

H&M Group

Annual and Sustainability Report 2021



Contents

CEO letter

..... 2

H&M Group at a glance

H&M Group at a glance 2021 5

Our overall business idea 6

Our culture and values7

Highlights 2021

Key figures 10

Sales and stores per segment 11

Highlights 202112

Customer in focus

Our fashion and design15

Our brands and business ventures17

Our omni-model elevates the customer experience 23

— Our circular customer journey 24

— Stores 25

— Online 26

— Initiatives for an improved customer experience 27

Flexible supply chain

Production, logistics and distribution 29

— Recycled, regenerated and more sustainably sourced materials 30

— Renewable energy 30

— Fair jobs and positive social impacts31

— Logistics and distribution31

— Reusable and plastic-free packaging31

Integrating sustainability

Sustainable fashion for everyone 33

Our sustainability strategy 34

Key sustainability goals 35

Collaboration and innovation are key 36

Statutory annual report

Corporate governance report 39

Administration report 54

Financial reports 75

— Group statements 75

— Parent company statements81

— Notes to the financial statements 85

Signing of the annual report 105

Auditor's report 106

Other information

Key financial performance measures 111

The H&M share114

Annual general meeting115

Calendar115

Contact details116

How we report

This pdf document contains H&M Group's annual and sustainability report. It includes a CEO comment and a description of our business, followed by our legal annual report. See our Corporate Governance report on pages 39–52, the Administration report including the Statutory Sustainability report on pages 54–74, and the Financial reports on pages 75–104.

Our annual and sustainability report complies with the applicable Swedish and EU legislation as well as the International Financial Reporting Standards (IFRS) adopted by the EU. External frameworks in this report include the Task Force on Climate-Related Financial Disclosure (TCFD), which can be found as a part of the Administration report on pages 72–74.

We complement our annual and sustainability report with the Sustainability Disclosure, which provides additional detailed information on our sustainability strategy, policies, goals, programmes and performance data. The Sustainability Disclosure complies with external reporting frameworks such as the Global Reporting Initiative (GRI) and the UN Guiding Principles Reporting Framework. Read our [Sustainability Disclosure](#) here.

CEO letter

Before summing up the year 2021, at the time of writing I would like to begin by expressing the company's deep concern over developments in Ukraine and extending our sympathy to all those affected. We care about all our colleagues and join all those around the world who are calling for peace. At the present time we have temporarily paused all sales in Ukraine, Russia and Belarus.



2021 – a strong recovery

The H&M group's recovery continued in 2021. Although sales were negatively affected by restrictions associated with the pandemic, customers showed clearly that they appreciate our offering. We ended the year with good sales development, greatly improved profits and in a strong financial position.

At the end of 2021 sales were back at the same level as before the pandemic and profitability was better than for several years, despite supply chain disruption and other geopolitical challenges. The H&M group's net sales in local currencies increased by 12 percent in the 2021 financial year. Earnings after financial items amounted to SEK 14,300 million.

I would like to thank all colleagues in the group for their efforts over the past year. Our strong culture with our shared values has been important for our ability to manage the challenges during the pandemic, which contributed to the good recovery. Our colleagues everywhere in the organisation have demonstrated great commitment and worked to meet customers' expectations despite the challenges, restrictions and lockdowns due to the pandemic. The increase in profits also means that we have been able to contribute a further SEK 224 million to the H&M Incentive Program, our incentive scheme for all employees of the H&M group.

CEO letter

Our customer offering and our stores

To meet customers' ever-increasing expectations, we are continuing to develop the customer offering for all our unique brands by offering customers the best combination of fashion, quality, price and sustainability. Demand for good value and sustainable products is expected to grow and our customer offering is well positioned for this. We develop the customer offering constantly by broadening the assortment and expanding the range of services for a more sustainable lifestyle. Engaging our customers in various ways allows us to build long-term, value-creating relationships and attract even more customers around the world. Among other things, customers can today carry out repairs, rent clothes or buy and sell second-hand.

Our physical and digital sales channels complement and strengthen each other. We are continuing our work to integrate the channels further in order to create a shopping experience that is as smooth and inspiring as possible. Alongside our continued initiatives for digital growth, we are intensifying our work to ensure that the store portfolio is optimised.

Product flow initiatives

For many years we have been working to make the supply chain faster, more efficient and more flexible – and this has benefited us during the pandemic. The significant investments we have made in tech, AI, advanced analytics and logistics enable us to always have the right product in the right place at the right time and at the right cost.

Continually enhancing our improved accuracy is not just good for the customer offering, but also contributes to a more sustainable use of resources.

Integrated sustainability

In 2021 we took further steps to improve sustainability in all parts of the business. For example, we continued to increase the share of recycled or otherwise more sustainably produced materials in the collections, with the percentage of recycled materials tripling; we further improved product transparency for customers using the Higg Index tool; we launched the “Circulator” circular design tool; and we reduced scope¹ 1 and 2 carbon emissions by 22 percent and scope 3 emissions by 9 percent in absolute figures compared with 2019.

Our sustainability efforts were recognised on various occasions during the year, including being ranked second in the Fashion Transparency Index of 250 fashion brands. We were also appointed as UN Global Compact LEAD for our commitment to the UN Global Compact and its Ten Principles for responsible business.

This year is the first year that we at the H&M group are integrating our annual and sustainability reports. This is an important step, but also a natural development since sustainability has been an integral part of our business for a long time. One example of this is the sustainability targets highlighted in conjunction with our full-year report for 2021, when we communicated that by no later than 2030 the H&M group will

— This year is the first year that we at the H&M group are integrating our annual and sustainability reports. This is an important step and a natural development since sustainability is an integral part of our business.

HELENA HELMERSSON, CEO

double sales while at the same time halving its carbon footprint. Profitability is to exceed 10 percent over time.² Continued focus on customers, investments, partnerships and innovations are important for achieving our ambitious goals.

Investments in tech and sustainability

Our financial strength and long-term approach give us the ability to invest in innovations within tech, materials and sustainable initiatives, with an ambition to lead the change in the fashion industry towards becoming circular and renewable. We are constantly evaluating investments and acquisitions that could contribute to our continued sustainable growth. Through our investment arm Co:lab we have around 20 investments in new companies – such as Re:newcell, Ambercycle and Infinited Fiber, which is developing new techniques within textiles recycling. These companies' solutions are now being scaled up and by investing early, we have secured access to these innovative sustainable materials.

Outlook

We remain focused on developing the customer offering and delivering the best combination of fashion, quality, price and sustainability. We are proud that our strong recovery continued in 2021 with much appreciated collections and products, continued customer focus and strong relations with our partners.

At the time of writing, however, we are deeply concerned about the course of events in Ukraine and our thoughts go out to all those affected. We are monitoring developments closely and doing all we can to help people as much as possible. The H&M group, the H&M Foundation and the Erling Persson Foundation have donated millions of kronor as well as clothing and other essentials to organisations such as UNHCR, Save the Children, the Red Cross and UNICEF. We join all those around the world who are calling for peace.



Helena Helmersson, CEO
H & M Hennes & Mauritz AB

¹ Scope 1: All direct greenhouse gas emissions from our own operations. Scope 2: Indirect greenhouse gas emissions from the consumption of purchased electricity, heat or steam used in our own operations. Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in scope 2, outsourced activities, waste disposal etc. Includes emissions related to raw materials, fabric production, garment making, manufacture of other products and consumption of electricity by customers. Scope 3: In 2021 we continued the efforts to improve the accuracy of the scope 3 emissions data. This has resulted in certain changes in our reported emissions compared with previous years. Read more about the updated scope 3 emissions data on page 63 of the statutory sustainability report. The customer use phase is not included in the scope 3 element of this target.

² The baseline for the sales goal is 2021. The H&M group's goal is to reduce its carbon footprint in absolute figures by 56 percent by 2030 (baseline 2019) in accordance with our commitment at COP26. Profitability refers to operating profit in relation to sales. The ambition is to achieve the profitability target no later than 2024. The H&M group's target to increase sales by 10–15 percent per year with continued high profitability remains a long-term target.

H&M Group at a glance

H&M Group at a glance 2021.....	5
Our overall business idea	6
Our culture and values	7



H&M Group at a glance 2021

Markets

75

Strong geographical diversification: 75 markets, of which 54 markets also offer online sales.

Net sales

199

billion SEK in net sales.

Profit after financial items

14,3

billion SEK, in profit after financial items.

Change in scope 1 and 2 CO₂e emissions

-22%

Change in scope 3 CO₂e emissions

-9%

Change in absolute in scope 1, 2 and 3 CO₂e emissions compared with 2019 baseline.

Employees

155,000

The total number of employees amounted to approximately 155,000.

Share of online sales

32%

online sales as a share of the group's net sales.

Recycled materials

17.9%

Tripled the share of recycled materials used in our garments from 5.8 percent to 17.9 percent towards our goal 30 percent recycled materials by 2025.

Cash flow

45

billion SEK in cash flow from operating activities.

Positions of responsibility

71%

of the positions of responsibility within our own organisation are held by women.

Plastic packaging

-27.8%

reduction of plastic packaging.

Fair partner

98%

of suppliers say that H&M Group is a fair business partner.

Our overall business idea

The H&M group's unique brands meet customers' demand for the best combination of fashion, quality and sustainability at affordable prices. We give customers unbeatable value and access to a more sustainable lifestyle.

We are a customer-focused, creative, value-driven, responsible fashion and design company. Our 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 sales channels are well integrated to provide a consistent, seamless and inspiring customer experience when, where and how customers choose. In certain markets our products are sold via franchise partners. The H&M group's brands are H&M, H&M HOME, COS, Weekday, Monki, & Other Stories, ARKET, Afound and Singular Society, along with our B2B initiatives Treadler and Creator Studio. We are also the majority shareholder in Sellpy.

Our value chain includes every step from idea to customer – the design and development of products and services, the selection and development of raw materials, suppliers of materials products and services, logistics, distribution, sales, and customer use such as garment care, reuse and recycling.

We grow our business in a responsible and resilient way that will contribute to both positive impact in the world around us and long-term value with financial growth and profitability. Our financial strength and long-term approach give us the ability to continue to invest in further improving the customer offering and experience as well as in innovations within tech development, materials and sustainable initiatives. United by our values, we have an ambition to lead the change towards a circular and climate positive fashion industry, while being a fair and equal company.

Every customer is unique and therefore local relevance is important. We always strive to have multicultural and diverse teams so that we can be relevant and connect with our customers' needs and perspectives. Our teams contribute to innovate and to promote diversity and equality through our products, marketing and communications, and to advance inclusion in communities and in wider society where we are present.



Our culture and values

H&M Group's shared values define who we are, what we stand for and how we act.

– We are one team

– We believe in people

– We are entrepreneurs

– We are
constantly
improving

– We are cost-conscious

– We keep it
simple

– We are straightforward
and open-minded

Our values have guided us since the day that the company was founded, and they continue to guide the business today. The values influence how we act, grow and contribute to creating workplaces and environments where people and businesses thrive.

A fundamental respect for the individual and for the equal value of all people is at the core of our business. This applies to all aspects — from fair wages and benefits, through working hours, freedom of association, and safe and secure workplaces free from discrimination, to all our colleagues' opportunities for growth and development. A solid foundation of fair labour standards combined with social policies further enables good working conditions in safe and healthy environments.

Our customers are at the heart of every decision, enabling us to deliver unbeatable customer value and the best experience. We connect and collaborate within teams and across brands and functions as a way of creating synergies. By striving to be a relevant, fair and equal employer we attract, develop and retain talent. We continually work to develop competences and skills, as well as leadership. This is done in inclusive and

diverse environments that promote equality for all regardless of factors such as gender, age or ethnicity. We encourage everyone to be themselves and respect others for who they are. Our diversity makes us strong and creates an inclusive and welcoming workplace where everyone's individuality is highly valued. We strive to build diverse teams to better understand our customers and promote equality through products, marketing and communications. This helps us advance inclusion in the group's communities and in wider society.

Having constructive workplace dialogue built on trust and respect is critical to being a responsible employer. We believe in freedom of association, respecting the rights of our employees to establish or join organisations of their own choice. Consequently, we respect our employees' right to decide who should represent them in the workplace and if they want to be a member of a union. We strive to have a close, open and constructive dialogue with unions around the world.

We had approximately 155,000 employees at the end of the financial year. The average number of employees in the group, converted into full-time positions, was 107,375, of which 10,540 were employed in Sweden. Of the average number of employees, around 74 percent were women and 26 percent were men. Of the positions of responsibility within the company, such as store and country managers, women held 71 percent and men held 29 percent.



Highlights 2021

Key figures	10
Sales and stores per segment.....	11
Highlights 2021.....	12



Key figures

1 DECEMBER–30 NOVEMBER	2021	2020	2019
Net sales, SEK m	198,967	187,031	232,755
Change net sales from previous year in SEK, %	+6	-20	+11
Change net sales previous year in local currencies, %	+12	-18	+6
Operating profit, SEK m	15,255	3,099	17,346
Operating margin, %	7.7	1.7	7.5
Profit after financial items, SEK m	14,300	2,052	17,391
Profit after tax, SEK m	11,010	1,243	13,443
Cash and cash equivalents and short-term investments, SEK m	27,471	16,540	12,312
Stock-in-trade, SEK m	37,306	38,209	37,823
Number of shares, thousands ¹	1,655,072	1,655,072	1,655,072
Earnings per share, SEK ¹	6.65	0.75	8.12
Cash flow from operating activities, SEK m	44,619	25,900	28,896
Dividend per share, SEK ^{1,2}	6.50	-	9.75
Return on equity, %	19.2	2.2	23.3
Total number of stores	4,801	5,018	5,076
Average number of employees	107,375	110,325	126,376

1 DECEMBER–30 NOVEMBER	GOAL	2021	2020	2019
Climate: % absolute reduction (scope 1, 2 and 3) in CO ₂ e emissions compared with 2019 baseline. ³	-56% by 2030	Scope 1 & 2: -22 Scope 3: -9	Scope 1 & 2: +17 Scope 3: -14	-
Climate: % renewable electricity in own operations ³	100% by 2030	95	90	96
Commercial goods: % of recycled or other more sustainably sourced materials used ³	100% by 2030	80.0	64.5	57.1
		-	58.7	54.9
	30% by 2025	17.9	5.8	2.2

¹ Before and after dilution.

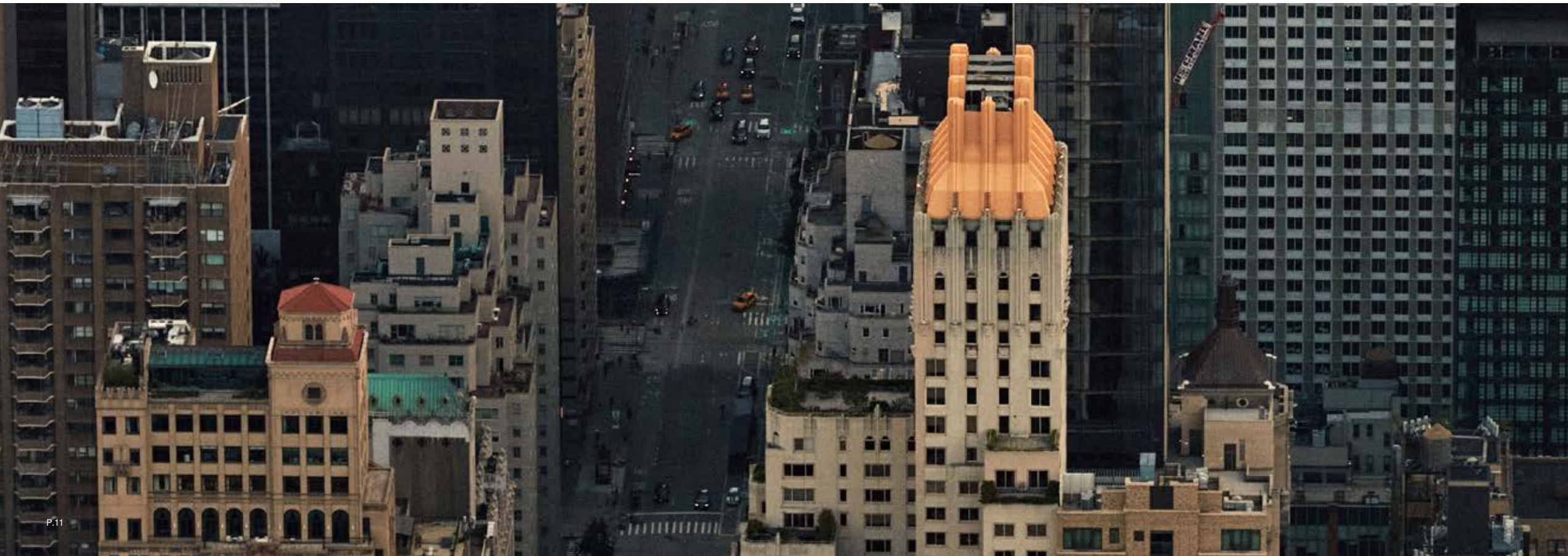
² Dividend which was decided and paid during the year.

³ Explained further on page 66.

For definitions and explanations in this report see page 85.

Sales and stores per segment

	NET SALES 2021 (SEK M)	NET SALES 2020 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2021
Europe & Africa	132,434	128,440	-144	2,884
Asia & Oceania	26,304	28,586	-50	1,161
North & South America	40,229	30,005	-23	756
Total	198,967	187,031	-217	4,801



Highlights 2021

Sales increased to SEK 199 billion and profit after financial items to SEK 14,300 m

As in 2020, the pandemic, the consequences of climate change and the increasing digitalisation of society had the greatest impact on 2021. As always, our customer focus, flexibility and fast decision-making were important factors as we navigated a rapidly changing macro environment. This applied in all parts of the business and particularly within the supply chain, which was affected by various challenges.

H&M Group announced as UN Global Compact LEAD

H&M Group announced as UN Global Compact LEAD for its ongoing commitment to the United Nations Global Compact and its Ten Principles for responsible business. The group was identified as having the highest level of engagement within the retail sector globally.

Singular Society and Creator Studio

The group's newest initiatives Singular Society and Creator Studio were launched.

Fashion Transparency Index 2021

We were the second highest scoring brand in the Fashion Transparency Index 2021, which ranks multiple companies according to how much information they disclose about suppliers, supply chain policies and practices, as well as their social and environmental impact.

Recycled Polyester Challenge

We joined the 2025 Recycled Polyester Challenge, a UN and Textile Exchange initiative for climate action. We have set a leading individual goal to only use recycled polyester by 2025 and to further scale up textile-to-textile recycling.

Dow Jones Sustainability Index

In 2021 the group was included in the Dow Jones Sustainability World Index for the tenth year running, scoring well above the industry average. The company achieved the highest possible scores in several areas, including environmental and social reporting and for having taken far-reaching steps in its climate strategy.



New markets

H&M opened its first store via franchise in Panama and launched online in Qatar. H&M was also launched online in Chile.

Second hand platform Sellpy

Sellpy expanded to several new markets and is today present in 24 markets. To meet the growing demand Sellpy is supported by the group's global supply chain, which will drive Sellpy's circular services.

Highlights 2021

Product transparency

H&M continued to roll out the first version of the Higg Index tool for product transparency. The tool measures the environmental impact of the materials used to make a product and provides customers with information on the use of water and fossil fuels, global warming and water pollution in a transparent and comparable way. The tool is available for a large range of products on hm.com in 32 markets. The programme will be further scaled up during 2022.

TreeToTextile

TreeToTextile, part-owned by H&M Group, is upscaling biobased textile fibres with a low environmental footprint at an attractive cost level. The new fibre is a regenerated cellulosic fibre sourced from sustainably managed forests.

The H&M Foundation

The H&M Foundation broadened its commitment and announced a new direction for tackling the world's most urgent challenges in order to accelerate progress on achieving the UN Sustainable Development Goals for 2030. As a first step, SEK 300 m was committed – focusing on programmes fast-tracking the development of inclusive societies and supporting solutions that can create a planet positive fashion industry.

Loop machine

H&M's Loop machine was awarded the Design Grand Prix during Cannes Lions, the international festival of creativity. The Loop machine transforms old clothes into new garments, thereby showing customers how old textiles can be recycled without using water or chemicals.

Fire and building safety

A new agreement “International Accord for Health and Safety in the Textile and Garment Industry” was signed together with trade unions and other brands. This, following the previous legally binding Accord, will ensure joint efforts for a safe work environment in the Bangladesh garment industry.

Green Consumption Pledge Initiative

H&M Group joined the European Commission's Green Consumption Pledge Initiative. The pledge is built on environmental improvement, communication with customers and transparent reporting.

Sustainability-linked bond

Our EUR 500 million sustainability-linked bond (SLB) was amongst other things launched to contribute to our goal to reduce carbon emissions (scope 1,2 and 3) in absolute figures by 56 percent by 2030 (baseline 2019). These new types of bonds are coupled to companies meeting certain defined sustainability targets. The bond's interest rate is tied to how well we succeed at using recycled materials and reducing greenhouse gas emissions. Find detailed information on the SLB targets and framework on our [website](#).

Leading company within fibre

Textile Exchange named H&M Group as a leading company within fibre and material sourcing in its report Material Change which is one of the most extensive analyses of how the textile industry is progressing in its transition to more sustainable materials and a circular economy.

Customer in focus

- Our fashion and design15
- Our brands and business ventures17
- Our omni-model elevates the
customer experience..... 23
 - Our circular customer journey..... 24
 - Stores 25
 - Online 26
 - Initiatives for an improved
customer experience 27



Our fashion and design

Our aim is to make fashion and design accessible to everyone in a way that's good for people, the planet and our business. By offering the best combination of fashion, quality, price and sustainability we give our customers unbeatable value and access to a more sustainable lifestyle. Our ambition is to lead the industry towards a sustainable future. This drives us to think in new ways, bring in new business models, build new partnerships and dare to do things differently.



Our fashion and design

Each of our brands has a design and buying function creating inspiring and relevant collections. Customer focus, creativity and salesmanship are core to the process of creating what the customers want. Our more than 600 designers create collections based on trend forecasts and analysis of customer preferences. Diverse backgrounds, perspectives and skills within design, materials, craftsmanship, circularity, sustainability within for example material and circularity, customer needs and buying processes are enhanced by technology such as 3D design applications and AI capabilities to get the right product to the right point of sale at the right time. Creating the products our customers want with minimal use of natural resources and the lowest possible impact on people and the planet is well in line with our business idea. It enables our brands to create even more relevant collections and to push the boundaries to further improve ourselves and our industry.

We use our size and experience to drive positive change, innovation and transparency across our industry and, together with our many partners, aim to maximise positive impacts and minimise negative ones. This also gives us greater leverage in tackling sometimes complex risks and seizing new opportunities across our value chain.

Always acting ethically, responsibly and with integrity is essential for keeping the trust of our customers, other stakeholders and the world around us. We expect this of ourselves as well as our partners.

Long-term good relationships with carefully chosen suppliers and transparency in supply chains are

therefore of strategic importance to us. We publish our supplier list in accordance with the Transparency Pledge. H&M and H&M HOME online continue to offer customers on-product-transparency information about product materials, factory locations, garment care and recycling options. ARKET, COS, Monki and Weekday added supplier lists or fact sheets to their websites. And increasingly we are also providing detailed fact sheets about the climate, environmental and social footprint of individual products using the Higg Index Sustainability Profile – a new tool developed by the multistakeholder Sustainable Apparel Coalition (SAC). We are also exploring new technologies to further improve traceability of materials through the supply chain.

Close teamwork with our partners enables a flexible supply chain and is part of our work to ensure the best customer offering and experience in all sales channels.

In parallel, new business models, initiatives and partnerships are being developed to bring a more sustainable lifestyle to more people. These initiatives provide the group with additional revenue streams as well as contribute to more sustainable use of resources.

We support circular design and production. In late 2021 we launched the innovative circular design tool “Circulator” to underline our ambition to design all our products for circularity by 2025. The tool not only aims to enable our own teams to create products fit for a circular economy but will also in the long-term encourage others to do the same.



Our brands and business ventures

Our brands and business ventures all have their own unique identities. They share a passion to make great fashion and design available in a sustainable way, and to enable a circular lifestyle. Read more about our brands and business ventures on the following pages.





H&M

H&M is a fashion brand offering everyone the possibility to explore their personal style. H&M always strives to offer the 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 functional sportswear to affordable wardrobe essentials, beauty products and dazzling accessories.

H&M has 4,242 stores in 75 markets. The brand is also available in 54 online markets.

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

H&M HOME

H&M HOME is a design-driven interior brand offering fashion-forward décor and accessories for every room and style. The assortment ranges from high-quality bedlinen and timeless dinnerware to diverse textiles, furniture and lighting. Contemporary style and attention to quality and detail are at the brand's core. By merging modern design and quality with sustainability and affordable prices, H&M HOME enables interior lovers across the world to create a personal and modern space — a place to feel at home.

H&M HOME was launched online in 2009. Today, it 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](https://www.hm.com/home)





COS

Inspired by contemporary culture, London-based fashion brand COS is known for collections that balance innovative design and enduring style, with every piece made to last beyond the season. COS creates modern, functional and considered design for women and men. Since its launch in 2007, the brand has supported the arts through collaborations with established and emerging artists, galleries and creative studios.

COS has 275 stores in 47 markets. COS designs are offered online in 36 markets and also delivers to more markets via global selling and is available on external platforms.

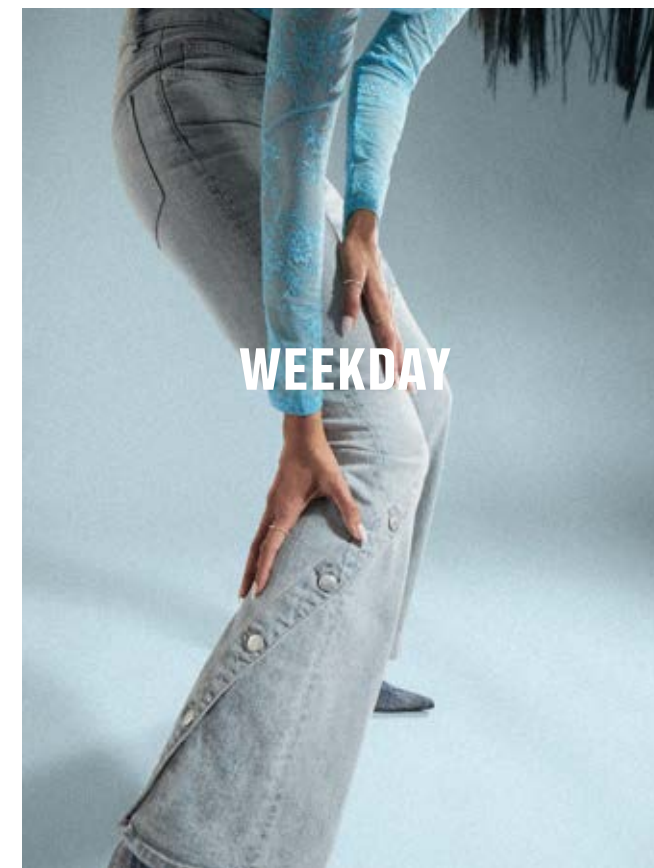
[cosstores.com](https://www.cosstores.com)

Weekday

Weekday is a fashion brand influenced by youth culture and street style. Founded in 2002, the brand offers customers a unique retail experience and a curated mix of women's and men's assortments. It has been part of the H&M group since 2008.

Weekday has 57 stores in 16 markets. It ships to customers in 30 online markets as well as more markets via global selling. It is also available on external platforms.

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





& Other Stories

Launched in 2013, & Other Stories is a fashion brand that 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.

& Other Stories has 78 stores in 24 markets and online stores in 33 markets and the brand delivers to more markets via global selling as well as on external platforms.

[stories.com](https://www.stories.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. ARKET's head office and design studio is in Stockholm.

The first ARKET store opened in London in 2017 and today ARKET has 24 stores in 9 markets across Europe and Asia. ARKET is available online in 32 markets and ships to more via global selling. It is also available on selected external platforms.

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



Monki

Monki is a purpose-driven fashion brand that believes in sisterhood and the power of community and in contributing to a more sustainable fashion industry. Monki's signature collections can be described as Scandinavian cool meets Asian street style, offering everything from essentials to stand-out pieces, all made for individual styling. Founded in 2006, Monki has been part of the H&M group since 2008.

98 stores offer the Monki experience in 20 markets. Online, Monki delivers to 30 markets and ships to more destinations worldwide via Global Selling and external platforms.

monki.com

Our business ventures

Our business ventures' mission is to build scalable businesses based on new business models and partnerships, to engage with customers in new ways and to create new customer value. This means our ventures create new revenue streams and are an important part of delivering sustainable growth for the H&M group.

Examples of our business ventures are Afound, Treadler, Singular Society, Creator Studio and majority-owned Sellpy.

Afound

Afound offers great deals, on everything, always. The online marketplace offers customers discounts on products from all of the group's brands as well as a wide mix of other popular external fashion, sports, interior and beauty brands. Through its business model, Afound also offers customers a way to shop more sustainably by giving items new life.

