H&M Group

Annual report 2018

Contents

H & M Hennes & Mauritz AB's annual accounts and consolidated accounts for the financial year 2017/2018 comprise pages 36–74.

H&M Conscious Exclusive, spring 2019. The collection is made of sustainable, innovative materials including Piñatex®, made from cellulosic fibres extracted from pineapple leaves, BLOOM™ Foam, a plant-based flexible foam using algae biomass and Orange Fiber®, a silk-like fabric made from citrus juice by-products and one of the previous winners of H&M Foundation's Global Change Award. See more at about.hm.com.

H&M Group

We are a family of brands with a shared ambition to make great design available to everyone in a sustainable way. Together we offer fashion, design and experiences that enable people around the world to be inspired and to express their own personal style.

Our values

We are one team

We believe in people

Entrepreneurial spirit

Constant improvement

Cost-conscious

Straightforward and open-minded

Keep it simple

The H&M group is characterised by the same entrepreneurial spirit and values-driven way of working that have defined our corporate culture since the days of our founder, Erling Persson. In the H&M group we want everyone to be themselves, and respect others for who they are. Together our shared values create an open and down to earth culture where everything is possible.

More about how we strive for diversity and inclusion on pages 44–45 and at about.hm.com.

Our transformation work

Changing consumer behaviour and technological innovation will continue to transform how and when people shop. We are building a business with the flexibility to respond to this constant evolution. The H&M group is taking advantage of the opportunities created by the digitalisation of our industry to meet customers' new expectations. We are integrating the physical stores with the online stores, and we are exploring the strength of our global brand in combination with local relevance and more personalised communication.

Read more about our strategic focus areas on pages 6–8.

Our brands

Our brands all have their own unique identity. Together they offer a wealth of styles and trends in fashion, beauty, accessories and homewares as well as cafés focusing on modern, healthy food. The H&M group includes the brands H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories, ARKET and Afound.

See our brands on pages 10–15.

Our sustainability strategy

The H&M group wants to lead the change towards a circular, fair and equal fashion industry. We are using our size to drive transparency throughout the value chain. With a long-term approach we can promote innovations for a circular economy. One of our goals is to be climate positive across the value chain by 2040.

Read more about our sustainability work on pages 42–45 and at sustainability.hm.com.

47
online markets including 4 new markets in 2018

Our markets

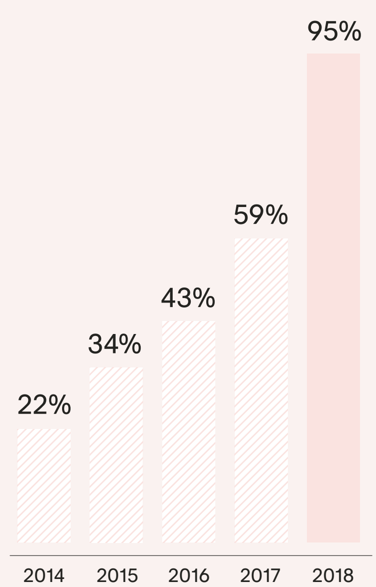
We are expanding online, through physical stores and digital marketplaces. The global roll-out of online continues, with the ambition to offer online in all our 71 markets and in other markets too.

See market overview on pages 16–17.

Cotton from sustainable sources

We aim for 100 percent sustainable cotton in our brands' own assortments by the year 2020. In 2018 we reached 95 percent, an increase from 59 percent in 2017. This is an important step towards our overall materials goal: to use only recycled or other sustainably sourced materials by 2030. In 2018 the share of sustainable materials increased to 57 percent from 35 percent in 2017.

Read more about our sustainable materials on page 43 and at sustainability.hm.com.



210
billion Swedish kronor in net sales in 2018

Online sales +21% in local currencies in 2018

1947

Erling Persson opens the womenswear store Hennes with the idea of making fashion available and affordable for everyone. This store in Västerås, Sweden, would soon be followed by more. Today the H&M group inspires people around the world to dress their personal style.

Continue the journey through our history at about.hm.com.

Comments by our CEO

2018 was challenging for the H&M group, but the year ended with positive signals showing that we are on the right track. Our transformation work is now continuing at full speed to make us even better for our customers.

CEO Karl-Johan Persson.

The rapid transformation of fashion retail continues, and 2018 was a challenging year for us as well as for the industry. Digitalisation is rapidly changing consumer behaviour. Competition is intense, with the arrival of new players and business models, and customers' expectations are changing. With more and more shopping taking place online the retail landscape is being reshaped, also changing the role of stores. Against this backdrop we accelerated the H&M group's transformation during the year to ensure long-term positive development for the company.

After a difficult first half, the group's transformation work started to take effect and we ended 2018 with clear signals that we are on course. 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. Online sales developed well, increasing by 21 percent over the full year.

MORE FULL-PRICE SALES

Sales in the fourth quarter were driven by more full-price sales and lower markdowns. This is one of a number of signs that customers appreciate the improvements we are making to the product assortment regarding design, quality, price and sustainability. While inventory levels were up year-on-year, the inventory situation improved in the fourth quarter compared with the third quarter – in terms of both level and composition. This sequential development is a result both of stronger collections and of the improvements of our buying and logistics processes.

As we look back, we can see that we did not reach the goals we set for the year. While we are obviously not content with that, it must be viewed in the light of the rapid transformation of the industry and an even tougher market than we had anticipated, as well as issues in connection with the implementation of logistics systems during the year in some important markets which led to higher costs. To secure upcoming transitions of logistics systems and the replacement of the online platform in Germany, there were additional costs in the fourth quarter. While this had a negative impact on earnings, it will lead to a range of improvements for our customers.

STRATEGIC FOCUS AREAS

We are driving the transformation in a number of focus areas that we see as strategically important for taking the H&M group to a new level. These focus areas are: create the best customer offering; make sure we have a fast, efficient and flexible product flow; secure a stable and scalable infrastructure – our tech foundation; and adding growth by expanding through stores, online and through digital marketplaces.

We are making progress in all these focus areas and I would like to take this opportunity to thank all our colleagues in the H&M group for such amazing commitment and great teamwork. It is very important that we keep up the fast pace of change that characterised our work in 2018.

CREATE THE BEST CUSTOMER OFFERING

By far the most important aspect of our work to create 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 returning customers and greater customer satisfaction all confirm that these improvements are appreciated.

95% sustainable cotton in 2018

We have also added value for our customers through our sustainability initiatives, such as increasing the use of sustainable materials in our ranges. By 2020 a full 100 percent of the cotton used by our own brands is to come from sustainable sources. In 2018 a total of 95 percent of our cotton came from sustainable sources – up from 59 percent in 2017. This is an important step towards our overall materials goal: to use only recycled or otherwise sustainably produced materials by 2030. We also aim to be climate positive throughout the value chain by 2040.

The H&M group is increasing the use of recycled and otherwise sustainably sourced materials.

Our size and our long-term approach mean we can support innovative sustainable solutions, including the development of new textile fibres, collaborating with partners to help make the innovations scalable. We also use our size and position to drive increased transparency throughout the value chain, which is increasingly important to today's customers.

Our sustainability work is rooted in our values-driven way of working and is an integral part of the H&M group's business. We are therefore very happy that the Ethisphere Institute has named the H&M group as one of the 2019 World's Most Ethical Companies.

An inspiring and convenient shopping experience

We are also improving the shopping experience for our customers, both online and in physical stores. H&M is testing out various changes to enhance the store experience. Again, the positive response from customers can be seen in higher levels of customer satisfaction and increased sales. In parallel with evaluating these tests as they are carried out, we are gradually rolling out the best-working solutions as we upgrade stores and open new stores.

Mobiles are key when integrating physical stores with online shopping. Visual Search is one of the digital services now available in many markets.

H&M is one of the most visited fashion sites in the world. We have upgraded hm.com and H&M's mobile app, improving navigation and product presentation. We are introducing more payment options, shortening delivery times and adding new digital services that make shopping easy and convenient. The global integration of physical stores and online continues. 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.

H&M Club doubles its membership

Another part of our improved customer offering is the further development of H&M Club, the digital loyalty programme that is being made available to more and more customers. In 2018 the number of members doubled from 15 million people to more than 30 million. We are aiming for a big increase again in 2019 as H&M Club is launched in another seven markets.

FAST, EFFICIENT AND FLEXIBLE PRODUCT FLOW

We are also continuing to invest in the supply chain. In the fourth quarter we opened three new fulfilment centres with a total logistics area of around 230,000 square metres: in Kamen in Germany and in Stryków and Bolesławiec in Poland. We also automated the fulfilment centre in Poznań in Poland. This increased capacity will resolve the capacity constraints that slowed us down in some markets in 2018. These investments will also allow for a broader range of products and faster deliveries 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 just north of London. We have also started a project to establish a high-tech logistics centre on the US West Coast in 2020.

Artificial intelligence (AI) is increasingly important in supporting the operations, ensuring a fast and flexible product flow. Thanks to our vertically integrated business model we are able to build an AI model with algorithms designed to address the entire product flow: from trend detection to quantification, allocation, pricing and personalisation. We are also developing our internal processes by differentiating our buying according to product type. It means we can be more precise in our buying and cut our leadtimes; this, too, enabling increased sales, lower markdowns and less capital tied up.

INVESTMENTS IN OUR TECH FOUNDATION

Our investments in IT and our tech infrastructure continued in parallel with this. In January 2019 we completed the transition to our new online platform globally when we successfully replaced the platform in Germany, our biggest and most important market. This means that all H&M's online markets are now on the new platform, enabling further improvements to the shopping experience for our customers.

We are also implementing new logistics systems, and this remains to be done in a number of markets. In 2018 problems arose in connection with the implementation of new logistics systems in the US, France, Italy and Belgium, which had a negative impact on the group's results. Applying the lessons learned, we increased investments in the fourth quarter to secure upcoming transitions in 2019.

With the transformation now well under way, capital expenditure will reduce in 2019. At the same time, digital investments will continue to increase as a share of capex. We will continue to invest so that we can accelerate the development of customer-facing technologies and be innovative with technology wherever the customers are.

NEW GROWTH

We continue to grow. Store expansion will focus on growth markets and in 2019 we plan to open a total of around 335 new stores, 240 of which will be H&M stores. These will be mainly in markets outside Europe and the US. Alongside this we are intensifying the optimisation of our store portfolio, which involves closures, renegotiations, rebuilds and adjustments to store area to ensure we have the right store portfolio in each market. The shift in the industry is also opening up for improved lease terms and the H&M group has opportunity to renegotiate nearly 1,000 store leases in 2019. We will be closing around 160 stores during the year, resulting in a net addition of approximately 175 new stores for the group.

In parallel with greater integration of stores and online, H&M opened online in four new markets in 2018 and today has 47 online markets. In 2019 Mexico will be added as an online market, as well as Egypt via franchise. Work is continuing at full speed to roll out online globally to all H&M's existing markets in the future and to other markets as well.

In China, which is one of our biggest markets, H&M was launched on Tmall in spring 2018 to a fantastic reception. Monki and H&M Home are also on Tmall, where COS too opened in 2018 with a very successful launch during the autumn. As the world's largest e-commerce platform, Tmall is an important complement to our own channels since it makes

Successful launch of H&M on Tmall in China in spring 2018.

Afound was launched in June 2018. A close-knit team ready to welcome customers at the opening of the first store on Drottninggatan in Stockholm.

our brands accessible to even more customers. We are also evaluating other marketplaces around the world to see whether they fit in with our long-term strategy.

DEVELOPING NEW BRANDS

We continue to grow through our other brands in the H&M group: COS, Weekday, Monki, & Other Stories, H&M Home and ARKET, as well as our latest initiative Afound, which had a very successful launch in Sweden in June 2018. Afound is a 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. 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.

LOOKING AHEAD

New consumer behaviours and rapid technological development will continue to transform how and when people shop. We are building a business with the flexibility to respond to this constant and rapid evolution. The H&M group has the long-term perspective and financial strength to take advantage of the opportunities that are arising. We have further to go and there will continue to be challenges ahead. It is a volatile market that is becoming increasingly complex, with competition becoming more and more intense. The transformation that we and the industry are going through is humbling, but the progress we have made within our strategic focus areas gives us the confidence to move ahead at full speed.

Karl-Johan Persson, CEO
H & M Hennes & Mauritz AB

INITIATIVES FOR AN IMPROVED CUSTOMER EXPERIENCE

Enhancing the customer experience is an important part of the H&M group's transformation work. Various improvements have been made throughout the supply chain – from product development to the shopping experience, as well as the integration of physical stores and online, to give customers a seamless and inspiring shopping experience.

Some examples of digital services as well as tests and initiatives in stores are presented below:

- Upgrading of hm.com and the H&M app, where improvements are at various stages of progress and encompass navigation, product presentation and payment options. Mobiles are key to the increased integration of digital and physical channels.

VISUAL SEARCH

Visual Search is available in 29 markets and uses image recognition to help customers move directly from inspiration to purchase by making recommendations based on pictures that the customer has taken or been inspired by.

SCAN-AND-BUY

Scan & Buy is available in all 47 online markets. The customer scans the QR code on an item in store to find the size and colour they want online.

FIND-IN-STORE

Find in Store is now available in 18 markets. This function lets customers use their mobile to find an item they have seen online in the right size and at the right store. More markets will be added in 2019.

IN-STORE-MODE

In-Store-Mode is available in Sweden, Denmark, UK and Ireland. This mobile service shows customers which items are in the store they are currently in as well as online. To be launched in more markets in 2019.

CLICK & COLLECT

Click & Collect is available in 7 markets where customers can pick up the products bought online in store. A further 10 or so markets are planned for 2019.

ONLINE RETURNS IN STORE

Online returns in store is available in 15 markets. Continued roll-out of this service is planned to several more markets in 2019.

- Next day delivery is offered in 11 markets including Germany, the US, UK and Sweden. Same day delivery is being evaluated in certain of these markets with planned launch in a further 6 or 7 markets in 2019.
- Perfect fit is an app that H&M is testing in Sweden in 2019. The app allows customers to create a digital avatar based on selfies taken on their mobile, allowing the customer to try items on virtually to find the right size and fit when shopping online.
- In partnership with Google, in 2018 H&M Home developed a voice app – H&M Home Gift Guide. The first of its kind, it allows customers to make a purchase entirely through the voice app.
- Global expansion of RFID (Radio Frequency Identification), with continued roll-out from 12 markets in 2018 to more markets in 2019. RFID technology means items with a digital price tag can be located quickly, to get precise information on an item's availability.
- 3D technology is now used in the design process for several product groups, enabling streamlining of the process and less material being used. New technology, training and a physical 3D studio have been implemented.
- H&M has created Take Care, currently in stores in the UK, France, Sweden and Norway. Take Care provides everything customers need to repair, remake and freshen up their clothes, shoes and accessories.

GARMENT COLLECTING

The H&M group collects old clothes and home textiles, from any brand and in any condition, for reuse and recycling. In 2018 customers brought in 20,649 tonnes of textiles to stores globally – up from 17,771 tonnes in 2017.

Our brands

The H&M group's brands each have their own unique identity. Together they offer customers around the world a wealth of styles and trends in fashion and design.

The H&M group includes the brands H&M, COS, Weekday, Monki, Cheap Monday, H&M Home, & Other Stories, ARKET and the latest addition Afound, which is a new type of outlet with stores and a digital marketplace. Afound was very positively received at its launch in Sweden in June 2018.

Each brand within the H&M group has its own profile and unique identity, so they complement each other well. Together they offer customers a great variety of styles and trends at various price points in fashion, beauty, accessories and interiors, as well as cafés with a focus on modern, healthy food.

All the brands share the same passion for design, quality and best price, along with the ambition to operate in a sustainable way. Sustainability and increased transparency are of great importance to today's engaged and conscious customers. The H&M group has a circular approach, and this is reflected in increased use of recycled and other sustainably produced materials in the garments.

Increased digitalisation in society is rapidly changing customers' expectations, creating new consumer behaviours and shopping patterns. To keep the brands relevant in a fast-changing world the H&M group is taking advantage of its size and local presence in combination with the opportunities created by the digitalisation of the fashion retail industry.

Physical and digital channels are being integrated to make it easy for customers to move between stores and online. New technology, advanced analytics and automated processes are helping to enhance the customer experience. AI is being used to support decision making and complement the creative process, for example, as well as in other areas. The H&M group is developing an AI model designed to address several areas including trend detection, quantification, allocation, pricing and personalisation.

H&M Club is attracting more and more customers. Today this digital loyalty programme is in 16 markets, with a further seven planned for 2019.

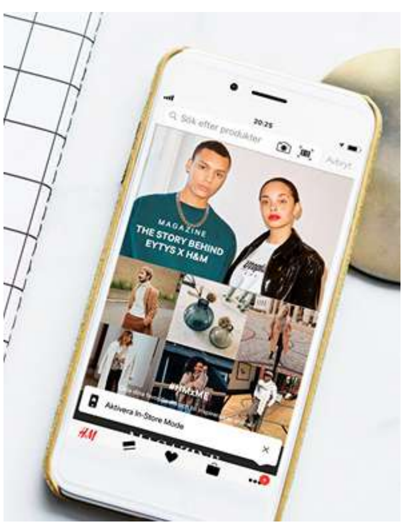


Image recognition is one example of H&M's digital functions – as is #HMxME, which lets customers share their best-loved H&M pieces. In more and more markets the H&M app can also be used in store as a digital shopping tool.

H&M is present in 71 markets – 47 of which also offer online sales – and has collections for women, men, teenagers, children and babies.

H&M is a fashion brand, offering the latest styles and inspiration for all – always. Customers will find everything from fashion pieces and unique designer collaborations to affordable wardrobe essentials, complete-the-look accessories and motivational workout wear. All seasons, all styles, all welcome! But H&M is more than just fashion. With price, quality and sustainability deeply rooted in its DNA, H&M is not only a possibility for everyone to explore their personal style, it also offers a chance to create a more sustainable fashion future. Visit hm.com for more information or follow @HM for daily inspiration.

hm.com

H&M is testing out various enhancements to the store experience and ways of creating a modern, inspiring store feel, such as at H&M Hammersmith in London.

COS

COS offers reinvented classics and wardrobe essentials for women, men and children. Designed to live beyond the season, the collections merge lasting quality with timeless design. Committed to supporting the world of art and design through collaboration, COS partners with established and emerging artists, studios and galleries globally, creating unique brand projects alongside the seasonal fashion collections. In 2018 COS presented Soma, a seasonless capsule menswear collection, through choreography by Wayne McGregor during the Pitti Uomo event in Florence.

COS' expansion continued in 2018 with its first stores in Russia and, via franchise, Thailand, Lebanon and Saudi Arabia. It also opened online in China, where COS was also very well received on the e-commerce platform Tmall. COS is offered online in 21 markets globally and in 270 stores in 41 markets.

cosstores.com

WEEKDAY

Weekday is a Swedish denim and fashion brand influenced by youth culture and street style. Founded in 2002, Weekday currently ships to 18 markets and has 38 stores in 10 countries, offering a unique retail experience and a curated mix of women's and men's assortments as well as a small selection of external brands. Weekday has been part of the H&M group since 2008.

weekday.com

MONKI

In summer 2018 the collaboration Monki x HoloMe tested human holograms in augmented reality, accessible through a smartphone or tablet, allowing the user to view the garments in detail and experience the holograms as being present in the room.

October 2018 saw the launch of All the Feels, a campaign that opened up the conversation about the effects social media use can have on young people's mental health.

Monki is a storytelling brand that offers great fashion at competitive prices, aiming to be kind to the world and the people in it. The brand mixes Scandinavian cool with creative street style and is all about being brave, friendly and fun while empowering young women to stand up for themselves – and others. Besides shopping online in 19 markets, customers can experience Monki in 127 stores in 16 markets.

monki.com

In 2018 H&M Home also opened standalone stores, including in Hamburg, Germany.

H&M HOME

H&M Home is a design-driven interior brand, offering fashion-forward decor and accessories for every room and style. The assortment ranges from high-quality bedlinen and timeless dinnerware to stylish textiles, furniture and lamps; with contemporary style and attention to detail at its core. By merging modern design and quality with affordable prices, H&M Home enables interior lovers across the world to create their dream homes.

H&M Home was launched online as a home textile concept in 2009. The assortment has been extended throughout the years and rolled out in many markets. Today, H&M Home is available mainly in shop-in-shops in H&M stores and online, and is also expanding through standalone H&M Home stores.

hm.com/home

& other Stories

& Other Stories offers a wide range of shoes, bags, accessories, beauty products, stationery 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. Successfully launched in 2013, & Other Stories is present with 70 stores in 17 markets in Europe, the US and Asia along with an online store at stories.com in 15 markets. In 2018 & Other Stories launched a new product category – Hair care, inspired by Los Angeles. New markets were Kuwait via franchise and Austria.

stories.com

AFOUND

Afound is a new type of outlet that offers hundreds of well-known fashion and lifestyle brands for women, men and kids – always at a reduced price. With physical stores and a digital marketplace, Afound presents a hand-picked and curated assortment in many price segments to suit your personal style.

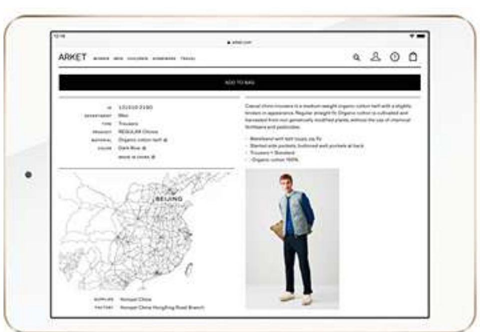
Afound was launched in June 2018 with its first store in Stockholm and online in Sweden. During the year four more stores opened, in a total of four Swedish cities.

afound.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 opened its first store on Regent Street, London in August 2017 as well as online in 18 European markets. Today ARKET has 16 stores in the UK, Sweden, Germany, Denmark, Belgium and Netherlands. The head office and design studio is located at Maria Skolgata 83 in Stockholm.

arket.com



Information at arket.com tells customers the factory in which the product was made.

Most ARKET stores include a café, based on the New Nordic Food Manifesto.

Skinny jeans have been Cheap Monday's trademark since the brand started in 2004 when its first fit 'Tight' hit the market. During the years, the brand has offered a full range of denim and collections for men and women, which have been offered mainly through selected retailers. This traditional wholesale business model has faced major challenges due to the ongoing extensive change of the fashion retail industry. As a result, Cheap Monday will be closed down in 2019. See also page 36.

Market count per brand

BRAND	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2018	NUMBER OF MARKETS WITH STORES	NUMBER OF MARKETS WITH ONLINE
H&M	145	4,433	71	47
COS	39	270	41	21
WEEKDAY	5	38	10	18
CHEAP MONDAY *	-2	1	1	18
MONKI	8	127	16	19
H&M HOME **	8	8	50	40
& other Stories	10	70	17	15
ARKET	11	16	6	18
AFOUND	5	5	1	1

* Cheap Monday will be closed down in 2019. Se also page 36.

** H&M Home is present with shop-in-shops in 362 H&M stores and has 8 standalone stores.

In the 2017/2018 financial year H&M opened online in four new markets: in India and via franchise in Kuwait, Saudi Arabia and the United Arab Emirates, where H&M Home also became available online. Today H&M is online in 47 markets. The year saw the opening of the first H&M stores in Ukraine and Uruguay. H&M Home was launched in Ukraine, Chile and Iceland, and via franchise in Morocco.

In China H&M was also successfully launched on Tmall, as an addition to H&M's own online presence and existing stores in China. H&M Home and COS were also launched on Tmall in 2018. COS also opened online at cosstores.com in China.

COS' first store in Russia opened in 2018, while Thailand and Lebanon were added via franchise. Likewise via franchise Saudi Arabia became a new store market for COS and Monki, and Kuwait for & Other Stories and Monki. & Other Stories opened its first store in Austria, while Weekday opened in Finland and ARKET opened stores in the Netherlands and Sweden.

For 2019 the first H&M stores in Bosnia-Herzegovina and Belarus are planned, and via franchise in Tunisia. In 2019 COS, Weekday and Monki will open stores in Iceland. COS will also open in Lithuania, while Luxembourg becomes a new store market for Weekday and & Other Stories. In total, around 175 new stores net are planned for the H&M group in 2019. The online expansion will continue during the year as H&M opens online in Mexico and via franchise in Egypt. Norway will become a new online market for COS, Weekday, Monki, & Other Stories and ARKET in 2019.

