

# CORPORATE GOVERNANCE REPORT 2007

## H & M HENNES & MAURITZ AB

### SWEDISH CODE OF CORPORATE GOVERNANCE

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 describes H&M's corporate governance, management and administration as well as internal control over financial reporting. The Corporate Governance Report for 2007 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 of "comply or explain", which means that companies applying the Code may deviate from individual rules provided they give an explanation of the deviation. The box below gives a brief statement of the rules from which H&M deviates. Explanations for the deviations are given in the relevant sections later in the report.

#### Deviations from the Code:

- Chairman of the Board is chairman of the Election Committee.
- H&M has no remuneration committee.
- H&M does not meet all of the Code's independence criteria for the Board and for the Auditing Committee.

### H&M'S CORPORATE GOVERNANCE STRUCTURE



Corporate governance is basically about how the company is to be run in order to safeguard the shareholders' interests. Corporate governance is regulated by Swedish legislation, primarily the Swedish Companies Act and the listing agreement with OMX Nordic Exchange Stockholm AB, as well as rules and recommendations such as the Swedish Code of Corporate Governance. In addition, H&M's articles of association form a central document, establishing, among other things, the company's name, domicile, business orientation and share capital. To read H&M's articles of association, please see the section on Corporate Governance under Investor Relations at [www.hm.com](http://www.hm.com).

The Annual General Meeting (AGM) 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 AGM is convened once a year in order to carry out tasks such as adopting the annual accounts, discharging the members of the Board of Directors and the Managing Director from liability and deciding how the profit or loss for the past financial year is to be allocated. The meeting also elects the Board of Directors and, when necessary, auditors for the forthcoming period of office. Extraordinary general meetings can be convened where there is a particular need to do so.

The Election Committee is the AGM's body for preparing the Meeting's decisions on appointment matters with a view to creating a good basis for the Meeting's treatment of these matters.

The task of the Board of Directors is to manage the company's affairs on behalf of the shareholders.

The auditors are appointed by the shareholders at the AGM. The auditors scrutinise the company's annual report and accounts as well as the management of the company by the Board and 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. The demarcation between the tasks of the Board and the Managing Director is laid down in written instructions approved by the Board.

H&M has a matrix organisation in which the country managers and 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.

### ANNUAL GENERAL MEETING 2007

All shareholders who are entered by name in the register of shareholders and have notified their attendance on time are entitled to participate in the meeting and vote for all their shares. Shareholders who cannot be present in person may be represented by a proxy. H&M's Annual General Meeting 2007 was held in Victoriahallen at the Stockholm International Fairs on 3 May. 1,111 shareholders attended the meeting, representing 80.9 percent of the votes and 60.7 percent of the total number of shares. H&M's Board of Directors, management and Election Committee as well as the company's two auditors attended the meeting.

In the main, the following resolutions were passed:

- Lawyer Sven Unger was elected chairman of the meeting.
- The balance sheets and income statements for the parent company and for the Group were adopted.
- Dividend to shareholders of SEK 11.50 per share.
- The members of the Board and the Managing Director were discharged from liability for the 2005/2006 financial year.
- The number of Board members elected by the meeting to serve until the next AGM was eight, with no deputies elected by the meeting (in accordance with the Code of Corporate Governance).
- The fees paid to Board members until the next AGM were set at SEK 3,900,000 in total, to be distributed as follows: Chairman of the Board SEK 1,250,000; Board members SEK 350,000; members of the Auditing Committee an extra SEK 50,000; and the chairman of the Auditing Committee an extra SEK 100,000.
- Re-election of Fred Andersson, Lottie Knutson, Sussi Kvarn, Bo Lundquist, Stig Nordfelt, Karl-Johan Persson, Stefan Persson and Melker Schörling as ordinary members. Stefan Persson was re-elected as Chairman of the Board.
- The proposed principles for the Election Committee were approved.
- The proposed guidelines for remuneration paid to senior executives were adopted.
- The proposed amendments to the articles of association were adopted.
- The proposed contribution to a foundation was adopted.

The minutes of the AGM were posted on the website within two weeks of the meeting.