Afound was launched online in June 2018 and is today present online in Sweden, the Netherlands, Germany and Austria. Afound is focusing on online sales to strengthen its digital position and is therefore present solely online.

afound.com



Treadler

Treadler is a B2B service that enables clients to utilise the group's supply chain. Through Treadler, clients can explore services in product development, production, logistics and more. Clients can reap the benefits of our extensive experience, long-term supplier relationships and strategic sustainability investments. This way, more companies can be part of creating a more sustainable textile industry.

treadler.com

Singular Society

Singular Society is subscription-based and offers a selection of premium products within apparel and homeware. For a monthly fee, members are given access to life essentials at the price of what they cost to make.

singular-society.com

Sellpy

Founded in 2014, Sellpy has grown into 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.

H&M Group has been the majority owner of Sellpy since 2019. Following its expansion during 2021 into 22 European markets, Sellpy is currently available in 24 markets including Sweden.

sellpy.com

Creator Studio

Creator Studio is a new B2B service offering on-demand print services. This global platform for the merchandise industry allows external brands and content creators to offer good quality merchandise by utilising the H&M group's lean production process, international logistics networks, advanced made-to-order digital printing and integrated e-com setup.

creatorstudio.com



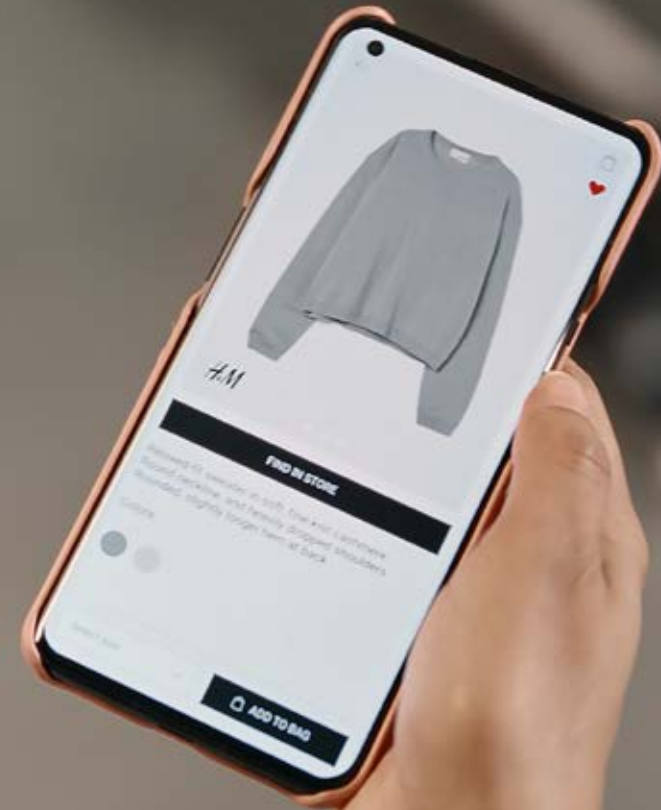
Our omni-model elevates the customer experience

The H&M group's brands and business ventures reach customers around the world. Wherever, whenever and however customers want to meet us – in our stores and all digital touchpoints such as our websites, apps, social media and in digital marketplaces – we want to offer a convenient and inspiring experience in which the channels interact and strengthen each other, facilitating a holistic customer journey.

Our expansion is taking place with a focus on omni-channel growth. Physical and digital channels are therefore being increasingly integrated, and the store portfolio is being further optimised to ensure a relevant presence and format and the best experience for our customers in each market.

We are building long-term, value-creating relationships that stretch far beyond a single product by engaging our customers more in various ways. We work towards circularity across the entire value chain, with circular products, supply chains and customer journeys. We are continually enhancing the customer experience by for example offering innovative services such as garment rental, second hand, repairs, alterations and climate-smart deliveries – all to help customers live a more sustainable lifestyle.

Demand for good value, sustainable products and services is expected to further grow in the wake of the pandemic and our customer offering is well positioned for this. Through our work to lead the change towards circular and climate positive fashion, we are increasing the share of recycled and more sustainably sourced materials and we are developing new revenue streams.

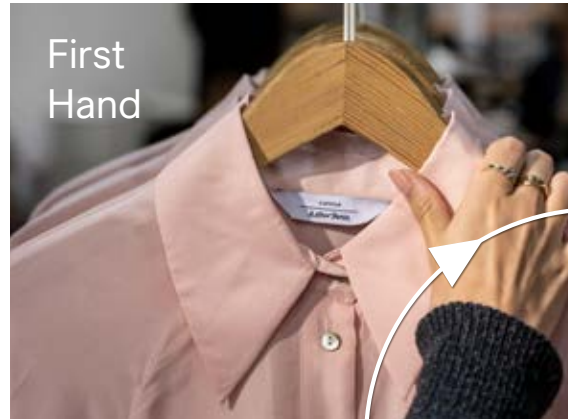


Our circular customer journey

By offering a more circular customer journey we support customers with services throughout their garment's entire lifespan: from first-hand to second-hand, from a second chance to a second life. Our circular services include re-sell, remake, repairs, garment rental, and garment collecting for textile recycling and more.

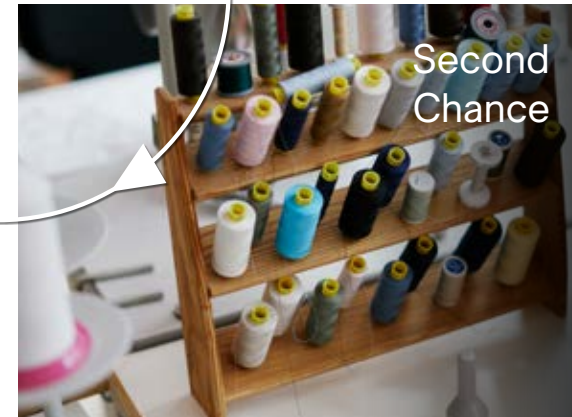
By extending the lifecycle of materials and products we increase value for customers and make a sustainable lifestyle accessible to more people, thereby reducing resource dependencies.

First Hand: Our brands offer customers garments that are made from recycled and more sustainably sourced materials and are designed using a circular design and product development process.



Second Hand: If a customer does not need the garment anymore, they can give it an extended lifespan by selling it through Sellpy, a digital platform for second-hand fashion and other products. H&M Group has been the majority owner of Sellpy since 2019.

Second Life: If the garment is too worn to repair or resell, customers can take it to the garment collecting point available in our stores. The textiles can then be recycled to create new fibres and garments.



Second Chance: Customers can repair their garments in the H&M stores that offer repair services.

Stores

We continuously develop our store portfolio to ensure that we have the right store with the right format in the right place. Our stores, which are located in the most prominent shopping areas, are a great asset where we meet our customers in real life every day. The stores play a vital role in our relationship with our customers, being a shopping and fashion destination, inspirational as well as brand building, where the customers can physically explore and experience our brands. Customers tell us that they appreciate the stores for proximity, availability and the opportunity to try on clothes, create looks and find their perfect fit. Alongside continued focus on digital growth, we are intensifying our work to ensure a relevant store portfolio that meets customers' needs in interaction with our digital channels. In addition, the role of the physical stores has evolved to become an important part of the supply chain, especially within last mile options, where customers can combine shopping with services like click and collect, pick-up in store and online returns. Altogether this provides a smooth and flexible shopping experience.

We build and operate our stores in a sustainable and resource efficient way, and thereby protecting natural resources. Our Circular Built Environment Strategy prioritises resource optimisation, helping to reduce our carbon footprint. It requires us to design and build stores based on circular principles — reduce, reuse, repair and recycle — and to use only recycled or other more sustainably sourced materials. In order to achieve our ambitious sustainability goals, we work closely with all our business partners.

We are growing through an omni perspective, which means combining and integrating digital and physical stores in the best possible way. To always have a healthy and relevant store portfolio we make sure we optimise the space and format, which also involves rebuilds and adjusting the number of stores, to ensure we have the best store portfolio in each market. The group's contracts allow around a third of leases to be renegotiated or exited each year. In 2021 we opened 104 (129) new stores and closed 321 (187) stores. This resulted in a net closure of around 217 stores. We had 4,801 stores in 75 markets at the end of the financial year. Most of the openings in 2022 will be in growth markets, while the closures will mainly be in established markets.



Online

Our well-developed online stores are a great complement to the physical stores where the channels interact and strengthen each other. Our digital integration to offer a seamless experience continues, enabling customers to interact and engage with us where, when and how they choose — offering a relevant, inspiring and convenient experience. We are continuing our initiatives for digital growth, including constantly updating the online environment for all our brands.

During the pandemic when stores were temporarily closed due to restrictions, we redirected and reallocated products between the sales markets and sales channels, thereby strengthening our online channels further so that our customers were able to access our collections continuously.

All our brands have well-developed online operations. H&M has a presence in 54 online markets. Several of our brands can also be found on various external marketplaces. COS, Weekday, Monki, & 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.

In some markets our online customers have the ability to choose from various low carbon options by utilizing a range of wide and flexible delivery options. Moreover, H&M customers in several markets including the Netherlands and parts of Sweden, Italy and France, can choose to receive and return items using a bicycle delivery service, electric vehicles or by foot. This in combination with using biogas, Hydro-treated Vegetable Oil (HVO) and electric vehicles from the logistics centre also help reducing CO₂e emissions.



Initiatives for an improved customer experience

We work continually on improvements to offer customers the best possible shopping experience. Here are some examples of ongoing initiatives:

- **H&M's customer loyalty programme** members can benefit from more personalised offerings and digital services for inspiration and a smooth customer experience. Customers are also rewarded for contributing to a circular lifestyle through H&M's garment collecting, climate smart delivery options, bringing their own bag and choosing products made from more sustainably sourced materials.
- **Higg Index Sustainability Profile.** Increasingly, detailed information about the climate, environmental and social footprint of individual products is provided on our products using the Higg Index Sustainability Profile – a new tool developed by the multistakeholder Sustainable Apparel Coalition (SAC).
- **More payment options.** Members of H&M can pay now or later through the H&M app, whether shopping in store or online.
- **Digital receipts.** Customers can receive digital receipts in the H&M app in most markets.
- **Visual Search.** Image recognition helps customers by making recommendations and suggesting potential buys based on pictures that customers have taken or been inspired by.
- **Deliveries.** Next day delivery, express delivery and other climate smart last mile deliveries continue to be rolled out in more markets.
- **Find in Store.** On seeing an item online, customers can use their mobile devices to find it quickly and easily in the size they want, in a physical store or online.
- **Scan & Buy.** Customers can scan the QR code on a product in store to find and buy the item online in the size and colour they prefer.
- **In-Store Mode** allows customers to use their mobile devices to see what items are available in the store they are visiting as well as online.
- **Click & Collect** allows customers to pick up online purchases in store.
- **Online returns in store** lets customers return their online purchases in selected stores.
- **#HMxME** enables customers to share their own fashion stories from Instagram while also providing an easy way to buy the items.
- **Size Guide** helping customers to find right size online, also for external brands, not only H&M Group products. Launched in the US, Germany and Sweden, being rolled out to more markets during 2022.
- **Rate & Review** lets customers rate and review H&M products.



- **RFID (Radio Frequency Identification)** allows for increased precision in the supply chain and stores, which leads to improved accuracy and availability.
- **Self-service checkouts** have been much appreciated by customers as being convenient and easy and are being rolled out to more markets.
- **Instagram.** In the US, H&M customers can shop directly from inspirational images and videos on Instagram and get notifications on Instagram when H&M releases new collections.
- **H&M HOME X Augmented Reality.** In this augmented reality pilot, customers can preview selected H&M HOME products by virtually “placing” them in their own environment using the camera on their smartphone.

Flexible supply chain

Production, logistics and distribution	29
— Recycled, regenerated and more sustainably sourced materials.....	30
— Renewable energy.....	30
— Fair jobs and positive social impacts	31
— Logistics and distribution	31
— Reusable, plastic-free packaging.....	31

Production, logistics and distribution

We always listen to our customers, to understand their expectations and needs so that we can offer them the products they want — always with the best combination of fashion, quality, price, sustainability, speed and flexibility.

Our value chain extends from design and production all the way to the customer. Our buying teams always strive to make the most sustainable choices of materials and processes, such as buying the right product from the right market at the right time, at the right cost and on the right terms. We have set up internal carbon pricing to guide our organisation to minimise carbon emissions when making decisions about which materials, production processes and modes of transport to use. Read more about in our [Sustainability Disclosure](#). Our long-term and close relationships with suppliers mean that we can react quickly to changing customer demands and trends.

Our supply chain is the part of the value chain that covers production, logistics and distribution. Speed, flexibility and differentiated product flows in the supply chain ensure the best customer offering with a high degree of local relevance. This makes it possible to react quickly to trends and demand and produce with short lead times.

Our tech drive involving AI, new distribution systems and highly automated logistics centres is an important part of our work. Combined with more efficient processes, this increases our precision – i.e. quantification, allocation, pricing and personalisation – and thereby contributes to leaner production and a more sustainable use of resources. Our demand-driven supply chain always strives to find the optimal flow of goods with the lowest environmental impact and highest customer satisfaction. Speed, availability, cost efficiency and accuracy are decisive key factors for achieving this.

During the pandemic we showed that we are responsive and fast. Together with our suppliers and other partners, we have managed challenges in the supply chain. We have been able to quickly adjust volumes, sales channels and markets based on changes in customer demand and unexpected events. It works both ways: we can increase quickly but can also scale back the volumes quickly. Flexibility has been a vital enabler during the pandemic and is expected to be even more important going forward.

It is important to have a flexible, efficient and fast supply chain. Our supply chain is built on partnership, mutual trust and fair purchasing practices. We have long-term strategic partnerships and maintain a close dialogue with our suppliers through our production offices located across sourcing markets. Together with our suppliers we are addressing environmental and social impacts in our supply chain. Significant parts of our total climate footprint occur in our supply chain, particularly in raw materials production, as well as in fabric manufacturing and processes

like dyeing and washing. These are also often water-intensive processes and have an impact on water resources.

Together with our suppliers and other partners, we can make important contributions to reducing climate and other environmental impacts and can contribute to improved way of living for people and their communities, as we further improve resource efficiency and skill sets and create a flexible, circular and resilient supply chain.

AI, advanced data analytics and demand-driven production improve both efficiency and local relevance.

Having flexible, efficient and fast logistics and distribution for example last mile solutions are essential to offer the best customer experience. Our flexible range planning and efficient distribution ensure that both the latest trends and timeless classics can always be found in our stores and online at the best price.



Recycled, regenerated and more sustainably sourced materials

The fashion industry depends on limited natural resources, with an inevitable impact on the planet. Reducing dependency on such limited resources and instead developing new sources creates business advantages and reduces impacts on the planet.

Moving from virgin materials with a high environmental impact to recycled, regenerated and more sustainably sourced ones is therefore important for our long-term sustainable growth. By investing in and scaling production of innovative materials we are guaranteed access, while having a stake in the pioneering companies that can create new revenue streams. Investments in this area can also mitigate future risks connected to resource scarcity and reduce our carbon footprint.

Our goal is for 100 percent of our materials to come from recycled or other more sustainable sources by 2030. An important step towards achieving 30 percent recycled materials by 2025 is that some of our collections are made of materials using new garment recycling technology – a new ground breaking technology. The material Circulose®, made from recycled cotton waste, was developed by Renewcell, a textile recycling company. We are one of the shareholders and have a multi-year contract for the supply of Circulose® material. Another example is the Infinited Fiber Company. In 2021 we led a new investment round in the company and signed a multi-year agreement to secure access to its regenerated textile fibre Infinna™.

To support the development of such new recycling technologies is a strategic continuation of our in-store collecting initiative for used garments and home textiles, from any brand and in any condition, for reuse and recycling on a global scale. Customers appreciate our garment collecting initiative and in 2021 customers handed in 15,944 tonnes of textiles. This figure is lower than in previous years due to the Covid-19 pandemic and consequent restrictions in stores impacting our garment collecting initiative across the whole year.

We work with suppliers that share our sustainability vision for a more sustainable fashion industry. We require all suppliers and business partners to sign and comply with our Sustainability Commitment and Code of Ethics.

Renewable energy

H&M Group's goal is to reduce its greenhouse gas emissions in absolute figures by 56 percent by 2030 (baseline 2019)¹. As one part of this we are working to source 100 percent renewable electricity in our own operations and to increase the use of renewable electricity among our partners and suppliers. Through long-term partnership with renewable energy platform we aim to contribute to continued de-carbonisation.

To achieve our 100 percent goal we will continue to work towards a balanced portfolio of Energy Attribute Certificates, power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaics.

¹ Emissions from the customer use phase are not included in the scope 3 part of this goal, to fully align with the target boundary requirements of the SBTi Net-Zero Standard.



Fair jobs and positive social impacts

Our tier 1 and 2 production supply chains alone contributes to the employment of around one and a half million people. It's our responsibility to respect and work to advance the human rights and working conditions of the people working for our suppliers and ensure they know their rights. We collaborate to improve industry wide working conditions, particularly with respect to wages and worker representation. Together with our suppliers and other partners, we can make important contributions to improving the livelihood of millions of people and their communities — as well as reducing climate and other environmental impacts. At the same time, we can further improve resource efficiency and skill sets and create a flexible, fast and resilient supply chain. These are some of the reasons why our supply chain is a strong focus area in our sustainability strategy.

Our focus is on ensuring fair jobs with fair compensation¹ and benefits in safe, secure workplaces free from discrimination, where everyone has the right to freedom of association and equal opportunities to develop. Our approach is informed by the International Labour Organization's definition of decent work, our Human Rights Policy and the UN Guiding Principles for Business and Human Rights, among other things. We conduct stringent due diligence of our supply chain. As part of this, we assess not only our salient human rights issues on an annual basis, but also the long-term risks and impacts – such as what a shift to a more digital, circular and climate positive value chain could mean for future work.

Logistics and distribution

There is a constant focus on optimising transport by choosing the most optimal equipment and filling transport units to the maximum. This leads to a reduction in shipped transport units, thereby lowering our CO₂e emissions.

We work solely with ocean carriers that are verified according to the Clean Cargo Working Group protocol. Within air freight we are active members of the Sustainable Air Freight Alliance, driving the environmental agenda to reduce CO₂e emissions from air freight and promote responsible freight transport. Emissions are tracked on a quarterly basis via upload of shipment data by each transport service provider.

Over the last two years we have purchased eco-fuel for a significant share of our ocean transports, making H&M one of the biggest buyers of ECO Delivery amongst shipping line Maersk's customers.

An important part of our omni model is the group's logistics systems and investments within tech and AI. Several initiatives involving new highly automated logistics centres with a focus on innovation are in progress globally. This creates additional capacity, flexibility and speed between sales channels as well as increasing assortment availability.

In the US two highly automated logistics centres have been taken into use in the past year. We have a highly automated logistics centre in Perris



outside Los Angeles on the West Coast and a further highly automated logistics centre was put into operation in Robbinsville, New Jersey, on the East Coast in the first half of 2021. A new highly automated logistics centre is under construction in Ajax, Canada. The new logistics centre is scheduled for completion in late 2022/early 2023.

You can read more about our partnerships and our work in our [Sustainability Disclosure](#).

Reusable, plastic-free packaging

We are striving to reduce packaging throughout our supply chain, focusing on reducing plastics. For 2025 one of our goals is to design 100 percent of our packaging to be reusable and/or recyclable. We have a new system of reusable bags made of FSC-certified paper and this will be continuously rolled out to all the brands online deliveries.

¹ Read about how we define fair wages at <https://hmgroup.com/sustainability/fair-and-equal/wages/>

Integrating sustainability

Sustainability is an integral part of our business and has been part of our business idea for many years. To be able to drive positive change throughout the value chain it is important that everyone is pulling in the same direction. Each brand, retail market, production market and group function works to drive performance towards our sustainability goals.

Sustainable fashion for everyone	33
Our sustainability strategy	34
Key sustainability goals	35
Collaboration and innovation are key	36

Sustainable fashion and design for everyone

We offer customers the best combination of fashion, quality and sustainability at affordable prices and thereby give them unbeatable value and the ability to access a more sustainable lifestyle.

Sustainability is business critical and creates business opportunities. We can only tackle the global climate crisis by working together with all stakeholders, including our customers, colleagues, suppliers, other business partners, shareholders and the communities we are a part of. As a responsible company our ambitious sustainability vision, strategy and goals are well integrated into our business and built on collaboration. The more we use our size and influence to make a positive impact, the more we can grow and create value in a sustainable way.



Our sustainability strategy

Our sustainability vision

H&M Group wants to lead the change towards a circular and climate positive fashion industry while being a fair and equal company. This means, among other things, maintaining the diversity and inclusion needed to attract, retain and make the most of available talent and also to ensure respect for human rights across our value chain.

Working towards our sustainability vision is a way of further future-proofing our business. Continued investments in sustainability provide the group with long-term business opportunities in a rapidly changing world.

Our 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 planetary boundaries.

H&M Group's sustainability strategy is based on our sustainability vision and contains three key ambitions:



Leading the Change

- Scale innovation
- Promote transparency
- Engage and partner for industrywide progress



Become a Circular and Climate Positive Business

- Climate positive approach across our value chain, operating within planetary boundaries
- Net positive impact on biodiversity¹
- Circular ecosystem for our products, supply chains and customer journeys



Fair and Equal

- Fair jobs for all
- Inclusive and diverse workplaces and communities

¹ Our ambition to have a net positive impact on biodiversity is based on the definition of nature-positive in the naturepositive.org paper: A Nature Positive World: The Global Goal for Nature.



Key sustainability goals

To achieve this vision we have defined a wide range of further detailed strategies, policies and targets. Here are our key sustainability goals.

All these goals are very ambitious, and we are working hard to achieve them together with our suppliers and partners. We cannot solve this ourselves; the whole industry must contribute. Today there are many good ideas and innovations under development to solve complex environmental issues. However, more innovative ideas and initiatives are needed to achieve change.

Read more about our goals, along with information about performance against these goals, strategic plans and actions for achieving the goals on pages 63–71 as well as in our [Sustainability Disclosure](#).

1) Scope 1: All direct GHG emissions from our own operations.

2) Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations.

3) Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in scope 2, outsourced activities, and waste disposal. Includes emissions related to raw materials, fabric production, garment manufacturing, non-garment/non-commercial goods, and customer electricity usage.

Our scope 3 emissions data: In 2021 we continued work to improve the accuracy of our scope 3 emissions data. This has led to some changes to our reported emissions compared to previous years. Read more about our updated scope 3 emissions data on page 66 in the statutory sustainability report.

4) The customer use phase is not included in the scope 3 part of this goal.

Climate

2022: From January 1, 2022, we will not onboard any new suppliers or supplier factories into our supply chain if they have on-site coal boilers in their factories — as part of a longer term aim to phase out coal from our supply chain.

2030: Reduce CO₂e emissions in scope 1¹, 2² and 3³ in absolute figures by 56 percent (baseline 2019).⁴

Achievement 2021: -22 percent within scope 1 and 2 and -9 percent within scope 3.

2030: Use 100 percent renewable electricity in own operations, raising the bar on our energy sourcing criteria.

Achievement 2021: 95 percent

Materials and resources

2025: Source 30 percent recycled materials.

Achievement 2021: 17.9 percent

2030: 100 percent of our materials to be either recycled or sourced in a more sustainable way

Achievement 2021: 80 percent

Packaging

2030: Make 100 percent of packaging from recycled or other more sustainably sourced materials, with a preference for post-consumer recycled materials.

Achievement 2021: 68 percent



Collaboration and innovation are key

It is only possible for us to achieve our strategic goals by collaborating with our many stakeholders. Maintaining strong relationships with our stakeholders helps us identify innovative ways to create fashion for our customers, drive innovation, and develop more sustainable materials and new business models.

Collaborating with others is also a way of meeting challenges faced by our industry and the planet. In order to solve complex issues like climate change or wages in the supply chain, for example, we collaborate with other businesses, leading experts, civil society, community representatives, NGOs, trade unions, policy makers and more. We welcome an open dialogue and collaboration with others within and outside our industry. Engaging with diverse perspectives challenges us to do better, accelerates innovation and supports our transparency efforts. Partnerships help us progress towards our sustainability ambitions faster than we could alone and have a positive impact beyond our own value chain.

95 percent of electricity sourced for our own operations was renewable (90 percent in 2020). This is due to an increase in our purchase of Energy Attribute Certificates. To achieve our 100 percent goal we will continue to work towards a balanced portfolio of Energy Attribute Certificates, power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaics.



Statutory annual report

Corporate governance report	39
Administration report	54
— Statutory sustainability report	63
— TCFD climate risk analysis	72
Financial reports	75
— Group income statement	75
— Consolidated statement of comprehensive income	75
— Group balance sheet	77
— Group changes in equity	79
— Group cash flow statement	80
— Parent company income statement	81
— Parent company statement of comprehensive income	81
— Parent company balance sheet	82
— Parent company changes in equity	83
— Parent company cash flow statement	84
— Notes to the financial statements	85
Signing of the annual report	105
Auditor's report	106

Corporate governance report

2021 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 things. At H & M Hennes & Mauritz AB (H&M), values, global policies and guidelines are important tools for the business. The Code of Ethics, which is signed by all colleagues who interact with business partners, clearly states the approach of H&M when doing business. H&M operates in many markets that have different challenges, and where laws, environmental requirements and social conditions may differ, why acting consistently and with a strong ethical compass is necessary.

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) since 2005. 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. The code is available at corporategovernanceboard.se.

This report, which covers the financial year 1 December 2020 to 30 November 2021, hereafter referred to as the 2021 financial year, was prepared in accordance with the Code and the Swedish Annual Accounts Act by the company's board of directors. It has been reviewed by the company's auditors.

External and internal governance

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

Examples of external regulations are:

- The Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act

- MAR — the EU Market Abuse Regulation
- Nasdaq Stockholm Rules for Issuers
- The General Data Protection Regulation (GDPR)
- Swedish Corporate Governance Code (the Code)

Examples of internal control documents:

- Articles of association
- The board's rule of procedure including instructions for the CEO and audit committee
- Our Way (previously "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

H&M's corporate governance is furthermore based on the company's seven values, which, in brief, encompass a sound, simple, straightforward, cost-conscious, entrepreneurial corporate culture that focuses on teamwork, belief in people and constant improvement. Sustainability is part of H&M's business idea and sustainability work is well integrated into all parts of the business. For more information read page 63.

Ethics, transparency and risk management

As a global company, it is of the utmost importance for H&M to always act ethically, transparently and responsibly in all parts of the business from collaborating with suppliers to meeting with customers. Through good purchasing routines and close cooperation with suppliers, the company's products should always be produced with the greatest possible consideration for people and the environment. H&M's risk management and internal control processes ensure purposeful work throughout the organisation. The board of directors and audit committee receive regular feedback from the organisation concerning how the internal control work is being conducted. H&M's risks are reviewed centrally on a quarterly basis with each brand and every central function. The quarterly meetings are conducted in order to ensure each listed risk has an action plan to minimise impact and is on an acceptable risk level. The risk management work also provides continuous input to the long-term commercial decisions.

Responsibility for management and control is shared between the shareholders, the board, the audit committee and the CEO. The board's rule of procedure states how the work is to be distributed between the board, the board's audit committee and the CEO. The board is ultimately responsible for the company's organisation and administration and the CEO is responsible for ongoing management of the business, with regular feedback to the board.

Board members and 2021 meetings

The board of directors has eight members elected by the annual general meeting (AGM) — four women and four men. In accordance with Swedish law the board also has three employee representatives and three deputies for these. In total, the board has 14 members — eight women and six 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 2021 the board held 8 board meetings, including a statutory meeting in conjunction with the AGM. All board members have been present at all meetings during 2021. The CEO, CFO and chief accountant also attend all the meetings. Generally, one or two departments or brands are invited to each meeting to give a status presentation concerning what their particular function or brand is working on. These presentations act as a complement to the CEO's status reports and provide opportunity for more in-depth discussions concerning specific areas of the operations. At each board meeting the chair of the audit committee also gives a summary of the matters addressed by the audit committee at its most recent meeting within areas such as accounting, audit, security, tax, internal control and risk, as well as various new regulations and legislation.

Further reading

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

Here you will find, among other things:

- Previous corporate governance reports
- Articles of association
- Information on the nomination committee
- Information about the board of directors, CEO, auditors, audit committee
- Information about guidelines and policies
- Information and material from previous AGMs and Extraordinary General Meetings
- Risks and uncertainties

H & M Hennes & Mauritz AB 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 annual and sustainability report on page 59 of the annual and sustainability report for 2021 of H&M Group 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 53.

During the financial year 2021 H&M did not deviate from the Code.

CORPORATE GOVERNANCE IN SWEDEN

For listed companies in Sweden it is important to be aware of the following aspects of corporate governance:

— The nomination committee plays a key role and in contrast to the Anglo-American system, its members are appointed by a 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. Hence if a large shareholder group has proposed a new member via the nomination committee, that board member represents the interests of all shareholders not only the interests of the shareholder(s) which nominated her/him.

