

CEO letter

Before summing up the year 2021, at the time of writing I would like to begin by expressing the company's deep concern over developments in Ukraine and extending our sympathy to all those affected. We care about all our colleagues and join all those around the world who are calling for peace. At the present time we have temporarily paused all sales in Ukraine, Russia and Belarus.



2021 – a strong recovery

The H&M group's recovery continued in 2021. Although sales were negatively affected by restrictions associated with the pandemic, customers showed clearly that they appreciate our offering. We ended the year with good sales development, greatly improved profits and in a strong financial position.

At the end of 2021 sales were back at the same level as before the pandemic and profitability was better than for several years, despite supply chain disruption and other geopolitical challenges. The H&M group's net sales in local currencies increased by 12 percent in the 2021 financial year. Earnings after financial items amounted to SEK 14,300 million.

I would like to thank all colleagues in the group for their efforts over the past year. Our strong culture with our shared values has been important for our ability to manage the challenges during the pandemic, which contributed to the good recovery. Our colleagues everywhere in the organisation have demonstrated great commitment and worked to meet customers' expectations despite the challenges, restrictions and lockdowns due to the pandemic. The increase in profits also means that we have been able to contribute a further SEK 224 million to the H&M Incentive Program, our incentive scheme for all employees of the H&M group.

CEO letter

Our customer offering and our stores

To meet customers' ever-increasing expectations, we are continuing to develop the customer offering for all our unique brands by offering customers the best combination of fashion, quality, price and sustainability. Demand for good value and sustainable products is expected to grow and our customer offering is well positioned for this. We develop the customer offering constantly by broadening the assortment and expanding the range of services for a more sustainable lifestyle. Engaging our customers in various ways allows us to build long-term, value-creating relationships and attract even more customers around the world. Among other things, customers can today carry out repairs, rent clothes or buy and sell second-hand.

Our physical and digital sales channels complement and strengthen each other. We are continuing our work to integrate the channels further in order to create a shopping experience that is as smooth and inspiring as possible. Alongside our continued initiatives for digital growth, we are intensifying our work to ensure that the store portfolio is optimised.

Product flow initiatives

For many years we have been working to make the supply chain faster, more efficient and more flexible – and this has benefited us during the pandemic. The significant investments we have made in tech, AI, advanced analytics and logistics enable us to always have the right product in the right place at the right time and at the right cost.

Continually enhancing our improved accuracy is not just good for the customer offering, but also contributes to a more sustainable use of resources.

Integrated sustainability

In 2021 we took further steps to improve sustainability in all parts of the business. For example, we continued to increase the share of recycled or otherwise more sustainably produced materials in the collections, with the percentage of recycled materials tripling; we further improved product transparency for customers using the Higg Index tool; we launched the "Circulator" circular design tool; and we reduced scope¹ and 2 carbon emissions by 22 percent and scope 3 emissions by 9 percent in absolute figures compared with 2019.

Our sustainability efforts were recognised on various occasions during the year, including being ranked second in the Fashion Transparency Index of 250 fashion brands. We were also appointed as UN Global Compact LEAD for our commitment to the UN Global Compact and its Ten Principles for responsible business.

This year is the first year that we at the H&M group are integrating our annual and sustainability reports. This is an important step, but also a natural development since sustainability has been an integral part of our business for a long time. One example of this is the sustainability targets highlighted in conjunction with our full-year report for 2021, when we communicated that by no later than 2030 the H&M group will

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HELENA HELMERSSON, CEO

double sales while at the same time halving its carbon footprint. Profitability is to exceed 10 percent over time.² Continued focus on customers, investments, partnerships and innovations are important for achieving our ambitious goals.

Investments in tech and sustainability

Our financial strength and long-term approach give us the ability to invest in innovations within tech, materials and sustainable initiatives, with an ambition to lead the change in the fashion industry towards becoming circular and renewable. We are constantly evaluating investments and acquisitions that could contribute to our continued sustainable growth. Through our investment arm Co:lab we have around 20 investments in new companies – such as Re:newcell, Ambercycle and Infinitid Fiber, which is developing new techniques within textiles recycling. These companies' solutions are now being scaled up and by investing early, we have secured access to these innovative sustainable materials.

Outlook

We remain focused on developing the customer offering and delivering the best combination of fashion, quality, price and sustainability. We are proud that our strong recovery continued in 2021 with much appreciated collections and products, continued customer focus and strong relations with our partners.

At the time of writing, however, we are deeply concerned about the course of events in Ukraine and our thoughts go out to all those affected. We are monitoring developments closely and doing all we can to help people as much as possible. The H&M group, the H&M Foundation and the Erling Persson Foundation have donated millions of kronor as well as clothing and other essentials to organisations such as UNHCR, Save the Children, the Red Cross and UNICEF. We join all those around the world who are calling for peace.



