

## **STATEMENT PURSUANT TO THE SWEDISH CODE OF CORPORATE GOVERNANCE, SECTION 10.3 LAST PARAGRAPH**

According to the Swedish Code of Corporate Governance, the Board of Directors is to report the results of:

- the evaluation of programmes for variable remuneration, both ongoing and those that have ended during the year, for the executive management (the Code 9.1, second bullet point);
- the evaluation of the application of the guidelines for remuneration to senior executives that the Annual General Meeting is obliged to establish, as well as the current remuneration structures and levels in the company (the Code 9.1, third bullet point).

To read the company's complete guidelines for remuneration to senior executives see the company's website and pages 45-46 of the Administration Report in H&M's Annual Report 2012.

### **Evaluation of variable remuneration (based on guidelines for senior executives adopted by the 2012 AGM)**

H&M's variable remuneration system (bonus scheme) is based primarily on the fulfilment of targets within the respective senior executive's area of responsibility. The size of the bonus per person is limited to 0.1 – 0.3 percent (depending on the recipient) of the dividend increase established by the Annual General Meeting. The maximum bonus per person has been set at SEK 0.3 – 0.9 m (depending on the recipient) net after tax. In individual cases other members of executive management, key individuals and country managers may, at the discretion of the Managing Director and the Chairman of the Board, receive one-off payments up to a maximum of 30 percent of their fixed yearly salary.

The variable remuneration that was charged to profit for 2012 relates the senior executives' fulfilment of targets for 2011. The variable remuneration paid out to senior executives in 2012 amounted to SEK 3.6 (7.3) m. Variable remuneration to country managers amounted to SEK 3.9 (6.1) m and the Managing Director's bonus amounted to SEK 0 (2.1) m. The level of the amounts paid out reflects the fact that in 2012 there was no increase in dividend compared with the dividend in 2011 and therefore only one-off payments were made at the discretion of the Managing Director and the Chairman of the Board.

Under the guidelines, there is no requirement for such one-off payments to be invested in H&M shares. This applies only to the bonus amounts that are based on a dividend increase, which must be invested entirely in shares in the company that must be held for at least five years.

The largest portion of remuneration is fixed salary. This ensures that the incentive for individual senior executives to focus on the best interests of the entire company is maintained. At the same time, a limited level of variable remuneration serves as an incentive for the fulfilment of certain defined targets.

The Board of Directors of H & M Hennes & Mauritz AB has concluded that the company's current system of variable remuneration is, in the main, appropriate for its purpose. However, the Board will propose to the 2013 AGM (see next page) that the link to the dividend increase is removed since this does not best reflect the reward system that the Board wishes to achieve.

## **Evaluation of guidelines for senior executives and remuneration structures**

The Board of Directors has concluded that H&M pays remuneration that is both in line with the market in general and competitive. The largest portion of remuneration consists of fixed salary. The maximum amounts of variable remuneration have been the same for a number of years. The variable remuneration, which is based on the fulfilment of targets within the respective area of responsibility and on whether or not there has been a dividend increase (see above), is deemed to be moderate and straightforward. However, the Board will propose to the 2013 AGM that the link to the dividend increase is removed and that the target criteria for senior executives is linked to a number of 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 company's pension terms are in line with what is generally offered in the market. No severance pay agreements exist other than with the Managing Director.

H&M has established the H&M Incentive Program, a profit-sharing scheme for all employees. Contributions are made to an employees' foundation that will allocate units to employees who have worked for the company for a certain period of time. The Board of Directors believes that this is an effective way of rewarding employees for their efforts.

All things considered, the Board of Directors believes that H&M has a moderate but appropriate remuneration system with respect to both structures and levels in the company.

The Board of Directors

March 2013