— For many decades Swedish enterprise in general has held a positive view of board members in a company elected by its general meeting owning shares in the company. 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, or 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.

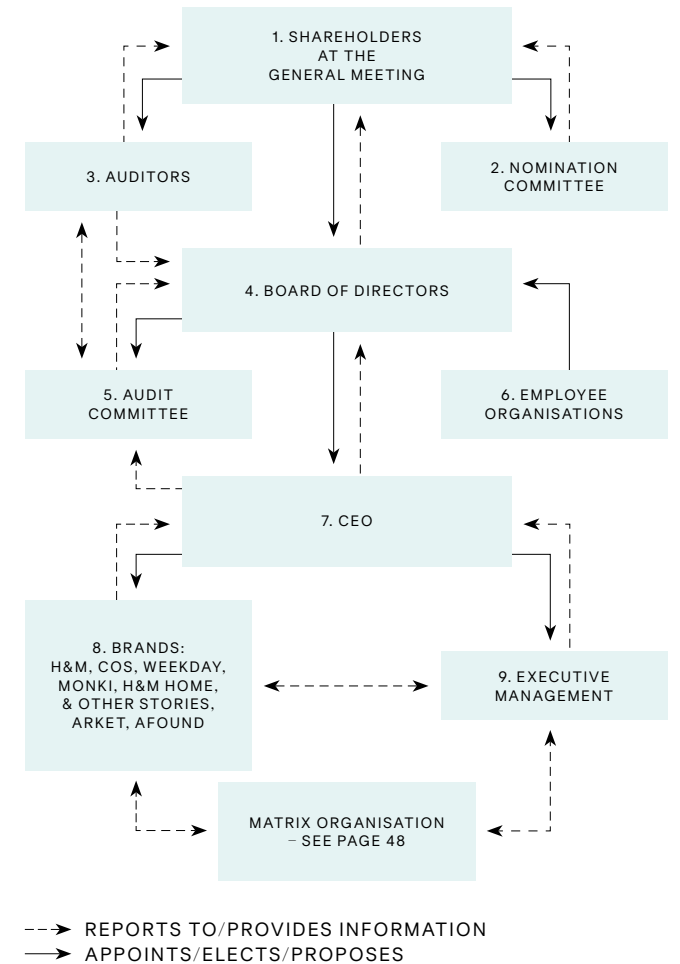
— It is tradition in Sweden for a company’s chief auditor to attend the general meeting of shareholders. The auditors are deemed to be the general meeting’s control body for the board. As a result, shareholders can pose questions to the auditors at a general meeting irrespective of the size of their shareholding.

— The option of having different classes of shares, usually known as “class A” and “class B” shares, usually with differing voting rights, has been present in the Companies Act in Sweden for a long time 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 audit committee, the CEO, the nomination committee, the auditors, the executive management team, business areas organised by brand, employees and employee organisations. The illustration to the right 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 chair 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 three employee representatives and three deputies for these, who are appointed by their respective employee organisations. The board appoints an audit committee from among its members, which deals with accounting and auditing matters on an ongoing basis and is the main channel of communication between the board and the auditors. Each year the auditors report to the board and to the annual general meeting on their scrutiny.



1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

It is the shareholders of H&M 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 chair, 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 annual general meeting (AGM) 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 hmgroupp.com. The notice of the meeting is published in full usually five weeks before the meeting as a press release and in the newspaper Post- och Inrikes Tidningar and at hmgroupp.com. Publication of the notice is announced by an advertisement placed in the newspapers 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 in the press release for the notice of the meeting, for shareholders who wish to submit their questions 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 chair of the board
- Board fees including the compensation paid to members for work on the audit 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 2021

H&M's annual general meeting (AGM) 2021 was held on 6 May as a digital meeting in view of the infection risk from Covid-19. Shareholders attended remotely and were allowed to choose between postal voting and voting digitally. A digital tool allowed those attending the meeting remotely to ask questions.

The company appeared on video from a venue at H&M's head office. A total of 910 shareholders were represented at the meeting, representing 87.8 percent of the votes and 74.9 percent of the capital.

The main resolutions passed were the following:

- The lawyer Sven Unger was elected as chair of the meeting.
- Balance sheets and income statements for H&M and for the group including its subsidiaries 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 2020 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, Niklas Zennström and Karl-Johan Persson. Karl-Johan Persson was re-elected as the chair of the board.
- The AGM approved the proposal from the nomination committee that board fees be paid as follows, unchanged from the previous year: chair of the board SEK 1,700,000; board members elected by the AGM SEK 650,000; members of the audit committee an additional SEK 175,000; and the chair of the audit committee an additional SEK 225,000.
- The AGM resolved to appoint Deloitte AB as auditors until the close of the 2022 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
2021	87.8	74.9

Extraordinary general meeting 2021

On Thursday 28 October 2021 an extraordinary general meeting was held in order to approve the dividend of SEK 6:50 per share in accordance with the board of directors' proposal. No meeting with the possibility to attend in person or to be represented by a proxy took place in view of the risk of spreading Covid-19. The meeting took the form solely of postal voting under temporary legislative rules.

A total of 932 shareholders were represented at the meeting, representing 86.5 percent of the votes and 72.2 percent of the capital.

Number of shareholders and ownership structure

At the end of the financial year H&M had 246,424 shareholders. The total number of shares in H&M is 1,655,072,000, of which 194,400,000 are class A shares with ten votes per share and 1,460,672,000 are class B shares with 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 604,856,427 (587,971,466) class B shares, representing 17.8 (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 2021, Stefan Persson and family privately and via Ramsbury Invest AB represent 75.9 (75.4) percent of the votes and 50.5 (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.

A class A share 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 2022

H&M's AGM 2022 will be held on Wednesday, 4 May 2022. To register to attend the 2022 AGM, see the notice of the meeting at hmgroupp.com/agm.

2. NOMINATION COMMITTEE

The nomination committee prepares information that will be used as a basis for decisions at the general meeting concerning election of the board of directors, chair of the board, auditors and chair of the annual general meeting, fees to the board and auditors, as well as principles for the nomination committee. The nomination committee's proposal for the composition of the board exhibits diversity and breadth as regards expertise, experience, background and gender balance. It also takes into consideration the company's stage of development and future focus.

Before each annual 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 2021 annual general meeting. The nomination committee below is based on the principle that the nomination committee is to consist of the chair of the board plus four others nominated by the four largest shareholders in terms of voting rights, as recorded in the register of shareholders. In autumn 2021 the nomination committee consisted of:

- Karl-Johan Persson, chair of the board
- Stefan Persson, Ramsbury Invest AB
- Lottie Tham
- Jan Andersson, Swedbank Robur fonder
- Erik Durhan, Nordea fonder

The nomination committee meets the requirements of the Code regarding the independence of members. Stefan Persson chairs the nomination committee, in accordance with the principles of the nomination committee which state that the chair of the nomination committee shall be the member representing the largest shareholder unless the members of the nomination committee agree otherwise. The nomination committee unanimously decided 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 2021 AGM including description of diversity policy for the board of directors

Before the 2021 annual general meeting the

nomination committee held two meetings at which minutes were taken and was also in contact at other times. As a basis for its work to analyse the composition of the board ahead of the 2021 annual general meeting, the nomination committee studied the report by the chair of the board on the work of the board of directors and also met on one occasion with CEO Helena Helmersson. Its work has functioned well over the course of the year. The information from the chair of the board, along with interviews conducted with board members elected by the general meeting, provided a basis for the nomination committee's work on its proposal to the 2021 annual general meeting regarding the composition of the board. The members' competencies complement each other well, forming a good whole. In view of this, as well as the fact that 2020 and the start of 2021 were challenging and unusual because of the Covid-19 pandemic, the nomination committee decided not to propose any changes to the composition of the board.

The nomination committee's proposal to the 2021 annual general meeting was therefore the re-election of all the current board members: Stina Bergfors, Anders Dahlvig, Danica Kragic Jensfelt, Lena Patriksson Keller, Karl-Johan Persson, Christian Sievert, Erica Wiking Häger and Niklas Zennström; and the re-election of Karl-Johan Persson as chair of the board.

The nomination committee judged that the proposed board complied well with section 4.1 of the Code, which the nomination committee applies 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, and H&M's board has had a good gender balance for many years. The board members proposed, and subsequently elected by the meeting, consisted of four women and four men. The board thus achieves the long-term 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.

The proposed board was considered to more than satisfy the requirements made of expertise and experience, taking into account the company's operations and future development. The proposal 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.

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 audit 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 chair of H&M's audit 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 chair of the committee must be independent of major shareholders.

As a basis for its proposal on a new accounting firm the nomination committee received a report from the chair of the audit committee, Christian Sievert, explaining how the selection process for a new accounting firm took place and setting out the board's recommendation, which was to propose Deloitte AB (Deloitte).

Work of the nomination committee in preparation for the 2022 AGM

Between the 2021 AGM and the end of the financial year the nomination committee held one meeting at which minutes were taken and was also in contact at other times. In autumn 2021 the nomination committee began its work, starting with information from the chair of the board concerning how well the work of the board has functioned. During the autumn the nomination committee conducted interviews with the board members elected by the general meeting. It was

established that the board and its work is functioning well. In the period up until the proposals to the 2022 AGM are presented the nomination committee will discuss the size and composition of the board based on such factors as expertise, experience and the outlook for the company, the election of a chair of the board and of a chair for the general meeting, fees for board members, instructions for the nomination committee and the election of auditors. The nomination committee's work in preparation for the AGM in May 2022 is not yet complete; more information will be presented before and at the 2022 AGM.

3. AUDITORS

The auditors, who are independent and appointed by the shareholders at the AGM, scrutinise H&M's annual and sustainability report, consolidated financial statements, accounts, 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 2021 AGM the accounting firm Deloitte AB (Deloitte) was elected as auditor of H&M for a one-year period of office, i.e. until the close of the 2022 AGM. Authorised public accountant Didrik Roos from Deloitte holds the main responsibility for the audit.

As previously, the 2021 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 and sustainability report for 2021.

Deloitte 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 audit committee. Didrik Roos conducts auditing assignments for Tele2 AB and Boozt AB, among others.

The auditors attend all meetings of the audit committee. During the audit committee meeting in January the auditor Andreas Troberg from Ernst & Young AB (E&Y) who was the auditor for the 2019/2020 financial year attended, as well as the auditor Didrik Roos from Deloitte, in order to facilitate the transition between auditing firms. The board meeting held in January 2021 was also attended by Andreas Troberg from E&Y in order to notify the board of the scope, focus, significant considerations and conclusions of the 2019/2020 audit.

In addition to this involvement, the auditor meets regularly with the chair of the board, the audit committee's chair 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, Deloitte has also carried out related tasks such as verification of the Sustainability Disclosure. In addition, Deloitte has assisted with other consulting

services, primarily tax advice. Deloitte has internal processes to ensure its independence before these tasks are begun. The audit committee also has a process for approving non-auditing services in advance, before such assignments are begun. The audit 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, and to safeguard and encourage a good corporate culture. This means that the board has the overall responsibility for the company's administration, taking a long-term, sustainable approach with a focus on the customer offering and growth.

In addition to laws and recommendations, the work of the board 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 audit 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 to and including the next AGM. Since the 2021 AGM the board has consisted of eight ordinary members, with no deputies, as well as three employee representatives and three deputies for these positions. Only the employee

COMPOSITION OF THE BOARD AND ATTENDANCE IN THE FINANCIAL YEAR 2021

NAME	YEAR ELECTED	INDEPENDENT ¹	INDEPENDENT ²	FEES (SEK) ³	BOARD MEETINGS ⁴	AUDITING COMMITTEE	SHARE-HOLDING ⁵	SHARES HELD BY RELATED PARTIES
Karl-Johan Persson, chair	2020	Yes	No	1,700,000	8/8		12,136,289	Shareholder in Ramsbury Invest AB ⁶
Stina Bergfors	2016	Yes	Yes	650,000	8/8		1,000	8,000 and 6,000 ⁷
Anders Dahlvig	2010	Yes	Yes	825,000	8/8	4/4	17,510	
Danica Kragic Jensfelt	2019	Yes	Yes	650,000	8/8		2,500	120
Lena Patriksson Keller	2014	Yes	Yes	650,000	8/8			1,200 and 9,450 ⁸
Christian Sievert	2010	Yes	No ⁹	875,000	8/8	4/4	81,000	19,000 and 2,400 ¹⁰
Erica Wiking Häger	2016	Yes	Yes	825,000	8/8	4/4		750 ¹¹
Niklas Zennström	2014	Yes	Yes	650,000	8/8		72,700	
Ingrid Godin, employee rep.	2012				8/8			60
Margareta Welinder, employee rep.	2007				8/8			
Tim Gahnström, employee rep.	2021				6/6 ¹²			
Alexandra Rosenqvist, employee rep.	2015				2/2 ¹³			
Helena Isberg, deputy employee rep.	2019				8/8			
Hampus Glanzelius, deputy employee rep.	2021							
Louise Wikholm, deputy employee rep.	2021							

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 2020 annual general meeting. This means that the fees related to the period until the next AGM, i.e. for the period 7 May 2020 to 6 May 2021. The amounts were paid out after the 2021 AGM.

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

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

6) Ramsbury Invest AB own 194 400 000 class A shares and 604,856,427 class B shares as at 30 November 2021.

7) 8,000 shares held through Stina Bergfors's company SCEBE Holding AB and 6,000 shares held by spouse.

8) 1,200 shares owned through Lena Patriksson Keller's private company Verdani Holding AB. 9,450 shares held by spouse and children.

9) 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.

10) 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.

11) 750 shares owned through Erica Wiking Häger's company Erica Wiking Häger Advokattaktiebolag.

12) Before the AGM on May 6 2021 Tim Gahnström was appointed employee representative for Akademikerna.

13) Before the AGM on May 6 2021 Margareta Welinder replaced Alexandra Rosenqvist as employee representative for Unionen.

representatives and their deputies are employed by the company. Since the 2021 AGM the board has consisted of the following members elected by the general meeting: Karl-Johan Persson (chair), Stina Bergfors, Anders Dahlvig, Danica Kragic Jensfelt, Lena Patriksson Keller, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Tim Gahnström, Ingrid Godin and Margareta Welinder are the regular employee representatives, with Hampus Glanzelius, Helena Isberg and Louise Wikholm as their deputies. For more facts about H&M's board members see pages 51–52.

The members are required to devote the time and attention that their position on the board demands. New board members receive introductory training that includes meetings with the heads of the various brands and functions.

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

Number of board meetings

During the financial year H&M normally holds six regular board meetings, one of which is the statutory board meeting. Extraordinary board meetings are held when the need arises. The CEO attends all 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 ahead of each board meeting 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 eight board meetings were held. This is more than usual, but at the same time perfectly natural since the Covid-19 pandemic made its mark on a significant portion of 2021, giving rise to more board meetings than in a normal year. 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 45.

Work of the board in 2021

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

The following 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 audit committee meeting
- Financial reporting, such as interim report, full-year report and annual report
- Any other business

The Board of Directors has also met with the auditors of the company without the attendance of the CEO or any other representatives from the company's management.

As in 2020, the external factors that had the greatest impact on 2021 were the Covid-19 pandemic and the consequences of climate change as well as the increasing digitalisation of society. During this very unusual time, flexibility, being responsive, rapid decision-making and working closely with our suppliers were important parameters for the company's recovery. This applied in all parts of the business and particularly within the supply chain, which was affected by various challenges. As always, the customer offering came into focus at the board meetings and during the year there was a review of follow-up and results for the various areas of the business plan and its goals. This included each brand, the store portfolio, continued combination and integration of the store and online sales channels, and the supply chain, with tech and sustainability aspects being considered in all areas. The sustainability work and tech are discussed often within the board since they form an essential foundation for achieving the company's ambitious targets.

Other examples of subjects discussed during the year were cybersecurity, geopolitical challenges, future ways of working etc.

Examples of the brands/functions of the business that presented their work to the board during the year were: H&M brand, portfolio brands, business ventures, sustainability, business tech, customer insight, supply chain and expansion/store portfolio.

At each board meeting the chair of the audit committee reports to the board on what the audit 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. All significant risks are then discussed at the subsequent board meeting. 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 and sustainability report, with the auditor also reporting on the year's audit.

As every year, also in 2021 the board took various decisions such as: issuing a sustainability-linked bond for EUR 500 million in order to contribute to our goal to become net-zero; proposals for remuneration guidelines of senior executives that were presented for resolution at the 2021 AGM; the remuneration report that was also presented to the 2021 AGM; a proposed dividend of SEK 6.50 per share and convening an extraordinary general meeting on 28 October 2021 for a resolution on the dividend proposal; decisions concerning the financial statements; an updated finance policy; as well as decisions on the investment plan, growth plan and targets.

At the board meeting held in January 2021 the board of directors decided that the company'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 49–50), once a year the board assesses the need for a separate internal audit function. In 2021 the board again reached

the conclusion that the present model for monitoring internal control is satisfactory.

Ahead of the AGM the board presented a remuneration report for 2020 in accordance with the Swedish Companies Act and the Remuneration Rules issued by the Swedish Corporate Governance Board. The remuneration report describes how the guidelines for remuneration in H&M adopted at the 2020 AGM were applied in the 2020 financial year. The remuneration report for 2020 can be found on hmgroupp.com/annual-general-meeting-2021/.

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 AGM's, and it is the board that decides on the CEO's salary in accordance with the guidelines most recently adopted at the general meeting. The board continually assesses the CEO's work and once a year discusses this matter separately in conjunction with the setting of the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

The board continually evaluates its work, and the chair of the board is in regular contact with the board members between meetings as part of the board's work and its evaluation process. Among other things this evaluation covers working methods, the working climate, wishes and 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 how the board works and also forms a basis for the work of the nomination committee.

5. AUDIT COMMITTEE

The audit 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 audit committee to report on their scrutiny of H&M's annual report and financial statements, including the consolidated financial statements.

The audit 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 audit 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 audit committee also assists the nomination committee with any proposals to the AGM concerning the election of auditors.

The audit 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 audit 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 2021 AGM, the audit committee has consisted of chair Christian Sievert and members Anders Dahlvig and Erica Wiking Häger. The committee held four meetings at which minutes were taken during the 2021 financial year.

In addition the committee participated in meetings with the organisation and potential auditors in the selection process for a new auditing firm from the 2021 financial year.

E&Y and Deloitte attended the minuted audit committee meetings to provide debriefs on the auditing work. The meetings were also attended by, among others, the CFO, the chief accountant and the head of corporate governance. The committee's meetings are minuted and the minutes are then distributed to all board members.

During the year the audit 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, 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.
- Follow-up of the procurement process for new accounting firm.
- Follow-up in the area of privacy (including GDPR).
- Follow-up of human rights policy.
- Deloitte informed the committee of the audit plan, the scope of the audit and the results of scrutiny carried out.
- Review of the auditors' independence and impartiality. The audit committee finds that it is clear which assignments Deloitte 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 three board members and three 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 and further integration of the store and online channels, and digital development. The CEO reports to the board on H&M’s development and makes the necessary preparations for taking decisions on investments, expansion etc. The role of CEO includes contact with the financial market, the media and the authorities.

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.

By the end of the financial year 2021 Helena Helmersson held 6,570 shares in H&M. She also held 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.

8, 9. ORGANISATION AND MANAGEMENT

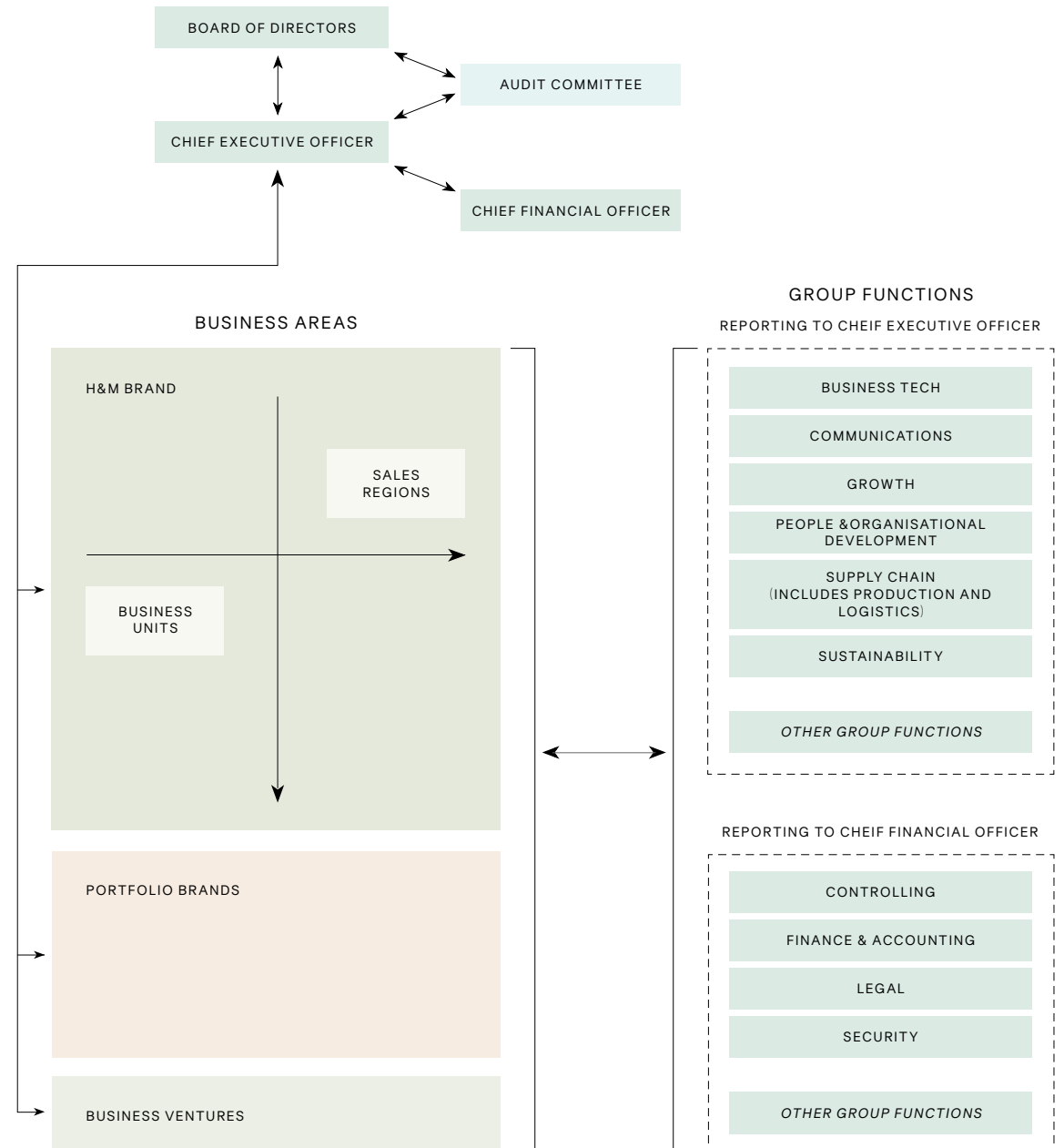
H&M has a multi-brand matrix organisation with the following brands: the H&M brand which includes the H&M HOME brand and the portfolio brands consisting of the brands COS, Weekday, Monki, & Other Stories and ARKET. The group brands also

includes the brands under our Business Ventures, which includes among others Afound, Treadler, Singular Society, Creator Studio and majority owned Sellpy. Each brand has its own organisation and managing director, and all the well-established brands have their own local or regional 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 H&M and appoints the members of the executive management team. In addition to the CEO, as of 30 November 2021 the executive management comprised 14 (14) 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 person with responsibility for Business Tech, the CTO 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.

The H&M group’s matrix 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 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. The Code of Ethics, signed by all employees doing business with suppliers, is 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. The document "Our way" has existed for a number of years (previously named "The H&M Way"). The document summarises how values, policies and guidelines come together to ensure the business is carried out in an ethical, responsible, sustainable, and transparent way. "Our way" is intended for all colleagues within all brands and functions of H&M, as well as external stakeholders. Read more about "Our Way" on [hmgroup.com/about-us/our-way/](https://www.hmgroup.com/about-us/our-way/).

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

- The division of accountability between the board of directors, the audit committee and the CEO, which is clearly described in the board's formal rules of procedure. The executive management team and the audit committee report regularly to the board according to established routines.
- The company's organisational structure.
- Values and guidelines, as well as policies and manuals.
- Control activities, checks and balances, analysis, reporting.

H&M has a matrix organisation (see page 48), which means that those responsible for the joint group functions are responsible for the efficiency of work within their function at each brand. Each brand has its own organisation and managing director, and all the brands have their own local or regional 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 subsidiaries 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

Operational and financial risks are continuously analysed by all brands and group functions. This risk review and assessment identify the systems, methods and controls that are in place to minimise any impact of the risks. The suggested risk acceptance or mitigation is evaluated quarterly in collaboration with the corporate governance function for the most significant risks.

An updated climate risk analysis according to the guidelines issued by the Task Force on Climate-related Financial Disclosures (TCFD) was carried out during 2021, see page 72. The first TCFD analysis was conducted in 2019.

At the end of 2021 the group's main risks were summarised to the audit committee and was subsequently discussed by the board.

For a description of H&M's operational risks, see the administration report on pages 56–58. For risks within financial reporting, see also the administration report on pages 58–59 and note 2, Financial risks, on pages 86–87 of the annual and sustainability report for 2021.

CONTROL ACTIVITIES

There are a number of control activities built into every process to ensure that the business is efficient and that financial reporting provides a true picture. The control activities, which aim to prevent, find and correct inaccuracies and non-compliance, are at all levels and in all parts

of the organisation. Within H&M the control activities include effective control and analysis of sales statistics, account reconciliation, monthly accounts and financial reports.

Internal control measures in the Business Tech function also includes internal control on systems relating to financial reporting. These financial systems are also reviewed by an external party in cooperation with 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 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 and sustainability 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](https://www.hmgroup.com)

MONITORING

In 2021 the central functions 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. Still during 2021 as during

2020 the Covid-19 pandemic had an impact on internal control; all functions that usually travel to countries to carry out internal control undertook control activities remotely instead.

The work resulted in a plan of action for each central function 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 central 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 and regions are working in line with company guidelines. The assessment of internal control also allows each sales country and region to provide valuable and constructive feedback to the central function regarding where there is room for improvement. An important part of the internal control work is the feedback to the regional and country management, which the central function provides.

Additionally, within the production organisation additional control and monitoring activities are brought together in the internal Routine Handbook for Production. These routines are related to how H&M ensures that the company does business in an ethical and transparent way. Most of these 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.

The board of directors and the audit committee continuously evaluate the information provided by the executive management team, including information on internal control. The audit 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 Code, during the year the board assessed the need for a specific internal audit process. 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, Business Tech, Communications, Security and Supply Chain (including Logistics and Production) apply in the subsidiaries, as well as the work carried out in stores by internal process responsible from the local security departments, 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 2022.

Stockholm, March 2022

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/corporate-governance](https://www.hmgroup.com/corporate-governance). The next two pages contain information about the board members.

The board of directors



KARL-JOHAN PERSSON

Chair of the board.

Born 1975.

Primary occupation

Chair of the board of directors 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– Chair 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, Carlssons Skola, Handelsbanken and also board member of Tele2. 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 audit committee.

Born 1957.

Primary occupation

Board assignments.

Other significant board assignments

Chair 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 chair of the audit 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.



ERICA WIKING HÄGER

Board member and member of the audit 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.

Other significant board assignments

Chair of the board of Mannheimer Swartling Advokatbyrå AB.

Education

Master of Laws from Uppsala University, LL.M. from Harvard Law School in the US.

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 chair at branding and communications agency Patriksson Group AB.

Other significant board assignments

Member of the boards of Elite Hotels, Wanås Art Foundation, Jeanerica AB and Maria Nilsson AB. 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 chair, 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.

**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.

Position
Sales advisor, H&M Karlskrona. Helena Isberg left her employment at H&M on 8th December 2021, as well as her deputy employee representative assignment.

—

Agneta Gustafsson was elected as new deputy employee representative in March 2022.

Born 1969.

Employed since 1988.

Current position
Sales advisor, H&M Jönköping.

**LOUISE WIKHOLM**

Deputy employee representative, on the H&M board from 2021.

Born 1980.

Employed since 2014.

Current position
Project Manager, Customer Activation & Marketing H&M.

**TIM GAHNSTRÖM**

Employee representative, on the H&M board since 2021.

Born 1979.

Employed since 2015.

Current position
Solution Architect (Business Tech).

**HAMPUS GLANZELIUS**

Deputy employee representative, on the H&M board from 2021.

Born 1977.

Employed since 2011.

Current position
Business Controller, MONKI.

**MARGARETA WELINDER**

Employee representative, on the H&M board since 2007.

Born 1962.

Employed since 2000.

Current position
Omni buyer, H&M.

Auditor's statement

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the financial year 2020-12-01-2021-11-30 on pages 39-52 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's standard RevR 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement 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 opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 25, 2022

Deloitte AB

Didrik Roos

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 2020 to 30 November 2021, hereinafter referred to as the 2021 financial year. Any references made to “H&M”, “H&M Group” and “the company” in this administration report refers hereinafter to H & M Hennes & Mauritz AB (publ).