Helena Helmersson, CEO
H & M Hennes & Mauritz AB

¹ Scope 1: All direct greenhouse gas emissions from our own operations. Scope 2: Indirect greenhouse gas emissions from the consumption of purchased electricity, heat or steam used in our own operations. Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in scope 2, outsourced activities, waste disposal etc. Includes emissions related to raw materials, fabric production, garment making, manufacture of other products and consumption of electricity by customers. Scope 3: In 2021 we continued the efforts to improve the accuracy of the scope 3 emissions data. This has resulted in certain changes in our reported emissions compared with previous years. Read more about the updated scope 3 emissions data on page 63 of the statutory sustainability report. The customer use phase is not included in the scope 3 element of this target.

² The baseline for the sales goal is 2021. The H&M group's goal is to reduce its carbon footprint in absolute figures by 56 percent by 2030 (baseline 2019), in accordance with our commitment at COP26. Profitability refers to operating profit in relation to sales. The ambition is to achieve the profitability target no later than 2024. The H&M group's target to increase sales by 10–15 percent per year with continued high profitability remains a long-term target.

Treadler

Treadler is a B2B service that enables clients to utilise the group's supply chain. Through Treadler, clients can explore services in product development, production, logistics and more. Clients can reap the benefits of our extensive experience, long-term supplier relationships and strategic sustainability investments. This way, more companies can be part of creating a more sustainable textile industry.

treadler.com

Singular Society

Singular Society is subscription-based and offers a selection of premium products within apparel and homeware. For a monthly fee, members are given access to life essentials at the price of what they cost to make.

singular-society.com

Sellpy

Founded in 2014, Sellpy has grown into a broad digital platform for second-hand fashion and other products. With its vision of enabling everyone to consume and live in a more circular way, Sellpy has created a unique service that makes it easy for people to buy and sell second-hand items.

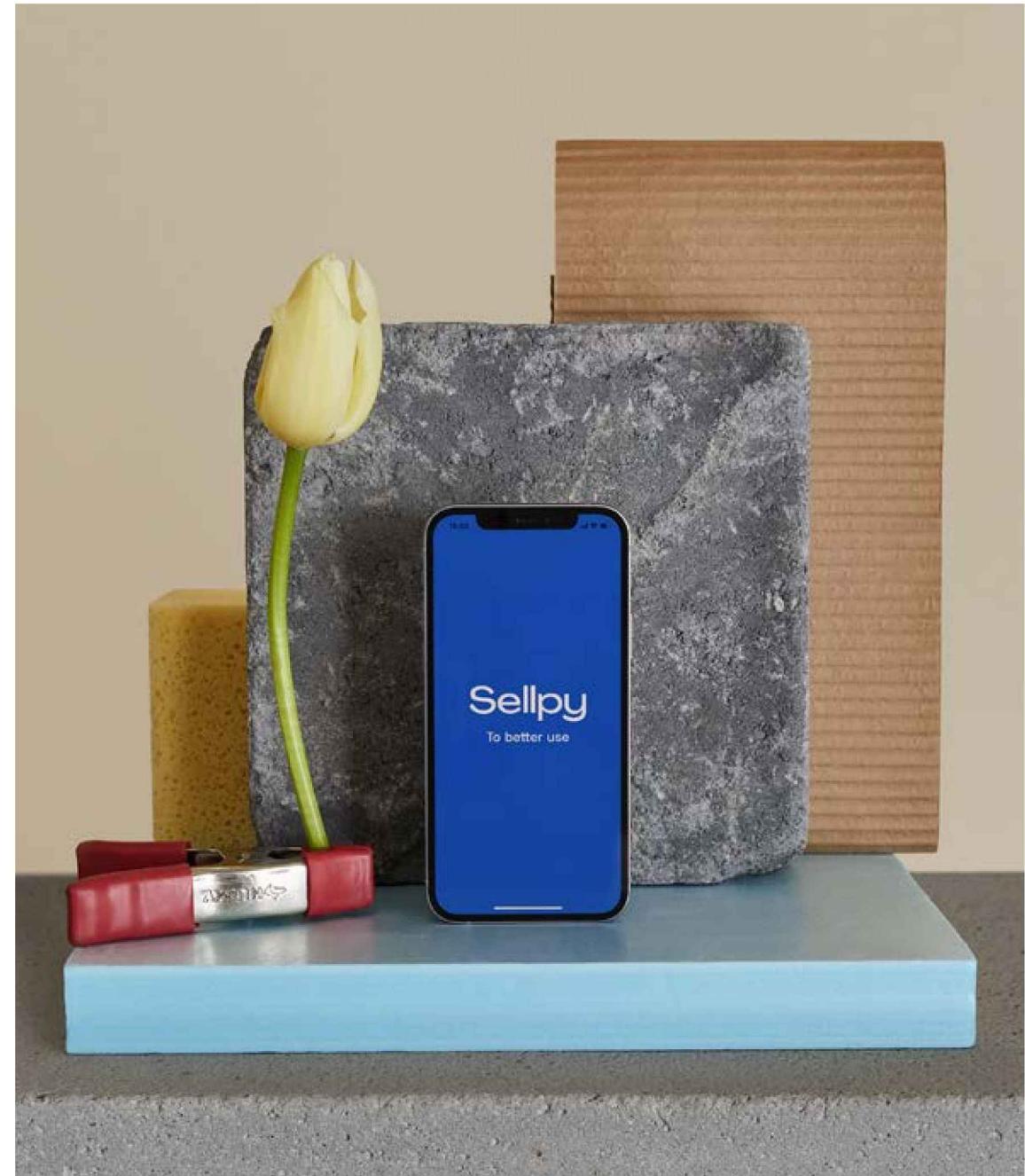
H&M Group has been the majority owner of Sellpy since 2019. Following its expansion during 2021 into 22 European markets, Sellpy is currently available in 24 markets including Sweden.