Market overview

MARKET	NET SALES 2018 (SEK M)	NET SALES 2017 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2018
Germany*	32,367	30,959	5	468
USA*	24,798	26,330	42	578
UK*	13,760	12,622	12	304
France*	11,311	11,383	-3	237
China*	10,743	9,484	24	530
Sweden*	8,404	8,236	3	175
Italy*	7,630	7,525	4	179
Spain*	7,373	6,816	-3	172
Netherlands*	6,465	6,191	-1	144
Russia*	5,737	4,915	5	139
Poland*	5,285	4,402	11	186
Switzerland*	5,145	5,471		100
Denmark*	5,045	4,639	3	113
Norway*	4,964	4,900	2	130
Austria*	4,901	4,666	2	88
Japan*	4,573	4,469	9	91
Canada*	4,569	4,291	3	94
Belgium*	3,815	3,726	-1	96
Mexico	2,854	1,988	8	45
Turkey*	2,852	2,962	-2	68
Finland*	2,412	2,295	3	67
Romania*	2,299	1,979		56
Australia	2,283	2,383	12	44
South Korea*	1,957	1,807	5	46
Greece*	1,718	1,576		35
Hungary*	1,646	1,402	2	47
Czech Republic*	1,610	1,341	2	52
Hong Kong*	1,502	1,663	-2	26
Chile	1,488	1,250	5	13
India*	1,408	1,092	12	39

MARKET	NET SALES 2018 (SEK M)	NET SALES 2017 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2018
Portugal*	1,179	1,075		32
Malaysia*	1,177	1,109	3	47
Ireland*	1,104	961		24
Philippines*	1,007	926	2	34
South Africa	842	780	6	23
Singapore*	801	899	-1	12
Peru	763	725	3	11
Slovakia*	750	616	3	25
Croatia*	719	685	1	16
Bulgaria*	635	581	1	21
Taiwan*	627	742		12
Slovenia*	488	452	-1	12
Serbia	423	363	1	13
Luxembourg*	406	408		10
Colombia	405	188	1	4
Estonia*	381	350	2	12
Latvia*	356	326		8
Lithuania*	351	324		9
New Zealand	284	183	1	4
Vietnam	271	63	4	6
Kazakhstan	203	158		3
Iceland	192	76	1	3
Macau*	120	135		2
Georgia	102	7	1	2
Puerto Rico*	80	91		2
Cyprus*	79	80		1
Uruguay	64		1	1
Ukraine	57		2	2
Franchise**	5,620	4,938	36	255
Total	**210,400**	**200,004**	**229**	**4,968**

* Market with online sales.

** United Arab Emirates*, Kuwait*, Qatar, Saudi Arabia*, Egypt, Bahrain, Oman, Lebanon, Israel, Morocco, Jordan, Thailand and Indonesia.

Five year summary

1 DECEMBER – 30 NOVEMBER

FINANCIAL YEAR	2018	2017	2016	2015	2014
Net sales, SEK m	210,400	200,004	192,267	180,861	151,419
Change from previous year in SEK, %	+5	+4	+6	+19	+18
Change from previous year in local currencies, %	+3	+3	+7	+11	+14
Operating profit, SEK m	15,493	20,569	23,823	26,942	25,583
Operating margin, %	7.4	10.3	12.4	14.9	16.9
Depreciation and amortisation for the year, SEK m	9,671	8,488	7,605	6,399	5,045
Profit after financial items, SEK m	15,639	20,809	24,039	27,242	25,895
Profit after tax, SEK m	12,652	16,184	18,636	20,898	19,976
Cash and cash equivalents and short-term investments, SEK m	11,590	9,718	9,446	12,950	16,693
Stock-in-trade, SEK m	37,721	33,712	31,732	24,833	19,403
Equity, SEK m	58,546	59,713	61,236	58,049	51,556
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	7.64	9.78	11.26	12.63	12.07
Shareholders' equity per share, SEK*	35.37	36.08	37.00	35.07	31.15
Cash flow from current operations per share, SEK*	12.86	13.04	14.36	14.54	14.60
Dividend per share, SEK	9.75**	9.75	9.75	9.75	9.75
Return on equity, %	21.4	26.8	31.2	38.1	41.3
Return on capital employed, %	21.2	31.0	39.2	49.3	53.1
Share of risk-bearing capital, %	53.5	61.0	67.1	72.7	72.5
Equity/assets ratio, %	49.3	56.0	62.1	67.6	68.2
Total number of stores	4,968	4,739	4,351	3,924	3,511
Average number of employees	123,283	120,191	114,586	104,634	93,351

* Before and after dilution.
** Proposed by the board of directors.

For definition of key figures see page 72.

The H&M share

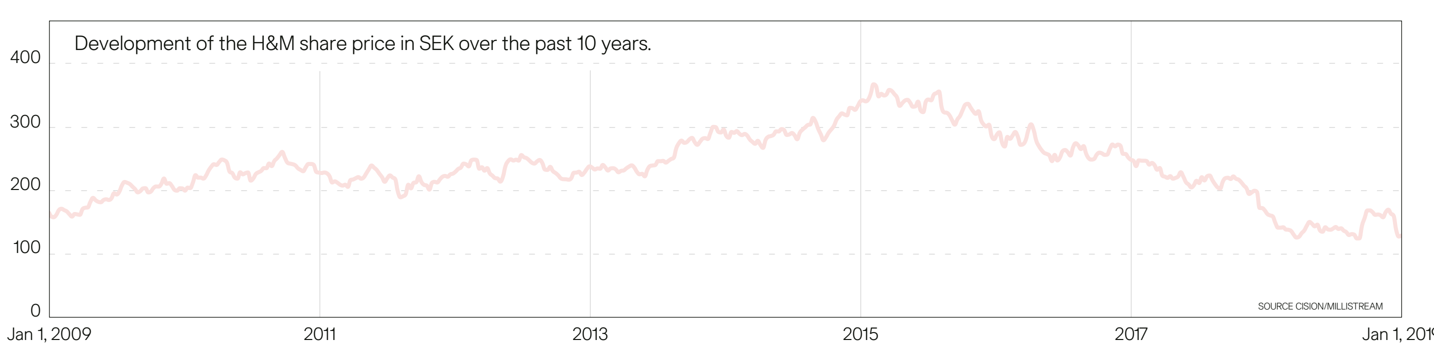
KEY RATIOS PER SHARE	2018	2017	2016	2015	2014
Shareholders' equity per share, SEK	35.37	36.08	37.00	35.07	31.15
Earnings per share, SEK	7.64	9.78	11.26	12.63	12.07
Change from previous year, %	-22	-13	-11	+5	+17
Dividend per share, SEK	9.75*	9.75	9.75	9.75	9.75
Share price on 30 November, SEK	167.64	197.10	267.90	323.50	319.40
P/E ratio	22	20	24	26	26

* Proposed by the board of directors.

DISTRIBUTION OF SHARES, 30 NOVEMBER 2018

SHAREHOLDING	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	AVERAGE SHARES PER SHAREHOLDER
1–500	198,037	80.7	25,150,181	1.5	127
501–1,000	22,491	9.2	17,766,768	1.1	790
1,001–5,000	19,830	8.1	44,111,097	2.7	2,224
5,001–10,000	2,530	1.0	18,437,742	1.1	7,288
10,001–15,000	745	0.3	9,372,248	0.6	12,580
15,001–20,000	468	0.2	8,321,183	0.5	17,780
20,001–	1,326	0.5	1,531,912,781	92.5	1,155,289
Total	**245,427**	**100.0**	**1,655,072,000**	**100.0**	**6,744**

PRINCIPAL SHAREHOLDERS, 30 NOVEMBER 2018	NO. OF SHARES	% OF VOTING RIGHTS	% OF TOTAL SHARES
The Stefan Persson family and related companies	769,332,211	74.0	46.5
State Street Bank and Trust	116,884,962	3.4	7.1
The Lottie Tham family and related companies	88,880,400	2.6	5.4
Swedbank Robur Fonder	34,164,694	1.0	2.1
Alecta Pensionsförsäkring	32,308,000	1.0	2.0
The Fourth Swedish National Pension Fund (AP4)	22,522,252	0.7	1.4
Nordea Investment Funds	20,108,830	0.6	1.2
Clearstream Banking S.A.	19,991,163	0.6	1.2
AMF – Försäkring och Fonder	19,803,353	0.6	1.2
Livförsäkringsbolaget Skandia	15,678,099	0.5	0.9



For more information see the investor relations section at about.hm.com.

Corporate governance report 2018 H & M Hennes & Mauritz AB

Good and 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 thing. In the H&M group, our values and global policies and guidelines are important tools in our approach to the world around us. Our Code of Ethics, which is signed by all our employees who have business relationships and by all business partners, clearly states our approach to doing business. Acting consistently and with a strong ethical compass is of great importance, because we operate in many different markets that have different challenges and where the laws, environmental requirements and social conditions may differ.

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) and has prepared this corporate governance report in accordance with the Annual Accounts Act and the Code. H&M has applied the Code since 2005. The report was prepared by the company's board of directors and has been reviewed by the company's auditors.

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

Examples of external regulations that affect H&M:
– Swedish Companies Act
– Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
– EU Market Abuse Regulation (596/2014/EU)
– Nasdaq Stockholm Rules for Issuers
– Swedish Corporate Governance Code (the Code), which is available at corporategovernanceboard.se. 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.

Examples of internal control documents:
– Articles of association
– The board's work plan including instructions for the CEO and auditing committee
– The H&M Way
– Code of Ethics
– Code of Conduct: Sustainability Commitment (formerly Code of Conduct)
– Insider Policy
– Financial Policy
– Communications Policy
– Human Rights Policy
– Tax Policy
– Whistleblowing Policy
– Other policies, guidelines and manuals

H&M's corporate governance is governed by values, since it is based both on external regulations and on our values – which, in brief, can be described as a sound, simple, straightforward, cost-conscious, entrepreneurial corporate culture that focuses on teamwork, our belief in people and constant improvement. Sustainability work is well integrated into every part of the business and forms a natural part of our employees' everyday life.

Today, H&M is present in more than 70 retail markets and around 20 production markets. As a global company, it is of the utmost importance that we always act ethically, transparently and responsibly at every stage – from doing business with our suppliers to meeting with customers. Through good purchasing routines and close cooperation with our suppliers, our products should always be produced with the greatest possible consideration for people and the environment. Our risk management and internal control work ensure that we work purposefully in every part of the organisation, and the board of directors and auditing committee receive regular feedback from the organisation concerning how the internal control work is being conducted. Every year a thorough review is carried out of the company's risks, both operational and financial, with well-defined action plans to minimise risk. A more long-term risk analysis is also performed, to provide supporting documentation for long-term commercial decisions.

Responsibility for management and control is shared between the shareholders, board, auditing committee and CEO. The board's work plan states how the work is to be distributed between the board, the auditing committee and the CEO, with the board having the ultimate responsibility for the company's organisation and administration and the CEO taking care of the ongoing management of the business, with regular feedback to the board.

The board of directors has seven members elected by the annual general meeting (AGM), two employee representatives and two deputies for these. Overall, the board has 11 members – seven women and four men.

The composition of the board is characterised by breadth and diversity, and the various competencies of the board members complement each other well, providing experience within areas such as retailing, entrepreneurship, fashion, digitalisation, sustainability and communication which forms a good basis for valuable discussions with the CEO and management.

During the year the board held seven board meetings, including a statutory meeting in conjunction with the AGM. As in previous years, there was a very high level of attendance by board members. The CEO, CFO and chief accountant also attend all the meetings. Generally, one or two functions/departments are invited to each meeting to give a status presentation concerning what their particular function is working on; for example, every six months the head of sustainability provides an update on the company's sustainability work, making reference to key indicators and targets. 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 auditing committee also gives an account of the matters addressed by the auditing committee at its most recent meeting within areas such as accounting, auditing, tax, internal control, risks, as well as various new regulations and legislation.

H&M has chosen to have the corporate governance report as a separate document to the annual report in accordance with chapter 6 § 8 of the Swedish Annual Accounts Act. The information that must be provided under chapter 6 § 6 items 3–6 of the Annual Accounts Act is included in the administration report on page 39 of H&M's annual report for 2018 and is therefore not included in this corporate governance report. In accordance with chapter 6 § 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 34.

In 2018 H&M deviated from the Code on the following point:

2.4 The fact that Stefan Persson, the chairman of the board, also chairs the nomination committee. The nomination committee is unanimous that, as the chairman of the board and the largest shareholder in H&M, Stefan Persson is the natural choice to chair H&M's nomination committee.

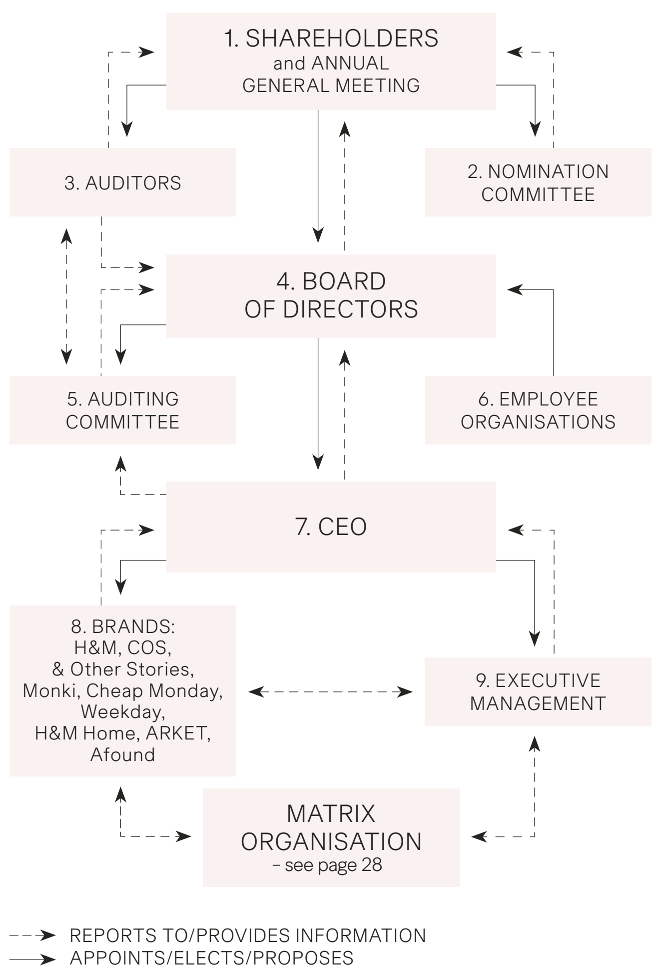
Read more about H&M's corporate governance at about.hm.com/corporategovernance.

Among other things, you will find here:

- Previous corporate governance reports
- Articles of association
- Information on the nomination committee, board of directors, CEO, auditors, auditing committee, guidelines and policies, executive management team etc.
- Information and material from previous AGMs
- Risks and uncertainties

The H&M group's corporate governance structure

The H&M group's corporate governance structure encompasses shareholders, the board of directors, the auditing committee, the CEO, the nomination committee, auditors, the executive management team, brands, employees and employee organisations – see the illustration below. The illustration summarises the group'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 chairman 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 the CEO to take care of day-to-day administration. The CEO appoints members of the executive management team within the H&M group's matrix organisation. The board includes two employee representatives and two deputies for these, who are appointed by their respective employee organisations. The board appoints an auditing committee from among its members, which deals with accounting and auditing matters on an ongoing basis and which is the main channel of communication between the board and the auditors. Each year the auditors report to the board and the annual general meeting on their scrutiny.



1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

It is H&M's shareholders 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 chairman, whose task it is to administer H&M's affairs on behalf of the shareholders. The shareholders at the general meeting also elect auditors, decide on the principles of 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 ordinary general meeting (annual general meeting) is held once a year, in late April or early May.

The date and venue are announced in H&M's nine-month report as well as on about.hm.com. The notice of the meeting is published in full usually five weeks before the meeting in Post- och Inrikes Tidningar and on about.hm.com, with an advertisement placed in 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 for those shareholders who wish to submit their questions to H&M 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 where 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 chairman of the board
– Board fees including the compensation paid to members for work on the auditing 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

Annual general meeting 2018

H&M's annual general meeting 2018 was held on 8 May in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna. A total of 1,164 shareholders were represented at the meeting, representing 82.3 percent of the votes and 63.6 percent of the capital. H&M's board of directors, executive management and nomination committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

– The lawyer Sven Unger was elected as chairman of the meeting.
– Balance sheets and income statements for the parent company and for the group were adopted.
– A dividend to shareholders of SEK 9.75 per share was approved. It was resolved that the dividend would be paid in two instalments during the year: SEK 4.90 per share with a record date of 11 May 2018, to be paid out on 16 May 2018, and SEK 4.85 per share with a record date of 13 November 2018, to be paid out on 16 November 2018.
– The board members and the CEO were discharged from liability for the 2016/2017 financial year.
– The number of board members elected by the meeting to serve until the next AGM was set at seven, with no deputies.
– The following ordinary board members were re-elected: Stina Bergfors, Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Stefan Persson was re-elected as chairman of the board.
– The AGM approved the proposal from the nomination committee, based on the number of board members, that the total board fees of SEK 5,890,000 were to be distributed as follows: chairman of the board SEK 1,700,000; board members elected by the AGM SEK 615,000; members of the auditing committee an extra SEK 150,000; and the chairman of the auditing committee an extra SEK 200,000.
– The AGM resolved to appoint Ernst & Young AB as auditors until the close of the 2019 AGM. The auditors' fees are 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
2014	84.2	67.5
2015	82.4	63.7
2016	83.3	65.5
2017	83.7	66.6
2018	82.3	63.6

Number of shareholders and ownership structure

At the end of the financial year H&M had 245,427 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 538,531,922 class B shares, representing 15.8 percent of the votes. This means that as of 30 November 2018, Stefan Persson and family via Ramsbury Invest AB represent 72.9 percent of the votes and 44.3 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB.

Annual general meeting 2019

H&M's annual general meeting 2019 will be held on Tuesday, 7 May 2019 in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna.

To register to attend the 2019 AGM, see page 78 of H&M's annual report for 2018 or visit about.hm.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, the chairman of the board, the auditors and the chairman 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 is characterised by diversity and breadth as regards expertise, experience, background and gender balance. It also takes into consideration the H&M group's stage of development and future focus.

Before each general meeting the nomination committee's report is available to read as a separate document at about.hm.com/corporategovernance. The composition of the nomination committee is based on the principles for the nomination committee adopted at the 2018 annual general meeting. The nomination committee below is based on the principle that the nomination committee is to consist of the chairman of the board plus four others nominated by the four largest shareholders in terms of voting rights, as recorded in the register of shareholders, other than the shareholder that the chairman of the board may represent.

Changes in the register of shareholders showed during the autumn that AMF and AMF Fonder were no longer among the five largest shareholders in the H&M group, which meant that AMF's representative Anders Oscarsson, who had been elected to the committee at the 2018 AGM, left H&M's nomination committee in October 2018. In accordance with the principles for the nomination committee established by the annual general meeting, a new member was appointed to the nomination committee: Thomas Wuolikainen of Fjärde AP-fonden (Fourth Swedish National Pension Fund), which is now one of the five largest shareholders in H&M according to the register of shareholders. Thus the nomination committee consists of:

– Stefan Persson, chairman of the board
– Lottie Tham
– Liselott Ledin, Alecta
– Jan Andersson, Swedbank Robur Fonder
– Thomas Wuolikainen, Fjärde AP-fonden (Fourth Swedish National Pension Fund)

The nomination committee meets the requirements of the Code regarding the independence of members. Stefan Persson is the nomination committee's chairman. This deviates from section 2.4 of the Swedish Corporate Governance Code. The 2018 AGM resolved that unless the members of the nomination committee agree otherwise, the chairman of the nomination committee shall be the member representing the largest shareholder. The nomination committee has found no reason to decide otherwise. The nomination committee was unanimous that in view of H&M's ownership structure, Stefan Persson in his capacity as chairman of the board and principal shareholder is the natural choice to chair H&M's nomination committee.

Work of the nomination committee in preparation for the 2018 AGM including description of diversity policy for the board of directors

The nomination committee elected at the 2017 AGM presented its proposals for the 2018 AGM. The proposal for the composition of the board was to re-elect Stina Bergfors, Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Christian Sievert, Erica Wiking Häger and Niklas Zennström.

The starting point for the nomination committee's work ahead of the 2018 AGM was to supplement the board of directors with a further member. The nomination committee had also noted that this was a wish expressed by Aktiespararna (the Swedish Shareholders' Association) at the 2017 AGM. In this process the nomination committee studied a number of different skills profiles based on the group's expected challenges in a medium-term perspective. After thorough discussions, however, the nomination committee decided not to nominate a new member at the present time.

The nomination committee judged that the proposed composition of the board accorded well with section 4.1 of the Swedish Corporate Governance Code, which the nomination committee has applied as its diversity policy. The aim of the policy is that the proposed board is characterised by diversity and breadth of expertise, experience and background, and by gender balance. The nomination committee aims for gender balance and H&M's board has had a good gender balance for many years. The board members proposed, and subsequently elected, consisted of three women and four men (corresponding to 43 percent and 57 percent respectively, excluding employee representatives). The board thus achieves the 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 by 2020.

To achieve continued gender balance, H&M's nomination committee discusses this each year and identifies future board candidates with relevant backgrounds and experience on a continuous basis.

It was felt that the proposed composition of the board more than satisfies the requirements made of expertise and experience, taking into account the company's operations and future development. The proposed composition was also considered to meet the applicable requirements well in respect of the independence of board members, their stock market experience and their expertise in accounting and auditing.

Work of the nomination committee in preparation for the 2019 AGM

Since the 2018 AGM the nomination committee has held two meetings so far at which minutes were taken and has also been in contact at other times. In early autumn 2018 a thorough evaluation of the composition and work of the board was carried out, based on interviews with the members elected by the AGM. The evaluation shows that the board functioned well over the course of the year and provides a basis for the nomination committee's work on proposing the composition of the board to the 2019 annual general meeting.

The nomination committee thus discusses the size of the board, its composition as regards expertise and experience, among other things, the election of a chairman for the AGM, fees for board members and the election of auditors. No fees were paid to the nomination committee's chairman or to any other member of the nomination committee. The nomination committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2019 AGM.

3. AUDITORS

The auditors, who are independent and appointed by the shareholders at the AGM, scrutinise H&M's annual report, consolidated financial statements, accounts, sustainability report 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 the H&M group by the board and CEO, and review compliance with the guidelines on remuneration to senior executives adopted by the AGM.

At the 2018 AGM the accounting firm Ernst & Young AB was elected as auditor of H&M for a one-year period of office, i.e. until the end of the 2019 AGM. Authorised public accountant Åsa Lundvall from Ernst & Young holds the main responsibility for the audit.

As previously, the 2018 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 9 of the annual report for 2018.

Ernst & Young AB (EY) 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 auditing committee. Åsa Lundvall is an

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2018

NAME	YEAR ELECTED	INDEPENDENT [1]	INDEPENDENT [2]	FEES (SEK) [3]	BOARD MEETINGS [4]	AUDITING COMMITTEE	SHARE-HOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, chairman	1979	No	No	1,675,000	7/7			194,400,000 [5] 554,909,767 [6]
Stina Bergfors	2016	Yes	Yes	600,000	7/7		6,000	9,000 [7]
Anders Dahlvig	2010	Yes	Yes	750,000	7/7	4/4	17,510	
Lena Patriksson Keller	2014	Yes	Yes	600,000	7/7			1,200 and 9,450 [8]
Christian Sievert	2010	Yes	No [9]	800,000	7/7	4/4	81,000	19,000 and 2,400 [10]
Erica Wiking Häger	2016	Yes	Yes	750,000	7/7	4/4		750 [11]
Niklas Zennström	2014	Yes	Yes	600,000	6/7		72,700	
Ingrid Godin employee rep.	2012				7/7			60
Alexandra Rosenqvist employee rep.	2015				7/7			
Rita Hansson [12] deputy employee rep.	2014				6/7		300	
Margareta Welinder deputy employee rep.	2007				6/7			

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 2017 annual general meeting. This means that the fees related to the period until the next AGM, i.e. for the period 10 May 2017 to 8 May 2018. The amounts were paid out after the 2018 AGM.

