

Corporate governance report 2016

H & M Hennes & Mauritz AB

Good and sound corporate governance ensures that companies are managed as sustainably, responsibly and efficiently as possible in the interests of the shareholders. It is a matter of complying with external regulations and doing the right thing. In the H&M group, our values and global policies and guidelines are important tools in our approach to the world around us. Our Code of Ethics, which is signed by all our employees who have business relationships and by all business partners, clearly states our approach to doing business. Acting consistently and with a strong ethical compass is of great importance, because we operate in many different markets that have different challenges and where the laws, environmental requirements and social conditions may differ.

H & M Hennes & Mauritz AB is a Swedish public limited company. H&M's class B share is listed on Nasdaq Stockholm. 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. The report was prepared by the company's board of directors and has been reviewed by the company's auditors.

The H&M group is governed by both external regulations and internal control documents.

Examples of external regulations that affect H&M:

- Swedish Companies Act
- Accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act
- EU Market Abuse Regulation (596/2014 /EU)
- Nasdaq Stockholm Rules for Issuers
- Swedish Corporate Governance Code (the Code), which is available at corporategovernanceboard.se. The Code 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.

Examples of internal control documents:

- Articles of association
- The board's work plan including instructions for the CEO and auditing committee
- The H&M Way
- Code of Ethics
- Code of Conduct: Sustainability Commitment (formerly Code of Conduct)
- Insider Policy
- Financial Policy
- Communications Policy
- Human Rights Policy
- Tax Policy
- Whistleblowing Policy
- Other policies, guidelines and manuals

H&M's corporate governance is governed by values, since it is based both on external regulations and on our values – which, in brief, can be described as a sound, simple, straightforward, cost-conscious, entrepreneurial corporate culture that focuses on teamwork, our belief in people and constant improvement. Sustainability work is well integrated into every part of the business and forms a natural part of our employees' everyday life.

Today, H&M is present in more than 60 retail markets and around 20 production countries. As a global company, it is of the utmost importance that we always act ethically, transparently and responsibly at every stage – from doing business with our suppliers to meeting with customers. Through good purchasing routines and close cooperation with our suppliers, our products should always be produced with the greatest possible consideration for people and the environment. Our risk management and internal control work ensure that we work purposefully in every part of the organisation, and the board of directors and auditing committee receive regular feedback from the organisation concerning how the internal control work is being conducted. Every year a thorough review is carried out of the company's risks, both operational and financial, with well-defined action plans to minimise risk. A long-term risk analysis is also performed, to provide supporting documentation for long-term commercial decisions.

Responsibility for management and control is shared between the shareholders, board, auditing committee and CEO. The board's work plan states how the work is to be distributed between the board, the auditing committee and the CEO, with the board having the ultimate responsibility for the company's organisation and administration and the CEO taking care of the ongoing management of the business, with regular feedback to the board.

The board of directors has eight members elected by the AGM, two employee representatives and two deputies for these. Overall, the board has 12 members – seven women and five men.

The composition of the board is characterised by breadth and diversity, and the various competencies of the board members complement each other well, providing experience within areas such as retailing, entrepreneurship, fashion, digitalisation, sustainability and communication which forms a good basis for valuable discussions with the CEO and management.

During the year the board held seven board meetings, including a statutory meeting in conjunction with the AGM. As in previous years, there was a very high level of attendance by board members. The CEO, CFO and chief accountant also attend all the meetings. Generally, one or two functions/departments are invited to each meeting to give a status presentation concerning what their particular function is working on; for example, every six months the head of sustainability provides an update on the company's sustainability work, making reference to key indicators and targets. These presentations act as a complement to the CEO's status reports and provide opportunity for more in-depth discussions concerning specific areas of the operations. At each board meeting the chair of the auditing committee also gives an account of the matters addressed by the auditing committee at its most recent meeting within areas such as accounting, auditing, tax, internal control, risks, as well as various new regulations and legislation.

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 75 of H&M’s annual report for 2016 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 15.

In 2016 H&M deviated from the Code on the following two points:

- 1.2 At H&M’s extraordinary general meeting on 8 March 2016 the board members present did not constitute a quorum, which was due to business trips and other commitments. The only material matter dealt with at the meeting was a motion to supplement the articles of association so as to allow general meetings also to be held in Solna. The chairman of the board was present at the meeting and was able to answer questions. In view of the nature of the matter, there was no possible adjustment of the proposed resolution, and for this reason the board members present were not required to constitute a quorum.
- 2.4 The fact that Stefan Persson, the chairman of the board, also chairs the nomination committee. The nomination committee is unanimous that, as the chairman of the board and the largest shareholder in H&M, Stefan Persson is the natural choice to chair H&M’s nomination committee.

