

# CORPORATE GOVERNANCE REPORT

## H & M Hennes & Mauritz AB 2012

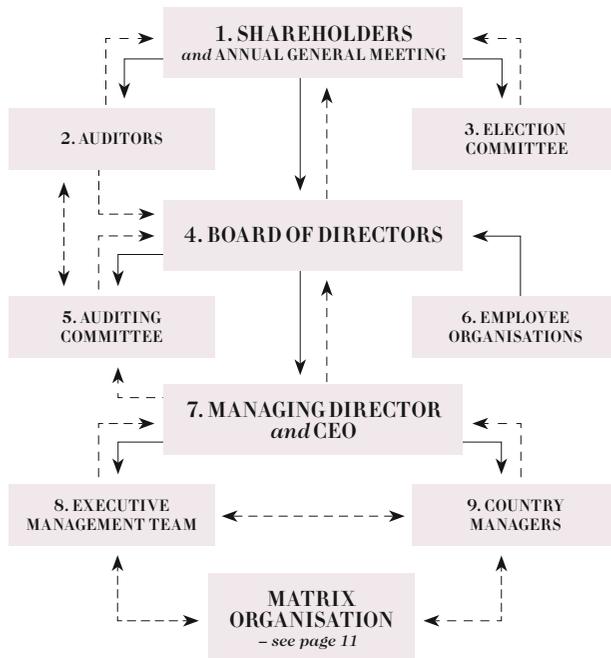
Good corporate governance is about ensuring that companies are managed as efficiently as possible in the interests of the shareholders.

*H&M applies the Swedish Code of Corporate Governance (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code (available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se)). This corporate governance report for 2012 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. 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 46 of the H&M Annual Report 2012 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 13.*

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.

### COMPLIANCE WITH REGULATIONS

H&M's corporate governance is regulated by both external regulations and internal control documents.



--> REPORTS TO/PROVIDES INFORMATION  
—> APPOINTS/ELECTS/PROPOSES

Examples of external regulations:

- the Swedish Companies Act
- accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- NASDAQ OMX Stockholm AB Rules for Issuers
- Swedish Code of Corporate Governance

Examples of internal control documents:

- Articles of Association
- instructions and work plan for the Board of Directors and the Managing Director
- Code of Ethics
- Code of Conduct
- policies such as the Financing Policy and Communications Policy, guidelines and manuals

Deviation from section 2.4 of the Code:

- The Chairman of the Board is the chairman of the Election Committee.

Reason for the deviation: The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.

### H&M's CORPORATE GOVERNANCE STRUCTURE

H&M's shareholders make the ultimate decision on the company's direction, since the shareholders at the Annual General Meeting appoint the Board of Directors and the Chairman of the Board. The Annual General Meeting also elects auditors, decides on the principles of the Election Committee and selects the members of this committee. The task of the Board of Directors is to manage H&M's affairs on behalf of the shareholders. The auditors report to the Annual General Meeting on their scrutiny. The Board of Directors establishes a work plan for the Board as well as instructions for the Managing Director. Auditing matters are dealt with in the Auditing Committee, which is the main channel of communication between the Board and the company's auditors. The Board of Directors appoints the Managing Director. The Managing Director in turn appoints the members of the executive management team and the country managers. H&M has a matrix organisation.

#### 1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

The general meeting is the company's highest decision-making body and is the forum in which shareholders exercise their right to decide on the company's affairs.

The ordinary general meeting (the Annual General Meeting) is convened once a year in order to carry out tasks such as adopting the annual accounts and consolidated accounts, discharging the members of the Board of Directors and the Managing Director from liability and deciding how the profit for the past financial year is to be allocated. The Annual General Meeting also decides on guidelines for remuneration to senior executives. In addition, the meeting decides on any proposed amendments to the Articles of Association and elects the Board of Directors and, when necessary, auditors for the forthcoming period of office. Extraordinary general meetings can be held where there is a particular need to do so.

#### 2. AUDITORS

Auditors are appointed by the shareholders at H&M's Annual General Meeting every four years. The auditors scrutinise the

company's financial statements, the consolidated statements and the accounts, and the management of the company by the Board and Managing Director.

### 3. ELECTION COMMITTEE

The Election Committee is the general meeting's body that prepares the necessary information as a basis for decisions at the general meeting as regards election of the Board of Directors, Chairman of the Board, auditors and the chairman of the Annual General Meeting, fees to the Board and auditors, as well as principles for the Election Committee. An account of the work of the Election Committee ahead of each AGM is available in a separate document on the website. The members of H&M's Election Committee are elected by the general meeting.