Material from the meeting, such as the notice of the meeting, the Board's statement concerning allocation of profit and the Managing Director's address and presentation etc. were translated into English and posted on the website.

#### **ANNUAL GENERAL MEETING 2008**

H&M's Annual General Meeting 2008 will be held in Victoriahallen at the Stockholm International Fairs on 8 May. To register to attend the 2008 AGM please see page 82 of the Annual Report or visit [www.hm.com](http://www.hm.com) under Investor Relations, Corporate Governance, Annual General Meeting. Since September 2007 information has been provided on the website concerning shareholders' rights to raise matters at the meeting and when such business must be received by H&M in order to be included in the notice of the meeting.

#### **ELECTION COMMITTEE**

Prior to each AGM the Election Committee produces proposals for resolutions at the AGM. These include proposing the chairman of the meeting, the Board of Directors and Chairman of the Board, the remuneration to the Board and its distribution as well as auditing fees, principles for the Election Committee and, when necessary, proposing auditors. A report of the work of the Election Committee in advance of the AGM is available in a separate document on the website. In accordance with the principles of the Election Committee adopted at the AGM, the Election Committee is made up of the Chairman of the Board plus four other members each representing one of the four largest shareholders as at 31 August 2007, apart from the shareholder represented by the Chairman of the Board. To read the principles of the Election Committee in full, please see the section on the Election Committee under Investor Relations, Corporate Governance at [www.hm.com](http://www.hm.com).

#### *The composition of the Election Committee based on the ownership structure on 31 August 2007 was:*

Stefan Persson, Chairman of the Board  
Lottie Tham, representing Lottie Tham  
Tomas Nicolin, representing Alecta  
Jan Andersson, representing Swedbank Robur Fonder  
Peter Lindell, representing AMF Pension

A deviation from the Code is that the Election Committee appointed Stefan Persson as chairman of the Election Committee, on the grounds that this may be deemed an obvious choice in view of the ownership structure of H&M.

Since the 2007 AGM the Election Committee has held two meetings at which minutes were taken and was also in contact between these times. As a basis for its proposals to the 2008 AGM the Election Committee carried out an assessment of the composition of the Board of Directors. This assessment was partly based on Stefan Persson's verbal account of the work of the Board. The work of the Board functioned well over the course of the year.

No special fees were paid to the Election Committee's chairman, nor to any other member of the Committee.

Shareholders wishing to submit proposals to the Election Committee can do so either to individual members of the Election Committee or by e-mail to [valberedningen@hm.com](mailto:valberedningen@hm.com).

#### **BOARD OF DIRECTORS**

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 Board consists of eight ordinary members elected by the AGM and no deputy

members. There are also two employee representatives with two deputies. Six of the members of the Board are female and six male; five out of twelve are employed within the company. 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 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 PLAN FOR THE BOARD OF DIRECTORS**

In addition to laws and recommendations, the work of H&M's Board is governed by its formal work plan, which is established once a year. The work plan regulates matters such as the distribution of work between the Board and the Managing Director, financial reporting, investments and financing.

The Managing Director's responsibilities include issues relating to expansion, buying, human resources, finance and accounts, as well as reporting to the Board on operating activities. The Managing Director is also responsible for relationships with the company's stakeholders, including financial markets and government agencies.

#### **WORK OF THE BOARD IN 2007**

H&M's Board held five regular Board meetings during the year, as well as a statutory Board meeting and an extraordinary meeting held by circulation. One of the meetings was held in Poznan in Poland, the location of the new warehouse serving the countries of Eastern Europe as well as Internet and catalogue sales outside the Nordic region. The attendance of the Board members is reported in the table Composition of the Board of Directors and Attendance during the Year. Managing Director Rolf Eriksen was present at all the Board meetings during the year.

The Board meetings begin with a discussion of the company's financial situation, with costs and sales as the main focus. The various financial reports and the Annual Report are discussed and verified before being published. Accounting matters are dealt with in detail within the Auditing Committee and reported back to the Board.

