

Address by CEO Karl-Johan Persson at H&M's AGM 2017

Good afternoon, and a very warm welcome to you.

I am delighted that so many of you have come here today to our annual general meeting – which I see as a good opportunity to sum up last year, talk about where we are today and what is happening in the industry, as well as the investments that we are making for the future.

But first let us briefly look back on the past year.

2016 IN BRIEF

Sales including VAT increased by 7 percent in local currencies. Converted into Swedish kronor sales increased by 6 percent to SEK 223 billion. Sales developed well in many places, for example in our established markets such as Sweden and the rest of Scandinavia, Russia, Turkey and Canada. Sales also developed well during the year in newer markets such as India, Australia, South Africa, Mexico, Chile and Peru.

In a number of countries the market situation was challenging, however. Various external factors had a negative impact on retail. This was particularly visible in France, Germany, Switzerland and Italy, but also in the US and China. These are large and important markets for us where we performed in line with a challenging market, which was reflected in our overall sales performance.

During the year we continued to expand through both e-commerce and physical stores, and our new stores performed well. We rolled out e-commerce to a further 11 H&M markets, while at the same time opening a net total of 427 new stores. We also added three new H&M markets – Puerto Rico, Cyprus and New Zealand – and have been very positively received in all of these.

As you know, the retail industry is going through a phase of rapid change, with increased digitalisation and a growing online market. In 2016 our online business developed strongly across the H&M group in terms of both sales and profitability. Today online sales already make up a significant share of our sales in several markets.

Our newer brands COS, Monki, Weekday, & Other Stories and H&M Home all enjoyed very good sales during the year, both online and in stores, which is very pleasing.

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Looking at how earnings developed during the year, profit after financial items amounted to SEK 24 billion compared with SEK 27 billion in 2015.

Profits were negatively affected by increased mark-downs as a result of the fact that the year's sales increased less than planned.

One of the external factors that adversely affected profitability was the strengthening of the US dollar. The US dollar has strengthened substantially in recent years. Since 2014 the dollar has strengthened by approximately 20 percent against the euro. Since the dollar is our largest purchasing currency, this strengthening has made our sourcing considerably more expensive, which has had a negative impact on profits.

LONG-TERM INVESTMENTS

Another factor that weighed on earnings is costs related to long-term investments. These are investments that we are making in new brands, digitalisation and infrastructure – in order to meet the demands of the future and build an even stronger company. The costs of these investments have had a negative effect on earnings of several billion kronor in recent years.

However, we see these investments as important and necessary in order to maintain our strong position during the rapid development that is taking place in the industry – and to be able to give our customers more value for their money and to secure many years of continued growth.

These investments are starting to bear fruit: for example COS, & Other Stories, Monki, Weekday and H&M Home. It is great to see how these newer brands are being received and are growing in the competitive industry in which we operate, since it shows that they have the potential to contribute to our long-term growth.

We have also rolled out H&M's online store to more and more countries. In the past two years we have launched e-commerce in more than 20 H&M markets. Today we offer e-commerce in 36 markets globally, and this expansion is continuing at a rapid pace.

AREAS FOR IMPROVEMENT

Today we can be found in 66 markets. As I mentioned earlier, the market situation has been challenging in some of our large, important markets, which affected sales. One major cause of the challenging situation is the whole shift that is taking place right now in retailing. The ongoing change is the biggest that we have seen in our 70 years to date and it is being driven by rapidly growing digitalisation, which is changing customers' behaviour and expectations.

How customers discover, shop for and share about fashion is changing, and it is happening very rapidly. More and more customers are shopping online, and in certain stores and shopping centres customer numbers are declining. At the same time, competition is getting more intense. We are seeing many new competitors, many purely online operators and we are also seeing many competitors that are having a tough time as a result of the digitalisation of the industry, and we can see an increase in price and mark-down activities among those that are having it tough.

The fact that our sales did not increase as much as planned was partly due to external factors, but also to things that we ourselves could have done better. We did not succeed in improving ourselves fast enough to reach the high targets that we had set ourselves. And of course we are not happy with that.

We have a clear picture of what we need to improve and we have a plan in place, which we are now putting into action at a fast pace in our priority improvement areas. These include various parts of the customer offering, the store experience and the store mix, as well as in the supply chain.

