

## **PROPOSED RESOLUTION ON GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES, item 14**

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

*The Board's proposal to the 2014 AGM differs from previous guidelines because the proposal to the 2014 AGM also contains supplementary guidelines for remuneration of certain senior executives. The Board has thus divided the guidelines for remuneration of senior executives into two parts: general guidelines and supplementary guidelines.*

*The general guidelines, which are the same as those adopted at the 2013 AGM, are aimed at a group of around 50 senior executives and are based on performance in the previous year, linked to certain quantifiable targets set in advance. The supplementary guidelines, which are aimed at around a third of these individuals, are based on a "stay on board" principle. The supplementary guidelines do not apply to the CEO, who is included only in the general guidelines.*

*The Board's reasoning for the supplementary guidelines is as follows: in view of H&M's strong expansion phase and the important development phase that H&M is in, including multi-brand and multi-channel developments, the aim is to ensure that these key individuals in senior positions remain with the H&M Group during this important development phase. The proposal was prepared by the Board with the assistance of external advisors.*

*Below is a more detailed account of the Board's proposal to the 2014 AGM for general and supplementary guidelines:*

### **General guidelines**

The term "senior executives" covers the Chief Executive Officer, other members of executive management, country managers and certain key individuals. The number of individuals covered by the term senior executives is currently around 50.

Compensation for senior executives is based on factors such as work tasks, expertise, position, experience and performance. Senior executives are compensated at what are considered by the company to be competitive market rates. Senior executives are also entitled to the benefits provided under the H&M Incentive Program.

H&M is present in more than 40 countries excluding franchise markets and levels of compensation may therefore vary from country to country. Senior executives receive a fixed salary, pension benefits and other benefits such as car benefits. The largest portion of the remuneration consists of the fixed salary. For information on variable components, see the section below.

In addition to the ITP plan, executive management and certain key individuals are covered by either a defined benefit or defined contribution pension plan. The retirement age for these individuals varies between 60 and 65 years. Members of executive management and country managers who are employed by a subsidiary abroad are covered by local pension arrangements and a defined contribution plan. The retirement age for these is in accordance with local retirement age rules. The cost of these commitments is partly covered by separate insurance policies.

The period of notice for senior executives varies from three to twelve months. No severance pay agreements exist within H&M other than for the Chief Executive Officer.

### **Pension terms etc. for the Chief Executive Officer**

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

### **Variable remuneration**

The Chief Executive Officer, country managers, certain senior executives and certain key individuals are included in a bonus scheme. The size of the bonus per person is based on the fulfilment of targets in their respective areas of responsibility. The result is linked to the measurable profit targets (qualitative, quantitative, general, individual) set in advance within their respective areas of responsibility. These targets also include measurable targets for sustainability. The targets within each area of responsibility are aimed at promoting H&M's development in both the short and the long term.

For the Chief Executive Officer the maximum bonus is SEK 0.9 m net after tax. For other senior executives the maximum bonus is SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. The bonuses that are paid out must be invested entirely in shares in the company, which must be held for at least five years. Since H&M is present in markets with varying personal income tax rates, the net model has been chosen because it is considered fair that the recipients in the different countries should be able to purchase the same number of H&M shares for the amounts that are paid out.

In individual cases other members of executive management, key individuals and country managers may, at the discretion of the Chief Executive Officer and the Chairman of the Board, receive one-off payments up to a maximum of 30 percent of their fixed yearly salary.

### **Supplementary guidelines**

In addition to the general guidelines, the Board has prepared supplementary guidelines for certain managers, which are primarily aimed at executive management but also at certain other key individuals. The Chief Executive Officer is not, however, included in the supplementary guidelines. Overall, around a third of the senior executives who are covered by the above mentioned general guidelines are also covered by the supplementary guidelines.

The supplementary guidelines are based on a "stay on board" principle, which means that the remuneration linked to the supplementary guidelines is conditional upon the senior executive remaining employed within the H&M Group for at least five years. Provided that the 2014 AGM approves the programme, the five-year rule applies from and including May 2014 up to and including May 2019.

### **Cash remuneration in 2019**

Provided that the "stay on board" principle is fulfilled, the senior executives covered by the supplementary guidelines are entitled to a cash payment after five years.

At individual level, the cash payment may vary between SEK 0.5 m and SEK 5 m net after tax; the exact distribution per individual will be decided by the CEO and the Chairman of the Board.

*Cost to H&M:* The total cost to the company is estimated at around SEK 30 m per year including social security costs over five years.

### **Miscellaneous**

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