

H & M Hennes & Mauritz AB

The board's proposals to the 2021 AGM for guidelines for remuneration of senior executives

The guidelines cover remuneration to the CEO, remuneration to board members (aside from board fees) and remuneration to other senior executives. Other senior executives means members of the executive management team apart from the CEO. The executive management team comprises the individuals who report directly to the CEO.

The long-term variable remuneration, which applies only to the executive management team including the CEO, will be measured over a five-year period in order to reward long-term value creation for H&M.

How the guidelines contribute to the company's business strategy, long-term interests and sustainability

The H&M group's business plan aims to deliver long-term, sustainable and profitable growth. The business plan builds on the company's ongoing transformation work and is illustrated by a number of objectives to which the company's sustainability efforts and digital transformation contribute. These objectives are to continue improving the customer offering for all the brands, to build long-term and value-creating customer relationships, to offer an inspiring experience with integrated digital and physical channels, to adapt the supply chain so that it is faster and more flexible based on demand, and to add more revenue streams based on new emerging business models and innovations. Moving successfully towards these objectives is expected to result in finances remaining sound and sustainable, in accordance with the H&M group's target of a strong capital structure with good liquidity and financial flexibility, allowing continued freedom of action for growth and investments.

The board considers it important that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. To work successfully according to the company's business plan and safeguard the company's long-term interests the company needs to be able to recruit, motivate and retain talented, committed employees. Senior executives shall be compensated at what are considered by the company to be competitive market rates, based partly on industry comparisons. Levels of compensation shall be based partly on the significance of the duties performed, i.e. the ability to affect the overall development of the group, and partly on the employee's competencies, experience and performance. Together these decide the level of remuneration for the individual concerned. Over time, the largest portion of the remuneration shall consist of the fixed basic salary. The forms of compensation shall motivate senior executives to do their utmost to ensure the good financial and sustainable development of the H&M group.

Types of remuneration etc.

The total remuneration may consist of the following components:

- fixed basic cash salary
- short-term variable remuneration
- long-term variable remuneration
- pension benefits
- other benefits

Fixed basic cash salary

Senior executives shall have a fixed basic cash salary that is at a market level based on each position's significance for the company as a whole. The fixed basic cash salary shall reflect the individual's area of responsibility, competencies and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

The variable remuneration may consist of a short-term and a long-term portion.

There shall be a clear link between the level of performance-based variable remuneration paid and the H&M group's financial and sustainable development. Senior executives' variable remuneration shall therefore depend on the fulfilment of targets. The targets shall aim to promote the H&M group's development in both the short and the long term.

Short-term variable remuneration: Fulfilment of targets shall be measured over a period of one year. The short-term variable remuneration shall be based on fulfilment of targets in the following areas:

- the H&M group's total sales
- the H&M group's total operating profit
- fulfilment of the objectives in the various areas of the business plan, which include sustainability and
- assessment of leadership and compliance with values.

For the last two performance parameters it is the individual's performance within their own area of responsibility that is assessed. For the financial targets, the assessment is to be based on the most recent financial year. The board of directors is responsible for this assessment in the case of short-term variable remuneration to the CEO. In the case of short-term variable remuneration to other senior executives, the CEO is responsible for the assessment.

Each of these four predetermined performance parameters has equal weighting, i.e. each represents a quarter of the total target fulfilment. However, there is a threshold value for the second parameter, i.e. operating profit, which means that if this value is not reached then no short-term variable remuneration will be paid regardless of target fulfilment for the other three parameters. The short-term variable remuneration, which at individual level is based on the extent to which the person's duties and position influence the overall development of the group, may amount to 0–3 months' salary, 0–6 months' salary or 0–12 months' salary. Monthly salary refers to fixed basic cash salary. If the target levels set by the board are fulfilled, half of the maximum remuneration in each range shall be paid. To receive a payment in the higher part of the range within the set framework, therefore, the predetermined target levels are required to be exceeded.

Half of the remuneration payment shall be invested in H&M shares that must be held for at least three years. Each year the board will set target levels for each of the four performance parameters for the coming year.

Long-term variable remuneration: The long-term variable remuneration shall be based on target fulfilment measured over five financial years starting from the current 2021 financial year and ending at the close of the 2025 financial year. This period, i.e. 1 Dec 2020 – 30 Nov 2025, is known as the measurement period. The long-term variable remuneration – which shall apply only to the executive management team including the CEO, totalling 15 individuals – shall be based on fulfilment of targets within the following areas:

- the H&M group's total sales
- the H&M group's total operating profit
- fulfilment of the objectives in the various areas of the business plan in total, which include sustainability and
- assessment of leadership and compliance with values.

Each of these four predetermined performance parameters shall have equal weighting, i.e. each represents a quarter of the total target fulfilment. For the long-term variable remuneration the assessment of the financial targets shall be based on a summing up of the past five financial years, with fulfilment of the annual target levels in the short-term arrangement – i.e. within sales and profit – forming the basis for target fulfilment in the long-term arrangement. For the other two performance parameters – i.e. fulfilment of the business plan and leadership and compliance with values – an overall assessment is to be made of the total for the H&M group for the entire measurement period. After the measurement period has ended the board is responsible for an overall assessment based on the four performance parameters and for deciding the long-term variable remuneration that will be paid to the CEO. The long-term variable remuneration to be paid to other senior executives will be established by the board in consultation with the CEO.