Among other things, we are in the process of developing a new and upgraded version of the H&M stores with a new visual look. Alongside this, we are reviewing the existing store portfolio. This includes closures, the addition of more store space and rebuilds, so that we have an optimal store portfolio in each market.

AN EXCITING DEVELOPMENT PHASE

The rapid shift that is taking place in our industry does not just mean challenges. It is also an exciting development phase which brings fantastic opportunities. In view of the technical development taking place, we are focusing our investments mainly on three areas. These are: the omni-channel offering, the supply chain and advanced analytics, where omni-channel means integrating the physical stores with e-commerce.

We believe strongly in the combination of physical stores and e-commerce. Our global store network gives us a unique proximity to our customers that is more and more important in a world where the physical and the digital experiences are becoming increasingly integrated. It is extremely important that we bring the sales channels together in a good way, so that customers have a smooth and easy shopping experience across the channels. This is why we have a clear omni-channel strategy and many improvements under way.

Many of the investments that we have made have involved putting in place strong foundations and infrastructure. We can now build on this to add more and better options for our customers.

These options include online returns in store, and a “click & collect” service – in other words, you can order online and then collect the item from a store. Another example is “scan & buy”, which lets you see easily whether an item that you tried on in store is available in a different size or colourway online and then lets you order it online. We are offering more delivery options and better delivery options, so that customers themselves can choose what suits them best. We are developing our customer club further and are introducing mobile payment. All so that our customers get a better service and a wider range of services.

The world of H&M is becoming increasingly complex. As I mentioned, we are in 66 markets and it is extremely important that we remain relevant to customers in all our markets at all times. That means always having the right product in the right place and in the right channel. We are therefore investing significantly in the supply chain – for example, in new logistics solutions with greater levels of automation, but also in optimising lead times. In the changes we are now making, advanced analytics will provide important support for decision making. This includes aspects such as how we quantify and allocate our assortment, and how we communicate with our customers. As a result, we will become even more relevant to customers and even more efficient.

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Our investments ensure that we are well positioned for continued long-term and profitable growth. This also includes our continued expansion through both new stores and new online markets.

EXPANSION WITH STORES AND E-COMMERCE

In the light of our current development phase, it was only natural for us to rephrase our growth target at the beginning of this year.

This means that our previous target of increasing the number of stores by 10 to 15 percent per year has instead become a sales target that includes both stores and online sales. Our new growth target, which applies for 2017 and going forward, is to increase sales by 10 to 15 percent per year in local currencies with continued high profitability.

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Today we have a global network of more than 4,400 stores. The stores that we are opening have very favourable and flexible leases, are in good locations and are profitable with a short payback period. In view of this, it is only natural for us to continue expanding with physical stores too.

In 2017 we plan to open approximately 430 new stores net. We will enter five new store markets. In March the first H&M store opened in Almaty in Kazakhstan, and this past weekend the first store opened in Bogotá in Colombia. Both have had a fantastic reception. Later this year we will also be opening in Iceland, Vietnam and Georgia.

In parallel, there will be six new H&M online markets. Turkey has opened already and will soon be followed by Taiwan, Hong Kong, Macau, Singapore and Malaysia.

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We work to make fashion accessible to many people, and it is always equally amazing to see the huge interest in H&M and our brand when we open in new locations around the world. It is also fantastic seeing the great reception H&M gets at our fashion shows. Earlier this year we showed the “H&M Studio” collection during Paris Fashion Week. We would like to show a short video of the spring show, which also had a global audience on hm.com

Video from Paris is shown

NEW BRAND - ARKET

Our expansion includes all our brands. Ten years ago the first COS store opened, and since then we have added a number of new brands to the H&M group, each with its own unique profile to attract customers in various different segments. We currently have seven brands – H&M, COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home. This year we are looking forward to launching another exciting new brand, ARKET.

ARKET will offer modern yet classic collections for men, women and children. The collections will include well-made and carefully designed pieces that combine functionality and quality with beauty and style – and that allow customers to create a personal and contemporary wardrobe they will want to keep for a long time. There will also be a curated range for the home – with the kitchen playing a central role as a source of inspiration, with beautiful, simple, functional and sustainable items.

ARKET will offer products in a broad price range, however in a slightly higher price segment than H&M. The emphasis will be on materials, function and fit.

