

THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL OF FINANCIAL REPORTING FOR THE 2005 FINANCIAL YEAR

This report has been prepared in accordance with the Swedish Code of Corporate Governance and the guidelines produced by the Swedish Institute of Authorised Public Accountants (FAR) and the Confederation of Swedish Enterprise, and applying the rules for transition published by the Swedish Corporate Governance Board on 15 December 2005. The report is limited to a description of the structure of internal control of financial reporting and, in compliance with the transition rules, contains no statements regarding how well the internal control has functioned.

Control environment

The Board's rules of procedure and instructions for the Managing Director and the Board's committees clearly define the distribution of roles and responsibilities to ensure that business risk is handled effectively. The goal of internal control within H&M is to create clear and effective decision processes where requirements, objectives and parameters are explicitly defined.

Members of the executive management team report on a regular basis to the Board of Directors based on established routines, as does the Auditing Committee. The management team is responsible for the systems of internal control that are required to handle the significant risk associated with day-to-day operations. This includes guidelines for various executives to ensure they understand and appreciate the significance of their role in maintaining good internal control.

All of H&M's subsidiaries use the same accounting system. This simplifies financial reporting and facilitates follow-up and control.

Risk assessment and control structures

H&M has established control structures to handle the risks that the Board deems significant with respect to the internal control of financial reporting. Within H&M these control structures consist of an organisation that, from

an internal control perspective, allow the appropriate distribution of responsibility, and of specific control activities to detect mistakes in financial reporting or to prevent them ahead of time.

Information and communication

Important guidelines for financial reporting are updated and communicated on an ongoing basis. There are both formal and informal information channels through which co-workers can communicate important information to executive management and the Board of Directors.

H&M has a policy with guidelines for communication with external parties. The purpose of this policy is to ensure that all information obligations are met and that the information provided is both accurate and complete.

Follow-up

The Board of Directors continuously evaluates the information provided by the executive management team and the Auditing Committee. 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 by external auditors to rectify them.

Internal audit

H&M has not found it necessary up to now to establish a formal internal audit function. This issue will be reviewed in 2006.

This report is not part of the formal Annual Report and has not been reviewed by the company's auditors.

Stockholm, February 2006

The Board of Directors