

CORPORATE GOVERNANCE REPORT 2006

H & M HENNES & MAURITZ AB

H&M applies the Swedish Code of Corporate Governance and has prepared this report in accordance with the Code. 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. Departures from the Code are detailed in the respective sections.

In accordance with the directive issued by the Swedish Corporate Governance Board in September 2006, this corporate governance report contains a separate section on internal control over financial reporting. The Corporate Governance Report for 2006 is not part of the formal Annual Report and has not been reviewed by the company's auditors.

H&M'S CORPORATE GOVERNANCE STRUCTURE



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 at least 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.

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 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.

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.

H&M has a matrix organisation (see section on control environment) consisting of the sales countries, headed by the country managers, and the central functions, for which the executive management team is responsible.

ARTICLES OF ASSOCIATION

H&M's articles of association form a central document establishing, among other things, the company's name, registered office, business orientation and share capital. Prior to the AGM 2006,

the Board of Directors proposed a number of amendments to the articles of association in view of the new Swedish Companies Act, which came into force on 1 January 2006.

ANNUAL GENERAL MEETING 2006

H&M's Annual General Meeting 2006 was held in Victoriahallen at the Stockholm International Fairs on 3 May. 981 shareholders attended the meeting, representing 78.6 per cent of the votes and 56 per cent of the capital. 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.
- Dividend to shareholders of SEK 9.50 per share.
- The members of the Board and the Managing Director were discharged from liability for the 2004/2005 financial year.
- The number of Board members elected by the meeting to serve until the next AGM was eight, with one deputy also elected by the meeting.
- 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, Sussi Kvar, Bo Lundquist, Stig Nordfelt, Stefan Persson and Melker Schörling as well as the election of Lottie Knutson and Karl-Johan Persson as ordinary members. Rolf Eriksen was re-elected as deputy and Stefan Persson was re-elected as Chairman of the Board.
- The proposed principles for the Election Committee were approved.
- The proposed amendments to the articles of association were adopted.

It was not deemed necessary to make the material from the meeting available in any language other than Swedish because the foreign shareholders used Swedish proxies. If needed, however, English translations of certain material were available from the head office.

ANNUAL GENERAL MEETING 2007

H&M's Annual General Meeting 2007 will be held in Victoriahallen at the Stockholm International Fairs on 3 May. To register to attend the 2007 AGM please see page 78 of the Annual Report or visit www.hm.com under Investor Relations, Corporate Governance, Annual General Meeting. Since October 2006 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 and, when necessary, proposing auditors. Shareholders can contact the Election Committee with proposed nominations. In accordance with the principles of the Election

Committee, which were adopted at the AGM 2006, the Election Committee is made up of the five largest shareholders in terms of the number of votes plus the Chairman of the Board, all as at 31 August 2006. If any of the five largest shareholders in terms of the number of votes declines the right to appoint a member of the Election Committee, the next largest shareholder is given opportunity to appoint a member.

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.

WORK OF THE ELECTION COMMITTEE IN PREPARATION FOR THE 2006 AGM

The Election Committee held two meetings at which minutes were kept and was also in contact between these times. As a basis for its proposals to the 2006 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. An account of the work of the Election Committee ahead of the 2006 AGM was published on H&M's website in conjunction with the notice of the meeting. No special fees were paid to the Election Committee's chairman, nor to any other member of the Committee.

COMPOSITION OF THE ELECTION COMMITTEE, 31 AUGUST 2006

The composition of the Election Committee, based on the register of shareholders held by the Swedish Central Securities Depository (VPC) as at 31 August 2006 and the principles of the Election Committee, is as follows:

Stefan Persson, Chairman of the Board,
representing Stefan Persson
Lottie Tham, representing Lottie Tham
Tomas Nicolin, representing Alecta
Mats Lagerqvist, representing Robur Fonder
Björn Lind, representing SEB Fonder
Joachim Spetz, representing Handelsbankens Fonder

The above Election Committee shall remain in place until the end of August 2007.

The Election Committee appointed Stefan Persson as its chairman; this was deemed an obvious choice in view of the ownership structure of H&M.

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.