A precondition for receiving the long-term portion shall be that the participants make an initial investment of their own in H&M shares, amounting to around 10 percent of their fixed basic annual cash salary after tax, close to the 2021 annual general meeting. These shares shall then be held for the entire measurement period. After three years, provided they remain employed by the group, the initial investment will be matched by the receipt of a cash amount after tax equal to two times their own initial outlay. This sum is to be invested in H&M shares as soon as possible. These shares are also to be held for the entire measurement period.

The aim of the initial investment of their own in H&M shares as well as the investment of the matching sum in H&M shares is to build up their own shareholding in H&M in order thereby to further align the interests of the executive management team with the interests of the shareholders in the good, long-term development of the company.

The maximum total remuneration within the framework of the long-term variable remuneration arrangement for the entire measurement period, which includes both the matching amount in year 3 and the remuneration in year 5 after the measurement period has ended, may vary between SEK 1.75 million net after tax and SEK 7 million net after tax depending on the individual's duties and the extent to which their position affects the overall development of the group.

The H&M group's total cost, including social security costs, for the long-term variable remuneration is expected to amount to a maximum of around SEK 150 million. A provision of SEK 30 million per year is expected to be made for a total of five years.

Pension benefits

In the case of the CEO, pension benefits – including sickness insurance – are to be on a defined contribution basis. Variable cash remuneration shall not be pensionable. The pension premiums for the year must not exceed 30 percent of the CEO's annual fixed basic salary.

In the case of other senior executives, pension benefits – including sickness insurance – are to be on a defined contribution basis unless the executive is covered by a defined benefit

pension plan under the mandatory provisions of collective bargaining agreements. The pension premiums for the year must not exceed 40 percent of the senior executive's annual fixed basic salary.

The cost of the present commitments is partly covered by separate insurance policies.

The retirement age for the CEO is 65.

The retirement age for other senior executives varies between 62 and 65 years.

Other benefits

Senior executives may receive other benefits such as wellness subsidies, car allowances and medical insurance. The total annual costs associated with other benefits must not exceed 20 percent of the individual's annual fixed basic salary.

Termination of employment

The period of notice for senior executives may vary between three and 12 months. Variable remuneration is not to be paid if the individual has given notice to terminate their employment.

The CEO is entitled to 12 months' notice. In the event that the company terminates the CEO's employment contract, a year's salary fixed basic cash salary may also be paid to the CEO as severance pay. No other severance pay is payable.

Salary and employment terms for other employees of the company

When preparing the board's proposed guidelines for remuneration to senior executives consideration was given to the salary and employment terms of the company's other employees by using information concerning the employees' total remuneration, the components of the remuneration and the increase in and rate of increase in the remuneration over time as part of the basis on which the board assessed whether the guidelines, and the resulting limitations, are reasonable.

Consultancy fees

Where a board member performs work for the company (including through a wholly owned company) in addition to their board work, a separate fee may be paid for this (consultancy fee). Such fee shall not exceed the board fee paid to the member concerned. The fee is to be based on the current market rate and be proportionate to the benefit for the company and the extent to which such work contributes to the good financial and sustainable development of the H&M group.

Decision process for establishment, review and implementation of the guidelines

The company 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 proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings. The board is to prepare a proposal for new guidelines at least every four years and submit the proposal for decision by the annual general meeting. The guidelines shall apply until new guidelines have been adopted by the annual general meeting. The board shall also monitor and evaluate programmes for variable remuneration to the company's management and the application of the guidelines for remuneration to senior executives, as well as current remuneration structures and levels

in the company. The board shall further decide on the CEO's salary in accordance with the guidelines in effect and shall continually evaluate the work of the CEO. Once a year this matter is to be discussed separately in conjunction with the setting of the CEO's remuneration for the coming year. To avoid conflicts of interest, no member of the company's management is to be present when the board discusses remuneration matters.

Other

Senior executives are also entitled to the benefits accruing under the profit-sharing programme known as the H&M Incentive Program, which is for all employees of the H&M group. The programme was adopted by a previous general meeting and is not covered by these guidelines.

Regarding employment terms falling under rules other than Swedish rules, in the case of pension benefits and other benefits the guidelines are to be adapted as appropriate to comply with any such mandatory rules or established local practice, while fulfilling the general aim of the guidelines as far as possible.

The board may decide to temporarily deviate from the guidelines in full or in part if there is particular reason to do so in an individual case and this is necessary in order to provide for the company's long-term interests and sustainability or to ensure the financial viability of the company.

Description of significant changes to the guidelines and how shareholders' views have been taken into account

The pandemic has speeded up many changes in society and the industry that were already driving the H&M group's transformation. Digitalisation has accelerated and awareness of the importance of sustainable development has increased. In the H&M group's ongoing transformation it is important to have a good balance between short-term and long-term decisions. The proposed guidelines therefore include supplementary long-term variable remuneration for the executive management team while also clarifying the performance parameters for the short-term variable remuneration. In addition, the relationship between variable and fixed remuneration has been made clearer, and certain other changes have been made. The changes are in line with views presented by shareholders.