



Welcome to the
Extraordinary General Meeting
of H & M Hennes & Mauritz AB

20 October 2010

Proposed Incentive Program



Over 76,000 employees around the world



Over 76,000 employees around the world

It is now 63 years since the first H&M store opened in Västerås. At that time we had around 20 employees; now we have more than 76,000 employees all around the world.

Today there are more than 2,000 H&M stores in soon 38 countries. We have 16 production offices spread across Asia and Europe.

That we are able to achieve our goal of increasing the number of new stores by 10 to 15 percent each year is down to the fact that we have committed and motivated employees throughout the organisation.

The spirit of H&M



H&M

The spirit of H&M – our culture

Our employees all contribute to making H&M what it is today. We have a strong corporate culture – the spirit of H&M – that is based on simplicity, a down-to-earth approach, entrepreneurship, team spirit, straight lines, common sense and a belief in individuals and their ability to use their initiative.

In a world in which there is increasing competition for staff, H&M must continue to be a good employer and an attractive place to work.

H&M Incentive Program



- ▶ Covers all employees in all countries
- ▶ Aims:
 - to show appreciation
 - to encourage long-term commitment
 - to promote future recruitment
 - to strengthen H&M as an attractive employer
- ▶ Long-term



What we want to do – aims and objectives

Our employees are the key to H&M's success, and that is what we now want to reward.

To show our appreciation to all the employees who contribute to H&M's success we now want to introduce an incentive programme that includes all our employees in all countries on the same basic principles, based on length of employment – regardless of the position held or the salary earned.

Our franchise countries are not included in the incentive programme because the staff in these stores are not employed by H&M; instead they are employed by the franchisee concerned.

The incentive programme also aims to strengthen H&M as an attractive employer for both existing and future employees.

In other words, a further aim is to promote future recruitment during our strong expansion.

The long-term nature of the incentive programme is also a key element.

Guiding principles of the Incentive Program



- ▶ Fair
- ▶ Long-term
- ▶ Simple



The incentive programme has a number of guiding principles.

Fair.

Firstly, the basic concept is to create an incentive programme that is "the same for everyone", which means that all employees of all the brands throughout the H&M Group participate on the same basic principles, based on length of employment – regardless of position, occupation or salary level and regardless of which country they work in.

Long-term.

The aim of the programme is to encourage long-term commitment and daily input among our employees. It is our employees that, through their commitment and initiative, together contribute to H&M's success.

Simple.

Simplicity is a keyword at H&M. The incentive programme shall also be simple.

Establishing a foundation



- ▶ The H&M Incentive Program Foundation will be established
- ▶ Stefan Persson and family will donate 4,040,404 H&M shares worth around SEK 1 billion to the foundation



How we want to do it – establishing a foundation

A Swedish foundation, the H&M Incentive Program Foundation, will be established. The foundation will receive an initial donation from me and my family to set it up.

We will donate just over 4 million H&M shares (4,040,404 to be precise), worth around a billion Swedish kronor. The foundation will manage the funds and over time will distribute the funds to qualifying participants in the programme.

Future transfers to the foundation



- ▶ The foundation shall normally receive an annual transfer from H&M
 - starting in conjunction with the 2011 dividend
 - which is to be invested in H&M shares
- ▶ The transfer to the foundation will be an amount equal to 10% of the increase in dividend
- ▶ The maximum transfer shall be 2% of the total dividend
- ▶ No dilution of existing shares



Future transfers to the foundation

In order that the foundation shall receive further contributions in the future we are proposing that H&M shall normally transfer an amount to the foundation corresponding to 10 percent of the increase in dividend compared with the previous year's dividend. It is proposed that the first transfer will be made in conjunction with the 2011 dividend and will be accounted for in the 2011 financial year.

However, the maximum transfer shall be 2 percent of the total dividend.

The transfer represents a cost to the H&M Group and will not affect the amount of dividend that has been decided. There will be no dilution of existing shares.

The contributions to the foundation shall be invested in H&M shares.

Exceptional situations for transfers



- ▶ In years in which there is no increase in dividend the Board may propose to the AGM that a transfer nonetheless be made to the foundation in order to reward employees
- ▶ In years in which the dividend is disproportionately high the Program has a ceiling, which is 2% of the total dividend



Exceptional situations for transfers

In the future situations could occur in which there is reason to deviate from the general rule to transfer 10 percent of the increase in dividend, and consequently there should be a certain degree of flexibility regarding proposed transfers.

One example of such an exceptional situation might be a year in which there is no increase in dividend. The Board may then propose to the AGM that a transfer nonetheless be made to the foundation in order to reward employees.