### 4. BOARD OF DIRECTORS

The task of the Board of Directors is to manage the company's affairs on behalf of the shareholders. The Board members are elected by the shareholders at the Annual General Meeting for the period up until the next AGM.

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 Managing Director, 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.

According to the Articles of Association, H&M'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 determines the number of Board members.

### 5. AUDITING COMMITTEE

The Auditing Committee monitors the company's financial reporting, which includes 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 appointed by the Annual General Meeting attend the meetings of the Auditing Committee to report on their scrutiny of the Group's annual accounts, consolidated accounts, etc. 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 Committee also assists the Election Committee with any proposals to the AGM concerning the election of auditors.

H&M's Auditing Committee is made up of three Board members, all of which have expertise in accounting or auditing. All the members are independent of the company, its management and the company's major shareholders. The Committee is appointed annually by the Board of Directors at the statutory board meeting held in conjunction with the AGM.

### 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. MANAGING DIRECTOR

The Managing Director 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 the Managing Director must focus in particular on recruitment of senior executives, buying and logistics matters, the customer offering, pricing strategy, sales and profitability, marketing, expansion, development of the store network and of online and catalogue sales, and IT development. The Managing Director reports to the Board on H&M's development and makes the necessary preparations for taking decisions on investments, expansion, etc. The role of Managing Director includes contact with the financial market, the media and the authorities.

### 8, 9. EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

H&M has a matrix organisation, which means that the members of the executive management team responsible for each department are responsible for that department's support, training and best practice, and for each country working efficiently in accordance with the policies and guidelines issued by head office. The country managers are responsible for sales, profitability and daily operations in their country, and thereby have overall responsibility for all the departments in their country. The country organisations are in turn divided into regions, with a number of stores in each region.

Internal control is evaluated annually by each central department, which checks that this department of the business in each country is working in accordance with the policies and guidelines laid down. The stores are in turn checked by internal store auditors.

READ MORE AT [www.hm.com](http://www.hm.com)

To find out more about H&M's corporate governance visit [www.hm.com/corporategovernance](http://www.hm.com/corporategovernance)

Among other things, you will find here:

- Previous corporate governance reports dating back to 2005
- Articles of Association
- Information on the Election Committee, Board of Directors, Managing Director, auditors, Auditing Committee, etc.
- Information and material from previous AGMs dating back to 2004
- Risks and uncertainties

### SHAREHOLDERS AND ANNUAL GENERAL MEETING

H&M's class B share is listed on NASDAQ OMX Stockholm AB. At the end of the financial year H&M had 193,878 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 393,049,043 class B shares, which represent 11.5 percent of the votes. This means that as of 30 November 2012, Stefan Persson and family via Ramsbury Invest AB represent 68.6 percent of the votes and 35.5 percent of the total number of shares. Ramsbury Invest AB

is thus the parent company of H & M Hennes & Mauritz AB.

The 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 they hold. Shareholders who cannot be present in person may be represented by proxy. Notice of the general meeting is published on the company's website and also by advertisements in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Nyheter.

Information material from H&M's most recent Annual General Meetings as well as H&M's Extraordinary General Meeting in 2011 can be found on [www.hm.com](http://www.hm.com) under the heading Corporate Governance. Here there is also information about the right of shareholders to raise matters at the meeting and when such requests must be received by H&M so that the matter is certain to be included on the agenda in the notice to attend. H&M's e-mail address is also given for those shareholders who wish to submit their questions in advance to H&M.

#### ANNUAL GENERAL MEETING 2012

H&M's Annual General Meeting 2012 was held on 3 May in Victoriahallen at the Stockholm International Fairs in Stockholm. 1,721 shareholders were represented at the meeting, representing 83.3 percent of the votes and 65.7 percent of the capital. H&M's Board of Directors, executive management and Election Committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

- Lawyer Eva Hägg 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 9.50 per share was approved.
- The Board members and the Managing Director were discharged from liability for the 2010/2011 financial year.
- The number of Board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- All the ordinary Board members – Mia Brunell Livfors, Anders Dahlvig, Lottie Knutson, Sussi Kvart, Bo Lundquist, Stefan Persson, Melker Schörling and Christian Sievert – were re-elected by the AGM. Stefan Persson was re-elected as Chairman of the Board.
- The fees paid to Board members until the next AGM were set at SEK 5,025,000 in total, to be distributed as follows: Chairman of the Board SEK 1,350,000; Board members SEK 475,000; members of the Auditing Committee an extra SEK 100,000; and the chairman of the Auditing Committee an extra SEK 150,000.
- The proposed principles for the Election Committee were approved and members of the Election Committee were elected.
- The proposed guidelines for remuneration to senior executives were approved.