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 one deputy member. There are also two employee representatives with two deputies. Six of the members of the Board are female and seven male; six out of thirteen are employed within the company. 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 Board's work plan was updated in accordance with the Code's recommendations ahead of the statutory Board meeting held in conjunction with the 2006 AGM.

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 finance markets and government agencies.

WORK OF THE BOARD IN 2006

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 to verify the corporate governance report and the report on internal control. The attendance of the Board members at these meetings is reported in the table Composition of the Board of Directors and Attendance of the year. Prior to each meeting the members of the Board received written material detailing the matters to be dealt with at the meeting.

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 2006 included Managing Director Rolf Eriksen providing information on the company's main aims for the year as well as the progress of buying work, future marketing campaigns, etc. Logistics were also discussed, including the plans for new logistics centres in Germany and Poland. The Board was kept informed of the company's CSR and environmental work.

Decisions taken by the Board for 2007 include: expansion into Shanghai, Hong Kong and Greece; 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.

In connection with the Board's review of the proposed annual report for 2006, auditors Åsa Lundvall and Erik Åström gave an account of the year's audit work.

H&M has no remuneration committee as this area is considered to be the responsibility of the Board. The Board sets the Managing Director's salary on an annual basis according to established guidelines. The terms of employment for other members of the executive management team are decided by the Managing Director and the Chairman of the Board. No severance pay is payable within H&M, except in the case of the Managing Director.



Stefan Persson



Fred Andersson



Lottie Knutson



Sussi Kvart



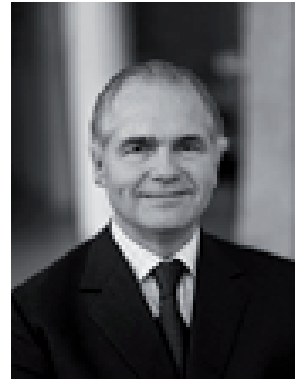
Bo Lundquist



Stig Nordfelt



Karl-Johan Persson



Melker Schörling



Rolf Eriksen



Vivian Enochsson



Marianne Norin-Broman



Eva Nilsson



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: Chairman of the Board of H&M, member of the boards of the Association of Stockholm School of Economics, 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 the Nicator Group AB.

OTHER SIGNIFICANT BOARD ASSIGNMENTS:

Chairman of Prevesta/Myresjöhus. 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, design company with its own production operation.
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– CEO and partner in the Nicator Group.

LOTTIE KNUTSON

Board member. Born 1964.

PRIMARY OCCUPATION: Communications Director at Fritidsresor Group, TUI Nordic, with responsibility for communications as well as corporate environmental and 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:

Member of the boards of Stockholms Stadshus AB, Kvinvest AB and of Healthcare Provision, Stockholm County Council.

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 the 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 ACSC AB, Stockholm University College of Physical Education and Sports (GIH) and Djurgården Fotboll. Member of the boards of two unlisted companies (Teknikmagasinet and Svanströms).

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 important 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 IBS AB and CGU Life 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 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– Business development, 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.

ROLF ERIKSEN

Deputy member. Born 1944.

OCCUPATION:

Managing Director and CEO of H&M.

EDUCATION: Five-year course in decoration and scenepainting in Copenhagen, Denmark, completed in 1964.

WORK EXPERIENCE:

1966–1985 Marketing Manager for the Danish department store ANVA.
1986–2000 Country Manager, H&M Denmark. For four years in the 1990s also Country Manager for H&M Sweden.
2000– Managing Director and CEO of H&M.

VIVIAN ENOCHSSON

Employee representative of the H&M Board since 1977. Born 1940.

MARIANNE NORIN-BROMAN

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

EVA NILSSON

Deputy employee representative of the H&M Board since 2003. Born 1944.