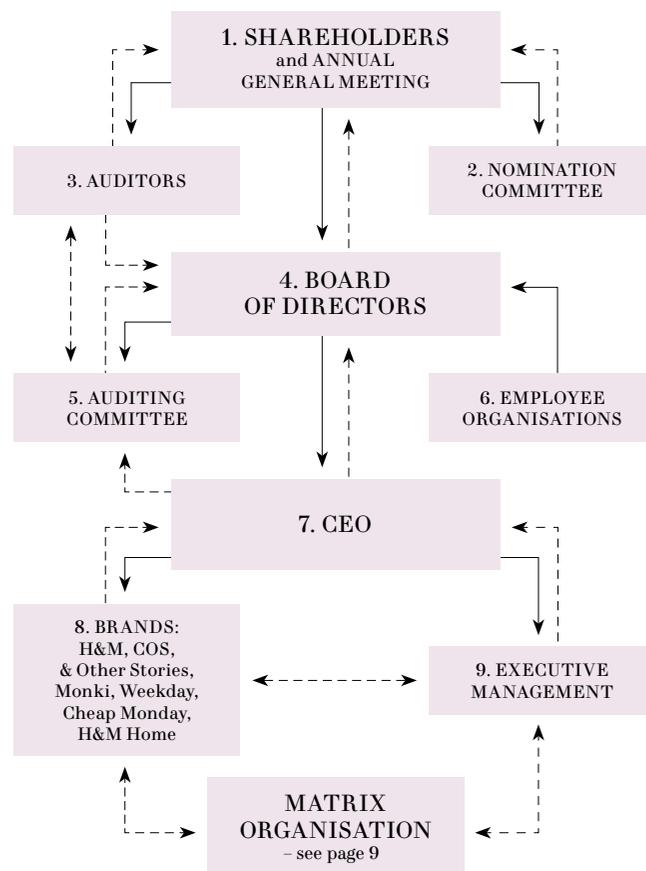
READ MORE about H&M’s corporate governance at about.hm.com/corporategovernance

Among other things, you will find here:

- Previous corporate governance reports
- Articles of association
- Information on the nomination committee, board of directors, CEO, auditors, auditing committee, guidelines and policies, etc.
- Information and material from previous AGMs
- Risks and uncertainties

H&M’s corporate governance structure

H&M’s corporate governance structure encompasses shareholders, the board of directors, the auditing committee, the CEO, the nomination committee, auditors, the executive management team, brands, employees and employee organisations – see the illustration below. The illustration summarises H&M’s corporate governance structure. H&M’s shareholders ultimately decide the company’s direction, since the shareholders at the general meeting appoint the board of directors and the chairman of the board. Proposals for the composition of the board, board fees and the election of auditors are prepared previously within the nomination committee. The board in turn appoints the CEO to take care of day-to-day administration, and the CEO appoints members of the executive management team within H&M’s matrix organisation. The board includes two employee representatives and two deputies for these, who are appointed by their respective employee organisations. The board appoints an auditing committee from among its members, which deals with accounting and auditing matters on an ongoing basis and which is the main channel of communication between the board and the auditors. Each year the auditors report to the board and the annual general meeting on their scrutiny.



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

1. SHAREHOLDERS AND ANNUAL GENERAL MEETING

It is H&M's shareholders who have the final decision on the company's governance by voting at the general meeting to adopt the articles of association, which decide what the business will focus on, and to appoint the board of directors and its chairman, whose task it is to administer H&M's affairs on behalf of the shareholders. The shareholders at the general meeting also elect auditors, decide on the principles of the nomination committee and select the members of this committee.

The general meeting is thus the company's highest decision-making body and is the forum in which shareholders exercise their right to decide on the company's affairs. H&M's ordinary general meeting (annual general meeting) is held once a year, in late April or early May.

The date and venue are announced in H&M's nine-month report as well as on hm.com, and the notice of the meeting is published in full usually five weeks before the meeting in Post- och Inrikes Tidningar and on hm.com, with an advertisement placed in Dagens Nyheter and Svenska Dagbladet. 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 that they hold. Shareholders who cannot be present in person may be represented by proxy.

Shareholders wishing to have a particular matter considered by the meeting may submit a written request to the board at least seven weeks before the meeting. H&M's email address is also given for those shareholders who wish to submit their questions to H&M in advance. All the material belonging to the meeting, including the minutes of the meeting, is available on the website in both Swedish and English.

Extraordinary general meetings can also be held where there is a particular need to do so. The last time this happened was on 8 March 2016, when a resolution was passed to amend the articles of association in order to allow the 2016 annual general meeting to be held in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna. This extraordinary general meeting, which was held at H&M's head office on Mäster Samuelsgatan in Stockholm, was represented by 1,070 shareholders (either in person or by proxy), in total representing 80.5 percent of the votes and 59.8 percent of the capital.

