

Corporate governance report

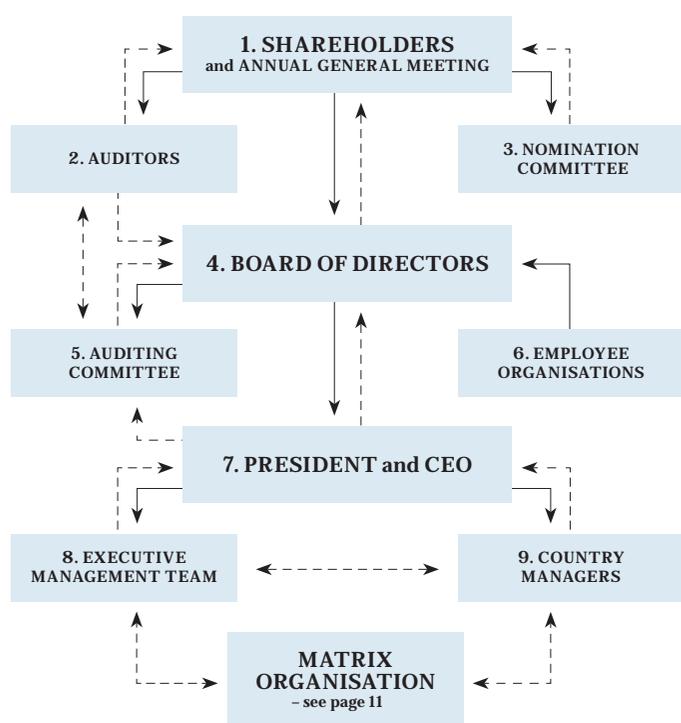
H & M Hennes & Mauritz AB 2014

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 Corporate Governance Code (the Code) and has therefore prepared this corporate governance report in accordance with the Annual Accounts Act and the Code. H&M has applied the Code since 2005. This corporate governance report for 2014 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. The report was prepared by the company's board of directors and has been reviewed by the company's auditors.

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 64 of H&M's annual report for 2014 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.

PRINCIPLES OF CORPORATE GOVERNANCE

H & M Hennes & Mauritz AB is a Swedish public limited company. H&M's class B share is listed on Nasdaq Stockholm. The H&M group is managed in accordance with both external regulations and internal control documents.



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

Examples of external regulations:

- Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- Nasdaq Stockholm Rules for Issuers
- Swedish Corporate Governance Code (the Code)

Examples of internal control documents:

- Articles of association
- Instructions and work plan for the board of directors and the chief executive officer
- Code of Ethics
- Code of Conduct
- Policies such as the Financial Policy and Communications Policy, guidelines and manuals

The Code, which is available at corporategovernanceboard.se, 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.

In 2014 H&M complied with all aspects of the Code with the exception of the Code's section 2.4. H&M's chairman of the board is also chairman of its nomination committee, which deviates from the Code's statement that the chairman of the board may not chair the nomination committee. The reason for the deviation is as follows: the nomination committee appointed the chairman of the board Stefan Persson as chair of the nomination committee on the grounds that this is considered to be 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 nomination 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 chief executive officer. 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 chief executive officer. The chief executive officer 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 chief executive officer 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 pro-

posed 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 CEO.

3. NOMINATION COMMITTEE

The nomination committee is the general meeting's body for the preparation of information that will be used as a basis for decisions at the general meeting concerning election of the board of directors, the chairman of the board, the auditors and the chairman of the annual general meeting, fees to the board and auditors, as well as principles for the nomination committee. An account of the work of the nomination committee ahead of each AGM is available in a separate document at www.hm.com/corporategovernance. The members of H&M's nomination 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. According to H&M's articles of association, the 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.

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 CEO, 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.