sellpy.com

Creator Studio

Creator Studio is a new B2B service offering on-demand print services. This global platform for the merchandise industry allows external brands and content creators to offer good quality merchandise by utilising the H&M group's lean production process, international logistics networks, advanced made-to-order digital printing and integrated e-com setup.

creatorstudio.com



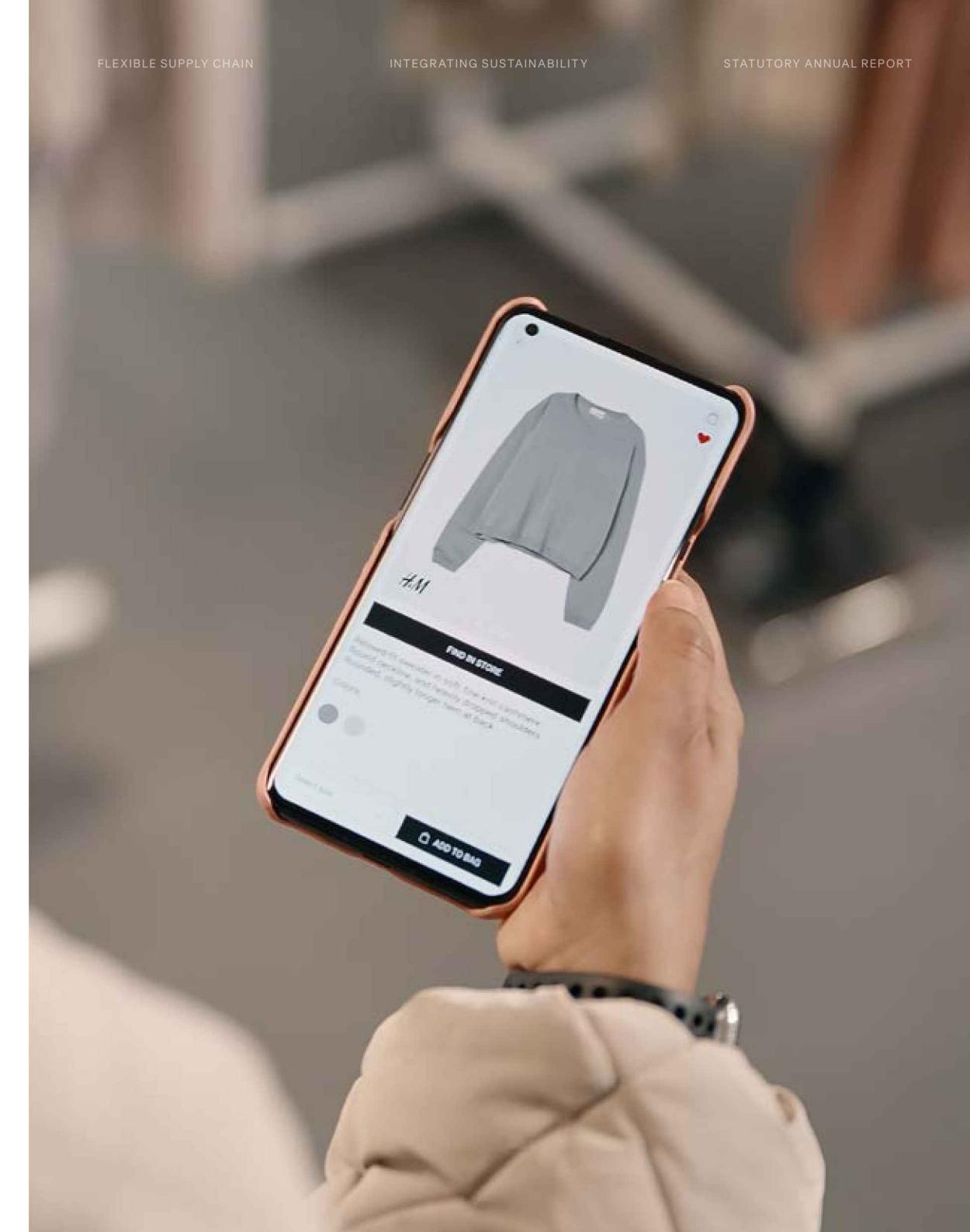
Our omni-model elevates the customer experience