Shareholders' decision-making powers

Among other things, the general meeting makes decisions concerning:

- The election of board members and the chairman of the board
- Board fees including the compensation paid to members for work on the auditing committee
- Discharge of the members of the board and the CEO from liability
- Amendments to the articles of association
- The election of the auditor
- The adoption of the income statement and balance sheet
- The distribution of the earnings for the past financial year
- The election of members of the nomination committee and establishment of principles for the nomination committee
- Guidelines for remuneration to senior executives

Annual general meeting 2016

H&M's annual general meeting 2016 was held on 3 May in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna. A total of 1,796 shareholders were represented at the meeting, representing 83.3 percent of the votes and 65.5 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 9.75 per share was approved.
- The board members and the CEO were discharged from liability for the 2014/2015 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 following ordinary board members were re-elected: Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Melker Schörling, Christian Sievert and Niklas Zennström. Stina Bergfors and Erica Wiking Häger were elected as new board members. Lottie Knutson and Sussi Kwart did not stand for re-election. Stefan Persson was re-elected as chairman of the board.
- The AGM approved the proposal from the nomination committee that the board fees be increased by SEK 250,000 to a total of SEK 6,075,000. The board fees are to be distributed as follows: chairman of the board SEK 1,625,000; members elected by the AGM SEK 575,000; members of the auditing committee an extra SEK 125,000; and the chairman of the auditing committee an extra SEK 175,000.
- 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 proposed amendments to the articles of association were adopted.

Votes and capital represented at H&M's annual general meeting

YEAR	% OF VOTES	% OF CAPITAL
2012	83.3	65.7
2013	85.3	69.8
2014	84.2	67.5
2015	82.4	63.7
2016	83.3	65.5

Number of shareholders and ownership structure

At the end of the financial year H&M had 268,290 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 406,049,043 class B shares, representing 11.9 percent of the votes. This means that as of 30 November 2016, Stefan Persson and family via Ramsbury Invest AB represent 69.0 percent of the votes and 36.3 percent of the total number of shares. Ramsbury Invest AB is thus the parent company of H & M Hennes & Mauritz AB.

Annual general meeting 2017

H&M's annual general meeting 2017 will be held on Wednesday, 10 May 2017 in the Erling Persson Hall, Aula Medica, Karolinska Institutet in Solna.

To register to attend the 2017 AGM, see page 106 of H&M's annual report for 2016 or visit hm.com/agm.

2. NOMINATION COMMITTEE

The nomination committee prepares 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. The nomination

committee's proposal for the composition of the board is characterised by diversity and breadth as regards expertise, experience, background and gender balance. It also takes into consideration the H&M group's stage of development and future focus.

Before each general meeting the nomination committee's report is available to read as a separate document at about.hm.com/corporategovernance. The members of the nomination committee are elected by the AGM on the basis of principles for the nomination committee. Briefly, these state that the nomination committee is to be made up of the chairman of the board and four other members who are nominated by the four largest shareholders as of the last day of February that year, other than the shareholder that the chairman of the board represents.

Composition of the nomination committee following the 2016 AGM:

- Stefan Persson, chairman of the board
- Lottie Tham
- Liselott Ledin, Alecta
- Jan Andersson, Swedbank Robur Fonder
- Anders Oscarsson, AMF Pension

The nomination committee meets the requirements of the Code regarding the independence of members. Stefan Persson is the nomination committee's chairman. This deviates from section 2.4 of the Swedish Corporate Governance Code. The 2016 AGM resolved that unless the members of the nomination committee agree otherwise, the chairman of the nomination committee shall be the member representing the largest shareholder. The nomination committee has found no reason to decide otherwise. The nomination committee was unanimous that in view of H&M's ownership structure, Stefan Persson in his capacity as chairman of the board and principal shareholder is the natural choice to chair H&M's nomination committee.

Work of the nomination committee in preparation for the 2016 AGM

The nomination committee elected at the 2015 AGM, which was the same as that elected at the 2016 AGM, presented its proposals for the 2016 AGM. The proposal for the composition of the board was to elect Stina Bergfors and Erica Wiking Häger as new members, and to re-elect Anders Dahlvig, Lena Patriksson Keller, Stefan Persson, Melker Schörling, Christian Sievert and Niklas Zennström. Lottie Knutson and Sussi Kvart did not stand for re-election. It was felt that the election of Stina Bergfors and Erica Wiking Häger would make a valuable contribution to the work of the board through their respective areas of expertise and experience in the following areas: media, digitalisation, entrepreneurship, commercial law, sustainability and risk management.

The nomination committee judged that the proposed composition of the board accorded well with section 4.1 of the Swedish Corporate Governance Code, i.e. that the proposed board was characterised by diversity and breadth of expertise, experience, background and gender balance. The nomination committee aims for gender balance and H&M's board has had a good gender balance for many years. The proposed board members consisted of three women and five men (corresponding to 37.5 percent and 62.5 percent respectively, excluding employee representatives). The Swedish Corporate Governance Board wants owners to speed up developments towards achieving a share of around 40 percent for the less well represented gender overall on the boards of listed companies by 2020. Large companies should have achieved around 35 percent on average already in 2017. The board of H&M thus meets the Corporate Governance Board's level of ambition for major companies for 2017. To achieve continued gender balance, H&M's nomi-

nation committee discusses this each year and accordingly identifies future board candidates with relevant backgrounds and experience on a continuous basis.