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 from the accounting firm 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 auditing committee also assists the nomination 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 whom have expertise in accounting or auditing. All the members are independent of the company, its management and the company's major shareholders. The auditing 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. CEO

The CEO 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 CEO must focus in particular on recruitment of senior executives, buying and logistics matters, the customer offering, pricing strategy, sales and profitability, sustainability matters, marketing, expansion, development of the store network and of online sales, and IT development. The CEO reports to the board on H&M's development and makes the necessary preparations for taking decisions on investments, expansion, etc. The role of CEO 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 hm.com

To find out more about H&M's corporate governance visit 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 nomination committee, board of directors, CEO, auditors, auditing committee, etc.
- Information and material from previous AGMs dating back to 2004
- Risks and uncertainties

SHAREHOLDERS AND ANNUAL GENERAL MEETING

At the end of the financial year H&M had 204,754 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 2014, 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 2010 can be found at hm.com under 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 email address is also given for those shareholders who wish to submit their questions in advance to H&M.

ANNUAL GENERAL MEETING 2014

H&M's annual general meeting 2014 was held on 29 April in Victoriahallen at the Stockholm International Fairs in Stockholm. 1,721 shareholders were represented at the meeting, representing 84.2 percent of the votes and 67.5 percent of the capital.

H&M's board of directors, executive management and nomination committee as well as the company's auditors attended the meeting.

The main resolutions passed were the following:

- The lawyer Sven Unger 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 CEO were discharged from liability for the 2012/2013 financial year.
- The number of board members elected by the meeting to serve until the next AGM was set at eight, with no deputies.
- The ordinary board members Anders Dahlvig, Lottie Knutson, Sussi Kvart, Stefan Persson, Melker Schörling and Christian Sievert were re-elected by the AGM, which also elected to the board the proposed new members Lena Patriksson Keller and Niklas Zennström. Stefan Persson was re-elected as chairman of the board.

Bo Lundquist had declined re-election and Mia Brunell Livfors left the board of H&M at her own request as of the end of 2013.

- The AGM approved the proposal from the nomination committee that the total board fees be increased by SEK 500,000 to SEK 5,525,000. The board fees are to be distributed as follows: chairman of the board SEK 1,500,000; board members elected by the AGM SEK 525,000; 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 nomination committee were approved and members of the nomination 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 CEO'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
2010	81.9	62.7
2011	82.3	63.5
2012	83.3	65.7
2013	85.3	69.8
2014	84.2	67.5

COMPOSITION AND WORK OF THE NOMINATION COMMITTEE IN 2014

The members of the nomination committee were elected by the 2014 AGM. The nomination committee was elected on the basis of principles which, in brief, state that the nomination committee shall be made up of the chairman of the board and four other members who are nominated by the four biggest shareholders as of 28 February 2014, apart from the shareholder that the chairman of the board represents. The principles include a procedure for replacing any member who leaves the nomination 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 nomination committee in 2014" under nomination committee at www.hm.com/corporategovernance.

The composition of the nomination committee following the 2014 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 nomination 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 may not chair the nomination committee. The nomination committee appointed H&M's chairman of the board Stefan Persson as chairman of the nomination committee during the year on the grounds that this is considered to be an obvious choice in view of the ownership structure of H&M.

The nomination committee elected at the 2013 AGM presented its proposals to the 2014 AGM. These included the proposal that Lena Patriksson Keller and Niklas Zennström be elected as new board members in addition to the ordinary members Anders Dahlvig, Lottie Knutson, Sussi Kvart, Stefan Persson, Melker Schörling and Christian Sievert. The nomination committee provided the following grounds for its proposed composition of the board before the 2014 AGM:

"The nomination committee judges that the proposed composition of the board of directors accords well with section 4.1 of the Swedish Corporate Governance Code, 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. It is felt that the new members proposed for election