The minutes of the Annual General Meeting were published on the website within two weeks of the meeting. Material from the meeting, such as the notice to attend the meeting, the Board's statement concerning the proposed allocation of profits, the Managing Director's address and presentation and the minutes, etc. were translated into English and also published on the website.

Votes and capital represented at H&M's Annual General Meeting

| YEAR | % OF VOTES | % OF CAPITAL |
|------|------------|--------------|
| 2008 | 80.9       | 60.7         |
| 2009 | 81.3       | 61.5         |
| 2010 | 81.9       | 62.7         |
| 2011 | 82.3       | 63.5         |
| 2012 | 83.3       | 65.7         |

#### COMPOSITION AND WORK OF THE ELECTION COMMITTEE IN 2012/2013

The members of the Election Committee were elected by the 2012 AGM. The Election Committee was elected on the basis of its principles, which, in brief, state that the Election Committee shall be made up of the Chairman of the Board and four other members, each representing one of the four biggest shareholders as of 29 February 2012, apart from the shareholder that the Chairman of the Board represents. The principles include a procedure for replacing any member who leaves the Election Committee before the Committee's work is complete. To read the principles in full, see the document "Account of the work of H&M's Election Committee 2012" under the heading Election Committee in the Corporate Governance section at [www.hm.com](http://www.hm.com).

The composition of the Election Committee following the 2012 AGM was:

- Stefan Persson, Chairman of the Board
- Lottie Tham
- Liselott Ledin, Alecta
- Jan Andersson, Swedbank Robur Fonder
- Anders Oscarsson, AMF Pension

The composition of the Election Committee meets the Code's requirements with respect to independent members.

H&M deviated from Code rule 2.4 which states, among other things, that the Chairman of the Board shall not be the chairman of the Election Committee. The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee during the year on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.

The Election Committee elected at the 2011 AGM presented its proposals to the 2012 AGM. The Election Committee provided the following grounds for its proposed composition of the Board before the 2012 AGM:

"The Election Committee judges that the proposed composition of the Board of Directors accords well with section 4.1 of the Swedish Code of Corporate Governance, i.e. that the proposed Board is characterised by diversity and breadth of expertise, experience, background and equal gender distribution. It is 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 meets the applicable requirements concerning the independence of members and stock market experience."

Since the 2012 AGM the Election Committee has held one meeting at which minutes were taken and the Committee was

## COMPOSITION OF THE BOARD AND ATTENDANCE IN 2012

| NAME  | YEAR ELECTED | INDEPENDENT <sup>1)</sup> | INDEPENDENT <sup>2)</sup> | FEES (SEK) <sup>3)</sup> | BOARD MEETINGS | AUDITING COMMITTEE | SHAREHOLDING | SHARES HELD BY RELATED PARTIES                         |
|---|--------------|---------------------------|---------------------------|--------------------------|----------------|--------------------|--------------|--|
| Stefan Persson, Chairman                          | 1979         | No                        | No                        | 1,350,000                | 6/6            | 1/4 <sup>4)</sup>  |              | 194,400,000 <sup>5)</sup><br>393,049,043 <sup>6)</sup> |
| Mia Brunell Livfors                               | 2008         | Yes                       | Yes                       | 450,000                  | 6/6            |                    |              | 600 <sup>7)</sup>                                      |
| Anders Dahlvig                                    | 2010         | Yes                       | Yes                       | 450,000                  | 6/6            |                    | 17,510       |  |
| Lottie Knutson                                    | 2006         | Yes                       | Yes                       | 450,000                  | 6/6            |                    | 1,400        |  |
| Sussi Kvart                                       | 1998         | Yes                       | Yes                       | 550,000                  | 6/6            | 4/4                | 4,400        | 1,700  |
| Bo Lundquist                                      | 1995         | Yes                       | Yes                       | 600,000                  | 5/6            | 3/4                |              | 100,000 <sup>8)</sup>                                  |
| Melker Schörling                                  | 1998         | Yes                       | Yes                       | 450,000                  | 5/6            |                    |              | 228,000 <sup>9)</sup>                                  |
| Christian Sievert                                 | 2010         | Yes                       | Yes                       | 450,000                  | 6/6            | 3/4 <sup>4)</sup>  | 50,000       | 600  |
| Marie Björstedt, <sup>10)</sup> employee rep.     | 2011         |                           |                           |                          | 6/6            |                    |              |  |
| Margareta Welinder, employee rep.                 | 2007         |                           |                           |                          | 6/6            |                    |              |  |
| Agneta Ramberg, <sup>10)</sup> employee rep.      | 1997         |                           |                           |                          | 2/6            |                    |              |  |
| Ingrid Godin, <sup>10)</sup> deputy employee rep. | 2012         |                           |                           |                          | 4/6            |                    |              |  |
| Tina Jäderberg, deputy employee rep.              | 2007         |                           |                           |                          | 6/6            |                    |              |  |

