

## Work of the board in 2020

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

The following areas are usually reviewed at each board meeting:

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

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

Before the pandemic struck, the company had been performing strongly as a result of many years of long-term investments to create the best customer offering and meet the digital shift in the industry. The effects of the pandemic, with up to around 80 percent of the group's stores closed during the spring, naturally impacted the work of the board during the year with more board meetings than normal and regular updates on the situation. CEO Helena Helmersson provided the board with information, including concerning the rapid and decisive actions taken to manage the Covid-19 situation – with the safety of employees and customers being the highest priority. All parts of the business were scrutinised, including product purchasing, investments, rents, staffing, financing etc., in order to manage the pandemic's negative effects on the business. In view of the drastic changes in market conditions as a result of the pandemic and the uncertainty this brought, in March the board of directors decided to withdraw its earlier dividend proposal of SEK 9.75 per share and instead propose to the 2020 AGM that no dividend be paid. During the year the board also took several financing decisions, such as taking out new credit facilities with terms ranging from one to five years. The purpose of this was to further secure H&M's liquidity buffer and financial flexibility. A decision was also taken to expand H&M's sources of financing by establishing a European commercial paper programme and a medium-term note (EMTN) programme; the latter to allow bonds to be issued in various currencies, but mainly in EUR and SEK.

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

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

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

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

reference to key indicators and targets, such as compliance with the Sustainability Commitment, sustainable materials, climate impact, anti-corruption, etc.

At each board meeting the chairman of the auditing committee reports to the board on what the auditing committee discussed at its latest meeting. This primarily concerns areas such as accounting, IFRS 16 effects, auditing, tax, customs duties, internal control, risk and various new regulations, legislation and directives such as the GDPR, Task Force on Climate-related Financial Disclosures (TCFD) etc. During the year the board was kept updated on the privacy breach in Nuremberg, Germany, and information on this was provided in conjunction with the nine-month report. The overall risk assessment, including the very largest risks in both the short and the long term, is then also discussed at subsequent board meetings. The chairman of the auditing committee provided the board with ongoing updates on the process of appointing a new accounting firm and at the November meeting the board decided which firm would be presented to the nomination committee, which proposes a new accounting firm for the 2021 AGM to decide on. At four of the year's meetings the board goes through quarterly reports before they are published and at the January meeting the board discusses the annual report, with the auditor also reporting on the year's audit.

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

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

Since H&M does not have a separate review function (internal audit function) for work on internal control, but has instead established its own model for managing the company's risk and internal control (see pages 30–31), once a year the board assesses the need for a separate internal audit function. This year the board again reached the conclusion that the present model for monitoring internal control is satisfactory.

Ahead of the annual general meeting the board had assessed how well the guidelines for remuneration of senior executives that were adopted at the 2019 AGM were being applied. The results of this assessment were published on the website in good time before the 2020 AGM.

H&M has no remuneration committee, since the board of directors deems it more appropriate for the entire board to carry out the tasks of a remuneration committee as is entirely in accordance with requirement 9.2 of the Code. It is the board that prepares the proposed guidelines for remuneration to senior executives that are presented at the AGMs, and it is the board that decides on the CEO's salary in accordance with the guidelines adopted at the last AGM. The board continually assesses the CEO's work and once a year discusses this matter separately in conjunction with setting the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

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