functions related to sales. The item administrative expenses includes the costs of other central support functions, such as salaries, rents and IT costs for administrative systems.

For information on payroll see note 7 and for depreciation see note 9.

7. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2020	Board, CEO, executive management team, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. board, CEO, executive management
Sweden, parent company	19	-	15	9	9
Subsidiaries	69	29,771	7,085	755	18
Group total	88	29,771	7,100	764	27

2019	Board, CEO, executive management team, salary	Salary, other employees	Social sec. costs total	of which pens. total	of which pens. board, CEO, executive management
Sweden, parent company	20	-	18	11	11
Subsidiaries	52	34,114	8,198	718	20
Group total	72	34,114	8,215	729	32

Board fees

Board fees paid for the year as approved by the 2019 annual general meeting (AGM) amounted to SEK 6,825,000 (5,890,000). Board fees were paid as follows:

	SEK
Stefan Persson, chairman	1,700,000
Stina Bergfors	650,000
Anders Dahlvig	825,000
Lena Patriksson Keller	650,000
Christian Sievert	875,000
Erica Wiking Häger	825,000
Niklas Zennström	650,000
Danica Kragic Jensfelt	650,000

The fees were paid as resolved at the 2019 AGM. This means that the fees related to the period until the next AGM was held, i.e. the period 7 May 2019 to 7 May 2020. The amounts were paid out after the 2020 AGM.

As of the AGM on 7 May 2020 the board consists of eight ordinary members elected by the AGM. There are also two employee representatives, with two deputies for these positions. Eight members of the board are women and four are men. Four of the 12 are employed by the company.

Board member Lena Patriksson Keller is the majority shareholder in Patriksson Group AB, which had business dealings with H&M during the

Cont. Note 7, Salaries, other remuneration and social security costs

year. The transactions took place on market terms and remuneration for 2020 amounted to SEK 3.0 m (6.0). Outstanding balances as of 30 November 2020 totalled SEK 0.1 m (0.8). Erica Wiking Häger is a partner at the law firm Mannheimer Swartling, which had business dealings with H&M during the year. The transactions took place on market terms and remuneration for 2020 amounted to SEK 4.2 m (4.5). Outstanding balances as of 30 November 2020 totalled SEK 0.0 m (0.0).

Remuneration of senior executives

Remuneration of senior executives is based on resolutions on guidelines adopted annually by the AGM; see the administration report on pages 40–42.

Remuneration of the chief executive officer

Remuneration paid to the CEO for the 2020 financial year in the form of salary and benefits amounted to SEK 12.2 m (13.8), which included variable remuneration of SEK 0 m (0). Pension benefits for the CEO are covered by a defined contribution plan and by the ITP plan. The combined pension expenses shall amount in total to 30 percent of the CEO's fixed salary. Pension expenses amounted to SEK 4.1 m (4.2). The retirement age for the CEO is 65.

During the year Helena Helmersson (salary SEK 10.9 m, pension SEK 3.4 m) took over from Karl-Johan Persson (salary SEK 1.3 m, pension SEK 0.7 m).

The CEO is entitled to a 12-month period of 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 CEO's terms of employment are determined by the board of directors.

Pension for a former CEO

A former CEO retired on 1 September 2009. The total pension commitments recognised as liabilities, 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 135.4 m (140.3). The change in the year's pension commitments recognised as liabilities includes actuarial losses of SEK -1.1 m (actuarial gains of SEK 2.1 m). Pension costs for the former CEO are included under "of which pensions to board, CEO, executive management".

Remuneration of the executive management team

In addition to the CEO, as of 30 November 2020 the executive management comprised 14 (nine) individuals, six of whom are women. In addition to the CEO, the executive management team consists of the CFO, the two people with responsibility for the H&M brand, the person with responsibility for Portfolio Brands, the person with responsibility for Business Ventures, the two people with responsibility for Business Tech, and the heads of the following group functions: Expansion, Strategy & Transformation, Human Resources, Sustainability, Supply Chain, Communications and The Laboratory.

Remuneration paid to members of the executive management team, other than the CEO, in the form of salary and benefits amounted to SEK 68.5 m (52.2), which included variable remuneration of SEK 0 m (0). In addition to this, an estimated expense of SEK 0 m (15) has been recognised in respect of remuneration that certain senior executives were previously able to receive under a long-term variable remuneration programme that ended in 2019. Pension expenses relating to the executive management team during the year amounted to SEK 18.8 m (20.4). 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.

Cont. Note 7, Salaries, other remuneration and social security costs

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 is recognised when the amount has been established and an obligation exists.

For 2020 no contribution (SEK 86 m) was made to the incentive programme, based on the principle for contributions to HIP adopted at the 2013 AGM and described above.

8. AVERAGE NUMBER OF EMPLOYEES

	2020 Total	Male %	2019 Total	Male %
Sweden	10,214	23	11,221	23
Norway	1,772	10	1,839	10
Denmark	1,807	9	1,919	9
UK	7,909	26	8,724	29
Switzerland	1,754	14	1,923	15
Germany	12,392	19	13,505	19
Netherlands	2,647	17	2,648	17
Belgium	2,152	24	2,375	28
Austria	1,853	10	1,956	10
Luxembourg	208	13	192	16
Finland	976	4	1,248	6
France	4,515	25	4,954	25
USA	10,512	41	14,281	36

Cont. Note 8, Average number of employees

	2020 Total	Male %	2019 Total	Male %
Spain	3,679	24	4,661	20
Poland	6,224	16	6,674	16
Czech Republic	1,044	13	1,282	13
Portugal	626	14	741	14
Italy	3,953	35	4,416	32
Canada	1,570	23	2,327	25
Slovenia	140	7	163	7
Ireland	375	17	456	18
Hungary	702	14	843	14
Slovakia	285	15	365	14
Greece	896	17	1,117	17
China	8,498	28	10,086	29
Hong Kong	800	35	888	37
Japan	2,243	28	2,513	30
Russia	3,542	28	3,408	26
South Korea	984	26	1,003	27
Turkey	1,669	42	3,012	42
Romania	1,193	23	1,225	23
Croatia	312	9	338	9
Singapore	338	33	423	32
Bulgaria	320	22	348	16
Latvia	211	13	327	13
Malaysia	679	52	831	53
Mexico	1,566	47	1,435	49
Chile	1,392	38	1,432	45
Lithuania	204	9	210	7
Serbia	212	27	230	17
Estonia	217	6	247	6
Australia	1,151	28	1,363	27
Philippines	525	49	780	50
Taiwan	324	27	322	30
Peru	455	53	616	54
Macau	45	44	59	34
India	1,891	60	1,972	59
South Africa	587	37	596	37
Puerto Rico	39	54	51	26
Cyprus	39	62	40	20
New Zealand	232	23	231	35
Kazakhstan	159	29	153	26
Colombia	264	48	339	47
Iceland	116	11	140	10
Vietnam	389	40	281	36
Georgia	107	11	107	12
Ukraine	206	16	231	29
Uruguay	238	29	245	27
Bosnia-Herzegovina	21	0	25	16
Belarus	64	23	17	18
Other countries	888	73	937	70
Total	110,325	26	126,291	26

9. DEPRECIATION AND AMORTISATION

Depreciation has been calculated at 12.5 percent of cost for equipment and leasehold rights, and 20 percent for computer equipment and vehicles. Capitalised development expenditure is amortised at 10 percent of cost. Buildings are depreciated at 3 percent of cost. No depreciation is applied to land values. Depreciation for the year is reported in the income statement in the following table.