The H&M group's brands and business ventures reach customers around the world. Wherever, whenever and however customers want to meet us – in our stores and all digital touchpoints such as our websites, apps, social media and in digital marketplaces – we want to offer a convenient and inspiring experience in which the channels interact and strengthen each other, facilitating a holistic customer journey.

Our expansion is taking place with a focus on omni-channel growth. Physical and digital channels are therefore being increasingly integrated, and the store portfolio is being further optimised to ensure a relevant presence and format and the best experience for our customers in each market.

We are building long-term, value-creating relationships that stretch far beyond a single product by engaging our customers more in various ways. We work towards circularity across the entire value chain, with circular products, supply chains and customer journeys. We are continually enhancing the customer experience by for example offering innovative services such as garment rental, second hand, repairs, alterations and climate-smart deliveries – all to help customers live a more sustainable lifestyle.

Demand for good value, sustainable products and services is expected to further grow in the wake of the pandemic and our customer offering is well positioned for this. Through our work to lead the change towards circular and climate positive fashion, we are increasing the share of recycled and more sustainably sourced materials and we are developing new revenue streams.

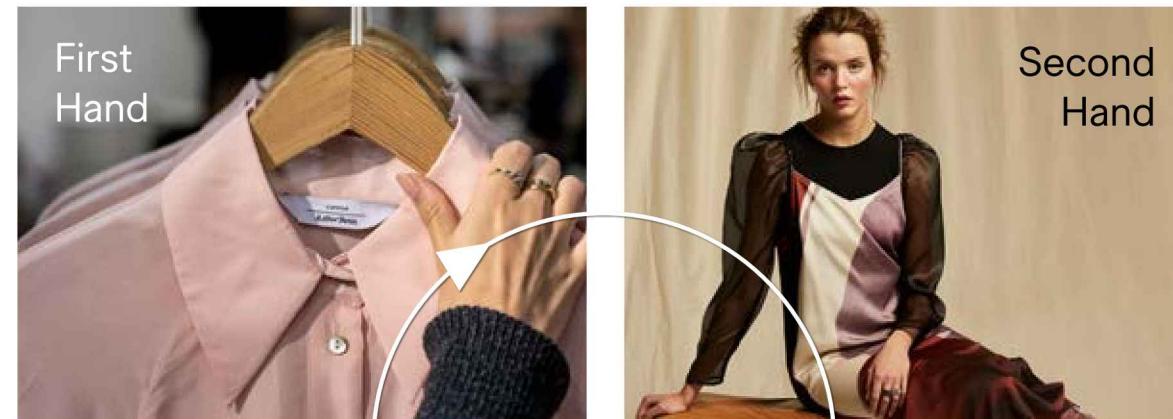


Our circular customer journey

By offering a more circular customer journey we support customers with services throughout their garment's entire lifespan: from first-hand to second-hand, from a second chance to a second life. Our circular services include re-sell, remake, repairs, garment rental, and garment collecting for textile recycling and more.

By extending the lifecycle of materials and products we increase value for customers and make a sustainable lifestyle accessible to more people, thereby reducing resource dependencies.

First Hand: Our brands offer customers garments that are made from recycled and more sustainably sourced materials and are designed using a circular design and product development process.



Second Life: If the garment is too worn to repair or resell, customers can take it to the garment collecting point available in our stores. The textiles can then be recycled to create new fibres and garments.



Second Hand: If a customer does not need the garment anymore, they can give it an extended lifespan by selling it through Sellpy, a digital platform for second-hand fashion and other products. H&M Group has been the majority owner of Sellpy since 2019.