AGNETA RAMBERG

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

COMPOSITION OF THE BOARD OF DIRECTORS AND ATTENDANCE DURING THE YEAR

Name	Year elected	Independent ¹⁾	Independent ²⁾	Fees ³⁾ (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 ⁴⁾
Fred Andersson	1990	No	Yes	350,000	6/7		800	
Lottie Knutson	2006	Yes	Yes	350,000	4/4		200	
Sussi Kvarn	1998	Yes	Yes	400,000	7/7	3/3	2,200	850
Bo Lundquist	1995	Yes	Yes	400,000	6/7	3/4		20,000 ⁵⁾
Stig Nordfelt	1987	No	Yes	450,000	7/7	4/4	4,000	
Karl-Johan Persson	2006	No	No	350,000	4/4		6,066,000	
Melker Schörling	1998	Yes	Yes	350,000	5/7		114,000	
Rolf Eriksen, Deputy	2000	No	No		7/7		38,200	
Vivian Enochsson, employee representative	1977	No	No		7/7		600	
Marianne Norin-Broman, employee representative	1995	No	No		7/7		70	120
Eva Nilsson, deputy empl. representative	2003	No	No		6/7			50
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 2006 Annual General Meeting. The fees relate to the period until the next AGM is held and will be paid out in 2007.

4) Shares owned through Stefan Persson Placering AB.

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

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

INDEPENDENCE ACCORDING TO THE CODE

The Code states that a majority of the Board members elected by the AGM must be independent of the company and the company management. Of the members elected by the AGM, three of the eight have sat on the Board for over twelve years and one is employed by the company. The composition of the Board with one deputy member also deviates from the Code. The explanation given by the Election Committee for the deviations 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. In the past the Board has functioned well in its work with a division into ordinary members and deputies elected by the AGM.

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 Stockholm Stock Exchange. 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.

WORK OF THE AUDITING COMMITTEE IN 2006

The Auditing Committee held four meetings during the year at which minutes were kept. Following the statutory Board meeting, the Auditing Committee comprises chairman Stig Nordfelt and members Bo Lundquist and Sussi Kvarn, who was elected as a new member to replace Werner Hofer, who had declined re-election as a Board member.

The majority of the Committee are independent of the company and the company management as well as of the company's major shareholders. The formal work plan of the Auditing

Committee was updated during the year in accordance with the Swedish Code of Corporate Governance.

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 updated the established guidelines for services other than audits that the company may purchase from its auditors. Authorised Public Accountants Åsa Lundvall and Erik Åström 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.

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 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 and onetwocom.

AUDIT FEES

(SEK m)

	GROUP			PARENT COMPANY		
	05/06	04/05	03/04	05/06	04/05	03/04
Ernst & Young						
Audit assignments	11.3	10.3	8.0	2.4	1.9	1.5
Other assignments*	10.8	5.1	5.8	4.8	0.4	0.3
Other auditors						
Audit assignments	2.3	2.2	2.1	-	-	-
Other assignments	1.1	2.1	1.7	-	-	-
Total	25.5	19.7	17.6	7.2	2.3	1.8

* Other assignments refers to tax consulting, work on IFRS and on the Swedish Code of Corporate Governance.

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 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.

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.

For more information about the Managing Director, Rolf Eriksen, please see the section on the Board of Directors.

The company has deviated from the rule in the Code that states that the Board of Directors shall present the principles for remuneration to senior executives to the 2006 Annual General Meeting. The reason for the deviation is as follows: the Board of Directors decides the remuneration to the Managing Director annually in accordance with established guidelines. The Chairman of the Board and the Managing Director decide the remuneration to other senior executives, and since the Chairman of the Board – who is also the company's largest shareholder – is involved in these decisions, the guidelines were not discussed at the 2006 AGM. For information about salaries and benefits for the executive management team, please see note 6 in the Annual Report or visit www.hm.com under Investor Relations, Corporate Governance, Remuneration. The principles for remuneration are essentially the same as those applied the previous year. In the light of the new legislation within this area the Board will propose guidelines for remuneration to senior executives to the 2007 AGM.

INTERNAL CONTROL

The Board of Directors is responsible for the company's internal control, the overall aim of which is to safeguard the company's assets and thereby its shareholders' investment. This section has

been prepared in accordance with section 3.7.2 of the Swedish Code of Corporate Governance 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. In accordance with section 3.7.2, the section is limited to a description of internal control relating to financial reporting.

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.