Cont. Note 9, Depreciation and amortisation

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Cost of goods sold	1,948	570	-	-
Selling expenses	22,756	9,887	-	-
Administrative expenses	1,249	594	34	63
Total	25,953	11,051	34	63

For 2020 depreciation relating to right-of-use assets is included above in the amount of SEK 13,869 m (0), which breaks down into cost of goods sold amounting to SEK 1,087 m (0), selling expenses of SEK 12,403 m (0) and administrative expenses of SEK 379 m (0).

10. AUDIT FEES

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Ernst & Young				
Statutory audit	34.0	33.3	4.8	4.9
Auditing other than statutory audit	5.2	4.2	0.5	0.5
Tax consultancy	10.1	8.8	0.1	0.1
Other consultancy	10.2	7.2	0.4	-
Other auditors				
Statutory audit	11.0	9.5	-	-
Total	70.5	63.0	5.8	5.5

11. TAX

Income taxes in the income statement represent current and deferred 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 or liabilities are settled, based on the tax rates (and the tax legislation) in force on the closing date. A deferred tax liability is recognised for all temporary differences unless it relates to goodwill or to an asset or a liability in a transaction that is not a business combination 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 associates are taken into account only to the extent it is likely that the temporary difference will be reversed in the foreseeable future. Deferred tax assets for temporary differences and loss carryforwards are recognised only to the extent it is likely that these will be able to be utilised.

The carrying amounts of deferred tax assets 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. The H&M group 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 relating to internal pricing are in progress in some countries. The H&M group has made an assessment of the likely outcome and reserved the tax expense concerned. As of the closing date, this reserve totalled SEK 378 m (271). 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.

Cont. Note 11, Skatt

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
<i>Tax expense (-) / tax receivable (+):</i>				
Current tax				
Tax expense for the period	-2,546	-4,829	-14	-281
Adjusted tax expense for previous years	-189	-151	0	0
Total	-2,735	-4,980	-14	-281
Deferred tax receivable (+) / tax expense (-) in respect of:				
Stock-in-trade	136	55	-	-
Loss carryforward in subsidiaries	956	-15	-	-
Pension provisions	20	54	-2	6
Intangible non-current assets	282	172	-	-
Property, plant and equipment	-235	52	-	-
Rent-related provisions	547	362	-	-
Other temporary differences	212	331	-	-
Effect of changed tax rates	8	21	-	-
Total	1,926	1,032	-2	6
Total	-809	-3,948	-16	-275
Deferred tax recognised in other comprehensive income in respect of:				
Hedging reserves	-21	-36	-	-
Defined benefit pension plans	26	15	1	1
Total	5	-21	1	1
<i>Reconciliation between current tax rate and effective tax rate:</i>				
Expected tax expense according to the Swedish tax rate of 21.4% (22%)	-439	-3,826	-583	-3,764
Difference in foreign tax rates	-50	29	-	-
Non-deductible/non-taxable	-139	-21	5	0
Tax for previous years	-189	-151	0	0
Tax-free dividend subsidiaries	-	-	562	3,485
Effect of changed tax rates	8	21	0	4
Total	-809	-3,948	-16	-275
Recognised deferred tax assets relate to:				
Stock-in-trade	194	103	-	-
Loss carryforwards in subsidiaries	995	45	-	-
Pension provisions	153	260	80	82
Intangible non-current assets	193	224	-	-
Property, plant and equipment	694	1,003	-	-
Rent-related provisions	2,046	1,402	-	-
Other temporary differences	1,438	1,285	-	-
Total	5,713	4,322	80	82
Recognised deferred tax liabilities relate to:				
Stock-in-trade	177	161		
Intangible non-current assets	1,382	1,685		
Property, plant and equipment	2,030	2,272		
Rent-related provisions	97	-		
Hedging reserves	76	58		
Other temporary differences	226	247		
Total	3,988	4,423		

As of the closing date, the group has no loss carryforwards that are not represented by recognised deferred tax assets.

12. INTANGIBLE ASSETS

Intangible assets with a finite useful life are reported at cost less accumulated amortisation and any accumulated impairment. Amortisation is distributed on a straight-line basis over the assets' expected useful life.

Development expenditure is capitalised to the extent that it is judged that the company will derive future financial benefits and if the cost can be reliably calculated. The carrying amount includes direct expenditure on services, payroll and materials 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 cost of the subsidiary's shares exceeds the estimated value of the subsidiary's net identifiable assets upon acquisition. Goodwill on acquisition of subsidiaries is reported as an intangible asset. 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 carrying amount of the asset exceeds the recoverable amount (the higher of the net realisable value and the value in use), an impairment loss is applied for the necessary amount. Any impairment is recognised in profit/loss.

	GROUP	
	2020	2019
Leasehold rights and similar		
Opening acquisition cost	1,172	1,250
Acquisitions during the year	66	34
Sales/disposals	-88	-140
Translation effects	-53	28
Closing acquisition cost	1,097	1,172
Opening amortisation	-787	-755
Sales/disposals	87	140
Amortisation for the year	-123	-160
Translation effects	34	-12
Closing accumulated amortisation	-789	-787
Closing book value	308	385
Opening value, projects in progress	27	13
Change for the year	-19	13
Translation effects	-4	1
Closing value, projects in progress	4	27
Closing book value incl projects	312	412
Adjustment regarding IFRS 16*	-121	-
Total closing book value	191	412

* See note 15.

Cont. Note 12, Immateriella tillgångar

	GROUP	
	2020	2019
Capitalised expenditure		
Opening acquisition cost	12,996	10,098
Acquisitions during the year	1,448	2,898
Write-downs	-1,283	-
Closing acquisition cost	13,161	12,996
Opening amortisation	-2,023	-1,052
Amortisation for the year	-1,216	-971
Write-downs	255	-
Closing accumulated amortisation	-2,984	-2,023
Closing book value	10,177	10,973

Capitalised development expenditure refers mainly to IT-related investments. Amortisation has commenced for those parts that were taken into use during 2013-2020, corresponding to around 85 percent of the capitalised development expenditure. Capitalised development expenditure is tested for impairment annually and for 2020 projects with a cost of SEK 1,283 m were estimated to be impaired. Impairment losses have therefore been applied to these projects, which had been partly amortised.

Goodwill**		
Opening book value	64	64
Change for the year	-	-
Closing book value	64	64

** Goodwill arose through the acquisition in 2008 of the company FaBric Scandinavien AB, which is a cash-generating unit. H&M acquired the remaining 40 percent of the shares in FaBric Scandinavien AB at the end of November 2010.

A goodwill impairment test was carried out at the end of 2020. 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 calculated 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 a weighted average cost of capital that is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and in H&M's judgment, reasonably possible changes in the variables above would not have such a significant impact that the recoverable amount would be reduced to a lower amount than the carrying amount.