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

5) Class A shares owned through Ramsbury Invest AB.

6) Class B shares owned through Ramsbury Invest AB as of 18 February 2019.

7) Shares held by spouse.

8) 1,200 shares are 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. Additional information: in addition to Christian Sievert's shareholding shown above, Christian Sievert holds 9,000 H&M shares via a pension plan.

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

12) Rita Hansson retired in December 2018.

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

authorised public accountant who conducts auditing assignments for companies such as ATG, DGC One, Systemair and Swedavia.

The auditors attend all meetings of the auditing committee, and as in previous years, the chief auditor Åsa Lundvall also took part in the board meeting held in January 2018 in order to notify the board of the scope, focus, significant considerations and conclusions of the audit of the 2017 financial year. In addition to this involvement, the auditor meets regularly with the chairman of the board, the chairman and other members of the auditing committee, 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, EY has also carried out related tasks such as verification of the sustainability report. In addition, EY has assisted with other consulting services, primarily tax advice. EY has internal processes to ensure its independence before these tasks are begun. The auditing committee also has a process for approving non-auditing services in advance, before such assignments are begun. The auditing 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. This means that the board has the overall responsibility for H&M's administration. This takes place in a long-term, sustainable way with a focus on the customer offering and growth.

In addition to laws and recommendations, H&M's board work is regulated by the board's work plan, which contains rules on the distribution of work between the board, its committees and the CEO and on financial reporting, investments and financing. The work plan, which also includes a work plan for the auditing committee, is updated when 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 until the next AGM.

Since the 2018 AGM the board has consisted of seven ordinary members elected by the AGM and no deputies. There are also two employee representatives, with two deputies for these positions. The board is comprised of seven women and four men. Only the employee representatives are employed by the company. Since the 2018 AGM the board has comprised the following members elected by the meeting:

Stefan Persson (chairman), Stina Bergfors, Anders Dahlvig, Lena Patriksson Keller, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Ingrid Godin and Alexandra Rosenqvist are the regular employee representatives, with Rita Hansson and Margareta Welinder as their deputies. For more facts about H&M's board members, see pages 32–33.

The board members are to devote the time and attention that their assignment for H&M requires. New board members receive introductory training which, among other things, includes meetings with the heads of various functions.

The composition of H&M's 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 company 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 board 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 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 2018 financial year seven board meetings were held. The level of attendance at board meetings is high, with each member's attendance shown in the table on page 24.

Work of the board in 2018

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

The following areas are usually reviewed at each board meeting:
– Minutes of the previous meeting
– CEO's status report
– Report by CFO
– Strategic matters
– Feedback from latest auditing committee meeting
– Financial reporting, such as interim report and annual report
– Any other business

In 2018 CEO Karl-Johan Persson provided information on – among other things – the strategic plan in response to the great transition that is taking place in the industry. The customer offering, digital development, optimisation of the store portfolio, expansion and the integration of stores and online and future store development, sales, costs, earnings and the status of each brand, sustainability, external factors and development opportunities are examples of matters discussed. The CEO also provided ongoing information on purchasing, production, the stock-in-trade, marketing and PR activities, organisational changes, the broadening of the product range, and new initiatives and the development of new brands. During the year 375 new stores net were opened, with Ukraine and Uruguay as new H&M store markets for 2018, and 146 stores were closed, resulting in a net addition of 229 new stores. The following new online markets were opened during the year: India and, via franchise, Kuwait, Saudi Arabia and the United Arab Emirates. The plan is to roll out the online store to all existing store markets and to other markets as well.

The industry is undergoing significant structural changes and rapid shifts in technology as a result of the increased digitalisation of society. This creates great opportunities, but also puts demands on the organisation. The board therefore discusses the significance of this shift, with more and more shopping taking place online, and the transformation that the H&M group is undergoing in order to respond to these changed circumstances. Among other things, it discusses future growth plans, how the organisation should adapt to the new situation and which investments need to be made in order to be able to offer customers a shopping experience that is as complete and seamless as possible. The board receives ongoing updates on these projects, which might involve developing the customer offering to enable a faster and more flexible product flow with quicker and more varied delivery options, the handling of returns, changes of platform, AI and advanced analytics, mobile payment solutions etc. The long-term investments being made aim to ensure the group's future expansion and position.

The group'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 Code of Conduct, 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, auditing, tax, customs duties, internal control, risk, various new regulations and new legislation such as GDPR etc. The overall risk assessment, involving the very largest risks – in both the short and the long term – is then also discussed at subsequent board meetings. 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.

During the year the board takes various decisions, for example regarding the expansion and investment plan, the proposed dividend, which was SEK 9.75 per share for the 2018 financial year, as proposed to the 2019 AGM, the payment of the dividend in two instalments during the year, guidelines for remuneration of senior executives and the financial reports etc.

At the board meeting held on 30 January 2018 the board of directors decided that the growth target of the H&M group 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) for work on internal control, but has instead established its own model for managing the company's risk and internal control (see pages 27–29), 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 working in a satisfactory way.

Before the 2018 annual general meeting the board carried out an assessment of the application of the guidelines for remuneration to senior executives that were adopted by the 2017 AGM. The results of this assessment were published on the website in good time before the 2018 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. 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 the setting of the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

5. AUDITING COMMITTEE

The auditing 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 issues and financial reports published by the company. The auditors attend the meetings of the auditing committee to report on their scrutiny of the group's annual report and financial statements, including the consolidated financial statements.

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

H&M's auditing 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 auditing 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 2018 AGM, the auditing committee has consisted of chairman Christian Sievert and members Anders Dahlvig and Erica Wiking Häger. The committee held four meetings at which minutes were taken during the 2017/2018 financial year.

EY attended the auditing committee meetings and reported on the auditing assignments. The meetings were also attended by CFO Jyrki Tervonen and chief accountant Anders Jonasson, among others. The committee's meetings are minuted and the minutes are then distributed to the board members.

During the year the auditing 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. Among other things, the work relating to the new General Data Protection Regulation (GDPR) that entered into force in 2018 was discussed.
– In addition, the following functions gave presentations/provided information on their work: expansion/construction, security, accounting/tax, logistics, business development, IT and HR.
– The transfer pricing model and tax matters. 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.
– In addition, customs matters were discussed in view of the fact that this is becoming an increasingly pressing matter for multinationals due to increased protectionism in certain countries.
– EY informed the committee of the audit plan, the scope of the audit and the results of scrutiny carried out.
– In addition, EY provided information on current regulatory developments in the areas of accounting and auditing.
– Review of the auditors' independence and impartiality. The auditing committee finds that it is clear which assignments EY 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 two board members and two 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 of the store network and of online sales, and digital development. The CEO reports to the board on the H&M group'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.

Karl-Johan Persson, born in 1975, has been the chief executive officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as CEO, Karl-Johan Persson held an operational role within H&M from 2005, including working as head of expansion, business development as well as brand and new business. Since 2000 Karl-Johan Persson has been a member of the boards of H&M's subsidiaries in Denmark, Germany, the US and the UK. From 2006 until 2009 he was also a member of the board of H & M Hennes & Mauritz AB.

From 2001 until 2004 Karl-Johan Persson was CEO of European Network. Karl-Johan Persson holds a BA in business administration from the European Business School in London. Karl-Johan Persson currently has external board assignments for, among others, the Swedish Chamber of Commerce in the UK, Ramsbury Invest AB and the GoodCause Foundation. Since 2013 Karl-Johan Persson has also been a member of the board of the H&M Foundation.

Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

8, 9. ORGANISATION AND MANAGEMENT

The H&M group has a multi-brand matrix organisation with well-defined brands: H&M, COS, & Other Stories, Monki, Weekday, Cheap Monday*, H&M Home, ARKET and Afound. Each brand has its own organisation and managing director, and all the brands have their own local 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 the H&M group and appoints the members of the executive management team, which is made up of the CEO plus nine others – six of whom are women. The executive management team is made up of the CEO, CFO, the two people with responsibility for the H&M brand, the head of New Business (which includes COS, & Other Stories, Monki, Weekday, Cheap Monday*, H&M Home, ARKET and Afound), the heads of the business development, HR, sustainability and communications functions, and the COO, who has responsibility for the functions advanced analytics and AI, expansion, IT, logistics and production. Those responsible for the 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 local sales organisations are responsible for daily shop/retail operations in their country, giving them a collective responsibility for all

CEO Karl-Johan Persson
CFO Jyrki Tervonen

GROUP FUNCTIONS

Accounting Anders Jonasson
Business development Daniel Claesson
Communications Kristina Stenvinkel
Controlling Fredrik Nilsén
HR Helena Thybell
IT Morten Halvorsen
Legal Fredrik Björkstedt
Security Cenneth Cederholm
Sustainability Anna Gedda
COO Helena Helmersson
- **Advanced analytics & AI** Arti Zeighami
- **Expansion** Katja Ahola
- **IT** Morten Halvorsen
- **Logistics** Patrik Berntsson
- **Production** David Sävman

BRANDS

H&M Fredrik Olsson
Madeleine Persson
New Business Anna Attemark
- **COS** Marie Honda
- **& Other Stories** Sanna Lindberg
- **Monki** Jennie Dahlin Hansson
- **Weekday** David Thörewik
- **Cheap Monday** Peter Klagsmark
- **H&M Home** Anders Sjöblom
- **ARKET** Lea Rytz Goldman
- **Afound** Stina Westerstad, acting

the support functions in their country working according to instructions from the central group functions.

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 § 6 of the Swedish Annual Accounts Act and section 7.4 of the Swedish Corporate Governance 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 as well as 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. Within H&M there exists above all the Code of Ethics; 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. For a number of years the group has had a document called "The H&M Way", which briefly describes and brings together what H&M stands for and provides a basis for how employees are to act in relation to each other and the outside world. It also refers to the group's main policies.

H&M's internal control structure is based on:
– The division of work between the board of directors, the auditing committee and the CEO, which is clearly described in the board's formal work plan. The executive management team and the auditing committee report regularly to the board based on established routines.
– The company's organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
– Values and guidelines, as well as policies and manuals; of these, the Code of Ethics, the financial policy, the insider policy, the communications policy and the store instructions are examples of important overall policies.
– Awareness among the employees of the importance of maintaining effective control over financial reporting.
– Control activities, checks and balances, analysis, reporting.

The H&M group has a matrix organisation (see page 28), which means that those responsible for the joint group functions are responsible for the efficiency of work within their function at each brand (the horizontal arrows). Each brand has its own organisation and managing director, and all the brands have their own local 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 the companies within the H&M group – apart from Weekday Brands, which is engaged in wholesale operations – 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

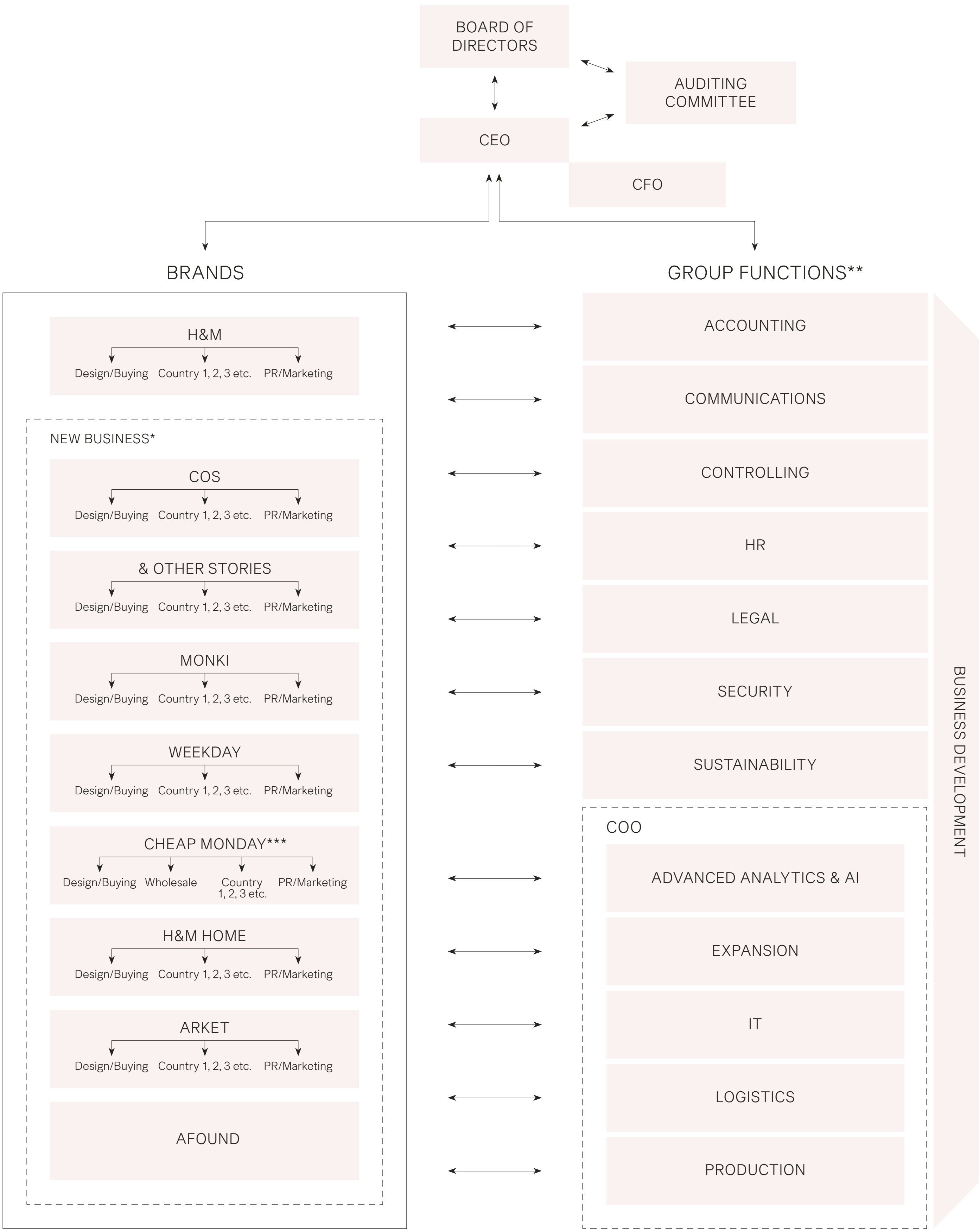
H&M carries out regular risk analysis for both operational and financial risks. At the end of each financial year the analysis is updated in respect of the main operational risks – in the short and long term – and also the risks within financial reporting. This is carried out in two group-wide documents, based on the probability and impact of each risk.

As in previous years, at the end of 2018 each central function reviewed its main risks, assessed these and identified the systems, methods and controls that are in place to minimise any impact of the risks. This information was compiled at group level, after which the functions together prepared the general risk analysis mentioned above with a view to getting an overall picture of the group's main risks – thereby shedding light on the mitigation plans that are in place to manage these risks. The risk analyses for operational risks and for the risks within financial reporting were then dealt with in the auditing committee and thereafter discussed by the board.

For a description of H&M's operational risks, see the administration report on pages 37–38. For risks within financial reporting, see the

* Cheap Monday will be closed down in 2019.

Matrix organisation of the H&M group



* New Business has overall responsibility for producing, refining and supporting the H&M group's newer brands.

** In alphabetical order.

*** Cheap Monday will be closed down in 2019.

administration report on pages 38–39 and note 2, Financial risks, on pages 58–59 of H&M's annual report for 2018.

To limit the risks there are appropriate policies and guidelines as well as processes and controls within the business.

CONTROL ACTIVITIES

There are a number of control activities built into every process to ensure that the business is run effectively and that financial reporting provides a true picture at each reporting date. 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.

During the year ongoing internal control of the IT department is also carried out, to ensure that the work and processes are being performed in accordance with guidelines set. This also includes systems relating to financial reporting. These financial systems are also reviewed by an external party in cooperation with those responsible for systems and system areas within 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's policies and guidelines are updated on an ongoing basis. This takes place primarily within each central function and is communicated to the sales countries by email and via the intranet, as well as at meetings.

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:
- H&M's annual 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 about.hm.com

MONITORING

In 2018 the group functions/central departments 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.

The work resulted in a plan of action for each central department 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 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 are working in a uniform and desirable way. The assessment of internal control also allows each sales country to provide valuable and constructive feedback to the central function regarding where there is room for improvement at central level. An important part of the internal control work is the feedback to the country management (country manager and country controller) which the central function provides based on the results of the evaluation in each country. This is done with a view to transparency and to ensuring that the countries adopt best practice.

Within the production organisation there is a firm and regular control and monitoring process for the internal routines that are brought together in the Routine Handbook for Production. These routines are about how H&M ensures that the company does business in an ethical and transparent way. Most of these routines 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 with the aim of determining the strengths and weaknesses of the stores and how any shortcomings can be corrected. Follow-up and feedback with respect to any non-compliances found during the assessment of internal control constitute a central part of internal control work.

The board of directors and the auditing committee continuously evaluate the information provided by the executive management team, including information on internal control. The auditing 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 improvements are made.

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Corporate Governance Code, during the year the board assessed the need for a specific internal audit department. 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 is applied by the central departments such as accounting, communications, security, logistics, production etc. in the subsidiaries – and the work carried out by internal store auditors 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 2019.

Stockholm, February 2019

The Board of Directors

More information on H&M's corporate governance work can be found in the section on corporate governance at about.hm.com. The next four pages contain information about the board members.

ANDERS DAHLVIG
Board member and member of the auditing committee

LENA PATRIKSSON KELLER
Board member

RITA HANSSON
Deputy employee representative

STEFAN PERSSON
Chairman of the board

STINA BERGFORS
Board member

MARGARETA WELINDER
Deputy employee representative

INGRID GODIN
Employee representative

CHRISTIAN SIEVERT
Board member and chairman of the auditing committee

NIKLAS ZENNSTRÖM
Board member

ERICA WIKING HÄGER
Board member and member of the auditing committee

ALEXANDRA ROSENQVIST
Employee representative

About the board members

STEFAN PERSSON
Chairman of the board. Born 1947.

Primary occupation
Chairman of the board of H&M.

Other significant board assignments
Member of the board of MSAB and board assignments in family-owned companies.

Education
Stockholm University and Lund University, 1969–1973.

Professional experience

1976–1982	Country manager for H&M in the UK and responsible for H&M's expansion abroad.
1982–1998	CEO of H&M.
1998–	Chairman of the board of H&M.

STINA BERGFORS
Board member. Born 1972.

Primary occupation
Founder of the digital media company United Screens, where Stina works on strategic matters and business development.

Other significant board assignments
Member of the board of INGKA Holding BV. 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

2000–2004	Media strategist OMD Nordics.
2005–2008	CEO of Carat Sverige AB.
2008–2013	Country director for Google and YouTube in Sweden.
2014–	Founder and CEO, followed by business development at United Screens.

ANDERS DAHLVIG
Board member and member of the auditing committee. Born 1957.

Primary occupation
Board assignments.

Other significant board assignments
Chairman of Inter IKEA Holding BV and member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB, Resurs Bank AB and Pret A Manger.

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.

LENA PATRIKSSON KELLER
Board member. Born 1969.

Primary occupation
Executive Chairman at branding and communications agency Patriksson Communication AB.

Other significant board assignments
Member of the board of Elite Hotels; chairman of the board of the industry organisation Association of Swedish Fashion Brands (ASFB). 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 chairman, Patriksson Communication AB.

CHRISTIAN SIEVERT
Board member and chairman of the auditing committee. Born 1969.

Primary occupation
CEO of investment company 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.
1997–2003	Investment manager and partner, Segulah.
2003–2013	CEO/managing partner at Segulah.
2013–2014	Partner, Segulah.
2014–	CEO of investment company AB Max Sievert.

ERICA WIKING HÄGER
Board member and member of the auditing 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. Erica is an advisor on commercial law focusing on human rights, working conditions, the environment and anti-corruption, and is a member of the Swedish Bar Association, the New York State Bar Association and the International Association for Privacy Professionals (IAPP).

Other significant board assignments
Member of the board of Stockholm Chamber of Commerce.

Education
Master of Laws from Uppsala University, LL.M. from Harvard Law School in the US and supplementary studies at the University of Oklahoma in the US and Ruprecht-Karls-Universität Heidelberg in Germany.

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.

INGRID GODIN
Employee representative, on the H&M board since 2012. Born 1959.

ALEXANDRA ROSENQVIST
Employee representative, on the H&M board since 2015. Born 1976.

RITA HANSSON
Deputy employee representative, on the H&M board since 2014. Born 1951.

MARGARETA WELINDER
Deputy employee representative, on the H&M board since 2007. Born 1962.

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220

Assignment and division of responsibility

We have reviewed the corporate governance report for the financial year 1 December 2017 to 30 November 2018. The corporate governance report is the responsibility of the board of directors, which is responsible for the report being prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance report based on our review.

Orientation and scope of review

Our review was conducted in accordance with RevU 16, Auditor's review of the corporate governance report. This means that we planned and performed the audit in order to obtain a reasonable degree of assurance that the corporate governance report is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the information in the corporate governance report. We believe that our audit provides a reasonable basis for our opinion set out below.

Opinion

In our opinion, a corporate governance report has been prepared and its content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 18 February 2019

Ernst & Young AB

Åsa Lundvall
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 2017 to 30 November 2018, hereinafter referred to as the 2018 financial year.

BUSINESS

The H&M group is a customer-focused, creative and responsible fashion and design company guided right from its beginnings in 1947 by strong values based on a fundamental respect for the individual and a belief in people's ability to use their initiative. The business consists mainly of sales of clothing, accessories, footwear, cosmetics, home textiles and homeware to consumers. The group has nine brands – H&M and H&M Home, COS, & Other Stories, Monki, Weekday, Cheap Monday*, ARKET and also Afound, which was launched in Sweden in June 2018. Each of the group's brands has its own unique profile and identity, and they complement each other well. Together they offer customers a variety of trends and styles at various price points within fashion, beauty, accessories and homeware, as well as cafés with an offering that includes modern, healthy food. All the brands share the same passion for fashion, design, quality and best price and all aim to act in a sustainable way. For each brand there is a design and buying function, in which teams of people from differing backgrounds and with diverse experiences and skills work together to produce a relevant and inspiring product range 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, however, since it is a marketplace for discounted products from other brands. With a hand-picked, curated offering in different price segments, Afound is a new type of outlet offering fashion and homeware from hundreds of well-known brands – both external brands and the H&M group's own.

Earnings and financial position

The profit for the year and financial position are commented on in connection with the income statement and balance sheet on pages 47–49.

An industry in transition

Increased digitalisation in society is creating new customer behaviours and changing customer expectations at a rapid pace. More and more shopping is taking place online, generally from a mobile, which is also changing the role of the physical stores since the entire retail landscape is being reshaped. To meet this shift in the industry and take advantage of the opportunities arising, the H&M group has been making digital investments for several years, developing among other things online shopping, new platforms, a more efficient supply chain including new logistics systems, new technology and advanced analytics, and integrating the online store with the physical stores. In 2018, which remained characterised by the shift in the industry, the H&M group continued to increase online sales, optimise the store portfolio and integrate the digital and physical channels in order to create a shopping experience that is as easy and convenient as possible. These initiatives are part of the H&M group's ongoing transformation work to secure the long-term development of the H&M group.

Strategic focus areas

The action plan for this transformation work is based on the company's strategic focus areas: to ensure the best customer offering, a fast, efficient and flexible product flow, a stable and scalable tech infrastructure, and adding growth. In general terms this means, in view of the extensive shift in the industry, driving change in order to be relevant to the customer at all times. Improvements are therefore being made to the product range with the aim of ensuring products with the best combination of design, quality, sustainability and price. The shopping experience is also being improved. In a number of stores H&M is also testing – among other things – new store looks to adapt the experience to the local customers. For the online store improvements are being made to product presentation, navigation, payment options and deliveries. At the same time, the global integration of online and the physical stores continues at full speed in order to offer customers a seamless experience regardless of channel.