It was 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. The proposed composition was also considered to meet the applicable requirements well in respect of the independence of board members and their stock market experience.

Work of the nomination committee in preparation for the 2017 AGM

Since the 2016 AGM the nomination committee has held one meeting so far at which minutes were taken and has also been in contact at other times. The work of the board and its composition are assessed on an ongoing basis over the year.

Stefan Persson gave a verbal account of this at the nomination committee's first meeting. The conclusion was that the board had worked effectively over the course of the year. The board's work is presented so that the nomination committee can make the best possible assessment of the board's collective competence and experience.

The nomination committee also discusses the size of the board, its composition, the election of a chairman for the AGM, fees for board members and, when appropriate, the election of auditors. No fees were paid to the nomination committee's chairman or to any other member 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 2017 AGM.

3. AUDITORS

The auditors, who are independent and appointed by the shareholders at the annual general meeting (AGM), scrutinise H&M's annual report, consolidated financial statements, accounts, sustainability report and corporate governance report, and examine whether these have been prepared in accordance with current laws and recommendations. The auditors also scrutinise the management of the H&M group by the board and CEO, and review compliance with the guidelines on remuneration to senior executives adopted by the AGM.

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 2016 AGM resolved that the auditors' fees should be paid based on the invoices submitted. The fees invoiced by the auditors over the past two financial years are reported in note 9 of the annual report for 2016.

Ernst & Young AB (EY) 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 fact that non-auditing assignments must be approved in advance by the auditing committee. Åsa Lundvall is an authorised public accountant who conducts auditing assignments for companies such as Apotek Hjärtat, ATG, DGC One, Systemair and Systembolaget.

The auditors attend all meetings of the auditing committee, and as in previous years, the chief auditor Åsa Lundvall also took part in the board meeting held in January 2016 in order to notify the board of the scope, focus, significant considerations and conclusions of the audit of the 2015 financial year. In addition to this involvement, the auditor meets regularly with the chairman of the board, the chairman and

COMPOSITION OF THE BOARD AND ATTENDANCE IN 2016

NAME	YEAR ELECTED	INDEPENDENT ¹⁾	INDEPENDENT ²⁾	FEES (SEK) ³⁾	BOARD MEETINGS ⁴⁾	AUDITING COMMITTEE	SHARE-HOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, chairman	1979	No	No	1,500,000	7/7			194,400,000 ⁵⁾ 406,049,043 ⁶⁾
Stina Bergfors ⁷⁾	2016	Yes	Yes		4/4		1,000	3,000 ⁸⁾
Anders Dahlvig	2010	Yes	Yes	675,000	7/7	4/4	17,510	
Lottie Knutson ⁷⁾	2006	Yes	Yes	550,000	3/3		1,400	
Sussi Kvar ⁷⁾	1998	Yes	Yes	675,000	3/3	1/1	4,400	1,700
Lena Patriksson Keller	2014	Yes	Yes	550,000	7/7			1,200 ⁹⁾ and 9,450 ⁹⁾
Melker Schörling	1998	Yes	Yes	550,000	4/7			228,000 ¹⁰⁾
Christian Sievert	2010	Yes	No ¹¹⁾	725,000	7/7	4/4	81,000	19,000 and 2,400 ¹²⁾
Erica Wiking Häger ⁷⁾	2016	Yes	Yes		4/4	3/3		750 and 85 ¹³⁾
Niklas Zennström	2014	Yes	Yes	550,000	7/7		72,700	
Ingrid Godin employee rep.	2012				7/7			60
Margareta Welinder employee rep.	2007				6/7			
Rita Hansson deputy employee rep.	2014				7/7		300	
Alexandra Rosenqvist deputy employee rep.	2015				6/7			

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 2015 annual general meeting. This means that the fees related to the period until the next AGM, i.e. the period 29 April 2015 to 3 May 2016. The amounts were paid out after the 2016 AGM.
4) Attendance via technology is equated with attendance in person.
5) Class A shares owned through Ramsbury Invest AB.
6) Class B shares owned through Ramsbury Invest AB as of 30 January 2017.
7) Lottie Knutson and Sussi Kvar stepped down from the board at the annual general meeting on 3 May 2016, and consequently their shareholdings are stated as of that date. Stina Bergfors and Erica Wiking Häger were first elected to the board at the AGM.
8) Shares held by spouse.
9) 1,200 shares are owned through Lena Patriksson Keller's private company Verdani Holding AB. 9,450 shares held by spouse.
10) Shares owned through Melker Schörling AB.
11) 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.
12) Shares held by related parties: 19,000 shares held through Christian Sievert's company Whitechris Industri AB and 2,400 shares held by spouse and children. Additional information: in addition to Christian Sievert's shareholding shown above, Christian Sievert holds 9,000 H&M shares via a pension plan.
13) 750 shares are owned through Erica Wiking Häger's company Erica Wiking Häger Advokattaktiebolag, and 85 shares are held by her spouse.