BUSINESS

The H&M group is a customer-focused, creative, value-driven, 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 sales channels are well integrated to provide a consistent, seamless and inspiring customer experience when, where and how customers choose. In certain markets products are sold via franchise partners.

Apart from the group's main brand H&M which includes H&M HOME, the group also includes the portfolio brands COS, Weekday, Monki, & Other Stories and ARKET. In addition to this the company also has a division named business ventures with

a number of initiatives. The group's business ventures mission is to build scalable businesses based on new business models and partnerships, engage with customers in new ways and create added customer value. This way the ventures will drive new revenue streams, and are an important part of delivering sustainable growth for the H&M group. Examples of business ventures are Afound, Treadler, Singular Society, Creator Studio and majority-owned Sellpy.

Each of the group's brands has its own unique identity. Together they offer a variety of trends and styles at various price points within fashion, beauty, accessories and homeware.

The H&M group's aim is to make fashion and design accessible to everyone in a way that is good for people, the planet and the business. The brands offer various products and services based on circular business models and in the collections the percentage of recycled and other more sustainably sourced materials is increasing.

Each brand has their own design and buying function. Teams consist 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 majority-owned Sellpy is an e-commerce platform for second-hand sales with a business model that makes it easy for customers to buy and sell used items. On top of that, the group's investment arm CO:LAB invests in start-ups that develop technical innovations that can lead the industry towards a more circular and sustainable future which also includes reaching the group's sustainability goals. For more information see pages 15–36.

Earnings and financial position — another year marked by the Covid-19 pandemic

Development in 2021 was like the previous year impacted by the negative effects of the Covid-19 pandemic. As a result of the H&M group's transformation work and many years of investments, the company proved to be well equipped to handle the great challenges that the Covid-19 situation brought and showed great resilience to what can only be described as an unprecedented challenge for the industry. The H&M group acted with the safety of employees and customers as its top priority.

A range of strong measures were implemented to mitigate the severe adverse effects of the

FIVE YEAR SUMMARY

FINANCIAL YEAR	2021	2020	2019 ¹	2018 ¹	2017 ¹
Net sales, SEK m	198,967	187,031	232,755	210,400	200,004
Operating profit, SEK m	15,255	3,099	17,346	15,493	20,569
Operating margin, %	7.7	1.7	7.5	7.4	10.3
Profit after financial items, SEK m	14,300	2,052	17,391	15,639	20,809
Operating cash flow per share, SEK	26.96	15.65	17.51	12.86	13.04
Return on equity, %	19.2	2.2	23.3	21.4	26.8
Equity/assets ratio, %	33.4	31.3	47.4	49.3	56.0
Average number of employees	107,375	110,325	126,376	123,283	120,191

¹ Excluding IFRS 16.
For definitions of key performance measures see page 111.

pandemic. These encompassed all parts of the business, including product purchasing, investments, rents, staffing and financing, as well as the receipt of government support. Since the footfall to stores has been negatively impacted by the pandemic, increased focus has been put on the digital sales channels and thus the customer offering remained available to customers. Demand for the group's collections was high and the rapid online growth partly compensated for the drop in store sales.

After a small loss in the beginning of the year due to the pandemic, the company returned to profit in the second quarter of 2021. The gradual recovery continued in the third and fourth quarter. 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 H&M group's online sales increased by 30 percent in local currencies during the year and accounted for 32 percent of total sales. The H&M group's net sales and profit after financial items amounted to SEK 198,967 m (187,031) and SEK 14,300 m (2,052) respectively 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 75–78.

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 long-term and profitable growth while at the same time reducing the company's climate impact. Together with sound and sustainable finances, in line with the H&M group's goal of a strong capital structure with good liquidity and financial flexibility, allows continued freedom of action for growth and investments. By 2030 at latest the H&M group is to double sales while at the same time halving its carbon footprint. Profitability is to exceed 10 percent over time.¹

Growth and expansion through integrated channels

The H&M group continues to expand with a focus on increased omni-channel sales. The majority of the customers around the world can now shop at H&M in both physical and digital stores. In 2021 H&M opened in Panama via franchise. The roll-out of H&M online continued during the year to Chile and to Qatar via franchise. H&M was also launched on the e-commerce platform Zalora in Indonesia, the Philippines, Malaysia and Singapore. Monki was also launched on Zalora in the Philippines. & Other Stories was launched on The Yes and on Nordstrom online in the US. In addition, Weekday

was launched on Thread in the UK and AboutYou in 23 markets in Europe, and ARKET at The Hyundai Korea. COS opened its first stores in Estonia, the Philippines and Greece. & Other Stories opened its first store in Mainland of China, and also via franchise in Israel. In addition, ARKET opened the doors of its first stores in South Korea and Mainland of China. The second-hand platform Sellpy was launched in an additional 22 markets and is now available in a total of 24 markets in Europe.

In the 2021 financial year the H&M group opened 104 (129) stores and closed 321 (187) stores, making a net decrease of 217 (58) stores. The group had a total of 4,801 (5,018) stores as of 30 November 2021, of which 273 (269) were operated by franchise partners. The breakdown of the stores is as follows: 4,242 H&M, 275 COS, 98 Monki, 78 & Other Stories, 57 Weekday, 24 ARKET.

In 2021 the H&M group renegotiated a large number of 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 the best store portfolio in each market. The H&M group's contracts allow around a third of leases to be renegotiated or exited each year.

In December 2021 ARKET opened its first store in Russia, & Other Stories launched on Yoox.com and COS launched online in Saudi Arabia via franchise. For 2022 the plan is to open around 120 new stores and close around 240 stores, making a net decrease of around 120 stores. Most of the openings will be in growth markets, while the closures will mainly be in established markets. H&M will launch in six new markets in 2022: the

first stores will open in Ecuador, Kosovo and North Macedonia, and via franchise in Costa Rica, Guatemala and Cambodia. & Other Stories will launch in Singapore and ARKET will open its first store in France in the second half of 2022. The roll-out of H&M online continues in 2022. Planned markets are Colombia and Peru, among others. In 2022 COS will launch online in Australia, and via Zalora in the Philippines. Monki will be launched on AboutYou, and on Zalora in Singapore and Malaysia.

Employees

The H&M group's business is characterised by a fundamental respect for the individual. All employees are treated equally with respect and dignity, and they are empowered to be who they want to be. The group offers decent, meaningful jobs with fair compensation and benefits in healthy, safe, fair, and inclusive workplaces free from discrimination, where everyone has the right to freedom of association.

The H&M group's values have guided employees since the day that the company was founded, and they continue to support the business today. The values influence how employees act, learn, develop, grow with the company, and contribute to creating workplaces where people and business thrive.

Along with the values, the group's culture and empowering leadership are actively and consciously integrated throughout the entire organisation. This supports the mindsets and

¹The baseline for the sales goal is 2021. The H&M group's goal is to reduce its carbon footprint in absolute figures by 56 percent by 2030 (baseline 2019) in accordance with our commitment at COP26. Profitability refers to operating profit in relation to sales. The ambition is to achieve the profitability target no later than 2024. The group's target to increase sales by 10–15 percent per year with continued high profitability remains a long-term target.

behaviours needed to stay ahead and remain relevant in a constantly changing world.

Digitalisation and new customer behaviour continue to change the H&M group's competitive situation and increase the complexity of the business. In response to this shift in the industry, the company is and has been doing transformation work. This work encompasses all parts of the company and includes, among other things, a competence shift, regionalisation of the organisation, development of new and agile ways of working, and the establishment of cross-functional teams to improve efficiency and make faster decisions closer to the customer.

Employees at the H&M group connect and collaborate within teams and across brands and functions as a way of creating synergies and increasing customer value. To attract, develop, and retain talent, the company continually works to develop its leadership and employees' competences and skills. This is done in inclusive and diverse environments that promote equality for all, regardless of factors like gender, age or ethnicity.

At the end of the financial year, the H&M group had approximately 155,000 employees. The average number of employees in the group, converted into full-time positions, was 107,375 (110,325), of which 10,540 (10,214) were employed in Sweden. Of the average number of employees, around 74 percent were women and 26 percent were men. Of those in positions of responsibility within the company, such as store managers and country managers, 71 percent are women and 29 percent men.

EVENTS AFTER THE CLOSING DATE

The H&M group has since 24 February 2022, temporarily closed all stores in Ukraine for the safety of customers and colleagues. As of 30 November 2021 the H&M group had in total 428 employees and 8 stores in Ukraine, and sales amounted to around 0.2 percent of the H&M group's total sales for the financial year. As communicated on 2 March 2022, the H&M group has temporarily paused all sales in Russia and Belarus. As of 30 November 2021 the H&M group had 168 stores in Russia and 3 stores in Belarus. The total number of employees was 6,910 in Russia and 169 in Belarus. Converted into full-time positions, see note 8, Average number of employees. Sales in Russia amounted to around 4 percent of the H&M group's total sales for the financial year and in Belarus to around 0.1 percent of total sales for the financial year. There is a continued uncertainty concerning the development and the company is monitoring and evaluating the situation continuously.

RISKS AND UNCERTAINTIES

H&M Group has an entrepreneurial approach to business development. Launching new initiatives and business ventures makes it necessary to accept business risks to some degree.

Operational risks are the business risks together with events in the outside world which affect a certain sector or market or a brand in the group. Financial risks are risks related to the use of economic funds and financial resources.

Operational risks and financial risks are continuously analysed and the risk acceptance or

mitigation is evaluated quarterly by all brands and group functions for the most significant group risks.

It is always a business impact evaluation which determine whether an action is to be taken to reduce the likelihood of a risk and if so, to what extent. Business decisions also determine the extent to which the consequences of a risk should be mitigated.

There are external risks and uncertainties affecting the H&M group that are related to the shift in the industry, fashion, competitors, logistics resources, information security and cybersecurity, sustainability issues, weather, macroeconomics and geopolitical events, pandemics, foreign currencies, taxes, and various regulations and ordinances.

A description of the H&M group's operational and financial risks is given in the sections below, with more detailed information concerning financial risks being given in note 2, Financial risks.

The H&M group's overall approach to risk management and internal control is described on pages 49–50 in the corporate governance report. The description includes how the H&M group works according to the COSO and TCFD frameworks and salient human rights risks.

OPERATIONAL RISKS

During 2021 there was an increase in the ratio of risks related to external events risk compared to business risks. An example apart from Covid-19 is the challenges for transport networks with for

instance port congestions and higher freight rates. For a number of years society has been influenced by the growing digitalisation rapidly changing customers' both shopping habits and their increased expectations on the shopping experience. More and more purchases are being made online from both mobile and computer platforms, which have become an increasingly 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. 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 in 2020 when the Covid-19 pandemic made even more customers start shopping online, and that trend towards a higher percentage of online shopping has continued during 2021. As the competitive landscape is redrawn by new business models and players, profitability in the industry has been impacted by increased competition.

The Covid-19 pandemic in 2020 and 2021 has made the group's brands and functions work hard to manage challenges within cost levels, supply chain and the customer experience, while still delivering without compromising on the business idea of the group's brands: Fashion and quality at the best price in a sustainable way. For the H&M group the importance of having good risk mitigation plans and issue management and crisis management capacity has been accentuated by the pandemic.

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 live up to the high ambitions set out in its policies and guidelines on business ethics and that anyone involved in the business has good knowledge, insight and procedures with respect to the production of its products. It is also crucial that the H&M group can reach its goals and ambitions which the group has set within the area of sustainability. Should the H&M group not live up to these, 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. An increasing degree of accuracy in purchasing decisions and volumes will help reduce overall

resource consumption and create a more sustainable and circular business model.

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. The new capability in the organisation to create regional and local customer offerings has been further developed to meet this demand.

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 risk analysis has shown that climate change may have further effects on the conditions for producing and distributing products in certain regions and countries. The increasing effects of climate change mean that these variations will likely 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 rising inflation, 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. Future markets where an H&M Group brand become established may have an increased risk of political instability or corruption.

Uncertainties also exist concerning how fluctuations in external factors such as the price of raw materials, 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. Climate change and its impacts has been identified as one of the company's most significant risks. Other main risks identified include shortage of natural resources, 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 pages 63–74, and particularly pages 72–74 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 developing its organisation and way of working in all channels with the aim to improve its capability and its capacity to have a more relevant and attractive customer offering than its competitors.

Information security and cybersecurity

All companies are exposed to various types of risk related to information technology. The risks

to which the H&M group is exposed to in this area are generically applicable to any large company, and especially to large companies that also trade online. These risks include 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 continuously. Continual investments, adjustments and improvements are made to the organisation, systems, procedures and subcontractors in order to dealing with security risks in the best way possible.

Data protection and GDPR

The H&M group works actively with privacy risks to protect customers' and employees' data to safeguard the customer experience and the confidence with all employees.

As legislation in some jurisdictions could lead to significant administrative fees a central team provides central support and guidance on privacy risks, data protection issues, new privacy legislations across countries relevant to H&M Group. Additionally, a central team in business tech provides central support and guidance on how to use artificial intelligence in an ethical way.

Each regional organisation has coordinators tasked with ensuring that the framework established by the central organisation is implemented. Compliance with the framework is continuously governed by the central team and reported quarterly to an oversight steering committee.

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 are hedged under forward contracts on an ongoing basis to the companies H & M Finance AB and H & M Hennes & Mauritz GBC AB.

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 (the European Union) 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 pro-actively 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 World Trade Organisation (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 hmgroupp.com/about-us/corporate-governance/policies, 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 246,424 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 604,856,427 class B shares, representing 17.8 percent of the votes. In addition, the family privately own 36,400,289 class B shares. This means

that as of 30 November 2021, Stefan Persson and family privately and via Ramsbury Invest AB represent 75.9 percent of the votes and 50.5 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

H&M has elected to present its corporate governance report as a separate document to the annual report in accordance with chapter 6 § 8 of the Swedish Annual Accounts Act. The corporate governance report is available at [hmgroup.com/investors/reports/](https://www.hmgroup.com/investors/reports/) and on pages 39–52 of the annual and sustainability report.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The annual general meeting held on 6 May 2021 adopted the following 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 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.

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 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 December 2020–30 November 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 three and the remuneration in year five 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.

PROPOSAL TO THE 2022 AGM

The board is proposing to the 2022 AGM that no changes are made to the guidelines for remuneration of senior executives.

FINANCING AND LIQUIDITY

The H&M group aims to secure financial flexibility and freedom of action on the best possible terms. As previously, the efforts focus on continued improvements in working capital, cash flow and more efficient financing.

Cash flow and working capital

Cash flow from operating activities in the full-year amounted to SEK 44,619 m (25,900). Excluding IFRS 16 cash flow from operating activities amounted to SEK 32,304 m (11,726).

The cash flow is a result of positive development in sales and earnings and of improvements in working capital achieved by decreasing inventories and by streamlining invoice management and payment processes.

Liquidity and debt financing

The H&M group's liquidity remains very good. As at 30 November 2021 cash and cash equivalents amounted to SEK 27,471 m (16,540). In addition, the group has undrawn credit facilities of SEK 15,178 m (30,055). The total liquidity buffer, i.e. cash and cash equivalents plus undrawn credit facilities, amounted to SEK 42,649 m (46,595).

As at 30 November 2021 the group had interest-bearing liabilities of SEK 9,614 m (16,332) in the form of commercial papers, bonds and loans from credit institutions. The average maturity of interest-bearing liabilities was 5.6 (2.1) years. The financial net cash amounted to SEK 17,857 m (208).

A maturity analysis of outstanding interest-bearing liabilities and undrawn credit facilities is given in the table in note 2.

The following significant events took place during financial year 2021.

- To secure access to the bond market on the best possible terms, a credit rating from Standard & Poor's was obtained. The rating is BBB with a stable outlook.
- The H&M group issued its first sustainability-linked bond. The amount was EUR 500 m with a term of 8.5 years and an annual coupon rate of 0.25 percent. The bond generated great interest and was 7.6 times oversubscribed.

- The revolving credit facility opened in April 2020 for EUR 980 m was closed.
- Interest-bearing liabilities decreased by SEK 6,718 m to SEK 9,614 m (16,332).

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. It should not exceed 1.0 x EBITDA over time. Net debt/EBITDA excluding IFRS effects was -0.7 (0.0) as at 30 November 2021.

IFRS 16 Leases, which is being 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. The company considers this to provide a clearer picture 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 continued strong financial position and freedom of action. Based on this, the board of directors has proposed a dividend policy stating that the ordinary dividend over time is to 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.

In accordance with the dividend policy the board is proposing an ordinary dividend as well as authorisation for a share buyback programme.

Proposed distribution of earnings

The funds at the disposal of the parent company are SEK 20,104 m. The board of directors is proposing to the annual general meeting that a dividend of SEK 6.50 per share is paid, totalling SEK 10,758 m, and that the remaining earnings of H & M Hennes & Mauritz AB of SEK 9,346 m are carried forward. The board's proposed record dates are SEK 3.25 per share on 6 May 2022 and SEK 3.25 per share on 11 November 2022. If the AGM votes in favour of the board's proposal, dividends are expected to be paid out on 11 May 2022 and 16 November 2022

Proposed share buyback programme

The board will also propose to the annual general meeting 2022 that the board is authorised to pass resolutions on the buyback of shares for a total amount of SEK 3 billion in the period up to and including the 2023 annual general meeting. The intention is that the repurchased shares will be withdrawn, thereby reducing the group's share capital. It is intended that the reduction will be met by a corresponding bonus issue so that the level of share capital is restored.

The board's assessment is that the proposed distribution of earnings and the proposed authorisation for a buyback programme is

justifiable taking into consideration the full-year result, the good cash flow, the continued strong financial position and the ability to make future investments (capex). The proposals take into consideration the financial position and continued freedom of action of the group and the parent company, the capital structure target and the requirements that the nature and extent of the business, and its risks, expansion and development plans impose on the group's and the parent company's equity and liquidity.

The board is proposing to the 2022 AGM that a cash dividend of SEK 6.50 per share is paid.

The following funds are at the disposal of the annual general meeting

	SEK 20,104,090,638
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The board proposes a dividend to the shareholders of SEK 6.50 per share

	SEK 10,757,968,000
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To be carried forward as retained earnings

	SEK 9,346,122,638
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Total	SEK 20,104,090,638
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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 2020 to 30 November 2021.

The Statutory Sustainability Report contains the necessary information to provide an understanding of the 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 company's value chain, including climate and the environment, working conditions, inclusion and diversity, respect for human rights and anti-corruption measures.

Indicators marked * have been reviewed or partially reviewed by the company's auditors through a limited assurance process— the scope is confirmed with footnotes in relevant data tables.

SUSTAINABILITY STRATEGY

H&M Group's sustainability strategy is built on the vision to lead the change towards a circular and climate positive fashion industry while being a fair and equal company. Through our strategy, we support progress towards the UN Sustainable Development Goals and Agenda 2030. Find further detail on policies, strategies and performance in our Sustainability Disclosure, which supplements this report, and in our Global Reporting Initiative (GRI) index at hmgroup.com/sustainability.

Investments in sustainability provide H&M Group with long-term business opportunities in a rapidly changing world. See page 6 for detail of our business model and see page 24 for the business opportunities connected to more sustainable and circular fashion and lifestyle.

Our strategy guides our work to uphold human rights. It also guides how we play our part in tackling climate change, natural resource depletion and social inequality – among other risks to our business, the planet and people connected to our value chain. Find details of our operational risks on pages 56–58, our climate-related risks in our reporting against Task Force on Climate-related Financial Disclosures (TCFD) recommendations on page 72–74, and our risks to people in our Salient Human Rights Issues analysis at hmgroup.com/sustainability.

Transparency enables informed decisions by the company and by our stakeholders. Read about H&M Group's commitment to transparency on page 16.

OUR VALUE CHAIN

Through our value chain – the full range of activities it takes to design, produce, transport, market, sell, use, reuse and recycle our products – the company is connected to countless people, communities, ecosystems and other businesses around the world. We aim to maximise positive impacts while minimising negative ones, by

making business decisions that live our values and contribute to our long-term goals. In particular, we work to secure human rights, promote fair jobs, inclusion and diversity, and reduce resource use and impacts on climate, water and biodiversity.

Our value chain includes the following stages:

- Design and product development
- Raw material sourcing
- Material production and processing
- Product processing and manufacturing, which includes apparel, footwear, home, furniture, beauty, accessories and packaging
- Transport and warehouse operations
- Sales
- Product use and reuse.

We work with approximately 600 commercial product suppliers for the H&M brand and Portfolio brands. These suppliers operate 1,209 manufacturing factories and final product processing units (collectively called supplier factories) for apparel, footwear, accessories, home interior, furniture and beauty. H&M Group has 16 production offices across major sourcing markets, and we have 4,801 stores in 75 markets and 54 online markets.

SUSTAINABILITY GOVERNANCE

Structures and accountability

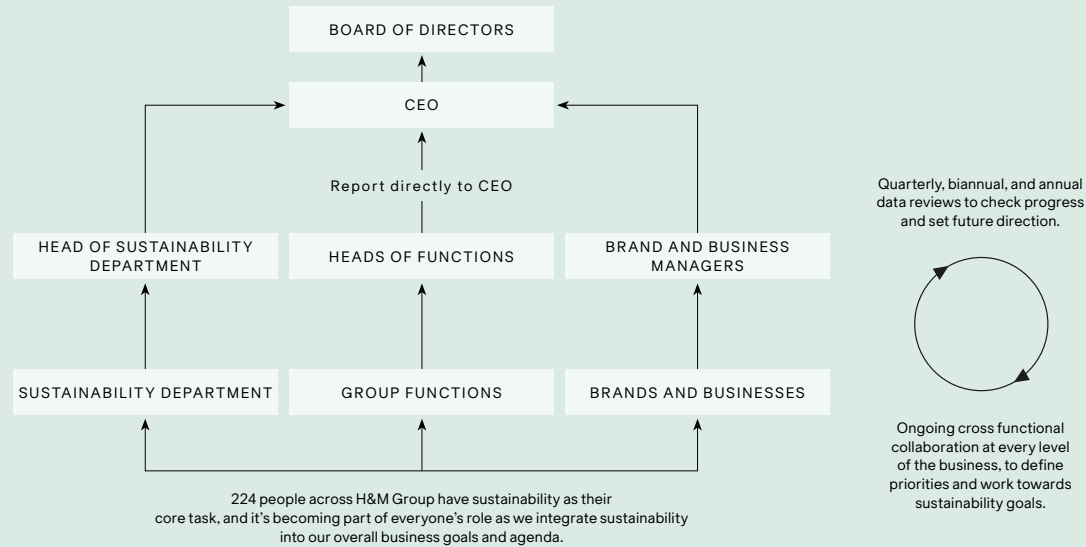
Implementation of the company's sustainability vision and strategy is the responsibility of the head of sustainability together with the executive

management team. The head of sustainability and each function and brand reports directly to the CEO, creating visibility of sustainability key performance indicators (KPIs). Twice yearly, the head of sustainability reports a performance overview to the board of directors. For further detail on our corporate governance, see page 39.

Accountability for implementation and performance against our strategies, policies and goals is integrated into respective business functions and brands, and part of their performance review with our CEO. Business functions and brands are supported by a team of 31 experts and five managers in our global Sustainability Department, in order to achieve the best possible impact. As part of this, we work continuously with external stakeholders to ensure material issues are incorporated into the company's strategies and procedures. Every quarter, Sustainability Department teams report progress against the sustainability KPIs, key challenges, learnings and activities to facilitate visibility of impacts, achievements and challenges across functions, brands and markets.

In total, 224 people across the group have sustainability as their core task, and it is increasingly becoming part of everyone's role as we continue to integrate sustainability into our overall business goals and agenda.

Sustainability governance diagram



Supply chain management

It is compulsory for all suppliers and business partners supplying or acting on behalf of the company to sign our Sustainability Commitment and Code of Ethics, which state the group's minimum requirements and our expectation to go beyond these. The Code of Ethics also outlines a zero-tolerance policy on corruption and requires business partners and employees to comply with relevant legislation as well as our own business principles.

Our Sustainable Impact Partnership Programme (SIPP) monitors compliance against our standards, measures performance, supports suppliers' due diligence procedures, and encourages improvements. As part of SIPP, supplier factories are assessed against tools developed by the Sustainable Apparel Coalition together with the industry, academia, NGOs and others. These tools are the Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM). Our goal for 100 percent verification of FEM and FSLM assessments by October 2021 has been delayed

by Covid-19 preventing onsite verification in most countries. See below for supplier SIPP, FEM, FSLM coverage, third-party verification coverage, and FEM scores. An industry scoring tool for FSLM is not yet available.

Our Sustainability Index, which is part of how the company recognises and rewards high-performing suppliers with better business prospects, includes consideration of suppliers' SIPP results and performance data.

Read about how we work with suppliers and our supply chain performance in our Sustainability Disclosure at hmgroup.com/sustainability.

SUPPLIER COVERAGE OF SIPP, FEM, FSLM AND VERIFICATION IN 2021

Applies to apparel and footwear suppliers. For our home textiles, furniture, beauty and accessories suppliers the company applies a separate approach, utilising minimum requirement audits and follow-up procedures.

	2021
SIPP (Sustainable Impact Partnership Programme)	
Tier 1 apparel and footwear supplier factories that have implemented SIPP	100%
Tier 2 dyeing and printing supplier factories that have implemented SIPP	100%
FEM (Higg Facility Environmental Module)	
Tier 1 supplier factories that have implemented FEM (and % coverage)	894 (99%)
Tier 2 supplier factories that have implemented FEM (and % coverage)	337 (92%)
Tier 1 third-party verifications for FEM (verifications November 2020–April 2021)	98%
Tier 2 third-party verifications for FEM (verifications November 2020–April 2021)	98%
FSLM (Higg Facility Social and Labor Module)	
Tier 1 supplier factories that have implemented FSLM (and % coverage)	883 (98%)
Tier 2 supplier factories that have implemented FSLM (and % coverage)	332 (90%)
Tier 1 third-party verifications for FSLM (verifications June–July 2021)	96%
Tier 2 third-party verifications for FSLM (verifications June–July 2021)	94%

FEM¹ SCORES – PARTICIPATING TIER 1 AND 2 SUPPLIER FACTORIES

	2021	2020	2019
Overall score (out of 100) ²	57	52	47
<i>Based on the combined average for:</i>			
Energy	87	82	75
Water use	76	73	62
Emissions	70	59	52
Waste water	67	59	51
Waste management	37	34	31
Air emissions	29	29	30
Chemicals	32	29	27

1) Higg Facility Environmental Module.

2) Average of all active, approved tier 1 and tier 2 factories that have either a verified score or a self-reported score. Scores are based on the previous year's data, e.g. the 2021 overall score is based on 2020 data.

ENVIRONMENT

Risks and opportunities

Environmental risks to our business, value chain, communities and the planet include depletion of natural resources, climate change, biodiversity loss, water impacts, and changing consumption patterns. Many environmental risks are closely connected to risks to people, for example the right to access clean water. Find further detail on our operational risks on pages 56–58 and see our TCFD reporting for climate-related risks on pages 72–74.

With growing customer interest and gradually changing behaviour, we see increasing opportunities to further accelerate investment in circular products, supply chains and customer journeys. This enables us to move towards operating in a more resilient, less resource-intensive way – creating positive impact and more meaningful,

long-lasting relationships with customers by offering services throughout products' life-cycles that increase product value. Piloting and scaling innovative materials and processes, planning accuracy, and new ways to access fashion will further improve the resilience of our business by reducing dependence on limited natural resources. Find further explanation of the company's focus on resource use and circularity in our Sustainability Disclosure at hmgroup.com. See page 24 in this report for how the company connects sustainability to our customer offering.

Strategy and policies

We seize opportunities and manage risks through our sustainability strategy. Our strategy focuses on:

- **Climate positive.** We take a climate positive approach across our value chain, supporting our aims to operate within planetary boundaries

and have a net positive impact on biodiversity.¹ As part of our climate positive approach, we are updating our existing science-based targets to align with the Science Based Targets initiative's recently launched Net-Zero Standard. H&M Group's new internal carbon pricing programme will ensure the company considers carbon emissions when making business decisions.

- **Circular products, supply chains and customer journeys.** We're accelerating a systemic shift in how we design products, work with suppliers, interact with customers, and optimise resource use across our entire value chain for all our commercial and non-commercial goods.² This supports the Ellen MacArthur Foundation's vision for a circular fashion industry³ and is crucial to achieve our climate and biodiversity ambitions.

Find detail on our Circular & Climate Positive strategy in our Sustainability Disclosure at hmgroup.com/sustainability. For detail on related policies and standards, visit hmgroup.com.

1) Our ambition to have a net positive impact on biodiversity is based on the definition of nature-positive in the naturepositive.org paper: A Nature Positive World: The Global Goal for Nature.

2) Non-commercial goods include the packaging and items used in our store interiors, offices and distribution centres.