Second Chance: Customers can repair their garments in the H&M stores that offer repair services.

Stores

We continuously develop our store portfolio to ensure that we have the right store with the right format in the right place. Our stores, which are located in the most prominent shopping areas, are a great asset where we meet our customers in real life every day. The stores play a vital role in our relationship with our customers, being a shopping and fashion destination, inspirational as well as brand building, where the customers can physically explore and experience our brands. Customers tell us that they appreciate the stores for proximity, availability and the opportunity to try on clothes, create looks and find their perfect fit. Alongside continued focus on digital growth, we are intensifying our work to ensure a relevant store portfolio that meets customers' needs in interaction with our digital channels. In addition, the role of the physical stores has evolved to become an important part of the supply chain, especially within last mile options, where customers can combine shopping with services like click and collect, pick-up in store and online returns. Altogether this provides a smooth and flexible shopping experience.

We build and operate our stores in a sustainable and resource efficient way, and thereby protecting natural resources. Our Circular Built Environment Strategy prioritises resource optimisation, helping to reduce our carbon footprint. It requires us to design and build stores based on circular principles — reduce, reuse, repair and recycle — and to use only recycled or other more sustainably sourced materials. In order to achieve our ambitious sustainability goals, we work closely with all our business partners.

We are growing through an omni perspective, which means combining and integrating digital and physical stores in the best possible way. To always have a healthy and relevant store portfolio we make sure we optimise the space and format, which also involves rebuilds and adjusting the number of stores, to ensure we have the best store portfolio in each market. The group's contracts allow around a third of leases to be renegotiated or exited each year. In 2021 we opened 104 (129) new stores and closed 321 (187) stores. This resulted in a net closure of around 217 stores. We had 4,801 stores in 75 markets at the end of the financial year. Most of the openings in 2022 will be in growth markets, while the closures will mainly be in established markets.



Flexible supply chain

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Production, logistics and distribution

We always listen to our customers, to understand their expectations and needs so that we can offer them the products they want — always with the best combination of fashion, quality, price, sustainability, speed and flexibility.

Our value chain extends from design and production all the way to the customer. Our buying teams always strive to make the most sustainable choices of materials and processes, such as buying the right product from the right market at the right time, at the right cost and on the right terms. We have set up internal carbon pricing to guide our organisation to minimise carbon emissions when making decisions about which materials, production processes and modes of transport to use. Read more about in our [Sustainability Disclosure](#). Our long-term and close relationships with suppliers mean that we can react quickly to changing customer demands and trends.

Our supply chain is the part of the value chain that covers production, logistics and distribution. Speed, flexibility and differentiated product flows in the supply chain ensure the best customer offering with a high degree of local relevance. This makes it possible to react quickly to trends and demand and produce with short lead times.

Our tech drive involving AI, new distribution systems and highly automated logistics centres is an important part of our work. Combined with more efficient processes, this increases our precision – i.e. quantification, allocation, pricing and personalisation – and thereby contributes to leaner production and a more sustainable use of resources. Our demand-driven supply chain always strives to find the optimal flow of goods with the lowest environmental impact and highest customer satisfaction. Speed, availability, cost efficiency and accuracy are decisive key factors for achieving this.

During the pandemic we showed that we are responsive and fast. Together with our suppliers and other partners, we have managed challenges in the supply chain. We have been able to quickly adjust volumes, sales channels and markets based on changes in customer demand and unexpected events. It works both ways: we can increase quickly but can also scale back the volumes quickly. Flexibility has been a vital enabler during the pandemic and is expected to be even more important going forward.

It is important to have a flexible, efficient and fast supply chain. Our supply chain is built on partnership, mutual trust and fair purchasing practices. We have long-term strategic partnerships and maintain a close dialogue with our suppliers through our production offices located across sourcing markets. Together with our suppliers we are addressing environmental and social impacts in our supply chain. Significant parts of our total climate footprint occur in our supply chain, particularly in raw materials production, as well as in fabric manufacturing and processes

like dyeing and washing. These are also often water-intense processes and have an impact on water resources.

Together with our suppliers and other partners, we can make important contributions to reducing climate and other environmental impacts and can contribute to improved way of living for people and their communities, as we further improve resource efficiency and skill sets and create a flexible, circular and resilient supply chain.

AI, advanced data analytics and demand-driven production improve both efficiency and local relevance.

Having flexible, efficient and fast logistics and distribution for example last mile solutions are essential to offer the best customer experience. Our flexible range planning and efficient distribution ensure that both the latest trends and timeless classics can always be found in our stores and online at the best price.