To create the best customer experience the H&M group is utilising the company's global presence and economies of scale, combined with new technology and advanced analytics, to support its creative work and business processes. This requires a fast, flexible product flow covering the entire supply chain including logistics systems, processes and warehouses, as well as artificial intelligence (AI). For example, new fulfillment centres have been taken into use to increase capacity and enable faster deliveries to customers. In parallel with this the H&M group is continuing

* As communicated previously, Cheap Monday will be closed down in 2019. As part of the H&M group's transformation work to meet the big changes that the fashion industry is experiencing, the company is prioritising and focusing on the core business. Cheap Monday has a traditional wholesale business model, which is a model that has faced major challenges due to the shift in the industry. The H&M group has therefore decided to close down Cheap Monday's operations.

FIVE YEAR SUMMARY

FINANCIAL YEAR	2018	2017	2016	2015	2014
Net sales, SEK m	210,400	200,004	192,267	180,861	151,419
Operating profit, SEK m	15,493	20,569	23,823	26,942	25,583
Operating margin, %	7.4	10.3	12.4	14.9	16.9
Cash flow from current operations per share, SEK	12.86	13.04	14.36	14.54	14.60
Return on equity, %	21.4	26.8	31.2	38.1	41.3
Equity/assets ratio, %	49.3	56.0	62.1	67.6	68.2
Average number of employees	123,283	120,191	114,586	104,634	93,351

For definitions of key figures see page 72.

to develop an AI model with algorithms that can address the entire product flow: from trend detection to quantification, allocation, pricing and personalisation. The H&M group is also using RFID (Radio Frequency Identification), a technology that allows items with digital price tags to be located quickly. This technology, which allows precise information on the availability of an item, is being rolled out to more and more H&M stores and markets.

Expansion
The H&M group is continuing to expand online, through physical stores and digital marketplaces. The group's sales are made in leased store premises, online and via external platforms. Online sales already make up a significant proportion of total sales in a number of markets, and for the group as a whole online accounted for 14.5 percent of total sales for 2018. Work is continuing at full speed to roll out online globally to all existing markets and to other markets as well. In the 2018 financial year H&M opened online in a further four new markets: India, Kuwait, Saudi Arabia and the United Arab Emirates – the last three via franchise partners. In China H&M was successfully launched on Alibaba's e-commerce platform Tmall, as an addition to H&M's own online presence and existing stores in China. H&M Home and COS were also launched on Tmall during the year. Today H&M is online in 47 markets. In 2019 the online expansion will continue into Mexico and, via franchise, Egypt.

COS and Monki are online in 21 and 19 markets respectively, while Weekday, Cheap Monday and ARKET have an online offering in 18 markets and & Other Stories is online in 15 markets. Afound's digital marketplace is available in Sweden.

Intensified store optimisation
In 2018 the group opened 336 (446) stores and closed 143 (89) stores, excluding franchise stores, resulting in a net increase of 193 (357) new stores.

A total of 39 (33) franchise stores were opened and 3 (2) were closed. The total number of physical stores at the end of the 2018 financial year was 4,968 – including 4,433 H&M stores, 270 COS stores, 127 Monki stores, 70 & Other Stories stores, 38 Weekday stores, 1 Cheap Monday store, 16 ARKET stores and 5 Afound stores. Of the group's total number of stores, 255 (219) were operated by franchise partners. H&M Home is in 362 H&M stores and has 8 standalone H&M Home stores in 50 markets, and is online in 40 H&M markets.

During 2018 Uruguay and Ukraine became new store markets for H&M and the response from customers was very positive. At the end of the financial year the group had 71 sales markets, of which 13 are operated by franchise partners. New H&M store markets in 2019 will be Bosnia-Herzegovina, Belarus and – via a franchise partner – Tunisia.

The shift in the industry is opening up for improved lease terms and the H&M group has opportunity to renegotiate nearly 1,000 store leases in 2019. For the 2019 financial year around 335 (375) new stores are planned to open, of which around 240 will be H&M stores. Around 95 of the year's store openings will be COS, & Other Stories, Monki, Weekday, ARKET and Afound stores. In 2019 three standalone H&M Home stores are planned to open. Of the new H&M stores that open in 2019, around 25 will have an H&M Home shop-in-shop. The majority of the H&M store openings will be in markets outside of Europe and the US.

In total, approximately 160 (146) store closures are planned within the group, which is part of the intensified store optimisation being carried out that also includes renegotiations, rebuilds and adjustment of store space to ensure that the store portfolio is the best fit for each market. The net addition of new stores will thus amount to approximately 175 (229) for the 2019 financial year. In Europe more H&M stores will be closed than opened, resulting in around 50 fewer H&M stores in Europe at the end of the 2019 financial year compared with the end of 2018.

The H&M group's growth target to increase sales in local currencies by 10–15 percent per year with continued high profitability remains a long-term target.

Employees
The H&M group's business is to be characterised by a fundamental respect for the individual, where everyone is of equal value. This applies to everything from fair wages, reasonable working hours and freedom of association to the opportunity to grow and develop within the company. The company's values, which have been in place since the days of H&M's founder, Erling Persson, are based partly on the ability of the employees to use their common sense to take responsibility and use their initiative. Diversity among employees as regards age, gender, ethnicity etc. is a valuable asset for the company.

H&M has grown significantly since its beginnings in 1947 and today has a presence in 71 markets, as well as 19 production offices in 17 markets. At the end of the year the group had approximately 177,000 employees. The average number of employees in the group, converted into full-time positions, was 123,283 (120,191), of which 10,839 (10,100) are employed in Sweden.

Of the average number of employees, around 74 percent are women and 26 percent men. Of the positions of responsibility within the company, such as store managers and country managers, women hold 72 percent and men 28 percent of the positions.

EVENTS AFTER THE CLOSING DATE
No significant events have occurred since the end of the reporting period.

RISKS AND UNCERTAINTIES
Some risks may be due to events in the outside world and affect a certain sector or market, while others are associated with the group's own business. The H&M group carries out regular risk analysis for both operational and financial risks. Operational risks are mainly associated with the business and the external risks that affect the group. Some can be managed through internal procedures, and in some cases the group can influence the likelihood of a risk-related event occurring. Other risks are determined to a greater extent by external factors. If a risk-related event is beyond the company's control, work is aimed at mitigating the consequences.

There are risks and uncertainties affecting the H&M group that are related to the shift in the industry, fashion, weather conditions, macroeconomics and geopolitical events, sustainability issues, foreign currencies, taxes and various regulations, but also in connection with expansion into new markets, the launch of new concepts and how the brand is managed. A description of the H&M group's operational and financial risks is given in the section operational risk, with more detailed information concerning financial risks being given in note 2, Financial risks.

The H&M group's approach to risk management and internal control is described in more detail on pages 20–33 of the corporate governance report. The description includes how the H&M group works according to the COSO framework, which is issued by the Committee of Sponsoring Organizations of the Treadway Commission and has five components: Control Environment, Risk Assessment, Control Activities, Information and Communication, as well as Monitoring Activities.

OPERATIONAL RISK
Major shift in the industry
Society is being increasingly influenced by growing digitalisation, as a result of which many sectors such as the retail trade are undergoing significant structural changes – a shift in the industry, with rapidly changing customer behaviour. The H&M group sees many opportunities arising from this shift since the group has the capacity and the resources to

seize these, but there are also risks for those that are not fast and agile enough during this transitional period. Since more and more shopping is taking place online, mainly via mobiles, the shift is bringing challenges for physical retail stores throughout the sector. The H&M group is therefore integrating its physical stores more and more with its online store, to make the shopping experience as convenient and easy for the customer as possible. This shift also means that the competitive landscape is being redefined, with new operators coming in and profitability in the industry being squeezed by the fierce competition.

Reputational risk

As one of the world's leading fashion companies H&M attracts great interest and is constantly in the spotlight. To safeguard and manage the 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 lives according to the high aims set out in its policies and guidelines on business ethics and has good knowledge, insight and procedures in respect of the production of its products. Should the H&M group fail in this regard 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. Fashion purchases are often emotional and may therefore be negatively affected by unforeseen geopolitical and macroeconomic events.

Within each concept it is important to have the right volumes and the right 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.

To optimise fashion precision, the H&M group buys items on an ongoing basis throughout the season. Fashion is becoming increasingly global, but shopping patterns vary between different markets and sales channels. The start of a season and the length of that season can vary from country to country, for example. Delivery dates and product volumes for the various markets and channels are therefore adjusted accordingly.

Weather

The H&M group's products are purchased for sale based on normal weather patterns. Deviations from normal weather conditions affect 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.

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 in one or more countries, may result in rapid changes in the business environment and in economic downturn, which is likely to change consumer purchasing behaviour and thus negatively impact the group's sales.

Uncertainties also exist concerning how external factors such as foreign currencies (see the following section), raw materials prices, 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.

For a description of risks related to sustainability see the sustainability report on pages 42–45.

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 USD 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 to the central company H & M Hennes & Mauritz GBC AB – are hedged under forward contracts on an ongoing basis.

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. No exchange rate hedging (known as equity hedging) is carried out for this risk. 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.

Related party customs valuation continues to attract attention at a global, regional 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 proactively monitor and manage future developments in this area. The fact 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 rules on customs valuation are based on the same global 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 about.hm.com, 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 is ISO certified for direct taxation and transfer pricing.

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 H&M's transfer pricing model even though the model complies with the OECD guidelines. 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 the guidelines differently.

ARTICLES OF ASSOCIATION, ANNUAL GENERAL MEETING

According to the H&M group's articles of association, the H&M group's board is to consist of at least three but no more than twelve members elected by the AGM 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 annual general meeting also decides on amendments to the articles of association.

NUMBER OF SHARES ETC.

At the end of the financial year the H&M group had 245,427 shareholders. The total number of shares in the H&M group 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). Class A shares are not listed. Class B shares are listed on the Stockholm stock exchange, Nasdaq Stockholm.

Ramsbury Invest AB holds all 194,400,000 class A shares, which represent 57.1 percent of the votes, as well as 538,531,922 class B shares, representing 15.8 percent of the votes. This means that as of 30 November 2018, Ramsbury Invest AB represents 72.9 percent of the votes and 44.3 percent of the total number of shares. 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

The H&M group 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 about.hm.com and on pages 20–33 of the annual report.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The board considers it of the utmost importance that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. The board's proposed remuneration is in the best interests of the company and its shareholders from a growth perspective, since it helps motivate and retain talented and committed senior executives.

The annual general meeting held on 8 May 2018 adopted the following guidelines for remuneration of senior executives. The guidelines basically accorded with the guidelines adopted at the 2017 annual general meeting.

In addition to the CEO, the board's proposed new guidelines for senior executives cover members of the executive management team and those responsible for other group functions; overall, this amounts to nearly 20 individuals. The guidelines are based on industry comparisons.

Senior executives shall be compensated at what are considered by the company to be competitive market rates. The criteria used to set levels of compensation shall be based partly on the significance of the duties performed and partly on the employee's skills, experience and performance. Over time, the largest portion of the total remuneration shall consist of the fixed 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.

The total annual remuneration may consist of the following components:
– fixed basic 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 basic salary shall reflect the individual's area of responsibility, skills and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

There shall be a clear link between the level of variable remuneration paid and the H&M group's financial and sustainable development. From time to time, therefore, senior executives are entitled to variable remuneration that depends on the fulfilment of targets – which include group-wide financial targets such as pre-set targets for profits and sales, sustainability targets, and individual targets within that person's area of responsibility. The targets are aimed at promoting the H&M group's development in both the short and the long term.

At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. The CEO decides the maximum possible outcome for each position, but always within the framework of these guidelines. Variable remuneration is not paid if the individual has given notice to terminate his/her employment.

The variable remuneration may consist of:
Short-term variable remuneration, which is the possibility of a cash payment provided that the target criteria that were set in advance for both the group and the individual have been fulfilled. Half of the payment shall be invested in H&M shares that must be held for at least three years. Short-term variable remuneration must never exceed the fixed basic salary for each individual.

Long-term variable remuneration, which is based on performance relative to set targets, but is also conditional upon the senior executive remaining employed within the H&M group for at least five years. The board's reasoning is – in view of H&M's strong expansion and the important stage of development that H&M is at, including within multi-brand and omni-channel developments – to ensure that these key individuals in senior positions remain with the H&M group during this important development phase. The five-year rule applies with effect from the year that the annual general meeting adopted this rule, which was at the annual general meeting in spring 2014 (when it was referred to as supplementary guidelines), up to and including the month of May five years later, i.e. in 2019. At individual level, the remuneration may vary between SEK 0.5 m and SEK 5 m net after tax; the exact distribution per individual will be decided by the CEO and the chairman of the board. The total cost to the group is estimated at around SEK 30 m per year including social security costs over five years.

In a few cases senior executives may, at the discretion of the CEO and the chairman of the board, receive one-off payments of up to an extra year's fixed basic salary. Discretionary one-off amounts may also be paid to other key individuals.

Pension benefits

By far the majority of senior executives are covered by a premium-based pension plan, in addition to the ITP plan. Other than the ITP plan, no defined benefit pension plans have been taken out for senior executives since 2005. The retirement age for senior executives varies between 60 and 65 years. The cost of these commitments is partly covered by separate insurance policies.

Other benefits

Senior executives receive other benefits such as healthcare and car allowances. 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.

Information concerning the CEO

The retirement age for the CEO is 65. The CEO is covered by the ITP plan and a defined contribution plan. The total pension cost shall amount in total to 30 percent of the CEO's fixed basic salary. The CEO is entitled to 12 months' notice. In the event that the company cancels the CEO's employment contract, the CEO will also receive severance pay of an extra year's salary.

The board of directors sets the CEO's total remuneration. The CEO is not included in the long-term variable remuneration, i.e. what was previously referred to as supplementary guidelines.

Other

The period of notice for senior executives varies from 3 to 12 months.

The board of directors may deviate from the guidelines for remuneration of senior executives in individual cases where there is a particular reason for doing so.

Where a board member performs work for the company in addition to his or her board work, a separate fee may be paid for this. This also applies if the work is performed by a company wholly or partly owned by the board member.

THE BOARD'S PROPOSALS TO THE 2019 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The board considers it of the utmost importance that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. The board's proposed remuneration is in the best interests of the company and its shareholders from a growth perspective, since it helps motivate and retain talented and committed senior executives.

The board is proposing the following guidelines for remuneration of senior executives to the annual general meeting on 7 May 2019. The guidelines essentially accord with the guidelines adopted at the 2018 annual general meeting. The long-term variable remuneration that was subject to a five-year rule will no longer be relevant after the 2019 AGM since the programme expires in spring 2019.

In addition to the CEO, the board's proposed new guidelines for senior executives cover members of the executive management team and those responsible for other group functions; overall, this amounts to nearly 20 individuals. The guidelines are based on industry comparisons.

Senior executives shall be compensated at what are considered by the company to be competitive market rates. The criteria used to set levels of compensation shall be based partly on the significance of the duties performed and partly on the employee's skills, experience and performance. Over time, the largest portion of the total remuneration shall consist of the fixed 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.

The total annual remuneration may consist of the following components:
– fixed basic salary
– short-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 basic salary shall reflect the individual's area of responsibility, skills and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

There shall be a clear link between the level of variable remuneration paid and the H&M group's financial and sustainable development. From time to time, therefore, senior executives are entitled to variable remuneration that depends on the fulfilment of targets – which include group-wide financial targets such as pre-set targets for profits and sales, sustainability targets, and individual targets within that person's area of responsibility. The targets are aimed at promoting the H&M group's development in both the short and the long term.

At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. The CEO decides the maximum possible outcome for each position, but always within the framework of these guidelines. Variable remuneration is not paid if the individual has given notice to terminate his/her employment.

The variable remuneration may consist of:
Short-term variable remuneration, which is the possibility of a cash payment provided that the target criteria that were set in advance for both the group and the individual have been fulfilled. Half of the payment shall be invested in H&M shares that must be held for at least three years. Short-term variable remuneration must never exceed the fixed basic salary for each individual.

In a few cases senior executives may, at the discretion of the CEO and the chairman of the board, receive one-off payments of up to an extra year's fixed basic salary. Discretionary one-off amounts may also be paid to other key individuals.

Pension benefits

By far the majority of senior executives are covered by a premium-based pension plan, in addition to the ITP plan. Other than the ITP plan, no defined benefit pension plans have been taken out for senior executives since 2005. The retirement age for senior executives varies between 60 and 65 years. The cost of these commitments is partly covered by separate insurance policies.

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The board of directors sets the CEO's total remuneration. The CEO is not included in the long-term variable remuneration, i.e. what was previously referred to as supplementary guidelines.

Other
The period of notice for senior executives varies from 3 to 12 months.

The board of directors may deviate from the guidelines for remuneration of senior executives in individual cases where there is a particular reason for doing so.

Where a board member performs work for the company in addition to his or her board work, a separate fee may be paid for this. This also applies if the work is performed by a company wholly or partly owned by the board member.

FINANCING
As of 30 November 2018 the group had SEK 9,153 m (9,745) in loans from credit institutions with a term of up to 12 months, as well as SEK 10,170 m (0) in loans from credit institutions with a term of up to 36 months.

Loans from credit institutions within the Nordic countries amounted to SEK 17,886 m (9,320) with an average interest rate of 0.45 percent. Loans from credit institutions in eurozone countries amounted to SEK 1,034 m (0) with an average interest rate of 0.00 percent, and loans from credit institutions in the rest of the world amounted to SEK 403 m (425) with an average interest rate of 8.64 percent. The group's strategy is to mainly centralise financing, which is then distributed within the group via loans to subsidiaries. In some of H&M's sales markets local rules and currency restrictions make it more favourable for the group to use local financing.

In 2018 the H&M group carried out financing activities with a view to improving liquidity and increasing the average term. Cash and cash equivalents increased to SEK 11,590 m (9,718) and the average term of loans from credit institutions increased to 1.6 years (0.7). The group's five-year revolving credit facility (RCF) of EUR 700 m that was agreed in 2017 has still not been drawn down.

The strong credit profile of the H&M group enables cost-effective financing. To increase financing flexibility and cost-effectiveness, the group continuously reviews opportunities to complement this with other sources of funding on the credit market.

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. Over time, this should not exceed 1.0 x EBITDA. Net debt/EBITDA was 0.3 as of 30 November 2018.

DIVIDEND POLICY AND PROPOSED DIVIDEND
The board of directors' intention is to provide shareholders with a continued good return while ensuring that, as in the past, expansion and investments can proceed with a continued strong financial profile and freedom of action. Based on this, the board of directors has agreed a dividend policy stating that the total dividend should exceed 50 percent of profit after tax, yet taking into consideration the capital structure target. The dividend will be paid in two instalments – one in the spring and one in the autumn.

The board of directors has decided to propose an unchanged dividend of SEK 9.75 per share (9.75) to the annual general meeting on 7 May 2019, corresponding to 127.5 percent (99.7) of the group's profit after tax.

The record date proposed for the first payment of SEK 4.90 is 9 May 2019. This would then be paid out on 14 May 2019. The record date proposed for the second dividend payment of SEK 4.85 is 12 November 2019. This would then be paid out on 15 November 2019.

PROPOSED DISTRIBUTION OF EARNINGS

At the disposal of the annual general meeting:	SEK 16,175,585,104
The board of directors proposes a dividend of SEK 9.75 per share	SEK 16,136,952,000
To be carried forward as retained earnings	SEK 38,633,104
	SEK 16,175,585,104

The board of directors is of the opinion that the proposed dividend is justifiable since it is based on the fact that the underlying operations are showing gradual improvements, investments (capex) will reduce in 2019 and the company remains in a strong financial position. The dividend proposal takes 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, its risks and expansion and development plans impose on the group's and the parent company's equity and liquidity.

Sustainability report in accordance with the Annual Accounts Act

This report is prepared in accordance with Chapter 6 §§ 10–14 of the Annual Accounts Act and covers the financial year from 1 December 2017 to 30 November 2018.

The sustainability report contains the disclosures on sustainability that are required in order to gain an understanding of the company's development, position and results and the consequences of the operations, including information on issues concerning the environment, social conditions, human resources, respect for human rights and anticorruption measures. The report was submitted to the company's auditor along with the annual report. As previously, the H&M group also prepares sustainability reporting in accordance with GRI, which is published on the company's website.

Sustainability strategy of the H&M group

Sustainability is a key part of the H&M group's success, both today and even more so in the future. The group's vision is to lead the change towards a circular and renewable fashion industry while being a fair and equal company. To achieve this vision, the H&M group uses its size and scale and, together with a broad range of external and internal experts, has developed an ambitious strategy. The strategy is built on three key ambitions:

100% LEADING THE CHANGE
- Promote and scale innovation
- Drive transparency
- Reward sustainable actions

100% CIRCULAR & RENEWABLE
- A circular approach to how products are made and used
- Use only recycled or sustainably sourced materials
- A climate positive value chain

100% FAIR & EQUAL
- Fair jobs for all
- Inclusion and diversity

The vision and strategy apply to all brands in the H&M group. To fulfil this vision and lead systemic change across the industry, the group's work is not limited to its own operations but spans across the entire value chain including:
- Design
- Choice and development of raw materials
- Suppliers of materials and products – the H&M group works with 1,269 independent suppliers and their 2,383 factories employing about 1.6 million people
- Transport
- 4,968 stores in 71 markets as well as 47 online markets
- The user phase of the products, including impacts resulting from garment care and the product's end of life

Outlined to the right are key elements of the H&M group's sustainability strategy, related policies, governance and results, as well as risks and opportunities addressed. For a full overview, see the Sustainability Report at sustainability.hm.com. The Sustainability Report for 2018 will be published in April 2019.

For further details of the policies mentioned below visit sustainability.hm.com.

Risks and opportunities

By implementing the sustainability strategy, the H&M group aims to take a leadership position in addressing some of the most critical risks and opportunities in the fashion industry, using its size and scale to leverage systemic change. Key risks addressed include the growing scarcity of natural resources, climate change and its consequences, reputational risk, corruption, potential political and societal instability in the sourcing markets as well as specific or local salient human rights issues identified in line with the UN Guiding Principles for Business and Human Rights (see the Sustainability Report for further details). The H&M group is convinced that moving towards this vision will create even stronger relationships with customers and colleagues, as well as with business partners, their employees and the group's many other stakeholders. This will help identify innovative ways to make and bring fashion and design to customers, drive the development of new materials and give the group early access to these – ultimately building an important foundation for successful business in the decades to come. The H&M group has publicly endorsed the Task Force on Climate-related Financial Disclosures (TCFD) and aims to comply with its recommendations. The group is in the process of analysing its climate risks according to the TCFD guidelines and will follow the recommendations for disclosure.

Governance and general follow-up procedures

The H&M group is constantly reviewing and improving how sustainability is organised and integrated across the company and ensures all work is run and coordinated optimally, even when the vision, ambitions and strategy grow and change. The work takes place in cross-functional forums and collaborations to ensure integration, ownership and accountability.

Reporting directly to the CEO, the head of sustainability is responsible for the implementation of the sustainability vision and strategy together with the executive management team. Twice a year the head of sustainability reports performance (against key sustainability indicators) to the board of directors.

All the functions within the H&M group set their own sustainability goals based on the group's vision and strategy, and follow up on these goals at least annually.

This is part of the group's Change-Making Programme which brings together the goals, roadmaps, standards, policies and follow-up methods needed to work towards the group's vision, while also leaving room for locally tailored implementation and activities. This enables the group to integrate sustainability across its business, making it a natural, exciting and essential part of the daily work of all colleagues.

ENVIRONMENT: CIRCULAR & RENEWABLE

Circular

Strategy and policy

The fashion industry today largely depends on natural resources such as cotton or other cellulosic fibres, as well as oil-based fibres like polyester. With a growing global population and limited planetary boundaries, these resources are likely to become increasingly scarce. Moving towards a circular model seeks to decouple future growth from resource use while accelerating innovation, more efficient operations and other business opportunities.

This is why the H&M group has set out the vision to become 100 percent circular. It means building circularity into every stage of the value chain. In the shift from a linear to a circular model, the focus is on five key processes:

design, material choice, production processes, prolonging the lifespan of products including product reuse and recycling. The H&M group applies this circular approach not just to its commercial goods, but also to non-commercial goods and products such as packaging, built environment, etc.