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2014

NAME	YEAR ELECTED	INDEPENDENT ¹⁾	INDEPENDENT ²⁾	FEES (SEK) ³⁾	BOARD MEETINGS	AUDITING COMMITTEE	SHAREHOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, Chairman	1979	No	No	1,350,000	6/6			194,400,000 ⁴⁾ 393,049,043 ⁵⁾
Anders Dahlvig ⁶⁾	2010	Yes	Yes	475,000	5/6	3/3	17,510	
Lottie Knutson	2006	Yes	Yes	475,000	5/6		1,400	
Sussi Kvart	1998	Yes	Yes	575,000	6/6	4/4	4,400	1,700
Bo Lundquist ⁶⁾	1995	Yes	Yes	625,000	2/2	1/1		100,000 ⁷⁾
Lena Patriksson Keller ⁶⁾	2014	Yes	Yes		4/4		700	9,450
Melker Schörling	1998	Yes	Yes	475,000	5/6			228,000 ⁸⁾
Christian Sievert	2010	Yes	No ⁹⁾	575,000	6/6	4/4	56,000	4,000 and 600 ¹⁰⁾
Niklas Zennström ⁶⁾	2014	Yes	Yes		3/4		72,700	
Marie Björstedt ¹¹⁾ employee rep.	2011				1/1			
Margareta Welinder, employee rep.	2007				5/6			
Ingrid Godin ¹¹⁾ employee rep.	2012				6/6			60
Rita Hansson ¹¹⁾ deputy employee rep.	2014				5/5		300	
Tina Jäderberg deputy employee rep.	2007				6/6			

- 1) Independent of the company and company management in accordance with the Swedish Corporate Governance Code.
2) Independent of major shareholders in the company in accordance with the Swedish Corporate Governance Code.
3) Fees as resolved at the 2013 Annual General Meeting. This means that the fees related to the period until the next AGM, i.e. for the period 23 April 2013 to 29 April 2014. The amounts were paid out after the 2014 AGM.
4) Class A shares owned through Ramsbury Invest AB.
5) Class B shares owned through Ramsbury Invest AB.
6) Lena Patriksson Keller and Niklas Zennström were elected to the board at the AGM on 29 April 2014 and therefore attended the board meetings held after the AGM. Bo Lundquist had declined re-election and thus stepped down from the board in conjunction with the 2014 AGM. Bo Lundquist therefore attended the meetings up to and including the AGM. Anders Dahlvig, who became a member of the auditing committee in conjunction with the 2014 AGM, attended all the auditing committee meetings held after the AGM.

- 7) Shares owned through Bo Lundquist's company Caboran AB.
8) Shares owned through Melker Schörling AB.
9) Christian Sievert is not considered independent of Ramsbury Invest AB since Ramsbury Invest AB is a major shareholder in a company of which Christian Sievert is CEO.
10) Shares held by related parties: 4,000 shares held through Christian Sievert's company Whitechris Industri AB and 600 shares held by spouse. Additional information: In addition to Christian Sievert's shareholding shown above, Christian Sievert holds 5,000 H&M shares via a pension plan.
11) Employee representative Marie Björstedt resigned at the beginning of 2014. Former deputy employee representative Ingrid Godin succeeded Marie Björstedt as employee representative and Rita Hansson became the new deputy employee representative.

There are no outstanding share or share price related incentive programmes for the board of directors.

to the board will bring in wide-ranging expertise and additional experience from the fashion industry and from IT and online operations.

The proposed composition meets the applicable requirements concerning the independence of members and stock market experience.”

Since the 2014 AGM the nomination committee has held one meeting at which minutes were taken and has also been in contact at other times. At the nomination 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.

ANNUAL GENERAL MEETING 2015

H&M's annual general meeting 2015 will be held on Wednesday 29 April 2015 in Victoriahallen at the Stockholm International Fairs in Stockholm. To register to attend the 2015 AGM see page 108 of H&M's annual report for 2014 or visit www.hm.com/aggm.

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

The nomination committee's work in preparation for the next AGM is not yet complete and more information will be presented before and at the 2015 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 2014 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. Mia Brunell Livfors, a board member elected by the AGM, asked to be relieved of her position on the board of H&M as of 1 January 2014 because she was to take up a position on the board of a company in the same industry.

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 CEO attends all board meetings, except when the CEO's terms and conditions are being evaluated. The CEO 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 2014

H&M's board held six board meetings during the year, one of which was the statutory meeting. As last year, attendance by the board members was high and the CEO Karl-Johan Persson attended all the meetings. The board's attendance is reported in the table "Composition of the board of directors and attendance during the year".