13. BUILDINGS, LAND AND EQUIPMENT

Expenditure relating to property, plant and equipment are reported in the balance sheet if it is likely that the company will derive future financial benefits associated with the asset and if the asset's cost can be reliably calculated. Other expenditure as well as expenditure 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 cost less accumulated depreciation and any accumulated impairment. Depreciation is distributed on a straight-line basis over the assets' expected useful life. No depreciation is applied to land. The carrying amount of property, plant and equipment is tested when there is an indication of possible impairment. If the carrying amount of the asset exceeds the recoverable amount (the higher of the net realisable value and the value in use), an impairment loss is applied for the necessary amount. Any impairment is recognised in profit/loss.

For right-of-use assets relating to leases, see note 15.

Cont. Note 13, Buildings, land and equipment

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Buildings				
Opening acquisition cost	1,179	1,153	235	235
Acquisitions during the year	-	-	-	-
Sales/disposals	-19	-	-	-
Translation effects	-26	26	-	-
Closing acquisition cost	1,134	1,179	235	235
Opening depreciation	-521	-473	-103	-96
Sales/disposals	6	-	-	-
Depreciation for the year	-36	-36	-7	-7
Translation effects	12	-12	-	-
Closing accumulated depreciation	-539	-521	-110	-103
Closing book value	595	658	125	132
Opening value, projects in progress	-	-	-	-
Change for the year	-	-	-	-
Translation effects	-	-	-	-
Closing value, projects in progress	-	-	-	-
Total closing book value	595	658	125	132
Land				
Opening acquisition cost	154	151	7	7
Acquisitions during the year	-	-	-	-
Sales/disposals	-	-	-	0
Translation effects	-4	3	-	0
Closing book value	150	154	7	7
Equipment				
Opening acquisition cost	77,486	74,454	281	1,001
Acquisitions during the year	5,099	7,369	2	5
Sales/disposals	-7,198	-6,691	-114	-725
Translation effects	-5,938	2,354	-	-
Closing acquisition cost	69,449	77,486	169	281
Opening depreciation	-39,510	-34,776	-189	-858
Sales/disposals	6,172	5,806	80	725
Depreciation for the year	-9,000	-9,406	-24	-56
Translation effects	3,338	-1,134	-	-
Closing accumulated depreciation	-39,000	-39,510	-133	-189
Closing book value*	30,449	37,976	36	92
Opening value, projects in progress	2,103	1,930	1	-
Change for the year	-1,480	109	-	1
Translation effects	-178	64	-	-
Closing value, projects in progress	445	2,103	1	1
Total closing book value	30,894	40,079	37	93

* Finance leases for store tills included in the closing book value of equipment amount to SEK 0 m (374).

14. INTERESTS IN ASSOCIATES

	GROUP	
	2020	2019
Opening balance	210	126
New investments	69	137
Sales/disposals	0	-30
Dividends	0	0
Share of result	-32	-23
Closing balance	247	210

2020	Corporate ID number	Share %	Share of result
Sellhelp AB	556996-1260	71.6*	-20
TreeToTextile AB	556989-2648	25.8	-5
Worn Again Footwear & Accessories Ltd		29.2	-7

2019	Corporate ID number	Share %	Share of result
Sellhelp AB	556996-1260	70.0*	-10
TreeToTextile AB	556989-2648	25.0	-7
Worn Again Footwear & Accessories Ltd		29.4	-6

* The H&M group's holding in Sellhelp AB does not result in significant influence.

15. LEASES

Background and scope

Prior to the introduction of IFRS 16 the H&M group assessed the group's leases to determine whether they constitute a service or a lease. Under IFRS 16, a lease is an agreement that controls the right to use an identifiable asset during a given period against payment. The review showed that the majority of the contracts that the H&M group classifies as leases in accordance with IFRS 16 are leases for store premises where the group runs its own operations. Contracts for offices and warehouses used by the group are also classified as leases. Variable lease payments, such as sales-based rent, are not included in the lease liability. Property tax is a variable expense and is therefore also not included in the lease liability.

The H&M group has around 5,000 stores as well as multiple offices and warehouses all around the world. Applying the standard has required estimates and assumptions, such as establishing the term of the lease and an interest rate for borrowing. The assumption that has the greatest effect on the size of the lease liability is the assessment of the lease term. On the expiry of the lease term the lease may be terminated entirely, renegotiated or extended depending on the provisions in the contract. In certain circumstances, a right to terminate the contract during the lease term may reduce the lease term used for the calculation. The option to extend is taken into account if it is reasonably certain that the lessee will exercise this option. It is rare for a lease to be terminated before the lease term has expired. To facilitate assessment of the lease term used to calculate the lease obligation according to IFRS 16, the assumptions are based on the type of contract. The assumptions used to establish the lease term for each type of contract are based on the best possible assessment and on historical data, as well as the current market situation. The group's assumptions are evaluated on an ongoing basis taking into account changes in the industry. The discount rate used for the calculation corresponds to the H&M group's incremental borrowing rate, taking into account aspects such as country and length of the respective leases. The rate is updated annually.

Cont. Note 15, Lease payments

Covid-19

The H&M group has chosen not to apply the amendment to IFRS 16 that allows relief for rent concessions attributable to Covid-19.

Transition to IFRS 16

IFRS 16 offers alternative rules for transition. In the full retrospective approach, information is restated for each reporting period; in the modified retrospective approach, the cumulative effect of initially applying the standard is recognised at the date of initial application. The H&M group has chosen to apply the simplified transition approach, whereby calculation of the liability at the time of transition to IFRS 16 is based on the remaining lease payments for the leased asset and is reported as an adjustment of the opening balance. As of the date of transition the H&M group is therefore reporting the remaining payments for all leases included as a lease liability as well as a right-of-use asset at the same value as the present value of the lease liability. The transition approach chosen involves prospective application of IFRS 16.

The H&M group's calculation as of 1 December 2019 indicated an opening balance of SEK 73 billion in right-of-use assets and SEK 77 billion in lease liabilities according to IFRS 16. The difference consists primarily of contributions from lessors. The calculation was based on agreements in place at the time. The future minimum lease payments for non-cancelable leases as at 30 November 2019 amounted to SEK 71 billion. The difference between this amount and the opening lease liability as at 1 December 2019 is presented below:

	GROUP
Operating lease commitments at 30 Nov 2019	70,906
Effect of discounting at the group's incremental borrowing rate (1.29%)	-915
Changes in assumptions on application of IFRS 16	7,462
Lease liability as at 1 Dec 2019	77,453

For a comparison with year-end 2019 see the section below for the rules applicable under IAS 17.

Impact on the financial statements

The introduction of IFRS 16 has had significant effects on the financial statements. The introduction of IFRS 16 increased operating profit, since a portion of the lease expenses are instead recognised as interest expense on lease liabilities and amortisation of right-of-use assets. Interest expense and amortisation have therefore increased. The cash flow effect to which this contributes is an increase in cash flow from operating activities, while cash flow from financing activities has decreased by a corresponding amount because the repayment portion of the lease payments is reported as an outgoing payment in financing activities. The group is reporting a cash flow effect attributable to leases amounting to SEK 14,174 m for the 2020 financial year. Performance measures for the group are affected by the introduction of IFRS 16 and accordingly, H&M reports selected performance measures both with and without the effects of IFRS 16.

The amounts attributable to leasing activities that were recognised in the income statement during the year are presented in the following table.

Cont. Note 15, Lease payments

	GROUP
	2020
Amortisation of right-of-use assets	13,941
Interest expense for lease liabilities	951
Expense for variable lease payments	5,326
Other lease-related expense	1,595
Total expense attributable to leases	21,813

Costs relating to short-term leases and leases where the underlying asset is of low value are not included in the presentation above since these do not amount to a material sum for the group.