- The H&M group has a goal to have 100 percent sustainable cotton in the products produced by the group itself by 2020. 95 percent of the cotton the H&M group used during 2018 was from sustainable sources, an increase from 59 percent.
- The H&M group has a goal to have 100 percent recycled or other sustainably sourced materials by 2030 (commercial goods and packaging). 57 percent of all materials used during 2018 were recycled or sustainably sourced, an increase from 35 percent.
- The Textile Exchange's Preferred Fiber and Materials Market Report 2018 named the H&M group as the biggest user of preferred cotton (for the H&M group this consists of better cotton, organic and recycled cotton), and the second biggest user of recycled and organic cotton. The H&M group was also the biggest user of preferred MMC fibres and the biggest user of lyocell.
- In 2018 the H&M group set a goal to design all packaging to be reusable, recyclable or compostable by 2025, and by 2030 all packaging material should be recycled or other sustainably sourced materials. This is to ensure that reuse and recycling systems are in place for the packaging generated in the group's own operations.
- The Sustainability Commitment – which is signed by all business partners – covers animal welfare and material ethics, among other things.
- As part of the H&M group's water stewardship strategy, in 2018 the H&M group launched a new Water Roadmap for its supply chain, which contains key goals and actions up until 2022.
- The H&M group bans or limits chemicals considered as hazardous in the production of all its products by means of the H&M Chemical Restrictions, which all its business partners are committed to comply with.
- In 2018 screened chemistry was adopted as a tool to help with choosing the best available chemicals for the group's products. Screened chemistry goes beyond the chemicals listed in Restricted Substance Lists (RSL) and Manufacturing Restricted Substance Lists (MRSL). It identifies best-in-class chemicals and safer alternatives, includes a scoring system to rate chemicals and formulations based on human health and environmental toxicity, and automatically designs out hazardous substances.
- The H&M group collects old clothes and home textiles, from any brand and in any condition, for reuse and recycling on a global scale with the goal of collecting 25,000 tonnes annually by 2020. In 2018 the H&M group has collected 20,649 tonnes of garments through its garment collecting initiatives.

Renewable energy

Climate change remains one of the greatest challenges of our time. Its consequences will affect the entire planet and everyone living on it – making it a risk to many industries, including fashion. The H&M group is determined to take a lead in tackling the challenge of climate change and has made a bold commitment by setting the goal of becoming climate positive across the entire value chain by 2040. To reach this goal, three key priorities have been established: leadership in energy efficiency, 100 percent renewable energy, and climate resilience and carbon sinks. That means going way beyond simply cutting the group's emissions, committing instead to making a significant contribution to help the planet stay below the 2 °C global warming limit set by the Paris Climate Agreement. A recent landmark report by the UN Intergovernmental Panel on Climate Change (IPCC) described how warming needs to stay below 1.5 °C to avoid the worst impacts of climate change, and called for all sectors to hasten the transition to climate neutral or climate positive business.

The H&M group is a signatory of the Fashion Industry Charter on Climate Action initiated by the UNFCCC.

- The H&M group is committed to reducing the amount of energy used at every stage of the value chain, with the goal of reducing electricity intensity in stores by 25 percent by 2030 compared to 2016 and having 100 percent of supplier factories enrolled in energy efficiency programmes by 2025.
- The H&M group is committed to maximising the use of renewable and sustainable energy in its value chain, with the goal of sourcing

KPI	GOAL	2018	2017	2016
% recycled or other sustainably sourced materials in total material use (commercial goods and packaging)	100% by 2030	57	35	26
% cotton from more sustainable resources (certified organic, recycled or Better Cotton)*	100% by 2020	95	59	43
Tonnes of garments collected through garment collecting initiative*	25,000 t per year by 2020	20,649	17,771	15,888
% of renewable electricity in own operations*	100%	96	95**	96
% change in CO_2 emissions from own operations (Scope 1+2***) compared with previous year*	Climate positive value chain by 2040	-11	-21	-47
Tonnes of CO_2 emissions from own operations (Scope 1+2***)	Climate positive value chain by 2040	56,977	63,690	80,541
% change in electricity intensity (kwh/m^2 per opening hour in store compared with 2016)*	-25% by 2030	-8.2	-2.7	n/a

Indicators marked * have been reviewed by the company's auditors.

** Due to inaccuracy in calculation the 2017 data has been corrected from 96% to 95%.

*** Scope 1 and 2 are direct and indirect emissions of greenhouse gases from the group's own operations.

100 percent renewable energy in its own operations and working closely with government bodies and other stakeholders to push progress in renewable energy access in production markets. Suppliers are also encouraged to build their own renewable energy capacity.
– The H&M group is committed to strengthening the planet's natural systems so that they can better support ecosystems and climate stability, and is currently exploring different kinds of carbon sinks in three areas: natural carbon sinks, technological carbon sinks and reductions outside the value chain.

Follow-up procedures and results

Business partners must sign the Sustainability Commitment before any order is placed. This sets out fundamental requirements as well as aspirational ambitions for business partners in the areas of healthy workplaces, healthy ecosystems (including impact on climate and air quality, impact on water resources, use of chemicals, waste, reuse and recycling, conservation of species and natural habitats) and animal welfare. Compliance with the fundamental requirements and performance against aspirational ambitions are followed up regularly through the Sustainable Impact Partnership Programme (SIPP), which is integrated into regular supplier reviews and thereby works to provide better business opportunities for better sustainability performance.

SOCIAL CONDITIONS AND EMPLOYMENT: FAIR & EQUAL

Strategy and policy

The H&M group believes that everyone should be treated in a fair and equal way. In short, this means making sure that the company's values as well as respect for human rights are upheld and promoted – both within the H&M group and across the supply chain. The group's strategy is about ensuring decent jobs, being inclusive, promoting diversity, and for people across the business to develop and enjoy life. The group has therefore set out the vision of being a 100% Fair & Equal company. The group's ambition has two focus areas: fair jobs, and stewardship of inclusion and diversity.

- Within the group's own operations a set of specific policies guides the work as an addition to the group's corporate values, such as the H&M group's Global Compensation and Benefit Policy, Health and Safety Policy and the Employee Relations Policy, as well as the framework agreement with UNI Global Union.
- Although H&M does not own any factories or set factory wages, work is taking place to make sure that people employed in the textile supply chain have fair and decent jobs. While monitoring compliance in suppliers' factories, the H&M group invests in creating systematic improvements for the entire industry with a focus on two closely interlinked areas:
  - Well-functioning industrial relations – where workers themselves can negotiate and safeguard their interests – are the best foundation for achieving and monitoring good working conditions and fair living wages in the textile industry. The strategy is based on developing functional workplace dialogue systems at factory level, as well as advancing industrial relations systems in sourcing markets. The goal set in 2013 was to have workplace dialogue programmes at supplier factories covering 50 percent of the production volume by 2018. This goal has been exceeded. Today 73 percent of the group's production volume is made in factories that have democratically elected worker representatives in place. This covers 594 factories and about 840,000 workers. The H&M group has also signed a global framework agreement with IndustriALL, Global Union and IF Metall and works with other relevant stakeholders such as the UN body ILO to advance industrial relations at industry level.
  - The H&M group has developed a fair living wage strategy – working to improve wages for garment workers systematically by getting supplier factories to implement improved wage management systems, working with governments to create the necessary legal frameworks, and working with other brands and partners to establish a common approach to responsible purchasing practices. The goal set in 2013 was for supplier factories covering 50 percent of the production volume to have implemented improved wage management systems by 2018. This goal has been exceeded. Today 67 percent of the product volume is made in factories that have implemented improved wage management systems. This covers 500 factories and about 635,000 workers. For further details please visit https://about.hm.com/en/sustainability/sustainable-fashion/wages/key-impacts-and-learnings.html
  - The Ethical Trading Initiative (ETI) has conducted an independent review of the H&M group's fair living wage strategy. The review can be found here: https://www.ethicaltrade.org/resources/review-hm-groups-roadmap-to-fair-living-wage
  - The H&M group remains committed to its vision of achieving fair living wages for all textile workers and will continue to work with its supplier factories to build further on the positive learnings and

KPI	GOAL	2018	2017	2016
% of employees agreeing with the statement "I feel comfortable being myself at work" and % of employees agreeing with the statement "I am treated with respect and dignity" ****	Annual increase	83, 81	n/a	n/a
Number of supplier factories implementing improved wage management systems (% of production volume covered)	50% of production volume by 2018	500 (67%)	227 (40%)	140 (29%)
Number of supplier factories that have implemented democratically elected worker representation (% of production volume covered)	50% of production volume by 2018	594 (73%)	458 (52%)	290 (42%)
% of business partners regarding the H&M group as a fair business partner	90% by 2018	93	94	83

**** New baseline replacing the previous KPI of % of employees agreeing with the statement "People here are treated fairly regardless of age, ethnicity, sex, sexual orientation, disabilities", as a new engagement survey platform has been introduced.

impacts from the implementation of improved wage management systems and workplace dialogue. Beyond this, the H&M group continues to need strong collaboration with various actors and will therefore continue and further expand its work with different key partners in the industry. This includes continuing to work with ACT (Action, Collaboration, Transformation) and its groundbreaking approach to achieving fair living wages.
- Making inclusion and diversity a key focus area, the H&M group is seeking to ensure everyone's right to equal treatment and lack of discrimination. This is manifested and implemented, for example, in the company's Global Policy on Diversity, Inclusiveness and Equality. To advance inclusion and diversity in the H&M group's own operations as well as in the supply chain and the communities the group is present in, a Global Lead has been appointed and a dedicated task force has been formed to catalyse the work within this focus area. During 2018 the group has focused on raising internal awareness around inclusion, diversity and unconscious bias and consequently, 100 percent of management teams in the head office have conducted training. The H&M group's strategic framework on inclusion and diversity, including objectives and global goals, has been updated and further developed. The group's brands have continued to promote diversity and equality in various campaigns and products.

Follow-up procedures and results
- The H&M group conducts internal audits to assess the implementation of its policies.
- The H&M group conducts annual employee surveys.
- Commercial business partners sign the Sustainability Commitment before any kind of order is placed. This sets out fundamental requirements and aspirational ambitions for the company's business partners in the areas of healthy workplaces and healthy ecosystems (including health and safety, discrimination, diversity and equality, recognised employment, fair living wages and benefits, working hours, freedom of association and collective bargaining, child labour and young workers, as well as forced, bonded, prison and illegal labour). Compliance with the fundamental requirements and performance against aspirational ambitions are followed up regularly through the Sustainable Impact Partnership Programme (SIPP), which is integrated into regular supplier reviews and thereby works to provide better business opportunities for better sustainability performance.

HUMAN RIGHTS

Strategy and policy

The H&M group considers respect for human rights a fundamental part of a successful business. As a global business, however, the group has operations and suppliers in countries where there is a risk of human rights violations. As stated in its Human Rights Policy, the company recognises its responsibility to respect human rights and hence the need to integrate this perspective across the operations and in all relevant activities. This means that the group needs to understand the risks and impacts on human rights, and to seek ways to prevent, mitigate and remediate these impacts.
- The H&M group's approach to human rights is based on the UN Guiding Principles on Business and Human Rights (UNGP). The company's Human Rights Policy applies to all entities within the H&M group.
- The H&M group has a recurring process for identifying and reviewing salient human rights issues.
- All the company's functions perform an annual sustainability risk assessment that includes human rights.
- A due diligence process that includes human rights is conducted prior to entering into a new contract with a business partner.
- All new markets (retail and production) are assessed on human rights, as are new materials, processes and products.
- Human rights training is given to relevant staff covering basic human rights, the company's responsibilities as per the UN Guiding Principles, due diligence and how to analyse and handle cases, situations and incidents with a human rights impact.

Issue-specific follow-up procedures

When an incident occurs, the group has a systematic approach to analysing the company's responsibilities according to the UNGP and taking appropriate measures.

ANTI-CORRUPTION

Strategy and policy

Corruption is a risk in many of the markets in which the H&M group and its suppliers operate. Acting ethically, with respect and integrity is an unquestionable rule within the company and is intrinsic to the company's values. The company has a strong anti-corruption programme in place, with a focus on preventing corruption. The H&M group's Code of Ethics outlines the group's expectations on employees and business partners when conducting business for and on behalf of the H&M group. The H&M group also has a zero tolerance policy towards any form of corruption.
- All employees in contact with business partners must sign the Code of Ethics when employed.
- It is mandatory for all the H&M group's business partners to sign the Code of Ethics.
- Risk of corruption is included in due diligence process for all new business partners. The company's risk assessments for corruption focus on levels of risk defined by country, industry and position/function.
- Once the level of risk has been ascertained, short- and long-term goals are set to help mitigate the risk. The group annually maps the biggest risks of corruption in its organisation, and uses the results to allocate resources in the best way.
- Training is provided for employees and prioritised business partners.

Follow-up procedures and results
- All violations against the company's Code of Ethics will be addressed and might lead to termination of business relationship or employment.
- The number of violations against the Code of Ethics is tracked and reported yearly to the CEO, CFO and board of directors as well as externally.
- Internal audits are performed to ensure compliance with the Code of Ethics.
- Business partners and employees can make use of the company's open-door policy, whistleblowing policy and coe@hm.com to report cases.
- During 2018 there were 25* confirmed incidents of non-compliance that led to terminations and/or written warnings.

Indicators marked * have been reviewed by the company's auditors.

Group income statement

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
Net sales, note 3, 4	210,400	200,004
Cost of goods sold, note 6, 7, 9	-99,513	-91,914
GROSS PROFIT	**110,887**	**108,090**
Selling expenses, note 6, 7, 9	-87,512	-80,427
Administrative expenses, note 6, 7, 9, 10	-7,882	-7,094
OPERATING PROFIT	**15,493**	**20,569**
Interest income and similar items	292	281
Interest expense and similar items	-146	-41
PROFIT AFTER FINANCIAL ITEMS	**15,639**	**20,809**
Tax, note 11	-2,987	-4,625
PROFIT FOR THE YEAR	**12,652**	**16,184**
All profit for the year is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.		
Earnings per share, SEK*	7.64	9.78
Number of shares, thousands*	1,655,072	1,655,072

* Before and after dilution.

Consolidated statement of comprehensive income

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
PROFIT FOR THE YEAR	**12,652**	**16,184**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Translation differences	1,895	-1,496
Change in hedging reserves		
Change in the value of derivatives, note 20	483	-1,341
Reclassified to profit or loss, note 20	52	1,162
Tax attributable to change in hedging reserves	-123	39
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans, note 19	14	78
Tax related to the above remeasurement	-3	-19
OTHER COMPREHENSIVE INCOME	**2,318**	**-1,577**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,970**	**14,607**

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

COMMENTS ON THE GROUP INCOME STATEMENT

For the 2017/2018 financial year the H&M group's net sales increased by 5 percent to SEK 210,400 m (200,004). In local currencies, sales increased by 3 percent. The group's online sales made up 14.5 percent (12.5) of the group's total sales at the end of the financial year.

Gross profit increased to SEK 110,887 m (108,090). This corresponds to a gross margin of 52.7 percent (54.0). 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.

Selling and administrative expenses increased by 9 percent in SEK and by 6 percent in local currencies during the 2017/2018 financial year compared to the previous year.

Profit after financial items amounted to SEK 15,639 m (20,809).

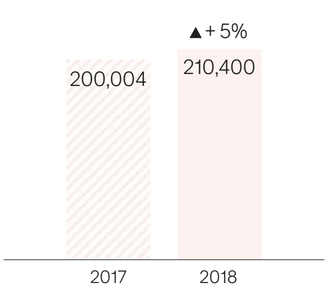
2018 was a challenging year for the whole industry, and thus also for the H&M group. The profit development for the year must be viewed primarily against the backdrop of the rapid transformation of the fashion retail sector and a tougher market than the company had initially expected, as well as issues in connection with the implementation of logistics systems in some important markets which led to higher costs. To secure upcoming transitions of logistics systems and the replacement of the online platform in Germany, there were additional costs in the fourth quarter. Although these costs had a negative impact on earnings, they will result in a range of improvements for customers. After a difficult first half, however, the group's transformation work started to take effect in the second half of the year. Improved collections generated better full-price sales and lower markdowns towards the end of the year.

TAX

The H&M group's effective tax rate for the 2017/2018 financial year was 19.1 percent (22.2). The final tax rate for the year depends on the results of the group's various companies, the corporate tax rates in each country and any additional taxes relating to previous years. In addition to this, tax was affected by remeasurements of deferred tax liabilities and receivables.

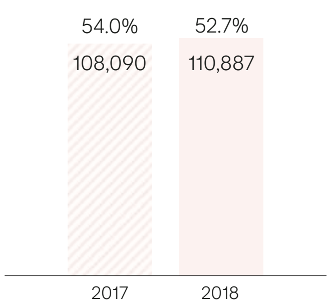
NET SALES

SEK M



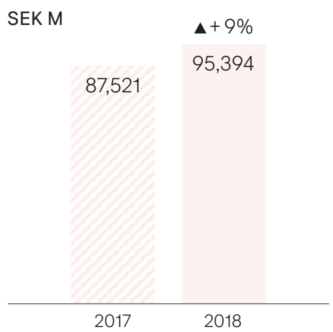
GROSS PROFIT AND GROSS MARGIN

SEK M



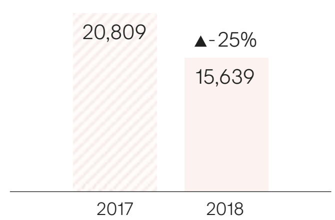
SELLING AND ADMINISTRATIVE EXPENSES

SEK M



PROFIT AFTER FINANCIAL ITEMS

SEK M



TOP TEN SALES MARKETS	2018	2017	CHANGE IN %		30 NOV – 18	2018
	SEK M NET SALES	SEK M NET SALES	SEK	LOCAL CURRENCY	NUMBER OF STORES	NEW STORES (NET)
Germany	32,367	30,959	5	-1	468	5
USA	24,798	26,330	-6	-6	578	42
UK	13,760	12,622	9	5	304	12
France	11,311	11,383	-1	-6	237	-3
China	10,743	9,484	13	10	530	24
Sweden	8,404	8,236	2	2	175	3
Italy	7,630	7,525	1	-4	179	4
Spain	7,373	6,816	8	2	172	-3
Netherlands	6,465	6,191	4	-1	144	-1
Russia	5,737	4,915	17	23	139	5
Others*	81,812	75,543	8	6	2,042	141
Total	**210,400**	**200,004**	**5**	**3**	**4,968**	**229**
** Of which franchises*	*5,620*	*4,938*	*14*	*14*	*255*	*36*

Group balance sheet

SEK M 30 NOVEMBER	2018	2017
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Brands, note 12	–	18
Customer relations, note 12	–	8
Leasehold and similar rights, note 12	508	592
Capitalised development costs, note 12	9,046	6,361
Goodwill, note 12	64	64
	9,618	**7,043**
Property, plant and equipment		
Buildings and land, note 13	831	824
Equipment, tools, fixture and fittings, note 13	41,608	38,994
	42,439	**39,818**
Non-current financial assets		
Other shares and interests	478	233
Other non-current assets		
Non-current receivables	885	806
Deferred tax receivables, note 11	3,794	2,916
	4,679	**3,722**
TOTAL NON-CURRENT ASSETS	**57,214**	**50,816**
CURRENT ASSETS		
Stock-in-trade, note 15	**37,721**	**33,712**
Current receivables		
Accounts receivable, note 20	6,329	5,297
Tax receivables, note 11	1,448	2,375
Other receivables	1,607	1,874
Prepaid expenses, note 16	2,881	2,770
	12,265	**12,316**
Cash and cash equivalents, note 17	**11,590**	**9,718**
TOTAL CURRENT ASSETS	**61,576**	**55,746**
TOTAL ASSETS	**118,790**	**106,562**

SEK M 30 NOVEMBER	2018	2017
EQUITY AND LIABILITIES		
EQUITY		
Share capital, note 18	207	207
Reserves	3,322	1,015
Retained earnings	55,017	58,491
TOTAL EQUITY	**58,546**	**59,713**
LIABILITIES		
Non-current liabilities		
Provisions for pensions, note 19	445	445
Deferred tax liabilities, note 11	5,088	5,331
Liabilities to credit institutions, note 23	10,170	–
Other interest-bearing liabilities, note 14, 23	322	350
	16,025	**6,126**
Current liabilities		
Accounts payable	6,800	7,215
Tax liabilities, note 11	1,163	918
Liabilities to credit institutions, note 23	9,153	9,745
Other interest-bearing liabilities, note 14, 23	136	125
Other liabilities	3,800	3,672
Accrued expenses and prepaid income, note 21	23,167	19,048
	44,219	**40,723**
TOTAL LIABILITIES	**60,244**	**46,849**
TOTAL EQUITY AND LIABILITIES	**118,790**	**106,562**

COMMENTS ON THE GROUP BALANCE SHEET

The H&M group remains in a strong financial position. The group's equity/assets ratio was 49.3 percent (56.0) and the share of risk-bearing capital was 53.6 percent (61.0).

Equity apportioned on the outstanding 1,655,072,000 (1,655,072,000) shares as of 30 November 2018 was SEK 35.37 (36.08).

Stock-in-trade

Stock-in-trade amounted to SEK 37,721 m (33,712), an increase of 12 percent in SEK compared with the same point in time last year. In local currencies the increase was 10 percent.

Although the inventory level remains too high, both the level and the composition improved between the third and fourth quarters – showing that the company is on the right track. With a stronger customer offering combined with more efficient buying and logistics, this will result in gradual improvements to inventory levels going forward. It is therefore expected that markdowns in relation to sales may decrease in the first quarter 2019 compared to the same quarter the previous year.

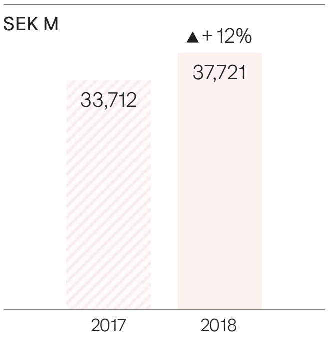
The stock-in-trade amounted to 31.7 percent (31.6) of total assets and 17.9 percent (16.9) of net sales.

Financing

As of 30 November 2018 the group had SEK 9,153 m (9,745) in loans from credit institutions with a term of up to 12 months, as well as SEK 10,170 m (0) in loans from credit institutions with a term of up to 36 months.

Loans from credit institutions within the Nordic countries amounted to SEK 17,886 m (9,320) with an average interest rate of 0.45 percent. Loans from credit institutions in eurozone countries amounted to SEK 1,034 m (0) with an average interest rate of 0.00 percent, and loans from credit institutions in the rest of the world amounted to SEK 403 m (425) with an average interest rate of 8.64 percent.

STOCK-IN-TRADE



Group changes in equity

Since there are no minority interests, all shareholders' equity is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.

SEK M	SHARE CAPITAL	TRANSLATION DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2017	**207**	**1,353**	**-338**	**58,491**	**59,713**
Profit for the year	–	–	–	12,652	12,652
Other comprehensive income					
Translation differences	–	1,895	–	–	1,895
Change in hedging reserves					
Change in value of derivatives	–	–	483	–	483
Reclassified to profit or loss	–	–	52	–	52
Tax related to hedging reserves	–	–	-123	–	-123
Remeasurement of defined benefit pension plans	–	–	–	14	14
Tax related to the above remeasurement	–	–	–	-3	-3
Other comprehensive income	**–**	**1,895**	**412**	**11**	**2,318**
Total comprehensive income	**–**	**1,895**	**412**	**12,663**	**14,970**
Dividend	–	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2018	**207**	**3,248**	**74**	**55,017**	**58,546**

SEK M	SHARE CAPITAL	TRANSLATION DIFFERENCES	HEDGING RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2016	**207**	**2,849**	**-198**	**58,378**	**61,236**
Adjustment of opening balance*				7	7
ADJUSTED SHAREHOLDERS' EQUITY, 1 DECEMBER 2016	**207**	**2,849**	**-198**	**58,385**	**61,243**
Profit for the year	–	–	–	16,184	16,184
Other comprehensive income					
Translation differences	–	-1,496	–	–	-1,496
Change in hedging reserves					
Change in value of derivatives	–	–	-1,341	–	-1,341
Reclassified to profit or loss	–	–	1,162	–	1,162
Tax related to hedging reserves	–	–	39	–	39
Remeasurement of defined benefit pension plans	–	–	–	78	78
Tax related to the above remeasurement	–	–	–	-19	-19
Other comprehensive income	**–**	**-1,496**	**-140**	**59**	**-1,577**
Total comprehensive income	**–**	**-1,496**	**-140**	**16,243**	**14,607**
Dividend	–	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2017	**207**	**1,353**	**-338**	**58,491**	**59,713**

* Effective from the 2017 financial year, the way that certain defined contribution pension plans are recognised has changed in two of the Swedish companies. The effect in relation to previous years is reported as an adjustment to opening equity.