The range, which is being produced by ARKET’s own designers, will also be supported by a selection of external brands.

Most ARKET stores will also include a café. The café will be based on the New Nordic Kitchen and its vision of quality ingredients and healthy living.

The first ARKET store will open in London after the summer. At the same time, ARKET will open online in 18 European markets at arket.com. The store in London will be followed by stores in Brussels, Copenhagen and Munich.

We are very much looking forward to the launch. A fantastic team is working on ARKET. The team includes designers, chefs, architects, buyers and many others with specialist expertise within their areas – and as for all our brands, it has been amazing to see the creativity, passion and entrepreneurial spirit that flourishes in our company.

Sustainability was key when we were developing ARKET, and just as in the rest of the H&M group sustainability has been integrated as a natural part of all processes.

SUSTAINABLE DEVELOPMENT

In 2016 we established a new sustainability strategy in which we raised our ambitions further in order to drive long-lasting positive change in the fashion industry.

With our size we can create a large-scale demand for sustainable materials and renewable electricity, we can stimulate innovation for a circular use of resources and we can drive structural changes and better working conditions in the textile industry. If we can also lead the way in diversity and transparency, we believe that it will create loyalty among both employees and customers – which in turn builds an even stronger company.

It is also heartening to see how our sustainability work is attracting outside attention. Recently, for example, we received the Freedom House Award in the US for taking a leading role in advancing global supply chain transparency. The Fashion Transparency Index also puts H&M among the top three in the world when ranking how open the world's 40 largest fashion corporations are with their production. Here in Sweden, NMC The Swedish Association for Sustainable Business has recognised H&M for its work to improve working conditions in the textile industry and to close the resource loop. We are also ranked as one of the world's most ethical companies by the Ethisphere Institute. We are naturally proud of this, since these issues are so important to us.

One example is our work to achieve fair living wages. More and more of our suppliers' factories are implementing what is known as the Fair Wage method, which continues to make progress.

Another example is our switch to renewable electricity. In 2016 96 percent of the electricity we used came from renewable sources, which contributed to a 47 percent reduction in the company's greenhouse gas emissions. In the longer term our goal is for our entire value chain to be climate-positive by 2040 at the latest.

A further ambition is to close the loop for fashion. This, too, is a long-term effort and more research is needed to get there. We are therefore collaborating with various experts and innovators. One example is the H&M Foundation and its Global Change Award – a competition

that allows innovators to further develop ideas that could accelerate the shift to a circular fashion industry.

Looking at our own product range, we are aiming to use only recycled or other sustainably produced materials by 2030. Already, for example, 43 percent of all the cotton we use is from sustainable sources. This also includes fibres recycled from our own garment collecting at our stores globally.

One example is Conscious Exclusive, a highly regarded recurring collection with a high fashion content that is made using various innovative and recycled materials. We would like to show a short video of this spring's collection, where you can see the fantastic garments that can be created from plastic bottles and other waste collected from shorelines and watercourses.

Conscious Exclusive video is shown

OUTLOOK

Finally, looking forward: Although there are challenges associated with the rapid digitalisation that is taking place in the sector, I am very optimistic about our future and that we will improve greatly from an already strong position. We have good potential for improvement and we have set a clear plan for this work, which we are implementing at a fast pace. At the same time, our integration of the digital and physical shopping experience is continuing and builds further on the strength that the combination of our global store network and our digital presence gives us. Moreover, we also see great potential for H&M and all our new brands to continue expanding both in existing markets and in new countries, and with new concepts.

As far as we are concerned, then, most things have yet to be done. And as always, the main reason why I am confident that we will be able to continue growing with quality in the future is all of our capable employees. It is the employees who together make our long-term success possible, and I would like to take this opportunity to thank all of my colleagues in the company for their fantastic work. We have incredibly capable teams all over the world. And we have a corporate culture that has grown out of the same shared values that have existed ever since my grandfather founded H&M 70 years ago, and that allow us to keep developing with the world around us. When I meet colleagues around the world I feel hugely proud of everyone's commitment and of our business idea, which makes fashion accessible to people all over the world.

So we have a lot to look forward to, both in 2017 and beyond.

Thank you. I now hand over to the chairman of the meeting.