Right-of-use assets and lease liability under IFRS 16

The group divides its leases into three classes of right-of-use asset: Stores, Warehouses and Offices. The table below presents the closing balances for right-of-use assets and lease liabilities along with changes during the year.

	GROUP				
2020	Stores	Warehouses	Offices	Total	Lease liability
Opening balance as at 1 Dec 2019	63,845	4,723	4,187	72,755	77,453
Remeasured and added leases	4,434	136	143	4,713	5,550
Amortisation of right-of-use assets	-12,178	-931	-832	-13,941	
Translation differences	-3,561	-283	-149	-3,993	-4,384
Interest expense for lease liability					951
Lease payments					-15,837
Closing balance as at 30 Nov 2020	52,540	3,645	3,349	59,534	63,733

A maturity analysis of the group's lease liabilities included in IFRS 16 as of 30 November 2020 is presented below:

	GROUP
	2020
Rental commitments in next 12 months	13,275
Rental commitments in next one to five years	27,752
Rental commitments more than five years ahead	22,706
Total	63,733

Previous accounting principle for leases

At year-end 2019 leases were classified in the consolidated accounts as either finance or operating leases in accordance with IAS 17. 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 were reported as non-current assets and future payment commitments were reported as liabilities in the balance sheet. On initial recognition the asset and liability were reported at the net present value of future minimum lease payments and any residual value. On subsequent occasions the expense was distributed between an interest portion and a repayment portion. All other rental agreements that did not fulfil the conditions for classification as finance leases were deemed to be operating leases. Lease payments made under operating leases were expensed over the lease period using the straight-line method, even if the payment schedule deviated from this. From and including the 2016 financial year, H&M had not only operating leases but also some leases that were classified as finance leases. The group's main leases were rental agreements for premises. Variable (sales-based) rents were recognised in the same period as the corresponding sales.

Cont. Note 15, Lease payments

Operating leases

At year-end 2019 the group had leases relating to rented premises which had been entered into on normal market terms. Most of the agreements contained options to extend the term. Rental costs for the 2019 financial year amounted to SEK 26,347 m, of which sales-based rent amounted to SEK 5,225 m. Rent according to the group's rental agreements (basic rent excluding any sales-based rent) amounted to:

	GROUP 2019
Rental commitments in next 12 months	16,234
Rental commitments in next one to five years	36,562
Rental commitments more than five years ahead	18,110
Total	70,906

Finance leases

At year-end 2019 the group had assets held under finance leases in respect of store cash registers with a residual value according to plan of SEK 374 m. Finance lease payments were due as follows:

2019	Present value	Interest expense	Nominal
In next 12 months	147	2	149
In next one to five years	216	3	219
More than five years ahead	17	0	17
Total	380	5	385

16. STOCK-IN-TRADE

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

For almost half of the group's goods in the sales companies cost is established by reducing the selling price by the estimated gross margin (the retail method); for other sales companies cost is calculated as weighted average prices. The group is gradually moving across to calculating cost as weighted average prices. This change has no material impact on the consolidated financial statements.

Stock-in-trade amounted to SEK 38,209 m (37,823), a marginal increase in SEK compared with the same point in time last year. Currency adjusted the stock-in-trade increased by 6 percent.

Significant write-downs are rare. Any impairment of the stock-in-trade is assessed on an ongoing basis and as at the closing date the composition of the stock-in-trade is assessed to be good.

The stock-in-trade amounted to 21.9 percent (31.4) of total assets and 20.4 percent (16.3) of net sales.

17. PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Prepaid rent	2,232*	1,930	-	-
Other items	1,208	1,037	57	21
Total	3,440	2,967	57	21

* Transition to IFRS 16 affects this amount by SEK 385 m (0).

18. 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	
	2020	2019	2020	2019
Cash and bank balances	15,580	10,070	-	2
Short-term investments, 0-3 months	960	2,242	-	-
Total	16,540	12,312	-	2

Investments are made on market terms and the interest rates are between -0.75 and 12.15 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

19. SHARE CAPITAL

The share capital is divided between 194,400,000 class A shares (10 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. No dividend was paid in 2020.

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.

20. PROVISIONS FOR PENSIONS

The H&M group 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 each plan based on the benefits earned during the previous and current periods. The defined benefit obligations less the fair value of any 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 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, the H&M group applies the ITP plan through insurance policies with Alecta and Collectum, i.e. ITP 2 and ITP 1. According to statement UFR 10 from the Swedish Financial Reporting Board, the ITP 2 plan 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. See also note 7 for information on pension to the former CEO.

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2020, Alecta's consolidation ratio was 144 percent (142). 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		
	2020	2019	2018	2020	2019	2018
Present value of defined benefit obligations	1,819	1,784	1,588	180	188	196
Fair value of managed assets	-1,207	-1,274	-1,143	-11	-12	-15
Provisions for pension obligations recognised in the balance sheet	612	510	445	169	176	181
Opening balance, 1 December	510	445	445	176	181	182
Recognised pension expenses, net	172	137	69	5	7	14
Premiums paid by employer	-52	-54	-51	-	-	-
Pensions paid out	-18	-18	-18	-12	-12	-15
Disbursements from assets	-	-	-	-	-	-
Carrying amount of defined benefit obligations, 30 November	612	510	445	169	176	181

Of the total recognised obligation, SEK 194 m (205) relates to defined benefit pensions plans in Sweden and SEK 360 m (243) to plans in Switzerland. The weighted average maturity of these pension plans is 9.8 years for the Swedish plans and 16.0 years for the Swiss plans.

The amounts recognised as pension expenses comprise the following items:

Current service cost	77	67	67	-	-	-
Interest expense	7	16	14	2	4	4
Interest income	-4	-10	-8	0	0	0
Reductions/adjustments gains (-) and losses (+)	-12	8	-4	-	-	-
Past service cost	0	-20	2	-	-	-
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	-11	10	16	-	-	-
Pension expenses recognised in the income statement	57	71	87	2	4	4
Pension expenses recognised in other comprehensive income						
Actuarial gains/losses financial assumptions asset	70	-55	-20	2	2	1
Actuarial gains/losses demographic assumptions liability	-	-14	0	-	-14	0
Actuarial gains/losses financial assumptions liability	44	135	2	1	15	9
Actuarial gains (-) and losses (+)	114	66	-18	3	3	10
Total recognised pension expenses	171	137	69	5	7	14

The cost of defined contribution pension plans amounts to SEK 602 m (601).

Next year's expected payments for defined benefit pension plans amount to SEK 36 m.

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

Discount rate	0.31%	0.40%	1.02%	1.00%	1.25%	2.00%
Future salary increases	0.79%	1.29%	1.27%	2.75%	3.00%	3.00%
Future pensions increases (inflation)	0.22%	0.27%	0.31%	1.75%	2.00%	2.00%

A 0.5 percentage point reduction in the discount rate would increase the liability for the Swedish commitments by SEK 10.5 m (11.1).

21. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	Financial assets and liabilities at fair value through other comprehensive income		Financial assets at amortised cost		Financial liabilities at amortised cost		Total book value	
	2020	2019	2020	2019	2020	2019	2020	2019
Other non-current receivables	-	-	907	912	-	-	907	912
Accounts receivable	-	-	3,086	5,879	-	-	3,086	5,879
Derivatives	730	661	-	-	-	-	730	661
Other shares and interests	-	-	786	639	-	-	786	639
Cash and cash equivalents	-	-	16,540	12,312	-	-	16,540	12,312
Total financial assets	730	661	21,319	19,742	-	-	22,049	20,403
Accounts payable	-	-	-	-	9,511	7,838	9,511	7,838
Liabilities to credit institutions	-	-	-	-	16,332	17,317	16,332	17,317
Derivatives	560	479	-	-	-	-	560	479
Total financial liabilities	560	479	-	-	25,843	25,155	26,403	25,634

Financial instruments recognised in the balance sheet include on the assets side cash and cash equivalents, accounts receivable, short-term investments, non-current receivables and derivatives. On the liabilities side are accounts payable, liabilities to credit institutions and derivatives. Financial instruments are reported in the balance sheet when the group becomes 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 instruments are measured based on inputs classified in accordance with IFRS 13:

- Level 1: Quoted prices in active markets for identical assets or liabilities, such as shares or bonds listed on a stock exchange.
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (such as quoted prices) or indirectly (obtained from quoted prices), such as currency forwards or interest rate swaps.
- Level 3: Inputs for the asset or liability that are not entirely based on observable market data.

Currency derivatives are measured at fair value based on Level 2 inputs in the IFRS 13 hierarchy. As of 30 November 2020, forward contracts with a positive market value amount to SEK 992 m (771), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 590 m (567), which is reported under other current liabilities. Other financial assets and liabilities have short terms. The fair values of these financial instruments are assessed to be approximately equal to their book values.

Classification and subsequent recognition

At the date of acquisition the financial instruments are classified in the categories below.

Financial assets measured at fair value through profit or loss

Assets are classified in this category if it is intended that they will be sold in the short term, and in such cases they are subsequently recognised at fair value through profit or loss. No financial assets have been classified in this category.

Financial liabilities measured at fair value through profit or loss

Liabilities in this category are measured subsequently at fair value with changes in value recognised in profit or loss. No financial liabilities have been classified in this category.

Financial assets and liabilities measured at fair value through other comprehensive income

This category includes assets that are available for sale or that have not been classified in one of the other categories. These assets are measured at fair value through other comprehensive income less any impairment losses. This category includes derivatives used for hedging purposes.

Financial assets measured at amortised cost

Assets in this category are measured at amortised cost less any provision for impairment. This category primarily covers cash and bank balances as well as accounts receivable. Cash and bank balances are measured at amortised cost. Accounts receivable have a short expected term and are spread across a large number of customers, with low amounts per customer, and are measured without discounting at the original invoiced amount with deductions for doubtful receivables. The average debt was around SEK 932 (2,747). Bad debts during the year from accounts receivable were insignificant. This category also includes 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. These assets are measured 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.

Financial liabilities measured at amortised cost

This category includes financial liabilities that are not held for trading. These are initially recognised at fair value, net after transaction costs, and subsequently at amortised cost using the effective interest method, which means that the estimated change in value (the effective interest) is recognised as interest income or interest expense in the income statement. Accounts payable fall into this category. These have a short expected term and are recognised at the nominal amount with no discounting. Liabilities to credit institutions are measured at amortised cost. All of the liabilities stated below under financial liabilities are measured at amortised cost and do not deviate significantly from the fair values.

Cont. Note 21, Financial assets and liabilities by category

	GROUP	
	2020	2019
Change in hedging reserves		
Change in value derivatives	-220	-209
Reclassified to profit or loss	312	365
Total	92	156

Reporting of derivatives used for hedging purposes

All derivatives are reported initially and subsequently 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 were categorised as cash flow hedging or hedging of net investments in foreign operations. 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 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.

Measurement of the category hedging derivatives at fair value is 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.

Hedging of net investments in foreign operations

Derivatives intended for hedging net investments in foreign operations are recognised in equity through other comprehensive income.

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.

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 following table shows the outstanding forward contracts for cash flow hedging as of the closing date.

Cont. Note 21, Financial assets and liabilities by category

SELL/BUY	Book value and fair value, SEK		Nominal amount, SEK		Average remaining term in months	
	2020	2019	2020	2019	2020	2019
NOK/SEK	2	15	568	521	3	3
GBP/SEK	35	-59	3,048	2,736	3	3
DKK/SEK	15	16	854	812	3	3
CHF/SEK	21	17	885	684	3	3
EUR/SEK	314	281	15,934	14,399	3	4
PLN/SEK	29	27	1,364	1,381	3	4
USD/SEK	148	38	4,309	5,014	3	3
CAD/SEK	12	8	624	574	3	3
JPY/SEK	19	20	824	727	3	3
HKD/SEK	3	1	104	160	3	3
RON/SEK	9	10	450	429	3	3
CZK/SEK	0	3	254	243	3	3
HUF/SEK	10	11	322	336	3	4
AUD/SEK	3	5	289	297	3	3
CNH/SEK	-2	4	797	997	3	3
RUB/SEK	23	-4	626	741	3	4
TRY/SEK	7	-5	157	284	3	3
MXN/SEK	-21	-1	563	444	3	3
SEK/USD	-427	-213	12,166	16,137	3	2
SEK/EUR	-23	-31	1,118	1,515	2	2
Subtotal	177	143	45,256	48,431		

SELL/BUY	Book value and fair value, SEK		Nominal amount, SEK		Average remaining term in months	
	2020	2019	2020	2019	2020	2019
KRW/USD	-7	0	32	20	3	3
CLP/USD	-1	39	21	32	3	3
PEN/USD	1	0	8	2	2	5
Subtotal	-7	39	61	54		
Total	170	182				

ASSETS/LIABILITIES 2020	Derivative assets	Derivative liabilities	Total
Gross amount	992	590	402
Total in balance sheet	730	560	170
Financial instruments	-461	-461	0
Net amount	269	99	170

ASSETS/LIABILITIES 2019	Derivative assets	Derivative liabilities	Total
Gross amount	771	567	204
Total in balance sheet	661	479	182
Financial instruments	-372	-372	0
Net amount	289	107	182

At the closing date, forward contracts with a positive market value amount to SEK 992 m (771), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 590 m (567), which is reported under other current liabilities. Of the outstanding forward contracts, gains of SEK 233 m (22) were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 170 m (182) is included in the hedging reserve in equity.

22. ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2020	2019	2020	2019
Holiday pay liability	1,518	1,571	-	-
Social security costs	850	1,067	44	44
Payroll liability	1,604	2,099	1	0
Costs relating to premises	8,163*	14,292	-	-
Other accrued overheads	7,746	6,690	168	142
Total	19,881	25,719	213	186

* Transition to IFRS 16 affects this amount by SEK -4,240 m (0).

23. 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 in Stockholm, Kungsgatan in Gothenburg, Stadt Hamburgsgatan in Malmö, Amagertorv in Copenhagen, Oxford Circus and Regent Street in London, Kaufingerstrasse in Munich, Via del Corso/Via Tomacelli in Rome, Wisconsin Avenue in Washington DC 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 492 m (375) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits as CEO of H & M Hennes & Mauritz AB at the beginning of the financial year when he was still CEO, i.e. up until 30 January 2020 when Helena Helmersson became CEO.

