

THE BOARD'S PROPOSALS TO THE 2017 AGM FOR GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The board is proposing the following guidelines for remuneration of senior executives to the annual general meeting on 10 May 2017.

The board considers it of the utmost importance that senior executives are paid competitive 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.

Guidelines for remuneration of senior executives were re-examined in conjunction with the review of the organisation and its composition carried out in 2016. Below are the board's proposed new guidelines for senior executives, which in addition to the CEO include members of the executive management team and those responsible for other group-wide functions; overall, this amounts to nearly 20 individuals. The guidelines are based on industry comparisons.

Senior executives shall be compensated at what are considered by the company to be competitive market rates. The criteria used to set levels of compensation shall be based partly on the significance of the duties performed and partly on the employee's skills, experience and performance. Over time, the largest portion of the total remuneration shall consist of the fixed 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.

The total annual remuneration may consist of the following components:

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

Fixed basic 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 basic salary shall reflect the individual's area of responsibility, skills and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

There shall be a clear link between the level of variable remuneration paid and the H&M group's financial and sustainable development. From time to time, therefore, senior executives are entitled to variable remuneration that depends on the fulfilment of targets – which include group-wide financial targets such as pre-set targets for profits and sales, sustainability targets, and individual targets within that person's area of responsibility. The targets are aimed at promoting H&M's development in both the short and the long term.

At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. The CEO decides the maximum possible outcome for each position, but always within the framework of these guidelines. Variable remuneration is not paid if the individual has given notice to terminate his/her employment.

The variable remuneration may consist of:

Short-term variable remuneration, which is the possibility of a cash payment provided that the target criteria that were set in advance for both the group and the individual have been fulfilled. Half of the payment shall be invested in H&M shares that must be held for at least three years. Short-term variable remuneration must never exceed the fixed basic salary for each individual.

Long-term variable remuneration, which is based on performance relative to set targets, but is also conditional upon the senior executive remaining employed within the H&M group for at least five years. The board's reasoning is – in view of H&M's strong expansion and the important stage of development that H&M is at, including within multi-

brand and omni-channel developments – to ensure that these key individuals in senior positions remain with the H&M group during this important development phase. The five-year rule applies with effect from the year that the annual general meeting adopted this rule, which was at the annual general meeting in spring 2014 (when it was referred to as supplementary guidelines), up to and including the month of May five years later, i.e. in 2019. At individual level, the remuneration 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. The total cost to the group is estimated at around SEK 30 m per year including social security costs over five years.

In addition to this, in a few cases senior executives may, at the discretion of the CEO and the chairman of the board, receive one-off payments of up to an extra year's fixed basic salary. Discretionary one-off amounts may also be paid to other key individuals.

Pension benefits

By far the majority of senior executives are covered by a premium-based pension plan, in addition to the ITP plan. Other than the ITP plan, no defined benefit pension plans have been taken out for senior executives since 2005. The retirement age for senior executives varies between 60 and 65 years. The cost of these commitments is partly covered by separate insurance policies.

Other benefits

Senior executives receive other benefits such as healthcare and car allowances. 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.

Information concerning the CEO

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

The board of directors sets the CEO's total remuneration. The CEO is not included in the long-term variable remuneration, i.e. what was previously referred to as supplementary guidelines.

Other

The period of notice for senior executives varies from three to twelve months.

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.

Where a board member performs work for the company in addition to his or her board work, a separate fee may be paid for this. This also applies if the work is performed by a company wholly or partly owned by the board member.