3) <https://ellenmacarthurfoundation.org/topics/fashion/overview>

CIRCULAR & CLIMATE POSITIVE KPIS

KPI ¹	GOAL	2021	2020	2019
Climate: % absolute reduction (scope 1, 2 and 3) ² in CO ₂ e emissions compared with 2019 baseline.* ^{3,4}	-56% by 2030 ¹⁰	Scope 1 & 2: -22 ⁵ Scope 3: -9 ⁵	Scope 1 & 2: +17 Scope 3: -14	-
Climate: % renewable electricity in own operations*	100% by 2030	95 ⁵	90	96
Water: % reduction in production water use (water intensive tier 1 and 2 suppliers) from 2017 baseline ^{4,7}	-25% by 2022	-10.3 ⁶	-3.8	-5.9
Commercial goods: % of Total recycled or other more sustainably sourced materials used* ⁸	100% by 2030	80.0	64.5	57.1
	Other more sustainably sourced	-	62.1	58.7
	Recycled	30% by 2025	17.9	5.8
Packaging: % of recycled or other more sustainably sourced materials used ⁴	100% by 2030	68 ⁹	89	-

*Reviewed by the company's auditors through a limited assurance process. The limited assurance process includes: all scope 1 and 2 emissions; scope 3 emissions for transportation and garment production; renewable electricity; all cotton data (apart from in-conversion cotton); and data for our top three recycled materials.

1) In 2021, the company updated the selection of KPIs reported in this statutory report to provide a more meaningful overview of our key environmental focus areas. In future years, we will expand this list to include new KPIs related to our focus on circularity and resource use reductions. We continue to report KPIs and data on chemicals, cotton sourcing and packaging reduction in our Sustainability Disclosure at hmggroup.com/sustainability.

2) Scope 1 emissions are all direct emissions from our own operations; scope 2 represents indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations; scope 3 includes other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in scope 2, outsourced activities, and waste disposal. Includes emissions related to raw materials, fabric production, garment manufacturing, non-garment/non-commercial goods, and customer electricity usage. Scope 1 and 2 limitations and comments: only stores open for the full quarter are included; company cars and refrigerant leakage are not included; electricity consumption includes both actuals and estimations, where estimations are made if store actuals not received within the reporting deadline; estimates are based on previous consumption, opening hours and store area; includes market-based emissions from electricity. Scope 3 limitations and comments: franchise emissions are calculated based on electricity intensity from comparable markets; capital goods, upstream leased assets, downstream leased assets, and processing of sold products are not included; upstream transportation is included in emission factors for materials. Scope 1 and 2 emissions factors: electricity – based on IEA data from CO₂e Emissions from Fuel Combustion © OECD/IEA 2020, www.iea.org/statistics, licence www.iea.org/t&c; as modified by UL E&S; fuels – Department for Business, Energy & Industrial Strategy (BEIS), 2021 <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021>. Scope 3 emissions factors: raw material and fabric production – Higg MSI; garment production – electricity based on IEA data from CO₂e Emissions from Fuel Combustion © OECD/IEA 2020, www.iea.org/statistics, licence www.iea.org/t&c; as modified by UL E&S; fuels – 2018 update <https://www.epa.gov/climateleadership/center-corporate-climate-leadership-ghg-emission-factors-hub>; other expenditures – Defra, 2014, Indirect emissions from the supply chain; transport by rail, air, shipping, truck – emissions factors provided by Conlogica and NTM 2019.

3) Scope 1 and 2 emissions data for 2020 and earlier did not historically include district heating (scope 2) and natural gas (scope 1) for stores in Germany. We have therefore restated scope 1 and 2 figures this year to include these additional emissions. For the years 2020 and earlier, the additional data for stores in Germany cover the calendar year January to December rather than the financial year. For 2021, all emissions including the additional data from Germany cover the reporting period September 2020 to August 2021. Read more about changes to our scope 1, 2 and 3 emissions reporting at hmggroup.com/sustainability/sustainability-reporting/how-we-report/

4) New KPIs introduced in 2021. See footnote 1.

5) We use a shifted reporting year for energy and GHG emissions, covering the period September–August.

6) Q4 2021 data are not confirmed at the time of reporting. This figure is based on Q1–Q3 2021 data.

7) Includes manufacturing, fabric dyeing and printing suppliers in both tier 1 and tier 2 with water intensive wet production, based on performance data, reported by facility and calculated using weighted averages for litre per kg of dyed knitted fabric, litre per meter of woven/denim fabric, and litre per unit of product washed. We have updated our weighted average efficiency calculation this year by factoring in the water consumption for specific products, how much of each product is produced, and the water consumed by facility, country, region and globally. This gives us a more accurate picture of water efficiency improvement and has led to changes in our historic performance data.

8) Based on season 3 and season 4 data for 2021. Includes all shell materials – does not include materials used as filling, lining or trims on garments. Read about how we define sustainably sourced for different raw materials in our material categorisation at hmggroup.com/wp-content/uploads/2021/11/HM-Group-Material-Categorisation-2021-1.pdf

9) This year's reduction in recycled or other sustainably sourced packaging material is linked to improvements in our data collection process.

10) To align with the Science Based Targets initiative's requirements, the customer use phase is not included in the scope 3 part of this goal. We will set a separate goal for the customer use phase.

Performance

The Circular & Climate Positive KPI table (left) features indicators selected to offer an overview of our performance. Here, we share additional detail:

- The company continued to work with a climate positive approach:
 - Our scope 1 and 2 emissions decreased by 22 percent, compared to our 2019 baseline (a decrease of 34 percent compared to last year) and our scope 3 emissions decreased by 9 percent, compared to our 2019 baseline (an increase of 6 percent compared to last year). The scope 1 and 2 decrease is driven by purchase of renewable electricity certificates. Decreases in our scope 3 emissions over time are led by a continued shift to more sustainable and recycled materials and reduction in air transport, as well as being influenced by Covid-related issues such as fluctuations in order volumes. The increase in scope 3 emissions compared to last year was largely due to a rebound in production and sales and related increases in product transportation, following the significant impact of the Covid-19 pandemic in 2020.
 - Use of renewable electricity in our own operations grew to 95 percent (from 90 percent in 2020) due to an increase in our purchase of Energy Attribute Certificates.
 - After 1 January 2022, H&M Group will not onboard any new suppliers or supplier factories if they have on-site coal boilers in their facilities – as part of a longer term aim to phase out coal from our supply chain.
 - The company issued a EUR 500 million sustainability-linked bond to provide external finance for carbon reduction and circularity activities,

while offering investors an opportunity to contribute to positively transforming the fashion industry. Read more about our sustainability-linked bond at hmggroup.com.

- For commercial goods, our use of materials from recycled sources tripled mainly due to growth in our volumes of recycled cotton and recycled polyester – showing strong progress towards our goal of 30 percent recycled materials by 2025, as a step towards 100 percent recycled or other more sustainably sourced materials by 2030.
- Our overall packaging volume increased by 4 percent compared to last year. This is primarily due to an increase in online sales, which require more packaging per product than in-store sales, as well as the shift from plastic packaging to paper packaging. We have reduced plastic packaging by 27.8 percent compared to our baseline year 2018. We are updating our processes and our packaging data collection systems to improve traceability of certified Forest Stewardship Council and recycled materials. This has led to a reduction in the reported total share of recycled or other more sustainably sourced materials in our packaging from 89 percent in 2020 to 68 percent in 2021. We will continue to improve the consistency and efficiency of our packaging systems and data collection for future years.
- The company took steps to become a more circular business that optimises resource use:
 - We set a new ambition to have all our products designed for circularity¹ by 2025, and launched our circular design guide and tool Circulator
 - see circulator.hmggroup.com.

¹In accordance with Circulator, our circular design tool.

- Second-hand platform Sellpy expanded into 22 new markets, reaching a total of 24 markets. H&M Group is a majority shareholder in Sellpy and the platform will work with H&M Group's global supply chain, helping to grow Sellpy's circular services. ARKET continued offering rental of kids' clothes in 19 markets, in collaboration with Circos.
- We continued to make it easier for customers to reuse and recycle old clothes and textiles, and to demonstrate that these resources have value, through our in-store garment collecting initiative. Following disruption due to the Covid-19 pandemic across the whole year, H&M Group collected 15,944 tonnes of material in 2021 (18,800 tonnes in 2020; 29,005 tonnes in 2019).
- Our use of water per unit of product was 10.3 percent lower than our 2017 baseline and 6.6 percent lower than last year. Although this is a reduction, suppliers have had to run machines at very low production capacity because of reduced orders during the Covid-19 pandemic.¹ This impacted progress toward our water consumption reduction goal, making it unlikely we will achieve minus 25 percent by 2022.

For detail on these KPIs as well as performance against other areas of the company's environmental strategy, see our Sustainability Disclosure at hmgroup.com/sustainability.

REPORTING IN LINE WITH ARTICLE 8 OF THE EU TAXONOMY REGULATION

H&M Group made an inventory of its activities in relation to activities outlined in the Climate Delegated Regulation² with the aim to identify potential activities eligible under the reporting obligation of the EU Taxonomy Regulation³. The EU Taxonomy Climate Delegated Regulation is currently targeting sectors in which H&M Group does not operate. Based on the inventory performed 0 percent of H&M Group's turnover is considered to be associated with Taxonomy eligible economic activities. Given that H&M Group has not identified any of the economic activities within the Group to be eligible, no capital expenditures (hereinafter "CAPEX") or operational expenditures (hereinafter "OPEX") can be associated with such activities. While there are ongoing measures in order to make H&M activities low-carbon and to reduce greenhouse gas emissions, CAPEX and OPEX associated with such measures are not considered material in relation to the total OPEX and CAPEX of the H&M group. Hence the proportion of taxonomy eligible CAPEX and OPEX, rounded to the nearest percentage, is 0 percent.

We continuously follow and engage in the dialogue with the European Union institutions for the upcoming delegated acts which are expected to address our industry. H&M Group has a number of sustainable projects and activities that are

currently outside of the reporting obligation of the EU Taxonomy Regulation. These are disclosed in more detail in this annual and sustainability report and its appendix, the Sustainability Disclosure.

SOCIAL: CONDITIONS, EMPLOYMENT AND HUMAN RIGHTS

Risks and opportunities

Risks to people and human rights across our value chain are primarily linked to working conditions, inclusion, diversity, and impacts on communities connected to environmental degradation. For detail on our Salient Human Rights Issues analysis see hmgroup.com/sustainability. See also pages 56–58 for further detail on our operational risks.

Our commitment to respect and advance internationally recognised human rights is the foundation for everything we do. We base our approach on the UN Guiding Principles on Business and Human Rights (UNGP) and communicate our commitment via our Human Rights Policy – available at hmgroup.com. Our human rights due diligence is risk-based and applies across our operations, entire value chain and the communities where we operate.

By upholding human rights, working to ensure fair and decent jobs, and promote inclusion and diversity across our value chain, we realise the potential of individuals, while attracting and retaining talent. Diverse, inclusive teams are also key to creating a relevant and relatable customer offering. By contributing to the vision of the future of work in a circular fashion industry, we can develop the relationships needed for resilience in our supply chain and business activities.

Strategy and policies

We inspire and engage billions of people around the globe, working to build meaningful relationships with our customers, employees and communities. We want to grow together, listen to and learn from each other, as we work to accelerate positive impacts and inclusion and equality for all those impacted by our business and value chain.

We focus our proactive strategies on the issues with greatest risk of negative impacts on people: our salient human rights issues. As these issues are primarily related to labour rights and the unequal treatment of people, our key strategies are Fair jobs for all and Inclusion and diversity (see below). Our supply chain management programme is an important foundation for continuously assessing and remedying human rights issues because many of these risks are inherent in the garment sector. Equally, the company acknowledges the role of the fashion industry in providing millions of entry-level jobs and contributing to economic development in emerging and evolving communities, especially for women. We recognise the importance of responsible business conduct by our industry to advance human rights.

We report in line with regulatory frameworks such as the Modern Slavery Act; see the company's statement at hmgroup.com/sustainability.

¹ Where there are lower order numbers, there are fewer products running through machines, which need the same amount of water to run regardless of the number of products – resulting in more water used per item than if the machines were running at full capacity.

² COMMISSION DELEGATED REGULATION (EU) .../... of 4.6.2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

³ Regulation (EU) 2020/852 of the European Parliament and the Council on the establishment of a framework to facilitate sustainable investment, and amendment Regulation (EU) 2019/2088.

Human rights due diligence

We carry out due diligence across our operations and value chain, paying special attention to vulnerable groups such as migrant workers and children – we do not accept forced labour or child labour. Any human rights risks in our value chain are identified and managed through the following steps:

- **Due diligence.** Systematic use of due diligence to identify human rights risks and impacts and to prevent, mitigate and remedy issues in line with the UN Guiding Principles on Business and Human Rights (UNGPs).
- **Grievance mechanisms and incident management.** Management of grievances as close to the issue as possible. The company's Internal Grievance Policy outlines our internal process, and it is expected that business partners have similar operational-level grievance mechanisms in place. Employees and business partners can raise and escalate concerns using our Speak Up Channel.¹

- **Policy development.** Development and application of relevant human rights policies and standards for daily business operations, including internal social policies and the Sustainability Commitment for suppliers.
- **Stakeholder engagement.** Engagement with stakeholders at every step, including workers, employees, customers, employers, unions, human rights experts and civil society.
- **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.

Building on our human rights risk management, we have developed specific strategies on key issues:

- **Fair jobs for all.** We support decent, meaningful jobs with fair compensation² and benefits in safe, secure workplaces free from discrimination, where everyone has the right to freedom of association. Our approach is informed by the International Labour Organization's definition of decent work.³ We focus on employees in our own operations and workers in our supply chain. Our tier 1 and 2 production supply chain alone contributes to the employment of around one and a half million people. We are responsible to uphold the rights of these workers, which includes securing good working conditions, proper representation, improved wages and development opportunities, and promoting inclusion and diversity. As our business model evolves in response to digitalisation, circularity and growing online sales, we are adjusting our due diligence to increase focus on logistics (warehouses and transportation). We are also assessing the impacts of what a shift to a more digital, circular value chain with a climate positive approach will mean for the future of work.

- **Inclusion and diversity.** We work to enable inclusive, diverse and equitable workplaces. We promote diversity and equality through products and communication, and we work to advance inclusion in our communities. By 2025, we aim for our workplaces to be more inclusive and diverse, to leverage our diversity for better business, and to use our business to advance inclusion in our communities. In 2021, we clarified our aim to be transparent and communicate more on our inclusion and diversity performance.

Find detail on our Fair & Equal strategy in our Sustainability Disclosure at hmgroupp.com/sustainability. For detail on related policies and standards, visit hmgroupp.com.

¹ <https://speakup.hmgroupp.com>

² Read about how we define fair wages at hmgroupp.com/sustainability/fair-and-equal/wages/

³ <https://www.ilo.org/global/topics/decent-work/lang-en/index.htm>

FAIR & EQUAL KPIS

KPI ¹	GOAL	2021	2020	2019
Own operations: % of employees agreeing with the statement “I am treated with respect and dignity” ²	Annual increase	83	80	82
Own operations: % of female employees, in management positions and on the board of directors ³		Employees: 74 Management: 71 Board: 55	Employees: 74 Management: 71 Board: 67	Employees: 76 Management: 69 Board: 67
Own operations: % of employees that have received our Layers inclusion and diversity training ³		Brands: 15 Functions: 66 Markets: 21 Total number of participants in Layers training in 2021: 23,253	–	–
Supply chain: % of tier 1 supplier factories that have trade union representation ⁴		37	32	–
Supply chain: % of tier 1 supplier factories that have collective bargaining agreements in place ⁴		27	18	–
Supply chain: % of female workers, supervisors, and worker representatives in our tier 1 production supply chain ⁴	See footnote 5	Workers: 63 Supervisors: 28 Representatives: 62	Workers: 63 Supervisors: 24 Representatives: 59	–
Community investment initiatives: total number of beneficiaries and total value of contributions ⁶		Beneficiaries: 368,000 Contributions: SEK 180.4 million	–	–

1) In 2021, the company updated the selection of KPIs reported in this statutory report to provide a more meaningful overview of our key human rights and social focus areas. We continue to report additional KPIs and data in our Sustainability Disclosure at hmgroup.com/sustainability.

2) New since 2018, replacing our previous KPI % of employees agreeing with the statement “people here are treated fairly regardless of age, ethnicity, sex, sexual orientation, disabilities”, as we made a shift to a new engagement survey platform.

3) New KPIs introduced in 2021. See footnote 1. From 2021, we will report the % of employees across brands, function, and markets participating in Layers training. This gives a more detailed breakdown of performance than was reported in previous years, where we provided by a single figure for the total number of employees trained.

4) New KPIs introduced in 2020 due to the strategic decision to track progress in the group’s global production supply chain for apparel and footwear.

5) Increasing the share of female supervisors and worker representatives is an ambition in the group’s Women’s Empowerment Strategy for the production supply chain. The baseline was established in 2020 and the aim is for yearly increases.

6) New KPI introduced in 2021. See footnote 1. The value of contributions includes in-kind donations and related community investment initiative management costs.

Performance

The Fair & Equal KPI table (left) features indicators selected to offer an overview of our performance. Here, we share additional detail:

- We strengthened our responsible purchasing practices:
 - Currently, 68 percent of in scope orders are placed using the fact-based costing tool that enables us to ring-fence¹ labour costs. Find detailed data on wages and workers in our production supply chain² in our Sustainability Disclosure at hmgroup.com/sustainability.
 - 98 percent of suppliers regard the company as a fair business partner.³
 - To assist suppliers to maintain financial liquidity, we began offering the option to receive payment in approximately three days after sending an invoice to H&M Group. The supplier pays a financing cost to the bank to receive early payment, which is usually significantly lower than the cost of borrowing.
- We continued collaborating with suppliers to support open and meaningful workplace dialogue and equitable, inclusive workplaces:
 - Analysis of collecting bargaining agreements (CBAs) in our supply chain showed that, even within the same country, some CBAs deliver increased benefits while others uphold local law. We will work to train suppliers in countries where the positive impact of CBAs is lower, and our National Monitoring Committees are

creating their annual plans for 2022 based on the learnings from this analysis along with our other priorities under our Global Framework Agreement.

- We analysed the impact of our workplace dialogue (WPD) programme, focusing on democratic elections for worker representatives. Although results vary from country to country, we tend to see more grievances recorded in WPD programme factories, suggesting WPD programmes increase workers’ access to remedy. In Turkey, for example, we also see on average 10 percent more female worker representatives in WPD programme factories, which suggests that women can be more engaged when a transparent, democratic election process is implemented.
- We focused on providing inclusive, diverse and equitable workplaces for employees. The company set aims to improve diversity across the business. We are developing and piloting a tool to help us better understand our inclusion, equity and diversity performance. Our goal is for the tool to help monitor our progress and inform future actions.

For detail on these KPIs as well as performance against other areas of the company’s social strategy, see our Sustainability Disclosure at hmgroup.com/sustainability.

1) The cost of a garment is divided into different costing blocks such as material, stitching, and labour cost. When we ring-fence the labour cost, we remove that part from the price negotiations so that the wages are never affected.

2) We work most closely with our tier 1 and tier 2 suppliers involved in material production and processing, and in product processing and manufacturing.

3) Based on 368 responses to our annual supplier survey with all tier 1 production suppliers, which suppliers respond to anonymously.

ANTI-CORRUPTION AND BRIBERY

Risks and opportunities

Acting with respect, integrity, transparency and honesty is essential for the company's business and deeply rooted in our corporate values. There is a risk of corruption in many of the markets in which the company and its suppliers operate.

The company identifies risks by mapping corruption risk across its operations, performing annual risk assessments and audits, and identifying the greatest risks based on location or type of operation. Through our risk assessment process, we first identify and document the risk, before assessing the risk and deciding our response. The company then puts appropriate follow-up actions in place and sets a timeframe for when the risk will be reviewed. We also identify risks through analysis of violations of our Code of Ethics Policy and concerns submitted via the H&M Group Speak Up Channel, which is available to our employees, business partners and third parties. This analysis is supplemented by insights from additional metrics such as Transparency International's Corruption Perceptions Index and from global risk consultancies.

Our strong anti-corruption work also leads to benefits by strengthening our business ethics and corporate culture and enhancing our reputation with stakeholders.

Strategy and policies

Our Code of Ethics details the company's expectations of employees and business partners when conducting business for and on behalf of the group. It outlines our zero-tolerance policy on bribery and corruption, applying to all business dealings in all countries in which the company and its partners operate.

The company mitigates risks through its strong Ethics & Compliance and Anti-Corruption programme, which includes:

- **Code of Ethics Policy.** It is mandatory that all employees in contact with business partners and our business partners sign and comply with the Code of Ethics. Within the Code of Ethics Policy for employees, the Speak Up Channel, Conflict of Interest, Confidential Information and Intellectual Property Rights sections were updated during 2021. Within the Code of Ethics Policy for business partners, the Speak Up Channel section was added.
- **Training and awareness.** Employees and business partners receive training and awareness sessions on our Code of Ethics. Trainings were conducted digitally during 2021, due to the ongoing Covid-19 pandemic. Employees can access the company's Code of Ethics training, Speak Up Channel and policies through our Ethics Portal (new in 2021). Business partners will be able to access Code of Ethics e-learning on the Ethics Portal from 2022.

- **Reporting concerns.** Employees, business partners and any third parties are encouraged to report concerns or potential violations of the group's policies and/or relevant law through the company's Speak Up Channel. We updated all our H&M Group policies in 2021 to include our new Speak Up Channel, which was introduced in compliance with the EU Whistleblowing Protection Directive.
- **Due diligence.** Corruption risk assessment is part of the due diligence process for all new business partners, with assessment of risk level by country, industry and position/function. Once the risk level is determined, the company sets short- and long-term goals to help mitigate risk. H&M Group continues to explore use of third-party risk management tools that could automate our due diligence process for business partners and other third parties.
- **Follow-up procedures.** All reported Code of Ethics cases are assessed and investigated internally. Investigations may lead to terminations of business relationships or employment. The number of violations is tracked and reported annually to the CEO, CFO, board of directors and externally, and the group conducts internal audits to ensure compliance.

For detail on our policies visit [hmgroup.com](https://www.hmgroup.com).

ANTI-CORRUPTION AND BRIBERY KEY DATA

INDICATOR ¹	GOAL	2021	2020	2019
Total reported incidents of potential non-compliance with the Code of Ethics (including reported corruption cases) – employees and business partners*		24, with 5 terminations and 3 written warnings 5 cases remain open into 2022, concerning 5 employees and 2 business partners ²	16, with terminations or written warnings in 16 cases	28, with terminations or written warnings in 26 cases
Reported incidents of potential non-compliance with the Code of Ethics (including reported corruption cases) – employees ³		19, with 5 terminations and 1 written warning for employees	9, with terminations or written warnings for 11 employees	–
Reported incidents of potential non-compliance with the Code of Ethics (including reported corruption cases) – business partners ³		5, with 0 terminations and 2 written warnings for business partners	8, with terminations or written warnings for 6 business partners	–
Code of Ethics e-learning completion rate – employees	90% annually	See footnote 4	60	See footnote 5

* Reviewed by the company's auditors through a limited assurance process.

1) Updated KPIs will be introduced from 2022, as the company further develops its risk identification and mitigation strategy.

2) Some cases involve more than one party, including one case that involves employees and business partners.

3) The company began reporting data for business partners and employees separately in 2020.

4) Due to the company updating its Ethics & Compliance and Anti-Corruption programme, 2021 data for this KPI will not be available until 2022.

5) Accurate data are not available for 2019, due to technical issues with our learning management system for that year.

Performance

The key data table (left) features indicators selected to offer an overview of our performance.

Here, we share additional detail:

- In 2021, the company focused on further developing its risk identification and mitigation strategy, with new KPIs reflecting our updated procedures in preparation for 2022.
- We launched our new Ethics Portal for employees groupwide, and our confidential Speak Up Channel for all employees, business partners and third parties.
- We readied to strengthen awareness of the importance of our policies and procedures by preparing to hold the company's first groupwide Ethics Week in early 2022.

For all detailed sustainability content, see our 2021 Sustainability Disclosure at hmgroupp.com/sustainability.

TCFD climate risk analysis

Governance

Climate risk has been identified as one of the company’s most significant risks. All company risks are reviewed by the board at least once per year. The board monitors implementation of the sustainability strategy and initiates changes and updates where needed. These procedures and governance mechanisms enable the board to maintain close oversight of the company’s sustainability and climate-related performance, and ensure sufficient management focus and resource allocation. Implementation of the company’s sustainability strategy, including our climate strategy, is the responsibility of the head of sustainability together with the executive management team. The head of sustainability reports directly to the CEO and shares biannual updates on our sustainability key performance indicators (KPIs) to the board of directors and quarterly KPI updates to the CEO and CFO. See also the Corporate Governance Report, and read more about our risk management processes on page 39.

Strategy

We have performed a risk analysis following the Task Force on Climate-Related Disclosure (TCFD) recommendations. We focused predominantly on two scenarios:

- The rapid transition scenario (RCP 2.6, mostly short- and medium-term). In this scenario the world manages to drastically reduce CO₂e emissions through several far-reaching

measures, such as legislation, global carbon taxes, and major shifts in consumption patterns and lifestyles. This would limit the average temperature increase to 1.5°C.

- The accelerating temperature increase scenario (RCP 8.5, mostly long-term). In this scenario the world fails to curb rising CO₂e emissions. In the long term (to 2100), this results in a global average temperature increase of at least 3-4°C. Legislation and carbon taxes are expected to play a less significant role in this scenario. Impacts from extreme weather events are assumed to grow in magnitude.

In our scenarios, we analysed possible impacts in the short term (1-3 years), medium term (in around 10 years) and long term (in around 30 years). The risk analysis was performed by mapping our value chain, before conducting a number of workshops to evaluate and rank scenario risks in all parts of the value chain. The main areas analysed were raw material sourcing, production, logistics, sales, and customers (including more general transition risks such as taxes and legislation). Business opportunities related to climate change were also discussed and evaluated at the workshops. The results of the risk analysis are summarised in the following tables.

The rapid transition scenario

RCP2.6, mostly short- and medium-term risks

RISK RANKING	RISK DESCRIPTION	MITIGATION MEASURES
HIGH	Changes in customer attitudes and purchasing patterns Growing awareness of climate change is expected to impact customer preferences, with an increased preference for products and services with low climate impact from trusted companies that are seen as leaders in sustainability. This could also include reputational risks related to brand perception.	<ul style="list-style-type: none"> – H&M Group has an ambitious sustainability strategy in place. The group aims to achieve net-zero (as defined by the Science Based Targets initiative’s Net-Zero Standard) GHG emissions in our supply chain and to become a circular business. For example, this means sourcing raw materials that are recycled or more sustainably sourced and scaling up circular business models. – Our sustainability strategy will allow us to build trust in our brands and provide an offering that has a lower environmental impact than our competitors’ offerings.
HIGH	Transition to low carbon production and/or low emission technologies Fossil fuels remain a significant source of energy in many H&M Group production countries. Climate-related legislation is expected to increase significantly. In response, H&M Group would gradually strengthen requirements for suppliers, as part of the company’s ambition to take a leadership position in reducing climate impact. The group would provide financial support that assists suppliers to phase out coal and other fossil fuels. The expected overall result is increased production costs. Investments are also needed to develop more sustainable materials for use in our garments.	<ul style="list-style-type: none"> – Together with our suppliers, H&M Group will make significant investments in our supply chain to phase our coal and other fossil fuels, facilitated by our newly formed green investment team and financed by our sustainability-linked bond. – We have developed an internal tool – the Climate Positive Roadmap tool – to help us better understand the most cost-effective paths towards reducing our climate impact. – We will collaborate with peers to amplify support for suppliers to phase out fossil fuels.
MEDIUM	Introduction of global or regional carbon taxes Taxes on CO ₂ e or import tolls on garments produced in one region (e.g. Asia) but exported to another (e.g. the European Union) may influence total production costs. This could be both a risk and an opportunity depending on the ability of H&M Group to phase out fossil fuels in our supply chain.	<ul style="list-style-type: none"> – We have set ambitious targets to reduce CO₂e emissions throughout our value chain, reducing our vulnerability to possible carbon taxes. – Our sourcing strategy is flexible and we are constantly evaluating the direct and indirect costs of each region to allocate our production in the most efficient way.