Recycled, regenerated and more sustainably sourced materials

The fashion industry depends on limited natural resources, with an inevitable impact on the planet. Reducing dependency on such limited resources and instead developing new sources creates business advantages and reduces impacts on the planet.

Moving from virgin materials with a high environmental impact to recycled, regenerated and more sustainably sourced ones is therefore important for our long-term sustainable growth. By investing in and scaling production of innovative materials we are guaranteed access, while having a stake in the pioneering companies that can create new revenue streams. Investments in this area can also mitigate future risks connected to resource scarcity and reduce our carbon footprint.

Our goal is for 100 percent of our materials to come from recycled or other more sustainable sources by 2030. An important step towards achieving 30 percent recycled materials by 2025 is that some of our collections are made of materials using new garment recycling technology – a new ground breaking technology. The material Circulose®, made from recycled cotton waste, was developed by Renewcell, a textile recycling company. We are one of the shareholders and have a multi-year contract for the supply of Circulose® material. Another example is the Infinited Fiber Company. In 2021 we led a new investment round in the company and signed a multi-year agreement to secure access to its regenerated textile fibre Infinna™.

To support the development of such new recycling technologies is a strategic continuation of our in-store collecting initiative for used garments and home textiles, from any brand and in any condition, for reuse and recycling on a global scale. Customers appreciate our garment collecting initiative and in 2021 customers handed in 15,944 tonnes of textiles. This figure is lower than in previous years due to the Covid-19 pandemic and consequent restrictions in stores impacting our garment collecting initiative across the whole year.

We work with suppliers that share our sustainability vision for a more sustainable fashion industry. We require all suppliers and business partners to sign and comply with our Sustainability Commitment and Code of Ethics.

Renewable energy

H&M Group's goal is to reduce its greenhouse gas emissions in absolute figures by 56 percent by 2030 (baseline 2019)¹. As one part of this we are working to source 100 percent renewable electricity in our own operations and to increase the use of renewable electricity among our partners and suppliers. Through long-term partnership with renewable energy platform we aim to contribute to continued de-carbonisation.

To achieve our 100 percent goal we will continue to work towards a balanced portfolio of Energy Attribute Certificates, power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaics.



¹Emissions from the customer use phase are not included in the scope 3 part of this goal, to fully align with the target boundary requirements of the SBTi Net-Zero Standard.

Fair jobs and positive social impacts

Our tier 1 and 2 production supply chains alone contributes to the employment of around one and a half million people. It's our responsibility to respect and work to advance the human rights and working conditions of the people working for our suppliers and ensure they know their rights. We collaborate to improve industry wide working conditions, particularly with respect to wages and worker representation. Together with our suppliers and other partners, we can make important contributions to improving the livelihood of millions of people and their communities — as well as reducing climate and other environmental impacts. At the same time, we can further improve resource efficiency and skill sets and create a flexible, fast and resilient supply chain. These are some of the reasons why our supply chain is a strong focus area in our sustainability strategy.

Our focus is on ensuring fair jobs with fair compensation¹ and benefits in safe, secure workplaces free from discrimination, where everyone has the right to freedom of association and equal opportunities to develop. Our approach is informed by the International Labour Organization's definition of decent work, our Human Rights Policy and the UN Guiding Principles for Business and Human Rights, among other things. We conduct stringent due diligence of our supply chain. As part of this, we assess not only our salient human rights issues on an annual basis, but also the long-term risks and impacts – such as what a shift to a more digital, circular and climate positive value chain could mean for future work.

