

## Address by CEO Karl-Johan Persson at H&M's AGM 2015

Good afternoon everybody, and a warm welcome to H&M's annual general meeting 2015. I am very pleased to see so many of you here today.

As always, lots of exciting things are happening at H&M. And we are moving at a fast pace. Our offering is reaching more and more customers every day, and we are working all the time to make our customer offering even better.

We are growing globally. Shortly I will tell you a little more about our expansion. I will also tell you a bit about our new fashion initiatives and new concepts; and how we are continuing to invest long-term in a number of areas in order to build an even stronger H&M. And I will also talk about our sustainability work, and about our fantastic employees, who make all this possible.

Let's start with the year that has just passed.

### **2014 IN BRIEF**

So, how did H&M do in 2014?

2014 was a very good year. Sales developed very well and our results were strong. We continued to take market share and we continued to think long-term, to do what is best for H&M in the long term. We continued to invest in a number of good projects that will strengthen H&M for many years to come. These are major investments in IT, online sales, new brands and in broadening our product range.

We increased sales by 14 percent in local currencies and 18 percent in Swedish kronor, to SEK 176.6 billion including VAT. There are quite a few reasons for this strong performance. One important factor is our talented designers and buyers, who created collections for all our six fashion brands that were very well received by customers. And since our offering is so diverse, we are able to offer a broad and varied range of inspiring fashion that attracts a global customer base.

Another important factor in our strong sales performance was that we opened lots of great new H&M stores and also opened our online store, hm.com, in a number of new countries. We opened our online store in four large H&M markets in 2014 – France, Italy, Spain and China – and it has been very well received in all of these countries. We opened more than one new store a day, with a net total of 379 new stores over the year. We also opened in two new markets: Australia and the Philippines. We have had an excellent reception from customers, and we see great potential for H&M in both Australia and the Philippines.

With this continued strong expansion, and well-received collections, we carried on taking market share. And we strengthened our position further in a fashion retail market that remained characterised by a challenging macroeconomic situation in many countries.

We are present in 57 markets. This graph shows sales in 2014 in some of our largest markets. Germany remains by far the biggest market for H&M, with more than 440 stores and sales of around SEK 35 billion, and we are still growing in Germany. Despite weak statistics for the German fashion retail market as a whole in 2014, we achieved sales growth of 7 percent in euros and 12 percent in Swedish kronor.

China has in a mere few years grown to become one of our biggest markets and is the market where we are expanding most. At the end of the year we had 291 stores – a net increase of 86 new stores in just one year. The first H&M store in China opened in 2007 and our sales in China are already higher than the figure for Sweden.

While we are growing fast and investing for the future, we must at the same time maintain good cost control – and cost control within the H&M group remained good in 2014. Looking at net profit – in other words, profit for the year after tax – we see a 17 percent increase to SEK 20 billion.

## **OUR EMPLOYEES AND THE H&M SPIRIT**

H&M has very many capable and passionate employees who are contributing to this great performance. In 2014 alone a total of 16,000 new employees joined the H&M group, and we now have more than 132,000 people working at H&M. I would like to take this opportunity to thank all our employees around the world for such fantastic teamwork. Committed employees and the H&M spirit, which is our shared values, are the key to our success. Our values have existed and helped shape H&M's corporate culture ever since the company was founded in 1947, and it is great to see that our corporate culture remains just as strong after so many years of strong expansion.

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A few years ago we launched the H&M Incentive Program, an incentive plan for all employees of H&M. The H&M Incentive Program, or HIP as it is also known, works the same way for all employees of the H&M group – regardless of their salary or role, which country they work in, or whether they work full-time or part-time. Its purpose is to acknowledge the part played in our development by all our employees, and to acknowledge their daily and long-term commitment. After such a good year as this and a strong increase in profits it is great to be able to allocate further funds. For 2014 the contribution to HIP – in other words, to our employees – was SEK 303 million.

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That was a bit about the year that has just passed. Before we look ahead to the future, here is a graph illustrating H&M's expansion over the years. With over 3,500 stores in 57 markets, six fashion brands and online sales in more than 20 countries, we have a strong global position. And we see great potential for continued growth.