Matters dealt with at the Board meetings in 2007 included the company's main aims for the year, the rate of expansion and the results of expansion into markets such as Hong Kong, Shanghai, Slovakia, Greece and Qatar. In addition, the Managing Director reported on the status of new concepts such as COS, the organic cotton collection, H&M Home and footwear, as well as for example developments in buying work and Internet and catalogue sales, future marketing campaigns, etc. The refinement and review of the Group structure were also discussed. The Board was kept informed of the company's CSR and environmental work. Before the 2007 AGM the Board proposed that a foundation be established, to which H&M would contribute SEK 60 million, to commemorate H&M's 60th anniversary. The purpose of the foundation is to help improve the quality of life of people in regions in which H&M's products are manufactured.

Decisions taken by the Board in 2007 include the planned expansion into Russia in 2009; investments to increase the total number of stores and the level of these investments; and expansion of the footwear range in a number of H&M stores.

The Board also discussed strategic matters such as competition and development opportunities, and also revised its financial policy and information policy.

In connection with the Board's review of the proposed annual report for 2007, auditor Erik Åström gave an account of the year's audit work.



Stefan Persson



Fred Andersson



Lottie Knutson



Sussi Kvart



Bo Lundquist



Stig Nordfelt



Karl-Johan Persson



Melker Schörling



Marianne Norin-Broman



Margareta Welinder



Tina Jäderberg



Agneta Ramberg

# FACTS ABOUT THE BOARD MEMBERS

## STEFAN PERSSON

Chairman of the Board. Born 1947.

### PRIMARY OCCUPATION:

Working 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 & Lund University, 1969–1973.

### WORK EXPERIENCE:

1976–1982 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.

## FRED ANDERSSON

Board member. Born 1946.

### PRIMARY OCCUPATION:

CEO of Coromandel förvaltning AB.

### OTHER SIGNIFICANT BOARD ASSIGNMENTS:

Chairman of Corem Property Group AB. Member of the boards of Consilium AB, Viamare Invest AB, Bonnier Industrier, Hammarplast Industrier, Climate Well.

### EDUCATION:

Economics, Finnish Institute of Exports.

### WORK EXPERIENCE:

Founder of Indoor Design in Helsinki, a design company with its own production.

1984–1989 Managing Director of Ikea of Sweden, Ikea's product range and buying company.

1989–1992 CEO of Scandic Hotels.

1992–1993 Consulting assignment for Securum.

1993–1996 Managing Director, Volvo Personbilar Sverige.

1996–1998 Chairman and responsible for EF's Whitbread project.

1998 Founded the Coromandel companies.

2002–2008 CEO and partner in the Nicator Group.

2008– CEO of Coromandel förvaltning AB.

## LOTTIE KNUTSON

Board member. Born 1964.

### PRIMARY OCCUPATION:

Communications Director at Fritidsresor Group Nordic, with responsibility for 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– Communications Director at Fritidsresor Group for the Nordic countries.

## 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 (now Linklaters) law firm, 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 Kwart 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), Teknikmagasinet AB (unlisted company), Djurgården Elitfotboll 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 in 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 & industry organisations, including 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 boards of CGU Life AB and Capinordic Fonder 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.

## KARL-JOHAN PERSSON

Board member. Born 1975.

### PRIMARY OCCUPATION:

Board assignments and responsible for expansion and business development at H&M.

### OTHER SIGNIFICANT BOARD ASSIGNMENTS:

H&M's subsidiaries in Denmark, the USA, the UK and Germany. The Swedish Chamber of Commerce in the UK and the GoodCause Foundation.

### EDUCATION:

European Business School, London, 1996–2000.

### WORK EXPERIENCE:

2001–2004 Managing Director, European Network.

2005–2007 Business development, H&M.

2007– Responsible for expansion and business development at H&M.

## MELKER SCHÖRLING

Board member. Born 1947.

### PRIMARY OCCUPATION:

Founder and owner of MSAB.

### OTHER SIGNIFICANT BOARD ASSIGNMENTS:

Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Securitas AB, Securitas Systems AB. Vice Chairman of Assa Abloy 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 NORIN-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.