Logistics and distribution

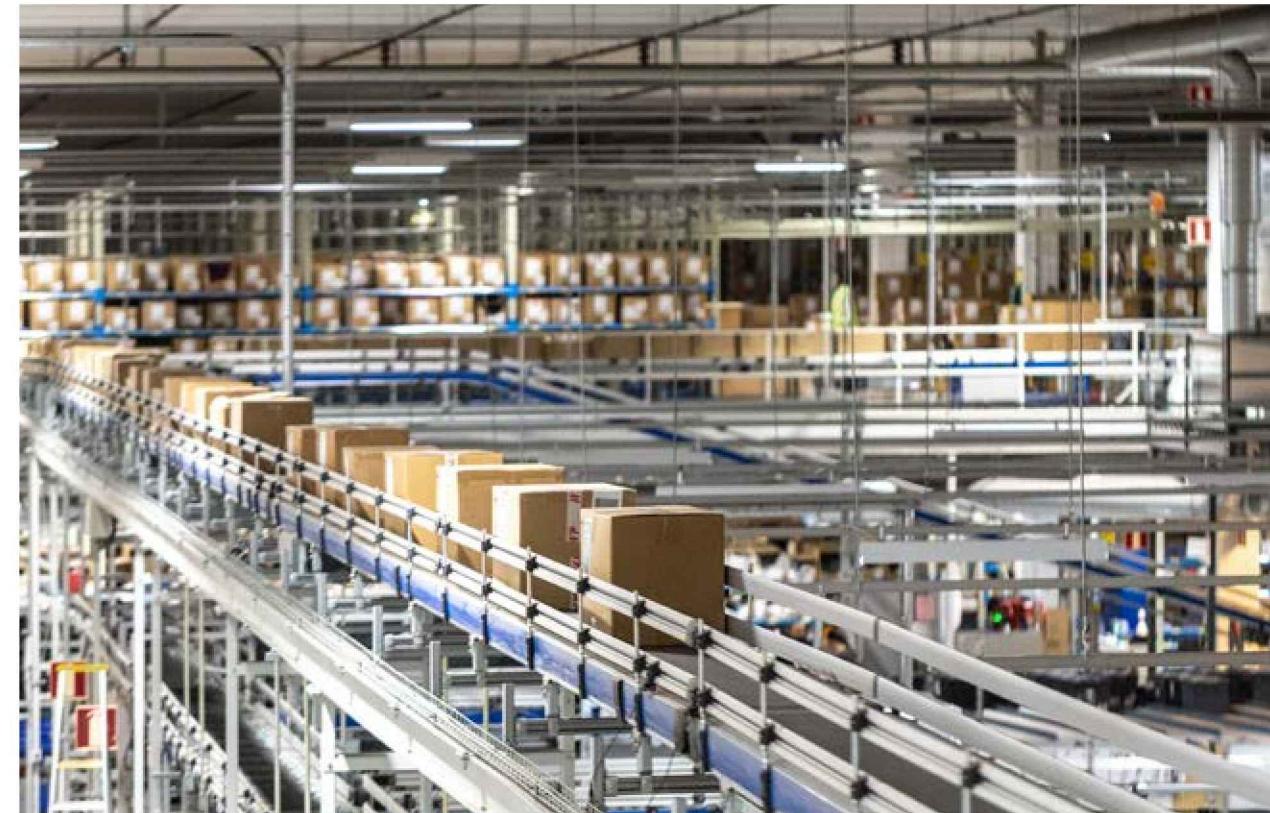
There is a constant focus on optimising transport by choosing the most optimal equipment and filling transport units to the maximum. This leads to a reduction in shipped transport units, thereby lowering our CO₂e emissions.

We work solely with ocean carriers that are verified according to the Clean Cargo Working Group protocol. Within air freight we are active members of the Sustainable Air Freight Alliance, driving the environmental agenda to reduce CO₂e emissions from air freight and promote responsible freight transport. Emissions are tracked on a quarterly basis via upload of shipment data by each transport service provider.

Over the last two years we have purchased eco-fuel for a significant share of our ocean transports, making H&M one of the biggest buyers of ECO Delivery amongst shipping line Maersk's customers.

An important part of our omni model is the group's logistics systems and investments within tech and AI. Several initiatives involving new highly automated logistics centres with a focus on innovation are in progress globally. This creates additional capacity, flexibility and speed between sales channels as well as increasing assortment availability.

In the US two highly automated logistics centres have been taken into use in the past year. We have a highly automated logistics centre in Perris



outside Los Angeles on the West Coast and a further highly automated logistics centre was put into operation in Robbinsville, New Jersey, on the East Coast in the first half of 2021. A new highly automated logistics centre is under construction in Ajax, Canada. The new logistics centre is scheduled for completion in late 2022/early 2023.

You can read more about our partnerships and our work in our [Sustainability Disclosure](#).

Reusable, plastic-free packaging

We are striving to reduce packaging throughout our supply chain, focusing on reducing plastics. For 2025 one of our goals is to design 100 percent of our packaging to be reusable and/or recyclable. We have a new system of reusable bags made of FSC-certified paper and this will be continuously rolled out to all the brands online deliveries.

¹ Read about how we define fair wages at <https://hmgroup.com/sustainability/fair-and-equal/wages/>

Integrating sustainability

Sustainability is an integral part of our business and has been part of our business idea for many years. To be able to drive positive change throughout the value chain it is important that everyone is pulling in the same direction. Each brand, retail market, production market and group function works to drive performance towards our sustainability goals.

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Sustainable fashion and design for everyone

We offer customers the best combination of fashion, quality and sustainability at affordable prices and thereby give them unbeatable value and the ability to access a more sustainable lifestyle.