## **STORE EXPANSION 2015**

As regards store expansion, we are growing within our target to increase the number of stores by 10 to 15 percent each year. In 2015 we plan to open a net total of around 400 new stores, taking into account all our brands. That is even greater expansion than in 2014. And it is not just that we are opening lots of stores; they are also very good stores, in good locations, on good terms and of the right size.

In February we opened our first store in Taiwan, in Taipei. It was an amazing opening – one of the best openings in H&M's history in terms of sales on the opening day. And the great reception has continued – H&M has been a great success in Taiwan since opening day, far exceeding even our own high expectations. We have a number of new exciting markets to look forward to. During the year we will be opening our first H&M stores in Peru, Macau, South Africa and India.

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Our customer offering means that we can grow deeper into each market, in both small towns and major cities, and our greatest expansion is therefore taking place in our existing markets. This year, China and the US are once again the countries where we will be opening the most stores. We are also planning to open more flagship stores than we opened in 2014. One of these will be in New York, on Herald Square in Manhattan. It will be one of the largest stores in the group, with a total area of more than 5,700 square metres. Last year in Manhattan our openings included one of our largest stores to date, a new flagship store on Fifth Avenue. This has been very well received by customers, so we hope that the store on Herald Square will be too.

## **OUR FASHION BRANDS**

We are growing not just through H&M: our other brands – COS, & Other Stories, Monki, Weekday and Cheap Monday – are also growing. All are independent, clearly defined fashion brands with their own stores and their own look.

COS has performed very well since its launch in 2007 and is today a globally established fashion brand. Our very latest fashion brand, & Other Stories, has also developed fantastically and grown quickly. COS and & Other Stories both continued to perform well as we moved into 2015, which is really great. We are also very pleased that Monki and Weekday are following up a good 2014 with an even stronger start to 2015; if it stays like this in 2015, then we also see good expansion potential for Monki and Weekday.

## **H&M ONLINE**

In parallel with the store expansion we are expanding opportunities for our customers to shop online. Here, too, we are expanding fast. We live in a connected society and it is very important that we are always able to meet our customers' shopping demands and expectations in the fast digitalisation that is taking place, including in the retail market.

In 2014 we opened H&M's online store in four large H&M markets, as I mentioned earlier, and in 2015 we will be opening online in a further nine markets. Eight of these have opened already this spring. These are Portugal, Poland, the Czech Republic, Romania, Slovakia, Hungary, Bulgaria and Belgium. This means that H&M's online store is now open in 21 countries. In the autumn the online store will also open in Switzerland.

Our other brands also offer online shopping in a large number of markets.

## **H&M HOME**

H&M Home, our concept for home textiles and accessories, is also becoming available to more and more customers as we expand.

We can see that the collections are being much appreciated by our customers both in store and online, and we are continuing to develop this concept too. At the end of 2014 just over a hundred of our H&M stores offered H&M Home. In 2015 we will open around 100 more H&M Home departments, with around ten new H&M Home markets being added.

## **BROADENING H&M'S PRODUCT RANGE**

Other examples of how we are broadening our product range include H&M Sport and our extended shoe range, which we rolled out gradually during 2014. Both have been well received. We are now offering these concepts in more and more stores.

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This autumn we are looking forward to introducing customers to our latest initiative – H&M Beauty.

H&M Beauty is our new beauty concept that we will be launching in an inspiring shopping environment, and it will enhance our customer offering even more. A number of very capable people with a lot of experience have spent quite some time developing the new beauty concept. H&M Beauty will offer very good quality products, in gorgeous packaging, at fantastic H&M prices. It is something we have great faith in. We will launch H&M Beauty in around 900 stores to begin with, in around 40 markets, as well as on hm.com. It will be very exciting to see how it is received.

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These are a few examples of new initiatives and continual improvements that we are working on and long-term investments that we are making. Looking forward, we want to continue

adding more value for our customers, we want to continue being an attractive employer for our employees, and we want to continue our high-quality growth. For this reason, I would like to tell you a bit about our sustainability work.

## **SUSTAINABLE DEVELOPMENT**

We want to contribute to positive development in the world. To us, helping to bring about more sustainable development is essential to our long-term growth. That is why our sustainability work is an integral part of our operations and our business concept.

We see our sustainability work as an investment in our customer offering. As a customer of H&M, you should always know that when you shop with us the products have been produced with the greatest possible consideration for people and the environment. Like our passion for design and focus on quality, our work to increase sustainability is part of our efforts to always have the best customer offering in each individual market.