1) Independent of the company and company management in accordance with the Swedish Code of Corporate Governance.

2) Independent of major shareholders in the company in accordance with the Swedish Code of Corporate Governance.

3) Fees as resolved at the 2011 Annual General Meeting. This means that the fees relate to the period until the next AGM is held, i.e. for the period 28 April 2011 to 3 May 2012. The amount was paid out after the 2012 AGM.

4) At the statutory Board meeting Christian Sievert was elected to supersede Stefan Persson as a member of the Auditing Committee.

5) Class A shares owned through Ramsbury Invest AB.

6) Class B shares owned through Ramsbury Invest AB.

7) Shares held together with related parties.

8) Shares owned through Bo Lundquist's company Caboran AB.

9) Shares owned through Melker Schörling AB.

10) Employee representative Agneta Ramberg retired in 2012. Former deputy employee representative Marie Björstedt succeeded Agneta Ramberg as employee representative at the 2012 AGM and Ingrid Godin became the new deputy employee representative.

There are no outstanding share or share price related incentive programmes for the Board of Directors.

also in contact at other times. At the Election Committee's meeting Stefan Persson gave a verbal account of the work of the Board during the year. The conclusion was that the Board had worked effectively over the course of the year.

The Board's work is presented so that the Election Committee can make the best possible assessment of the Board's competence and experience. The Election Committee also discussed the size of the Board, its composition, the election of a chairman for the meeting, fees for Board members and the election of auditors. No fees were paid to the Election Committee's chairman or to any of the other members of the Election Committee.

The Election Committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2013 AGM.

## ANNUAL GENERAL MEETING 2013

H&M's Annual General Meeting 2013 will be held on Tuesday 23 April 2013 in Victoriahallen at the Stockholm International Fairs in Stockholm. To register to attend the 2013 AGM, see H&M Annual Report 2012 page 90 or visit [www.hm.com/agm](http://www.hm.com/agm).

## INDEPENDENCE OF BOARD MEMBERS

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. At least two of these are also independent of the company's major shareholders.

## THE BOARD OF DIRECTORS

Since the 2012 AGM the Board has consisted of eight 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 five men. Only the employee representatives are employed by the company.

For facts about H&M's Board members, see pages 9–10. 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.

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 Managing Director attends all Board meetings, except when

the Managing Director's terms and conditions are being evaluated. The Managing Director 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. Other members of the management team, such as the CFO and Chief Accountant, also attend in order to provide the Board with financial information. The Board is assisted by a secretary who is not a member of the Board.

#### WORK OF THE BOARD IN 2012

H&M's Board held six Board meetings during the financial year, one of which was the statutory meeting.

The Board's attendance is reported in the table entitled "Composition of the Board of Directors and Attendance during the Year". The Managing Director Karl-Johan Persson attended all the Board meetings held in 2012.

During the year the Board addressed and discussed the following matters, among other things:

- The company's financial situation, with sales, costs and results as the main focus.
- Investments for the coming financial year, such as new stores, online business, IT developments, etc.
- Expansion strategy, aims and new markets and the number of refurbishments.
- Strategic matters within the Group's sustainability work were discussed and dealt with.
- The executive management team's updated risk assessment.
- During the year the Board also discussed strategic matters such as competition, external factors and development opportunities. For example, the debt crisis in Europe was discussed and contingency plans were produced; macroeconomic conditions in China and the US were also discussed in relation to H&M's business.

Among other things, the Managing Director reported on:

- developments in H&M's various markets based on the general market situation, price levels/competition and H&M's customer offering in each market. Expansion and developments in the new markets of Bulgaria, Latvia, Malaysia, Mexico and the new franchise market Thailand,
- buying work and production, the environment and sustainability, the level of stock-in-trade, marketing, developments in online business and IT, organisational changes, expansion and developments relating to the other brands: COS, Monki, Weekday, Cheap Monday and H&M Home, and also the development of the new brand & Other Stories which is to be launched in spring 2013.