In brief, the board addressed and discussed the following matters, among other things:

The company's financial situation, including sales, costs and results: The CEO provided information on the performance of H&M and its various concepts as well as that of the new brands COS, Monki, Weekday, Cheap Monday, H&M Home and & Other Stories in different markets based on the general market situation, price levels/competition and H&M's customer offering in each market. The board was also given information on store expansion in existing markets as well as expansion and developments in the new markets of Australia and the Philippines, and on the investments in online shopping including the launch of H&M's online store in France, Italy, Spain and China and preparations for the further roll-out of the online store.

In addition, the CEO reported on targets and focus areas for 2014 and continually provided information on matters such as buying work and production, the level of stock-in-trade, marketing, sustainability, developments in the online business and IT, and organisational changes.

The annual report, corporate governance report and interim reports were addressed and discussed. At its January meeting the board decided to propose a dividend for the 2013 financial year and this was presented to the annual general meeting in April.

The executive management team's updated risk assessment was addressed and discussed, having been dealt with previously by the auditing committee.

Expansion and investments: The board reviewed the expansion strategy, including targets and investments for the forthcoming financial year such as new stores, new markets and the number of store

refurbishments, as well as long-term investments in areas such as online shopping, IT, new brands and the broadening of H&M's existing product range.

Sustainability: Strategic matters within the group's sustainability work were discussed and dealt with on an ongoing basis. The results of the group's sustainability work in areas such as compliance with the Code of Conduct, more sustainable cotton, climate impact, anti-corruption, etc. were reported every six months.

Other: During the year the board also discussed strategic matters such as competition, external factors and macroeconomic conditions as well as development opportunities for H&M and the other brands.

Accounting and auditing matters are prepared within the auditing committee and reported to the board.

At each board meeting the chairman of the auditing committee reports on the main points discussed at the latest meeting of the auditing committee.

Among other things, the board made decisions on the following:

- The interim reports, full-year report, annual accounts and consolidated accounts, as well as the corporate governance report.
- The dividend proposal to the AGM of SEK 9.50 per share for the 2012/2013 financial year.
- Proposal to the AGM concerning guidelines for remuneration to senior executives.
- H&M's investment plan for 2015.
- H&M's tax policy in brief and its publication on hm.com.
- To continue with the present model for monitoring internal control.
- An updated work plan was adopted during the year.

In connection with the board's review of the proposed annual report for 2013, auditor Åsa Lundvall gave an account of the year's audit work.

THE AUDITING COMMITTEE IN 2014

Since the statutory meeting held in conjunction with the 2014 AGM, the auditing committee has consisted of chairman Christian Sievert and members Sussi Kvart and Anders Dahlvig. The committee held four meetings at which minutes were taken during the 2013/2014 financial year.

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, communications, IT, production and logistics.
- The internal pricing model and tax matters, as well as H&M's tax policy in brief.
- Ernst & Young provided the committee with information on the results of its scrutiny as well as the scope of the audit. In addition, Ernst & Young provided information on current regulatory developments in the area of accounting.

- 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 Stockholm. It falls to the board of directors to ensure the quality of financial reporting – for example, via the auditing committee. More information is available in the section on internal control over financial reporting.

AUDITORS

At the 2013 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 2017 AGM. Authorised public accountant Åsa Lundvall from Ernst & Young holds the main responsibility for the audit.

As previously, the 2014 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's 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.

Åsa Lundvall is an authorised public accountant who conducts auditing assignments for companies such as ATG, Apoteket, DGC One, Systemair and Systembolaget.

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

AUDIT FEES (SEK M)

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Ernst & Young				
Audit assignments	24.1	20.8	3.3	3.3
Auditing other than audit assignments	2.7	2.4	0.6	0.4
Tax consultancy	14.1	13.2	0.4	0.1
Other consultancy	1.1	0.9	–	–
Other auditors				
Audit assignments	4.0	3.6	–	–
TOTAL	46.0	40.9	4.3	3.8

INFORMATION ABOUT THE CEO

Karl-Johan Persson, born in 1975, has been the president and chief executive officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as CEO 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. Since 2013 Karl-Johan Persson has also been a member of the board of the H&M Conscious 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 CEO (see section on control environment). The matrix organisation consists of the sales countries, which are headed by the country managers, and the group functions/central departments, for which the heads of department on the executive management team have responsibility.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

In accordance with the Swedish Companies Act, the 2014 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 62–63 of H&M's annual report for 2014.