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I thought I would give a few examples of how we at H&M work on sustainability. And I would like to start by highlighting the importance of trade. H&M is a direct buyer and seller in a large number of markets, thereby contributing to trade between countries. Trade creates employment and economic growth, which is particularly important for developing countries because it helps lift people and nations out of poverty.

When customers shop at H&M they contribute to far more than a million jobs, not least for women. We do not have any factories of our own, but instead outsource manufacturing to independent suppliers – largely in Asia, home to many of our sourcing markets. Important progress has been made as regards improving the sustainability of the textile industry in these countries, but significant challenges remain. We use our size and influence to help move development in the right direction. But one company's commitment is not enough. Cooperation at various levels is needed to bring about lasting improvement and more stable sourcing markets.

One important area is the issue of wages. To achieve real change, this is a matter that must be owned locally. So along with external experts on this area, we are working on a plan to bring about fair living wages. We are working on this in collaboration with a number of other actors, both global and local. We believe that this is the right way to help the parties in the labour market develop lasting, functioning structures for a fair living wage in the textile industry.

Our work to achieve a fair living wage is one example of our sustainability work, but we see it as our responsibility to work for social improvements and reduced environmental impact throughout the life cycle of our products. Naturally, this involves extensive work. You can read more about it in our annual sustainability report, which can be found at [hm.com](http://hm.com).

We thought we would now show a short film that looks at some important areas that we worked on in 2014.

Film "[Conscious Actions Highlights 2014](#)"

So that was just a few of all the initiatives that we are running to improve sustainability. Before we move on, I would like to follow up on a couple of the examples in the film that we believe will make a big difference in the longer term.

One concern is further increasing transparency throughout the production chain. Along with other brands and experts, H&M is involved in a project to produce a new industry standard for clothes labelling. The plan is that with this labelling, customers will be able to see clearly the social and environmental impact associated with a particular garment. We believe that this will allow customers to make more informed choices, which will also spur us on to make further improvements.

Another example is about closing the loop for textiles. As we saw in the film, used clothing – of any brand and in any condition – can be handed in at H&M stores around the world for reuse and recycling. Since starting this initiative we have collected more than 14,000 tonnes of garments globally. And already last year, we launched collections that included recycled fibres from some of the clothing we have collected. This is still at a very early stage and is something that we want to expand. In the longer term we want to come up with a circular model for textiles, so we are involved in very promising collaborations with various innovative companies to find ways of doing this. This is just one example of how H&M can drive research and development towards more sustainable use of resources throughout the fashion industry. We are also seeing growing interest from our customers, who want to get involved in helping us to give old clothes a new life.

We also want to show our customers that it is possible to create exclusive collections that are both environmentally smart and also very fashionable – and at good prices. Each year our designers create a special collection called Conscious Exclusive, which you can see in this shoot. This spring's collection was launched a couple of weeks ago; it is made of more sustainable, innovative, very fine materials such as organic silk and organic leather. And it has been very well received by customers.

## **FIRST QUARTER 2015**

We are already some way into 2015. And the year has got off to a very good start for us, with strong sales and strong results in the first quarter. Once again, our attractive customer offering, our expansion and our work on continual improvement have helped us increase our market share further.

In the first quarter of 2015 we increased sales by 15 percent in local currencies. In Swedish kronor the increase was 25 percent. The substantial difference between local currencies and

SEK is down to the fact that the Swedish krona has weakened a great deal against many of our sales countries' currencies.

Profit after financial items increased by 35 percent to just over SEK 4.7 billion – a strong increase in earnings that we have achieved despite having at the same time continued our long-term investments in areas such as online and IT.

We have great potential for expansion, we have wonderfully capable employees and we have a very strong culture – so we are very optimistic when we look to the future.

There will always be factors in the outside world that affect us, such as external factors that affect our sourcing costs. The US dollar has strengthened substantially since last autumn against most currencies, including the euro. Since most of our purchasing takes place in dollars, the increasingly expensive dollar will have a negative impact on us.

We have great faith in our offering. Despite the negative impact that the strong dollar will have on our sourcing costs in the time ahead, we will always make sure that we have the best customer offering in each individual market in terms of fashion, quality, price and sustainability – which form the basis of our business concept.

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