## COMPOSITION OF THE BOARD OF DIRECTORS AND ATTENDANCE DURING THE YEAR

Name	Year elected	Independent <sup>1)</sup>	Independent <sup>2)</sup>	Fees <sup>3)</sup> (SEK)	Board meetings	Auditing Committee	Shareholding	Shares held by related parties
Stefan Persson, Chairman	1979	No	No	1,250,000	7/7		186,274,400	97,200,000 <sup>4)</sup>
Fred Andersson	1990	No	Yes	350,000	7/7		800	
Lottie Knutson	2006	Yes	Yes	350,000	7/7		400	
Sussi Kwart	1998	Yes	Yes	400,000	7/7	3/3	2,200	850
Bo Lundquist	1995	No	Yes	400,000	7/7	3/3		20,000 <sup>5)</sup>
Stig Nordfelt	1987	No	Yes	450,000	7/7	3/3	4,000	
Karl-Johan Persson	2006	No	No	350,000	7/7		6,066,000	
Melker Schörling	1998	Yes	Yes	350,000	6/7		114,000	
Marianne Norin-Broman, employee representative	1995	No	No		7/7		70	120
Margareta Welinder <sup>6)</sup> , employee representative	2007	No	No		2/4			
Tina Jäderberg <sup>7)</sup> , deputy empl. representative	2007	No	No		4/4			
Agneta Ramberg, deputy empl. representative	1997	No	No		7/7			

1) Independent of the company and the company management as defined by the Swedish Code of Corporate Governance.

2) Independent of major shareholders in the company as defined by the Swedish Code of Corporate Governance.

3) Fees as resolved at the 2007 Annual General Meeting. The fees relate to the period until the next AGM is held and will be paid out in 2008.

4) Shares owned through Stefan Persson Placering AB.

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

6) Margareta Welinder succeeded Vivian Enochsson as employee representative on 19 June 2007.

7) Tina Jäderberg succeeded Eva Nilsson as deputy employee representative on 19 June 2007.

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

## INDEPENDENCE ACCORDING TO THE CODE

The composition of H&M's Board meets the independence requirements set of members by the OMX Nordic Exchange Stockholm AB. The composition of the Board also satisfies the Code's rule that at least two of the Board members who are independent of the company and the company management are also independent of the company's major shareholders.

The Code states, however, that a majority of the Board members elected by the AGM must be independent of the company and the company management. H&M deviates from this rule in that four of the eight Board members elected by the AGM have sat on the Board for over twelve years and one is employed by the company. The explanation given by the Election Committee for the first deviation is that H&M should have a Board made up of members who have come to know the company and its business very well over a long period of time. The second deviation, which is that an employee is also a Board member, is deemed natural in this case in view of the ownership structure of H&M.

## FINANCIAL REPORTING

H&M's financial reporting is carried out in compliance with the laws, statutes, agreements, regulations and recommendations that apply to companies listed on the OMX Nordic Exchange 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 over financial reporting.

## AUDITING COMMITTEE

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 is responsible for preparation of the Board's work on quality assurance of the company's financial reporting. The Committee is also the main path of communication between the Board and the company's auditors.

The Auditing Committee, which comprises chairman Stig Nordfelt and members Sussi Kwart and Bo Lundquist, held three meetings during the year at which minutes were kept.

A deviation from the Code is that the majority of the members of the Committee are not independent of the company and the company management, since Stig Nordfelt and Bo Lundquist have sat on the Board for over twelve years. The reason for the deviation is that these members have an in-depth knowledge of

the company and of business economics and their experience and skills are deemed to make a constructive contribution to the Committee's work. During the year the Committee addressed issues concerning the company's financial reporting and internal control, gathered information concerning the scope and focus of auditing assignments, and also gathered information on matters including the refinement and review of the Group structure, work on the Code of Ethics and ongoing IR work. It also discussed the annual report and interim reports. Authorised Public Accountants Åsa Lundvall and Erik Åström have attended the Auditing Committee's meetings and reported to the Committee on their auditing work. The meetings were also attended by Leif Persson, CFO and Anders Jonasson, Chief Accountant, among others. The Committee's meetings are always minuted. The minutes are then distributed to the Board.