Group cash flow statement

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
Current operations		
Profit after financial items*	15,639	20,809
Provisions for pensions	0	9
Depreciation	9,671	8,488
Tax paid	-3,098	-6,051
Other	39	-20
Cash flow from current operations before changes in working capital	**22,251**	**23,235**
Changes in working capital		
Current receivables	-587	-1,115
Stock-in-trade	-3,489	-2,414
Current liabilities	3,112	1,881
CASH FLOW FROM CURRENT OPERATIONS	**21,287**	**21,587**
Investing activities		
Investment in leasehold and similar rights	-64	-102
Investment in other intangible assets	-3,207	-2,058
Investment in buildings and land	-5	-27
Investment in equipment	-9,552	-10,284
Other investments	-324	-25
CASH FLOW FROM INVESTING ACTIVITIES	**-13,152**	**-12,496**
Financing activities		
Short-term loans	-592	7,677
New borrowing	10,170	–
Finance lease repayments	-126	-57
Dividend	-16,137	-16,137
CASH FLOW FROM FINANCING ACTIVITIES, NOTE 23	**-6,685**	**-8,517**
CASH FLOW FOR THE YEAR	**1,450**	**574**
Cash and cash equivalents at beginning of financial year	**9,718**	**9,446**
Cash flow for the year	1,450	574
Exchange rate effect	422	-302
Cash and cash equivalents at end of year, note 17	**11,590**	**9,718**

* Interest paid for the group amounts to SEK 107 m (40). Received interest for the group amounts to SEK 292 m (260).

Parent company income statement

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
External net sales	22	13
Internal net sales, note 6	4,262	4,069
GROSS PROFIT	**4,284**	**4,082**
Administrative expenses, note 6, 7, 9, 10	-156	-158
OPERATING PROFIT	**4,128**	**3,924**
Dividend from subsidiaries	13,793	13,004
Interest income and similar items, note 28	97	18
Interest expense and similar items, note 28	-44	-91
PROFIT AFTER FINANCIAL ITEMS	**17,974**	**16,855**
Appropriations, note 24	-1,164	-328
Tax, note 11	-673	-773
PROFIT FOR THE YEAR	**16,137**	**15,754**

Parent company statement of comprehensive income

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
PROFIT FOR THE YEAR	**16,137**	**15,754**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans, note 19	-9	-1
Tax related to the above remeasurement	2	0
OTHER COMPREHENSIVE INCOME	**-7**	**-1**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**16,130**	**15,753**

Parent company balance sheet

SEK M 30 NOVEMBER	2018	2017
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment		
Buildings and land, note 13	146	148
Equipment, tools, fixture and fittings, note 13	143	219
	289	**367**
Non-current financial assets		
Shares and interests, note 25	588	588
Receivables from subsidiaries	842	849
Other non-current receivables	115	111
Deferred tax receivables, note 11	76	79
	1,621	**1,627**
TOTAL NON-CURRENT ASSETS	**1,910**	**1,994**
CURRENT ASSETS		
Current receivables		
Accounts receivable	6	4
Receivables from subsidiaries	30,104	19,287
Other receivables	2	8
Prepaid expenses, note 16	121	13
	30,233	**19,312**
Cash and cash equivalents, note 17	**93**	**133**
TOTAL CURRENT ASSETS	**30,326**	**19,445**
TOTAL ASSETS	**32,236**	**21,439**

SEK M 30 NOVEMBER	2018	2017
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital, note 18	207	207
Restricted reserves	88	88
	295	**295**
Non-restricted equity		
Retained earnings	46	430
Profit for the year	16,130	15,753
	16,176	**16,183**
TOTAL EQUITY	**16,471**	**16,478**
UNTAXED RESERVES, NOTE 26	**96**	**417**
LIABILITIES		
Non-current liabilities		
Provisions for pensions, note 19	181	182
Liabilities to credit institutions, note 23	9,113	–
	9,294	**182**
Current liabilities		
Accounts payable	1	3
Tax liabilities	21	41
Liabilities to credit institutions, note 23	6,000	4,000
Other liabilities	200	176
Accrued expenses and prepaid income, note 21	153	142
	6,375	**4,362**
TOTAL LIABILITIES	**15,669**	**4,544**
TOTAL EQUITY AND LIABILITIES	**32,236**	**21,439**

Parent company changes in equity

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2017	**207**	**88**	**16,183**	**16,478**
Profit for the year	–	–	16,137	16,137
Other comprehensive income				
Remeasurement of defined benefit pension plans	–	–	-9	-9
Tax related to the above remeasurement	–	–	2	2
Other comprehensive income	**–**	**–**	**-7**	**-7**
Total comprehensive income	**–**	**–**	**16,130**	**16,130**
Dividend	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2018	**207**	**88**	**16,176**	**16,471**

SEK M	SHARE CAPITAL	RESTRICTED RESERVES	RETAINED EARNINGS	TOTAL EQUITY
SHAREHOLDERS' EQUITY, 1 DECEMBER 2016	**207**	**88**	**16,562**	**16,857**
Adjustment of opening balance*			5	5
ADJUSTED SHAREHOLDERS' EQUITY, 1 DECEMBER 2016	**207**	**88**	**16,567**	**16,862**
Profit for the year	–	–	15,754	15,754
Other comprehensive income				
Remeasurement of defined benefit pension plans	–	–	-1	-1
Tax related to the above remeasurement	–	–	0	0
Other comprehensive income	**–**	**–**	**-1**	**-1**
Total comprehensive income	**–**	**–**	**15,753**	**15,753**
Dividend	–	–	-16,137	-16,137
SHAREHOLDERS' EQUITY, 30 NOVEMBER 2017	**207**	**88**	**16,183**	**16,478**

* Effective from the 2017 financial year, the way that certain defined contribution pension plans are recognised has changed. The effect in relation to previous years is reported as an adjustment to opening equity.

Parent company cash flow statement

SEK M 1 DECEMBER – 30 NOVEMBER	2018	2017
Current operations		
Profit after financial items*	17,974	16,855
Provisions for pensions	-1	-10
Depreciation	83	101
Taxes paid	-691	-1,498
Cash flow from current operations before changes in working capital	**17,365**	**15,448**
Changes in working capital		
Current receivables	-10,921	-3,126
Current liabilities	-1,457	-231
CASH FLOW FROM CURRENT OPERATIONS	**4,987**	**12,091**
Investing activities		
Investment in buildings and land	-5	-27
Other investments	2	-170
CASH FLOW FROM INVESTING ACTIVITIES	**-3**	**-197**
Financing activities		
Short-term loans	2,000	4,000
New borrowing	9,113	–
Dividend	-16,137	-16,137
CASH FLOW FROM FINANCING ACTIVITIES	**-5,024**	**-12,137**
CASH FLOW FOR THE YEAR	**-40**	**-243**
Cash and cash equivalents at beginning of year	**133**	**376**
Cash flow for the year	-40	-243
Cash and cash equivalents at end of year, note 17	**93**	**133**

* Interest paid for the parent company amounts to SEK 44 m (11). Received interest for the parent company amounts to SEK 19 m (18) – see 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 18 February 2019 and will be submitted to the annual general meeting for approval on 7 May 2019.

Ramsbury Invest AB's holding of shares in H & M Hennes & Mauritz AB represents 44.3 percent of all shares and 72.9 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 acquisition costs, 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 IAS 39 or the forthcoming standard IFRS 9 to the recognition and measurement of financial instruments and does not capitalise development costs (IAS 38.57). 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 in accordance with the alternative rule in RFR 2.

The changes in RFR 2 that apply as a result of the group applying IFRS 9 and IFRS 15 from 1 December 2018 will not result in any significant changes for the parent company or impact the parent company's financial statements.

Changes in accounting principles and disclosure requirements

Described below are changed accounting principles applied by the group with effect from 1 December 2017. These changes have had no material effect on the consolidated financial statements. In other respects the accounting principles applied for 2017/2018 are the same as those applied in the previous year.

– IAS 7 Statement of Cash Flows. The standard has been amended and disclosure requirements have been expanded to cover changes in liabilities attributable to financing activities. The required disclosures relate to changes attributable to incoming and outgoing payments as well as changes that affect liquidity, such as changes resulting from acquisitions and translation differences. The group provides this information in note 23.
– IAS 12 Income Taxes. The standard has been amended to clarify when a deferred tax receivable can be recognised. A deductible temporary difference generates a deferred tax receivable where changes in value are negative and these only become deductible on realisation. If there are no restrictions, the company must assess the deferred tax receivable along with other deferred tax assets attributable to temporary differences. Where there are restrictions, the company must assess the deductible temporary difference along with corresponding types of deductible temporary differences. The amendments are to be applied retrospectively for accounting year beginning on or after 1 January 2017. The change has had no material effect on the consolidated financial statements.

New standards, amended standards and interpretations that have not yet come into force have not been applied early to H&M's financial statements. The following standards enter into force for financial years beginning on or after 1 December 2018.

Future accounting principles and disclosure requirements

A number of new standards, revisions and interpretations of existing standards have been published but have not yet entered into force for the H&M group. Of these, only the standards below are expected to have any effect on the consolidated financial statements.

– IFRS 9 Financial Instruments will be applied by H&M from the 2018/2019 financial year, when it will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard makes certain changes to the recognition and measurement of financial assets and financial liabilities. The standard is divided into three parts: classification and measurement, hedge accounting and impairment. The principles relating to when financial assets and liabilities are recognised or derecognised in the financial statements are the same as under IAS 39; see note 20.

  IFRS 9 requires financial assets to be classified in three different measurement categories: at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. In the case of financial liabilities there are no significant changes compared to IAS 39. The changes to the principles for the classification and measurement of financial assets and liabilities are not expected to have a material effect on the measurement of the group's financial instruments in the income statement and balance sheet. The group's financial assets and liabilities are classified as follows:

  Amortised cost is used for assets held for the purpose of receiving contractual cash flows that relate only to payments of capital and interest, as well as for financial liabilities other than derivatives. Accounts receivable are recognised initially at the invoiced amount, while other assets and liabilities are measured initially at fair value plus or minus transaction costs. They are subsequently measured at amortised cost using the effective interest method, or without discounting for receivables close to their due date. The recognised value of assets and receivables is net after impairment relating to expected credit losses.

  Fair value through other comprehensive income includes shares not held for trading that the group has irrevocably chosen to classify in this category. Dividends received are recognised in profit or loss. Changes in value and gains or losses on disposal are recognised in other comprehensive income and are not reclassified to profit or loss.

  Fair value through profit or loss includes holdings of shares that are not classified at fair value through other comprehensive income, funds and any derivatives to which hedge accounting is not applied.

Derivatives are held only for hedging purposes and are recognised at fair value both upon initial recognition and thereafter. For cash flow hedges and hedging of net investments in foreign operations, the effective portion of the derivative's change in value is recognised in other comprehensive income and accumulated in equity. The same applies to currency effects for liabilities in foreign currency which are hedging instruments in the hedging of net investments in foreign operations. The amounts in equity are reclassified to profit or loss when the hedged item affects profit or loss, which in the case of the hedging of net investments in foreign operations is on disposal of the foreign operation. The group is applying hedge accounting according to IFRS 9 with effect from the 2018/2019 financial year. The group's hedging situation on the transition to IFRS 9 is deemed to fulfil the criteria for hedge accounting and no transitional effects are recognised in equity.

Finally, new principles have been introduced for the impairment of financial assets measured at amortised cost as described above, using a model based on expected losses rather than losses incurred. One of the aims of the new model is that provision for credit losses will be made at an earlier stage. The transition to the new model for impairment losses has no material impact on the group's recognition of credit losses, however, and the group's impairment of bad debts is affected only to an insignificant extent by the transition to IFRS 9. Impairment of accounts receivable is based on historical losses taking into consideration forward-looking factors. Impairment of other assets is generally according to the rating-based method. For accounts receivable and assets with a term of less than 12 months impairment is applied for the full term. For assets with a longer remaining term impairment is applied for the coming 12 months unless there has been a material increase in credit risk, in which case impairment will be applied for the entire remaining term.

Overall the introduction of IFRS 9 is not expected to have any significant effect on the consolidated accounts. However, IFRS 9 requires additional disclosures concerning risk management and the effects of hedge accounting according to IFRS 7. In accordance with the standard's transitional rules, the group will not restate comparative figures for the 2017/2018 financial year.

– IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 (in H&M's case, from the 2018/2019 financial year). The standard replaces all previously issued standards and interpretations dealing with revenue (i.e. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue: Barter Transactions Involving Advertising Services).

  IFRS 15 contains an overall model for reporting revenue arising from contracts with customers. The idea is that everything starts with an agreement between two parties concerning the sale of a good or service. Initially a customer agreement is to be identified, which generates an asset (rights, a promise that compensation will be received) and a liability (commitments, a promise to deliver goods/services) for the seller. Under the model the company then reports a revenue item and thereby demonstrates that the company is meeting a commitment to deliver promised goods or services to the customer. To assess how the introduction of IFRS 15 will impact the group, a preliminary study of the company's revenue streams was conducted. The preliminary study, which was conducted using the five-step model, showed that the group's income statement will not be significantly affected by the introduction of IFRS 15. The only exception is that the group will report provisions for returns gross. The group has elected to use a prospective method of transition and consequently comparative figures have not been restated.

– IFRS 16 Leases. This standard applies to annual reporting periods beginning on or after 1 January 2019 and will supersede IAS 17 Leases and its associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This is based on the approach that the lessee has a right to use an identified asset for a specific period of time and at the same time a liability to pay for this right. Recognition for lessors will essentially be unchanged.

  During the year the group continued its evaluation of the new standard and expects it to result in recognition of significant assets and liabilities associated with the group's leases for premises. Since the standard will be applied for the first time in respect of the 2019/2020 financial year, the judgement has been made that it is not yet possible to assess and calculate its effects on the figures with any certainty.

– IFRIC 23 Uncertainty over Income Tax Treatments. This interpretation of the standard clarifies recognition and measurement when there is uncertainty over income tax treatments. The interpretation is applicable to annual reporting periods beginning on or after 1 January 2019. During 2019 the group will complete its assessment of the effects of the interpretation.

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 and the measurement of current and deferred tax; see also note 11 for tax and note 15 for stock-in-trade.

It is judged that, as of 30 November 2018, there are no estimates or assumptions in the financial statements that involve a significant risk of any material adjustment to the 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.

Business combinations

In business combinations acquired assets and liabilities 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. Minority interests 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 reports in the currency used in the economic environment in which the company concerned mainly operates, known as the functional currency. These reports form the basis of the consolidated accounts. The consolidated accounts are presented in Swedish kronor, which is the 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 converted 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 intra-group loans, which are to be regarded as net investment in a foreign business. 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 undertaking as a result of an event occurring and it is likely that an outflow of resources will be required for the undertaking 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 financial 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 20.

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 and loans in foreign currency 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 and liabilities 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 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 11,590 m (9,718). As of the closing date, liabilities to credit institutions and for finance leases amounted to 19,781 m (10,220). 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 116 m (97), and would increase interest expense for external borrowing and finance leases by SEK 198 m (102). 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 finance leases.

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 change in the value of the Swedish krona of 2 percent in relation to other currencies would have an insignificant momentary effect on profit related to financial instrument holdings as of the closing date. A 2 percent strengthening of the Swedish krona would have a positive effect on the hedge reserve in equity of around SEK 486 m (200) before taking into account the tax effect, of which SEK 371 m (237) relates to EUR and SEK -229 m (-230) to USD.

The group's exposure to outstanding derivative instruments is reported in note 20.

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 582 m (44).

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 dealt with at a central level. A large share of the group's sales are made in euros, while the group's most significant purchase curren-

cies 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 corresponding 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.

Translation exposure on consolidation of units 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 short-term intra-group liabilities and short-term intra-group receivables, these are fully hedged. Net investment in foreign currency may hedged in full or in part through liabilities in the same currency using what is known as an equity hedge. As of 30 November 2018 certain portions of net investments are hedged in this way.

Credit risk and counterparty risk
Credit risk is the risk that the H&M group'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 cash receivables 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 2018, corresponding to the book value for cash and cash equivalents of SEK 11,590 m (9,718), accounts receivable of SEK 6,329 m (5,297) and other SEK 1,735 m (1,536), totalled SEK 19,654 m (16,551). Accounts receivable are divided between a large number of customers with low amounts per customer. The average debt was around SEK 2,801 (2,794). Bad debts during the year from accounts receivable were insignificant.

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 unused credit facilities are to cover the company's forecast short-term liquidity needs.

As of 30 November 2018 the group had SEK 19,323 m (9,745) in loans from credit institutions with a term of up to 36 months, with an average term of 1.6 years. At the closing date, cash and cash equivalents amounted to SEK 11,590 m (9,718). Starting from the first quarter of 2017 the H&M group has a five-year revolving credit facility (RCF) of EUR 700 m, with an option to extend this for a further two years. The credit facility has not been drawn down.

3. SEGMENT REPORTING

The group's business consists mainly of sales of clothing, accessories, footwear, cosmetics, home textiles and homeware 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. H&M has combined countries to form the segments Asia and Oceania, Europe and Africa, and North and South America. The parent company and subsidiaries with no external sales are reported in a separate Group Functions segment. The same accounting principles are applied to segment reporting as in the consolidated accounts. Transactions between segments take place on normal commercial terms.

	2018	2017
Asia and Oceania		
External net sales	31,902	29,557
Operating profit	735	1,143
Operating margin, %	2.3	3.9
Assets excluding tax receivables and internal receivables	16,102	14,490
Liabilities excluding tax liabilities and internal liabilities	2,400	1,487
Investments	1,047	1,651
Depreciation	1,667	1,455
Europe and Africa*		
External net sales	143,480	135,567
Operating profit	4,787	4,066
Operating margin, %	3.3	3.0
Assets excluding tax receivables and internal receivables	47,571	45,894
Liabilities excluding tax liabilities and internal liabilities	15,952	13,553
Investments	4,378	4,824
Depreciation	4,528	4,118
North and South America		
External net sales	35,018	34,880
Operating profit	946	794
Operating margin, %	2.7	2.3
Assets excluding tax receivables and internal receivables	19,863	18,959
Liabilities excluding tax liabilities and internal liabilities	7,909	6,785
Investments	2,915	3,258
Depreciation	2,437	2,120
Group Functions		
Net sales to other segments	67,795	72,901
Operating profit	9,025	14,566
Operating margin, %	13.3	20.0
Assets excluding tax receivables and internal receivables	30,012	21,928
Liabilities excluding tax liabilities and internal liabilities	27,732	18,775
Investments	4,557	3,017
Depreciation	1,039	795
Eliminations		
Net sales to other segments	-67,795	-72,901
Total		
External net sales	**210,400**	**200,004**
Operating profit	**15,493**	**20,569**
Operating margin, %	**7.4**	**10.3**
Assets excluding tax receivables and internal receivables	**113,548**	**101,271**
Liabilities excluding tax liabilities and internal liabilities	**53,993**	**40,600**
Investments	**12,897**	**12,750**
Depreciation	**9,671**	**8,488**

* South Africa

Cont. Note 3, Segment reporting

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.

The group's property, plant and equipment amounted to SEK 42,439 m (39,818) as of 30 November 2018. 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 2,694 m (2,113) as of 30 November 2018.

4. NET SALES BY MARKET

The group's income is generated mainly by the sale of clothing, accessories, footwear, cosmetics, home textiles and homeware to consumers. Sales revenues are reported as net sales in the income statement, i.e. sales revenue less value-added tax, returns and discounts. Revenue from store and online sales is reported in conjunction with sale/delivery to the customer and is based on the country in which the customer lives. Online sales made up 14.5 percent (12.5) of the group's sales. 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.

Reporting of H&M Club follows the principles in IFRIC 13. Points earned that have not been used are reported as a liability as well as a reduction in revenue in order to meet the future cost that will arise for the points issued. The liability is based on the 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.

	2018	No. of stores 30 Nov. 2018	2017	No. of stores 30 Nov. 2017
Sweden	8,404	175	8,236	172
Norway	4,964	130	4,900	128
Denmark	5,045	113	4,639	110
UK	13,760	304	12,622	292
Switzerland	5,145	100	5,471	100
Germany	32,367	468	30,959	463
Netherlands	6,465	144	6,191	145
Belgium	3,815	96	3,726	97
Austria	4,901	88	4,666	86
Luxembourg	406	10	408	10
Finland	2,412	67	2,295	64
France	11,311	237	11,383	240
USA	24,798	578	26,330	536
Spain	7,373	172	6,816	175
Poland	5,285	186	4,402	175
Czech Republic	1,610	52	1,341	50
Portugal	1,179	32	1,075	32
Italy	7,630	179	7,525	175
Canada	4,569	94	4,291	91
Slovenia	488	12	452	13
Ireland	1,104	24	961	24
Hungary	1,646	47	1,402	45
Slovakia	750	25	616	22
Greece	1,718	35	1,576	35
China	10,743	530	9,484	506
Hong Kong	1,502	26	1,663	28
Japan	4,573	91	4,469	82
Russia	5,737	139	4,915	134
South Korea	1,957	46	1,807	41

Cont. Note 4, Net sales by market

	2018	No. of stores 30 Nov. 2018	2017	No. of stores 30 Nov. 2017
Turkey	2,852	68	2,962	70
Romania	2,299	56	1,979	56
Croatia	719	16	685	15
Singapore	801	12	899	13
Bulgaria	635	21	581	20
Latvia	356	8	326	8
Malaysia	1,177	47	1,109	44
Mexico	2,854	45	1,988	37
Chile	1,488	13	1,250	8
Lithuania	351	9	324	9
Serbia	423	13	363	12
Estonia	381	12	350	10
Australia	2,283	44	2,383	32
Philippines	1,007	34	926	32
Taiwan	627	12	742	12
Peru	763	11	725	8
Macau	120	2	135	2
India	1,408	39	1,092	27
South Africa	842	23	780	17
Puerto Rico	80	2	91	2
Cyprus	79	1	80	1
New Zealand	284	4	183	3
Kazakhstan	203	3	158	3
Colombia	405	4	188	3
Iceland	192	3	76	2
Vietnam	271	6	63	2
Georgia	102	2	7	1
Ukraine	57	2		
Uruguay	64	1		
Franchise	5,620	255	4,938	219
Total	**210,400**	**4,968**	**200,004**	**4,739**

5. REVENUE FROM GROUP COMPANIES

The parent company's internal sales consist of royalties of SEK 4,169 m (3,962) and other income of SEK 93 m (107) 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. In addition to pure purchasing costs for the products, it includes costs such as customs duties, environmental levies, employee benefit expenses 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 employee benefit expenses see note 7 and for depreciation see note 9.

7. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS

2018	Board, CEO, executive management team, salary	Salary, other employees	Social sec. costs total	*of which* pens. total	*of which* pens. board, CEO, executive management
Sweden, parent company	20	0	23	17	17
Subsidiaries	45	31,045	7,467	692	19
Group total	**65**	**31,045**	**7,490**	**709**	**36**

2017	Board, CEO, executive management team, salary	Salary, other employees	Social sec. costs total	*of which* pens. total	*of which* pens. board, CEO, executive management
Sweden, parent company	20	0	15	9	9
Subsidiaries	48	28,620	6,979	589	23
Group total	**68**	**28,620**	**6,994**	**598**	**32**

Board fees

Board fees paid for the year as approved by the 2017 annual general meeting (AGM) amounted to SEK 5,775,000 (6,075,000). Board fees were paid as follows:

	SEK
Stefan Persson, chairman	1,675,000
Stina Bergfors	600,000
Anders Dahlvig	750,000
Lena Patriksson Keller	600,000
Christian Sievert	800,000
Erica Wiking Häger	750,000
Niklas Zennström	600,000

The fees were paid as resolved at the 2017 AGM. This means that the fees related to the period until the next AGM was held, i.e. the period 11 May 2017 to 8 May 2018. The amounts were paid out after the 2018 AGM.