Outstanding balances with related parties as of 30 November 2020 totalled SEK 55.6 m (19.2).

See also note 7 for outstanding balances with board members.

24. INTEREST-BEARING LIABILITIES

2020	GROUP			PARENT COMPANY		
	Interest rate % 30 Nov.	Loans from credit institutions	Commercial paper	Interest rate % 30 Nov.	Loans from credit institutions	Commercial paper
2020	6.15-8.72	226	-	0-0	-	-
2021	0.325-12.25	6,376	1,300	0.325-0.8	6,198	1,300
2022	1.081-1.081	400	-	1.081-1.081	400	-
2023	0.555-1.698	4,030	-	0.555-1.698	4,068	-
2024	0-0	-	-	0-0	-	-
2025	1.817-1.817	2,000	-	1.817-1.817	2,000	-
2026	1.7-1.7	2,000	-	1.7-1.7	2,000	-
		15,032	1,300		14,666	1,300

2019	GROUP			PARENT COMPANY		
	Interest rate % 30 Nov.	Loans from credit institutions	Commercial paper	Interest rate % 30 Nov.	Loans from credit institutions	Commercial paper
2019	0.15-0.57	1,200	270	0.15-0.57	1,200	270
2020	0-10	1,379	4,060	0.13-0.23	-	4,060
2021	0.325-0.8	6,306	-	0.325-0.8	6,198	-
2022	0-0	-	-	0-0	-	-
2023	0.491-0.491	2,102	-	0.491-0.491	2,068	-
2024	0-0	-	-	0-0	-	-
2025	0-0	-	-	0-0	-	-
2026	1.7-1.7	2,000	-	1.7-1.7	2,000	-
		12,987	4,330		11,466	4,330

In the group, loans in other currencies are remeasured at the exchange rate on the balance sheet date. In the parent company, these loans are reported at the original book value.

	2019	Cash flow change	Foreign exchange movement*	2020
Loans from credit institutions	12,987	2,045	-	15,032
Commercial paper	4,330	-3,030	-	1,300
Derivatives	-182	-	13	-169
Total liabilities from financing activities	17,135	-985	13	16,163

	2018	Cash flow change	Foreign exchange movement*	2019
Loans from credit institutions	19,323	-6,336	-	12,987
Commercial paper	-	4,330	-	4,330
Derivatives	-135	-	-47	-182
Total liabilities from financing activities	19,188	-2,006	-47	17,135

* Not affecting cash flow

As of 30 November 2020 the group had non-current lease liabilities of SEK 50,458 m (234) and current lease liabilities of SEK 13,275 m (147), which are reported in note 15.

25. APPROPRIATIONS

	PARENT COMPANY	
	2020	2019
Group contributions paid	-3,458	-3,000
Depreciation in excess of plan	19	39
Total	-3,439	-2,961

26. INTERESTS IN GROUP COMPANIES

All group companies are wholly owned.

2020	Corporate ID number	No. of shares	Book value	Domicile
Parent company shareholding				
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	200.1	Stockholm
H & M Online AB	556023-1663	1,150	30.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	999	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
H & M Finance AB	559159-7090	50,000	0.1	Stockholm
Store Lens AB	559274-6936	25,000	0.0	Stockholm
H & M Finance BV		50,000	0.0	Netherlands
Total			818.6	

2020	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 UK Services 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 New Business AB & Co. KG Germany		Germany
H & M Services Germany 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 Services B.V.		Netherlands
H & M Hennes & Mauritz Belgium NV		Belgium
H & M Hennes & Mauritz Logistics GBC NV		Belgium
H & M NB Belgium NV		Belgium
H & M Hennes & Mauritz GesmbH		Austria
H & M Hennes & Mauritz Oy		Finland
H & M Hennes & Mauritz SARL		France
H & M Hennes & Mauritz Logistics GBC France		France
H & M Hennes & Mauritz LP		US
H & M Services US Inc.		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 Logistics 1 Sp.z.o.o		Poland
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic
Hennes & Mauritz Lda		Portugal

Cont. Note 26, Interests in group companies

2020	Corporate ID number	Domicile
H & M Hennes & Mauritz S.r.l.		Italy
H & M Services 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
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
COS Retail Private Limited		India
H & M Services Pvt Ltd		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
Hennes & Mauritz Uruguay S.A.		Uruguay
H & M Hennes & Mauritz LLC		Ukraine
H & M Hennes & Mauritz Bel LLC		Belarus
H & M Hennes & Mauritz B&H d.o.o.		Bosnia-Herzegovina

27. UNTAXED RESERVES

	PARENT COMPANY	
	2020	2019
Depreciation in excess of plan	38	57
Total	38	57

28. 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 11.

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

	PARENT COMPANY	
	2020	2019
Parent company's lease guarantees	9,979	11,941
Total	9,979	11,941

29. INTEREST INCOME, INTEREST EXPENSE AND SIMILAR ITEMS

The parent company's interest income and similar items consists of SEK 291 m (18) in interest income and SEK 9 m (37) in translation effects on receivables and liabilities from group companies.

The parent company's interest expense and similar items consists of SEK -258 m (-142) in interest expense and SEK - m (-) in translation effects on receivables and liabilities from group companies.

30. EVENTS AFTER THE CLOSING DATE

On 18 February the company issued a sustainability-linked bond (see also section on Financing, page 43).

31. DISTRIBUTION OF EARNINGS

The board of directors proposes to the 2021 annual general meeting that no dividend is paid and that earnings at the disposal of the meeting are carried forward. See also information in the board's dividend comment in the administration report on page 44.

The board's proposal to the 2021 AGM regarding distribution of earnings

At the disposal of the annual general meeting	SEK 19,577,342,359
The board of directors proposes a dividend of SEK 0.00 per share	SEK 0
To be carried forward as retained earnings	SEK 19,577,342,359
	SEK 19,577,342,359

32. KEY FINANCIAL PERFORMANCE MEASURES

This report contains key financial performance measures in accordance with the framework for financial reporting applied by the H&M group, which is based on IFRS. Other performance measures 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 performance measures 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 performance measures relating to growth, profitability and capital, per-share measures and terms relating to capital on a continuous basis.

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

MEASURES OF PROFIT AND RETURN

Return on equity	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Profit for the year	1,243	13,443	-278	965
Average shareholders' equity	55,846	57,808	-111	55,735
Return on equity	2.2%	23.3%	-0.5%	1.7%

Definition: Profit for the year in relation to average equity.

Reason for use: Return on equity is used as a measure of how investments are used to generate increased revenue.

Return on capital employed	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Profit after financial items	2,052	17,391	-361	1,691
Interest expense	1,299	331	-950	349
Average shareholders' equity	55,846	57,808	-111	55,735
Average interest-bearing liabilities	49,443	19,217	-31,867	17,576
Return on capital employed	3.2%	23.0%	-0.4%	2.8%

Definition: Profit after financial items plus interest expense in relation to average equity plus average interest-bearing liabilities.

Reason for use: A measure of profitability after taking into consideration the amount of capital employed. A higher return on capital employed indicates that the capital is being used more effectively.

Gross profit	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Net sales	187,031	232,755	0	187,031
Cost of goods sold	-93,487	-110,302	-60	-93,547
Gross profit	93,544	122,453	-60	93,484

Definition: Net sales minus cost of goods sold.