## INFORMATION ON AUDITORS

The Annual General Meeting appoints auditors every four years. The 2005 AGM appointed Authorised Public Accountants Åsa Lundvall and Erik Åström and deputies Torsten Lyth and Anders Wiger from the Ernst & Young AB accounting firm. The 2007 AGM resolved that, as previously, the auditors' fees should be paid based on the invoices submitted.

Åsa Lundvall, Authorised Public Accountant, has conducted auditing assignments for H&M for a number of years and has been a deputy auditor since the 2003 Annual General Meeting. At the 2005 AGM Åsa Lundvall was appointed as auditor for H&M.

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

## AUDIT FEES

(SEK million)

	GROUP			PARENT COMPANY		
	06/07	05/06	04/05	06/07	05/06	04/05
<b>Ernst &amp; Young</b>						
Audit assignments	12.8	11.3	10.3	2.4	2.4	1.9
Other assignments*	18.4	10.8	5.1	11.5	4.8	0.4
<b>Other auditors</b>						
Audit assignments	2.5	2.3	2.2	-	-	-
Other assignments	1.3	1.1	2.1	-	-	-
<b>Total</b>	<b>35.0</b>	<b>25.5</b>	<b>19.7</b>	<b>13.9</b>	<b>7.2</b>	<b>2.3</b>

\* Other assignments refers mainly to tax advice in connection with changes to Internal pricing principles and refinement of the Group structure.

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, 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.

The fees invoiced by the auditors over the past three financial years, see previous page.

### COMPANY MANAGEMENT

H&M's Managing Director is responsible for the day-to-day operations. The Managing Director has appointed a team of senior executives with ongoing responsibility for the various parts of the business. This team consists of the Managing Director himself and eleven other individuals, four of whom are women. The executive management team is responsible for the following functions: Finance, Buying, Production, Expansion, Accounts, Human Resources, Marketing, Communications, Investor Relations, Security and Corporate Social Responsibility.

### INFORMATION ABOUT THE MANAGING DIRECTOR

Rolf Eriksen has long, sound experience of the retail sector, starting with five years' training in decoration and scene painting in Copenhagen, Denmark, which he completed in 1964. He then worked as a marketing manager for the next 20 years for the Danish department store ANVA in Copenhagen.

Rolf Eriksen joined H&M in 1986 as Country Manager for H&M Denmark. For a four-year period in the 1990s he was also Country Manager for H&M Sweden. In March 2000 he became Managing Director and CEO of H & M Hennes & Mauritz AB. Rolf Eriksen has no significant assignments outside of H&M.

His shareholding in H&M as at 30 November 2007, was 39,700.

### GUIDELINES FOR REMUNERATION PAID TO SENIOR EXECUTIVES

In accordance with the Swedish Annual Accounts Act, the 2007 AGM adopted guidelines for remuneration paid to senior executives at H&M. To view the full guidelines refer to the Administration Report on page 52 of the 2007 Annual Report.

H&M deviates from the Code in having no Remuneration Committee, since the Board of Directors may be regarded as

carrying out these tasks. The Board decides the remuneration to the Managing Director in accordance with the guidelines established at the 2007 AGM. The terms of employment of 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.

### INTERNAL CONTROL

This section has been prepared in accordance with section 3.7.2 of the Swedish Code of Corporate Governance, i.e. a description of how internal control over financial reporting is organised, and the recommendations issued by the Swedish Corporate Governance Board in September 2006, as well as the guidelines produced by the Swedish Institute of Authorised Public Accountants (FAR) and the Confederation of Swedish Enterprise.

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.