Sustainability is business critical and creates business opportunities. We can only tackle the global climate crisis by working together with all stakeholders, including our customers, colleagues, suppliers, other business partners, shareholders and the communities we are a part of. As a responsible company our ambitious sustainability vision, strategy and goals are well integrated into our business and built on collaboration. The more we use our size and influence to make a positive impact, the more we can grow and create value in a sustainable way.



Our sustainability strategy

Our sustainability vision

H&M Group wants to lead the change towards a circular and climate positive fashion industry while being a fair and equal company. This means, among other things, maintaining the diversity and inclusion needed to attract, retain and make the most of available talent and also to ensure respect for human rights across our value chain.

Working towards our sustainability vision is a way of further future-proofing our business. Continued investments in sustainability provide the group with long-term business opportunities in a rapidly changing world.

Our ambition is to enable more people to choose a sustainable lifestyle and the group aims to create a positive correlation between profitable growth and a greater positive impact on customers, colleagues, business partners, their employees and other stakeholders while respecting planetary boundaries.

H&M Group's sustainability strategy is based on our sustainability vision and contains three key ambitions:



Leading the Change

- Scale innovation
- Promote transparency
- Engage and partner for industrywide progress



Become a Circular and Climate Positive Business

- Climate positive approach across our value chain, operating within planetary boundaries
- Net positive impact on biodiversity¹
- Circular ecosystem for our products, supply chains and customer journeys



Fair and Equal

- Fair jobs for all
- Inclusive and diverse workplaces and communities

¹ Our ambition to have a net positive impact on biodiversity is based on the definition of nature-positive in the naturepositive.org paper: A Nature Positive World: The Global Goal for Nature.



Key sustainability goals

To achieve this vision we have defined a wide range of further detailed strategies, policies and targets. Here are our key sustainability goals.

All these goals are very ambitious, and we are working hard to achieve them together with our suppliers and partners. We cannot solve this ourselves; the whole industry must contribute. Today there are many good ideas and innovations under development to solve complex environmental issues. However, more innovative ideas and initiatives are needed to achieve change.

Read more about our goals, along with information about performance against these goals, strategic plans and actions for achieving the goals on pages 63–71 as well as in our [Sustainability Disclosure](#).

1) Scope 1: All direct GHG emissions from our own operations.

2) Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations.

3) Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in scope 2, outsourced activities, and waste disposal. Includes emissions related to raw materials, fabric production, garment manufacturing, non-garment/non-commercial goods, and customer electricity usage.

Our scope 3 emissions data: In 2021 we continued work to improve the accuracy of our scope 3 emissions data. This has led to some changes to our reported emissions compared to previous years. Read more about our updated scope 3 emissions data on page 66 in the statutory sustainability report.

4) The customer use phase is not included in the scope 3 part of this goal.

Climate

2022: From January 1, 2022, we will not onboard any new suppliers or supplier factories into our supply chain if they have on-site coal boilers in their factories — as part of a longer term aim to phase out coal from our supply chain.

2030: Reduce CO₂e emissions in scope 1¹, 2² and 3³ in absolute figures by 56 percent (baseline 2019).⁴

Achievement 2021: -22 percent within scope 1 and 2 and -9 percent within scope 3.

2030: Use 100 percent renewable electricity in own operations, raising the bar on our energy sourcing criteria.

Achievement 2021: 95 percent

Materials and resources

2025: Source 30 percent recycled materials.

Achievement 2021: 17.9 percent

2030: 100 percent of our materials to be either recycled or sourced in a more sustainable way

Achievement 2021: 80 percent

Packaging

2030: Make 100 percent of packaging from recycled or other more sustainably sourced materials, with a preference for post-consumer recycled materials.

Achievement 2021: 68 percent



Collaboration and innovation are key

It is only possible for us to achieve our strategic goals by collaborating with our many stakeholders. Maintaining strong relationships with our stakeholders helps us identify innovative ways to create fashion for our customers, drive innovation, and develop more sustainable materials and new business models.

Collaborating with others is also a way of meeting challenges faced by our industry and the planet. In order to solve complex issues like climate change or wages in the supply chain, for example, we collaborate with other businesses, leading experts, civil society, community representatives, NGOs, trade unions, policy makers and more. We welcome an open dialogue and collaboration with others within and outside our industry. Engaging with diverse perspectives challenges us to do better, accelerates innovation and supports our transparency efforts. Partnerships help us progress towards our sustainability ambitions faster than we could alone and have a positive impact beyond our own value chain.

95 percent of electricity sourced for our own operations was renewable (90 percent in 2020). This is due to an increase in our purchase of Energy Attribute Certificates. To achieve our 100 percent goal we will continue to work towards a balanced portfolio of Energy Attribute Certificates, power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaics.