Among other things, the Board decided the following:

- Decisions on the interim reports, full year report, annual accounts and consolidated accounts, as well as the corporate governance report. Accounting and auditing matters are prepared within the Auditing Committee and reported to the Board.
- The dividend proposal to the AGM of SEK 9.50 per share for the 2010/2011 financial year.
- Proposal to the AGM concerning guidelines for remuneration to senior executives.
- Decision to continue with the present model for monitoring internal control.
- Decisions were taken during the year on policy documents such as the updated financial policy and updated work plan.

In connection with the Board's review of the proposed Annual Report for 2012, auditor Erik Åström gave an account of the year's audit work.

#### THE AUDITING COMMITTEE IN 2012

Since the statutory meeting held in conjunction with the 2012 AGM, the Auditing Committee has consisted of chairman Bo Lundquist and members Sussi Kvart and Christian Sievert. The committee held four meetings at which minutes were taken in 2011/2012.

Ernst & Young 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. Among other things, the following functions also gave presentations/provided information on their work: Security, Sustainability, Human Resources, Transfer Pricing, Online and IT.
- The significance of the European debt crisis for the company was discussed.
- The company's internal pricing model and tax issues.
- New bribery legislation in Sweden and the UK. Updating of the Code of Ethics and its implementation in view of new bribery legislation.
- The European Commission's Green Paper on the statutory audit.
- Ernst & Young provided the Committee with information on the results of its scrutiny as well as the scope of the audit.
- The Auditing Committee finds that it is clear which assignments Ernst & Young takes on in addition to auditing and sees no reason to question the accounting firm's impartiality. H&M also buys other consulting services from other accounting firms.

#### FINANCIAL REPORTING

H&M's financial reporting is carried out in compliance with the laws and other rules that apply to companies listed on NASDAQ OMX Stockholm AB. It falls to the Board of Directors to ensure the quality of financial reporting with the help, for example, of the Auditing Committee. More information is available in the section on internal control over financial reporting.

#### AUDITORS

At the 2009 AGM the accounting firm Ernst & Young AB was elected as auditor of H&M for a four-year period, i.e. until the end of the 2013 Annual General Meeting. Authorised Public Accountant Erik Åström from Ernst & Young holds the main responsibility for the audit.

As previously, the 2012 AGM resolved that the auditors' fees should be paid based on the invoices submitted.

Ernst & Young AB is a member of a global network used for auditing assignments for most of the Group 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 Auditing Committee's guidelines regulating which assignments the accounting firm is permitted to conduct for H&M in addition to the audit.

Authorised Public Accountant Erik Åström conducts auditing assignments for companies such as Svenska Handelsbanken, as well as for NASDAQ OMX.

The fees invoiced by the auditors over the past two financial years are as follows:

| AUDIT FEES (SEK M)                    | GROUP       |             | PARENT COMPANY |            |
|---------------------------------------|-------------|-------------|----------------|------------|
|                                       | 2012        | 2011        | 2012           | 2011       |
| <b>Ernst &amp; Young</b>              |             |             |                |            |
| Audit assignments                     | 17.3        | 15.5        | 2.7            | 2.5        |
| Auditing other than audit assignments | 1.8         | 1.3         | 0.3            | 0.1        |
| Tax consultancy                       | 10.5        | 11.4        | 0.1            | 0.1        |
| <b>Other auditors</b>                 |             |             |                |            |
| Audit assignments                     | 2.8         | 3.3         | –              | –          |
| <b>TOTAL</b>                          | <b>32.4</b> | <b>31.5</b> | <b>3.1</b>     | <b>2.7</b> |

#### INFORMATION ABOUT THE MANAGING DIRECTOR

Karl-Johan Persson, born in 1975, has been the Managing Director and Chief Executive Officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as Managing Director Karl-Johan Persson held an operational role within H&M from 2005, including working as head of expansion, business development, 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. Between the years 2006 and 2009 he was also a member of the Board of H & M Hennes & Mauritz AB.

Between 2001 and 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. Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

#### EXECUTIVE MANAGEMENT TEAM AND COUNTRY MANAGERS

H&M has a matrix organisation in which country managers and the members of the executive management team report directly to the Managing Director (see section on control environment). The matrix organisation consists of the sales countries, headed by the country managers, and the Group functions/central departments for which the heads of department on the executive management team are responsible.

#### GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

In accordance with the Swedish Companies Act the 2012 Annual General Meeting adopted guidelines for remuneration of senior executives within H&M. To view the full guidelines please refer to the Administration Report on pages 45–46 of the H&M Annual Report 2012.

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. The Board prepares proposals for guidelines for remuneration to senior executives and these proposals are presented at the Annual General Meetings.

The Board decides on the Managing Director's salary according to the guidelines adopted at the 2012 AGM. The terms of employment for other senior executives are decided by the Managing Director and the Chairman of the Board. No severance pay agreements exist within H&M other than for the Managing Director.

Before the 2012 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 2011 AGM. The results of this assessment were published on the website in good time before the 2012 AGM.



**CHRISTIAN SIEVERT**  
*Board member and  
member of the  
Auditing Committee*

**BO LUNDQUIST**  
*Board member and  
Chairman of the  
Auditing Committee*

**INGRID GODIN**  
*Deputy employee  
representative*

**MIA BRUNELL LIVFORS**  
*Board member*

**SUSSI KVART**  
*Board member and  
member of the  
Auditing Committee*

**MARIE BJÖRSTEDT**  
*Employee representative*



LOTTIE KNUTSON  
*Board member*

TINA JÄDERBERG  
*Deputy employee  
representative*

MELKER SCHÖRLING  
*Board member*

STEFAN PERSSON  
*Chairman of the Board*

MARGARETA WELINDER  
*Employee representative*

ANDERS DAHLVIG  
*Board member*

# FACTS *on* 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.

### **WORK EXPERIENCE**

1976–1982 Country Manager for H&M in the UK and responsible for H&M's expansion abroad.  
1982–1998 Managing Director and CEO of H&M.  
1998– Chairman of the Board of H&M.

## **MIA BRUNELL LIVFORS**

Board member. Born 1965.

### **PRIMARY OCCUPATION**

Managing Director and Chief Executive Officer of Investment AB Kinnevik.

### **OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the following boards since:

|      |  |
|------|--|
| 2006 | Metro International S.A.<br>Tele2 AB<br>Transecom WorldWide S.A.<br>Korsnäs AB |
| 2007 | Modern Times Group MTG AB<br>Millicom International Cellular S.A.              |
| 2008 | Efva Attling Stockholm AB  |
| 2010 | CDON AB  |

### **EDUCATION**

Studies in Business Administration at Stockholm University.

### **WORK EXPERIENCE**

1989–1992 Consensus AB.  
1992–2006 Various managerial positions within Modern Times Group MTG AB and CFO 2001–2006.  
2006– Managing Director and CEO, Investment AB Kinnevik.

## **ANDERS DAHLVIG**

Board member. Born 1957.

### **PRIMARY OCCUPATION**

Board assignments.

### **OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Chairman of New Wave Group, member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB, Resurs Bank AB and Pret A Manger.

### **EDUCATION**

Bachelor of Science in Business Administration, Lund University, 1980 and Master of Arts from the University of California, Santa Barbara, 1982.

### **WORK 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 the IKEA Group.

## **LOTTIE KNUTSON**

Board member. Born 1964.

### **PRIMARY OCCUPATION**

Marketing Director at Fritidsresor Group Nordic with responsibility for communications as well as corporate social responsibility.

### **OTHER SIGNIFICANT BOARD ASSIGNMENTS**

No positions other than as member of the Board of H&M.

### **EDUCATION**

Université de Paris III, Diplôme de Culture Française, 1985–1986.  
Theatre History, Stockholm University, 1989. Department of Journalism at Stockholm University, 1987–1989.

### **WORK EXPERIENCE**

1988–1989 Journalist, Svenska Dagbladet.  
1989–1995 Communications Department, SAS Group.  
1995–1996 PR Consultant, Johansson & Co.  
1996–1998 PR and Communications Consultant, Bates Sweden.  
1998–1999 Communications Consultant, JKL.  
1999– Marketing Director at Fritidsresor Group Nordic.

**SUSSI KVART**

Board member and member of the Auditing Committee.  
Born 1956.

**PRIMARY OCCUPATION**

Consulting, with a focus on strategic business advice, corporate governance and board procedures.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Chairman of Kvinvest AB. Member of the boards of Healthcare Provision – Stockholm County Council, Stockholms Stadshus AB, Transparency International Sweden and DGC One AB.

**EDUCATION**

Bachelor of Laws from Lund University, 1980.