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

other members of the auditing committee, the executive management and other key individuals. The auditor also takes part in the AGM, reporting the conclusions drawn from the audit.

Alongside its mandate as elected auditor, EY has also carried out related tasks such as verification of the Sustainability Report. In addition, EY has assisted with other consulting services, primarily tax advice. EY has internal processes to ensure its independence before these tasks are begun. The auditing committee also has a process for approving non-auditing services in advance, before such assignments are begun. The auditing committee evaluates the auditor annually to gain assurance that the auditor's objectivity and independence cannot be questioned.

4. BOARD OF DIRECTORS

The task of the board of directors is to manage H&M's affairs in the interests of the company and all its shareholders. This means that the board has the overall responsibility for H&M's administration. This takes place in a long-term, sustainable way with a focus on the customer offering and growth.

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 and on

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.

Composition of H&M's board and independence of its members

The board members are elected by the shareholders at the annual general meeting for the period up until the next AGM.

Since the 2016 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. Since the 2016 AGM the board has comprised the following members elected by the meeting: Stefan Persson (chairman), Stina Bergfors, Anders Dahlvig, Lena Patriksson Keller, Melker Schörling, Christian Sievert, Erica Wiking Häger and Niklas Zennström. Ingrid Godin and Margareta Welinder are the regular employee representatives, with Rita Hansson and Alexandra Rosenqvist as their deputies. For more facts about H&M's board members, see pages 13–14.

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.

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. The majority of the board members are also independent of the company's major shareholders.

Number of board meetings

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 of employment are being discussed. 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.

The CFO and chief accountant also attend the board meetings in order to provide financial information. The board is assisted by a secretary who is not a member of the board.

During the 2016 financial year seven board meetings were held. The level of attendance at board meetings is high, with each member's attendance shown in the table on page 5.

Work of the board in 2016

H&M's board meetings are generally structured as follows, which is then supplemented by one or more business presentations, e.g. by heads of functions or country managers.

The following areas are usually reviewed at each board meeting:

- Minutes of the previous meeting
- CEO's status report
- Report by CFO
- Strategic matters
- Feedback from latest auditing committee meeting
- Financial reporting, such as interim report, annual report
- Decisions on particular matters

During 2016 CEO Karl-Johan Persson provided information on the following, among other things: sales, costs, results, the customer offering for each brand and market performance, investments, store and online expansion, sustainability, external factors and development opportunities. The CEO also provided ongoing information on purchasing, production, the stock-in-trade, marketing and PR activities, organisational changes, the broadening of the product range, and new initiatives and the development of new brands. Decisions taken by the board during the year included the opening of around 425 new stores net, with Puerto Rico, Cyprus and New Zealand as new store markets for 2016, as well as rapid online expansion, with eleven new H&M online markets in 2016.

The sector is undergoing interesting structural changes and rapid shifts in technology – which creates great opportunities, but also puts demands on the organisation. The board therefore discusses the significance of the increased digitalisation and which investments need to be made in order to be able to offer customers a shopping experience that is as complete and seamless as possible. The board receives ongoing updates on these projects. These might concern development of the online offering in terms of faster delivery options, mobile payment solutions, handling of returns, changes of platforms and advanced data analytics, etc. The long-term investments being made aim to ensure the group's future expansion and position.

The group's integrated sustainability work is very important and is discussed regularly by the board. Every six months, the head of sustainability provides an update on the group's sustainability work with ref-

erence to key indicators and targets, such as compliance with the Code of Conduct, sustainable material, climate impact, anti-corruption, etc.

At each board meeting the chairman of the auditing committee reports to the board on what the auditing committee discussed at its latest meeting. This primarily concerns areas such as accounting, auditing, tax, internal control, risk, various new regulations and new legislation, etc. The overall risk assessment, involving the very largest risks – in both the short and the long term – is then also discussed at subsequent board meetings. At four of the year's meetings the board goes through quarterly reports before they are published and at the January meeting the board discusses the annual report, with the auditor also reporting on the year's audit.

During the year the board takes a number of different decisions such as on the expansion and investment plan, the proposed dividend, which was SEK 9.75 per share for the 2015 financial year, as proposed to the 2016 AGM, guidelines for remuneration of senior executives, the financial reports, etc. In 2016 the board also took the decision to propose amendment of the articles of association. At a board meeting on 30 January 2017 the board decided to rephrase the earlier growth target.

Since H&M does not have a separate review function (internal audit) for work on internal control, but has instead established its own model for managing the company's risk and internal control (see pages 8–10), once a year the board assesses the need for a separate internal audit function. This year the board again reached the conclusion that the present model for monitoring internal control is working in a satisfactory way.

Before the 2016 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 2015 AGM. The results of this assessment were published on the website in good time before the 2016 AGM.

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. It is the board that prepares the proposed guidelines for remuneration to senior executives that are presented at the AGMs, and it is the board that decides on the CEO's salary in accordance with the guidelines adopted at the last AGM. The board continually assesses the CEO's work and once a year discusses this matter separately in conjunction with the setting of the CEO's remuneration for the coming year. No member of executive management is present when this is discussed.

5. AUDITING COMMITTEE

The auditing committee monitors the company's financial reporting, which among other things involves 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 attend the meetings of the auditing committee to report on their scrutiny of the group's annual report and financial statements, including the consolidated financial statements.

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 receives a written assurance of independence from the auditor stating which assignments the accounting firm has provided to H&M during the financial year 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, two of whom have expertise in accounting or auditing while the third

has expertise in commercial law. All the members are independent of the company and its management. The majority of the members are also independent of 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. Since the statutory meeting held in conjunction with the 2016 AGM, the auditing committee has consisted of chairman Christian Sievert and members Anders Dahlvig and Erica Wiking Häger. The committee held four meetings at which minutes were taken during the 2015/2016 financial year.

EY 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 – both financial risk and operational risk – with well-defined action plans to minimise risk. Among others, the following functions also gave presentations/provided information on their work: expansion/construction, security, accounting/tax and H&M's buying department.
- The internal pricing model and tax matters. A status update regarding tax matters is given at each meeting, which is partly related to the OECD's BEPS project that deals with, among other things, how and where profits in multinational companies are to be taxed.
- In addition, customs matters were discussed in view of the fact that this is becoming an increasingly pressing matter for multinationals due to increased protectionism in certain countries.
- EY informed the committee of the audit plan, the scope of the audit and the results of scrutiny carried out.
- In addition, EY provided information on current regulatory developments in the areas of accounting and auditing.
- Review of the auditors' independence and impartiality. The auditing committee finds that it is clear which assignments EY takes on in addition to auditing and sees no reason to question the accounting firm's impartiality. A process has been established for non-auditing services to be approved in advance. H&M also uses consulting services from other accounting firms and tax advisors.

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, among other things, 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.

Karl-Johan Persson, born in 1975, has been the 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. From 2006 until 2009 he was also a member of the board of H & M Hennes & Mauritz AB.

From 2001 until 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 Foundation. Karl-Johan Persson is a shareholder in Ramsbury Invest AB, and also personally holds 12,136,289 class B shares in H&M.

8, 9. ORGANISATION AND MANAGEMENT

The H&M group has a multi-brand matrix organisation with currently seven well-defined brands: H&M, COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home. Each brand has its own organisation and managing director, and all the brands have their own local sales organisations. Centrally, there are also a number of group-wide functions that support each brand in order to capitalise on the benefits within these shared areas, so that each brand and country works purposefully according to central policies and guidelines. The CEO is responsible for day-to-day management of the H&M group and appoints the members of the executive management team, which is made up of the CEO plus 10 others – six of whom are women. The executive management team consists of the chief financial officer and the individuals responsible for the following group-wide functions: production, sustainability, expansion, communications, human resources, business development and logistics, as well as the person responsible for the H&M brand and the person responsible for new business (which includes the other brands such as COS, & Other Stories, Monki, Weekday, Cheap Monday and H&M Home). Those responsible for the other group-wide functions are appointed by the chief financial officer. The matrix organisation provides a good combination of central and local perspectives on leadership and entrepreneurship.

The local sales organisations are responsible for sales, profitability and daily operations in their country, giving them a collective responsibility for all the functions in their country.

CEO: Karl-Johan Persson

CFO: Jyrki Tervonen

JOINT GROUP FUNCTIONS

Accounting: Anders Jonasson

Business development: Kjell-Olof Nilsson

Communications: Kristina Stenvinkel

Controlling: Fredrik Nilsén

Expansion: Katja Ahola

HR: Helena Thybell

IT: Morten Halvorsen

Legal: Fredrik Björkstедt

Logistics: Patrik Berntsson

Production: Helena Helmersson

Security: Cenneth Cederholm

Sustainability: Anna Gedda

BRANDS

H&M: Fredrik Olsson

New Business: Madeleine Persson

COS: Marie Honda

&Other Stories: Samuel Fernström

Monki: Lea Rytz Goldman

Weekday: David Thörewik

Cheap Monday: Peter Klagsmark

H&M Home: Anders Sjöblom

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. For a number of years the group has had a document called "The H&M Way", which briefly describes and brings together what H&M stands for and provides a basis for how employees are to act in relation to each other and the outside world. It also refers to the group's main policies.

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 insider 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.

The H&M group has a matrix organisation (see page 9), which means that those responsible for the group-wide functions are responsible for the efficiency of work within their function at each brand (the horizontal arrows). Each brand has its own organisation and managing director, and all the brands have their own local sales organisations.

Internal control is evaluated annually by the relevant group function, which checks that its function in each country is working accord-

ing to the prescribed policies and guidelines. The stores are in turn checked by internal store auditors.

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 in turn 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 need updating and whether new guidelines need to be developed.

RISK ASSESSMENT

H&M carries out regular risk analysis for both operational and financial risks. At the end of each financial year the analysis is updated in respect of the main operational risks – in the short and long term – and also the risks within financial reporting. This is carried out in two group-wide documents, based on the probability and impact of each risk.

As in previous years, at the end of 2016 each central function reviewed its main risks, assessed these and identified the systems, methods and controls that are in place to minimise any impact of the risks. This information was compiled at group level into the overall risk analysis mentioned above, 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 discussed by the board.

For a description of H&M's operational risks, see the administration report on pages 73–74, for risks within financial reporting, see the administration report on pages 74–75 and note 2, Financial risks, on pages 89–90 of H&M's annual report for 2016.

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 provides a true picture at each reporting date. 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.

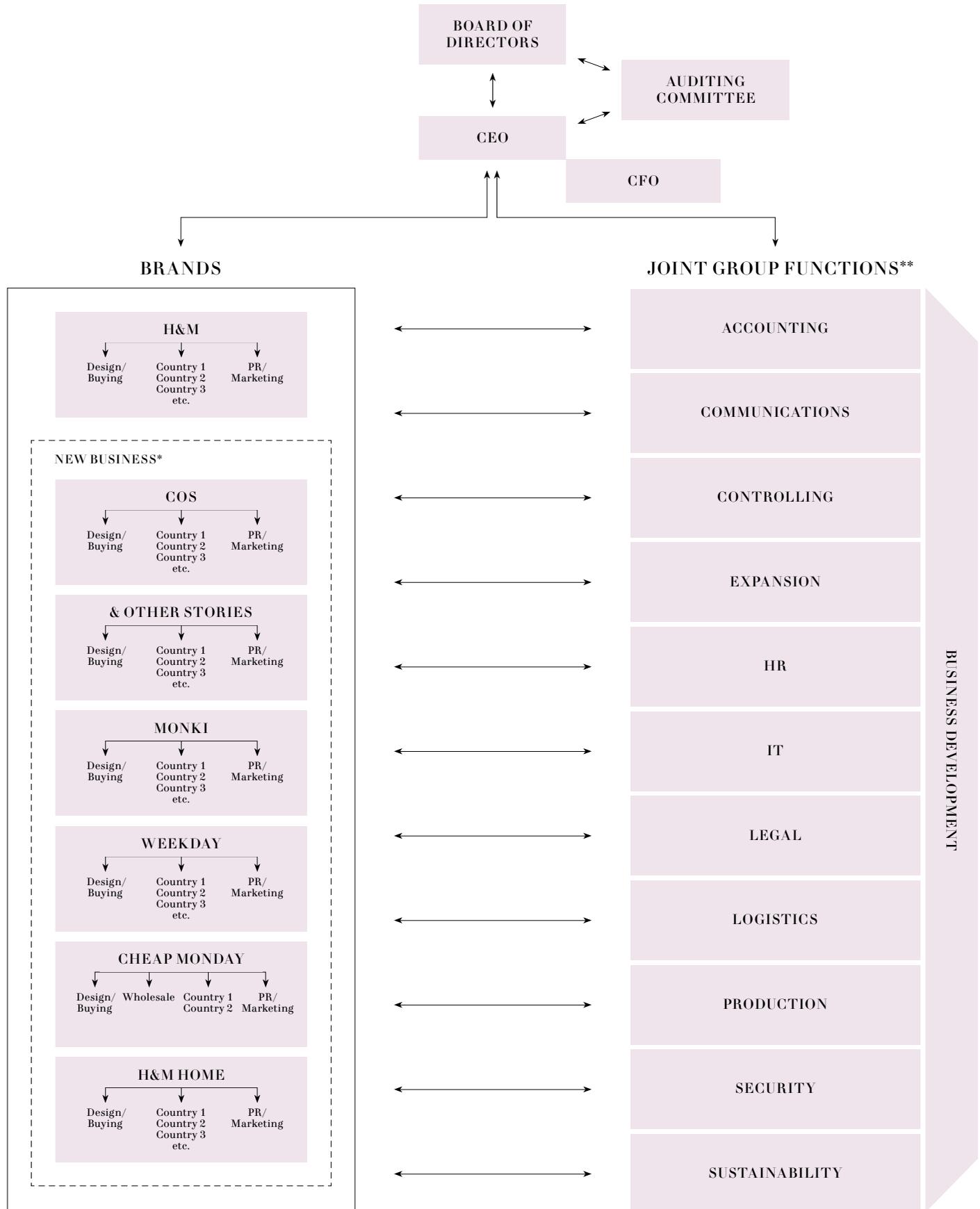
During the year ongoing internal control of the IT department is also carried out, to ensure that the work and processes are being performed in accordance with guidelines set. This also includes systems relating to financial reporting. These financial systems are also reviewed by an external party in cooperation 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.