The accelerating temperature increase scenario

RCP 8.5, mostly long-term risks

RISK RANKING	RISK DESCRIPTION	MITIGATION MEASURES
<p>Raw material availability and price</p> <p>MEDIUM</p>	<p>H&M Group is heavily dependent on cotton as a raw material. Higher temperatures and water shortages will affect the possibility to grow cotton in many regions. In the long term, the company believes that this will affect the availability and price of cotton. Price increases for other raw materials are also expected.</p>	<ul style="list-style-type: none"> – H&M Group has a strong focus on innovation related to new materials and recycling technologies, with a goal of using at least 30 percent recycled materials by 2025. By increasing the share of recycled materials, our dependence on virgin raw materials is reduced. – Our global sourcing team enables the company to easily change raw material suppliers when necessary to handle short-term price fluctuations.
<p>Increased energy and water costs</p> <p>MEDIUM</p>	<p>In a warmer world, demand for energy (e.g. for cooling purposes) is likely to increase. We also expect legislation and higher prices for water in certain regions. These increases may impact production and logistics costs.</p>	<ul style="list-style-type: none"> – We have set ambitious targets and have programmes in place to increase energy efficiency and decrease water consumption at our suppliers. This will mean we are less susceptible to price increases.
<p>Water scarcity or extreme weather events that create disturbances in production or logistics</p> <p>MEDIUM</p>	<p>Climate change will increasingly impact access to freshwater in certain regions, with consequences for where and how garments can be produced. Extreme weather events may also cause disruptions to production and distribution in some countries.</p>	<ul style="list-style-type: none"> – We have set ambitious targets and have a programme in place to reduce water consumption at our suppliers. – For suppliers located in high-risk regions, contingency plans have been developed. These plans prepare the company to temporarily or permanently move production to alternative suppliers located in low-risk regions, if needed.

Overview of business opportunities

OPPORTUNITY	DESCRIPTION	MEASURES TO REALISE THE OPPORTUNITY
<p>Building a more sustainable business and attracting more customers</p>	<p>Increasing awareness of the climate crisis may impact customer preferences for products or services with a low climate impact, from companies that customers trust and that share their values. There is an opportunity for H&M Group to attract more customers by providing a more sustainable and transparent offering.</p>	<ul style="list-style-type: none"> – Delivering H&M Group's ambitious sustainability strategy and meeting climate-related customer expectations could lead to a bigger market share. – Transparency and clear customer communication about sustainability could increase customer loyalty.
<p>Developing new circular business models</p>	<p>Increasing awareness of the climate crisis may change consumer behaviour as customers are incentivised to switch to new ways of enjoying fashion without the climate impact associated with garment production. This shift will reduce H&M Group's climate impact and offer the company new revenue streams that complement the traditional business model.</p>	<ul style="list-style-type: none"> – H&M Group is continuously developing new business models and new revenue streams, such as on-demand production, resell, rental, garment care, and repair services.
<p>Decarbonisation of garment production to reduce the impact of carbon taxes and higher energy prices</p>	<p>By reducing our CO₂e emissions, optimising production and transitioning away from fossil fuels, we will reduce our exposure to future legislation and taxes on fossil fuel or CO₂e emissions. This could also result in reduced production costs and create competitive advantages versus our competitors.</p>	<ul style="list-style-type: none"> – H&M Group will make significant investments in our supply chain to phase out fossil fuels facilitated by our newly formed green investment team. – An ambitious climate strategy, long-term as well as short-term targets, and a willingness to invest in carbon reduction initiatives will enable the decarbonisation of our supply chain. – We are establishing public affairs teams in our production countries to support and engage with policy makers on local developments.
<p>Creation of new business-to-business revenue streams</p>	<p>Increasing awareness of the climate crisis may put pressure on our competitors' sustainability strategies. This, combined with the decarbonisation of H&M Group's production, will increase opportunities to expand our current business-to-business service offering. By further investing in reverse supply chain initiatives, H&M Group can introduce potential new revenue streams that complement the traditional business model.</p>	<ul style="list-style-type: none"> – H&M Group continuously develops new business models and revenue streams, such as collecting, sorting and recycling garments, and offering supply chain management services. This also includes constantly investigating external innovations and ideas.

Impact on business strategy & financial planning

Climate-related risks have a major impact on H&M Group's business strategy. We have set a very ambitious goal of halving our supply chain emissions every decade (read more on pages 34–35).

It's our strong belief that we must reduce our climate impact in line with what science demands. We believe that this is something that our customers will expect from us and that our strategy will positively impact our sales in the long term. From a cost perspective, we believe that this is a sound business decision — we expect to see higher energy prices, strengthened climate legislation and increased introduction of climate-related taxes or tolls. Decarbonising our supply chain will therefore be a competitive advantage for H&M Group. The following are examples of how our business is impacted:

- Growth of circular business models, such as resell, rental, re-make, care and repair solutions for customers (read more on page 24). This will significantly reduce our climate impact.
- Use of a new way to secure finance for climate-related investments through the issue of a sustainability-linked bond (with a value of EUR 500 million).
- A comprehensive program to step-by-step decarbonize our supply chain with a budget for 2022 of around SEK 3 billion, including investments to phase out coal, increasing the share of more sustainable materials etc.
- Formation of Climate and Circular cross-functional teams, reporting directly to the management team, with the mission to

accelerate and drive decarbonisation of our value chain.

- Regular review of performance towards set targets by the board of directors and the executive management team, ensuring sufficient resource allocation and progress.
- Incentive programmes for key executives connected to sustainability performance (including climate).

The resilience of our strategy

We are convinced that our ambitious climate strategy alongside the measures described above offer a resilient business strategy. We have analysed the possible consequences in the following two scenarios:

– **The rapid transition scenario (RCP 2.6).** By 2030, H&M Group will have halved supply chain CO₂e emissions (in absolute terms, independent of business growth). This means we will be very well prepared for developments such as strengthened climate-related legislation and/or the introduction of carbon taxes. The most significant risk to the company, as well as business opportunity, is lost or increased customer trust that impacts the willingness of customers to enjoy products from H&M Group.

– **The accelerating temperature increase scenario (RCP 8.5).**

The most significant consequence for our business in this scenario is the possible impact on raw material availability and price, especially for cotton. We are limiting the possible business impact of this by reducing our dependency on cotton and other virgin raw materials. In this

scenario, our work to create business contingency plans for all parts of our supply chain will help us prevent negative business impacts resulting from extreme weather events. As H&M Group has a limited amount of company-owned assets, we see minimal climate-related risks beyond disruptions to sales and increased raw materials prices.

TCFD disclosures index

GOVERNANCE The organisation's governance around climate-related risks and opportunities	The board's oversight of climate-related risks and opportunities	Page 72
	Management's role in assessing and managing climate-related risks and opportunities	Page 72
STRATEGY The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	The climate-related risks and opportunities that the organisation has identified over the short, medium and long term	Pages 72–73
	The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Page 74
	The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a +2°C scenario or lower	Page 74
RISK MANAGEMENT The processes used by the organisation to identify, assess, and manage climate-related risks	The organisation's processes for identifying and assessing climate-related risks	Page 72
	The organisation's processes for managing climate-related risks	Page 72 and our Sustainability Disclosure
	How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Page 57
METRICS AND TARGETS The metrics and targets used to assess and manage relevant climate-related risks and opportunities	The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 66
	Scope 1, 2 and 3 GHG emissions and the related risks	Page 66 and our Sustainability Disclosure
	The targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 35

Group income statement

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Net sales, note 3, 4	198,967	187,031
Cost of goods sold, note 6, 7, 9	-93,961	-93,487
GROSS PROFIT	105,006	93,544
Selling expenses, note 6, 7, 9	-80,535	-81,425
Administrative expenses, note 6, 7, 9, 10	-9,216	-9,020
OPERATING PROFIT	15,255	3,099
Interest income and similar items	203	252
Interest expense and similar items	-1,158	-1,299
PROFIT AFTER FINANCIAL ITEMS	14,300	2,052
Tax, note 11	-3,290	-809
PROFIT FOR THE YEAR	11,010	1,243
All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK ¹	6.65	0.75
Number of shares, thousands ¹	1,655,072	1,655,072

¹ Before and after dilution.

Consolidated statement of comprehensive income

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
PROFIT FOR THE YEAR	11,010	1,243
Other comprehensive income		
<i>Items that are or may be reclassified to profit or loss</i>		
Translation differences	1,430	-3,673
Change in hedging reserves, note 21	-101	92
Tax attributable to change in hedging reserves	26	-21
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurement of defined benefit pension plans, note 20	187	-113
Tax related to the above remeasurement	-43	26
Remeasurement of financial assets	3,644	-
OTHER COMPREHENSIVE INCOME	5,143	-3,689
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	16,153	-2,446

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

COMMENTS ON THE GROUP INCOME STATEMENT

Despite continued restrictions and negative consequences of the pandemic, in the last quarter of the year the H&M group's sales in local currencies were back at the same level as in 2019. The year ended with around 115 stores temporarily closed in a few markets due to the pandemic. Net sales for the full 2020/2021 financial year increased by 6 percent to SEK 198,967 m (187,031). In local currencies, sales increased by 12 percent. Gross profit increased to SEK 105,006 m (93,544). This corresponds to a gross margin of 52.8 percent (50.0).

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.

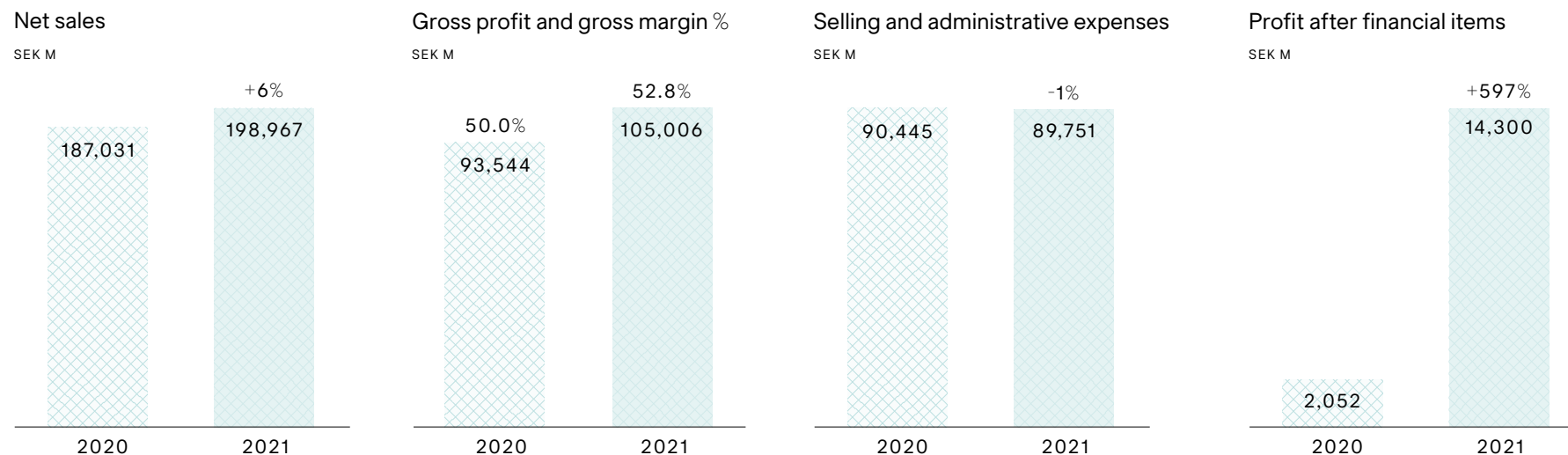
The measures taken within all parts of the business during the previous year to manage the Covid-19 situation and its negative effects, for example in respect of product purchasing, investments, rents, staffing and financing, continued to bear fruit during the year. Selling and administrative expenses decreased by 1 percent to SEK 89,751 m (90,445). In local currencies, expenses increased by 3 percent. Government support associated with the pandemic decreased expenses by around SEK 1.5 billion (around 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 numerous markets.

Profit after financial items amounted to SEK 14,300 m (2,052). Excluding the effects of IFRS 16, profit after financial items amounted to SEK 14,043 m (1,691).

TAX

The H&M group's tax rate for the 2020/2021 financial year was 23.0 percent (39.4). 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 last year was 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; for the financial year the situation has therefore normalised.



Group balance sheet

SEK M 30 NOVEMBER	2021	2020	SEK M 30 NOVEMBER	2021	2020	SEK M 30 NOVEMBER	2021	2020
ASSETS			CURRENT ASSETS			EQUITY AND LIABILITIES		
NON-CURRENT ASSETS			Stock-in-trade, note 16			EQUITY		
Intangible non-current assets						Share capital, note 19		
Leasehold and similar rights, note 12	224	191		37,306	38,209	Reserves	207	207
Capitalised development expenditure, note 12	9,268	10,177	Current receivables			Retained earnings	2,345	990
Goodwill, note 12	64	64	Accounts receivable, note 21	3,059	3,086	TOTAL EQUITY	57,466	53,426
	9,556	10,432	Tax assets, note 11	2,834	1,686		60,018	54,623
Property, plant and equipment			Other receivables	3,509	2,397	LIABILITIES		
Buildings and land, note 13	724	745	Prepaid expenses, note 17	4,807	3,440	Long-term liabilities		
Equipment, tools, fixture and fittings, note 13	25,852	30,894		14,209	10,609	Provisions for pensions, note 20	428	612
Right-of-use assets, note 15	53,086	59,535	Cash and cash equivalents, note 18	27,471	16,540	Deferred tax liabilities, note 11	3,601	3,988
	79,662	91,174	TOTAL CURRENT ASSETS	78,986	65,358	Liabilities to credit institutions, note 24	9,178	8,433
Non-current financial assets			TOTAL ASSETS	179,781	174,371	Other interest-bearing liabilities, note 15, 24	45,379	50,458
Interests in associates, note 14	686	247					58,586	63,491
Other shares and interests	4,405	539				Current liabilities		
	5,091	786				Accounts payable	20,382	9,511
Other non-current assets						Tax liabilities, note 11	1,441	1,708
Long-term receivables	860	907				Liabilities to credit institutions, note 24	436	7,899
Deferred tax assets, note 11	5,626	5,714				Other interest-bearing liabilities, note 15, 24	11,698	13,275
	6,486	6,621				Other liabilities	5,149	3,983
TOTAL NON-CURRENT ASSETS	100,795	109,013				Accrued expenses and deferred income, note 22	22,071	19,881
							61,177	56,257
						TOTAL LIABILITIES	119,763	119,748
						TOTAL EQUITY AND LIABILITIES	179,781	174,371

COMMENTS ON THE GROUP BALANCE SHEET

The H&M group is in a strong financial position. The group's equity/assets ratio was 33.4 percent (31.3). The share of risk-bearing capital was 35.4 percent (33.6). Equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2020 was SEK 36.26 (33.00).

Stock-in-trade

The carrying amount of the stock-in-trade decreased by 2 percent in SEK compared with the same point in time last year and amounted to SEK 37,306 m (38,209). Currency adjusted the stock-in-trade was at the same level as in the previous year. The book value of stock-in-trade in SEK represented 18.7 percent (20.4) of sales.

Financing

As of 30 November 2021 the group had interest-bearing liabilities, excluding lease liabilities and provisions for pensions, of SEK 9,614 m (16,332) in the form of commercial paper, bonds and loans from credit institutions. In addition, the group has undrawn credit facilities of SEK 15,178 m (30,055). The average maturity of interest-bearing liabilities and undrawn credit facilities was 5.6 (2.1) years; the increased average maturity is primarily due to the sustainability-linked bond that matures in 2029 which was issued during the year. 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 2021, cash and cash equivalents amounted to SEK 27,471 m (16,540). Together, cash

and cash equivalents and undrawn credit facilities totalled SEK 42,649 m (46,595).

Efforts to improve the H&M group's working capital continued during the year. Among other things, around SEK 10 billion was freed up by improved payment processes for product invoices, with the banks offering H&M Group product suppliers the opportunity to be 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. Classification of the payables included in the arrangement is not affected; these amounts continue to be reported as accounts payable.

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

To secure access to the bond market on the best possible terms, a credit rating from Standard & Poor's was obtained. The rating is BBB with a stable outlook.

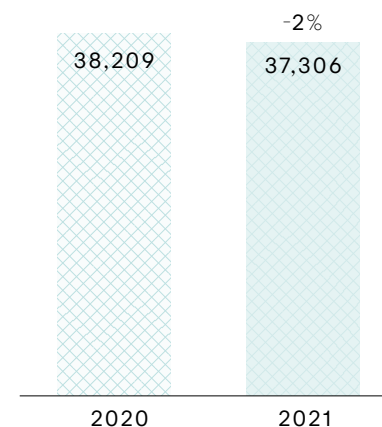
The H&M group issued its first sustainability-linked bond. The amount was EUR 500 m with a term of 8.5 years and an annual coupon rate of 0.25 percent. The bond generated great interest and was 7.6 times oversubscribed.

The revolving credit facility opened in April 2020 for EUR 980 m was closed.

The H&M group advocates a conservative leverage ratio, aiming for a strong capital structure with good 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. It should not exceed 1.0 x EBITDA over time. Net debt/EBITDA excluding IFRS effects was -0.7 (0.0) as of 30 November 2021.

Stock-in-trade

SEK M



Group changes in equity

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

SEK M	SHARE TRANSLATION CAPITAL	DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY 1 DECEMBER 2020	207	725	265	53,426	54,623
Profit for the year	–	–	–	11,010	11,010
Other comprehensive income					
Translation differences	–	1,430	–	–	1,430
Change in hedging reserves	–	–	-101	–	-101
Tax related to hedging reserves	–	–	26	–	26
Remeasurement of defined benefit pension plans	–	–	–	187	187
Tax related to the above remeasurement	–	–	–	-43	-43
Remeasurement of financial assets	–	–	–	3,644	3,644
Other comprehensive income	–	1,430	-75	3,788	5,143
Comprehensive income	–	1,430	-75	14,798	16,153
Dividend	–	–	–	-10,758	-10,758
SHAREHOLDERS' EQUITY 30 NOVEMBER 2021	207	2,155	190	57,466	60,018

SEK M	SHARE TRANSLATION CAPITAL	DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL 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	–	–	92	–	92
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
Comprehensive income	–	-3,673	71	1,156	-2,446
Dividend	–	–	–	–	–
SHAREHOLDERS' EQUITY 30 NOVEMBER 2020	207	725	265	53,426	54,623

Group cash flow statement

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Operating activities		
Profit after financial items ¹	14,300	2,052
<i>Adjustment for non-cash items</i>		
- Provisions for pensions, note 20	-13	22
- Depreciation and amortisation, note 9	22,320	25,953
Taxes paid, note 11	-4,974	-3,719
Cash flow from operating activities before changes in working capital	31,633	24,308
Changes in working capital		
Operating receivables	-736	1,373
Stock-in-trade, note 16	1,263	-1,980
Operating liabilities	12,459	2,199
CASH FLOW FROM OPERATING ACTIVITIES	44,619	25,900
Investing activities		
Investments in leasehold and similar rights, note 12	-178	-48
Investments in other intangible assets, note 12	-559	-1,448
Investments in buildings and land, note 13	0	0
Investments in equipment, note 13	-2,727	-3,606
Other investments	-614	-142
CASH FLOW FROM INVESTING ACTIVITIES	-4,078	-5,244

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Financing activities		
Short-term loans	-7,671	995
New long-term borrowing, note 24	5,127	4,400
Repayment of long-term loans, note 24	-4,604	-6,380
Amortisation leases, note 15	-12,279	-14,174
Dividend	-10,758	0
CASH FLOW FROM FINANCING ACTIVITIES, NOTE 24	-30,185	-15,159
CASH FLOW FOR THE YEAR	10,357	5,497
Cash and cash equivalents at beginning of financial year	16,540	12,312
Cash flow for the year	10,357	5,497
Exchange rate effect	574	-1,269
Cash and cash equivalents at year-end, note 18	27,471	16,540

¹ Interest paid for the group amounts to SEK 380 m (349). Interest expense related to leases amounts to SEK 779 m (951) for the group. Received interest for the group amounts to SEK 203 m (252).

Parent company income statement

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Net sales, note 5	3,981	3,605
GROSS PROFIT	3,981	3,605
Administrative expenses, note 6, 7, 9, 10	-46	-111
OPERATING PROFIT	3,935	3,494
Revenue from interests in group companies	8,376	2,627
Interest income and similar items, note 29	38	300
Interest expense and similar items, note 29	-242	-258
PROFIT AFTER FINANCIAL ITEMS	12,107	6,163
Year-end appropriations, note 25	-4	-3,439
Tax, note 11	-825	-16
PROFIT FOR THE YEAR	11,278	2,708

Parent company statement of comprehensive income

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
PROFIT FOR THE YEAR	11,278	2,708
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurement of defined benefit pension plans, note 20	7	-3
Tax related to the above remeasurement	-1	1
OTHER COMPREHENSIVE INCOME	6	-2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,284	2,706

Parent company balance sheet

SEK M 30 NOVEMBER	2021	2020
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment		
Buildings and land, note 13	125	132
Equipment, tools, fixture and fittings, note 13	48	57
	173	189
Non-current financial assets		
Shares and interests, note 26	819	819
Receivables from subsidiaries	78	78
Other non-current receivables	116	113
Deferred tax assets, note 11	86	80
	1,099	1,090
TOTAL NON-CURRENT ASSETS	1,272	1,279
CURRENT ASSETS		
Current receivables		
Accounts receivable	8	7
Receivables from subsidiaries	29,598	35,153
Tax asset	–	24
Other receivables	17	–
Prepaid expenses, note 17	90	57
	29,713	35,241
Cash and bank balances, note 18	–	–
TOTAL CURRENT ASSETS	29,713	35,241
TOTAL ASSETS	30,985	36,520

SEK M 30 NOVEMBER	2021	2020
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital, note 19	207	207
Restricted reserves	88	88
	295	295
Non-restricted equity		
Retained earnings	8,820	16,872
Profit for the year	11,284	2,706
	20,104	19,578
TOTAL EQUITY	20,399	19,873
UNTAXED RESERVES, NOTE 27	32	38

SEK M 30 NOVEMBER	2021	2020
LIABILITIES		
Long-term liabilities		
Provisions for pensions, note 20	144	169
Liabilities to credit institutions, note 24	9,233	8,468
	9,377	8,637
Current liabilities		
Accounts payable	4	5
Tax liabilities	519	–
Liabilities to credit institutions, note 24	275	7,498
Other liabilities	188	257
Accrued expenses and deferred income, note 22	191	212
	1,177	7,972
TOTAL LIABILITIES	10,554	16,609
TOTAL EQUITY AND LIABILITIES	30,985	36,520

Parent company changes in equity

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY 1 DECEMBER 2020	207	88	19,578	19,873
Profit for the year	–	–	11,278	11,278
Other comprehensive income				
Remeasurement of defined benefit pension plans	–	–	7	7
Tax related to the above remeasurement	–	–	-1	-1
Other comprehensive income	–	–	6	6
Comprehensive income	–	–	11,284	11,284
Dividend	–	–	-10,758	-10,758
SHAREHOLDERS' EQUITY 30 NOVEMBER 2021	207	88	20,104	20,399

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL 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
Comprehensive income	–	–	2,706	2,706
Dividend	–	–	–	–
SHAREHOLDERS' EQUITY 30 NOVEMBER 2020	207	88	19,578	19,873

Parent company cash flow statement

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Operating activities		
Profit after financial items ¹	12,107	6,163
<i>Adjustment for non-cash items</i>		
- Provisions for pensions, note 20	-18	-10
- Depreciation and amortisation, note 9	23	34
Taxes paid, note 11	-289	384
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL	11,823	6,571
Changes in working capital		
Operating receivables	5,504	-4,196
Operating liabilities	-101	-3,377
CASH FLOW FROM OPERATING ACTIVITIES	17,226	-1,002
Investing activities		
Investments in buildings and land	-	-
Investments in equipment	-7	9
Investments in group companies	0	99
Other investments	-3	722
CASH FLOW FROM INVESTING ACTIVITIES	-10	830

SEK M 1 DECEMBER–30 NOVEMBER	2021	2020
Financing activities		
Short-term loans	-7,223	1,968
Long-term loans	765	-1,798
Dividend	-10,758	-
CASH FLOW FROM FINANCING ACTIVITIES	-17,216	170
CASH FLOW FOR THE YEAR	0	-2
Cash and cash equivalents at beginning of financial year	-	2
Cash flow for the year	0	-2
Cash and cash equivalents at year-end, note 18	0	-

¹⁾ Interest paid for the parent company amounts to SEK 242 m (258). Received interest for the parent company amounts to SEK 10 m (291), 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 March 2022 and will be submitted to the annual general meeting for approval on 4 May 2022.

Ramsbury Invest AB's holding of shares in H & M Hennes & Mauritz AB represents 48.3 percent of all shares and 74.9 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 classification of financial instruments and does not capitalise development costs. The parent company will apply the exception in RFR 2 in respect of IFRS 16, which means that the principles of IFRS 16 will not be applied in the legal entity. 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 2020 and which are described in note 1, Accounting principles.

Future accounting principles and disclosure requirements

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

Phase 2 of the amendments to IFRS 9, IFRS 7 and other standards relating to the Interest Rate Benchmark Reform came into force on 1 January 2021. In brief, the amendments enable companies to reflect the effects of moving from reference interest rates such as STIBOR to alternative risk-free interest rates without this giving rise to effects on financial reporting that would not provide useful information to users of financial reports.

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 certain 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.

Estimates, assumptions and assessments

The preparation of the annual report and consolidated accounts requires estimates and assumptions to be made, as well as judgments in the application of the accounting principles. These affect carrying amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are based on historical experience, other relevant factors and expectations of the future, and are reviewed regularly. The actual outcome may therefore deviate from the estimates and assumptions made. The sources of uncertainty that have been identified by H&M are the measurement of stock-in-trade, capitalised development expenditure, impairment testing of non-current assets, leases and the measurement of current and deferred tax; see notes 11, 12, 13, 15 and 16.

It is judged that, as of 30 November 2021, there are no estimates or assumptions in the financial statements that involve a significant risk of any material adjustment to the reported 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

Cont. Note 1 Accounting principles

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 finance 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 rate 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 27,471 m (16,540). As of the closing date, loans and leases amounted to SEK 66,691 m (80,065). 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 176 m (165), and would increase interest expense for external borrowing and finance leases by SEK 450 m (906). 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 leases.

The group's exposure to the reform of interbank offered rates (IBOR) is limited. As of 30 November 2021 there are no drawn credit facilities that refer to IBOR.

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. H&M 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
H&M's currency risk associated with financial instruments is mainly related to financial investments, accounts payable and derivatives. The group's accounts payable in foreign currencies are mainly handled in Sweden and are largely hedged through forward contracts. Based on this, a 10 percent change in the value of the Swedish krona in relation to other currencies would have an insignificant momentary effect on profit related to financial instrument holdings as of the closing date. A 10 percent strengthening of the Swedish krona would have a positive effect on the hedging reserve in equity of around SEK 849 m (1,903) before taking into account the tax effect, of which SEK 1,590 m (1,451) relates to EUR and SEK -2,254 m (-758) 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 -120 m (-1,279).

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. All derivatives have an original maturity of less than one year.

Translation exposure on consolidation of entities 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 2021 certain portions of net investments are hedged in this way. The purpose of the hedging is to protect – in the group's consolidated accounts – the majority of the value of net investments in EUR from EUR/SEK exchange rate fluctuations.

Credit risk and counterparty risk

Credit risk is the risk that H&M'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

Cont. Note 2 Financial risks

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 2021 equals the book value for cash and cash equivalents of SEK 27,471 m (16,540), accounts receivable of SEK 3,059 m (3,086) and other SEK 7,373 m (2,423), totalling SEK 37,903 m (22,049). The group's own credit operations were wound up during the year and are now managed through collaboration with an external party. Bad debts during the year from accounts receivable were insignificant.

The group aims to have master netting agreements (ISDA) with all counterparties for transactions involving derivative instruments. Assets and liabilities related to derivative instruments are not netted in the balance sheet.

	DERIVATIVE ASSETS	DERIVATIVES LIABILITIES
2021		
Gross amount	1,422	1,015
Effect of netting agreements	-790	-790
Net position	632	225
	DERIVATIVE ASSETS	DERIVATIVES LIABILITIES
2020		
Gross amount	992	590
Effect of netting agreements	-543	-543
Net position	449	47

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 2021 the group had interest-bearing liabilities of SEK 9,614 m (16,332) in the form of loans from credit institutions and commercial papers. In addition, the group has undrawn credit facilities of SEK 15,178 m (30,055). The average maturity of interest-bearing liabilities and undrawn credit facilities was 5.6 (2.1) years. A maturity analysis for outstanding interest-bearing liabilities and undrawn credit facilities is given below.

YEAR	COMMERCIAL PAPERS	BONDS (EMTN)	LOANS FROM CREDIT INSTITUTIONS	UNDRAWN CREDIT FACILITIES
2022	275	–	161	–
2023	–	–	2,051	8,000
2024	–	–	–	7,178
2025	–	–	–	–
2026	–	–	2,000	–
2027	–	–	–	–
2028	–	–	–	–
2029	–	5,127	–	–
Total SEK m	275	5,127	4,212	15,178

As of 30 November 2021, cash and cash equivalents and short-term investments were SEK 27,471 m (16,540). Cash and cash equivalents, short-term investments and undrawn credit facilities totalled SEK 42,649 m (46,595).

Climate risk

Climate change has been identified as one of the H&M group's major risks. A climate risk analysis according to the guidelines from TCFD has been performed in which it has been concluded that climate change may influence customer attitudes and purchasing patterns, production costs as well as raw material availability and price. The H&M group is continuously developing programs for risk mitigation, where a very ambitious climate strategy and goals are major components.¹

The most significant financial risks resulting from climate change are connected to possible impact on sales and/or product costs. Climate risks are currently not expected to have other significant impact on the financial statements in the H&M group.² During 2021 climate change has not been assessed to be a significant source of uncertainty in the estimates, assumptions and assessments made in preparation of the annual report and consolidated accounts, see section Estimates, assumptions and assessments above.