Another example might be if there is a year in which the dividend is disproportionately high; in which case, as mentioned earlier the programme has a ceiling which is 2 percent of the total dividend.

Function of the foundation



- ▶ The foundation shall
 - benefit H&M's employees
 - have a board appointed by the Board of H&M
 - invest its funds in H&M shares
- ▶ The foundation's shareholding shall never exceed 5% of the total number of shares
- ▶ The foundation
 - manages the funds
 - deals with payouts



How the foundation works

It is important that it is clear that the purpose of the foundation is to benefit H&M's employees, so that their shares in the incentive programme perform as well as possible.

The board of the foundation shall consist of three people who are appointed by H&M's Board of Directors. The foundation's funds shall be invested in H&M shares, but the foundation's shareholding shall never make up more than five percent of the total number of shares in H&M, as a result of which the foundation will never exercise power. However, it is unlikely that the foundation's shareholding would reach such a size.

The foundation will manage the funds and will deal with payouts to qualifying employees who participate in the incentive programme.

Estimated historical net cost

– if the Incentive Program had been introduced in 2006



- ▶ The approximate net cost of the Program for each year would have been:

2006	SEK 92 million
2007	SEK 123 million
2008	SEK 153 million
2009	SEK 92 million
2010	SEK 31 million

The approximate net cost of the Program for each year would have been:



To get an idea of what the programme would have cost if it had been underway for the past five years, we have prepared a historical calculation based on the actual dividends paid in the past five years.

Here we can see what the transfers would have been in each year, based on 10 percent of the dividend increase. The amounts have been calculated with deductions for a standard tax rate of 26 percent since the cost is tax-deductible in most countries.

Qualification for the Incentive Program



- ▶ All employees qualify according to the same basic principle
- ▶ The qualification period is five years
- ▶ It is estimated that around 30,000 – 35,000 employees will initially qualify
- ▶ Long-term commitment is key



How employees will participate in the foundation

The most important thing is that all employees can qualify to participate in the incentive programme according to the same basic principle, regardless of which country they work in and irrespective of the position they hold. The qualifying rules for the programme state that the employee must have worked for H&M for five years, either full-time or part-time.

From and including the sixth year of employment units will be allocated based on how much the employee worked during the preceding year. The first allocation will be made in spring 2011, based on how much the employee worked in 2010.

We estimate that around 30,000 – 35,000 employees will qualify to participate in the incentive programme at the outset; in other words, will receive an allocation in 2011.

Since the programme aims to encourage and reward our employees' long-term commitment and participation, it is proposed that...

Payouts



- ▶ The basic principle is that payouts may be made from the age of 62; however, a payout may also be made after 10 years of employment (but no earlier than 2021)
- ▶ At 62 years of age employees can choose to receive their payout:
 - in instalments over five years, or
 - as an immediate payout



....the basic principle will be that the employee may receive a payout from the age of 62. However, employees may instead choose to have their units paid out after ten years of employment – but no earlier than 2021.

If the employee chooses earlier payment his or her units will be reset to zero after the payout has been made and the employee may then miss out on what we hope will be the long-term increase in value that may occur if the unit is left in until 62 years of age. If the employee chooses the earlier payout he or she may then participate in the programme afresh without any further qualification period.

At the age of 62 the employee can choose whether the amount is to be paid out immediately or in instalments.

Change in value



- ▶ The value of the units in the foundation will be based on:
 - the size of the transfers made
 - the change in the value of the foundation's shares in H&M
 - dividends on the foundation's shares in H&M
- ▶ The employee will receive a statement of the current value once a year



The change in the value of the foundation and in the amount that the employees may therefore receive will be based on:

- the size of the annual transfers
- the change in the price of H&M shares
- and the dividends paid on the foundation's shares in H&M

Once a year each employee participating in the programme will receive a statement showing the current value of their units.

Incentive Program – summary



- ▶ Long-term
- ▶ All employees of the H&M Group qualify according to the same basic principle
- ▶ Encourages employees' long-term commitment
- ▶ Employees' long-term commitment benefits the shareholders



Summary

The incentive programme covers all employees of the H&M Group in all countries regardless of position or salary.

As shareholders, you benefit from our employees having a long-term commitment to the company and from the fact that H&M will be seen as a more attractive employer all over the world.

"I see this incentive programme as a positive development and am very pleased to be able to present this proposal to the meeting."

H&M Incentive Program



H&M

The logo consists of the letters 'H', '&', and 'M' in a bold, red, sans-serif font. The letters are slanted to the right. The ampersand is smaller and positioned between the 'H' and 'M'.

H & M Hennes & Mauritz AB