**WORK EXPERIENCE**

1981–1983 Mölndal District Court, court clerk.  
1983–1989 Lagerlöf law firm (now Linklaters),  
as lawyer from 1986.  
1989–1991 Political Expert, Riksdagen (Swedish parliament),  
parliamentary office of the Swedish Liberal Party.  
1991–1993 Political Expert, Swedish Cabinet Office.  
1993–1999 Company lawyer, LM Ericsson.  
1997–2001 Member of Aktiebolagskommittén (Swedish  
Companies Act Committee).  
2000–2001 Lawyer and Business Developer, LM Ericsson,  
Corporate Marketing and Strategic Business  
Development.  
2002– Sussi Kwart AB.

**BO LUNDQUIST**

Board member and Chairman of the Auditing Committee.  
Born 1942.

**PRIMARY OCCUPATION**

Head of family-owned investment company. Board assignments.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Chairman of the boards of the Swedish School of Sport and Health Sciences (GIH), Shareville AB, Club Consulting AB and Gothenburg School of Gymnastics. Member of the boards of Teknikmagasinet AB and the Anders Wall Foundation for Free Enterprise.

**EDUCATION**

MSc in Engineering from Chalmers University of Technology, Gothenburg, 1968.

**WORK EXPERIENCE**

1970–1974 Administrative Director, Luleå University.  
1975–1978 Divisional Manager, SSAB.  
1978–1982 Sales Manager, Sandvik.  
1982–1984 Managing Director, Bulten.  
1984–1990 Vice President, Trelleborg.  
1991–1998 Managing Director and CEO, Esselte.  
1994–1998 Involved in various central trade and industry organisations, including as Chairman of the Federation of Swedish Commerce and Trade.

**MELKER SCHÖRLING**

Board member. Born 1947.

**PRIMARY OCCUPATION**

Founder and owner of MSAB.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Hexpol AB and Securitas AB.

**EDUCATION**

MSc in Business and Economics from the School of Business, Economics and Law, Gothenburg University, 1970.

**WORK EXPERIENCE**

1970–1975 LM Ericsson, Mexico.  
1975–1979 ABB Fläkt, Stockholm.  
1979–1983 Managing Director, Essef Service, Stockholm.  
1984–1987 Managing Director, Crawford Door, Lund.  
1987–1992 Managing Director and CEO, Securitas AB,  
Stockholm.  
1993–1997 Managing Director and CEO, Skanska AB,  
Stockholm.

**CHRISTIAN SIEVERT**

Board member and member of the Auditing Committee.  
Born 1969.

**PRIMARY OCCUPATION**

CEO of Segulah Advisor AB, a venture capital company.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the boards of Segulah Advisor AB, AB Segulah, Gunnebo Industrier, Kemetyl, CCS Healthcare and St. Erik's.

**EDUCATION**

MSc in Business Administration from the School of Economics, Stockholm, 1994.

**WORK EXPERIENCE**

1994–1997 Bain & Company, Consultant, Stockholm and San Francisco, USA.  
1997–2003 Investment Manager and Partner, Segulah.  
2003– CEO/Managing Partner of Segulah.

**MARGARETA WELINDER**

Employee representative on the H&M Board since 2007. Born 1962.

**MARIE BJÖRSTEDT**

Employee representative on the H&M Board since 2011. Born 1957.

**INGRID GODIN**

Deputy employee representative on the H&M Board since 2012. Born 1959.

**TINA JÄDERBERG**

Deputy employee representative on the H&M Board since 2007. Born 1974.

**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 Code of Corporate Governance.

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.