Reason for use: This is one of the ways in which H&M measures profitability. Gross profit is affected by a number of factors such as the product assortment, price development and cost changes.

Cont. Note 32, Key financial performance measures

Gross margin	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Net sales	187,031	232,755	0	187,031
Gross profit	93,544	122,453	-60	93,484
Gross margin	50.0%	52.6%	0.0%	50.0%

Definition: Gross profit in relation to net sales.

Reason for use: This is one of the ways in which H&M measures profitability. Gross profit is affected by a number of factors such as the product assortment, price development and cost changes.

Operating profit	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Net sales	187,031	232,755	0	187,031
Cost of goods sold	-93,487	-110,302	-60	-93,547
Selling expenses	-81,425	-96,279	-1,223	-82,648
Administrative expenses	-9,020	-8,828	-28	-9,048
Operating profit	3,099	17,346	-1,311	1,788

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

Reason for use: An indicator of the result of operating activities.

Operating margin	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Net sales	187,031	232,755	0	187,031
Operating profit	3,099	17,346	-1,311	1,788
Operating margin	1.7%	7.5%	-0.7%	1.0%

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

Reason for use: An indicator of operational profitability.

EBITDA	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Operating profit	3,099	17,346	-1,311	1,788
Depreciation and amortisation	25,953	11,051	-13,869	12,084
EBITDA	29,052	28,397	-15,180	13,872

Definition: EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). Operating profit before interest, taxes, depreciation, amortisation and impairment.

Reason for use: A measure that complements operating profit, since it shows the cash surplus from operations.

CAPITAL PERFORMANCE MEASURES

Share of risk-bearing capital	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Shareholders' equity	54,623	57,069	-222	54,401
Deferred tax liability	3,988	4,423	-83	3,905
Balance sheet total	174,371	120,485	-59,799	114,572
Share of risk-bearing capital	33.6%	51.0%	17.3%	50.9%

Definition: Equity plus deferred tax liability in relation to the balance sheet total.

Reason for use: Shows financial potential and independence to develop the business.

Equity/assets ratio	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Shareholders' equity	54,623	57,069	-222	54,401
Balance sheet total	174,371	120,485	-59,799	114,572
Equity/assets ratio	31.3%	47.4%	16.2%	47.5%

Definition: Equity in relation to the balance sheet total.

Reason for use: Shows financial potential and independence to develop the business.

Capital employed	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Shareholders' equity	54,623	57,069	-222	54,401
Interest-bearing liabilities	80,677	18,208	-63,733	16,944
Capital employed	135,300	75,277	-63,955	71,345

Definition: Equity plus interest-bearing liabilities.

Reason for use: Shows the company's ability to meet current capital commitments.

Operating working capital	GROUP	
	2020	2019
Accounts receivable	3,086	5,879
Stock-in-trade	38,209	37,823
Accounts payable	-9,511	-7,838
Operating working capital	31,784	35,864

Definition: Accounts receivable plus stock-in-trade minus accounts payable.

Reason for use: Assesses a company's liquidity and operating efficiency by looking at current assets and current liabilities that are held for trading and are essential to business operations.

Total operating working capital

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Operating working capital	31,784	35,864	0	31,784
Tax assets	1,686	1,555	0	1,686
Other receivables	2,397	1,736	0	2,397
Prepaid expenses	3,440	2,967	-385	3,055
Tax liabilities	-1,708	-2,752	0	-1,708
Other liabilities	-3,983	-4,476	0	-3,983
Accrued expenses and deferred income	-19,881	-25,719	-4,239	-24,120
Total working capital	13,735	9,175	-4,624	9,111

Definition: Operating working capital plus tax assets, other receivables and prepaid expenses minus tax liabilities, other liabilities and accrued expenses and deferred income.

Reason for use: Assesses a company's liquidity and operating efficiency by looking at current assets and current liabilities that are essential to business operations.

Net debt

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Provisions for pensions	612	510	0	612
Interest-bearing liabilities finance leases	63,733	381	-63,733	0
Liabilities to credit institutions	16,332	17,317	0	16,332
Cash and cash equivalents	-16,540	-12,312	0	-16,540
Net debt	64,137	5,896	-63,733	404

Definition: Interest-bearing liabilities including pension liabilities less cash and cash equivalents as well as short-term investments.

Reason for use: Used to show the net value of interest-bearing assets and interest-bearing liabilities.

Operating cash flow / EBITDA

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Cash flow from operating activities	25,900	28,986	-14,174	11,726
EBITDA	29,052	28,397	-15,180	13,872
Operating cash flow / EBITDA	89.2%	102.1%	-4.6%	84.5%

Definition: Cash flow from operating activities in relation to EBITDA.

Reason for use: Measure of how much cash flow is generated by operating activities in relation to the profit shown in the income statement.

PER-SHARE PERFORMANCE MEASURES**Equity per share**

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Shareholders' equity	54,623	57,069	-222	54,401
Number of shares, millions	1,655,072	1,655,072	0,000	1,655,072
Equity per share	33.00	34.48	-0.13	32.87

Definition: Equity divided by the number of shares.

Reason for use: This indicator can show over time whether the company is increasing the shareholders' capital.

Cash flow from operating activities per share

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Cash flow from operating activities	25,900	28,986	-14,174	11,726
Number of shares, millions	1,655,072	1,655,072	0,000	1,655,072
Cash flow from operating activities per share	15.65	17.51	-8.56	7.08

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

Reason for use: This indicator shows cash flow from operating activities per share, which is significant for how the company can finance its investments.

P/E ratio

	GROUP		IFRS 16 effect	Excl. IFRS 16
	2020	2019	2020	2020
Price per share at year-end	181.60	184.84	0.00	181.60
Earnings per share	0.75	8.12	-0.17	0.58
P/E ratio	242	23	71	313

Definition: Price per share divided by earnings per share.

Reason for use: This indicator shows how the profit for the period relates to the price of the shares.

Signing of the annual report

The undersigned hereby provide an assurance that the annual report and consolidated accounts have been prepared in accordance with IFRS international accounting standards, as adopted by the EU, and with generally accepted accounting practice, and that they provide a true and fair view of the group's and the parent company's position and earnings.

The administration report for the group and the parent company provides a true and fair view of the development of the group's and the parent company's business, position and earnings, and describes the significant risks and uncertainties faced by the companies making up the group.

Stockholm, 25 February 2021

Karl-Johan Persson
Chairman of the Board

Stina Bergfors
Board member

Anders Dahlvig
Board member

Lena Patriksson Keller
Board member

Christian Sievert
Board member

Erica Wiking Häger
Board member

Niklas Zennström
Board member

Danica Kragic Jensfelt
Board member

Ingrid Godin
Board member

Alexandra Rosenqvist
Board member

Helena Helmersson
Chief Executive Officer

Our audit report was submitted on 25 February 2021

Ernst & Young AB

Andreas Troberg
Authorised Public Accountant



Auditor's report

To the general meeting of the shareholders of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinion

We have audited the annual accounts and consolidated accounts of H & M Hennes & Mauritz AB (publ) except for the statutory sustainability report on pages 45–53 for the financial year 1 December 2019 to 30 November 2020. The annual accounts and consolidated accounts of the company are included on pages 36–84 in this document.