As of the AGM on 8 May 2018 the board consists of seven ordinary members elected by the AGM. There are also two employee representatives, with two deputies for these positions. Seven members of the board are women, four are men, and four of the 11 are employed by the company.

Board member Lena Patriksson Keller is the majority shareholder in Patriksson Communication AB, which had business dealings with H&M during the year. The transactions took place on market terms and remuneration for 2018 amounted to SEK 5.9 m (1.3). Outstanding balances as of 30 November 2018 totalled SEK 0.1 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 2018 amounted to SEK 0.6 m (0.6). Outstanding balances as of 30 November 2018 totalled SEK 0 m (0.1).

Remuneration of senior executives

Remuneration of senior executives is based on resolutions on guidelines adopted annually by the AGM; see the administration report on pages 39–40.

Remuneration of the chief executive officer

Remuneration paid to the CEO for the 2018 financial year in the form of salary and benefits amounted to SEK 13.8 m (13.7), which included variable remuneration of SEK 0 m (0). 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

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

salary. Pension expenses amounted to SEK 4.2 m (4.1). The retirement age for the CEO is 65.

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 an extra year's salary. The CEO's terms of employment are determined by the board of directors.

The CEO is not included in the long-term variable remuneration, i.e. what was previously referred to as supplementary guidelines; see the administration report on page 40.

Pension for the former CEO

The former CEO retired on 1 September 2009. The total pension commitments recognised as liabilities, based on the fact that the former CEO receives a pension for the first three years of his retirement equivalent to 65 percent of his fixed salary followed by a lifelong pension equivalent to 50 percent of the same salary, amount to SEK 145.8 m (140.6). The change in the year's pension commitments recognised as liabilities includes actuarial losses of SEK 9.5 m (actuarial losses of SEK 3.5 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 2018 the executive management comprised nine (ten) individuals, six of whom are women. The executive management team consists of the CFO and the COO as well as the individuals responsible for the following group functions: sustainability, communications, human resources, business development and the two persons responsible for the H&M brand and the person responsible for new business.

Remuneration paid to members of the executive management team, other than the CEO, in the form of salary and benefits amounted to SEK 45.4 m (48.2), which included variable remuneration of SEK 0 m (0). In addition to this, an estimated expense of SEK 30 m (30) has been recognised in respect of remuneration that certain senior executives may receive in accordance with the long-term variable remuneration programme, i.e. what was previously referred to as supplementary guidelines for senior executives; see further description in the administration report on page 39. This will be paid out no earlier than 2019, in accordance with the guidelines approved at the 2014 AGM. Pension expenses relating to the executive management team during the year amounted to SEK 18.5 m (17.0). 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

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

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 will be recognised when the amount has been established and an obligation exists.

For 2018 no contribution was made to the incentive programme, based on the principle for contributions to HIP that was adopted at the 2013 AGM and is described above.

8. AVERAGE NUMBER OF EMPLOYEES

	2018 Total	% men	2017 Total	% men
Sweden	10,839	24	10,100	23
Norway	1,815	10	1,799	10
Denmark	1,864	10	1,899	9
UK	8,128	22	7,565	23
Switzerland	1,998	15	2,129	15
Germany	13,766	19	14,504	19
Netherlands	2,537	17	2,636	16
Belgium	2,377	28	2,349	27
Austria	1,951	11	1,955	10
Luxembourg	152	16	159	16
Finland	1,230	7	1,195	7
France	5,324	24	5,765	28
USA	12,956	37	13,248	37
Spain	4,739	21	4,581	20
Poland	6,613	16	6,649	16
Czech Republic	1,230	13	1,121	13
Portugal	752	16	804	17
Italy	4,293	27	4,346	28
Canada	1,890	24	1,823	24
Slovenia	154	7	162	10
Ireland	482	17	442	16
Hungary	773	15	750	16
Slovakia	371	14	316	16
Greece	1,137	19	1,186	17

Cont. Note 8, Average number of employees

	2018 Total	% men	2017 Total	% men
China	9,574	29	9,323	28
Hong Kong	1,081	35	965	32
Japan	2,435	30	2,317	41
Russia	3,092	26	2,724	26
South Korea	1,202	31	1,160	32
Turkey	3,389	42	3,305	46
Romania	1,198	25	1,078	25
Croatia	336	9	332	10
Singapore	420	31	540	30
Bulgaria	359	19	366	24
Latvia	306	14	305	14
Malaysia	815	54	803	55
Mexico	2,225	49	1,534	49
Chile	1,051	58	721	46
Lithuania	215	11	226	10
Serbia	216	19	195	19
Estonia	238	5	245	5
Australia	1,209	35	1,107	29
Philippines	823	30	723	48
Taiwan	341	28	370	30
Peru	699	55	657	54
Macau	64	39	63	43
India	1,781	62	1,329	60
South Africa	568	36	548	34
Puerto Rico	41	20	51	27
Cyprus	52	27	68	19
New Zealand	185	31	118	24
Kazakhstan	149	29	158	39
Colombia	329	49	273	20
Iceland	74	15	20	15
Vietnam	224	32	102	25
Georgia	92	14	68	16
Ukraine	113	28		
Uruguay	63	24		
Other countries	953	72	914	72
Total	**123,283**	**26**	**120,191**	**26**

9. DEPRECIATION AND AMORTISATION

Depreciation has been calculated at 12.5 percent of the acquisition cost of equipment and leasehold rights, and 20 percent for computer equipment and vehicles. Brands and customer relations relating to FaBric Scandinavien AB and capitalised development costs are amortised at 10 percent of the acquisition cost. Buildings are depreciated at 3 percent of their acquisition cost. No depreciation is applied to land values. Depreciation for the year is reported in the income statement as follows:

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Cost of goods sold	558	736	–	–
Selling expenses	8,566	7,175	–	–
Administrative expenses	547	577	83	101
Total	**9,671**	**8,488**	**83**	**101**

10. AUDIT FEES

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Ernst & Young				
Audit engagement	30.7	29.0	3.7	3.5
Other auditing	4.4	4.4	0.2	0.2
Tax consultancy	11.1	13.0	–	0.1
Other consultancy	4.1	3.1	0.4	–
Other auditors				
Audit engagement	7.8	6.9	–	–
Total	**58.1**	**56.4**	**4.3**	**3.8**

11. TAX

Income taxes in the income statement represent current and deferred corporation 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 are deducted or the liabilities are settled, based on the tax rates (and the tax legislation) in force on the closing date. Deferred tax receivables are recognised for all temporary differences unless they relate to goodwill or an asset or a liability in a transaction that is not a company acquisition 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 associated companies are taken into account only to the extent it is likely that the temporary difference will be reversed in the foreseeable future. Deferred tax receivables 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 receivables are tested as of each closing date and reduced where it is no longer deemed likely that they will be able to be utilised.

The US tax reform (Tax Cuts & Jobs Act) was enacted in December 2017. For H&M this means that deferred tax liabilities and deferred tax receivables assignable to H&M's US subsidiary were remeasured in 2018. This had a one-off effect of SEK 425 m. Based on the decision to reduce the Swedish corporate tax rate, the group has also remeasured the deferred tax liability relating to capitalised development costs and excess depreciation. The group had one-off positive tax income of SEK 93 m in the financial year as a result of these remeasurements. Cash flow was not affected by these one-off effects.

Global companies such as H&M are sometimes involved in tax proceedings of varying extent and at different stages. H&M 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. H&M has made an assessment of the likely outcome and reserved the tax expense concerned. As of the closing date, this reserve totalled SEK 435 m (424). 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	
	2018	2017	2018	2017
Tax expense (-) / tax receivable (+):				
Current tax				
Tax expense for the period	-4,236	-4,044	-671	-772
Adjusted tax expense for previous years	-23	-14	0	0
Sub-total	-4,259	-4,058	-671	-772
Deferred tax receivable (+) / tax expense (-) in respect of:				
Stock-in-trade	-628	-105	–	–
Loss carryforward	29	13	–	–
Pension provisions	-16	-28	-2	-1
Tax allocation reserve	1,780	110	–	–
Intangible non-current assets	-595	-366	–	–
Property, plant and equipment	-39	-339	–	–
Other temporary differences	223	148	–	–
Effect of changed tax rates	518	–	–	–
Sub-total	1,272	-567	-2	-1
Total	**-2,987**	**-4,625**	**-673**	**-773**
Deferred tax recognised in other comprehensive income in respect of:				
Hedging reserves	-123	39	–	–
Defined benefit pension plans	-3	-19	2	0
Sub-total	-126	20	2	0
Reconciliation between current tax rate and effective tax rate:				
Expected tax expense according to the Swedish tax rate of 22%	-3,441	-4,577	-3,698	-3,636
Difference in foreign tax rates	53	-33	–	–
Non-deductible/non-taxable	-94	-1	-9	2
Other	–	–	–	–
Tax for previous years	-23	-14	0	0
Tax-free dividend subsidiaries	–	–	3,034	2,861
Effect of changed tax rates	518	–	–	–
Total	**-2,987**	**-4,625**	**-673**	**-773**
Recognised deferred tax receivable relates to:				
Pension provisions	119	131	76	79
Intangible non-current assets	191	195	–	–
Property, plant and equipment	816	384	–	–
Loss carryforward in subsidiaries	60	30	–	–
Stock-in-trade	680	682	–	–
Hedging reserves	8	106	–	–
Other temporary differences	1,920	1,388	–	–
Total	**3,794**	**2,916**	**76**	**79**
Recognised deferred tax liabilities relate to:				
Intangible non-current assets	1,891	1,408		
Property, plant and equipment	2,116	1,872		
Stock-in-trade	757	243		
Tax allocation reserve	0	1,780		
Hedging reserves	31	0		
Other temporary differences	293	28		
Total	**5,088**	**5,331**		

As of the closing date, the group has no loss carryforward other than the recognised deferred taxes receivable.

12. INTANGIBLE ASSETS

Intangible assets with a finite useful life are reported at acquisition cost less accumulated amortisation and any accumulated impairment. Amortisation is distributed on a straight-line basis over the assets' expected useful life.

Development costs are capitalised to the extent that it is judged that the company will derive future financial benefits and if the acquisition cost can be reliably calculated. The reported value includes the direct costs of services and materials acquired, employee benefit expenses and 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 acquisition cost of the subsidiary's shares exceeds the calculated 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	
	2018	2017
Brands*		
Opening acquisition cost	470	470
Acquisitions during the year	–	–
Closing acquisition cost	470	470
Opening amortisation	-452	-404
Amortisation for the year	-18	-48
Closing accumulated amortisation	-470	-452
Closing book value	**–**	**18**
Customer relations*		
Opening acquisition cost	131	131
Acquisitions during the year	–	–
Closing acquisition cost	131	131
Opening amortisation	-123	-111
Amortisation for the year	-8	-12
Closing accumulated amortisation	-131	-123
Closing book value	**–**	**8**
Leaseholds and similar rights		
Opening acquisition cost	1,265	1,438
Acquisitions during the year	68	140
Sales/disposals	-121	-326
Translation effects	38	13
Closing acquisition cost	1,250	1,265
Opening amortisation	-689	-855
Sales/disposals	114	323
Amortisation for the year	-159	-148
Translation effects	-21	-9
Closing accumulated amortisation	-755	-689
Closing book value	495	576
Opening value, projects in progress	16	47
Change for the year	-4	-38
Translation effects	1	7
Closing value, projects in progress	13	16
Total closing book value	**508**	**592**

Cont. Note 12, Intangible assets

	GROUP	
	2018	2017
Capitalised development costs		
Opening acquisition cost	6,910	4,852
Acquisitions during the year	3,207	2,058
Impairment	-19	0
Closing acquisition cost	10,098	6,910
Opening amortisation	-549	-285
Amortisation for the year	-503	-264
Closing accumulated amortisation	-1,052	-549
Closing book value	**9,046**	**6,361**

Capitalised development costs refers mainly to IT-related investments. Amortisation has commenced for those parts that were taken into use during 2013 – 2018, corresponding to around 55 percent of the capitalised development costs. Those projects that are not yet ready for use are tested for impairment annually. The year's impairment testing for these projects resulted in projects related to Cheap Monday being written off.

Goodwill*		
Opening book value	64	64
Change for the year	–	–
Closing book value	**64**	**64**

* Brands, customer relations and goodwill assets were added 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 2018. 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 assessed 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 14 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 an average weighted capital cost that is estimated to be on a par with the external requirements that the market imposes for similar companies. No impairment was identified and H&M is of the opinion that reasonable 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

Costs 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 acquisition cost can be reliably calculated. Other costs and costs 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 acquisition 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 for any indication of 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.

Cont. Note 13, Buildings, land and equipment

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Buildings				
Opening acquisition cost	1,099	1,068	229	146
Acquisitions during the year	6	84	6	83
Sales/disposals	0	-37	–	–
Translation effects	48	-16	–	–
Closing acquisition cost	1,153	1,099	235	229
Opening depreciation	-419	-423	-89	-83
Sales/disposals	0	25	–	–
Depreciation for the year	-34	-32	-7	-6
Translation effects	-20	11	–	–
Closing accumulated depreciation	-473	-419	-96	-89
Closing book value	680	680	139	140
Opening value, projects in progress	1	57	1	57
Change for the year	-1	-56	-1	-56
Translation effects	–	0	–	–
Closing value, projects in progress	–	1	–	1
Total closing book value	**680**	**681**	**139**	**141**
Land				
Opening acquisition cost	143	148	7	7
Acquisitions during the year	–	0	–	–
Sales/disposals	–	-3	–	–
Translation effects	8	-2	–	–
Closing book value	**151**	**143**	**7**	**7**
Equipment				
Opening acquisition cost	67,936	63,727	1,001	1,001
Acquisitions during the year	9,109	11,035	–	–
Sales/disposals	-5,912	-4,960	–	–
Translation effects	3,321	-1,866	–	–
Closing acquisition cost	74,454	67,936	1,001	1,001
Opening depreciation	-30,263	-27,733	-782	-688
Sales/disposals	5,628	4,583	–	–
Depreciation for the year	-8,563	-7,711	-76	-94
Translation effects	-1,578	598	–	–
Closing accumulated depreciation	-34,776	-30,263	-858	-782
Closing book value*	39,678	37,673	143	219
Opening value, projects in progress	1,321	1,849	–	–
Change for the year	516	-476	–	–
Translation effects	93	-52	–	–
Closing value, projects in progress	1,930	1,321	–	–
Total closing book value	**41,608**	**38,994**	**143**	**219**

* Financial leases on store tills included in the closing book value of equipment amount to SEK 450 m (497). The contracts run for up to seven years.

14. PAYMENTS FOR OPERATING LEASES AND FINANCE LEASES

Leases are classified in the consolidated accounts as either finance or operating leases. Finance leases exist when the financial risks and benefits associated with the ownership of an object are essentially transferred from the lessor to the lessee, regardless of whether the legal ownership lies with the lessor or the lessee. Assets held under finance leases are reported as non-current assets and future payment commitments are reported as liabilities in the balance sheet. On initial recognition the asset and liability are reported at the net present value of future minimum lease payments and any residual value. On subsequent occasions the expense is distributed between an interest portion and a repayment portion. All other rental agreements that do not fulfil the conditions for classification as finance leases are deemed to be operating leases. Lease payments made under operating leases are expensed over the lease period using the straight-line method, even if the payment schedule deviates from this. From and including the 2016 financial year, H&M has not only operating leases but also some leases that are classified as finance leases. The group's main leases are rental agreements for premises. Variable (sales-based) rents are recognised in the same period as the corresponding sales.

Operating leases

The group has leases relating to rented premises which were entered into on normal market terms. Most of the agreements contain options to extend the term. Rental costs for the 2018 financial year amounted to SEK 24,801 m (23,317), of which sales-based rent amounted to SEK 4,428 m (4,191).

Rent according to the group's rental agreements (basic rent excluding any sales-based rent) amounts to:

	GROUP	
	2018	2017
Rental commitments in next 12 months	16,234	16,219
Rental commitments in next 1–5 years	37,535	41,788
Rental commitments more than 5 years ahead	16,413	20,330
Total	**70,182**	**78,337**

Finance leases

The group has assets held under finance leases in respect of store cash registers with a year-end residual value according to plan of SEK 450 m (497).

Finance lease payments are due as follows:

2018	Present value	Interest cost	Nominal
In next 12 months	136	2	138
In next 2–5 years	305	3	308
More than 5 years ahead	17	0	17
Total	**458**	**5**	**463**

2017	Present value	Interest cost	Nominal
In next 12 months	125	3	128
In next 2–5 years	329	4	333
More than 5 years ahead	21	0	21
Total	**475**	**7**	**482**

Cont. Note 14, Payments for operating leases and finance leases

Liabilities for leased property, plant and equipment

	GROUP	
	2018	2017
Opening balance	**475**	**272**
Additional contracts	69	280
Amortisation	-126	-57
Interest costs	2	1
Translation effects	37	-21
Total	**457**	**475**

During the 2018 financial year expenses attributable to finance leases including depreciation were charged to earnings for the group in the amount of SEK 116 m (55), as well as interest expenses of SEK 2 m (1).

15. STOCK-IN-TRADE

Stock-in-trade is valued at the lower of the acquisition cost and the net realisable value. Acquisition 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 the 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 acquisition cost including the estimated cost of customs duties and shipping.

For almost half of the group's goods in the sales companies the acquisition cost is established by reducing the selling price by the estimated gross margin (the retail method), while for other sales companies the acquisition cost is calculated as weighted average prices. The group is gradually moving across to calculating acquisition cost as weighted average prices. This change has no material impact on the consolidated financial statements.

Stock-in-trade amounted to SEK 37,721 m (33,712), an increase of 12 percent in SEK compared with the same point in time last year. In local currencies the increase was 10 percent.

Significant write-downs are rare. There were no material write-downs in the current or previous financial years. Only an insignificant part of the stock-in-trade is measured at net realisable value. The stock-in-trade is not considered to have any material degree of obsolescence.

The stock-in-trade amounted to 31.7 percent (31.6) of total assets and 17.9 percent (16.9) of net sales.

16. PREPAID EXPENSES

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Prepaid rent	2,155	2,118	–	–
Other items	726	652	121	13
Total	**2,881**	**2,770**	**121**	**13**

17. 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	
	2018	2,017	2018	2017
Cash and bank balances	10,428	9,117	93	133
Short-term investments, 0–3 months	1,162	601	–	–
Total	**11,590**	**9,718**	**93**	**133**

Investments are made on market terms and the interest rates are between -0.60 and 29 percent. The difference in interest rate depends mainly on the currency in which the funds are invested.

18. SHARE CAPITAL AND DISTRIBUTION OF EARNINGS

The share capital is divided between 194,400,000 class A shares (ten 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. The dividend paid per share in 2018 was SEK 9.75.

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

The board of directors is of the opinion that the proposed dividend is justifiable since it is based on the fact that the underlying operations are showing gradual improvements, investments (capex) will reduce in 2019 and the company remains in a strong financial position. The dividend proposal takes 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, its risks and expansion and development plans impose on the group's and the parent company's equity and liquidity.

The board's proposal to the 2019 AGM regarding distribution of earnings

	SEK
At the disposal of the annual general meeting	16,175,585,104
The board of directors proposes a dividend of SEK 9.75 per share	16,136,952,000
To be carried forward as retained earnings	38,633,104
	16,175,585,104

19. PROVISIONS FOR PENSIONS

H&M 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 the respective plan based on the benefits earned during the previous and current periods. The defined benefit obligations less the fair value of 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, 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, H&M 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, ITP 2 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 the former CEO.

Alecta's surplus cannot be allocated to the insured employer and/or the insured employees. As of 30 September 2018, Alecta's consolidation ratio was 159 percent (158). 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.

	GROUP			PARENT COMPANY		
	2018	2017	2016	2018	2017	2016
Present value of defined benefit obligations	1,588	1,488	1,581	196	197	210
Fair value of managed assets	-1,143	-1,043	-1,054	-15	-15	-19
Provisions for pension obligations recognised in the balance sheet	**445**	**445**	**527**	**181**	**182**	**191**
Opening balance, 1 December	445	527	449	182	191	195
Recognised pension expenses, net	69	-23	150	14	5	10
Premiums paid by employer	-51	-52	-55	–	–	–
Pensions paid out	-18	-17	-17	-15	-14	-14
Disbursements from assets	–	10	–	–	–	–
Carrying amount of defined benefit obligations, 30 November	**445**	**445**	**527**	**181**	**182**	**191**

Of the total recognised obligation, SEK 210 m (210) relates to defined benefit pensions plans in Sweden and SEK 186 m (184) to plans in Switzerland.

The weighted average maturity of these pension plans is 10.1 (10.4) years for the Swedish plans and 15.3 (15.8) years for the Swiss plans.

	2018	2017	2016	2018	2017	2016
The amounts recognised as pension expenses comprise the following items:						
Current service cost	67	67	73	–	–	–
Interest expense	14	13	18	4	4	6
Interest income	-8	-7	-10	0	0	0
Reductions/adjustments gains (-) and losses (+)	-4	-2	–	–	–	–
Past service cost	2	–	-26	–	–	–
Changes in foreign exchange rates for plans denominated in a currency other than the reporting currency	16	-14	17	–	–	–
Pension expenses recognised in the income statement	**87**	**57**	**72**	**4**	**4**	**6**
Pension expenses recognised in other comprehensive income						
Acturial gains/losses financial assumptions asset	-20	-50	-13	1	2	1
Acturial gains/losses demographic assumptions liability	0	–	-44	0	–	–
Acturial gains/losses financial assumptions liability	2	-30	135	9	-1	3
Acturial gains (-) and losses (+)	**-18**	**-80**	**78**	**10**	**1**	**4**
Total recognised pension expenses	**69**	**-23**	**150**	**14**	**5**	**10**

The cost of defined contribution pension plans amounts to SEK 647 m (631).

Next year's expected payments for defined benefit pension plans amount to SEK 32 m.

	2018	2017	2016	2018	2017	2016
Significant acturial assumptions on the balance sheet date (weighted average amounts)						
Discount rate	1.02%	0.95%	0.88%	2.00%	2.25%	2.25%
Future salary increases	1.27%	1.29%	1.36%	3.00%	5.00%	5.00%
Future pension increases (inflation)	0.31%	0.30%	0.34%	2.00%	1.75%	1.50%

A 0.5 percentage point reduction in the discount rate would increase the liability for the Swedish commitments by SEK 11.7 m (12.0).

20. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	Loans receivable and accounts receivable		Financial assets held to maturity		Derivatives for hedging recognised at fair value		Other financial liabilities		Total book value	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Other non-current receivables	–	–	885	806	–	–	–	–	885	806
Accounts receivable	6,329	5,297	–	–	–	–	–	–	6,329	5,297
Other receivables	–	–	–	–	372	497	–	–	372	497
Shares and interests	–	–	478	233	–	–	–	–	478	233
Cash and cash equivalents	10,428	9,117	1,162	601	–	–	–	–	11,590	9,718
Total financial assets	**16,757**	**14,414**	**2,525**	**1,640**	**372**	**497**	**–**	**–**	**19,654**	**16,551**
Accounts payable	–	–	–	–	–	–	6,800	7,215	6,800	7,215
Liabilities to credit institutions	–	–	–	–	–	–	19,323	9,745	19,323	9,745
Other liabilities	–	–	–	–	238	903	–	–	238	903
Total financial liabilities	**–**	**–**	**–**	**–**	**238**	**903**	**26,123**	**16,960**	**26,361**	**17,863**

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.

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 a 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.

Financial assets and liabilities at fair value through profit or loss

This category consists of two sub-groups: financial assets and liabilities held for trading, and other financial assets and liabilities that the company initially chose to place in this category when they were first recognised. Assets and liabilities in this category are assessed continually at fair value, with changes in value recognised in profit/loss. No financial assets or liabilities have been classified in this category.

