

Address by CEO Karl-Johan Persson
to the H&M group's 2019 annual general meeting

Hello everyone, and a very warm welcome to you.

It's great to see so many people here at our annual general meeting today.

Fashion retail is, as you know, undergoing a major transition. We are therefore in a period of transformation which I would like to tell you about. With a customer offering that is appreciated by fashion fans all over the world, we have a strong starting point and we are taking major initiatives to always be relevant to customers and to secure long-term positive development for the H&M group.

AN INDUSTRY IN RAPID CHANGE

The structural changes that are ongoing in the industry are driven by rapid technological development. Increasing digitalisation in society is creating new customer behaviours. Customers' buying habits are changing and with more and more shopping taking place online, the role of physical stores is also changing. The entire retail landscape is being reshaped. New business models are appearing, customers are raising their expectations and competition is increasingly intense. This development accelerated in 2018, which was a challenging year for the whole industry and also for the H&M group.

MORE FULL-PRICE SALES

We increased the pace of our transformation work in 2018 and after a very tough first half, this work began to have an effect towards the end of the year. We built momentum through the year with sales growth of 3 percent in local currencies for the full year and 6 percent in the fourth quarter. Net sales for the full year amounted to SEK 210 billion, an increase of 5 percent. The group's online sales continued to develop well, increasing by 21 percent in local currencies.

With improved collections full-price sales increased in the fourth quarter, resulting in lower markdowns and increased market share. This is one of a number of signs that customers appreciate the improvements we are making to the product assortment as regards design, quality, price and sustainability. In many markets the growth was driven by good sales both in stores and online, for example the UK, Russia, China and India were markets where sales developed well in the fourth quarter.

The positive signals continued in the first quarter of 2019, with good sales in a number of markets – in Sweden, for example. With a stronger product assortment and adjustments to our buying and logistics processes, we continued to lower markdowns and improved the composition of the stock-in-trade.

ACCELERATED TRANSFORMATION

Looking at results for 2018, we did not reach the goals we had set for the year. While we are obviously not content with that, profit for the year must be viewed in the light of the rapid transformation of the industry: firstly, the market was even tougher than we and many others had anticipated, and secondly, there were the costs of our transformation work to adapt to the shift in the industry.

As part of this transformation we are replacing logistics systems and online platforms. These are necessary and complex transitions that involved increased costs. In 2018 some disruption occurred in connection with the implementations of new logistics systems in the USA, France, Italy and Belgium, which had a negative effect on the group's sales growth and earnings. Having learnt from these experiences, we increased our investments in the fourth quarter to secure future transitions of logistics systems.

In January 2019 – in other words, during the first quarter – we successfully replaced the online platform in Germany. One of the measures we took to ensure a well-executed transition was to deliberately hold back on sales activities in Germany, which is our largest market. This had a dampening effect on the group's online sales, but adjusted for Germany the group's online sales increased by 27 percent in the quarter.

All H&M's online markets are now on the new online platform. For our customers in Germany the replacement has already made deliveries faster and more flexible, and has made the shopping experience more seamless thanks to increased integration between physical stores and the online store.

Although our completed and upcoming transitions have a negative effect on profits in the short term, they will have a positive impact in the longer term. They will bring faster, more flexible and more efficient product flows and an improved shopping experience for customers.

STRATEGIC FOCUS AREAS

We are driving the transformation in a number of strategic focus areas. Before I go into these individually, I would like to thank all our colleagues in the H&M group for such amazing commitment and great teamwork over the past year. Although a lot of work remains to be done, we can see that we are on course.

Our focus areas are:

- create the best customer offering for all the brands;
- and, as I just mentioned, make sure that we have a fast, efficient and flexible product flow;
- secure a robust and scalable infrastructure – what we call our “tech foundation”;
- and continue to add growth by expanding through stores and online, in digital marketplaces and through new business models.

