

H & M Hennes & Mauritz AB

The board's proposal to the 2020 AGM for guidelines for remuneration of senior executives

These guidelines cover remuneration to the CEO, remuneration to board members (aside from board fees) and remuneration to other senior executives. Senior executives means members of the executive management team apart from the CEO and the individuals responsible for other group functions who report directly to the CFO. The executive management team comprises those responsible for the functions that report directly to the CEO.

The guidelines are to be applied to remuneration that is agreed, and to changes that are made to previously agreed remuneration, after the guidelines have been adopted at the 2020 annual general meeting. The guidelines do not cover remuneration that is decided by the annual general meeting.

How the guidelines contribute to the company's business strategy, long-term interests and sustainability

Under the Swedish Companies Act, an explanation is to be given in the guidelines as to how they contribute to the company's business strategy, long-term interests and sustainability.

The H&M group does not use the expression "business strategy", but instead uses "strategic focus areas". This is probably the expression that most closely corresponds to what the Companies Act means by the term business strategy. The strategic focus areas are: create the best customer offering; ensure we have a fast, efficient and flexible product flow; secure a stable and scalable infrastructure – our "tech foundation"; and add growth by expanding through stores, online and digital marketplaces and by integrating physical stores and online shopping. These guidelines are to contribute to the H&M group's strategic focus areas, long-term interests and sustainability in the ways outlined below.

The board considers it of the utmost importance that senior executives are paid competitive remuneration at a market level, as regards both fixed and variable compensation, based on responsibilities and performance. Successful work on the company's strategic focus areas and to safeguard the company's long-term interests, including sustainability, requires the company to be able to recruit, motivate and retain talented, committed employees. Senior executives shall be compensated at what are considered by the company to be competitive market rates, based partly on industry comparisons. The criteria used to set levels of compensation shall be based partly on the significance of the duties performed and partly on the employee's skills, experience and performance. At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. Over time, the largest portion of the total remuneration shall consist of the fixed basic salary. The forms of compensation shall motivate senior executives to do their utmost to ensure the good financial and sustainable development of the H&M group.

Types of remuneration etc.

The total annual remuneration may consist of the following components:

- fixed basic salary
- variable remuneration
- pension benefits
- other benefits

Fixed basic salary

Senior executives shall have a fixed basic cash salary that is at a market level based on each position's significance for the company as a whole. The basic salary shall reflect the individual's area of responsibility, skills and experience and requires the individual to work in a committed manner at a high professional level.

Variable remuneration

The variable remuneration may consist of both criteria-related remuneration and a discretionary one-off payment.

The criteria for criteria-related variable remuneration contribute to the company's strategic focus areas, long-term interests and sustainability in the ways set out below.

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

At individual level it is the position's significance and opportunity to influence the overall development of the group that decides the level of the variable remuneration. The CEO decides the maximum possible outcome for each position, but always within the framework of these guidelines.

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

At the end of the measurement period for fulfilment of criteria for payment of variable remuneration, an assessment is to be made of the extent to which the criteria have been fulfilled. In the case of variable remuneration to the CEO, the board is responsible for this assessment. In the case of variable remuneration to other senior executives, the CEO is responsible for the assessment. Where financial targets are concerned, the assessment is to be based on the most recently published financial year.

Discretionary one-off payments may be made in individual cases to other members of the company's management following a discretionary decision by the CEO and the chairman of the board. The discretionary oneoff payment must never exceed the individual's annual fixed basic salary.

Pension benefits

In the case of the CEO, pension benefits – including sickness insurance – are to be on a defined contribution basis. Variable cash remuneration shall not be pensionable. The pension premiums for the year must not exceed 30 percent of the CEO's annual fixed basic salary.

In the case of other senior executives, pension benefits – including sickness insurance – are to be on a defined contribution basis unless the executive is covered by a defined benefit pension plan under the mandatory provisions of collective bargaining agreements. Variable cash remuneration shall be pensionable to the extent that this is laid down in mandatory provisions of collective bargaining

agreements that are applicable to the senior executive. The pension premiums for the year must not exceed 40 percent of the senior executive's annual fixed basic salary.

The cost of the present commitments is partly covered by separate insurance policies.

The retirement age for the CEO is 65.

The retirement age for other senior executives varies between 60 and 65 years.

Other benefits

Senior executives may receive other benefits such as wellness subsidies, car allowances and medical insurance. The total annual costs associated with other benefits must not exceed 20 percent of the individual's annual fixed basic salary.

Termination of employment

The period of notice for senior executives varies from three to 12 months. variable remuneration is not to be paid if the individual has given notice to terminate his/her employment.

The CEO is entitled to 12 months' notice. In the event that the company terminates the CEO's employment contract, the CEO will also receive severance pay of a year's salary. No other severance pay is payable by the company.

Salary and employment terms for other employees of the company

When preparing the board's proposed guidelines for remuneration to senior executives consideration was given to the salary and employment terms of the company's other employees by using information concerning the employees' total remuneration, the components of the remuneration and the increase in and rate of increase in the remuneration over time as part of the basis on which the board assessed whether the guidelines, and the resulting limitations, are reasonable.

Consultancy fees

Where a board member performs work for the company (including through a wholly owned company) in addition to his or her board work, a separate fee may be paid for this (consultancy fee). Such fee shall not exceed the board fee paid to the member concerned. The fee is to be based on the current market rate and be proportionate to the benefit for the company and the extent to which such work contributes to the good financial and sustainable development of the H&M group.

Decision process for establishment, review and implementation of the guidelines

The company 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 proposed guidelines for remuneration to senior executives and these proposals are presented at the annual general meetings. The board is to prepare a proposal for new guidelines at least every four years and submit the proposal for decision by the annual general meeting. The guidelines shall apply until new guidelines have been adopted by the annual general meeting. The board shall also monitor and evaluate programmes for variable remuneration to the company's management and the application of the guidelines for remuneration to senior executives, as well as current remuneration structures and levels in the company. The board shall further decide on the CEO's salary in accordance with the guidelines in effect and shall continually evaluate the work of the CEO. Once a year this matter is to be discussed separately in conjunction with the setting of the

CEO's remuneration for the coming year. To avoid conflicts of interest, no member of the company's management is to be present when the board discusses remuneration matters. The board shall decide on any consultancy fees to board members without the member concerned being present.

Other

Senior executives are also entitled to the benefits accruing under the profit-sharing programme known as the H&M Incentive Program, which is for all employees of the H&M group. The programme was adopted by a previous annual general meeting and is not covered by these guidelines.

Regarding employment terms falling under rules other than Swedish rules, in the case of pension benefits and other benefits the guidelines are to be adapted as appropriate to comply with any such mandatory rules or established local practice, while fulfilling the general aim of the guidelines as far as possible.

The board may decide to temporarily deviate from the guidelines in full or in part if there is particular reason to do so in an individual case and this is necessary in order to satisfy the company's long-term interests and sustainability or to ensure the financial viability of the company. The procedure for doing this is as follows: decisions to deviate from the guidelines are to be taken by the board at a board meeting.