Loans receivable and accounts receivable

This category primarily covers cash and bank balances as well as accounts receivable. Cash and bank balances are valued at amortised cost. Accounts receivable have a short expected term and are spread across a large number of customers, with low amounts per customer, and are measured without discounting at the original invoiced amount with deductions for doubtful receivables. The average debt was around SEK 2,801 (2,794). Bad debts during the year from accounts receivable were insignificant.

Financial assets held to maturity

Financial assets held to maturity are 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. Assets in this category are valued 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.

Other financial liabilities

Financial liabilities that are not held for trading are valued at amortised cost. 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 above under financial liabilities are measured at amortised cost and do not deviate significantly from the fair values.

	GROUP	
	2018	2017
Change in hedging reserves		
Reported in other comprehensive income	483	-1,341
Reclassified to profit or loss	52	1,162
Total	**535**	**-179**

Reporting of derivatives used for hedging purposes

All derivatives are reported initially and continually 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 of the group's derivatives were for cash flow hedging and hedging of net investments in foreign operations.

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 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 category derivatives for hedging recognised at fair value is measured 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.

Cont. Note 20, Financial assets and liabilities by category

Hedging of net investments in foreign operations
Derivatives intended for hedging net investments in foreign operations are recognised in equity through other comprehensive income.

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 table below shows the outstanding forward contracts for cash flow hedging as of the closing date:

	Book value and fair value, SEK		Nominal amount, SEK		Average remaining terms in months	
SELL/BUY	2018	2017	2018	2017	2018	2017
NOK/SEK	14	11	633	751	3	2
GBP/SEK	19	-113	3,336	2,677	3	3
DKK/SEK	5	-22	1,115	867	3	3
CHF/SEK	-2	7	642	610	3	3
EUR/SEK	50	-445	16,170	16,781	4	3
PLN/SEK	1	-45	1,240	1,042	3	3
USD/SEK	-48	-47	4,001	5,513	3	3
CAD/SEK	4	-1	547	645	3	3
JPY/SEK	0	3	738	787	3	3
HKD/SEK	-3	-1	182	209	3	3
RON/SEK	3	-8	550	394	3	3
CZK/SEK	3	-13	268	290	3	3
HUF/SEK	1	-5	319	263	3	3
AUD/SEK	-8	6	425	461	3	2
CNH/SEK	1	-25	1,506	789	3	3
RUB/SEK	-2	-22	1,076	754	3	3
TRY/SEK	-71	20	479	418	4	3
MXN/SEK	22	-4	579	474	3	2
SEK/USD	149	273	14,376	15,473	2	2
SEK/EUR	-2	36	1,755	1,603	2	2
Sub-total	**136**	**-395**	**49,937**	**50,801**		

	Book value and fair value, SEK		Nominal amount, USD		Average remaining terms in months	
SELL/BUY	2018	2017	2018	2017	2018	2017
KRW/USD	0	-11	25	37	4	3
CLP/USD	-2	0	29	26	4	3
Sub-total	**-2**	**-11**	**54**	**63**		
Total	**134**	**-406**				

Cont. Note 20, Financial assets and liabilities by category

ASSETS/LIABILITIES 2018	Derivative assets	Derivative liabilities	Total
Gross amounts			
Total in balance sheet	372	238	134
Financial instruments	-151	-151	0
Net amount	221	87	134

ASSETS/LIABILITIES 2017	Derivative assets	Derivative liabilities	Total
Gross amounts			
Total in balance sheet	497	903	-406
Financial instruments	-281	-281	0
Net amount	216	622	-406

At the closing date, forward contracts with a positive market value amount to SEK 372 m (497), which is reported under other current receivables. Forward contracts with a negative market value amount to SEK 238 m (903), which is reported under other current liabilities. Of the outstanding forward contracts, gains of SEK 62 m (gains of 36) were transferred to the income statement when hedged transactions occurred for these contracts. The residual fair value of SEK 72 m (-442) is included in the hedging reserve in equity.

21. ACCRUED EXPENSES AND PREPAID INCOME

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Holiday pay liability	1,500	1,385	–	–
Social security costs	1,027	619	38	35
Payroll liability	1,968	1,577	0	0
Costs relating to premises	12,985	10,749	–	–
Other accrued overheads	5,687	4,718	115	107
Total	**23,167**	**19,048**	**153**	**142**

22. 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 50–52 and Drottninggatan 56 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö, Amagertorv 23 in Copenhagen, Oxford Circus and Regent Street in London, Kaufinger Strasse 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 371 m (384) for the financial year.

Karl-Johan Persson received remuneration in the form of salary and benefits amounting to SEK 13.8 m (13.7), which included variable remuneration of SEK 0 m (0), for work carried out during the 2018 financial year as CEO of H & M Hennes & Mauritz AB.

Outstanding balances with related parties as of 30 November 2018 totalled SEK 0.1 m (51.8).

See also note 7 for outstanding balances with board members.

23. INTEREST-BEARING LIABILITIES

2018	GROUP Interest rate % 30 Nov	GROUP In next 12 months	GROUP In next 1–5 years	GROUP More than 5 years ahead	PARENT COMPANY Interest rate % 30 Nov	PARENT COMPANY In next 12 months	PARENT COMPANY In next 1–5 years
Liabilities to credit institutions							
Nordic countries	0,012–0.80	8,750	9,136	–	0,012–0.80	6,000	9,113
Eurozone countries	0.00	–	1,034	–	–	–	–
Other countries	8.25–18.50	403	–	–	–	–	–
Liabilities, finance leases	0.21–1.53	136	305	17	–	–	–
Total		**9,289**	**10,475**	**17**		**6,000**	**9,113**

2017	GROUP Interest rate % 30 Nov	GROUP In next 12 months	GROUP In next 1–5 years	GROUP More than 5 years ahead	PARENT COMPANY Interest rate % 30 Nov	PARENT COMPANY In next 12 months	PARENT COMPANY In next 1–5 years
Liabilities to credit institutions							
Nordic countries	0.00–0,072	9,320	–	–	0,032	4,000	–
Outside Nordic countries	8.75–16.00	425	–	–	–	–	–
Liabilities, finance leases	0.21–1.53	125	329	21	–	–	–
Total		**9,870**	**329**	**21**		**4,000**	**–**

Reconciliation of liabilities attributable to financing activities

	2017	Cash flow change	Acquisition*	Exchange rate changes*	2018
Long-term borrowings	–	10,170			10,170
Short-term borrowings	9,745	-592			9,153
Lease liabilities	475	-126	69	39	457
Derivatives	406			-541	-134
Total liabilities from financing activities	**10,626**	**9,452**	**69**	**-502**	**19,646**

* Not affecting cash flow

24. APPROPRIATIONS

	PARENT COMPANY 2018	PARENT COMPANY 2017
Group contributions provided	-1,485	-340
Depreciation in excess of plan	16	12
Reversal of tax allocation reserve	305	–
Total	**-1,164**	**-328**

25. INTERESTS IN GROUP COMPANIES

All group companies are wholly owned.

2018	Corporate ID number	No. of shares	Book value	Domicile
Parent company's shareholdings				
H & M Hennes & Mauritz Sverige AB	556151-2376	1,250	0.1	Stockholm
H & M Online AB	556023-1663	1,150	0.6	Stockholm
H & M Hennes & Mauritz GBC AB	556070-1715	1,000	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
Total			**588.5**	

Cont. Note 25, Interests in group companies

2018	Corporate ID number	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 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 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 Belgium NV		Belgium
H & M Hennes & Mauritz Logistics GBC NV		Belgium
H & M NB Belgium NV		Belgium
H & M Hennes & Mauritz GesmbH		Austria
H & M Hennes & Mauritz Oy		Finland
H & M Hennes & Mauritz SARL		France
H & M Hennes & Mauritz Logistics GBC France		France
H & M Hennes & Mauritz LP		USA
Hennes & Mauritz SL		Spain
Hennes & Mauritz Customer Services SL		Spain
H & M Hennes & Mauritz sp. z.o.o.		Poland
H & M Hennes & Mauritz Logistics sp. z.o.o.		Poland
H & M Hennes & Mauritz Logistics 1 Sp.z.o.o		Poland
H & M Hennes & Mauritz CZ, s.r.o.		Czech Republic
Hennes & Mauritz Lda		Portugal
H & M Hennes & Mauritz S.r.l.		Italy
H & M Services S.r.l.		Italy
H & M Hennes & Mauritz Inc.		Canada
H & M Hennes & Mauritz d.o.o.		Slovenia
H & M Hennes & Mauritz (Ireland) Ltd		Ireland
H & M Hennes & Mauritz Kft		Hungary
H & M Hennes & Mauritz (Far East) Ltd		Hong Kong
Puls Trading Far East Ltd		Hong Kong
H & M Hennes & Mauritz Holding Asia Ltd		Hong Kong
H & M Hennes & Mauritz Ltd		Hong Kong
Hennes & Mauritz (Shanghai) Commercial Co Ltd		China
H & M Hennes & Mauritz (Shanghai) Trading Co Ltd		China
H & M Hennes & Mauritz (Shanghai) Garments & Accessories Co Ltd		China
H & M Hennes & Mauritz SK s.r.o.		Slovakia
H & M Hennes & Mauritz A.E.		Greece
H & M Hennes & Mauritz LLC		Russia
H & M Hennes & Mauritz TR Tekstil Ltd Sirketi		Turkey
H & M Hennes & Mauritz Ltd		South Korea
H & M Hennes & Mauritz SRL		Romania
H & M Hennes & Mauritz d.o.o. za trgovinu		Croatia
H & M Hennes & Mauritz PTE Ltd		Singapore
H & M Hennes & Mauritz EOOD		Bulgaria
Weekday Brands AB	556675-8438	Sweden
FaBric Sales AB & Co. KG Germany		Germany
H & M Hennes & Mauritz S.A de C.V.		Mexico
H & M Hennes & Mauritz Management S.A de C.V.		Mexico
H & M Hennes & Mauritz Servicios S.A de C.V.		Mexico
H & M Hennes & Mauritz Support S.A de C.V.		Mexico
H & M Hennes & Mauritz SIA		Latvia

Cont. Note 25, Interests in group companies

2018	Corporate ID number	Domicile
H & M Retail SDN BHD		Malaysia
H & M Hennes & Mauritz SpA		Chile
H & M Hennes & Mauritz OÜ		Estonia
H & M Hennes & Mauritz UAB		Lithuania
H & M Hennes & Mauritz d.o.o.		Serbia
H and M Hennes and Mauritz Proprietary Limited		South Africa
H & M Hennes & Mauritz Pty Ltd		Australia
H & M Hennes & Mauritz S.A.C.		Peru
H & M Hennes & Mauritz (Macau) Limited		Macau
H & M Hennes & Mauritz Retail Private Limited		India
H &M Hennes & Mauritz INC		Philippines
H &M Hennes & Mauritz New Zealand Limited		New Zealand
H &M Hennes & Mauritz Cyprus Limited		Cyprus
H & M Hennes & Mauritz Kazakhstan LLP		Kazakhstan
H & M Hennes & Mauritz Colombia S.A.S		Colombia
H & M Hennes & Mauritz Iceland ehf		Iceland
H & M Hennes & Mauritz Vietnam LLC		Vietnam
H & M Hennes & Mauritz Georgia LLC		Georgia
Hennes & Mauritz Uruguay S.A.		Uruguay
H & M Hennes & Mauritz LLC		Ukraine
H & M Hennes & Mauritz Bel LLC		Belarus
H & M Hennes & Mauritz B&H d.o.o.		Bosnia-Herzegovina

26. UNTAXED RESERVES

	PARENT COMPANY	
	2018	2017
Depreciation in excess of plan	96	112
Tax allocation reserve	–	305
Total	**96**	**417**

27. 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	
	2018	2017
Parent company's lease guarantees	12,432	11,406
Total	**12,432**	**11,406**

28. INTEREST INCOME, INTEREST EXPENSE AND SIMILAR ITEMS

The parent company's interest income and similar items consists of SEK 19 m (18) in interest income and SEK 78 m (0) in translation effects on receivables and liabilities from group companies.

The parent company's interest expense and similar items consists of SEK -44 m (-11) in interest expense and SEK 0 m (-80) in translation effects on receivables and liabilities from group companies.

29. EVENTS AFTER THE CLOSING DATE

No significant events have occurred since the end of the reporting period.

30. KEY RATIO DEFINITIONS

This report contains key financial ratios in accordance with the framework for financial reporting applied by the H&M group, which is based on IFRS. Other key ratios 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 key ratios 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 key ratios relating to growth, profitability and capital, share-based measurements and terms relating to capital on a continuous basis.

The key ratios and indicators used, referred to and presented in the reporting are defined as shown in the list below.

PROFIT AND YIELD MEASUREMENTS

Return on equity

	GROUP	
	2018	2017
Profit for the year	12,652	16,184
Average equity	59,130	60,475
Return on equity	**21.4%**	**26.8%**

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.

Return on capital employed

	GROUP	
	2018	2017
Profit after financial items	15,639	20,809
Interest expense	146	41
Average equity	59,130	60,475
Average interest-bearing liabilities	15,446	6,766
Return on capital employed	**21.2%**	**31.0%**

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.

Cont. Note 30, Key ratio definitions

Gross profit

	GROUP	
	2018	2017
Net sales	210,400	200,004
Cost of goods sold	-99,513	-91,914
Gross profit	**110,887**	**108,090**

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.

Gross margin

	GROUP	
	2018	2017
Net sales	210,400	200,004
Gross profit	110,887	108,090
Gross margin	**52.7%**	**54.0%**

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.

Operating profit

	GROUP	
	2018	2017
Net sales	210,400	200,004
Cost of goods sold	-99,513	-91,914
Selling expenses	-87,512	-80,427
Administrative expenses	-7,882	-7,094
Operating profit	**15,493**	**20,569**

Definition: Net sales minus all costs attributable to operations but excluding net financial items and tax.

Reason for use: Shows the result of operating activities.

Operating margin

	GROUP	
	2018	2017
Net sales	210,400	200,004
Operating profit	15,493	20,569
Operating margin	**7.4%**	**10.3%**

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

Reason for use: An indicator of operational profitability.

EBITDA

	GROUP	
	2018	2017
Operating profit	15,493	20,569
Depreciation and amortisation	9,671	8,488
EBITDA	**25,164**	**29,057**

Definition: EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). Operating profit before interest, taxes, depreciation and impairments.

Reason for use: A measurement that complements operating profit, since it shows the cash result of operations.

Cont. Note 30, Key ratio definitions

CAPITAL MEASUREMENTS

Share of risk-bearing capital

	GROUP	
	2018	2017
Equity	58,546	59,713
Deferred tax liability	5,088	5,331
Balance sheet total	118,790	106,562
Share of risk-bearing capital	**53.6%**	**61.0%**

Definition: Equity plus deferred tax liability in relation to the balance sheet total.

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

Equity/assets ratio

	GROUP	
	2018	2017
Equity	58,546	59,713
Balance sheet total	118,790	106,562
Equity/assets ratio	**49.3%**	**56.0%**

Definition: Equity in relation to the balance sheet total.

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

Capital employed

	GROUP	
	2018	2017
Equity	58,546	59,713
Interest-bearing liabilities	20,226	10,665
Capital employed	**78,772**	**70,378**

Definition: Equity plus interest-bearing liabilities.

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

Net debt

	GROUP	
	2018	2017
Provisions for pensions	445	445
Interest-bearing liabilities finance leases	458	475
Liabilities to credit institutions	19,323	9,745
Cash and cash equivalents	-11,590	-9,718
Net debt	**8,636**	**947**

Definition: Interest-bearing liabilities including pension liabilities less cash and cash equivalents as well as short-term investments.

Reason for use: To show the net value of interest-bearing assets and interest bearing liabilities.

Cont. Note 30, Key ratio definitions

SHARE-RELATED MEASUREMENTS

Equity per share

	GROUP	
	2018	2017
Equity	58,546	59,713
Number of shares, millions	1,655.072	1,655.072
Equity per share	**35.37**	**36.08**

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 current operations per share

	GROUP	
	2018	2017
Cash flow from current operations	21,287	21,587
Number of shares, millions	1,655.072	1,655.072
Cash flow from current operations per share	**12.86**	**13.04**

Definition: Cash flow from current operations for the period divided by the number of shares.

Reason for use: This indicator shows cash flow from current operations per share, which is significant for how the company can finance its investments.

P/E ratio

	GROUP	
	2018	2017
Price per share at closing day	167.64	197.10
Earnings per share	7.64	9.78
P/E ratio	**22**	**20**

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.

Signing of the annual report

The undersigned hereby provide an assurance that the annual report and consolidated accounts have been drawn up in accordance with IFRS international accounting standards, as adopted by the EU, with good accounting practice, and that they provide a true and fair view of the group's and the parent company's position and earnings, and also that the administration report provides a true and fair view of the development of the group's and the parent company's business, position and earnings, and also describe the significant risks and uncertainties faced by the companies making up the group.

Stockholm, 18 February 2019

Stefan Persson
Chairman 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

Ingrid Godin
Board member

Alexandra Rosenqvist
Board member

Karl-Johan Persson
Chief Executive Officer

Our audit report was submitted on 18 February 2019

Ernst & Young AB

Åsa Lundvall
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 1 December 2017 to 30 November 2018, with the exception of the sustainability report on pages 42–45. The annual accounts and consolidated accounts of the company are included on pages 36–74 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 2018 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 2018 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. Our opinion does not cover the sustainability report on pages 42–45. 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, with the exception of one service with very limited scope, which has been terminated and reported to the Audit Committee.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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. For each matter to the right, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our

INCOME TAXES

Description of matter

Accounting for income taxes is subject to complex tax legislation that require interpretations and assessments by H&M. These interpretations may be questioned by various tax authorities and courts. H&M conducts operations in a significant number of countries and tax jurisdictions. The pricing of cross-border transactions and consequently how the taxable profit is distributed between the countries is determined by the transfer pricing model developed by the company. From time to time entities within the company are subject to ongoing tax proceedings that may range from tax audits to tax litigations at multiple levels of the court systems. The company evaluates the expected outcome of tax proceedings in progress on a continuous bases. Where it is likely that additional tax will have to be paid and outcome can be reasonably estimated, necessary provisions are made.

The evaluation of the expected outcome of ongoing tax proceedings requires assumptions and assessments that are complex by nature. Changes in assumptions and assessments may have a material effect on the financial statements, and consequently income taxes is considered a key audit matter.

Information related to the company's accounting for income taxes is found in note 1 (section "Estimates, assumptions and assessments") and note 11 ("Tax").

Considerations of the matter in the audit

Our audit included, among other things, the following audit procedures:

- Review of the completeness and valuation of the amounts reported as current and deferred tax, among other things by reviewing tax calculations.
- Review of the company's transfer pricing model and evaluation whether the company has complied with the model.
- Review of the company's assumptions and assessments concerning the outcome of ongoing tax proceedings and tax risks. We have included tax professionals as part of our audit.
- Assessment of appropriateness of disclosures provided in the financial statements.

VALUATION OF STOCK-IN-TRADE

Description of matter

As at 30 November 2018 H&M's stock-in-trade amounts to SEK 37,721 million, corresponding to 32% of the Group's total assets, spread across central warehouses and retail stores. Stock-in-trade is valued at the lower of cost and net realisable value. The net realisable value is the estimated market value less calculated selling expenses. Goods that have not yet arrived at a store are valued at their actual acquisition cost including the estimated cost of customs duties and freight. For stock in the stores, cost is determined by reducing the selling price by the calculated gross margin.

Estimating the net realisable value requires assumptions and assessments concerning future events which are subject to uncertainty. Calculating the cost of customs duties and freight also requires assumptions. Changes in assumptions and assessments may have a material effect on the financial statements, and consequently valuation of stock-in-trade is considered a key audit matter.

Information related to the company's valuation of stock-in-trade is found in note 1 (the section "Estimates, assumptions and assessments") and note 15 ("Stock-in-trade").

Considerations of the matter in the audit

Our audit included, among other things, the following audit procedures:

- Review of the company's processes and procedures for stock accounting, including the company's procedures and assumptions used in the calculation of accrued costs for customs duties and freight.
- Review of the reported acquisition cost on a sample basis.
- Analysis of the company's assessment of net realisable value, as well as review of assumptions and calculations for stock obsolescence.
- Review of elimination of internal profits in stock at group level.
- Assessment of appropriateness of disclosures provided in the financial statements.

report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters stated on the previous page, provide the basis for our audit opinion on the accompanying financial statements.

Information other than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 4–35 and 78. The board of directors and the CEO 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 stated on the previous page, 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 CEO

The board of directors and the CEO 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 CEO 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 CEO 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 CEO 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 skepticism 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 CEO.
- Conclude on the appropriateness of the board of directors' and the CEO'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, related safeguards.

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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 CEO of H & M Hennes & Mauritz AB (publ) for the financial year 1 December 2017 – 30 November 2018 and the proposed appropriation of the company's profit or loss.

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

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 CEO

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 CEO shall manage the ongoing administration according to the board of directors' guidelines and instructions and among other matters take measures that are necessary to fulfill 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 CEO 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 skepticism 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.

Auditor's opinion regarding the statutory sustainability report

The board of directors is responsible for the sustainability report on pages 42–45 and for ensuring that it is prepared in compliance 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 sustainability report has a different focus and is 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 our examination provides a reasonable basis for our opinion.

A sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of H& M Hennes & Mauritz AB by the general meeting of shareholders on 8 May 2018. Ernst & Young AB and auditors within the audit firm have been elected since before 17 June 1994. Under the current regulations, Ernst & Young AB cannot be reappointed after 16 June 2020.

Stockholm, 18 February 2019
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Annual general meeting

TIME AND PLACE

The 2019 annual general meeting will be held at 3 p.m. on Tuesday 7 May 2019 in the Erling Persson Hall, Aula Medica, Karolinska Institutet, Solna.

Shareholders who are registered in the share register printout as of Tuesday 30 April 2019 and give notice of their intention to attend the AGM no later than Tuesday 30 April 2019 will be entitled to participate in the AGM.

NOMINEE SHARES

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own name in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, well in advance of 30 April 2019.

NOTICE OF ATTENDANCE

Shareholders must provide notice of their intention to participate in the AGM by post, telephone or via H&M's website to:

Shareholders must provide their name, civil identity number and telephone number (daytime) when providing notice of their intention to participate.

H & M Hennes & Mauritz AB
Attn: Annual general meeting
SE-106 38 Stockholm
Telephone: +46 (0)8-796 55 00,
preferably between 08.00–17.00,
stating notice of attendance at the AGM
about.hm.com/agm

DIVIDEND

The board of directors has decided to propose to the annual general meeting on 7 May 2019 a dividend of SEK 9.75 per share for the 2017/2018 financial year. The board of directors proposes that the dividend is to be paid in two instalments during the year – in May and in November.

The record date proposed for the first dividend payment of SEK 4.90 per share is 9 May 2019. With this record day, Euroclear Sweden AB is expected to pay the dividend on 14 May 2019.

To be guaranteed dividend payment, the H&M shares must have been purchased no later than 7 May 2019. Ex-dividend day is 8 May 2019.

The record date proposed for the second dividend payment of SEK 4.85 per share is 12 November 2019. With this record day, Euroclear Sweden AB is expected to pay the dividend on 15 November 2019.

To be guaranteed the second dividend payment, the H&M shares must have been purchased no later than 8 November 2019. Ex-dividend day is 11 November 2019.

Financial information

CALENDAR

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

29 March 2019	Three-month report
7 May 2019	Annual general meeting 2019 in the Erling Persson Hall, Aula Medica, Karolinska Institutet, Solna at 3 p.m.
27 June 2019	Six-month report
3 October 2019	Nine-month report

Contact details

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DISTRIBUTION POLICY

The H&M group sends out the printed version of the annual report to shareholders who have specifically expressed an interest in receiving the printed version. The annual report is also available to read and download at about.hm.com.

For information about the H&M group's various brands see:
hm.com
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stories.com
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COVER
H&M Conscious Exclusive, spring 2019, photographed by Josh Olins.

The annual report is printed on FSC® certified paper.

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* Cheap Monday will be closed down in 2019.


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