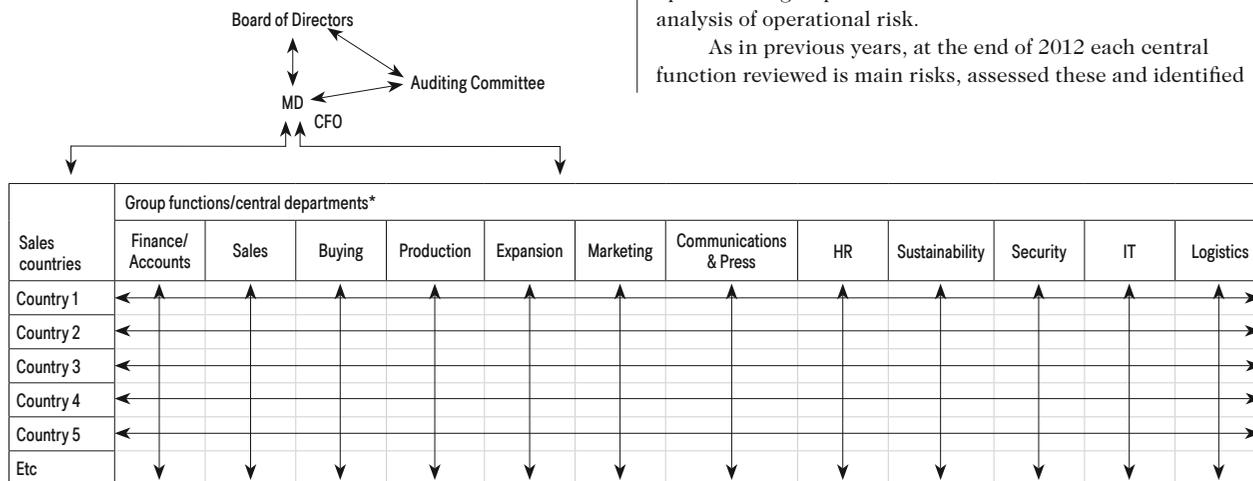
**CONTROL ENVIRONMENT**

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 a 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.

H&M’s internal control structure is based on:

- The division of work between the Board of Directors, the Auditing Committee and the Managing Director, which is clearly



\* Those responsible for Group functions are members of the executive management team. In addition to the functions mentioned above and the Managing Director, the areas of Business development, IR and New Business are also included in the executive management team.

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 global guidelines, policies, routines and manuals; of these, the Code of Ethics, the financial policy, the information 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.

H&M has a matrix organisation, which means that those on the executive management team are responsible for the work within their function in each country being efficient (the vertical arrows). The country managers are responsible for sales and profitability in their country and thereby have overall responsibility for all the functions within their operations (the horizontal arrows). The country organisation is in turn divided into regions, with a number of stores in each region.

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 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 ones need updating and whether new guidelines need to be developed.

**RISK ASSESSMENT**

H&M carries out regular risk analysis to review the risk of errors within its financial reporting. At the end of each financial year the analysis of the main risks within financial reporting is updated in a group-wide document. The same is done for the analysis of operational risk.

As in previous years, at the end of 2012 each central function reviewed is 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 into an overall risk analysis and was discussed with the functions with a view to gaining an overall picture of the main risks within the company.

The risk analyses for operational risks and the risks within financial reporting were then dealt with in the Auditing Committee and thereafter communicated to the Board.

For a description of H&M's operational risks see the Administration Report, pages 46–47, and for risks within financial reporting see Note 2 Financial risks on page 60 of the H&M Annual Report 2012.

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 on every reporting occasion provides a fair picture. 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.

IT systems are scrutinised regularly during the year to ensure the validity of H&M's IT systems with respect to financial reporting. In 2012 general IT controls for certain selected systems were scrutinised by an external party together 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 e-mail 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 information 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 monthly sales reports
- Press releases on events and circumstances that may impact the share price
- H&M's website [www.hm.com](http://www.hm.com)

### MONITORING

In 2012 an examination of internal control issues was carried out at Group level to ascertain what could be improved and updated in the functions' working materials for 2013. This work was carried out in cooperation with the functions and resulted in updated checklists – both general and department-specific – for the central functions to use in their audits in 2013.

In 2012 Group functions/the central departments carried out assessments of 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 containing the areas that should be improved 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. It is felt that the way in which H&M assesses internal control is firmly rooted within the organisation. It is an aid and a control by which the central functions can 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 being transparent and ensuring that the countries apply best practice. Within the production organisation there is a firm control and monitoring process for the internal routines that are brought together in the Routine Handbook.

Internal shop controllers 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 problems detected and suggestions made during the assessment by the central departments and internal shop controllers as well as by external auditors. The work on internal control maintains awareness of the importance of effective internal control within the Group and improvements are made on a continuous basis.

### INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Code of Corporate Governance, 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 Accounts, Communications, Security, Logistics, Production, etc. in the sales countries – and the work carried out by internal shop controllers are well in line with the work performed in other companies by an internal audit department. The issue of a specific internal audit department will be reviewed again in 2013.

Stockholm, January 2013

The Board of Directors

*More information on H&M's corporate governance work can be found in the section on Corporate Governance at [www.hm.com](http://www.hm.com).*

**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 2011 to 30 November 2012. 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, Auditors' 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 report and the consolidated accounts.

Stockholm, 30 January 2013

Ernst & Young AB

Erik Åström  
Authorised Public Accountant