¹ For more information about our climate strategy & goals, please see pages 34–35.
² For more information about climate risks, please see pages 72–74 (TCFD pages).

3. SEGMENT REPORTING

The group's business consists mainly of sales of clothing, accessories, footwear, cosmetics, home textiles and home-ware 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 separately under Group Functions. The same accounting principles are applied to segment reporting as in the consolidated accounts. Transactions between segments take place on normal commercial terms.

	2021	2020
Asia and Oceania		
External net sales	26,304	28,586
Operating profit	427	270
Operating margin, %	1.6	0.9
Assets excluding tax assets and internal receivables	11,579	12,090
Liabilities excluding tax liabilities and internal liabilities	2,789	2,607
Investments	280	617
Depreciation and amortisation	1,467	1,751

Cont. Note 3 Segment reporting

	2021	2020		2021	2020
Europe and Africa¹			Eliminations		
External net sales	132,434	128,440	Net sales to other segments	-54,775	-54,619
Operating profit	2,884	2,646	Total		
Operating margin, %	2.2	2.1	External net sales	198,967	187,031
Assets excluding tax assets and internal receivables	29,221	42,436	Operating profit	15,255	3,099
Liabilities excluding tax liabilities and internal liabilities	15,355	15,167	Operating margin, %	7.7	1.7
Investments	1,556	445	Net financial items	-955	-1,047
Depreciation and amortisation	3,868	4,331	Profit after financial items	14,300	2,052
North and South America			Assets excluding tax assets and internal receivables	171,321	166,971
External net sales	40,229	30,005	Liabilities excluding tax liabilities and internal liabilities	114,721	114,052
Operating profit	886	181	Investments	3,464	5,100
Operating margin, %	2.2	0.6	Depreciation and amortisation	22,320	25,953
Assets excluding tax assets and internal receivables	16,494	20,405			
Liabilities excluding tax liabilities and internal liabilities	8,491	8,018			
Investments	625	917			
Depreciation and amortisation	2,671	2,877			
Group Functions					
Net sales to other segments	54,775	54,619			
Operating profit	11,078	2			
Operating margin, %	20.2	0.0			
Assets excluding tax assets and internal receivables	114,027	92,040			
Liabilities excluding tax liabilities and internal liabilities	88,086	88,260			
Investments	1,003	3,121			
Depreciation and amortisation	14,314	16,994			

¹/South Africa

Operating profit for each segment is based on how H&M tracks results internally within the group and may deviate from the fiscal result in each market. All effects of IFRS 16 are included under Group Functions. Impairment of non-current assets totalling SEK 115 m, as a result of impairment testing, is allocated to segments as follows: Asia and Oceania SEK 1 m, Europe and Africa SEK 20 m, and North and South America SEK 94 m. For further information see note 13.

The group's property, plant and equipment amounted to SEK 79,662 m (91,174) as of 30 November 2021. 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 3,969 m (4,978) as of 30 November 2021.

4. NET SALES

The group's income is generated mainly by the sale of clothing, accessories, footwear, cosmetics, home textiles and homeware to consumers. The customers are mainly private individuals, with the same prices applying to all customers. Any price reductions are general and not directed to any specific individual. Sales revenues are reported as net sales in the income statement, i.e. sales revenue less value-added tax, returns and discounts. Revenue from both store and online sales is reported in conjunction with sale/delivery to the customer and is based on the country in which the store is located or the online customer lives. All revenue is recognised at the time of delivery. In the case of store sales, therefore, the transaction price is due for payment immediately when the customer makes the purchase and receives the product in the store. In the case of online sales this principle means that revenue is reported at the time of delivery, which is the date on which control of the goods is transferred to the customer.

The right to return goods is, as a minimum, in accordance with the local rules in the country concerned. Based on historical data and best estimates, a returns reserve and a right of return asset are calculated which are reported gross under Other current liabilities and Stock-in-trade.

The payment terms are the same for all customers paying in cash or by card and the amount of remuneration is not variable. In certain markets (mainly online) the group collaborates with an external partner to offer payment terms that allow later payment against invoice, usually after 30 days.

Gift cards are offered in many countries and generally give rise to a liability in the country concerned with effect from the date of purchase. Revenue is then recognised when the card is used or expires.

Franchise sales have two components: sales of goods to franchisees, which are reported on delivery of the goods, and franchise fees, which are reported when the franchisee sells goods to the consumer.

The points that members of the H&M loyalty programme can earn and in the future use in the form of discounts represent a right that they would not have without entering into this agreement. Points earned that have not been used are reported as a current liability as well as a reduction in revenue in order to correspond to the future reduction in revenue that arises when the points issued are used to obtain discounts. Revenue is recognised when the points are used or when they expire 12 months after being earned. The group applies the practical expedient not to disclose information about remaining performance obligations since these are thus part of contracts with an original expected duration of one year or less. The liability is based on 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.

	2021	NUMBER OF STORES 30 NOV 2021	2020	NUMBER OF STORES 30 NOV 2020
Germany	28,001	441	29,684	457
US	27,614	548	20,802	582
UK	13,901	265	11,486	289
France	9,224	216	9,166	228
Sweden	8,292	148	8,015	168
Russia	7,833	168	6,226	155
Mainland China	7,268	445	9,748	505
Italy	6,244	169	6,079	174
Spain	5,722	146	5,535	166
Netherlands	5,676	121	5,758	135
Other	79,192	2,134	74,532	2,159
Total	198,967	4,801	187,031	5,018

5. REVENUE FROM GROUP COMPANIES

The parent company's internal sales consist of royalties of SEK 3,914 m (3,502) and other income of SEK 39 m (50) 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 and amortisation see note 9.

7. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2021	BOARD, CEO, EXECUTIVE MANAGEMENT, SALARY	SALARY, OTHER EMPLOYEES	SOCIAL SEC. COSTS TOTAL	OF WHICH PENS. TOTAL	OF WHICH PENS. BOARD, CEO, EXECUTIVE MANAGEMENT
Sweden, parent company	21	–	-46	-53	4
Subsidiaries	54	30,407	7,430	759	18
Group total	75	30,407	7,384	706	22

The negative social security and pension costs in the parent company are due to a correction by Fora relating to the years 2004–2008.

2020	BOARD, CEO, EXECUTIVE MANAGEMENT, SALARY	SALARY, OTHER EMPLOYEES	SOCIAL SEC. COSTS, TOTAL	OF WHICH PENS. TOTAL	OF WHICH PENS. BOARD, CEO, EXECUTIVE MANAGEMENT
Sweden, parent company	19	–	15	9	9
Subsidiaries	69	29,771	7,085	755	18
Group total	88	29,771	7,100	764	27

Board fees

Board fees paid for the year as approved by the 2020 annual general meeting (AGM) amounted to SEK 6,825,000 (6,825,000). Board fees were paid as follows:

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

The fees were paid as resolved at the 2020 AGM. This means that the fees related to the period until the next AGM was held, i.e. the period 7 May 2020 to 6 May 2021. The amounts were paid out after the 2021 AGM.

As of the AGM on 6 May 2021 the board consists of eight ordinary members elected by the AGM. There are also three employee representatives, with three deputies for these positions. Eight members of the board are women and six are men. Six of the 14 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 year. The transactions took place on market terms and remuneration for 2021 amounted to SEK 6.4 m (3.0). Outstanding balances as of 30 November 2021 totalled SEK 0.3 m (0.1). 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 2021 amounted to SEK 1.9 m (4.2). Outstanding balances as of 30 November 2021 totalled SEK 0.1 m (0.0).

Remuneration of senior executives

Remuneration of senior executives is based on guidelines adopted annually by the AGM; see the administration report on pages 59–67.

Remuneration of the chief executive officer

Remuneration paid to the CEO during the 2021 financial year in the form of salary and benefits amounted to SEK 14.2 m (12.2). In addition, the CEO received variable remuneration of SEK 7.1 m (0) in respect of the 2021 financial year that was paid and expensed in the first quarter of 2022. 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 4.3 m (4.1). The retirement age for the CEO is 65.

During the comparative 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 a 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 for the first three years of retirement the person received a pension equivalent to 65 percent of fixed salary and thereafter receives a lifelong pension equivalent to 50 percent of the same salary, amount to SEK 125.6 m (135.4). The change in the year's pension commitments recognised as liabilities includes actuarial losses of SEK 3.2 m (actuarial gains of SEK 1.1 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 2021 the executive management comprised 14 (14) 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 person with responsibility for Business Tech, the CTO 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, during the 2021 financial year in the form of salary and benefits amounted to SEK 53.7 m (68.5). In addition, members of the executive management team, other than the CEO, received variable remuneration of SEK 14.9 m (0) in respect of the 2021 financial year that was paid and expensed in the first quarter of 2022. Pension expenses relating to the executive management team during the year amounted to

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

SEK 17.5 m (18.8). There are rules in place for members of the executive management team with respect to supplements to retirement pension beyond the ITP plan. The retirement age varies between 62 and 65. The cost of this commitment is partially covered by separate insurance policies.

H&M Incentive Program (HIP)

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

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

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

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

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

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

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

In the consolidated accounts the costs of the incentive programme are recognised in accordance with the rules on short-term profit-sharing and bonus schemes set out in IAS 19. The expense is recognised when the amount has been established and an obligation exists. The amount is transferred to the foundation during the next financial year.

For 2021 a contribution of SEK 224 m (0) 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

	2021 TOTAL	MALE %	2020 TOTAL	MALE %					
					Romania	998	19	1,193	23
					Croatia	281	9	312	9
					Singapore	371	33	338	33
					Bulgaria	308	22	320	22
					Latvia	122	13	211	13
					Malaysia	632	51	679	52
					Mexico	1,761	46	1,566	47
					Chile	1,708	43	1,392	38
					Lithuania	188	7	204	9
					Serbia	223	16	212	27
					Estonia	201	6	217	6
					Australia	1,049	11	1,151	28
					Philippines	499	47	525	49
					Taiwan Region	283	27	324	27
					Peru	631	46	455	53
					Macao SAR	36	39	45	44
					India	1,763	61	1,891	60
					South Africa	826	36	587	37
					Puerto Rico	56	38	39	54
					Cyprus	37	24	39	62
					New Zealand	224	29	232	23
					Kazakhstan	219	31	159	29
					Colombia	267	46	264	48
					Iceland	79	11	116	11
					Vietnam	383	45	389	40
					Georgia	100	11	107	11
					Ukraine	315	27	206	16
					Uruguay	241	28	238	29
					Bosnia- Herzegovina	26	12	21	0
					Belarus	90	24	64	23
					Other countries	653	75	888	73
					Total	107,375	26	110,325	26
Sweden	10,540	25	10,214	23					
Norway	1,643	9	1,772	10					
Denmark	1,508	9	1,807	9					
UK	7,081	24	7,909	26					
Switzerland	1,666	14	1,754	14					
Germany	9,592	19	12,392	19					
Netherlands	2,313	17	2,647	17					
Belgium	2,192	27	2,152	24					
Austria	1,819	10	1,853	10					
Luxembourg	199	15	208	13					
Finland	779	4	976	4					
France	4,388	24	4,515	25					
US	12,416	35	10,512	41					
Spain	4,046	23	3,679	24					
Poland	5,999	16	6,224	16					
Czech Republic	1,048	18	1,044	13					
Portugal	644	15	626	14					
Italy	3,482	24	3,953	35					
Canada	1,597	24	1,570	23					
Slovenia	141	6	140	7					
Ireland	375	17	375	17					
Hungary	853	14	702	14					
Slovakia	248	15	285	15					
Greece	813	16	896	17					
Mainland China	7,898	25	8,498	28					
Hong Kong SAR	684	36	800	35					
Japan	1,972	27	2,243	28					
Russia	4,791	24	3,542	28					
South Korea	583	21	984	26					
Turkey	1,495	44	1,669	42					

9. DEPRECIATION AND AMORTISATION

Depreciation and amortisation have 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 10–20 percent of cost.

Buildings are depreciated at 3 percent of cost. No depreciation is applied to land values. Depreciation and amortisation for the year are reported in the income statement in accordance with the table below.

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Cost of goods sold	1,617	1,948	–	–
Selling expenses	19,831	22,756	–	–
Administrative expenses	872	1,249	23	34
Total	22,320	25,953	23	34

Depreciation relating to right-of-use assets is included above in the amount of SEK 11,988 m (13,869) for the group, which breaks down as follows: cost of goods sold SEK 881 m (1,087), selling expenses SEK 10,730 m (12,403) and administrative expenses SEK 377 m (379).

10. AUDIT FEES

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Deloitte¹				
Statutory audit	49.5	–	13.5	–
Auditing other than statutory audit	4.6	–	–	–
Tax consultancy	0.5	–	–	–
Other consultancy	2.3	–	–	–
Ernst & Young²				
Statutory audit	–	34.0	–	4.8
Auditing other than statutory audit	–	5.2	–	0.5
Tax consultancy	–	10.1	–	0.1
Other consultancy	–	10.2	–	0.4
Other auditors				
Statutory audit	13.8	11.0	–	–
Total	70.7	70.5	13.5	5.8

1) Auditors for the group since the 2021 AGM. Audit assignments in subsidiaries for Deloitte during the previous year are included under "Other auditors".

2) For 2021 Ernst & Young is included under "Other auditors".

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 513 m (378). 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 Tax

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
<i>Tax expense (-)/ tax receivable (+):</i>				
Current tax				
Tax expense for the period	-3,295	-2,546	-831	-14
Adjusted tax expense for previous years	-81	-189	0	0
Subtotal	-3,376	-2,735	-831	-14
Deferred tax receivable (+)/tax expense (-) in respect of:				
Stock-in-trade	138	136	-	-
Loss carryforwards in subsidiaries	-924	956	-	-
Pension provisions	-43	20	6	-2
Intangible non-current assets	193	282	-	-
Property, plant and equipment	728	-235	-	-
Rent-related provisions	-155	547	-	-
Other temporary differences	43	212	-	-
Effect of changed tax rates	106	8	-	-
Subtotal	86	1,926	6	-2
Total	-3,290	-809	-825	-16
Deferred tax recognised in other comprehensive income in respect of:				
Hedging reserves	26	-21	-	-
Defined benefit pension plans	-43	26	-1	1
Total	-17	5	-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% (21.4%)	-3,060	-439	-2,590	-583
Difference in foreign tax rates	19	-50	-	-
Non-deductible/non-taxable	-193	-139	-27	5
Other	-81	-	-	-
Tax for previous years	-81	-189	0	0
Tax-free dividend subsidiaries	-	-	1,792	562
Effect of changed tax rates	106	8	-	0
Total	-3,290	-809	-825	-16

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Recognised deferred tax assets relate to:				
Stock-in-trade	363	194	-	-
Loss carryforwards in subsidiaries	73	995	-	-
Pension provisions	112	153	86	80
Intangible non-current assets	182	193	-	-
Property, plant and equipment	1,185	694	-	-
Rent-related provisions	1,906	2,046	-	-
Hedging reserves	144	-	-	-
Other temporary differences	1,661	1,438	-	-
Total	5,626	5,713	86	80
Recognised deferred tax liabilities relate to:				
Stock-in-trade	172	177	-	-
Intangible non-current assets	1,178	1,382	-	-
Property, plant and equipment	1,853	2,030	-	-
Rent-related provisions	112	97	-	-
Hedging reserves	119	76	-	-
Other temporary differences	167	226	-	-
Total	3,601	3,988		

As of the closing date, the group has no loss carryforwards that are not represented by recognised deferred tax assets. The portion of loss carryforwards with a limited utilisation period is not material.

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 costs for acquired services, costs for 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	
	2021	2020
Leasehold and similar rights		
Opening cost	1,097	1,172
Acquisitions during the year	173	66
Sales/disposals	-128	-88
Translation effects	20	-53
Closing cost	1,162	1,097
Opening amortisation	-789	-787
Sales/disposals	124	87
Amortisation for the year	-117	-123
Translation effects	-12	34
Closing accumulated amortisation	-794	-789
Closing book value	368	308
Opening value, projects in progress	4	27
Change for the year	1	-19
Translation effects	0	-4
Closing value, projects in progress	5	4
Closing book value incl. projects	373	312
Adjustment in respect of IFRS 16 ¹	-149	-121
Total closing book value	224	191

¹ See note 15.

	GROUP	
	2021	2020
Capitalised development expenditure		
Opening cost	13,161	12,996
Acquisitions during the year	560	1,448
Write-downs	-25	-1,283
Closing cost	13,696	13,161
Opening amortisation	-2,984	-2,023
Amortisation for the year	-1,449	-1,216
Write-downs	5	255
Closing accumulated amortisation	-4,428	-2,984
Closing book value	9,268	10,177

Capitalised development expenditure refers mainly to IT-related investments. Amortisation has commenced for those parts that were taken into use during 2013–2021, corresponding to around 96 percent of the capitalised development expenditure. Those projects that are not yet ready for use are tested for impairment annually and no impairment has been identified. Systems that are no longer in use with an original cost of SEK 25 m (1,283) have been written off entirely.

	GROUP	
	2021	2020
Goodwill²		
Opening book value	64	64
Change for the year	–	–
Closing book value	64	64

² 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 2021. 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 11.5 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, mainly as selling expenses. The general approach is that each store represents a cash-generating unit for impairment testing purposes. Impairment of non-current assets as a result of impairment testing for 2021 amounts to SEK 115 m (263). In addition to this, impairment of non-current assets as a result of future store closures amounts to SEK 305 m (118).

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

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Buildings				
Opening cost	1,134	1,179	235	235
Acquisitions during the year	–	–	–	–
Sales/disposals	0	-19	–	–
Translation effects	22	-26	–	–
Closing cost	1,156	1,134	235	235
Opening depreciation	-539	-521	-110	-103
Sales/disposals	–	6	–	–
Depreciation for the year	-33	-36	-6	-7
Translation effects	-14	12	–	–
Closing accumulated depreciation	-586	-539	-116	-110
Closing book value	570	595	119	125
Land				
Opening cost	150	154	7	7
Acquisitions during the year	–	–	–	–
Sales/disposals	–	–	–	–
Translation effects	4	-4	–	–
Closing cost	154	150	7	7

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Equipment				
Opening cost	69,449	77,486	169	281
Acquisitions during the year	2,389	5,099	8	2
Sales/disposals	-8,060	-7,198	-52	-114
Translation effects	2,510	-5,938	–	–
Closing cost	66,288	69,449	125	169
Opening depreciation	-39,000	-39,510	-133	-189
Sales/disposals	7,348	6,172	52	80
Depreciation for the year	-7,923	-9,000	-14	-24
Translation effects	-1,673	3,338	–	–
Closing accumulated depreciation	-41,248	-39,000	-95	-133
Closing book value	25,040	30,449	30	36
Opening value, projects in progress	445	2,103	1	1
Change for the year	354	-1,480	-1	–
Translation effects	13	-178	–	–
Closing value, projects in progress	812	445	–	1
Total closing book value	25,852	30,894	30	37

14. INTERESTS IN ASSOCIATES

	GROUP	
	2021	2020
Opening balance	247	210
New investments	489	69
Sales/disposals	0	0
Dividends	0	0
Share of result	-50	-32
Closing balance	686	247

2021	CORPORATE ID NUMBER	DOMICILE	SHARE %	SHARE OF RESULT, SEK M
Sellhelp AB ¹	556996-1260	Stockholm	74.7	-36
TreeToTextile AB	556989-2648	Stockholm	28.0	-7
Worn Again Technologies Ltd		UK	29.4	-7
Thread Inc ²		US	23.5	0
CALA Inc ^{1,3}		US	82.4	0

2020				
Sellhelp AB ¹	556996-1260	Stockholm	71.6	-20
TreeToTextile AB	556989-2648	Stockholm	25.8	-5
Worn Again Technologies Ltd		UK	29.2	-7

1) The H&M group's holdings in Sellhelp AB and CALA Inc do not amount to a controlling interest.

2) Acquired 24 November.

3) Acquired 23 November.

15. LEASES

Background and scope

Under IFRS 16, a lease is an agreement that controls the right to use an identifiable asset during a given period against payment. The majority of the contracts that H&M 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. In accordance with IFRS 16 a lease liability and a right-of-use asset are calculated for the contracts included. The lease liability is measured initially at the present value of the future lease payments discounted using the interest rate implicit in the lease, and in subsequent periods by increasing the liability to reflect the effect of interest and reducing it to reflect the effect of lease payments made. The right-of-use asset is measured initially at the value of the lease liability and in subsequent periods at cost less depreciation and impairment. Right-of-use assets are depreciated over the estimated lease term. In accordance with the standard, the lease liability is calculated based on fixed lease payments. 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 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. The company has no sale and leaseback transactions. Some leases contain clauses concerning restoration of the premises; the effect of this is not material for the group.

The H&M group has around 4,800 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.

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.

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 depreciation of right-of-use assets. Interest expense and depreciation 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 outflow for leases of SEK 12,279 m (14,174) for the 2021 financial year.

The amounts attributable to leasing activities that were recognised in the income statement during the year are presented below:

SEK M	GROUP	
	2021	2020
Depreciation of right-of-use assets	12,044	13,941
Interest expense for lease liabilities	779	951
Expense for variable lease payments	5,605	5,326
Lease terminations, effect on results	2,078	1,993
Total expense attributable to leasing activities	20,507	22,211

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.

	RIGHT-OF-USE ASSETS				LEASE LIA-BILITY
	STORES	WARE-HOUSES	OFFICES	TOTAL	
Opening balance 1 Dec 2020	52,541	3,645	3,349	59,534	63,733
Leases added	2,991	803	-40	3,754	4,319
Depreciation of right-of-use assets	-10,666	-600	-778	-12,044	
Translation differences	1,616	125	100	1,841	2,033
Interest expense for lease liability					779
Lease payments					-13,788
Closing balance 30 Nov 2021	46,481	3,973	2,631	53,085	57,076

A maturity analysis of the group's lease liabilities included in IFRS 16 as of 30 November 2021 is presented below:

RENTAL COMMITMENTS SEK M	GROUP	
	2021	2020
In next 12 months	11,698	13,275
In next one to three years	15,308	17,660
In next three to five years	8,298	9,461
More than five years ahead	21,768	23,337
Total	57,072	63,733

16. STOCK-IN-TRADE

The stock-in-trade, which consists of merchandise, 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 calculated selling expenses. From the moment the goods are transferred from the supplier to the transport service provider appointed by H&M, the goods are owned according to civil law by H&M and become part of H&M's reported stock-in-trade. 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 the majority of the group's goods, cost is calculated as weighted average prices; for other stock accounting, the carrying amount is calculated as the selling price less the estimated gross margin (the retail method). The group is continuing to gradually move across to calculating cost as weighted average prices, but this change has no material impact on the consolidated financial statements.

Stock-in-trade amounted to SEK 37,306 m (38,209), a 2.4 percent decrease in SEK compared with the same point in time last year. In local currencies there was a 2.5 percent increase.

Significant write-downs are rare. There were no material write-downs in the current financial year or the previous financial year. Only an insignificant part of the stock-in-trade is valued at net realisable value. The group's asset for rights of return does not increase stock-in-trade by a material amount. There is deemed to be no material obsolescence in the stock-in-trade.

The stock-in-trade amounted to 20.8 percent (21.9) of total assets and 18.7 percent (20.4) of net sales.

17. PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Prepaid rent	2,884	2,232	–	–
Other items	1,923	1,208	90	57
Total	4,807	3,440	90	57

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	
	2021	2020	2021	2020
Cash and bank balances	24,836	15,580	–	–
Short-term investments, 0–3 months	2,635	960	–	–
Total	27,471	16,540	–	–

Investments are made on market terms and the interest rates are between -0.6 and 16.4 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. In the 2021 financial year a dividend of SEK 10,757,968,000 was distributed.

The group's managed capital consists of shareholders' equity. The group's goal with respect to managing the capital is to enable good growth to continue and to be prepared to exploit business opportunities. The board of directors' intention is to continue to provide shareholders with a good direct return while ensuring that, as in the past, expansion and investments in the business can proceed with a continued strong financial position and freedom of action. Based on this, the board of directors has established a dividend policy stating that the dividend is to exceed 50 percent of profit after tax, but taking into consideration the capital structure target. The dividend will be split into two instalments, one paid in the spring and one in the autumn.

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, mortality, 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 a former CEO.

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2021, Alecta's consolidation ratio was 169 percent (144). 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.

Cont. Note 20 Provisions for pensions

	GROUP			PARENT COMPANY		
	2021	2020	2019	2021	2020	2019
Present value of defined benefit obligations	1,794	1,819	1,784	154	180	188
Fair value of managed assets	-1,366	-1,207	-1,274	-10	-11	-12
Provisions for pension obligations recognised in the balance sheet	428	612	510	144	169	176
Opening balance 1 December	612	510	445	169	176	181
Recognised pension expenses, net	-112	172	137	-5	5	7
Premiums paid by employer	-46	-52	-54	-	-	-
Pensions paid out	-26	-18	-18	-20	-12	-12
Disbursements from assets	-	-	-	-	-	-
Carrying amount of defined benefit obligations, 30 November	428	612	510	144	169	176

Of the total recognised obligation, SEK 168 m (194) relates to defined benefit pensions plans in Sweden and SEK 202 m (360) to plans in Switzerland.

The weighted average maturity of these pension plans is 9.2 years for the Swedish plans and 15.1 years for the Swiss plans.

The amounts recognised as pension expenses comprise the following items:

Current service cost	68	77	67	-	-	-
Interest expense	6	7	16	2	2	4
Interest income	-3	-4	-10	0	0	0
Reductions/adjustments gains (-) and losses (+)	-3	-12	8	-	-	-
Past service cost	-2	0	-20	-	-	-
Changes in foreign exchange rates for plans valued in a currency other than the reporting currency	9	-11	10	-	-	-
Pension expenses recognised in the income statement	75	57	71	2	2	4

	GROUP			PARENT COMPANY		
	2021	2020	2019	2021	2020	2019
Pension expenses recognised in other comprehensive income						
Return on plan assets	-82	70	-55	1	2	2
Actuarial gains/losses demographic assumptions liability	-41	-	-14	-	-	-14
Actuarial gains/losses financial assumptions liability	-64	44	135	-8	1	15
Actuarial gains (-) and losses (+)	-187	114	66	-7	3	3
Total recognised pension expenses	-112	171	137	-5	5	7

The cost of defined contribution pension plans amounts to SEK 890 m (602).

Next year's expected payments for defined benefit pension plans amount to SEK 37 m.

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

Discount rate	0.55%	0.31%	0.40%	1.50%	1.00%	1.25%
Future salary increases	1.02%	0.79%	1.29%	3.00%	2.75%	3.00%
Future pensions increases (inflation)	0.23%	0.22%	0.27%	2.00%	1.75%	2.00%

A 0.5 percentage point reduction in the discount rate would increase the liability for the Swedish commitments by SEK 8.5 m (10.5).

21. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		FINANCIAL ASSETS MEASURED AT AMORTISED COST		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		HEDGING INSTRUMENTS		TOTAL BOOK VALUE	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Other non-current receivables	–	–	860	907	–	–	–	–	860	907
Accounts receivable	–	–	3,059	3,086	–	–	–	–	3,059	3,086
Derivatives	–	–	–	–	–	–	1,422	992	1,422	992
Other shares and interests	5,091	786	–	–	–	–	–	–	5,091	786
Cash and cash equivalents	–	–	27,471	16,540	–	–	–	–	27,471	16,540
Total financial assets	5,091	786	31,390	20,533	–	–	1,422	992	37,903	22,311
Accounts payable	–	–	–	–	20,382	9,511	–	–	20,382	9,511
Liabilities to credit institutions	–	–	–	–	9,615	16,332	–	–	9,615	16,332
Derivatives	–	–	–	–	–	–	1,015	560	1,015	560
Total financial liabilities	–	–	–	–	29,997	25,843	1,015	560	31,012	26,403

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. For lease liabilities see note 15.

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.

Classification and subsequent recognition

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

Financial assets at fair value through other comprehensive income

In view of the strategic nature of the interests, assets in this category – mainly Klarna and Renewcell – are revalued in other comprehensive income as well as in financial assets in the balance sheet. The valuation of Renewcell is based on the share price as of 30 November 2021 (level 1). The valuation of Klarna is based on the latest performed funding round in Klarna (level 3).

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. The group's own credit operations were wound up during the year and are now managed through collaboration with an external party. 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.

Hedging instruments

Currency derivatives are measured at fair value based on Level 2 inputs in the IFRS 13 hierarchy. As of 30 November 2021, forward contracts with a positive market value amount to SEK 1,422 m (992), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 1,015 m (590), 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.