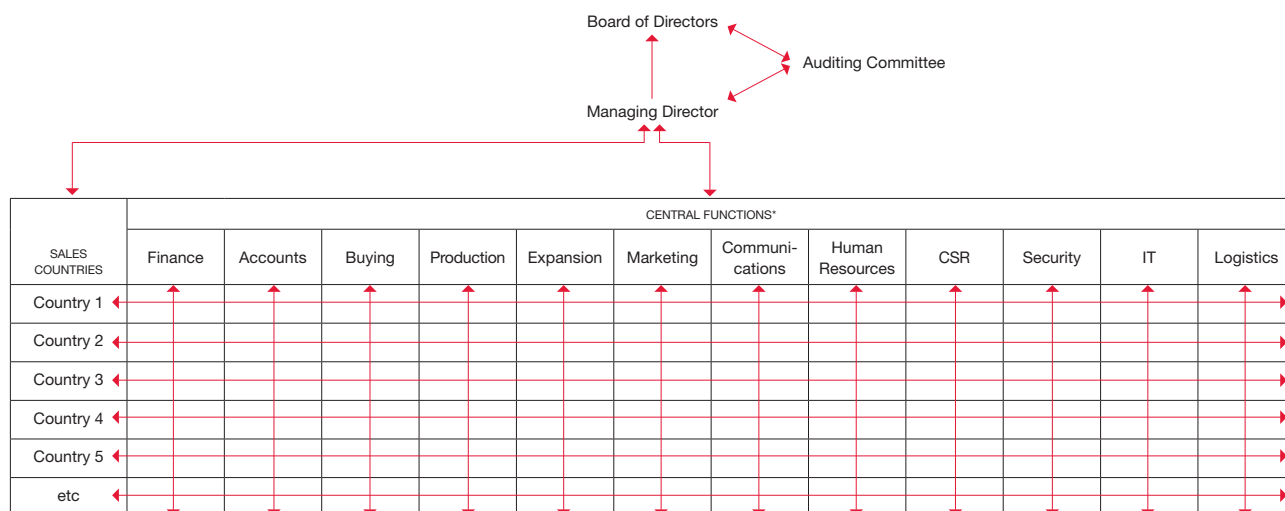
### COSO

H&M uses the COSO framework for internal control over financial reporting as a basis. 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, and 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. For further information on our colleagues see pages 40–41 of the Annual Report.

Of particular importance is that management documents such as internal policies, guidelines and manuals exist in significant areas and that these provide colleagues with good 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 our colleagues should act in relation to the company and the outside world.



\* Executive Management Team

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 communications policy and the store instructions are examples of important overall policies.
- Awareness among colleagues of the maintenance of good control over financial reporting.
- Reporting.

H&M has a matrix organisation (see page 6), which means that those on the executive management team with responsibility for a function are responsible for the results of work 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 business (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 favours internal control and facilitates comparisons between the different 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 out to the respective department in the country offices. In 2007 each central department reviewed its guidelines and manuals to see which needed updating and what new guidelines needed to be developed.

#### **RISK ASSESSMENT**

H&M carries out regular risk analyses to review the risks of errors within the financial reporting of significant income and balance sheet items. Operational risks are also charted. H&M has identified certain areas with a higher intrinsic risk of errors, including stock-in-trade shrinkage, cash-desk manipulation and misappropriation of merchandise. Another risk area is the valuation of stock-in-trade, including assessments relating to dead stock.

To limit the risks there are appropriate policies and guidelines as well as processes and controls within the business.

#### **CONTROL ACTIVITIES, 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.

Within H&M policies and guidelines relating to the financial process are updated on an ongoing basis. This takes place primarily within the central function concerned and is communicated to the countries via e-mail and the intranet as well as at meetings.

The aim of the control activities is to discover, prevent and correct inaccuracies and non-compliance. Control activities include such things as account reconciliation, analytical follow-up, comparisons between income statement and balance sheet items and controls in IT systems.

In 2007 the company's general IT controls were audited by an external party. These controls were mainly assessed with the assistance of those responsible for the systems and system areas in certain business processes.

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.

#### **MONITORING**

As part of the company's 2007 internal control work, each central department assessed internal control within its respective functions in the sales countries using the COSO model. Where necessary, this work resulted in action plans for the countries setting out further work on areas in which internal control can be strengthened further. As part of this assessment, the central departments were also provided with feedback concerning areas that could be improved centrally in the future.

Within the stores, controls are performed annually by internal shop controllers with the aim of finding out the strengths and weaknesses of the store assessed and how any deficiencies can be corrected. Within each central department risks within each function were also reviewed and documented during the year as part of the assessment of internal control in the sales countries.

Follow-up and feedback in respect of any problems found during the annual assessment of internal control form a central part of internal control work, since this is an effective way for the company to ensure that deficiencies are corrected and that control is strengthened further.