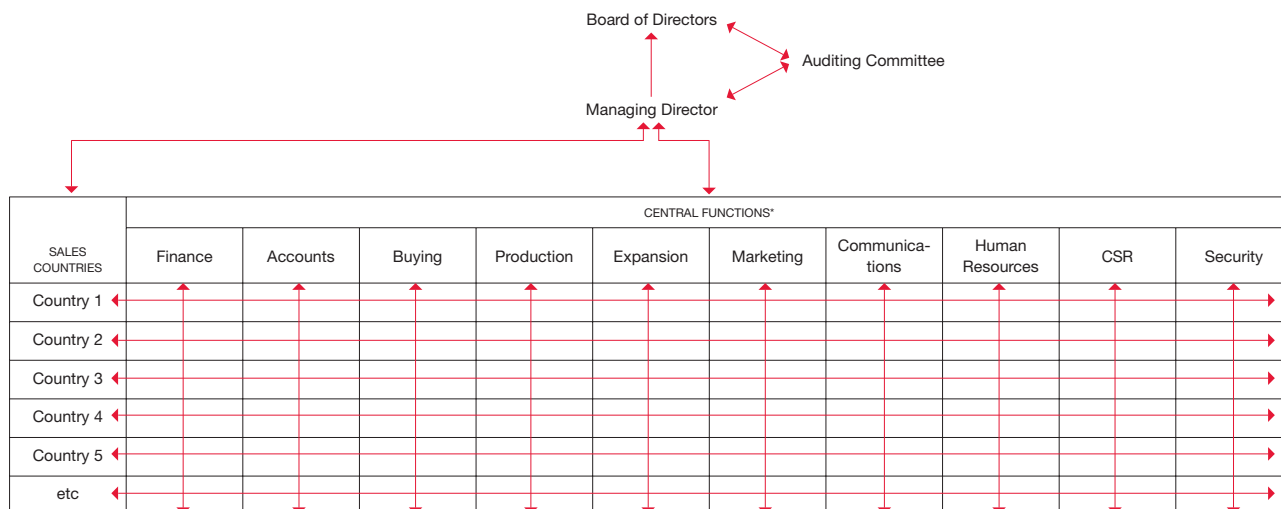
Control environment

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.

Of particular importance is that management documents such as internal policies, guidelines and manuals exist in significant areas and that these provide co-workers 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. 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 company. In most cases these are written in the central departments at the head office in Stockholm and then communicated out to the respective department in the country office. In 2006 an inventory of the guidelines was carried out within each department to see which needed updating and what new guidelines needed to be created.

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



* Executive Management Team

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 which the Code of Ethics is an example of an important overall policy.
- Awareness among colleagues of the maintenance of good control over financial reporting.

H&M has a matrix organisation, see previous page, 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 an 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.

As part of the company's 2006 internal control work all the sales companies were assessed 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. Each member of the executive management team with responsibility for a function was also interviewed. The interviews with both country managers and heads of functions contributed to a central action plan for the Group.

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 and has found that wastage relating to stock-in-trade, cash-desk manipulation and misappropriation of merchandise represent some of the greatest risks of financial reporting error. 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. During the year these were documented as part of the company's risk assessment work.

CONTROL ACTIVITIES

The aim of appropriate control activities is to discover, prevent and correct inaccuracies and deviation. Control activities include such things as account reconciliation, analytical follow-up, comparisons between income and balance sheet items and supporting controls provided by IT systems.

In 2006 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 in the various business processes.

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. Annual internal controls are also carried out in each country within departmental functions such as Expansion and Construction, Logistics and Production in order to reveal any deficits.

INFORMATION AND COMMUNICATION

Policies and guidelines are of particular importance for accurate accounting, reporting and provision of information.

Within H&M policies and guidelines relating to the financial process are updated on an ongoing basis. This takes place primarily within the Group function concerned and is passed on to the countries via e-mail and the 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.

MONITORING

The Board of Directors continuously evaluates the information provided by the executive management team and the Auditing Committee. 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 by external auditors to rectify them.

Follow-up and feedback in respect of any problems found during the annual internal controls 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.

INTERNAL AUDIT

H&M has not found it necessary up to now to establish a formal internal audit function. The work on internal control during the year has further increased awareness of internal control within the Group. The company has assessed that some of its departments, such as Expansion and Construction, Security, Logistics and Production, carry out some of the work performed in other companies by the internal audit function. The issue of a specific complete internal audit function will be reviewed again in 2007.

Stockholm, February 2007

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.