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 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. 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 2020 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not cover the statutory sustainability report on pages 45–53. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinion in this report on the annual accounts and consolidated accounts is consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of the annual accounts and consolidated accounts as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter to the right, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities section of our report on the financial statements, including in relation to these matters. Accordingly, our audit included the performance

of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts, which is found on pages 4–33 and on page 90. The board of directors and the chief executive officer are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors and the chief executive officer

The board of directors and the chief executive officer are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The board of directors and the chief executive officer are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, the board of directors and the chief executive officer are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the board of directors and the chief executive officer intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The board's audit committee shall, without prejudice to the board of directors' responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to

INCOME TAXES

Description

Accounting for income taxes is subject to complex tax legislation that requires interpretations and assessments by H&M. These interpretations may be questioned by various tax authorities and courts. H&M conducts operations in a significant number of countries and tax jurisdictions. The pricing of cross-border transactions and consequently how the taxable profit is distributed between the countries is determined by the transfer pricing model developed by the company. From time to time entities within the company are subject to ongoing tax proceedings that may range from tax audits to tax litigations at multiple levels of the court systems. The company evaluates the expected outcome of tax proceedings in progress on a continuous basis.

Where it is likely that additional tax will have to be paid and the outcome can be reasonably estimated, necessary provisions are made.

The evaluation of the expected outcome of ongoing tax proceedings requires assumptions and assessments that are complex by nature. Changes in assumptions and assessments may have a material effect on the financial statements, and consequently income taxes are considered a key audit matter.

Information related to the company's accounting for income taxes is found in note 1 (section "Estimates, assumptions and assessments") and note 11 ("Tax").

How our audit addressed this key audit matter

Our audit included, among other things, the following audit procedures, which have been performed with support from tax professionals:

- Review of the completeness and valuation of the amounts reported as current and deferred tax, among other things by reviewing tax calculations.
- Review of the company's transfer pricing model in relation to the tax legislation in force and evaluation whether the company has complied with the model.
- Review of the company's assumptions and assessments concerning the outcome of ongoing tax proceedings and tax risks.
- Assessment of appropriateness of disclosures provided in the financial statements.

VALUATION OF STOCK-IN-TRADE

Description

As at 30 November 2020 H&M's stock-in-trade amounts to MSEK 38,209 million, corresponding to 22 percent of the Group's total assets, spread across central warehouses and retail stores. Stock-in-trade is valued at the lower of cost and net realisable value. The net realisable value is the estimated market value less calculated selling expenses.

Estimating the net realisable value requires assumptions and assessments concerning future events which are subject to uncertainty. Calculating the cost of customs duties and freight also requires

assumptions. Changes in assumptions and assessments may have a material effect on the financial statements, and consequently valuation of stock-in-trade is considered a key audit matter.

Information related to the company's valuation of stock-in-trade is found in note 1 (the section "Estimates, assumptions and assessments") and note 16 ("Stock-in-trade").

How our audit addressed this key audit matter

Our audit included, among other things, the following audit procedures:

- Review of the company's processes and procedures for stock accounting, including the company's procedures and assumptions used in the calculation of accrued costs for customs duties and freight.
- Review of the reported acquisition cost on a sample basis.
- Analysis of the company's assessment of net realisable value, as well as review of assumptions and calculations for stock obsolescence.
- Review of elimination of internal profits in stock at group level.
- Assessment of appropriateness of disclosures provided in the financial statements.

RIGHT-OF USE ASSETS AND LEASE LIABILITY**Description**

A new standard, IFRS 16 Leases, is effective from 1 December 2019. According to the standard H&M, as a lessee, reports the right to use the underlying asset during the period of lease in the balance sheet as right-of-use assets.

At the same time future lease payments are reported as interest-bearing liabilities. Exceptions are made for low-value or short-term leases.

The carrying amount of the right-of-use assets on 30 November 2020 amounted to MSEK 59,535, equivalent to 34 percent of the assets of the group. The lease liability amounted to MSEK 63,733.

The company has chosen to implement the standard according to the simplified approach, i.e. without restating the comparative periods.

The implementation of IFRS 16 means that the company has a significantly higher balance sheet total with a separate presentation in

the balance sheet of the right-of-use assets and lease liabilities, in comparison to what has been reported in previous periods. IFRS 16 also means that depreciation increases, external costs decrease and that interest expense increases in comparison to previous periods.

The determination of the value of the right-of-use assets and the lease liabilities includes several assessments and estimations by the company regarding for example the discount rate applied, the duration of contracts, and termination and extension options. Changes in these estimations and assessments have a big impact on the carrying amount of the asset and the liability; therefore the reporting of right-of-use assets and the lease liabilities is a key audit matter.

Information related to the company's reporting of the right-of use assets and lease liability is found in note 1 and note 15.

How our audit addressed this key audit matter

Our audit included, among other things, the following audit procedures:

- Review of the company's process to identify and classify contracts through discussions with representatives within the company. Gained an understanding of the implementation process of IFRS 16 and the accounting treatment afterwards.
- Examined and counter-checked significant contracts by audit sampling.
- Discussed with management regarding assessments, estimations and assumptions related to discount rate, extension options and indexation.
- Assessment of appropriateness of disclosures provided in the financial statements.

influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors and the chief executive officer.
- Conclude on the appropriateness of the board of directors' and the chief executive officer's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may

cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinion.

We must inform the board of directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and which are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the board of directors and the chief executive officer of H & M Hennes & Mauritz AB (publ) for the financial year 1 December 2019 to 30 November 2020 and the proposed appropriation of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the board of directors and the chief executive officer be discharged from liability for the financial year.

Basis for opinion

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The board of directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a satisfactory manner. The chief executive officer shall manage the ongoing administration according to the board of directors' guidelines and instructions, and among other matters take the necessary measures to ensure that the company's accounting records are kept in accordance with the law and that assets are managed in a satisfactory manner.

Auditor's responsibilities

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the board of directors or the chief executive officer in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with a reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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.

The auditor's opinion regarding the statutory sustainability report

The board of directors is responsible for the statutory sustainability report on pages 45–53, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of H & M Hennes & Mauritz AB by the general meeting of shareholders on 7 May 2020. Ernst & Young AB and auditors within the audit firm have been elected since before 17 June 1994. Under the current regulations, Ernst & Young AB cannot be reappointed after 16 June 2020.

Stockholm, 25 February 2021
Ernst & Young AB

Andreas Troberg
Authorised Public Accountant

Annual general meeting

The 2021 annual general meeting will be held digitally at 3 p.m. on Thursday 6 May 2021, combined with the option to vote by post before the digital meeting. For more information about the annual general meeting, see the notice of the meeting at hmgroup.com/agm.

Financial information

CALENDAR

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

31 March 2021	Three-month report
6 May 2021	Annual general meeting 2021 at 3 p.m.
1 July 2021	Six-month report
30 September 2021	Nine-month report
28 January 2022	Full-year report

Contact details

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For information about the H&M group's various brands see:
hm.com
cosstores.com
weekday.com
monki.com
stories.com
arket.com
afound.com
treadler.com

COVER

H&M Conscious Exclusive A/W20, photographed by Senay Berhe.

DISTRIBUTION

ANNUAL REPORT 2020 The H&M group sends out the printed version of the annual report to shareholders who have specifically requested a printed version. The annual report is also available to read and download at hmgroup.com.

The annual report is printed on FSC® certified paper.