The Board of Directors and the Auditing Committee continuously evaluate the information provided by the executive management team, including in respect of internal control. The Auditing Committee's task of monitoring the efficiency of internal control by the executive 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 as well as by external auditors.

#### **INTERNAL AUDIT**

H&M has not found it necessary up to now to establish a specific internal audit function. The work on internal control during the year has further increased awareness of internal control within the Group. In the company's opinion, the assessment of internal control carried out in the sales countries during the year by all the central departments – such as Expansion, Communications, Security, Logistics and Production – as well as the work carried out by internal shop controllers largely corresponds to the work performed in other companies by an internal audit function. The issue of a specific internal audit function will be reviewed again in 2008.

Stockholm, February 2008

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).

# THE H&M SHARE

## Key ratios per share

	2007	2006	2005	2004	2003
Shareholders' equity per share, SEK	38.78	33.57	31.33	26.84	24.28
Earnings per share, SEK	16.42	13.05	11.17	8.79	7.72
Change from previous year, %	+26	+17	+27	+14	+12
Dividend per share, SEK	14.00*	11.50	9.50	8.00	6.00
Market price on 30 November, SEK	399.00	319.00	253.00	216.00	176.50
P/E ratio	24	24	23	25	23

## Distribution of shares, 30 November 2007

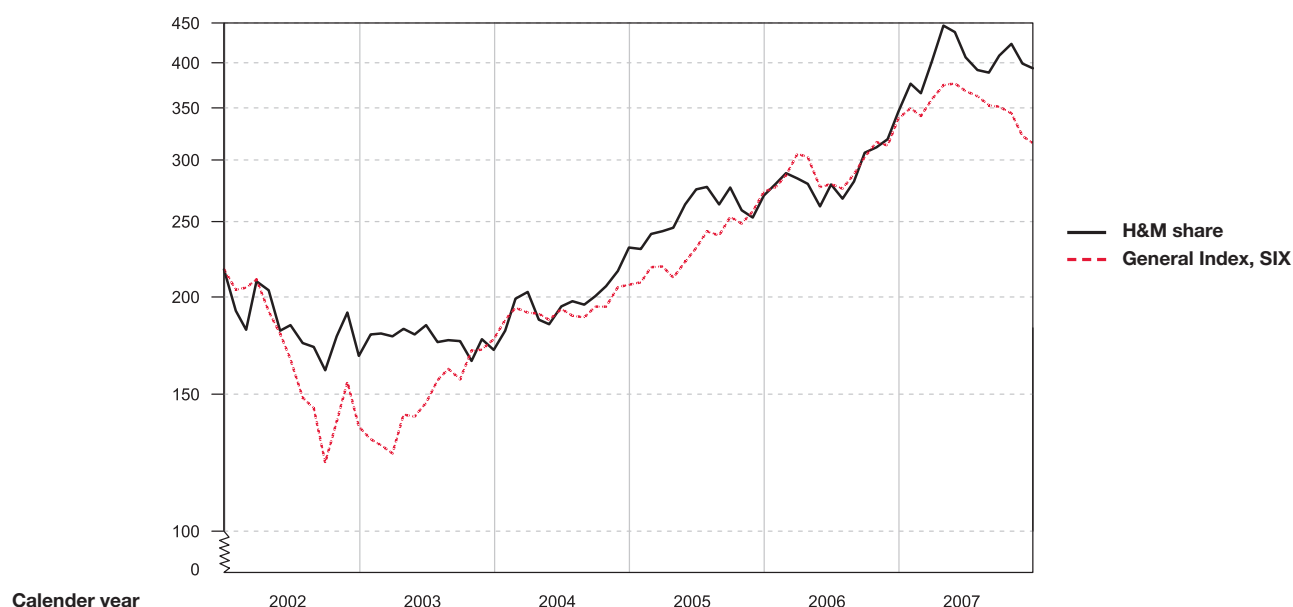
Shareholdings	Number of shareholders		Number of shares		Average shares per shareholder
		%		%	
1- 1,000	157,258	92.8	30,451,351	3.7	194
1,001- 5,000	9,263	5.5	20,590,129	2.5	2,223
5,001- 10,000	1,299	0.8	9,618,848	1.2	7,405
10,001- 50,000	1,097	0.6	23,362,448	2.8	21,297
50,001- 100,000	200	0.1	14,393,659	1.7	71,968
100,001-	420	0.2	729,119,565	88.1	1,735,999
<b>Total</b>	<b>169,537</b>	<b>100</b>	<b>827,536,000</b>	<b>100</b>	<b>4,881</b>