	GROUP	
	2021	2020
Change in hedging reserves		
Change in value of derivatives	1,077	-220
Reclassified to profit or loss	-1,178	312
Total	-101	92

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

Cont. Note 21 Financial assets and liabilities by category

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. The effectiveness of cash flow hedges for hedging forecast currency flows is measured monthly by comparing the hedged item with the hedging instrument.

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 effectiveness of hedging of net investments in foreign operations is measured quarterly by comparing the hedged item with the hedging instrument.

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 reported in the hedging reserve as of the closing date.

SELL/BUY	BOOK VALUE AND FAIR VALUE, SEK		NOMINAL AMOUNT, SEK		AVERAGE REMAINING TERM IN MONTHS	
	2021	2020	2021	2020	2021	2020
NOK/SEK	1	2	942	568	3	3
GBP/SEK	-57	35	3,570	3,048	3	3
DKK/SEK	-13	15	1,025	854	3	3
CHF/SEK	-40	21	987	885	4	3
EUR/SEK	-220	314	17,391	15,934	4	3
PLN/SEK	7	29	1,370	1,364	4	3
USD/SEK	-261	148	6,015	4,309	3	3
CAD/SEK	-27	12	1,227	624	4	3
JPY/SEK	-23	19	793	824	4	3
HKD/SEK	-4	3	86	104	3	3
RON/SEK	-8	9	509	450	4	3
CZK/SEK	-3	0	373	254	3	3
HUF/SEK	5	10	404	322	4	3
AUD/SEK	-4	3	435	289	3	3
CNH/SEK	-38	-2	617	797	3	3
RUB/SEK	-22	23	952	626	3	3
TRY/SEK	54	7	217	157	3	3
MXN/SEK	14	-21	929	563	3	3
SEK/USD	1,175	-427	27,615	12,166	3	3
SEK/EUR	21	-23	1,669	1,118	4	2
Subtotal	558	177	67,126	45,256		

SELL/BUY	BOOK VALUE AND FAIR VALUE, SEK		NOMINAL AMOUNT, USD		AVERAGE REMAINING TERM IN MONTHS	
	2021	2020	2021	2020	2021	2020
KRW/USD	2	-7	31	32	3	3
CLP/USD	15	-1	15	21	3	3
PEN/USD	0	1	5	8	2	2
Subtotal	17	-7	51	61		
Total	575	170				

At the closing date, forward contracts with a positive market value amount to SEK 1,422 m (992), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 1,015 m (590), which is reported under other current liabilities. Of the outstanding forward contracts, losses of SEK 169 m (gains of SEK 233 m) were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 576 m (170) is included in the hedging reserve in equity.

22. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
	2021	2020	2021	2020
Holiday pay liability	1,574	1,518	–	–
Social security costs	1,295	850	47	44
Payroll liability	1,724	1,604	1	1
Costs relating to premises	7,835	8,163	–	–
Other accrued overheads	9,643	7,746	143	168
Total	22,071	19,881	191	213

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 and Östra Hamngatan 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 558 m (492) for the financial year.

Outstanding balances with related parties as of 30 November 2021 totalled SEK 7.4 m (55.6).

Transactions with associates took place on market terms and did not amount to material sums.

See also note 7 for outstanding balances with board members.

24. INTEREST-BEARING LIABILITIES

	GROUP				PARENT COMPANY			
	INTEREST RATE % 30 NOV	COMMERCIAL PAPERS	BONDS (EMTN)	LOANS FROM CREDIT INSTITUTIONS	INTEREST RATE % 30 NOV	COMMERCIAL PAPERS	BONDS (EMTN)	LOANS FROM CREDIT INSTITUTIONS
2021								
2022	0.3–12.25	275	–	161	0.3	275	–	–
2023	0.234	–	–	2,051	0.234	–	–	2,068
2024	0	–	–	–	0	–	–	–
2025	0	–	–	–	0	–	–	–
2026	1.7	–	–	2,000	1.7	–	–	2,000
2027	0	–	–	–	0	–	–	–
2028	0	–	–	–	0	–	–	–
2029	0.25	–	5,127	–	0.25	–	5,165	–
		275	5,127	4,212		275	5,165	4,068

	GROUP			PARENT COMPANY		
	INTEREST RATE % 30 NOV	COMMERCIAL PAPERS	LOANS FROM CREDIT INSTITUTIONS	INTEREST RATE % 30 NOV	COMMERCIAL PAPERS	LOANS FROM CREDIT INSTITUTIONS
2020						
2020	6.15–8.72	–	226	0–0	–	–
2021	0.325–12.25	1,300	6,376	0.325–0.8	1,300	6,198
2022	1.081	–	400	1.081	–	400
2023	0.555–1.698	–	4,030	0.555–1.698	–	4,068
2024	0	–	–	0	–	–
2025	1.817	–	2,000	1.817	–	2,000
2026	1.7	–	2,000	1.7	–	2,000
		1,300	15,032		1,300	14,666

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

Cont. Note 24 interest-bearing liabilities

	2020	CASH FLOW CHANGE	ACQUISITIONS	2021
Loans from credit institutions	15,032	-10,819	–	4,213
Commercial paper	1,300	-1,025	–	275
Bond	–	–	5,127	5,127
Total liabilities from financing activities	16,332	-11,844	5,127	9,615

	2019	CASH FLOW CHANGE	2020
Loans from credit institutions	12,987	2,045	15,032
Commercial paper	4,330	-3,030	1,300
Total liabilities from financing activities	17,317	-985	16,332

1) Not affecting cash flow.

As of 30 November 2021 the group had non-current lease liabilities of SEK 45,379 m (50,458) and current lease liabilities of SEK 11,698 m (13,275), which are reported in note 15.

25. APPROPRIATIONS

	PARENT COMPANY	
	2021	2020
Group contributions paid	-10	-3,458
Depreciation in excess of plan	6	19
Total	-4	-3,439

26. INTERESTS IN GROUP COMPANIES

All companies are wholly owned.

2021	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	0.5	Netherlands
Total			819.1	
2021	CORPORATE ID NO.			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

Cont. Note 26 Interests in group companies

2021	CORPORATE ID NO.	DOMICILE	2021	CORPORATE ID NO.	DOMICILE
H & M NB Belgium NV		Belgium	H & M Hennes & Mauritz EOOD		Bulgaria
H & M Hennes & Mauritz GesmbH		Austria	Weekday Brands AB	556675-8438	Sweden
H & M Hennes & Mauritz Oy		Finland	Singular AB	559226-1647	Sweden
H & M Hennes & Mauritz SARL		France	H & M Hennes & Mauritz S.A. de C.V.		Mexico
H & M Hennes & Mauritz Logistics GBC France		France	H & M Hennes & Mauritz Management S.A. de C.V.		Mexico
H & M Hennes & Mauritz LP		US	H & M Hennes & Mauritz Servicios S.A. de C.V.		Mexico
H & M Services US Inc.		US	H & M Hennes & Mauritz Support S.A. de C.V.		Mexico
H&M Retail USA Inc.		US	H & M Hennes & Mauritz SIA		Latvia
H&M Fashion Inc.		US	H & M Retail SDN BHD		Malaysia
Hennes & Mauritz SL		Spain	H & M Hennes & Mauritz SpA		Chile
Hennes & Mauritz Customer Services SL		Spain	H & M Hennes & Mauritz OÜ		Estonia
H & M Hennes & Mauritz Sp. z o.o.		Poland	H & M Hennes & Mauritz UAB		Lithuania
H & M Hennes & Mauritz Logistics Sp. z o.o.		Poland	H & M Hennes & Mauritz d.o.o.		Serbia
H & M Hennes & Mauritz Logistics 1 Sp. z o.o.		Poland	H and M Hennes and Mauritz Proprietary Limited		South Africa
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic	H & M Hennes & Mauritz Pty Ltd		Australia
Hennes & Mauritz Lda		Portugal	H & M Hennes & Mauritz S.A.C.		Peru
H & M Hennes & Mauritz S.r.l.		Italy	H & M Hennes & Mauritz (Macau) Limited		Macao SAR
H & M Services S.r.l.		Italy	H & M Hennes & Mauritz Retail Private Limited		India
H & M Hennes & Mauritz Inc.		Canada	COS Retail Private Limited		India
H & M Hennes & Mauritz d.o.o.		Slovenia	H & M Services Pvt Ltd		India
H & M Hennes & Mauritz (Ireland) Ltd		Ireland	H & M Hennes & Mauritz INC		Philippines
H & M Hennes & Mauritz Kft		Hungary	H & M Hennes & Mauritz New Zealand Limited		New Zealand
H & M Hennes & Mauritz (Far East) Ltd		Hong Kong SAR	H & M Hennes & Mauritz Cyprus Limited		Cyprus
Puls Trading Far East Ltd		Hong Kong SAR	H & M Hennes & Mauritz Kazakhstan LLP		Kazakhstan
H & M Hennes & Mauritz Holding Asia Ltd		Hong Kong SAR	H & M Hennes & Mauritz Colombia S.A.S.		Colombia
H & M Hennes & Mauritz Ltd		Hong Kong SAR	H & M Hennes & Mauritz Iceland ehf		Iceland
Hennes & Mauritz (Shanghai) Commercial Co Ltd		Mainland China	H & M Hennes & Mauritz Vietnam LLC		Vietnam
H & M Hennes & Mauritz (Shanghai) Trading Co Ltd		Mainland China	H & M Hennes & Mauritz Georgia LLC		Georgia
H & M Hennes & Mauritz (Shanghai) Corporation Service Co.,Ltd		Mainland China	Hennes & Mauritz Uruguay S.A.		Uruguay
H & M Hennes & Mauritz SK s.r.o.		Slovakia	H & M Hennes & Mauritz LLC		Ukraine
H & M Hennes & Mauritz A.E.		Greece	H & M Hennes & Mauritz Bel LLC		Belarus
H & M Hennes & Mauritz LLC		Russia	H & M Hennes & Mauritz B&H d.o.o.		Bosnia-Herzegovina
H & M Hennes & Mauritz TR Tekstil Ltd Sirketi		Turkey	H&M Hennes & Mauritz Kosovo SH.P.K.		Kosovo
H & M Hennes & Mauritz Ltd		South Korea	H&M Hennes & Mauritz Albania SH.P.K.		Albania
H & M Hennes & Mauritz SRL		Romania	H&M Hennes & Mauritz MK dooel Skopje		North Macedonia
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia	H&M Hennes & Mauritz Brazil Importacoes Ltda.		Brazil
H & M Hennes & Mauritz PTE Ltd		Singapore	H&M Hennes & Mauritz EC S.A.S.		Ecuador
			H&M Hennes & Mauritz LLC		Puerto Rico

27. UNTAXED RESERVES

	PARENT COMPANY	
	2021	2020
Depreciation in excess of plan	32	38
Total	32	38

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	
	2021	2020
Parent company's lease guarantees	9,650	9,979
Total	9,650	9,979

29. INTEREST INCOME, INTEREST EXPENSE AND SIMILAR ITEMS

The parent company's interest income and similar items consist of SEK 10 m (291) in interest income and SEK 28 m (9) in translation effects on receivables and liabilities from group companies.

The parent company's interest expense and similar items consist of SEK -242 m (-258) in interest expense and SEK - m (-) in translation effects on receivables and liabilities from group companies.

30. EVENTS AFTER THE CLOSING DATE

The H&M group has since 24 February 2022, temporarily closed all stores in Ukraine for the safety of customers and colleagues. As of 30 November 2021 the H&M group had in total 428 employees and 8 stores in Ukraine, and sales amounted to around 0.2 percent of the H&M group's total sales for the financial year. As communicated on 2 March 2022, the H&M group has temporarily paused all sales in Russia and Belarus. As of 30 November 2021 the H&M group had 168 stores in Russia and 3 stores in Belarus. The total number of employees was 6,910 in Russia and 169 in Belarus. Converted into full-time positions, see note 8, Average number of employees. Sales in Russia amounted to around 4 percent of the H&M group's total sales for the financial year and in Belarus to around 0.1 percent of total sales for the financial year. There is a continued uncertainty concerning the development and the company is monitoring and evaluating the situation continuously.

31. DISTRIBUTION OF EARNINGS

The board of directors proposes to the 2022 annual general meeting that an ordinary dividend of SEK 6.50 per share is paid and that the remaining 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 62.

The board's proposal to the 2022 AGM regarding distribution of earnings¹

	SEK
At the disposal of the annual general meeting	20,104,090,638
The board proposes a dividend to shareholders of SEK: 6.50 per share	10,757,968,000
To be carried forward as retained earnings	9,346,122,638
	<u>20,104,090,638</u>

¹) In addition, the board of directors proposes that the 2022 AGM authorises the board to decide on a SEK 3 billion share buyback programme.

Signing of the annual report

The undersigned hereby provide an assurance that the annual report and the consolidated accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, 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 parent company and the companies making up the group.

Stockholm, 25 March 2022

Karl-Johan Persson
Chair 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

Margareta Welinder
Board member

Tim Gahnström
Board member

Helena Helmersson
Chief Executive Officer

Our audit report was submitted on 25 March 2022

Deloitte AB

Didrik Roos
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

Opinions

We have audited the annual accounts and consolidated accounts of H & M Hennes & Mauritz AB (publ) for the financial year 2020-12-01–2021-11-30 except for the sustainability report on pages 63–74. The annual accounts and consolidated accounts of the company are included on pages 54–105 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 2021 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 2021 and their 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. 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 opinions in this report on the annual accounts and consolidated accounts are 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 opinions

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 opinions.

Other matter

The audit of the report for the financial year 2019-12-01–2020-11-30 has been performed by another auditor, who has issued an auditor's report dated 25 February 2021, with unqualified opinions in the Report of annual accounts and consolidated accounts.

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, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Capitalized IT investments

Capitalized expenditure amounts to SEK 9,268 m as of November 30, 2021 and constitutes mainly of IT-related investments. The Group continues

to run a number of long-term IT programmes of high importance to develop the operating model and to support the strategic direction of the business. Development expenditure is capitalised to the extent that it is estimated that it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and that the cost of the asset can be measured reliably. 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 expensed when incurred. Capitalization of IT investments requires clear policies, consistency and is subject to management's estimates. Key estimates and assumptions include the distinction between development expenditures and maintenance and the useful life of the asset capitalized. A change in management estimates may have a material effect on the financial statements and consequently capitalized IT investments is considered a key audit matter.

Disclosures related to accounting for capitalized expenditure can be found in note 12 (Intangible assets).

Our audit procedures

Our audit procedures included, but were not limited to:

- Assessing the group's accounting principles for capitalization of IT investments in compliance with IFRS with the support of accounting specialists,
- Obtaining an understanding of the internal control environment regarding capitalized IT investments and test identified manual key controls for design and implementation
- Assessing the appropriateness of management estimates related to the distinction between development expenditures and maintenance, and
- On a sample basis testing capitalized IT investment including the estimates made by management related to useful life applied
- Evaluating the appropriateness of disclosures made in the financial statements.

Impairment of store assets

As of November 30, 2021, the Group held SEK 79 662 m of property, plant and equipment consisting mainly of equipment, tools, fixture and fittings (SEK 25,852 m) and right of use assets (SEK 53 086 m). In accordance with IAS 36, Impairment of assets, the Group is required to complete an annual assessment of indicators of impairment of its store portfolio. An impairment charge of equipment, tools, fixture and fitting has been recognized amounting to SEK 115 m, excluding stores where a decision to close was taken prior to year-end.

The Group considers that generally each store constitutes its own cash generating unit and is

assessed for impairment separately. The determination of the cash generating unit requires management judgement and a high degree of estimation.

When a review for impairment is conducted, the Group has estimated the recoverable amount of store assets based on their value in use derived from a discounted cash flow model prepared by management. This requires management judgement, and a high degree of estimation uncertainty relates to the change in customer behaviour affecting future trading performance, the impact of the Covid-19 pandemic and incorporating future strategic changes. Key assumptions include future revenue growth and changes in gross margin, long term growth rates and discount rates.

A change in management estimates may have a material effect on the financial statements consequently impairment of store assets is considered a key audit matter.

Accounting principles and disclosures related to accounting for impairment of store assets can be found in note 1 (Accounting principles), note 13 (Buildings, land and equipment) and note 15 (Leases).

Our audit procedures

Our audit procedures included, but were not limited to:

- Assessing the group's accounting principles for impairment of store assets in compliance with IFRS with the support of accounting specialists,
- Obtaining an understanding of the store

impairment process as well as the forecasting process

- Evaluating and challenging management's range of impairment indicators
- Evaluating and challenging management's assessment of cash generating units and the supporting documentation
- Evaluating and challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, impacts of Covid-19, anticipated changes in customer behaviour and our understanding of the Group's strategic initiatives
- Reviewing the accuracy of past forecasts of growth rates and future cash flows to assess the level of accuracy of the forecasting process
- Assessing the appropriateness of the discount rates applied with the involvement of our internal valuations specialists, and
- Assessing the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36, Impairment of assets, and
- Evaluating the appropriateness of disclosures made in the financial statements.

Accounting for leases

The Group has entered into a large number of lease contracts including approximately 5,000 store premises, multiple offices and warehouses globally. The right of use asset amounts to SEK 53 086 m as of November 2021 and constitutes 30% of the Group's total assets. Accounting for leases is complex and requires a high level of estimations and assumptions made by management such as establishing the term of the lease and an interest

rate of borrowing. The Group is working actively with the store portfolio meaning contracts are changed, terminated, and renewed continuously. Accounting for leases requires a well-functioning process and a clear policy. Changes in estimates, assumptions and assessments made by management may have a material effect on the financial statements and consequently accounting for leases are considered a key audit matter.

Accounting principles and disclosures related to accounting for leases can be found in note 1 (Accounting principles) and note 15 (Leases).

Our audit procedures

Our audit procedures included, but were not limited to:

- Assessing the group's accounting principles for leases in compliance with IFRS with the support of accounting specialists,
- Obtaining an understanding of the internal control environment regarding leases and test identified key controls for design and implementation including related IT systems
- Evaluating management's assessment of lease terms including renewals and extensions
- Evaluating the methodology related to determining the incremental borrowing rate and on a sample basis testing the rate applied,
- Assessing the right of use asset for impairment
- Verifying the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and check the integrity and mechanical accuracy of the lease calculations through recalculation of the expected accounting for leases, and

- Evaluating the appropriateness of disclosures made in the financial statements.

Valuation of stock-in-trade

The Group carries a material level of stock-in-trade held by central warehouses and stores spread over a large amount of countries globally. As of November 30, 2021, stock-in-trade amounts to SEK 37,306 m corresponding to 21% of the Group's total assets. Stock-in-trade is valued at the lower of cost and net realisable value. Valuation of stock-in-trade requires clear policies and is subject to management's estimates are required including calculating the cost of custom duties and freight and estimating a provision for obsolescence and sales returns. The Covid-19 pandemic have increased the uncertainty and customer behaviour is rapidly changing within the retail industry impacting the need to revisit and evaluate the model and method in use continuously. The processes for valuation of stock-in-trade and making appropriate provisions constitute a key audit matter in our audit.

Accounting principles and disclosures related to stock-in-trade can be found in note 1 (Accounting principles) and note 16 (Stock-in-trade).

Our audit procedures

Our audit procedures included, but were not limited to:

- Assessing the group's accounting principles for inventory in compliance with IFRS,
- Obtaining an understanding of the internal control environment regarding valuation of inventory and test identified key controls for design and implementation including related IT systems

- Observing a sample of physical inventory counts in stores and warehouses,
- On a sample basis testing valuation of inventory, and
- Evaluating management's estimates related to provisions for obsolescence and sales return
- Evaluating the appropriateness of disclosures made in the financial statements.

Other Information than the annual accounts and consolidated accounts

Other information consists of the remuneration report and pages 2-53 and 111-116. The Board of Directors and the Managing Director 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 Managing Director

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

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 opinions. 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 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 opinions. 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 Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director'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 opinions.

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 to 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 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

Opinions

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

Managing Director of H & M Hennes & Mauritz AB (publ) for the financial year 2020-12-01–2021-11-30 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A separate list of loans and collateral has been prepared in accordance with the provisions of the Companies Act.

Basis for Opinions

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 opinions.

Responsibilities of the Board of Directors and the Managing Director

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 organization 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 reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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 Managing Director 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 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 63–74, 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.

Deloitte AB, was appointed auditors of H & M Hennes & Mauritz AB (publ) by the general meeting of the shareholders on the 2021-05-06 and has been the company's auditor since 2021-05-06.

Stockholm, 25 March 2022
Deloitte AB

Didrik Roos
Authorised Public Accountant

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

	GROUP	
	2021	2020
RETURN ON EQUITY		
Profit for the year	11,010	1,243
Average shareholders' equity	57,321	55,846
Return on equity	19.2%	2.2%

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.

	GROUP	
	2021	2020
RETURN ON CAPITAL EMPLOYED		
Profit after financial items	14,300	2,052
Interest expense	1,158	1,299
Average shareholders' equity	57,321	55,846
Average interest-bearing liabilities	73,898	49,443
Return on capital employed	11.8%	3.2%

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.

	GROUP	
	2021	2020
GROSS PROFIT		
Net sales	198,967	187,031
Cost of goods sold	-93,961	-93,487
Gross profit	105,006	93,544

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.

	GROUP	
	2021	2020
GROSS MARGIN		
Net sales	198,967	187,031
Gross profit	105,006	93,544
Gross margin	52.8%	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.

	GROUP	
	2021	2020
OPERATING PROFIT		
Net sales	198,967	187,031
Cost of goods sold	-93,961	-93,487
Selling expenses	-80,535	-81,425
Administrative expenses	-9,216	-9,020
Operating profit	15,255	3,099

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.

	GROUP	
	2021	2020
OPERATING MARGIN		
Net sales	198,967	187,031
Operating profit	15,255	3,099
Operating margin	7.7%	1.7%

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

Reason for use: An indicator of operational profitability.

Cont. Key financial performance measures

	GROUP	
	2021	2020
EBITDA		
Operating profit	15,255	3,099
Depreciation and amortisation	22,320	25,953
EBITDA	37,575	29,052
Depreciation of right-of-use assets	-11,988	-13,869
EBITDA excl. IFRS 16	25,587	15,183

Definition: EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). Operating profit before interest, taxes, depreciation, amortisation and impairment incl. and excl. IFRS 16 respectively.

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

Capital performance measures

	GROUP	
	2021	2020
SHARE OF RISK-BEARING CAPITAL		
Shareholders' equity	60,018	54,623
Deferred tax liability	3,601	3,988
Balance sheet total	179,781	174,371
Share of risk-bearing capital	35.4%	33.6%

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.

	GROUP	
	2021	2020
EQUITY/ASSETS RATIO		
Shareholders' equity	60,018	54,623
Balance sheet total	179,781	174,371
Equity/assets ratio	33.4%	31.3%

Definition: Equity in relation to the balance sheet total.

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

	GROUP	
	2021	2020
CAPITAL EMPLOYED		
Shareholders' equity	60,018	54,623
Interest-bearing liabilities	67,119	80,677
Capital employed	127,137	135,300

Definition: Equity plus interest-bearing liabilities.

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

	GROUP	
	2021	2020
OPERATING WORKING CAPITAL		
Accounts receivable	3,059	3,086
Stock-in-trade	37,306	38,209
Accounts payable	-20,382	-9,511
Operating working capital	19,983	31,784

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.

	GROUP	
	2021	2020
TOTAL OPERATING WORKING CAPITAL		
Operating working capital	19,983	31,784
Tax assets	2,834	1,686
Other receivables	3,509	2,397
Prepaid expenses	4,807	3,440
Tax liabilities	-1,441	-1,708
Other liabilities	-5,149	-3,983
Accrued expenses and deferred income	-22,071	-19,881
Total working capital	2,472	13,735

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.

	GROUP	
	2021	2020
NET DEBT		
Provisions for pensions	428	612
Interest-bearing liabilities leases	57,077	63,733
Liabilities to credit institutions	9,614	16,332
Cash and cash equivalents	-27,471	-16,540
Net debt	39,648	64,137
Interest-bearing liabilities leases	-57,077	-63,733
Net debt excl. IFRS 16	-17,429	404

Definition: Interest-bearing liabilities incl. and excl. IFRS 16 respectively 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.

	GROUP	
	2021	2020
FINANCIAL NET DEBT/CASH		
Interest-bearing liabilities excluding lease liabilities and provisions for pensions	9,614	16,332
Cash and cash equivalents and short-term investments	-27,471	-16,540
Financial net debt (+) / net cash (-)	-17,857	-208

Definition: Interest-bearing liabilities excluding lease liabilities and provisions for pensions less cash and cash equivalents and short-term investments.

Reason for use: Used to show the net of the company's borrowing, cash and cash equivalents and short-term investments.

Cont. Key financial performance measures

OPERATING CASH FLOW/ EBITDA	GROUP	
	2021	2020
Cash flow from operating activities	44,619	25,900
EBITDA	37,575	29,052
Operating cash flow/EBITDA	118.7%	89.2%

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	
	2021	2020
Shareholders' equity	60,018	54,623
Number of shares, millions	1,655,072	1,655,072
Equity per share	36.26	33.00

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	
	2021	2020
Cash flow from operating activities	44,619	25,900
Number of shares, millions	1,655,072	1,655,072
Cash flow from operating activities per share	26.96	15.65

Definition: Cash flow from operating activities for the period divided by the 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	
	2021	2020
Price per share at year-end	160.00	181.60
Earnings per share	6.65	0.75
P/E ratio	24	242

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.

The H&M share

KEY RATIOS PER SHARE	2021	2020	2019	2018	2017
Shareholders' equity per share, SEK ¹	36.26	33.00	34.48	35.37	36.08
Earnings per share, SEK ¹	6.65	0.75	8.12	7.64	9.78
Change from previous year, %	+787	-91	+6	-22	-13
Dividend per share, SEK ^{1,2}	6.50	0.00	9.75	9.75	9.75
Share price on 30 November, SEK	160.00	181.60	184.84	167.64	197.10
P/E ratio	24	242	23	22	20

1) Before and after dilution.

2) Dividend which was decided and paid during the year.

MAJOR SHAREHOLDERS, 30 NOVEMBER 2021	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
The Stefan Persson family and related companies	835,656,716	75.9	50.5
The Lottie Tham family and related companies	88,680,400	2.6	5.4
State Street Bank and Trust CO, W9	79,560,546	2.3	4.8
JP Morgan Chase Bank NA	30,448,860	0.9	1.8
Swedbank Robur Fonder	29,616,213	0.9	1.8
Nordea fonder	22,905,761	0.7	1.4
Handelsbanken fonder	22,680,544	0.7	1.4
Fjärde AP-fonden	22,246,412	0.7	1.3
AMF – Försäkring och Fonder	18,575,598	0.6	1.1
Didner & Gerge Fonder Aktiebolag	17,312,822	0.5	1.0

DISTRIBUTION OF SHARES, 30 NOVEMBER 2021

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1–500	201,448	81.7	23,432,252	1.4	116
501–1,000	20,830	8.5	16,355,101	1.0	785
1,001–5,000	19,255	7.8	42,956,406	2.6	2,231
5,001–10,000	2,475	1.0	18,143,783	1.1	7,331
10,001–15,000	749	0.3	9,363,936	0.6	12,502
15,001–20,000	446	0.2	7,930,979	0.5	17,782
20,001–	1,221	0.5	1,536,889,543	92.8	1,258,714
Total	246,424	100.0	1,655,072,000	100.0	6,716

DEVELOPMENT OF THE H&M SHARE PRICE IN SEK OVER THE PAST TEN YEARS



From 1 January 2012–1 January 2022.

Source: Cision/Millistream

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

Annual general meeting

DATE AND VENUE

H&M's annual general meeting 2022 will be held digitally on Wednesday 4 May 2022 at 3 p.m. (CEST), 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 hmgroupp.com/agm.

DIVIDEND

The board of directors has resolved to propose to the annual general meeting on 4 May 2022 that a dividend of SEK 6.50 per share is paid. The board proposes that the dividend is paid in two instalments during the year – one in May and one in November.

The proposed record date for the first dividend payment of SEK 3.25 per share is 6 May 2022. With this record date, the dividend is expected to be paid out by Euroclear Sweden AB on 11 May 2022.

To be entitled to receive the dividend H&M shares must have been purchased no later than 4 May 2022. The ex-dividend date is 5 May 2022.

The record date proposed for the second dividend payment of SEK 3.25 per share is 11 November 2022. With this record date, the dividend is expected to be paid out by Euroclear Sweden AB on 16 November 2022.

To be entitled to receive the second dividend instalment H&M shares must have been purchased no later than 9 November 2022. The ex-dividend date is 10 November.

Calendar

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

31 March 2022	Three-month report
4 May 2022	Annual general meeting 2022 at 3 p.m. (CEST)
29 June 2022	Six-month report
29 September 2022	Nine-month report
27 January 2023	Full-year report

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DISTRIBUTION OF ANNUAL AND SUSTAINABILITY REPORT 2022

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

For information about the H&M group's various brands and business ventures see:

hm.com
cosstores.com
weekday.com
monki.com
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COVER

Circular Design Story, photographed by Rafael Pavarotti.

PRODUCTION

The annual and sustainability report 2021 is printed on FSC® certified paper.



H&M Group