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 proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings.

The board decides on the CEO's salary according to the guidelines adopted at the 2014 AGM. The terms of employment for other senior executives are decided by the CEO and the chairman of the board. No severance pay agreements exist within H&M other than for the CEO.

Before the 2014 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 2013 AGM. The results of this assessment were published on the website in good time before the 2014 AGM.



CHRISTIAN SIEVERT
Board member and chairman of
the auditing committee

STEFAN PERSSON
Chairman of the board

INGRID GODIN
Employee representative

LENA PATRIKSSON KELLER
Board member

LOTTIE KNUTSON
Board member

RITA HANSSON
Deputy employee representative



MELKER SCHÖRLING
Board member

TINA JÄDERBERG
Deputy employee representative

MARGARETA WELINDER
Employee representative

NIKLAS ZENNSTRÖM
Board member

ANDERS DAHLVIG
Board member and member of
the auditing committee

SUSSI KVART
Board member and member of
the auditing committee

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.

PROFESSIONAL EXPERIENCE

- 1976–1982 Country manager for H&M in the UK and responsible for H&M's expansion abroad.
- 1982–1998 President and chief executive officer of H&M.
- 1998– Chairman of the board of H&M.

ANDERS DAHLVIG

Board member and member of the auditing committee. 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.

PROFESSIONAL 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

Writer and advisor on digital marketing, change work and crisis management.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the board of Stena Line Holding BV.

EDUCATION

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

PROFESSIONAL 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.
- 1999–2014 Marketing director, 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 Stockholms Stads- hus AB, Transparency International Sweden and DGC One AB.

EDUCATION

Bachelor of Laws from Lund University, 1980.

PROFESSIONAL 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 Kvart AB.

LENA PATRIKSSON KELLER

Board member. Born 1969.

PRIMARY OCCUPATION

Executive Chairman at branding and communications agency Patriksson Communication AB.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the boards of WESC and Elite Hotels. Chairman of the board of ASFB, the industry organisation Association of Swedish Fashion Brands.

EDUCATION

Design and Marketing at Parsons School of Design in New York and at the American University in London.

PROFESSIONAL EXPERIENCE

1993–1996 Buying & Product Development at H&M.
1996–1998 Global Communications Manager, J.Lindeberg.
1999– CEO and later Executive Chairman, Patriksson Communication AB.

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.

PROFESSIONAL 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 President and CEO, Securitas AB, Stockholm.
1993–1997 President and CEO, Skanska AB, Stockholm.

CHRISTIAN SIEVERT

Board member and chairman of the auditing committee. Born 1969.

PRIMARY OCCUPATION

CEO of investment company AB Max Sievert.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the boards of AB Segulah, AB Max Sievert and AB Anders Löfberg.

EDUCATION

MSc in business administration from the School of Economics, Stockholm, 1994.

PROFESSIONAL EXPERIENCE

1994–1997 Consultant, Bain & Company, Stockholm and San Francisco, USA.
1997–2003 Investment manager and partner, Segulah.
2003–2013 CEO/managing partner of Segulah.
2013–2014 Partner, Segulah.
2014– Chief executive of investment company AB Max Sievert.

NIKLAS ZENNSTRÖM

Board member. Born 1966.

PRIMARY OCCUPATION

CEO of venture capital company Atomico, which focuses on fast-growing tech companies, and involved in Zennström Philanthropies, which supports organisations particularly associated with climate change, social entrepreneurship, the Baltic Sea environment and human rights.

OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the boards of Atomico, Zennström Philanthropies, Rovio, Fon and Fab.

EDUCATION

Degrees in business administration and engineering physics from Uppsala University.

PROFESSIONAL EXPERIENCE

1991–1994 Product Manager, Tele2 AB, Stockholm.
1994–1996 Director of Access Network, Unisource Voice Services AB, Stockholm.
1996–1997 Director of Internet Services, Tele2 Danmark A/S, Copenhagen.
1997–2000 Director of Internet Services, Tele2 Europe ASA, Luxembourg/Amsterdam.
2000–2002 CEO and founder, Kazaa, Amsterdam.
2001–2003 CEO and founder, Joltid, Amsterdam.
2002–2007 CEO and founder, Skype, London.
2007– CEO and founder, Atomico, London.

MARGARETA WELINDER

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

INGRID GODIN

Employee representative on the H&M board since 2012. Born 1959.

RITA HANSSON

Deputy employee representative on the H&M board since 2014. Born 1951.

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 Corporate Governance Code.

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 the 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 CEO, which is clearly 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 guidelines, as well as 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.

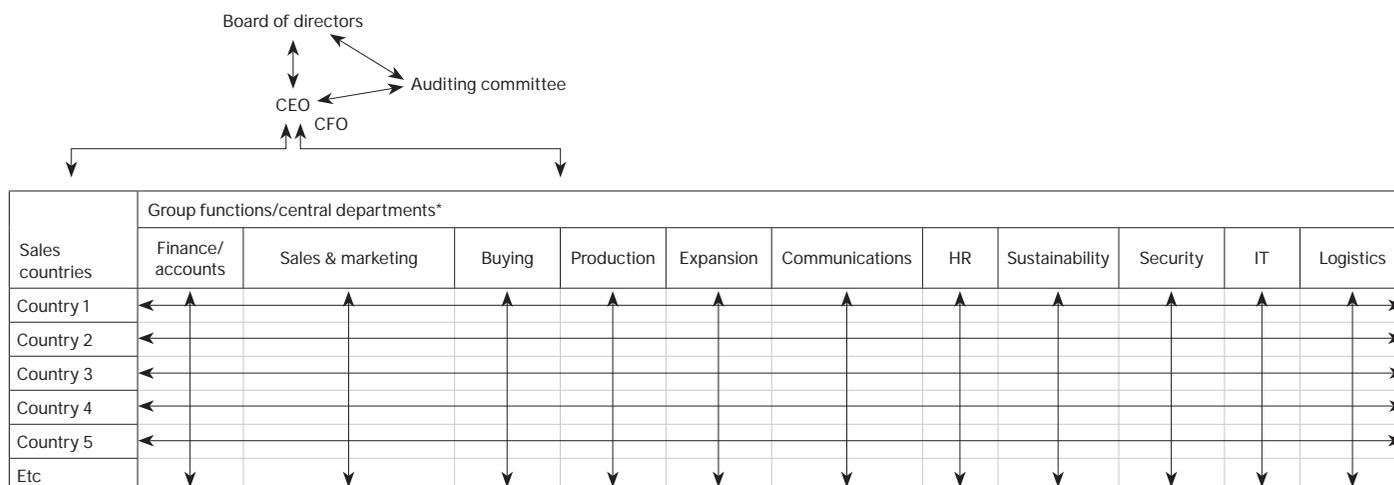
All the companies within the H&M group – apart from Weekday Brands, which is engaged in wholesale operations – have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which facilitates internal control and 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 2014 each central function reviewed its main risks, assessed these and identified the systems,



* Those responsible for group functions are members of the executive management team. In addition to the functions mentioned above and the CEO, those responsible for IR, new business and the brand are also part of the executive management team.

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 on pages 64–65 and for risks within financial reporting see note 2, Financial risks, on pages 78–79 of H&M's annual report for 2014.

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 2014 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 email 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 hm.com

MONITORING

In 2014 the group functions/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.

In 2014 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 2015. This work was carried out in cooperation with the functions and resulted in updated checklists for the central functions to use in their audits in 2015.

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 ensures that continuous improvements are made.

INTERNAL AUDIT

In accordance with section 7.4 of the Swedish Corporate Governance Code, 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 2015.

Stockholm, January 2015

The Board of Directors

More information on H&M's corporate governance work can be found in the section on corporate governance at 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 2013 to 30 November 2014. 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 accounts and the consolidated accounts.

Stockholm, 27 January 2015

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant