

# CORPORATE GOVERNANCE REPORT 2009

## H & M HENNES & MAURITZ AB

Corporate governance is basically about how companies are to be run in order to safeguard the interests of the shareholders.

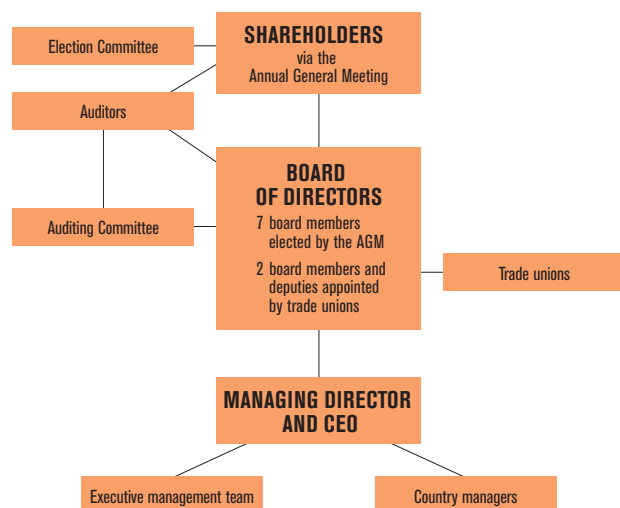
H&M applies the Swedish Code of Corporate Governance and has therefore prepared this corporate governance report in accordance with the Code. This corporate governance report for 2009 describes H&M's corporate governance, management and administration as well as internal control of financial reporting. The report is not part of the formal Annual Report and has not been reviewed by the company's auditors.

The Code is based on the principle "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.

#### Deviation from the Code:

The Chairman of the Board is the chairman of the Election Committee. The reason for this is described in the section on the Election Committee.

#### H&M's CORPORATE GOVERNANCE STRUCTURE 2009



H&M's corporate governance is regulated by both external regulations and internal control documents.

#### Examples of external regulations:

the Swedish Companies Act  
accounting legislation including the Swedish Bookkeeping Act and Annual Accounts Act  
NASDAQ OMX Stockholm AB Rules for issuers  
Swedish Code of Corporate Governance

#### Examples of internal control documents:

Articles of Association  
instructions and work plan for the Board of Directors and the Managing Director  
Code of Ethics  
policies and guidelines

#### 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 shareholders registered directly in the register of shareholders and 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. The shareholders who cannot be present in person may be represented by proxy.

The 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 Managing Director from liability and deciding how the profit for the past financial year is to be allocated. The meeting is called the Annual General Meeting (AGM) and elects the Board of Directors and, when necessary, auditors for the forthcoming period of office. Extraordinary general meetings may be convened where there is a particular need to do so. At the end of the financial year H&M had 172,057 shareholders. H&M's share is listed on NASDAQ OMX Stockholm AB. Information materials from H&M's most recent Annual General Meetings are published under Investor Relations/Corporate Governance/Annual General Meeting at [www.hm.com](http://www.hm.com). 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 in the agenda in the notice to attend. The e-mail address is indicated for those shareholders who wish to submit their questions in advance to H&M.

#### ANNUAL GENERAL MEETING 2009

H&M's Annual General Meeting was held on 4 May 2009 in Victoriahallen at the Stockholm International Fairs. 1,404 shareholders participated in the meeting, representing 81.3 percent of the votes and 61.5 percent of the capital. H&M's Board of Directors, executive management and Election Committee as well as the company's two auditors attended the meeting.

#### The main resolutions passed were the following:

Lawyer Sven Unger was elected as chairman of the meeting. The balance sheets and income statements for the parent company and the Group were adopted. A dividend to shareholders of SEK 15.50 per share was approved. The Board members and the Managing Director were discharged from liability for the 2007/2008 financial year. The number of Board members elected by the meeting to serve until the next AGM was set at seven with no deputies elected by the meeting.

Mia Brunell Livfors, Lottie Knutson, Sussi Kvarf, Bo Lundquist, Stig Nordfelt, Stefan Persson and Melker Schörling were re-elected as ordinary members by the AGM. Fred Andersson had declined re-election and Karl-Johan Persson, who took over as the new Managing Director and CEO of H&M on 1 July 2009, resigned his position on the Board at the AGM. Stefan Persson was re-elected as Chairman of the Board. The fees paid to the Board members until the next AGM were set at SEK 3,875,000 in total, to be distributed as follows: Chairman of the Board, SEK 1,350,000; Board members, SEK 375,000; members of the Auditing Committee an extra SEK 75,000; and the chairman of the Auditing Committee, an extra SEK 125,000.

The accounting firm Ernst & Young AB was elected as auditor for the company for a four-year period, i.e. until the end of the 2013 AGM.

The proposed principles for the Election Committee were approved.

The proposed guidelines for remuneration for senior executives were approved.

The minutes from the Annual General Meeting were posted on the website within two weeks of the meeting. Materials from the meeting, such as the notice to attend the meeting, the Board's statement concerning allocation of profits and the Managing Director's address and presentation and the minutes etc. were translated into English and published on the website.

Votes and capital represented at H&M's Annual General Meetings

YEAR	% OF VOTES	% OF CAPITAL
2007	80.9	60.7
2008	80.9	60.7
2009	81.3	61.5

### ANNUAL GENERAL MEETING 2010

H&M's Annual General Meeting 2010 will be held on Thursday, 29 April in Victoriahallen at the Stockholm International Fairs. To register to attend the 2010 AGM, see H&M in Figures 2009 page 47 or [www.hm.com](http://www.hm.com) under Investor Relations/Corporate Governance/Annual General Meeting 2010.

### ELECTION COMMITTEE

The Election Committee is the general meeting's body that prepares the necessary information as a basis for decisions at the general meeting as regards election of the Board of Directors, Chairman of the Board, auditors and the chairman of the Annual General Meeting, as well as fees to the Board and auditors, and principles for the Election Committee. An account of the work of the Election Committee ahead of each AGM is available in a separate document on the website. Starting from the 2008 Annual General Meeting, the members of H&M's Election Committee are elected by the general meeting.

### COMPOSITION OF THE ELECTION COMMITTEE AND WORK

The members of the Election Committee were elected by the 2009 AGM. The Election Committee was elected on the basis of its principles, which, in brief, state that the Election Committee shall be made up of the Chairman of the Board and four other members, each representing one of the four biggest shareholders as of 28 February 2009, apart from the shareholder that the Chairman of the Board represents. The principles include a procedure for replacing any member who leaves the Election 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 Election Committee 2009" under Investor Relations/Corporate Governance/Election Committee at [www.hm.com](http://www.hm.com).

The composition of the Election Committee following election at the 2009 AGM was:

Stefan Persson, Chairman of the Board  
Lottie Tham, representing Lottie Tham  
Staffan Grefbäck, representing Alecia  
Jan Andersson, representing Swedbank Robur Fonder  
Peter Lindell, representing AMF Pension

The composition of the Election Committee meets the Code's requirement with respect to independent members.

H&M deviated from Code rule 2.4 which states, among other things, that the Chairman of the Board shall not be the chairman of the Election Committee. The Election Committee appointed Chairman of the Board Stefan Persson as chairman of the Election Committee during the year on the grounds that this is deemed an obvious choice in view of the ownership structure of H&M.

Since the 2009 AGM the Election Committee has held two meetings at which minutes were taken and the Committee was also in contact between these meetings. At the Election Committee's first 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.

The Board's work is presented so that the Election Committee can make the best possible assessment of the Board's competence and experience. The Election Committee also discussed the size of the Board, its composition and fees for Board members.

No special fees were paid to the Election Committee's chairman or to any of the other members of the Election Committee.

The Election Committee's work in preparation for the next AGM is not yet complete and more information will be presented before the 2010 AGM.

Shareholders wishing to submit proposals to the Election Committee can do so either to individual members of the Election Committee or by letter to:

H & M Hennes & Mauritz AB  
Election Committee  
106 38 Stockholm  
Sweden

[valberedningen@hm.com](mailto:valberedningen@hm.com)

## THE 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 until the next AGM. Under Swedish law, trade unions have the right to appoint employee representatives with deputies to the company's Board.

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 and the Managing Director, financial reporting, investments and financing. The work plan, which also contains a work plan for the Auditing Committee, is established once a year.

According to the Articles of Association, H&M's 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 exact number of Board members. Since the 2009 AGM the Board has consisted of seven ordinary members and no deputies. There are also two employee representatives and two deputies for these positions. The Board is comprised of seven women and four men and four out of eleven are employed by the company. For facts on H&M's Board members, see page 42. The Board members are to devote the time and attention that their assignment for H&M requires. New Board members receive introductory instruction which, among other things, includes meetings with the heads of various functions.

During the financial year, H&M normally holds five regular board meetings and one statutory board meeting. Extraordinary board meetings are held when the need arises. The Managing Director attends all board meetings, except when the Managing Director's work is being evaluated. The Managing Director 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 2009

H&M's Board held six Board meetings and one statutory meeting during the financial year. One of the meetings is usually an extended meeting and in 2009 it took place in Copenhagen in Denmark and included a visit to a number of stores.

The attendance of the Board members is reported in the table entitled "Composition of the Board of Directors and Attendance in 2009." The former Managing Director Rolf Eriksen attended all of the Board meetings until 30 June 2009. Karl-Johan Persson, in his role as Managing Director, has attended all Board meetings from 1 July 2009.

The Board meetings begin with a discussion of the company's financial situation, with sales, costs and results as the main focus. The Board takes decisions on the interim reports and the Annual Report. Accounting and auditing matters are dealt with within the Auditing Committee and reported back to the Board.

Matters dealt with at the Board meetings in 2009 included the company's main aims for the year, sales development, the focus on costs, currency hedging, the rate of expansion and the results of expansion into for example Russia, Beijing and Lebanon. The Board also reviewed the executive management team's updated risk assessment. In addition, the Managing Director reported on the status of concepts such as COS and H&M Home, the integration of FaBric Scandinavien AB as well as developments in the buying process and internet and catalogue sales, future marketing campaigns, the refurbishment of stores, development of IT support, preparations for expansion into South Korea and the franchise countries, Israel and Jordan etc. The Board has kept itself informed of the company's CSR and environmental work. Decisions taken by the Board in 2009 included among other things the following: the launch of internet sales in the UK in 2010, investments for the total number of stores and the level of the investments.

A committee within the Board consisting of Stefan Persson, Melker Schörling and Bo Lundquist handled the managing director issue as Rolf Eriksen had announced that he would retire in 2009. The Board appointed Karl-Johan Persson, formerly Head of H&M's expansion, Business development, Brand and new business as the new Managing Director and CEO for H&M Hennes & Mauritz AB, taking up the position on 1 July 2009. The Board believes that Karl-Johan Persson has the background, competence and experience needed to lead H&M into the future. Karl-Johan Persson knows the company well and understands its culture. He also has excellent leadership skills.

During the year the Board discussed strategic matters such as competition and development opportunities, and also revised its financial policy. In connection with the Board's review of the proposed Annual Report for 2009, auditor Erik Åström gave an account of the year's audit work.

## COMPOSITION OF THE BOARD AND ATTENDANCE IN 2009

NAME	YEAR	INDEPENDENT <sup>1)</sup>	INDEPENDENT <sup>2)</sup>	FEES <sup>3)</sup> (SEK)	BOARD MEETINGS	AUDITING COMMITTEE	SHARE-HOLDING	SHARES HELD BY RELATED PARTIES
Stefan Persson, Chairman	1979	No	No	1,350,000	7/7		186,274,400	97,200,000 <sup>4)</sup> 3,200,000 <sup>5)</sup>
Fred Andersson <sup>6)</sup>	1990	Yes	Yes	375,000	3/4		800	
Mia Brunell Livfors	2008	Yes	Yes	375,000	7/7			300 <sup>7)</sup>
Lottie Knutson	2006	Yes	Yes	375,000	7/7		600	
Sussi Kvart	1998	Yes	Yes	450,000	7/7	4/4	2,200	850
Bo Lundquist	1995	Yes	Yes	450,000	7/7	4/4		20,000 <sup>8)</sup>
Stig Nordfelt	1987	Yes	Yes	500,000	7/7	4/4	4,000	
Karl-Johan Persson <sup>6)</sup>	2006	No	No		3/4		6,066,000	
Melker Schörling	1998	Yes	No	375,000	6/7		114,000 <sup>9)</sup>	
Marianne Broman, employee rep.	1995	No	No		7/7		70	145
Margareta Welinder, employee rep.	2007	No	No		5/7			
Tina Jäderberg, deputy employee rep.	2007	No	No		7/7			
Agneta Ramberg, deputy employee rep.	1997	No	No		6/7			

1) Independent of the company and company management in accordance with the Swedish Code of Corporate Governance.

2) Independent of major shareholders in the company in accordance with the Swedish Code of Corporate Governance.

3) Fees as resolved at the 2008 Annual General Meeting. The fees relate to the period until the next AGM is held and have been paid out during 2009.

4) Class A shares owned through Ramsbury Invest AB.

5) Class B shares owned through Ramsbury Invest AB.

6) Fred Andersson and Karl-Johan Persson resigned from the Board at the 2009 AGM.

7) Shares held together with related parties

8) Shares owned through Bo Lundquist's company Smideseken AB.

9) Shares owned through Melker Schörling AB.

There are no outstanding share or share price related incentive programmes for the Board of Directors.

**INDEPENDENCE OF BOARD MEMBERS**

The composition of H&M's Board meets the independence requirements set by NASDAQ OMX Stockholm AB and 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.

**FINANCIAL REPORTING**

H&M's financial reporting is carried out in compliance with the laws, statutes, agreements and recommendations that apply to companies listed on NASDAQ OMX Stockholm AB. It falls to the Board of Directors to ensure the quality of financial reporting with the help, for example, of the Auditing Committee (see text below). More information is available in the section on internal control of financial reporting.

**H&M's AUDITING COMMITTEE**

The Board's Auditing Committee is responsible for making preparations for the Board's work on quality assurance of the company's financial reporting and internal control. The Committee is also the main channel of communication between the Board and the company's auditors. This work involves handling auditing issues and financial reports published by the company.

H&M's Auditing Committee is made up of three Board members. The Committee is appointed annually by the Board of Directors at the statutory Board meeting held in conjunction with the AGM. The Auditing Committee, which consists of chairman Stig Nordfelt and members Sussi Kvart and Bo Lundquist, has held four meetings at which minutes were taken in 2009. The Auditing Committee's composition meets the Code's requirements with respect to independent members.

Authorised Public Accountant Erik Åström attended the Auditing Committee meetings and reported on the auditing assignments. The meetings were also attended by Jyrki Tervonen, CFO and Anders Jonasson, Chief Accountant, among others. The Committee's meetings are minuted and the minutes are then distributed to the Board members.

During the year the Committee addressed issues concerning the company's financial reporting including interim reports and the Annual Report. The Auditing Committee checks that the company effectively carries out its internal control and risk management processes. During the year the Auditing Committee discussed the company's currency hedging policy and the monitoring of the internal pricing model, and gathered information on the scope and focus of auditing assignments, as well as on integration of FaBric Scandinavien and IT development within the Group.



## AUDITORS

The auditors are appointed by the shareholders at the Annual General Meeting every four years. The Auditors scrutinise the company's annual financial statements, consolidated statements and accounts, and the management of the company by the Board and Managing Director.

At the 2009 AGM the registered accounting firm Ernst & Young AB was elected as auditor for H&M for a four-year period, i.e. until the end of the 2013 Annual General Meeting. Authorised Public Accountant Erik Åström from Ernst & Young holds the main responsibility for auditing assignments.

As previously, the 2009 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 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 in addition to the audit.

Authorised Public Accountant Erik Åström conducts auditing assignments for a number of listed companies, such as Hakon Invest, Modern Times Group, Saab, Svenska Handelsbanken and Apoteket.

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

### AUDIT FEES (SEK M)

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>Ernst &amp; Young</b>						
Audit assignments	16.7	14.5	12.8	2.2	2.2	2.4
Other assignments	15.2	14.0	18.4	0.1	0.6	11.5
<b>Other auditors</b>						
Audit assignments	3.2	2.9	2.5			
Other assignments	1.8	1.1	1.3			
<b>Total</b>	<b>36.9</b>	<b>32.5</b>	<b>35.0</b>	<b>2.3</b>	<b>2.8</b>	<b>13.9</b>

## MANAGING DIRECTOR

The Managing Director 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 Managing Director must place particular importance on recruiting senior executives, buying and logistics matters, pricing strategy and sales, marketing, expansion, development of the stores, internet and catalogue sales and IT development. The Managing Director reports to the Board on H&M's development and makes the necessary preparations for taking decisions on investments, expansion, etc. The role of Managing Director includes contact with the financial markets, the media and the authorities.

Rolf Eriksen, who retired in 2009, was Managing Director of H&M until 30 June 2009. Karl-Johan Persson took over as Managing Director on 1 July 2009.

## INFORMATION ABOUT THE MANAGING DIRECTOR

Karl-Johan Persson, born in 1975, has been the Managing Director and Chief Executive Officer of H & M Hennes & Mauritz AB since 1 July 2009.

Before taking over as Managing Director, Karl-Johan Persson held an operational role within H&M from 2005, including working as Head of expansion, Business development and Brand and new business. Karl-Johan Persson has since 2000 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's parent company.

Between 2001 and 2004 Karl-Johan Persson was CEO of European Network. Karl-Johan holds a BA in Business Administration from the European Business School in London.

His current external board assignments are the Swedish Chamber of Commerce in the UK and the GoodCause foundation. Karl-Johan Persson's H&M shareholding amounts to 6,066,000 shares.

## 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 Managing Director (see section on control environment). The matrix organisation consists of the sales countries, headed by the country managers, and the central functions/departments for which the executive management team is responsible.

In addition to the Managing Director, the executive management team comprises twelve people, five of whom are women. These are responsible for the following functions: Finance, Buying, Production, Sales, Expansion, Accounting, Human Resources, Marketing, Communications, IR, Security and Corporate Social Responsibility.

## GUIDELINES FOR REMUNERATION PAID TO SENIOR EXECUTIVES

In accordance with the Swedish Companies Act the 2009 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 page 6 of H&M in figures 2009.

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 proposals for guidelines for remuneration to senior executives and these proposals are presented at the Annual General Meetings. The Board decides on the Managing Director's salary according to the guidelines adopted at the 2009 AGM. The terms of employment for other senior executives are decided by the Managing Director and the Chairman of the Board. No severance pay agreements exist within H&M other than for the Managing Director.

## H&M's BOARD OF DIRECTORS



**LOTTIE KNUTSON**  
*Board member*

**MARGARETA WELINDER**  
*Employee representative*

**STIG NORDFELT**  
*Board member and  
Chairman of the  
Auditing Committee*

**BO LUNDQUIST**  
*Board member and  
member of the  
Auditing Committee*

**TINA JÄDERBERG**  
*Deputy employee  
representative*



STEFAN PERSSON  
*Chairman of the Board*

AGNETA RAMBERG  
*Deputy employee  
representative*

MIA BRUNELL LIVFORS  
*Board member*

MELKER SCHÖRLING  
*Board member*

MARIANNE BROMAN  
*Employee  
representative*

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

Studies at the Stockholm University and Lund University, 1969–1973.

#### WORK EXPERIENCE

Country Manager for H&M in the UK and responsible for H&M's expansion abroad.

1982–1998 Managing Director and Chief Executive Officer of H&M.

1998 Chairman of the Board of H&M.

### MIA BRUNELL LIVFORS

Board member. Born 1965.

#### PRIMARY OCCUPATION

Managing Director and Chief Executive Officer of Investment AB Kinnevik.

#### OTHER SIGNIFICANT BOARD ASSIGNMENTS

Member of the boards of Efva Attling Stockholm AB, Metro International S.A., Tele2 AB, Transcom WorldWide S.A., Korsnäs AB and Mellersta Sveriges Lantbruks AB since 2006, and Millicom International Cellular S.A. and Modern Times Group MTG AB since 2007.

#### EDUCATION

Economics, Stockholm University.

#### WORK EXPERIENCE

1989–1992 Consensus AB.

1992–2006 Various managerial positions within Modern Times Group MTG AB and Chief Financial Officer 2001–2006.

2006 Managing Director and CEO, Investment AB Kinnevik.

### LOTTIE KNUTSON

Board member. Born 1964.

#### PRIMARY OCCUPATION

Marketing Director at Fritidsresor Group Nordic with responsibility for marketing, communications as well as corporate social responsibility.

#### OTHER SIGNIFICANT BOARD ASSIGNMENTS

No positions other than as member of the Board of H&M.

#### EDUCATION

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

#### WORK EXPERIENCE

1988–1989 Journalist, Svenska Dagbladet.

1989–1995 Communications department at SAS Group.

1995–1996 PR consultant, Johansson & Co.

1996–1998 PR and Communications Consultant, Bates Sweden.

1998–1999 Communications Consultant, JKL.

1999 Marketing Director at 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 Healthcare Provision Stockholm County Council, Stockholms Stadshus AB, Transparency International Sweden and DGC One AB.

#### EDUCATION

Bachelor of Laws, Lund University 1980.

#### WORK EXPERIENCE

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.



**BO LUNDQUIST**

Board member and member of the Auditing Committee.  
Born 1942.

**PRIMARY OCCUPATION**

Head of family-owned investment company. Board assignments.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Chairman of the Boards of Stockholm University College of Physical Education and Sports (GIH) and Teknikmagasinet AB (unlisted company), and member of the board of Frans Svanström AB (unlisted company). Member of the board of the Anders Wall Foundation for Free Enterprise.

**EDUCATION**

M.Sc. Engineering, Chalmers University of Technology Gothenburg 1968.

**WORK EXPERIENCE**

1970 1974 Administrative Director, Luleå University.  
1975 1978 Divisional Manager SSAB.  
1978 1982 Sales Manager Sandvik.  
1982 1984 Managing Director, Bulten.  
1984 1990 Vice President, Trelleborg.  
1991 1998 Managing Director and Chief Executive Officer, Esselte.  
1994 1998 Involved in various central trade and industry organisations, including as Chairman of the Federation of Swedish Commerce and Trade.

**STIG NORDFELT**

Board member and chairman of the Auditing Committee.  
Born 1940.

**PRIMARY OCCUPATION**

Consulting, with a focus on board procedures.

**OTHER SIGNIFICANT BOARD ASSIGNMENTS**

Member of the board of Capinordic Asset Management AB.

**EDUCATION**

M.Sc. Business and Economics from the School of Business, Economics and Law, Gothenburg University, 1963.

**WORK EXPERIENCE**

1964 1981 Authorised Public Accountant Reveko AB, Stockholm, from 1971 Senior Partner and joint owner.  
1982 1985 Managing Director Tornet AB, Stockholm.  
1986 2006 Managing Director Pilen AB, Stockholm.

**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**

M.Sc. Business and Economics from the School of Business, Economics and Law, Gothenburg University, 1970.

**WORK EXPERIENCE**

1970 1975 Controller, LM Ericsson, Mexico.  
1975 1979 Controller, ABB Fläkt, Stockholm.  
1979 1983 Managing Director, Essef Service, Stockholm.  
1984 1987 Managing Director, Crawford Door, Lund.  
1987 1992 Managing Director and CEO, Securitas AB, Stockholm.  
1993 1997 Managing Director and CEO, Skanska AB, Stockholm.

**MARIANNE BROMAN**

Employee representative on the H&M Board since 1995.  
Born 1944.

**MARGARETA WELINDER**

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

**TINA JÄDERBERG**

Deputy employee representative on the H&M Board since 2007.  
Born 1974.

**AGNETA RAMBERG**

Deputy employee representative on the H&M Board since 1997.  
Born 1946.

## INTERNAL CONTROL

This description of H&M's internal control and risk management has been prepared in accordance with sections 10.5 and 10.6 of the Swedish Code of Corporate Governance. The description is not part of the formal Annual Report.

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.

H&M uses the COSO framework as a basis for internal control with respect to financial reporting. The COSO framework, which is issued by the Committee of Sponsoring Organizations of the Treadway Commission, is made up of 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 a Code of Ethics; a policy that permeates the entire company since it describes the way in which the employees should act within the company and in business transactions 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 Managing Director, 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. Policies, guidelines 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 maintenance of effective control over financial reporting.

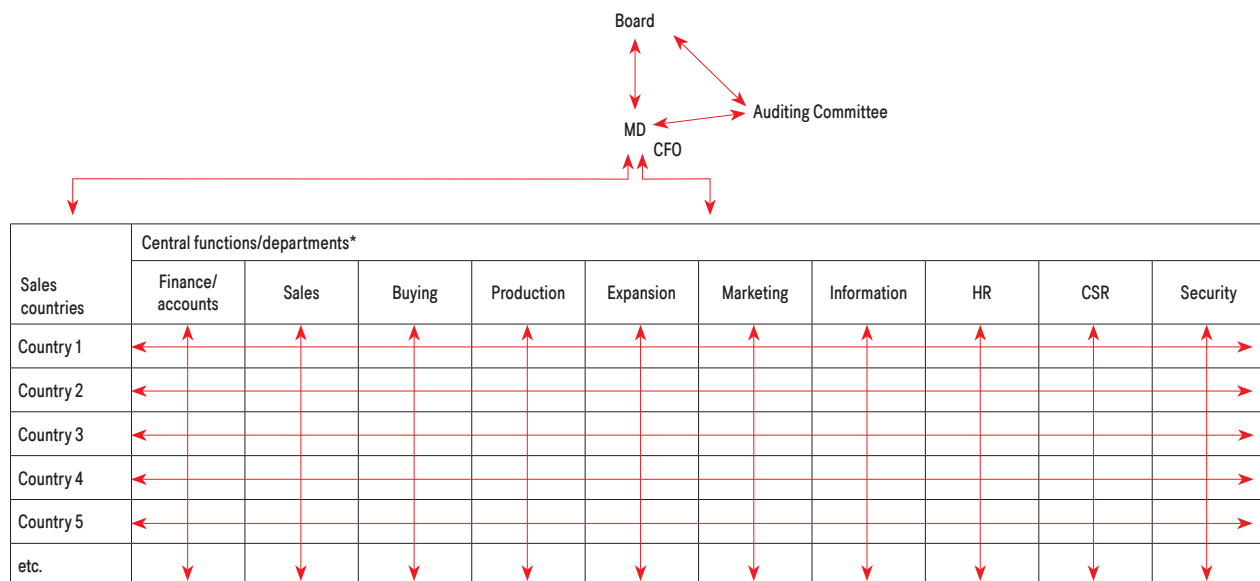
Control activities, checks and balances, analysis, reporting.

H&M has a matrix organisation, which means that those on the executive management team are responsible for performance within their function in each country (the vertical arrows).

The country managers are responsible for 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 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



\* Executive management team

and then communicated to the respective department 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 risks of errors within its financial reporting. At the end of each financial year the main risks within financial reporting are updated in a group-wide document. The same is done for operational risk. These documents are reviewed by the Auditing Committee and then sent on to the Board of Directors.

Operational risks are also documented on an ongoing basis. During the year the overall risk analysis was updated in order to obtain a general idea of the main risks within each function as well as the systems and methods that are in place to minimise any impact of a risk.

Where financial reporting is concerned, H&M has identified certain areas with a higher intrinsic risk of errors, including stock-in-trade shrinkage, cash-desk manipulation, misappropriation of merchandise and the impact of exchange rate fluctuation and taxes.

For a more detailed description of H&M's risks, see the Administration Report, page 8 and Note 2 Financial risks, page 21 in H&M in Figures 2009.

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 and true 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, and monthly accounts as well as analysis of these. H&M's financial statements are analysed and both manual controls and feasibility assessments are made.

IT systems are scrutinised regularly during the year to ensure the validity of H&M's IT systems with respect to financial reporting. In 2009 IT controls in certain business processes were scrutinised by an external party 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 relating to financial reporting are updated on an ongoing basis. This takes place primarily within each central function and is communicated to the sales countries via e-mail and 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 information is provided via:

H&M's Annual Report

Interim reports, the full year report and monthly sales reports

Press releases on events that may significantly impact the share price

H&M's website [www.hm.com](http://www.hm.com)

### MONITORING

As part of the company's 2009 internal control work, the central departments carried out assessments of the respective functions in the sales countries using the COSO model based partly on general issues and partly on department-specific issues. This work resulted in a plan of action for each central department containing the areas that should be improved to further strengthen internal control.

At the stores, annual controls are performed by internal shop controllers 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 deviations 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 during the year has further increased awareness of internal control within the Group and improvements are being made on a continuous basis.

### INTERNAL AUDIT

In the company's opinion, the assessment and monitoring of internal control carried out in the sales countries by all the central departments – such as Accounts, Communications, Security, Logistics and Production etc. – as well as the work carried out by internal shop controllers are well in line with the work performed in other companies by an internal audit department. H&M's Board has therefore not found it necessary to establish a specific internal audit department. The issue of a specific internal audit department will be reviewed again in 2010.

Stockholm, January 2010

The Board of Directors

*More information on H&M's corporate governance work can be found in the section on Corporate Governance under Investor Relations at [www.hm.com](http://www.hm.com).*