

## STATEMENT PURSUANT TO THE SWEDISH CORPORATE GOVERNANCE CODE, SECTION 10.3 LAST PARAGRAPH

According to the Swedish Corporate Governance Code, the board of directors is to report the results of:

- the evaluation of programmes for variable remuneration, both ongoing and those that have ended during the year, for the executive management (the Code 9.1, second bullet point);
- the evaluation of the application of the guidelines for remuneration to senior executives that the annual general meeting is obliged to establish, as well as the current remuneration structures and levels in the company (the Code 9.1, third bullet point).

To read the company's complete guidelines for remuneration to senior executives see the company's website and pages 62–63 of the administration report in H&M's annual report 2014, or page 77 of the administration report in H&M's annual report 2015.

### Evaluation of variable remuneration

*This evaluation of variable remuneration relates to remuneration which was paid out during the financial year 1 December 2014 – 30 November 2015 and which is based on the fulfilment of targets for each individual concerned during 2014 and on the general guidelines for senior executives adopted at the 2014 annual general meeting.*

The largest portion of remuneration is fixed salary. This ensures that the incentive for individual senior executives to focus on the best interests of the entire company is maintained. At the same time, a limited level of variable remuneration serves as an incentive for the fulfilment of certain defined targets.

H&M's variable remuneration system (bonus scheme) is based primarily on the fulfilment of targets within the respective senior executive's area of responsibility. The results are linked to the measurable profit targets (qualitative, quantitative, general and individual) set in advance within their respective areas of responsibility. These targets also include measurable sustainability targets. The targets within each area of responsibility are aimed at promoting H&M's development in both the short and the long term.

For the CEO the maximum bonus is SEK 0.9 m net after tax and for other senior executives the maximum bonus is SEK 0.3 m net after tax. Net after tax means that income tax and social security costs are not included in the calculation. The bonuses that are paid out must be invested entirely in H&M shares, which must be held for at least five years.

In individual cases other members of executive management, key individuals and country managers may, at the discretion of the CEO and the chairman of the board, receive one-off payments of up to a maximum of 30 percent of their fixed yearly salary. One-off payments are discretionary and decided by the CEO and the chairman of the board. Under the guidelines there is no requirement to invest one-off payments in H&M shares; this applies only to bonuses.

The variable remuneration that was charged to profit for 2015 relates to the senior executives' fulfilment of targets for 2014. Since 2014 was a good year for H&M, with strong sales and profitability, and since many of the targets set internally were reached, bonus payments to the senior executives increased compared with the previous year.

The variable remuneration paid out to senior executives in 2015 amounted to SEK 6.4 (3.5) m. Variable remuneration to country managers amounted to SEK 7.9 (7.4) m and the CEO's bonus amounted to SEK 2.0 (0) m.

## **Supplementary guidelines**

The 2014 annual general meeting approved the board's proposed guidelines for remuneration to senior executives, which included a supplement to the previous guidelines. This comprised supplementary guidelines on remuneration to certain senior executives that is conditional upon the senior executive concerned remaining an employee of the H&M group for at least five years. The supplementary guidelines are likewise based on the individual's performance relative to targets set. The CEO is not covered by the supplementary guidelines.

The board's reasoning for the supplementary guidelines was and is as follows: in view of H&M's strong expansion and the important stage of development that H&M is at, including multi-brand and multi-channel developments, the aim is to ensure that the key individuals in senior positions covered by the supplementary guidelines remain with the H&M group during this important development phase.

The estimated total cost to the company of the supplementary guidelines is around SEK 30 m per year including social security costs over five years. For the 2014/2015 financial year an estimated cost of SEK 30.0 (15.0) m was reported in respect of the remuneration that certain senior executives may receive under the supplementary guidelines.

To read the company's complete guidelines for remuneration to senior executives see the company's website and page 77 of the administration report in H&M's annual report 2015, or pages 62–63 of H&M's annual report 2014.

## **Annual general meeting 2016**

Ahead of the 2016 annual general meeting the board submitted proposed guidelines for remuneration to senior executives that are essentially the same as those adopted at the 2015 annual general meeting.

## **Evaluation of guidelines for senior executives and remuneration structures**

The board of directors has concluded that H&M pays remuneration that is both in line with the market in general and competitive. The largest portion of remuneration consists of fixed salary. The maximum amounts of variable remuneration have been the same for a number of years. The variable remuneration, which is based on the fulfilment of targets within the respective area of responsibility, is deemed to be moderate and straightforward. The same applies to the supplementary guidelines, which are based on the fact that it is of the utmost importance that the key individuals covered by the supplementary guidelines stay with the H&M group during this important stage of development.

The company's pension terms are in line with what is generally offered in the market. No severance pay agreements exist other than with the CEO.

H&M has previously established the H&M Incentive Program, a profit-sharing scheme for all employees. Contributions are made to an employees' foundation that will allocate units to employees who have worked for the company for a certain period of time. The board of directors believes that this is an effective way of rewarding employees for their efforts.

All things considered, the board of directors believes that H&M has a moderate and appropriate remuneration system with respect to both structures and levels in the company.

The Board of Directors  
March 2016