CREATE THE BEST CUSTOMER OFFERING

By far the most important aspect of creating the best customer offering is to constantly improve the product assortment for all the group's brands. As part of this, we have given our customers even better prices and quality. Increased full-price sales, more recurring

customers and greater customer satisfaction all confirm that customers appreciate our fashion and the improvements we are making.

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We are also improving the shopping experience, both online and in physical stores. We are testing out various changes to enhance and refresh the experience in our H&M stores. Again, we have had a positive response from customers in the form of higher levels of customer satisfaction and increased sales. These tests are evaluated continuously and as we do so, we are gradually rolling out the solutions that work best when we upgrade stores and open new stores.

H&M's website is one of the most visited fashion sites in the world. We have upgraded hm.com and H&M's mobile app, improving such aspects as navigation and product presentation; we are giving customers more payment options, cutting delivery times and adding new digital services that make shopping easy and convenient.

The integration of physical stores and online continues. Convenience and accessibility are becoming increasingly important to customers. More and more markets are offering online returns in store and Click & Collect. Services like Scan & Buy, In-store Mode and Find in Store let customers move seamlessly between channels.

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Another part of our improved customer offering is the further development of H&M's customer loyalty programme. We have upgraded the programme to give our customers even more relevant offers. In 2018 the number of members doubled and today exceeds 35 million. We are aiming at a further large increase in 2019 when the programme is launched in the US, Canada and Russia, among other markets.

FAST, EFFICIENT AND FLEXIBLE PRODUCT FLOW

We are continuing to invest in the supply chain. In the fourth quarter we opened three new logistics centres: in Kamen in Germany, and in Stryków and Bolesławiec in Poland. We also automated the logistics centre in Poznań in Poland.

This increased capacity resolves the capacity constraints that slowed growth in some of our markets in 2018. These investments also allow for a broader range of products and faster deliveries to customers in a number of markets, including Germany.

We will also add new logistics centres in 2019: in the latter part of the year we plan to open a new logistics centre in Madrid and another north of London. We also have started a project to establish a high-tech logistics centre on the US West Coast in 2020.

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AI, or artificial intelligence, is being increasingly used in supporting the business to ensure a fast and flexible product flow. We are building an AI model with algorithms designed to address the entire product flow: everything from trend detection to quantification, allocation, pricing and personalisation.

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We are also developing our internal processes by differentiating our buying according to product type. This means we can become more precise in our buying and cut leadtimes – again enabling increased sales, lower markdowns and less capital tied up.

INVESTMENTS IN INFRASTRUCTURE – OUR TECH FOUNDATION

In parallel, we have invested in tech infrastructure. As I mentioned previously, with the replacement of the platform in Germany we have completed the transition to our new online platform globally and we are also implementing new logistics systems. These are large and very important investments which are enabling us to improve the shopping experience further for our customers going forward.

We are also investing so that we can accelerate the development of customer-facing technologies and be innovative with technology wherever the customers are.

ADDING NEW GROWTH

We continue to grow. In 2018 H&M opened online in four new markets, including India. In China H&M was launched on Tmall to a fantastic reception. As the world's largest e-commerce platform, Tmall is an important complement to our own channels since it makes our collections accessible to even more customers.

Today H&M online is in 48 markets. Work is continuing to roll out online globally to all H&M's existing markets and to other markets as well. On 25 April this year H&M opened online in Mexico, and in the course of 2019 Egypt will be added via franchise. During the year H&M will also be launched on Myntra and Jabong, which are the largest e-commerce marketplaces in India.

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Looking at store expansion, we plan to open around 335 new stores in total in 2019, of which 240 will be H&M stores. Three new store markets will be added this year – including Bosnia-Herzegovina, where H&M's first store has already enjoyed a very successful opening in March. Store expansion will focus on growth markets and the majority of new H&M stores will open outside of Europe and the US.

Alongside this we are intensifying the optimisation of our store portfolio, which involves closures, renegotiations, rebuilds and adjustment of store space to ensure that the store portfolio is the best fit in each market. Overall, we plan to close around 160 stores during the year, resulting in a net addition of approximately 175 new stores in 2019.

NEW BRANDS AND BUSINESS MODELS

We continue to grow through our other brands – COS, Weekday, Monki, & Other Stories, H&M Home and ARKET, as well as our latest initiative Afound.

Afound was successfully launched in Sweden in June 2018. This is a completely new type of outlet offering hundreds of well-known fashion and lifestyle brands at a reduced price – both external brands and the H&M group's own.

Several of our brands are already globally established and yet are just at the beginning of an exciting journey. Each brand continues to develop, and we see good growth opportunities for all of them.

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As always, it is a matter of prioritising where we invest. At the end of 2018 we communicated that we will be closing down Cheap Monday in 2019. Cheap Monday has a traditional wholesale business model, which is a model that has faced major challenges due to the ongoing shift in the industry. Closing it down is part of our transformation work in which we are prioritising and focusing on our core business.

SUSTAINABLE DEVELOPMENT

We take a long-term view of our business. We are investing in order to be able to offer fashion and design in a sustainable way to people in generations to come.

By making our sustainability work an integral part of our business we have added value for our customers. For example, we have further increased the share of sustainable materials in our product assortment. Already 95 percent of the cotton we use comes from sustainable sources.

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One starting point for the H&M group's sustainability strategy is the UN's global Sustainable Development Goals. The UN states that climate change and poverty are two of the greatest challenges of our time.

We aim to be climate positive throughout our value chain by 2040. To achieve this there will be a focus on greater energy efficiency, renewable energy and contributing to carbon sinks capable of absorbing emissions. At present, for example, we use 96 percent renewable electricity in our own operations. A new interim goal on the way to 2040 is to have reduced our own carbon dioxide emissions by 40 percent by the year 2030 and also to ensure that emissions from raw materials, fabric production and clothing manufacture are reduced by 59 percent per product compared with the year 2017.

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The H&M group's expansion contributes to global trade, which creates jobs and economic growth in which more and more countries can share. It is therefore incredibly important that both we and others that buy from low-wage countries continue to do so. We are working on the wage issue on a broad front, with the aim that all textile workers will earn a living wage. Our work is based on how the UN and the global trade union IndustriALL, which represents textiles workers, consider that the industry should tackle this problem in order to create real change for the workers. As far as these organisations are concerned, there is no question as to what is required.

What is required is to solve the fundamental problem: which is a non-functioning labour market, and that is why our work is focused on resolving precisely this. This means creating the conditions for a functioning dialogue between the parties in the labour market, ensuring that workers are able to be represented by trade unions and getting pay structures in place.

We also know that the issue of wages is not something that can be resolved by an individual company. We are working in partnership with global trade unions, governments and with a large number of other companies to bring about lasting, long-term change – including by making collective agreements possible in the textiles industry. This is how the UN and other

organisations believe we can make a real difference for textile workers on the issue of wages.

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In any industry: knowing how products are produced, where the products come from and how they impact people and the environment – these are things that are becoming increasingly important for all of us as consumers today.

We use the H&M group's size and position to drive increased transparency throughout the value chain. In 2013 we were the first global fashion company to publish our list of suppliers by placing it on our website. Since then we have taken several steps towards increased transparency and on 23 April this year H&M became the first of the world's major fashion brands to provide detailed information about the factory and material for each individual garment – both online and also in stores, where customers can scan the garment's price tag to see this information. We hope that with this service we will help our customers to make more sustainable choices and contribute to sustainable development in the long term.

LOOKING AHEAD

Looking ahead we can see that the rapid changes in the fashion industry will continue.

We can see that our transformation work is taking us in the right direction, even if many challenges remain and there is still hard work to do. The progress we have made confirms that we are on the right track. We are therefore continuing this work at full speed and are optimistic about the future of the H&M group.

Thank you for listening.

I now hand over to the chairman of the meeting.