## Major shareholders, 30 November 2007

	No. of shares	% of voting rights	% of total shares
Stefan Persson and family	301,672,400	69.1	36.5
Lottie Tham and family	44,040,200	2.6	5.3
Alecta Pensionsförsäkring	24,305,000	1.4	2.9
Swedbank Robur Fonder	22,365,837	1.3	2.7
JP Morgan Chase Bank	21,932,792	1.3	2.7
AMF Pensionsförsäkrings AB	15,500,000	0.9	1.9
Handelsbanken Fonder	14,637,642	0.9	1.8
SSB CL Omnibus	11,776,103	0.7	1.4
Clearstream Banking	11,774,098	0.7	1.4
SEB Investment Management	11,350,777	0.7	1.4

\* Proposed by the Board of Directors

## The development of the H&M share





# FINANCIAL INFORMATION AND CONTACT DETAILS

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Victoriahallen, Stockholm International Fairs in Stockholm on Thursday 8 May 2008, at 3 p.m. Shareholders who are registered in the share register print-out as of Friday 2 May 2008 and give notice of their intention to participate in the AGM no later than 12 noon, Friday 2 May 2008 (same date as above) are entitled to participate in the AGM.

### Nominee shares

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, in good time before 2 May 2008.

### Notice

Notice of intention to participate in the Annual General Meeting must be submitted by mail, fax or telephone to:

H & M Hennes & Mauritz AB  
Head Office/Carola  
SE-106 38 Stockholm  
Telephone: +46 (0)8-796 55 00  
Fax: +46 (0)8-796 55 44  
[www.hm.com/arsstamma](http://www.hm.com/arsstamma)

Shareholders must state in the notice their name, civil identity number and telephone number (daytime).

### Dividend

The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 2007 of SEK 14.00 per share.

The Board of Directors has proposed Tuesday 13 May 2008 as record day. With this record day, VPC (the Nordic Central Securities Depository) is expected to pay the dividend on 16 May 2008. To have the right to receive a dividend H&M shares must be bought on 8 May 2008 at the latest.

## FINANCIAL INFORMATION

H & M Hennes & Mauritz AB will provide the following information:

27 March 2008	Three Month Report
8 May 2008	Annual General Meeting 2008 at 3 p.m. at Victoriahallen, Stockholm International Fairs, Stockholm
18 June 2008	Half Year Report
30 September 2008	Nine Month Report
29 January 2009	Full Year Report
26 March 2009	Three Month Report
4 May 2009	Annual General Meeting 2009

As previously, we plan to publish monthly sales figures on the 15th of the following month. If the 15th falls on a weekend, the sales figures will be published on the following weekday. However, the sales figures for February, May, August and December are planned to be published in each following interim report.

This information will be available at [www.hm.com](http://www.hm.com).

## CONTACT DETAILS

### Head Office

H & M Hennes & Mauritz AB  
Mäster Samuelsgatan 46A  
SE-106 38 Stockholm  
Tel.: +46 (0)8-796 55 00

For information on H&M and addresses of the country offices visit [www.hm.com](http://www.hm.com).

### Contacts

Head Office

**Managing Director** Rolf Eriksen

**Finance** Leif Persson

**Accounts** Anders Jonasson

**Sales** Jonas Guldstrand

**Buying** Madeleine Persson

**Design** Ann-Sofie Johansson

**Production** Karl Gunnar Fagerlin

**Corporate Social Responsibility** Ingrid Schullström

**Expansion** Karl-Johan Persson

**Marketing** Jörgen Andersson

**Communications** Kristina Stenvinkel

**Investor Relations** Nils Vinge

**Human Resources** Pär Darj

**IT** Kjell-Olof Nilsson

**Logistics** Danny Feltmann

**Security** Angelika Giese