Matrix organisation of the H&M group



* New Business has overall responsibility for producing, refining and supporting the group's newer brands.
 ** In alphabetical order.

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 2016 the group functions/central departments assessed 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 defining the areas that ought to be improved in order 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 established within the organisation. It is an aid and an instrument that the central functions can use to 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 transparency and to ensuring that the countries adopt best practice.

Within the production organisation there is a firm and regular control and monitoring process for the internal routines that are brought together in the Routine Handbook for Production. These routines are about how H&M ensures that the company does business in an ethical and transparent way. Most of these routines are monitored on a monthly basis at regional level and every other month at global level.

Internal store auditors 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 shortcomings detected and suggestions made during the assessment by the central departments and internal store auditors, 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 subsidiaries – and the work carried out by internal store auditors are well in line with the work performed in other companies by an internal audit department. It was therefore deemed that there was no need for an internal audit department.

The issue of a specific internal audit department will be reviewed again in 2017.

Stockholm, January 2017

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. The next four pages contain information about the board members.



LENA PATRIKSSON KELLER
Board member

MELKER SCHÖRLING
Board member

INGRID GODIN
Employee representative

NIKLAS ZENNSTRÖM
Board member

STINA BERGFORS
Board member

STEFAN PERSSON
Chairman of the board



CHRISTIAN SIEVERT
Board member and chairman of
the auditing committee

ERICA WIKING HÄGER
Board member and member of
the auditing committee

RITA HANSSON
Deputy employee representative

ALEXANDRA ROSENQVIST
Deputy employee representative

MARGARETA WELINDER
Employee representative

ANDERS DAHLVIG
Board member and member of
the auditing committee

About the 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 CEO of H&M.

1998– Chairman of the board of H&M.

STINA BERGFORS

Board member. Born 1972.

Primary occupation

Co-founder of digital media company United Screens, where Stina currently works on strategic matters and business development.

Other significant board assignments

Member of the board of INGKA Holding BV and of the Swedish Media Commission's group of experts; also involved in the Prince Daniel Fellowship at the Royal Swedish Academy of Engineering Sciences (IVA).

Education

MSc in business administration, honorary doctorate from Luleå University of Technology.

Professional experience

2005–2008 CEO of Carat Sverige AB

2008–2013 Country director for Google and YouTube in Sweden.

2014–2016 CEO of United Screens.

2016– Strategy and business development at United Screens.

ANDERS DAHLVIG

Board member and member of the auditing committee. Born 1957.

Primary occupation

Board assignments.

Other significant board assignments

Chairman of Inter IKEA Holding BV and member of the boards of Kingfisher plc, Oriflame SA, Axel Johnson AB, Resurs Bank AB and Pret A Manger.

Education

MSc in business administration, Lund University, 1980 and MA 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.

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 board of Elite Hotels; chairman of the board of the industry organisation Association of Swedish Fashion Brands (ASFB). Lena is also involved in the Prince Daniel Fellowship at the Royal Swedish Academy of Engineering Sciences (IVA).

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 and Hexpol AB.

Education

MSc in business administration from the School of Business, Economics and Law, Gothenburg University, 1970.

Professional experience

1970–1975 LM Eriesson, 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 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.
1997–2003 Investment manager and partner, Segulah.
2003–2013 CEO/managing partner at Segulah.
2013–2014 Partner, Segulah.
2014– CEO of investment company AB Max Sievert.

INGRID GODIN

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

MARGARETA WELINDER

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

ERICA WIKING HÄGER

Board member and member of the auditing committee. Born 1970.

Primary occupation

Lawyer and partner at the law firm Mannheimer Swartling since 2009 and chair of Mannheimer Swartling's Corporate Sustainability & Risk Management practice group.

Other significant board assignments

Member of the board of Stockholm Chamber of Commerce.

Education

Master of Laws from Uppsala University, LL.M. from Harvard Law School in the US and supplementary studies at the University of Oklahoma in the US and Ruprecht-Karls-Universität Heidelberg in Germany.

Professional experience

1994–1995 Acting lecturer in civil law, Uppsala University.
1995–1997 District court service, Sollentuna District Court.
1997–1998 Law clerk, Svea Court of Appeal.
1999–2000 Corporate counsel, Corechange Inc., Boston, USA.
2000–2008 Associate, Mannheimer Swartling.
2009– Partner, Mannheimer Swartling.

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, Farmdrop Rovio, Lilium and Orbital Systems.

Education

Dual 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.

RITA HANSSON

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

ALEXANDRA ROSENQVIST

Deputy employee representative on the H&M board since 2015. Born 1976.

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 2015 to 30 November 2016. 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, Auditor's 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, 30 January 2017

Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant