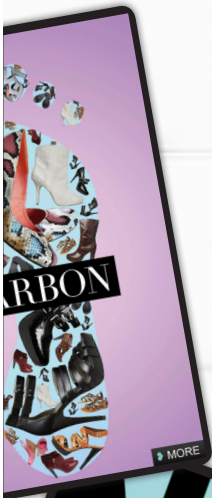




STYLE &

SUBSTANCE

Sustainability Report 2009



CONTENTS

APPROACH page 2

SUPPLY CHAIN page 14

ENVIRONMENT page 31

PRODUCTS page 51

EMPLOYEES page 58

COMMUNITIES page 65

Q & As page 73

Appendix 1, Performance data

Appendix 2, GRI Index



STYLE AND SUBSTANCE

AT H&M, STYLE IS WHAT YOU GET. BUT THAT IS NOT THE END OF THE STORY. WE HAVE WIDER RESPONSIBILITIES – TO PEOPLE AND TO THE PLANET. BEHIND THE SCENES, WE ARE WORKING HARD TO MAKE YOUR STYLE RESPONSIBLE, IN WAYS THAT ARE IN TUNE WITH THE NEEDS OF THE WORLD AROUND US. BECAUSE GOOD STYLE ALSO NEEDS SUBSTANCE.



APPROACH

CONTINUOUS IMPROVEMENT, AS FOR EVERYTHING WE DO, HAS BEEN AT THE HEART OF OUR APPROACH TO SUSTAINABILITY FROM THE BEGINNING. WE ARE CONSTANTLY LOOKING FOR WAYS TO BE A MORE RESPONSIBLE COMPANY – AND TO INTEGRATE SUSTAINABLE THINKING INTO ALL THE DECISIONS WE MAKE.

CEO MESSAGE

Welcome to our 2009 sustainability report!

H&M strives to be a sustainable business – financially, socially and environmentally. If we are to continue being a successful company, we believe that integrating sustainable thinking into everything that we do is absolutely necessary.

Given the financial downturn, this past year has been challenging for most companies – H&M is no exception. But you should know that this has not led us to compromise our sustainability agenda.

We are moving towards sustainability becoming a shared responsibility. Everyone at H&M should live our values and help H&M become a more sustainable and successful business. We continued working on the implementation of our sustainability strategy throughout the year. More of our departments began a review of their work to identify the risks and opportunities associated with their activities. Our ambition is for all of our departments to establish targets and action plans for improving their sustainability performance themselves.

Like everything else at H&M, our sustainability agenda is based on a drive for continuous improvement. Ultimately, our entire value chain has to be leaner, smarter and more sustainable than that of our competitors. We know that

taking a full value chain perspective will not happen overnight – but several of the initiatives that we are already involved in reach far beyond our own and our direct suppliers' operations. The Better Cotton Initiative and All for Children are two examples of the key ones.

We have a responsibility towards everyone who contributes to our success, and we need to make sure that we use our planet's resources wisely. But being responsible is not only the right thing to do – it also makes perfect business sense. Everybody at H&M works hard to bring our customers fashion and quality at the best price. But because we know that customers expect more than fashion at reasonable prices, we aim to be a more sustainable alternative by offering products that have been made under good working conditions and with limited environmental impact. If we do the right things we should be able to increase sales and cut costs. And since many young people want to work for a responsible company that has a culture that matches their values, being at the forefront when it comes to sustainability also makes it possible for us to attract and keep engaged employees.

We are sometimes asked if we can keep on doing what we do – if our business concept will continue to work in the long term. I do believe that people will always, in one way or

another, be interested in fashion, quality and value for money. But we are already beginning to see a trend where consumers choose more responsible brands over less responsible ones. So we need to keep our ear to the ground and find ways to meet or even exceed our customers' expectations of us.

Last year, I signed the Copenhagen Communiqué to encourage the world's leaders to agree on an ambitious climate deal. Although the Copenhagen Accord shows a willingness to fight climate change, it is unfortunate that it did not come closer to setting a global level playing field with clear regulatory signals and long-term carbon price visibility. Still, at H&M we have decided to step up our efforts in the next three years to further increase energy efficiency and reduce carbon emissions.

To CEO Karl-Johan Persson, sustainability is a given



I think the greatest contribution H&M makes to the communities where we operate is the jobs that we help create, both within H&M and throughout and around our supply chain. At the same time customers, employees, investors and others rightfully demand that we improve working conditions in our supply chain. Therefore, implementing our Code of Conduct remains at the heart of our sustainability agenda. We will also continue to look for ways to limit the environmental impact of our products, for example using and trying out new sustainable materials.

Given our commitment to being a responsible business, it is natural that we continue to support the ten principles of the United Nations Global Compact.

I appreciate that you are taking the time to learn about what we are doing to become a better business. We would love to hear about how you think we are doing so send us an email to sustainability@hm.com.

Thank you,

Karl-Johan Persson
CEO, H & M Hennes & Mauritz AB

“*BEING RESPONSIBLE IS NOT ONLY THE RIGHT THING TO DO – IT ALSO MAKES PERFECT BUSINESS SENSE.*”

SUSTAINABILITY STRATEGY

At H&M, we think that sustainability isn't just an add-on. It's an integral part of what it means to be a successful business. That's why, when we think of sustainability, we look at it in terms of three connected areas: People, Planet and Profit.

OVERVIEW

We developed our new sustainability strategy in 2008 and started launching it in early 2009. The aim of the strategy is to help us become a business where sustainability is a natural and fully integrated part of everything we do, and a responsibility that all our departments share and manage together.

The new strategy means that H&M moved away from having a CSR department that coordinates all our sustainability activity. Instead, our CSR department now supports the other departments, guides and advises them as they set and move towards their own sustainability goals.

Sustainability for H&M covers three areas: People, Planet and Profit. We believe that these three areas are deeply interconnected and cannot be treated separately.

We have a sustainability vision and a sustainability policy. In order to achieve the vision and implement the policy, we have defined long-term goals as part of our sustainability strategy. At the core of our strategy is the aim to carefully balance between People, Planet and Profit to ensure the choices we make are sustainable in the long run.

VISION & POLICY

Our sustainability vision

H&M's business operations shall be run in a way that is economically, socially and environmentally sustainable. By sustainable we mean that the needs of both present and future generations must be fulfilled.

Our sustainability policy

H&M's business concept is to offer fashion and quality at the best price. Quality also means that the products have to be manufactured in a way that is environmentally and socially sustainable. Like all H&M's activity, our CSR work is based on a drive for continuous improvement.

We have a responsibility towards everyone who contributes to our success, including those who are not employees of H&M. That is why we work closely with our suppliers to develop a long-term, sustainable social and environmental standard in the factories that manufacture H&M's products.

We have to ensure that our employees' human rights are not violated, and the same applies to employees of our suppliers and other cooperation partners, and to our customers.

We apply the precautionary principle in our environmental work and have adopted a preventative approach with the substitution of hazardous chemicals.

We strive to use resources as efficiently as possible and to minimise waste. By adopting new technologies and methods, we can work preventatively to minimise our environmental footprint through improved production processes and our choice of materials. We must continuously review the company's goals and strategies to reduce the company's climate impact.

Our decisions are based on careful consideration, where shorter or longer-term environmental benefits are weighed up in order to ensure that we choose solutions that are sustainable in the long term.

We want to be a good global citizen and act responsibly in our business relations. We take a clear stand against all forms of corruption. We engage in dialogue with all our various stakeholders to build trust in our operations within the environment we rely on for our long-term success.

LONG-TERM GOALS

Our aim is to run our business in a sustainable way by reaching our Profit goal to increase the number of stores by 10-15% per year with continued high profitability and our People and Planet goals.

People

We shall be at the forefront of social sustainability by:

- offering our customers safe products and a secure shopping environment
- being a responsible and preferred employer for existing and potential employees

- ensuring that everyone employed by our suppliers and their subcontractors are guaranteed, as a minimum, their rights as stipulated by relevant laws covering labour rights, health and safety in the workplace
- contributing to the development of the communities where we operate
- acting in a way that is ethical and respectful towards the people we touch.

Planet

We shall be at the forefront of environmental sustainability by:

- minimising the need for extraction of fossil fuel, metals and minerals from the earth’s crust
- using and promoting safe and biodegradable substances that do not accumulate in the environment
- maintaining eco-system services by contributing to the conservation of soil, water, air and species.

FOCUS

Traditionally, our CSR focus has been on how our products are made and, to some extent, how they are transported and sold. We want to broaden our scope to take into account every part of our products’ life cycle, from the moment a cotton seed is planted all the way to the point that a product is disposed of, reused or recycled.

Our guiding principle is: the closer an activity is to our internal operations, the greater and earlier our focus and investment. Widening our scope to include our entire supply chain will take time, but some of our initiatives already reach far back in the supply chain.

OUR PRODUCTS’ JOURNEY FROM COTTON TO CUSTOMER

We want to run our business in an economically, socially and environmentally sustainable way. To do this we aim to look at the complete life cycle of our products, from the way our suppliers produce them to how our customers use them and work towards making a difference wherever we can.

We focus on areas where we have influence and where we can make the most difference. These are our own operations, transport, and the suppliers with whom we have a direct business relationship.



We also want to improve stages further back in our supply chain, such as raw materials and fabric production. We are working on ways to increase our influence in these areas. By working in partnership with suppliers, we want to improve their ability to manage their own sustainability. Read more about how we work with our supply chain on page 14.

Raw materials

Although we do not purchase the raw materials used in our products, such as cotton or wool, we want to limit their negative social and environmental impacts. We work with organisations such as the Better Cotton Initiative (BCI) and Organic Exchange to help in reducing these impacts.

In 2009 we launched the All for Children project together with UNICEF, aiming to support children in two cotton-producing areas in India. We are working towards further increasing our use of organic cotton and other more sustainable materials, such as organic wool or recycled cotton.

Material processing

In most cases we do not have direct business relationships with fabric and material manufacturers. However, we try to encourage fabric manufacturers to make their business more sustainable through our Cleaner Production Programme and our newly established Mill Development Programme.

Product manufacture

In 2009 we worked with around 700 suppliers, mainly in Asia and Europe. In total this stands for around 1,900 production units, representing both our suppliers’ own and subcontracted factories. As a buyer, we are in a position to have a positive influence on working conditions and environmental management at our suppliers’ operations.

Transport

We are committed to reducing the impacts resulting from transporting our goods and we work actively with our transport suppliers and other organisations to find ways to do so. This helps to find smart ways of transporting our goods, both from an environmental and from a cost perspective.

Sales

By the end of the financial year 2009, there were around 2,000 H&M stores in 35 countries and we employed around 76,000 people. We are working hard to reduce our environmental impact in this area, such as the carbon footprint caused by the energy used in our stores, offices and distribution centres.

We also recognise that being a good and attractive employer for all our colleagues and potential new employees is important for our future growth.

Customer use

Our responsibility to our customers includes ensuring that our products are safe and of a good quality. We restrict substances that can be harmful and carried out around 50,000 chemical tests in 2009, starting at the earliest possible stage in the production chain.

We help our customers reduce the impact of our products on the environment by providing advice about washing garments.

MANAGING SUSTAINABILITY

A shared responsibility means that all departments are now individually responsible for integrating sustainable thinking into their business routines, initiating actions and setting targets. All decisions should be taken keeping People, Planet and Profit in mind. To fully integrate sustainability into the different departments will be a step-by-step process. Sustainability issues influencing more than one department are discussed in the decision-making forum called the Green Room.

Update

The strategy was presented to all our central function heads in early 2009 and we have started to gradually introduce the strategy in the organisation. Along with that our CSR support team assists the development of goals and actions within each department. Many departments have already begun to set their own targets and are in progress to meet them.

CSR organisation

H&M's shared responsibility approach moves us away from having a CSR department that coordinates our sustainability activity, to a CSR support department that guides and advises other departments within H&M as they set and move towards their individual sustainability goals.

H&M's global CSR team comprised 83 people by the end of 2009. All in all, 11 people work in the CSR support department at our Head Office in Stockholm. They are:

- one CSR Manager, reporting directly to CEO
- three Environmental Coordinators
- three Code of Conduct Coordinators
- one Community Investment Coordinator
- one CSR Controller
- one Product Coordinator
- one IT Administrator.

The other 72 team members are based in our production offices around the world and report to the CSR support department as well as their local offices. They are:

- four Regional CSR Managers
- five Code of Conduct Managers
- five CSR Controllers
- two CSR Project Coordinators
- two Code of Conduct Administrators
- five Senior Auditors
- 47 Auditors
- four EHS Auditors
- one Global EHS Coordinator (based in Hong Kong)
- one Global Fabric and Fibre Coordinator (based in Shanghai).

ABOUT US

H&M's business concept is to offer our customers fashion and quality at the best price. Quality is about ensuring our products meet or exceed the expectations of our customers. It also means that our clothes should be made and sold under good working conditions and with a limited impact on the environment.

GLOBAL BRAND, GLOBAL IMPACT AND REACH

H&M was established in Sweden in 1947 and by the end of the financial year 2009 we sold clothes, accessories, footwear and cosmetics in around 2,000 stores in 35 countries, and via internet and catalogue sales in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria.

Since 2009 we have also been selling home textiles through online and catalogue sales. H&M also stands behind the brand COS and holds the majority of shares of FaBric Scandinavien AB, with its brands Cheap Monday, Weekday and Monki.

We do not own or operate any factories producing our goods, but instead work with approximately 700 suppliers mainly in Asia and Europe.

To us, sustainability goes hand in hand with our business concept: to offer fashion and quality at the best price. Quality is about ensuring our products meet or exceed the expectations of our customers. It also means that our clothes should be made and sold under good working conditions and with a limited impact on the environment.

We opened 250 new stores in 2009



Given our global presence, we have a responsibility to the societies around us. Taking responsibility for how our operations affect people and the environment is key to H&M's continued profitability and growth. We are committed to integrating social and environmental concerns into all our business operations and investing in the communities where we work.

BUSINESS HIGHLIGHTS 2009

- We opened 250 stores in 2009 (net).
 - By the end of the financial year 2009, there was a total of 1,988 stores in 35 countries across four continents and we employed around 76,000 employees.
 - In March 2009, Russia got its very first H&M store. The launch in Moscow attracted hundreds of customers. This very positive reception was in 2009 followed by another three successful openings in the Moscow area and the opening of our first store in St. Petersburg.
 - The first H&M store in Beijing opened in April 2009. By the end of 2009 there were 27 stores in China.
 - H&M arrived in Lebanon in October 2009 and during the year a total of three stores, all run through a franchise agreement, opened their doors in Beirut's most popular shopping district.
 - Expansion continues in Japan, where we opened four new stores in 2009.
 - During 2009 the first Monki stores opened in Norway and Denmark. The store chains Monki and Weekday also opened their first stores outside Scandinavia, in Germany. Both chains are run by H&M subsidiary FaBric Scandinavien AB.
 - In 2009, store chain COS – Collection of Style – expanded into France and Spain. At the end of the financial year there were 23 COS stores, with plans to open a further 12 stores in 2010.
- Three guest designer collaborations caused great interest among our customers:
- In April 2009 we launched a capsule collection for women in around 200 stores, created by the British fashion designer Matthew Williamson. The fantastic reception was followed barely one month later by a more comprehensive summer

We have around 2,000 stores in 35 countries



collection for both men and women, which was sold in around 1,600 H&M stores.

- In autumn 2009, legendary accessories brand Jimmy Choo created a sophisticated, fashionable guest collection of shoes and accessories along with a capsule clothing range for men and women. From 14 November, thousands of eager customers were given the chance to discover the collection, which was sold in around 200 selected city stores.
- A guest collection of underwear from French fashion house Sonia Rykiel was launched in time for the Christmas season. Sonia Rykiel pour H&M was sold in 1,500 H&M stores as well as in eight of Sonia Rykiel's own boutiques all over the world from 5 December, 2009.
- With the current huge interest in interiors and design, H&M launched H&M Home in February 2009. H&M Home is an interior textiles concept with sales via the internet and catalogue in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria.
- Together with the Designers Against Aids organisation, H&M is supporting the battle against HIV and AIDS. Our second Fashion Against Aids collection, which also spreads a safe sex message to young people, raised SEK 16.4 m (USD 2.2 m) for HIV/AIDS prevention projects.
- In 2009, H&M started All for Children with UNICEF to protect the rights of children in India living in areas where cotton is produced. All for Children includes a USD 4.5 m donation from H&M over five years.

RESPONSIBLE MARKETING

Our advertising and the way we communicate can have a big impact. We also feel it is important to be perceived in a positive, diverse and inspiring way without offending anyone. H&M therefore follows the International Chamber of Commerce's basic rules for advertisements and we have our own advertising policy. The advertising policy covers the

purpose of our advertising and how H&M seeks to promote a variety of different looks and styles in our advertising, it also highlights that H&M distances itself from working with notably underweight models.

Advertising policy

H&M communicates its business concept of 'fashion and quality at the best price' through the various advertising campaigns we produce each year throughout the world. The campaigns are designed to be clear and simple and aim to inform our customers of what is new at H&M and to show who we are and what we stand for. All of the campaigns show the season's designs and the price of the clothes pictured.

H&M's advertising campaigns are produced centrally in Sweden by H&M's marketing department in cooperation with creative professionals located in the major fashion hubs of the world. The advertisements that we produce are largely identical in all of our markets, but the media strategy is adapted to local requirements and conditions.

H&M's marketing has a major impact and it is essential for us to convey a positive and healthy image. H&M's advertising images do not aim to communicate one specific ideal, but rather a range of lifestyles and attitudes. Each season we strive to feature models with different looks, styles, and cultural backgrounds to advertise our concepts for women, men, teenagers and children.

Models are chosen in collaboration between internationally recognised agencies and our representatives. The models depicted in our advertising must be healthy and wholesome, and they must maintain a lifestyle consistent with the high prestige and good reputation of H&M. The company deliberately distances itself from drug and alcohol abuse, and will not use models that are notably underweight.

H&M has special guidelines for the advertising of our children's concepts. The target audience is parents, not children, and we place advertisements in media that are not aimed directly at children. Children who take part in our campaigns must take part of their own free will. If children are cast in a photo shoot, there is always an H&M representative present to ensure the safety of the children and to maintain a professional environment.

INTEGRITY

At H&M, we make it a rule to act with integrity at all times and we implement policies that help us stick to it. This means

that H&M does not accept any form of bribery and we take a clear stand against all types of corruption.

Code of Ethics

As a business committed to acting responsibly, we insist on operating ethically and professionally in our business relationships at all times. We do not accept any form of bribery and we take a stand against all types of corruption. We address these issues through our Code of Ethics, H&M's company-wide anti-corruption policy. This was set up in 2003 and was last updated in 2009.

The Code of Ethics states that business partners may not provide any kind of gifts or other advantages to H&M employees. In the same way, H&M employees must not require or accept any personal advantages from any business partner.

The Code applies to all business partners and all those H&M employees who are in regular contact with external business partners. We have two versions of the Code, one for suppliers and one for employees.

We make all our suppliers and employees aware of the Code, and we give them information to help them understand it. All of our suppliers must sign the Code before they can be accepted as suppliers to H&M.

During the recruitment process we inform new employees of the Code. This includes all employees working in our production organisations, our Head Office, and all employees in our sales organisations that have regular contact with external business partners.

H&M has a confidential whistleblowing procedure in place whereby potential breaches of the Code of Ethics can be reported.

Update

Our Code of Ethics was revised in 2009 and a dedicated email address is in place to allow reporting of concerns or suspicions of possible breaches of the Code. In 2009 the whistleblowing email address was communicated to all relevant parts of the organisation and to our suppliers. To maximise confidentiality, only the Global Security Manager can review these reports.

A total of 1,175 employees in our production offices (98%) and 618 managers in our sales organisations that are in regular contact with business partners, underwent training on the revised Code. A reminder of the updated Code was also sent to 90% of relevant employees.

The total number of identified breaches in 2009 was ten employees and three suppliers. So this is a total of 13 cases which led to terminations.

In 2010 we will continue to track the number of breaches reported and investigated.

Political contributions and lobbying

H&M does not provide direct financial contributions to individual politicians or political parties. H&M does however reserve the right, by way of lobbying, to attempt to influence political decisions that may have an impact on the Company's business.

ENGAGING STAKEHOLDERS

Engaging in dialogue with our stakeholders is important to H&M so we regularly work with other people and organisations in order to share knowledge and best practice and address issues together where useful.

OUR APPROACH

We aim to discuss issues with our stakeholders openly, participate in multi-stakeholder initiatives, meet with NGOs, trade unions and industry groups, hold investor and analyst meetings and conduct stakeholder feedback.

To consider our material issues we continually assess the topics under discussion with our stakeholders. H&M's approach is to take a pragmatic and realistic view. We do not believe in making empty claims about change when often the issues we face do not have quick fixes. Working in partnership with others can enhance the impact of our work where we have a direct influence and help us to better address issues where our influence is limited.

MATERIALITY AND STAKEHOLDER FEEDBACK

To consider our material issues, H&M continually assesses the topics under discussion with our stakeholders. The aim is for our reporting to reflect our discussions with, and requests from, key stakeholders such as customers, employees, organisations and investors. Using the Global Reporting Initiative Sustainability Reporting Guidelines and the Apparel and Footwear Sector Supplement, also help us gain insight into stakeholder expectations.

Read more about some of our key stakeholder relationships with different organisations, initiatives and NGOs in this section.

Feedback on our sustainability activities and objectives is very valuable to us. Dialogue with our stakeholders is an important part of H&M's ambitions to improve our sustainability work even further. An example of this is the revision of our Code of Conduct in 2009. During this process we asked a number of our stakeholders for feedback and input on a first draft. Many points raised by them were very valuable and we incorporated several of their comments into our updated Code and our implementation guidelines.

The stakeholders we received feedback from include:

- UNICEF
- Clean Clothes Campaign Sweden (Rena Kläder)
- UNI (Union Network International)
- Swedbank Robur
- ITGLWF (International Textile, Garment & Leather Workers' Federation).

You can find brief interviews with some of our stakeholders in the relevant sections of this report. The full set of Q & As can be found on page 73.

MEMBERSHIPS, INDICES AND AWARDS

Working in partnership with other organisations, such as multi-stakeholder initiatives, NGOs, trade unions or other companies can sometimes help to address issues of collective concern more effectively than H&M can individually. Working in this way can also help H&M learn and improve as an organisation. Summarised here are some of our memberships and the recognition, through sustainability indices or rankings and awards that H&M has received for our sustainability work.

Memberships

UN Global Compact (UNGC)

We are signatories to the United Nations Global Compact. The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. H&M is also a signatory to the CEO Water Mandate, a voluntary initiative from the UNGC addressing the urgent issue of water scarcity. Read our Communications on Progress – Water on page 37.

Business for Social Responsibility (BSR)

H&M has been a member of the Business for Social Responsibility (BSR) for several years. BSR is a global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. An example of our work with the BSR is a study performed to assess the carbon emission resulting from our supply chain. Read more about this study on page 45.

Supply chain-related memberships

Fair Labor Association (FLA)

We are accredited members of the Fair Labor Association (FLA), a non-profit organisation dedicated to improving working conditions in factories worldwide. The FLA conducts independent audits of suppliers that we use in China and publishes results on their website. This was extended to cover suppliers in Turkey in 2009. We became accredited members of the FLA in 2008 following a two-year assessment process by the organisation. Read more about independent monitoring and verification at www.fairlabor.org.

Multi-Fibre Agreement (MFA) Forum Bangladesh

H&M actively participates in the MFA Forum Bangladesh. The textile industry in Bangladesh faces a number of challenges that we believe should be dealt with at national and industry level rather than at company level only. Members of the MFA include brands, representatives of the Bangladeshi government, the local industry organisations and a number of other organisations. The Forum discusses various issues, including wages and responsible purchasing practices. Read more about our beyond monitoring initiatives on page 21. Read more about the MFA Forum at www.mfa-forum.net.

Better Factories Cambodia (BFC) & Better Work Foundation

H&M has been supporting the Better Factories Cambodia (BFC) programme since 2005. This initiative aims to improve working conditions in Cambodia's export garment factories. The BFC programme is managed by the International Labour Organisation (ILO) and supported by the Cambodian government, the Garment Manufacturers Association of Cambodia (GMAC), a number of trade unions and international brands. Its work includes independent monitoring according to the international ILO standards and national law and is complemented by an extensive capacity building programme. All H&M suppliers in Cambodia are subject to this monitoring. The ILO has started a global programme called Better Work, based on the model of the BFC. The new programme covers other countries from Asia and the Pacific region. Read more about working in partnership in our supply chain on page 23.

Read more about BFC at www.betterfactories.org and about Better Work at www.betterwork.org.

Environmental memberships

Better Cotton Initiative (BCI)

H&M plays a very active role in the Better Cotton Initiative (BCI) as an elected member of its council. The BCI aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide to make it more sustainable. Read more about our work with the Better Cotton Initiative on page 34.

Organic Exchange

Organic Exchange is a non-profit organisation that is committed to expanding organic agriculture, with a specific focus on increasing the production and use of organically grown fibres such as cotton. Read more about our work with organic cotton on page 34.

European Retail Round Table (ERRT)

H&M is a member of the European Retail Round Table (ERRT) and has signed up to the Retail Declaration on Energy Efficiency and Renewable Energy provided by the ERRT. The Declaration commits H&M to reduce energy use in store by 20% per square metre and to source 20% of energy from renewable sources by 2020. Within the framework we are also working on common requirements for transport providers. Read more about this commitment on page 43.

Clean Shipping Project

The Clean Shipping Project is an initiative between the Swedish government and different companies. It aims to reduce environmental impacts resulting from sea transports and H&M is actively involved. Read more about the project on page 42.

Product quality-related memberships

AFIRM

H&M is a member of the steering committee of AFIRM, which is a multi-company forum that aims to advance the global management of restricted substances in the apparel and footwear supply chain. Read about our approach to chemicals management on page 55.

Leather Working Group

To address the environmental challenges associated with leather production, we joined the Leather Working Group in 2009. The Group promotes more sustainable and appropriate business practices within the footwear leather industry. The Group consists of suppliers, retailers, NGOs and other stakeholder organisations. Read more about the Group on page 57.

Ethical Indices, rankings and awards**Ethibel Sustainability Index**

The Ethibel Sustainability Index (ESI) groups four indices: ESI Pioneer Global, ESI Pioneer Europe; ESI Excellence Global and ESI Excellence Europe. H&M is a constituent of all four.

The Ethibel Pioneer indices consist of companies showing, on the basis of Vigeo ratings, the most outstanding scores in terms of social and environmental sustainability and meeting the ethical criteria established by the independent organisation, Forum Ethibel. The Ethibel Excellence indices consist of companies showing above-average performance in terms of social and environmental sustainability.

FTSE4Good Index

H&M is a listed company of the FTSE4Good Index series. FTSE4Good is an index series for Socially Responsible Investment (SRI) set up by FTSE, a leading global index provider. FTSE4Good aims to set an objective global standard for socially responsible investment and is one of the benchmarks to consider when comparing ethical funds against an index of its peers.

ECPI

H&M is a constituent of two ECPI ethical indices, the ECPI Ethical Index Euro, and the ECPI Ethical Index Global. The ECPI European index selects the 150 top capitalised companies in the European market that are eligible investments according to the ECPI Screening Methodology. The Global index selects the 300 top capitalised companies in the global market.

OMX GES Sustainability Sweden

H&M is a constituent of the OMX GES Sustainability Sweden, a benchmark index which comprises the 30 leading NASDAQ OMX Stockholm-listed companies in terms of sustainability.

Global 100 Most Sustainable Corporations

H&M is listed on rank four on the list of the Global 100 Most Sustainable Corporations in the World, as developed by Corporate Knights and its partners.

PETA Proggy Award 2009 – Company of the Year

For our efforts towards animal welfare and updates on our product policy, the organisation PETA awarded H&M with the “Proggy Award” as company of the year 2009.

HOW WE REPORT

We report activities and progress on our sustainability programmes annually. This report covers H&M's global operations from January to December 2009. Fiscal information and details about our employees are reported according to our annual reporting cycle of 1 December 2008 to 30 November 2009. Our last sustainability report was published in April 2009.

This 2009 sustainability report covers our activities in relation to our business operations, our supply chain, our impact on the environment, our products and how they are produced, our employees and the communities around us.

This report is dedicated to Erik Carlborg, H&M's Regional CSR Manager in Shanghai, who passed away on 26 January 2010.

GLOBAL REPORTING INITIATIVE (GRI)

We use the GRI Sustainability Reporting Guidelines and the pilot Apparel and Footwear Sector Supplement to inform our sustainability reporting. A GRI reference table can be found in Performance. We have included the indicators from the pilot of the Apparel and Footwear Sector Supplement but have not included them in our self-assessment rating as they are not yet finalised.

ASSURANCE

We do not currently assure our report. While we recognise that some stakeholders appreciate assurance, we believe our resources are still best placed in furthering our sustainability work.

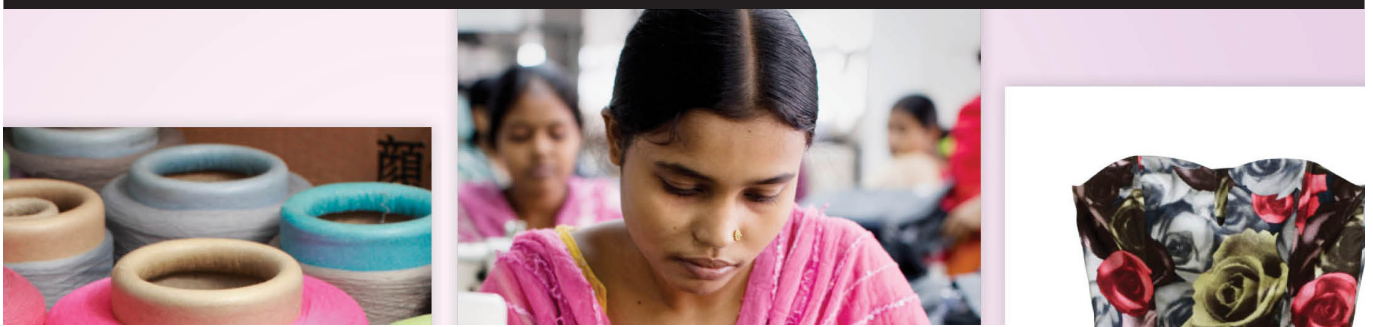
We are committed to open and honest disclosure and this report is part of that process. We also believe that our involvement in multi-stakeholder initiatives like the Fair Labor Association, as well as other feedback from our stakeholders of which some is published in this report, add value and credibility to our sustainability work and reporting.

CONTACT

For further information please contact:

H & M HENNES & MAURITZ AB
Communications & Press Department

sustainability@hm.com



SUPPLY CHAIN

H&M DOES NOT OWN OR OPERATE ANY FACTORIES. AROUND 700 SUPPLIERS MANUFACTURE OUR PRODUCTS AND MANY OF THEM ARE LOCATED IN COUNTRIES WHERE HUMAN RIGHTS VIOLATIONS ARE A RISK. WE BELIEVE THAT WE HAVE A RESPONSIBILITY TO EVERYONE WHO CONTRIBUTES TO OUR SUCCESS, INCLUDING OUR SUPPLIERS AND THEIR EMPLOYEES. SO USING OUR INFLUENCE TO PROMOTE GOOD PRACTICES AMONG OUR SUPPLIERS IS ONE OF THE BEST WAYS WE CAN MAKE A POSITIVE DIFFERENCE.

MONITORING SUPPLIERS

OUR SUPPLY CHAIN

We believe we have a responsibility towards everyone who contributes to our success. This includes our around 700 suppliers and their employees.

H&M does not own any of the factories that manufacture our products. Instead, manufacturing of our garments, accessories, shoes, cosmetics and home textiles, takes place in over 30 countries mainly in Asia and Europe, in approximately 1,900 factories owned or subcontracted by our suppliers. As a large international company and buyer we strive to positively influence our suppliers to improve environmental and working conditions in their operations.

About our supply chain

Our supply chain involves a number of processes and people. The descriptions below explain some of the key roles in managing our supply chain.

- **Buyer:** Our buying office is based in Stockholm, Sweden, where our designer and buyers, together with pattern makers and the merchandisers in our production offices, create, plan and purchase our collections.
- **Merchandiser:** Based in one of our 16 production offices in Asia and Europe, merchandisers are the link between H&M's buying office and our suppliers. They identify suppliers to place orders with.
- **Auditor:** Also based in our production offices, our audit teams comprising around 70 people, monitor suppliers' compliance with our Code of Conduct. Our auditors conduct the H&M Full Audit Programme (FAP), which includes full audits for potential and existing factories, and follow-up audits (FUP) that assess improvement progress and the implementation of H&M requirements. They work alongside our regional CSR managers and Code of Conduct managers, as well as our merchandisers.
- **Factory employee:** Hundreds of thousands of people are involved in the manufacture of H&M's products. Factory employees should be aware of and able to claim their rights. As a buyer we have the opportunity and responsibility to contribute to better workplace conditions. We require that our suppliers comply with our Code of Conduct and work to raise awareness on rights at work, both among factory employees and managers.
- **Supplier:** H&M's products are made by around 700 suppliers. All our suppliers sign our Code of Conduct, and we monitor their compliance with the Code using our Full Audit Programme. But we also go beyond monitoring compliance – the aim is that suppliers themselves ensure good working conditions and environmental performance. We support them through various capacity-building initiatives and focus on our key suppliers that account for about 70% of our total purchasing volumes.

Here we have defined some of the terms used in this report:

- **Supplier:** independent company with which H&M has a direct business contract.
- **Production unit:** all factories where production for H&M takes place. This includes our suppliers' own factories as well as factories which can be subcontracted by our suppliers, such as washing or dyeing units.
- **Subcontractor:** independent factory (units) which may be contracted by our suppliers to perform certain parts of the production process such as washing. The use of subcontracted units needs to first be approved by H&M and all such units are subject to our Full Audit Programme.
- **Second-tier suppliers:** the suppliers of our suppliers, such as fabric or yarn manufacturers. In general H&M has no direct relations with these companies.
- **Key suppliers:** the best identified suppliers in terms of the balance between price, lead time, compliance with our Code of Conduct, quality and sampling. Working closely with H&M as partners and long-term planners.

CODE OF CONDUCT

The H&M Code of Conduct outlines the requirements we have towards all our suppliers for improving working conditions and environmental practices in their operations. Suppliers must work towards full compliance with our Code of Conduct and we conduct regular audits to assess levels of compliance with the Code through our Full Audit Programme. Read more on our auditing process on page 17.

About our Code of Conduct

H&M's Code of Conduct was first drawn up in 1997 and is based on the UN Convention on the Rights of the Child and the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work. It also stipulates that local legislation must be observed.

Our Code of Conduct has eight sections, covering:

- legal requirements
- a ban on child labour
- health & safety
- workers' rights
- housing conditions
- environment
- systems approach
- monitoring and enforcement.

To help our suppliers and their subcontractors understand our Code of Conduct and our expectations, H&M provides an implementation guidance document for suppliers. This guidance is available in English, Chinese, Turkish and Romanian.

Update

In 2009 we revised our Code of Conduct. During this process we asked a number of our stakeholders for feedback and input on a first draft and incorporated several of their valuable comments.

Major updates included:

- a strengthened approach towards management systems
- more specific requirements
- clearer phrasing and structure.

Following its revision, we have also decided to extend the scope of our Code of Conduct. In addition to all of our direct suppliers and their own and subcontracted factories, the Code is now designed so that it can also be applied to all other business partners such as manufacturers of non-commercial goods.

The updated Code of Conduct was in the process of translation at the time of writing this report. It will be published on hm.com.

We also recognise that some of our stakeholders would appreciate a reference to *living* wages in our Code of Conduct.

Read what our CSR Manager, Ingrid Schullström, says about the issue of wages on page 74.

Expanding reach

As part of our 2009 Code of Conduct revision we worked towards expanding its reach and making it applicable for all H&M business partners, including manufacturers of non-commercial products. These goods are those that are not produced to be sold – so ranging from interior items, mannequins, stands and hangers, to mail order and other materials.

Update

To create a standard approach for non-commercial suppliers we gathered departments that purchase these goods together in 2009 to investigate options for working together. We identified relevant synergies and are currently looking into options of how best to use and manage these.

Integrating non-H&M brands

Since 2008 H&M holds the majority of the shares of FaBric Scandinavien AB – the company behind the brands Cheap Monday, Weekday and Monki. In 2009 we assessed a number of FaBric Scandinavien's suppliers and started working on integrating them into our auditing process.

All production for Monki is with H&M suppliers and is integrated within our Full Audit Programme. This means that all production for Monki in China or Turkey is subject to independent verification under the scope of the Fair Labor Association (FLA), while all other production remains covered by independent verification through the companies' affiliation with the Fair Wear Foundation.

All production for COS is covered by H&M's Code of Conduct and our Full Audit Programme.

AUDITING SUPPLIERS

The Full Audit Programme (FAP) is how we monitor our suppliers' compliance with our Code of Conduct. A thorough FAP audit is carried out regularly by H&M's audit team at all factories used by our suppliers and provides us with a good understanding of the conditions of those factories.

Following a full audit, factories are graded according to our grading system and a correction plan is agreed on. A follow up audit is then carried out to assess progress against this correction plan.

The audit process

In general terms, the audit process involves an inspection of the site and examination of a variety of company files and records, such as timesheets, wage records and employment contracts, to determine compliance with the questions within the Full Audit Programme questionnaire. The questionnaire consists of more than 90 main questions and a number of verification points and is the main tool used during our audits.

Management systems are analysed and interviews with employees and management are conducted at the time of the audit. Interviews with employees are part of every FAP audit. They are conducted on the factory premises without management attending. H&M auditors select the interviewees randomly and from a selection of different roles and departments within a factory. We are aware of the risk of employee answers being influenced. It is therefore highly important that our auditors have good interview skills.

We provide factory employees that we interview with business cards with our contact details so that they can contact us and report any grievance directly to H&M.

Once the audit is complete (full audits can take up to six-person-days), the results are discussed with the management and a time-frame to rectify areas of non-compliance is agreed. Suppliers must then draft a correction plan specifying timings and identifying those responsible for making the changes. This correction plan can include both short and long-term remediation activities. H&M's auditors will then check on the implementation of the measures outlined with follow-up audits.

We are aware of the risk of documents being faked or correct documents being kept from our auditors. For several years we have focused on creating trustful partnerships with our suppliers. This remains to be a challenge, particularly in

China. Read more about how we addressed this challenge and worked towards reaching full transparency with our Chinese suppliers on page 79.

Follow-up audits

Follow-up audits are part of the improvement process and allow a discussion of improvements in more depth. The focus of the follow-up is on the supplier's own solutions and progress.

An important part of this process is to help the supplier understand the value of making improvements and how this benefits their business and their long-term relationship with H&M. This approach often results in greater trust and a better business relationship between suppliers and H&M.

Targeted visits

In some cases our auditors also conduct targeted factory visits, in the evening, during weekends or holidays for example. The purpose of these visits is to see if production is running, to compare operating hours with time records and detect any unreported overtime. Another example is visits to factories on the day wages are paid in order to check whether the wages register corresponds with the amounts that the workers have been paid. If any employee training, evacuation drills, or other activities aimed at improving safety or workers' awareness is scheduled, we may also visit the factory to observe.

Read about our 2009 audit findings and other related data in performance.

Auditor training

Auditing the working conditions at our suppliers' factories is central to our approach to sustainability. To carry out this process well, we must ensure that our auditors are well trained in the methods and tools of our Full Audit Programme.

Training new auditors

Our standard training programme for new auditors takes 12 weeks and consists of:

- a general introduction to H&M from factory to store and an overview of the Production Office organisation
- background reading on H&M's Code of Conduct, guidelines and policies, approach to auditing and guidelines for audit practice
- background reading on relevant labour law and international standards

- standard H&M introduction and training on a range of subjects including H&M's Full Audit Programme (FAP)
- practical experience visiting factories, shadowing an experienced auditor and finally conducting an audit with a senior colleague.

As well as educating new auditors we need to ensure our existing auditors keep up to date with changes to our audit system and undertake continuing professional development in the area of auditing, requirements and regulations.

Changes to the Full Audit Programme

Further to the changes made in 2008 to improve our approach to health and safety auditing and increase the focus on workers' basic rights, in 2009 we have continued to improve our Full Audit Programme.

Assessing suppliers' management systems

The introduction of our Management System Scorecard in 2009 was a key development in how we audit suppliers. Some workers' rights issues, such as freedom of association, forced labour and discrimination can be hard to identify in standard audits, so we have changed our approach. Rather than only looking for incidents of these issues, we focus today on the existence and effectiveness of supplier management systems that are aimed at preventing workers' rights issues arising.

We are currently working on developing the system for grading suppliers' compliance with our Code of Conduct to also include how well they score on the management system scorecard.

CASE STUDY

Management System Scorecard

In recent years we have moved away from simply monitoring our suppliers and checking that they are complying with our Code of Conduct, and have started to concentrate on promoting the implementation of sufficient management systems. Establishing more effective management systems is often the best way to address complex workers' rights issues such as freedom of association, forced labour, abusive behaviour and discrimination, where clear evidence of supplier non-compliance can be difficult to uncover. We feel that an approach that promotes management systems that prevent these issues arising in the first place, rather than handling them once they have happened, is a better way to deliver lasting benefits.

Update

In order to measure strengths and weaknesses in our suppliers' management systems, we developed a Management System Scorecard and started its implementation in 2009. Initial results as identified with help of the Management System Scorecard showed a strong correlation between well functioning management systems and a higher compliance level.

We are currently working on creating a new supplier grading index that will use results from the Management System Scorecard along with audit findings to provide an overall evaluation of suppliers' compliance with our Code of Conduct.

Supplier grading

To become an H&M supplier, it is not necessary to meet all the demands in our Code of Conduct in advance. We have a grading system that recognises how well suppliers and potential suppliers and the factories they use comply with our Code of Conduct. Our auditors grade them through our Full Audit Programme.

To qualify as an H&M supplier, the minimum requirements of our Code of Conduct have to be fulfilled and each factory needs first to be approved through our Full Audit

Programme. This includes a ban on child labour; compliance with the ILO's core conventions, a minimum wage for all employees and fundamental safety provisions should be in place at the factory. The minimum requirements are equivalent to the supplier grade 'temporary'.

Supplier grades are integrated into our purchasing systems and define from which suppliers our merchandising teams can or cannot source. Grading levels and audit findings are discussed in detail with our suppliers in order to make our expectation of them clear.

We use the following five-point grading system to monitor progress towards full compliance with our Code of Conduct. Suppliers can move up the grading system depending on their actions. To support progress, they cannot move down a grade to 'temporary' from a previous higher grading. A downgrade from a higher level will lead to rejection. However, progressing supplier standards has priority for us rather than just shifting production elsewhere.

Our supplier grades

- **Satisfactory:** the supplier/production unit fulfils all Code of Conduct requirements and the production of H&M goods is approved and promoted.
- **Insufficient:** the supplier/production unit fulfils the 'temporary' grading requirements plus some additional requirements, but it needs to make further improvements to reach full compliance. The production of goods is approved.
- **Temporary:** the supplier/production unit fulfils requirements regarding basic worker rights, minimum wage, basic safety and basic housing conditions. It is temporarily approved to produce H&M goods for six months. In this time the supplier/production unit must make the improvements necessary to reach the 'insufficient' grade, otherwise the grading will drop to 'rejected'.
- **Rejected:** a supplier/production unit is rejected for any of the following: denies workers' basic rights; the minimum wage is not paid; factory premises are unsafe; H&M is denied access to factory premises; management refuses to cooperate. The supplier/production unit is suspended but can resume business with H&M if the necessary improvements are carried out and verified.
- **Permanently rejected:** a supplier repeatedly uses undeclared production units, a supplier/production unit repeatedly employs child labour or shows no will

to cooperate and comply with H&M's requirements. No production of H&M goods will be allowed.

Update

In 2009 we started a trial to create a new system for grading suppliers. This has so far been tested in three production countries. Moving on from the five-point grading system, this new system could provide a grading index that provides a percentage score for suppliers' compliance with our Code of Conduct, further integrating management system analysis into our supplier evaluation. The new system will continue to be evaluated during 2010.

Home working

In some countries our suppliers may, in compliance with our policy, use home work for specific parts of the production process, such as hand embroidering, beading and jewellery making. Home working often takes place in villages situated some distance from our suppliers' factories. This makes it harder to monitor whether worker rights are being upheld.

There are several concerns around home working, but however, it can be beneficial in some production countries because it is often carried out by women and can be an important contributor to a family's income. In many cases women home workers would be unable to take up employment due to household and parental responsibilities and women often tend to spend their income on their family, thereby improving living standards. For these reasons H&M has decided to accept home work in some situations. However, these situations are limited.

Our policy is that any operation that is part of the industrial process and can be performed in a factory should be performed there. Home work is only accepted when the work requires a special workmanship skill and can be considered as handicraft, such as beading or embroidery.

We require our suppliers to inform us when home working is being used. In accordance with our home worker policy this includes requiring the following information per order:

- location of the production (village, city area, etc.)
- name and address of intermediaries (contractor/local agent)
- number of workers involved
- number of weeks for completing each home working order

- average time needed to make one piece
- piece rate paid to the worker.

We also strive for further requirements and routines being implemented globally, but we focus on the implementation of our existing policy.

INDEPENDENT MONITORING AND VERIFICATION

H&M has been a participating company of the Fair Labor Association (FLA) since 2006. In 2008 we became an accredited member. The FLA is a multi-stakeholder organisation that strives to improve labour conditions in factories around the world and conducts independent factory audits. Being an accredited member means that the Full Audit Programme we use for monitoring suppliers' compliance with our Code of Conduct, and our process for addressing violations of the Code, have been assessed by FLA and are in line with their standards.

Working with the FLA over this period has played an important part in our auditing process and their feedback has been valuable in improving our approach to auditing. Independent verification gives H&M the opportunity to strengthen the credibility of our audit systems' effectiveness among our stakeholders. Results of FLA audits on our suppliers are published on the FLA's website.

FLA in China

Initially the FLA only conducted independent audits at factories in China. Since becoming an accredited member there have been fewer FLA audits in China.

Update

In 2009 the FLA conducted four verification (follow-up) audits from original audits in 2008 and three new audits. This compares to 17 new audits and five follow-up audits in 2008. With fewer visits, we are able to redirect our investment with the FLA in China to other projects. We will join the FLA PREPARE project in 2010. The project is planned to be extended to China and aims to improve worker representation in factories.

Read more on the challenge of promoting freedom of association in China and elsewhere page 76.

FLA 3.0

FLA 3.0 was developed by the FLA aiming to help factories assess their own level of labour compliance. Its approach is to shift the monitoring emphasis from policing to partnership. H&M is taking part in FLA 3.0, which complements our aim for suppliers to take more ownership of the conditions in their factories. Suppliers are more likely to address problems and achieve real progress if they understand the issues, their causes and what benefit improved practices can bring.

In 2009 we have, however, not been able to increase the number of suppliers wishing to be involved in FLA 3.0 and still only have one supplier in China in the project. It is possible that the programme is too complex and that this works against more suppliers becoming involved.

FLA in Turkey

Based on our work with the FLA in China, we decided to expand independent verification audits into Turkey, another large purchasing market for H&M. In 2009 the FLA audited a total of 12 factories in Turkey. The FLA made the choice of which sites to visit based on details provided by us, such as type, size, number of employees, processes carried out etc., but without H&M's knowledge about their decisions.

Following an FLA audit, we are provided with the results to which we respond with an action plan detailing improvements to be made by H&M and the supplier. All FLA audits and action plans are published on the FLA website.

The FLA audits in Turkey did not uncover any unexpected issues, although there was a somewhat higher than expected number of issues with health and safety. Issues around social security payments were also raised. We will continue to follow up on this through our Full Audit Programme.

BEYOND SUPPLIER MONITORING

Monitoring our suppliers is an important part of our work. But monitoring alone is sometimes not enough to address complex issues, such as workers' rights. In the long run, we want our suppliers to take charge of their own sustainability. So we support them in building their ability to improve working conditions, as well as helping workers understand their rights as employees.

Here you can find an overview of the actions we took in 2009 to build the capacity of our suppliers and help raise workers' awareness.

BUILDING MANAGEMENT CAPACITY

In recent years, to achieve long-lasting improvements in our supply chain, we have focused on helping suppliers implement effective management systems. This means moving away from just compliance checking and on to a more in-depth analysis of the big issues around quality of management.

Modular supplier training for better compliance in China

In 2009, we held training workshops for all our key suppliers in China. Using case studies, these day-long workshops addressed the challenges we face in China today, including recruitment and HR, attendance recording and salary payment, basic worker rights, labour law and legal compliance system, and health and safety systems. A total of around 600 people received training, representing 40 suppliers and 80 factories.

Following the training, we asked suppliers to return to their operations and build their own management systems. Feedback suggests that suppliers were very positive about the training and found it useful. Follow-up on one training module shows that most factories now have clear policies and routines to deal with the issues, clearly defined responsibilities and have trained their own staff. In 2010, we plan to follow up on the remaining modules.

Compliance training for accessories suppliers in China

By the end of 2008, audits of our supply base in China had shown us that especially, many accessories suppliers needed to improve their compliance with our Code of Conduct.

In 2009, we launched two initiatives to give 36 Chinese accessories factories step-by-step guidance with compliance issues: the Internal Compliance Team Project (ICTP) and External Support Programme (ESP).

The ICPT and ESP were implemented by our Code of Conduct team, with external help. The first module focused on improving EHS (Environment, Health and Safety) management systems to ensure that the factories had no violations on the most serious issues within these areas. Of the 36 factories, 23 passed Module One. In 2010, these factories will move on to Module Two, which covers issues such as recruitment, wages and overtime.

Best practice workshop in Bangladesh

In 2009, we ran a best practice workshop in Bangladesh in which well compliant suppliers showed others the benefits of creating better working conditions in factories. The aim was to encourage suppliers to adopt best practices, improving the working environment, the health and safety of workers, and relations between workers and management.

A total of 85 suppliers took part in the workshop. We received positive feedback from participants, many of whom said they were inspired to make changes to their own practices. Others said that the workshop had helped them understand how better conditions can lead to reduced absenteeism and migration.

Best practice workshop in Indonesia

The textile manufacturing industry is extremely competitive and factories are rarely willing to share information about how they operate. However, in 2009 one of the most advanced of our suppliers in Indonesia expressed an interest in sharing best practices with other suppliers. We helped facilitate the workshop and encouraged representatives from eight fellow supplier factories to attend.

The workshop gave our key suppliers the opportunity to gain a better understanding of our requirements and ways they could make long-lasting improvements. This event was a big step for communications amongst our suppliers and we will continue to encourage further exchange.

Management Training, IFC-SEDF and GAP Inc., Bangladesh

We identified that a better functioning HR management system and better communication tools were necessary to raise the awareness of workers' rights and other key requirements among management at our suppliers' factories in Bangladesh.

In cooperation with IFC-SEDF and GAP Inc., we initiated a pilot programme at five factories in 2007.

Update

During 2009, the five factories involved were evaluated on two occasions. These evaluations showed improved communication between the management and workers, and greater awareness for workers' rights. Approximately 17,000 workers have both directly and indirectly benefited from this programme.

Supplier Development Programme (SDP)

The Supplier Development Programme (SDP) aims to increase factory productivity. Ten factories in China have enrolled in the programme. Expected benefits from the programme are, among others, increased efficiency and to gradually reach the legal limit of working hours while maintaining salary levels.

Representatives from the suppliers involved in this programme have conducted audits together with our auditors. The pilot joint audits have been successful and the factories have shown transparency and understanding of their own shortcomings. The suppliers have agreed to report back to H&M on a number of different key performance indicators (KPIs) relating to productivity.

Read what one of the participating suppliers has to say about the programme on page 79.

Training on sandblasting, Bangladesh

Sandblasting is a technique used to give denim products a used, washed or distressed look. It's a process that can pose serious health risks, so it's important that anyone carrying out sandblasting takes the correct safety measures and that the required materials are used.

The correct use of sandblasting equipment and protection measures is part of every FAP audit at all factories that perform sandblasting.

During our regular audits of suppliers in Bangladesh, we found that not everyone uses the right personal protection equipment when working in sandblasting units, even though it is provided.

Update

In 2009, we continued to hold workshops addressing the issue of sandblasting safety procedures. Until now all factories performing sandblasting have received this training. Any new applicable factory will receive the training systematically as they enter a partnership with H&M.

RAISING WORKERS' AWARENESS

Raising awareness about workers' rights and responsibilities among workers and the management of our suppliers is an important part of our work.

Film project to raise awareness of garment worker rights, Bangladesh

From our long-term experience in Bangladesh we identified a need to raise awareness about rights and responsibilities among workers and managers, supervisors and line-chiefs.

To address this need we produced a series of short films with accompanying training in collaboration with a local film production company and a number of local NGOs. Five films were produced covering some of the key issues identified by our Full Audit Programme, namely: maternity leave, leave and documentation, abuse and grievance, health and safety, and overtime. Grievance systems and worker management communication are cross-cutting issues and are emphasised in all the films. The films show day-to-day scenarios on how workers and managers can and should deal with situations that might arise.

Besides raising awareness, our aim was to encourage more suppliers to improve their own training programmes, for example by using these materials to help educate new employees.

Update

In 2009, a total of 153,931 workers and 15,140 managers, supervisors and line-chiefs from 107 factories in Bangladesh watched the films and received the associated training and training manual. These training tools were presented and handed out to six other brands during 2009.

Awareness of workers' rights in Tirupur, India

We started working on a modular training project in the Tirupur area, India, in 2007. The aim of this project is to raise workers' awareness and understanding of local labour laws and workers' rights so that they become enabled to create functional committees and develop appropriate strategies for communication and grievance-handling systems.

Update

Approximately 4,000 factory employees have, to date, conducted the training. All H&M suppliers in the Tirupur area are involved in the project.

WORKING IN PARTNERSHIP

We strive to cooperate with others such as NGOs and are part of different multi-stakeholder initiatives where joint actions might have the best impact in a particular area. We also work with other brands wherever this is useful.

Multi-Fiber Agreement (MFA) Forum Bangladesh

The textile industry in Bangladesh faces a number of challenges that we believe should be dealt with at national and industry level rather than at company level only. The MFA Forum Bangladesh is a multi-stakeholder forum that has come together to promote sustainability in the textile and garments industry in Bangladesh by concentrating on responsible competitiveness. It consists of 88 members.

The aim of the Forum is to address various issues in the industry such as: raise of minimum wages, labour conditions, responsible purchasing practices, industry competitiveness and workers' skills and education. Read more about the MFA Forum at www.mfa-forum.net.

Fair Labor Association (FLA)

We have been a participating company of the Fair Labor Association (FLA) since 2006. Since 2008, H&M is an accredited member. This means that our Code of Conduct, our Full Audit Programme and related processes are in line with the FLA standards. The aim of this collaboration is to promote good working conditions in the textile industry and to ensure that human rights and international and national labour law are respected. Since 2006, the FLA has carried out independent audits on our suppliers' factories in China.

Update

In 2009, we extended our collaboration and the FLA now audits our suppliers in Turkey, another large purchasing market for H&M. Our supply chain monitoring system has also been assessed and accredited by the FLA.

Read more about our work with the FLA on page 20.

Better Factories Cambodia (BFC)

We have supported the Better Factories Cambodia (BFC) programme since 2005. This initiative aims to improve working conditions in Cambodia's export garment factories. As an active member we participate in two forums a year.

The BFC programme is managed by the International Labour Organisation (ILO) and supported by the Cambodian Government, the Garment Manufacturers Association of Cambodia (GMAC), a number of trade unions and international brands. Its work includes independent monitoring according to the international ILO standards and national law and is complemented by an extensive capacity building programme. The programme has contributed to a significantly improved compliance level from our Cambodian suppliers. Since 2008, all our suppliers in Cambodia are subject to audits performed by the ILO in frame of the Better Factories Programme. Read more about BFC at www.betterfactories.org.

Better Work Programme

With an aim of bringing employees and employers together to find solutions to ensure a sustainable labour market, the International Labour Organisation (ILO) has started a global programme called Better Work, based on the model of the BFC.

The new programme covers Vietnam, Jordan and Lesotho, with the intention of rolling it out in more and more countries in Asia and the Pacific region.

Update

In 2009 the Better Work Vietnam programme was initiated and Indonesia is expected to begin in 2010. Both are countries where H&M suppliers are based and will actively participate in both country programmes.

Read more about Better Work at www.betterwork.org.

**REACHING FURTHER BACK
IN THE SUPPLY CHAIN**

Our audit programme addresses all of our first tier suppliers and their subcontractors, such as washing or dyeing units. But we rarely have any direct influence on stages further back in our supply chain – such as fabric or yarn manufacturing, or further still, on raw material production such as cotton. We cannot pose direct demands on these stages, instead cooperating with others is one way of achieving improvements.

Cotton from Uzbekistan

H&M takes a clear stand against child labour, and does not accept that underage workers are used anywhere in our

supply chain – including cotton production. Although we do not have direct business relations with cotton producers, and the routes of global cotton trade are often complex, H&M seeks to avoid the use of Uzbek cotton due to the use of forced child labour in cotton cultivation.

H&M has taken several steps to avoid cotton from Uzbekistan. As the majority of the raw cotton imported to Bangladesh comes from Uzbekistan, our initial efforts have been focused on our suppliers in Bangladesh.

CASE STUDY

Cotton from Uzbekistan

H&M takes a clear stand against child labour, and does not accept that underage workers are used anywhere in our supply chain – including cotton cultivation. One of our concerns is the use of forced child labour in cotton cultivation in Uzbekistan. Although we do not have direct business relations with cotton producers, and the routes of global cotton trade are often complex, we seek to avoid the use of Uzbek cotton where we can. In the same instance, Uzbekistan is one of the largest cotton producers in the world and avoiding the use of cotton from there is a serious challenge.

Although it would not be fair to claim for being able to guarantee a boycott, H&M has taken several steps in order to avoid cotton from Uzbekistan. As the majority of the raw cotton imported to Bangladesh comes from Uzbekistan, our initial efforts have been focused on suppliers in Bangladesh. In the spring of 2008, we received confirmation from the around ten suppliers who have their own spinning mills and source their own raw cotton that they do not purchase cotton from Uzbekistan.

In 2010 we will begin requesting that all our garment suppliers in Bangladesh declare the country of origin of the cotton, yarn and fabric used for each H&M order.

The routines will vary slightly depending on whether the suppliers use domestically produced or imported yarn and/or fabric. Furthermore, we are investigating methods which can realistically be used routinely and on a large scale to trace the origin of cotton, in order to be able to promote or avoid certain markets. Additionally, through the organisation As You Sow we share experiences and coordinate activities with others.

In the longer term, our aim is that all cotton used for H&M products shall come from sustainable sources allowing traceability of the country of origin. We will never accept forced and/or child labour and therefore, as long as the government of Uzbekistan continues to compel children as workers in its cotton fields, Uzbek cotton cannot be an option for H&M and others in our supply chain.

Read more about this issue in our CSR Manager’s online column at www.hm.com/sustainability.

Read more about H&M’s contribution to more sustainable cotton farming on pages 33-35 and 67.

All for Children

In 2009, H&M launched the All for Children project together with UNICEF, our most ambitious community initiative to date. We aim to combat the root causes of child labour and improve the situation of children in two districts in the state of Tamil Nadu. The five-year project is supported with a SEK 40 m (USD 4.5 m) donation from H&M and run by UNICEF. It is focused on five specific areas.

Read more about All for Children on page 67.

Organic cotton

Conventional cotton can require heavy use of pesticides and fertilisers. Organically grown means, among other things, that no chemical fertilisers or pesticides may be used in its production. Currently, organic cotton is used in all our clothing divisions. We offer both 100% organic cotton clothes and blended organic garments containing 50% organic and conventional cotton.

Read more about organic cotton on page 34.

Better Cotton Initiative

The vast majority of the cotton available is conventional, non-organic cotton. H&M is actively involved in the Better Cotton Initiative (BCI) in order to improve conditions in conventional cotton growing. The BCI is a long-term initiative that develops and promotes good farm practices, allowing more cotton to be grown while reducing inputs such as water and chemicals.

Read more about our work with the BCI on page 34.

Cleaner Production Programme

For four years H&M has worked with fabric mills that have dyeing operations, to encourage improvements in their environmental practices. These suppliers are H&M's second-tier suppliers, where we have limited influence.

We take a voluntary approach to addressing environmental issues with two programmes in both Bangladesh and China. The programmes consist of around 40 easy-to-implement environmental measures that are directly linked to cost savings and profitability. Read more about our Cleaner Production Programmes in China and Bangladesh on page 40.

Mill Development Programme

In general, we do not have direct business relationships with second-tier suppliers such as fabric mills and therefore our influence and possibilities to set requirements are limited. Fabric production can require an intensive use of chemicals and faces a number of environmental and health & safety concerns. In 2009, we have started working with a number of fabric mills with fabric bookings through our production offices in our new Mill Development Programme.

Integrating scarf and jewellery production in India into audit programme

Production of scarves and jewellery in India takes place in production and weaving centres which are, in most cases not owned by our suppliers. To date, this type of production has therefore been regarded as part of raw material processing. Accordingly, our knowledge about and our influence on conditions of this production have been low.

In 2009, H&M decided to take this step further back in our supply chain and change this approach towards scarf and jewellery production. Read more about this in the case study on the following page.

CASE STUDY

Mill Development Programme

In general, we do not have direct business relationships with second-tier suppliers such as fabric mills and therefore our influence and possibilities to set requirements are limited. Fabric production can require an intensive use of chemicals and faces a number of environmental and health & safety concerns.

For some years we have therefore focused our work on supporting fabric mills in becoming more sustainable through voluntary programmes such as Cleaner Fabric Production in China or our Cleaner Production Program in Bangladesh. While these initiatives will continue, we have put additional efforts into strengthening our influence on this second-tier stage of our supply chain.

In 2008, we identified some fabric bookings through our production offices, selected fabric suppliers in China and conducted an assessment with around 20 of their dyeing mills in China.

Update

Following up on this first assessment we established our new Mill Development Programme, targeting fabric suppliers with direct bookings through our production offices and their dyeing mills in China and Bangladesh.

The new Mill Development Programme consists of four steps:

- the identification of fabric suppliers' dyeing mills
- raising awareness of H&M's requirements
- a self-assessment conducted by the dyeing mills and correction of the issues highlighted in our first visit
- audit of dyeing mills, focusing on the above-mentioned issues, conducted by H&M.

As part of the programme in China, 18 mills were audited. In Bangladesh, we conducted audits on eight dyeing mills.

In 2010, we aim for this programme to be implemented as an integrated part of each fabric booking process in China. Related training to prepare our responsible production office employees was conducted in December 2009.

CASE STUDY

Integrating scarf and jewellery production in India into our audit programme

Production of scarves and jewellery in India takes place in production and weaving centres which are in most cases not owned by our suppliers. To date, this type of production has therefore been regarded as part of raw material processing. Accordingly, our knowledge about and our influence on conditions of this production have been low.

In 2009, H&M decided to take this step further back in our supply chain and change this approach towards scarf and jewellery production. We started to integrate these production and weaving centres into our audit programme, focusing on India as a major production country. Major challenges include working hours, overtime compensation, access to social security and workers' basic rights. In jewellery production we also see environmental and health and safety concerns.

To address these challenges we decided to work out a step-by-step approach to contribute to long-lasting improvements in this area. All production and weaving centres for scarves and jewellery in India are now part of our audit programme. The first audits conducted proved the challenges ahead but also showed openness to improvements and changes, especially in the field of working hours and health and safety requirements. To support progress and raise awareness on sustainability issues, we have started conducting dedicated training for all our suppliers sourcing scarves and jewellery, as well as for the factories themselves.

RESPONSIBLE PURCHASING

Demanding positive change from our suppliers is one thing. But we also need to consider how our own decisions affect our suppliers in their ability to comply with what we demand from them. That includes how we design, plan and purchase our collections.

THE CHALLENGE

We have high expectations of our suppliers – in terms of quality, prices, lead times and Code of Conduct compliance. But demanding progress and good performance is one thing – our own decision-making can have an impact on our suppliers' ability to live up to these demands.

Late changes to a product's design and poor communication with our suppliers can lead to tight production lead times and that way have an impact on the working conditions at our suppliers' factories. In the same instance, this can also have an effect on quality and lead to inefficiencies.

H&M aims to ensure that our own purchasing practices do not conflict with the requirements of our Code of Conduct during design, product planning and purchasing processes. This can sometimes be a challenge as consumer demand can vary.

Having direct and long-term relationships with our suppliers helps us to understand their capacity, performance and adherence to our Code of Conduct. All factories have a Code of Conduct grade based on the results of our Full Audit Programme and are made aware of their grading status.

We focus on our key suppliers in creating long-term planning systems, and stable and lasting partnerships. Regular mutual feedback, open communications, clear expectations and lead times all play an important part in this. We integrate Code of Conduct grading into our purchasing decisions, and train our production office staff on sustainability issues and how their decisions can affect our suppliers.

Read about how we work with our suppliers in practice in an interview with Halide Alagoz, Production Office Manager in Shanghai and Global Knitwear Production Manager on page 77.

A PARTNERSHIP APPROACH

We work to form close and long-term partnerships with our suppliers as this provides mutual benefits. Our focus is on our key suppliers, which represent roughly 70% of our total purchasing volumes.

Working in partnership allows us and our suppliers to plan ahead, to gain knowledge from each other and to develop and grow together. We think an honest approach and mutual transparency are the basis for a good business partnership. Being a good partner to H&M includes actively working towards full compliance with our Code of Conduct. Showing willingness to become such a partner will help suppliers become a key supplier, and include several related benefits, such as long-term order planning and stable orders over time.

Read more about what our partnership approach means in practice with a case study from Cambodia on the following page.

CASE STUDY**Partnership approach in practice, Cambodia**

Cambodia takes a special role among the garment producing countries. Since 2001, all garment factories are subject to labour standard monitoring by the ILO-run Better Factories Cambodia (BFC) programme. This has – despite still existing issues – given Cambodia the reputation of being a positive role model in terms of working conditions in the garment industry. Our own audit results pose a correspondingly good development in line with the conclusions published by the ILO in their 23rd Synthesis Report.

H&M has been participating in the programme since 2006 and is actively supporting its efforts. Since 2008, all H&M suppliers in Cambodia are subject to independent monitoring by the BFC conducted by the ILO.

After several years of stable growth, the global economic downturn hit the Cambodian garment industry particularly strongly. In the first half of 2009, the total garment export value dropped considerably. Besides factory closures, this has led to resentments among many of the Cambodian garment producers and there have been discussions about the BFC exposing Cambodia to disadvantages in a more competitive market.

In order to support the achievements made by the BFC and our Cambodian suppliers in terms of sustainable improvements and living up to our partnership approach, in 2009 we put a high focus on keeping our orders stable with our Cambodian suppliers.

However, while showing good development in terms of Code of Conduct compliance, there are other shortcomings within the Cambodian garment industry such as a lack of skills and efficiency, which may pose a risk to the success of this role model programme. So, we have discussed with all our suppliers to take further steps in their development and H&M supports them in this.

Some facts about Cambodia

GDP per capita: 1,802 USD

Share of garment exports on GDP: 16%

Share of garment export value on total exports: 75%

Factories producing for H&M in 2009: 34

(Sources: World Bank, H&M)

Read more about the BFC at www.betterfactories.org.

COMMUNICATION IS KEY

We have a direct relationship with our suppliers and meet with them on a regular basis. We evaluate our suppliers twice a year and discuss the results together. In addition to that, there is also constant direct dialogue between our suppliers and production offices.

Good communication based on trust also includes mutual learning and clarification of expectations well in advance. We strive to apply pre-order product planning wherever possible and focus on our key suppliers. This includes informing our supplier about product specifications as early as possible and creating long-term capacity planning.

Stable relations and capacity planning

Stable orders and long-term capacity planning are both essential to our suppliers. With our key suppliers we develop long-term capacity plans about six to twelve months in advance, and strive to plan our purchasing process accordingly. Our commitment is clear – together with H&M, we want them to grow and develop further.

Price setting

Prices naturally play a part in our supplier selection process, alongside factors such as capacities, lead times, quality and Code of Conduct compliance. To be able to negotiate prices with us, our suppliers need to have a clear picture of H&M's expectations. In return we make sure that our merchandisers have good knowledge about reasonable market prices and the costs our suppliers have, in order to mutually agree on a realistic price. We follow a guideline of 'negotiating, not bargaining'. Aspects not negotiable are compliance with the minimum requirements of our Code of Conduct and quality standards. H&M would not consider a supplier that does not meet these minimum requirements, regardless of the price which might be offered.

Clear lead times and payments

As a fashion company in a fast moving market we need to meet our customers' demands. This can sometimes mean late changes on a product order. In order to minimise such affects on our suppliers we aim to discuss volumes and lead times with our suppliers as early as possible. This process is started with our key suppliers a year in advance through intensive capacity and pre-order planning. Invoice payments must be always done on time and related procedures and prices are clearly agreed in advance.

Awarding suppliers

We want our suppliers to be good partners to H&M. Only those suppliers showing a good development, both in terms of business performance and Code of Conduct compliance can be such a good partner. We award suppliers that show a good development with more stable orders or higher order volumes.

Supplier development

In order to support our suppliers' development, H&M places a focus on sharing knowledge and providing training. We think this will contribute to a more sustainable supply chain. Read more about our initiatives that go beyond supplier monitoring on pages 21-27.

Integrating sustainability into purchasing systems

Our buying department and merchandising teams receive regular training on sustainability issues. Those responsible for placing orders with suppliers are required to understand our Code of Conduct grading and how their decisions can impact our suppliers.

Our production offices around the world are responsible for identifying the right suppliers and allocating production. They conduct regular evaluations of all our suppliers, usually twice a year. Code of Conduct compliance is one part of this evaluation, alongside factors such as price, lead time and quality. They are working closely with our audit teams, composed of 70 people. Our auditors are responsible for monitoring how well existing and potential suppliers comply with our Code of Conduct. The grading they set as a result of an audit influences the choice of suppliers along with factors such as price, capacities and quality. It determines which suppliers can and cannot be used, and also plays a role when defining the quantities of orders placed with certain suppliers. Read more about our Code of Conduct on page 15 and auditing process on page 17.

Ending supplier relations responsibly

Our purchasing practices can have an effect on the working conditions in our supplier factories. So what happens when H&M needs to end our relationship with a supplier?

While rejecting suppliers could be seen as a quick fix to react on non-compliances, H&M commits to work together with our suppliers to make long-lasting improvements. With this in mind however, sometimes a situation can arise where we need to end a relationship – for example due to continued non-compliance with our Code of Conduct or our business requirements. Especially in economically

difficult times, termination of contracts can leave thousands of garment workers unemployed. H&M therefore not only has responsibilities during an ongoing cooperation with a supplier, but also when a relationship comes to its end. We aim to prevent ending supplier relations by:

- having close relations and in-depth knowledge of our suppliers through our own production offices
- having long-term partnerships with our key suppliers including stable capacity planning
- close and constant communications and mutual feedback
- on time invoice payments
- working on improvements instead of simply rejecting suppliers with non-compliance issues
- educating our suppliers and supporting supplier development
- clearly informing suppliers about business risks possibly resulting from non-compliances.

When a relationship inevitably needs to be ended, we commit to a reasonable phase-out period and inform our suppliers around 3-6 months in advance in order to give them the time and opportunity to utilise their capacity for other customers. When a supplier closes down factories, we also try to influence them to follow legal requirements.



ENVIRONMENT

COMPANIES OF OUR SIZE CAN HAVE A BIG IMPACT ON THE ENVIRONMENT – AND THEY HAVE A DUTY TO THINK HARD ABOUT HOW TO REDUCE THEIR IMPACT. IT IS A RESPONSIBILITY WE TAKE VERY SERIOUSLY. WE AIM TO MINIMISE IMPACTS AT EVERY STAGE OF OUR PRODUCTS’ LIFE CYCLE, FROM HOW COTTON IS GROWN TO THE WAY OUR CUSTOMERS USE OUR GARMENTS.

ENVIRONMENTAL MANAGEMENT

As a big company we have a significant impact on the environment. Managing our business in a sustainable way includes striving to minimise this impact at every stage of our products' life cycle, from the way cotton is grown to how our customers use our garments. Our sustainability strategy supports this aim (see page 04).

OUR FOCUS AREAS

To improve our environmental performance, we need to understand the main areas in which we have an impact, and have a programme of activities to address them effectively. Our key focus areas include:

- raw materials
- water
- carbon and energy
- recycling and waste.

We further commit to restricting the use of harmful chemicals in our products. Read more about chemical management on page 55 and product labels such as the Flower eco-label on page 56.

As with many parts of our business, one of our main strategies is to work with our suppliers to help them improve their environmental performance and the performance of our products. One challenge we face is to influence our suppliers, for example through our Code of Conduct, audit programme and voluntary programmes. The other even bigger challenge is to influence the stages of the value chain outside of our direct influence, such as fabric production or cotton growing). Through cooperation or voluntary programmes, we aim to extend our influence.

Our Code of Conduct (see page 15) and Full Audit Programme (see page 17) address and monitor environmental issues such as waste water treatment and waste handling at our suppliers.

OUR LONG-TERM GOALS

Our long-term environmental goals provide focus for all of our environmental activities wherever they take place in our business:

We shall be at the forefront of environmental sustainability by:

- minimising the need for extraction of fossil fuel, metals and minerals from the earth's crust
- using and promoting safe and biodegradable substances that do not accumulate in the environment
- maintaining ecosystem services by contributing to the conservation of soil, water, air and species.

Read more about our overall long-term sustainability goals on page 04.

ENVIRONMENTAL GUIDANCE

To set global standards where possible and guide our sales country organisations on relevant environmental issues, such as energy use or waste handling, we have developed an environmental guidance document.

The document provides an overview of requirements and guidance on actions concerning environmental issues within our sales country organisations. This includes:

- Country actions – all the issues, legal or company based, that require action.
- Legal requirements – these actions are required by law.
- Reporting to authorities and organisations – in some areas data have to be reported at regular intervals to local authorities and/or organisations.
- H&M requirements – requirements based on our corporate policies.
- Reporting to head office – some information has to be reported back to the head office at regular intervals.

Update

The guidelines were introduced in 2009 to all sales country organisations.

RAW MATERIALS

Raw materials such as cotton can have a heavy impact on the environment. In the same instance, cotton is the raw material we use the most. Although we do not source any raw materials directly, we are committed to actively contributing to reduce their impacts. We work towards using more and more organic and recycled materials and are actively involved in the Better Cotton Initiative to contribute to long lasting improvements in conventional cotton farming.

APPROACH

We commit to reduce the environmental impacts of the raw materials we use. Cotton is the raw material we use the most. But there are a number of environmental and social concerns around it. That is why our approach towards raw materials is guided by a clear commitment towards cotton.

H&M's aim is for all cotton in our range to come from sustainable sources by 2020 at the latest.

By sustainable sources we mean sources that show consideration for people or the environment and whose impact is less than the current impact of conventional cotton. Better Cotton, organic and recycled cotton are types of cotton that we currently define as sustainable.

We seek to reduce the environmental impact of the raw materials we use by:

- Improving conventional cotton growing through an active role within the Better Cotton Initiative (BCI).
- Increasing the amount of organic cotton we use to 15,000 tonnes by 2013.
- Gradually introducing alternative fibres such as recycled and other organic materials and seeking to contribute to the innovation of new and more sustainable materials.
- Using cotton from farmers in transition from conventional to organic cotton production.

COTTON

The cotton supply chain faces some serious challenges and has both environmental and social impacts. From a growing perspective water scarcity and rising prices for inputs, such as fertilisers, may influence future cotton supply and cost. Improvements in the cotton growing process are also needed from a social point of view. That is why we work hard to help improve cotton growing.

Read more about cotton throughout this section and in an interview with Henrik Lampa, CSR Manager for products on page 81.

THE ISSUES AROUND COTTON

Cotton is a high-impact crop. According to WWF research it takes an average of 8,500 litres of water to grow one kilo of cotton lint, enough to make one pair of jeans. Conventional cotton can require heavy use of pesticides and also fertilisers and there are a number of social concerns.

H&M is a large user of cotton. As a result we strive to play our part in helping to address these challenges and to improve the sustainability of our most important raw material. We do this by focusing on collaborating with others such as the Better Cotton Initiative or UNICEF and by using more sustainable materials such as Better Cotton, organic cotton or recycled cotton. H&M's aim is for all cotton in our range to come from such sustainable sources by 2020 at the latest.

Read about our new collaboration with UNICEF to support children in cotton growing areas in India, the All for Children initiative on page 67, and the challenges around cotton from Uzbekistan on page 24.

ORGANIC COTTON

Our customers are showing a growing interest in organic cotton. We are responding by gradually using more organically grown cotton in the products we sell. Organically grown means, among other things, that no chemical fertilisers or pesticides may be used. Grown in Turkey, India and China, all our organic cotton is independently certified by accredited certification bodies. Additionally all factories handling organic cotton products are certified (by IMO and Control Union) according to the relevant standards, OE 100 and OE Blended.

Organic cotton is used in all our clothing divisions (men, women, teenagers, children and home). We offer both 100% organic cotton clothes and blended organic garments containing a mix of organic and conventional cotton. Garments are labelled accordingly to help our customers to make an informed choice.

We have set a target to increase organic cotton use by at least 50% every year until 2013, based on the previous year's target. The baseline for this staged increase is our 2008 target of 2,000 tonnes. Increasing by 50% each year from this level will mean that we will reach a total of 15,000 tonnes by 2013. Ensuring our 50% target is reached is the responsibility of our buying office, which plans our collections.

Update

In 2009, we used 8,500 tonnes of organic cotton, exceeding our target. By the end of 2010 we plan to use organic cotton in all of our Flower labelled baby garments, either as blended organic cotton or 100% organic cotton. The label certifies that harmful substances have been limited and water pollution reduced across the whole production process, from the raw cotton to the final product.

In early 2010, the integrity of organic cotton chains was questioned in a few media reports. Read H&M's response to the claims made at www.hm.com/environment.

Read more about how much organic cotton we are using in Performance on page 36.

Read more about the Flower eco-label on page 56.

Read more about organic cotton at www.organicexchange.org.

BETTER COTTON INITIATIVE

Although we are substantially raising the amount of organic cotton we use, the vast majority of all available cotton is still produced conventionally.

H&M is actively involved in the Better Cotton Initiative (BCI) aiming to improve conditions in conventional cotton growing. The BCI is a long-term initiative that develops and promotes good farm practices allowing more cotton to be grown while reducing water and chemical use. The system established minimum environmental and social requirements for cotton growing.

The BCI is not a labelling scheme, nor will it provide Fairtrade or organic cotton. It aims to make all cotton more sustainable. It is a multi-stakeholder initiative that includes NGOs like WWF, companies, cotton producer groups and trade and industry bodies. H&M has been involved with the BCI since its inception in 2004, and is an elected member of the organisation's council.

Following our aim to source all cotton in our range from sustainable sources, at the latest by 2020, we regard the BCI as the key initiative to reach this goal. To assist the transition from trial to implementation phase, H&M has further committed USD 750,000 between 2009 and 2011 to support farmer training in the BCI system. H&M and other project members have committed to using the Better Cotton from the 2009-2012 implementation phase also in case it might not yet meet all of the minimum requirements of the BCI system.

Update

The BCI is currently passing from the trial phase to implementation phase with farmers. Initial trials have provided a strong business case for the BCI system, with farmers achieving up to 49% more profitability, 92% less use of pesticides and 32% less use of water.

In late 2009, the BCI Council agreed on an assessment process, which aims to keep the focus on the farmer and the environment. It also aims to be as light touch as possible while maintaining credibility, and encouraging BCI farmers to share and spread knowledge. For this reason, depending on which element of the project is being assessed, there are three levels of assessment:

- self assessment by farmers
- peer-to-peer assessment between farmers
- third party evaluation.

The BCI follows a strategic implementation plan until 2012, after which the system will be reviewed. It follows ten major goals to be achieved during this period. Among them is the aim to produce 300,000 tonnes of cotton lint as Better Cotton, in Brazil, India, Pakistan and West & Central Africa.

Read more about the BCI at www.bettercotton.org.

TRANSITIONAL COTTON

By demanding more organic cotton we can help create an incentive for more growers to shift to organic cultivation. However, the transition from conventional cotton to organic presents challenges for farmers.

Although the land is not considered organic during the transition period, organic standards apply immediately. This can result in lower crop yields during the changeover, while farmers cannot yet charge an organic premium for their cotton.

To support farmers we have decided to begin using cotton grown during this changeover phase, known as transitional cotton.

Update

Although we did not achieve our 2008 target to use 50 tonnes of transitional cotton due to problems with its availability, we set a target of 250 tonnes for 2009. We booked 250 tonnes of transitional cotton in 2009, and we plan to blend this cotton into garments produced in 2010, while garments containing transitional cotton will not be specifically labelled as such.

OTHER MATERIALS

Respect for the environment is important to us, and to our customers. Therefore we are using and continuously trying out new sustainable materials in our products, such as recycled cotton or organic wool. Our product policy outlines our requirements for the use of animal and wood originating materials.

RECYCLED AND ORGANIC FIBRES

We use a range of other innovative and sustainable materials on a smaller scale. These include:

- organic wool
- organic linen
- recycled wool
- recycled polyester
- recycled polyamide
- recycled cotton.

Using these fibres is a first step in exploring their use in our products and is an investment in potential innovative opportunities in the future.

Organic wool comes from sheep that are raised on organic pastures and are given organic feed. In addition to this the sheep themselves are not treated with insecticides.

Recycled polyester comes from recycled PET bottles or textile remnants and recycled polyamide comes from fishing nets of textile remnants.

Update

In 2009, 16 different garments made from recycled cotton were introduced.

Read more about the use of sustainable materials at www.hm.com/materials.

MATERIALS ORIGINATING FROM ANIMALS AND WOOD

Our products should be manufactured in a way that is environmentally and socially sustainable. As part of this, animal welfare and protecting endangered species is important to us. For several years our commitments included to not use genuine fur in our collections, and also not to test our cosmetic products on animals. H&M is a Fur Free Alliance-listed retailer. Read more about the Fur Free Alliance at www.information.org.

Update

In 2009, we updated our product policy. The new policy now contains, amongst others, stricter requirements on angora wool, merino wool, use of animal skin and feathers and downs. This update has given us a clear direction on how to implement guidelines for the new requirements. We also received the “Proggy Award” as Company of the Year in 2009 from the organisation PETA in recognition of our updates to our policy and animal welfare efforts.

Our priorities for 2010 are to work on policy implementation. We plan to conduct our first audits on angora farms during 2010.

PERFORMANCE

Organic cotton

From a base of 30 tonnes in 2006, we used 8,500 tonnes of organic cotton in 2009. This exceeded our target of 3,000 tonnes by a considerable margin.

Based on our use in 2008, Organic Exchange has identified H&M as the world’s fourth largest consumer of organic cotton.

Although our current use already exceeds our target for 2011, we are realistic about the fact that we cannot sustain growth in the use of organic cotton at the rates witnessed in recent years (183% growth in 2009 and 131% growth in 2008). Therefore, we maintain our target of increasing the use of organic cotton by 50% compared to the previous year’s target.

Recycled cotton

We introduced 16 different garments made from recycled cotton with a total quantity of more than 400,000 pieces in 2009.

Transitional cotton

As announced in our targets for 2009, we booked 250 tonnes of transitional cotton which we plan to blend into garments produced in 2010.

	2006	2007	2008	2009	2010	2011	2012	2013
Organic cotton use	30	1,300	3,000	8,500	-	-	-	-
Target (50% increase on previous year’s target)	-	-	2,000	3,000	4,500	6,750	10,000	15,000

WATER

Water plays a part in almost every stage of our products' lives, for instance when growing raw materials, dyeing fabrics and washing products. We work hard to improve water management throughout our supply chain and our direct operations.

APPROACH

Water plays a part in many stages of our products' lives. For example, it is needed for growing raw materials, processing fabrics and washing finished products.

We want to improve the way we manage water throughout our supply chain. To guide our approach, we are a signatory to the CEO Water Mandate. This is a voluntary initiative that requires us to improve and report both our own and our suppliers' water efficiency, as well as the quality of waste water they discharge.

For a number of years we have required suppliers who have wet processes such as dyeing and washing to treat their waste water. More recently we have also started to focus on suppliers' water consumption. We prioritise water efficiency work with suppliers located in areas where water is scarce.

We are actively involved in the Better Cotton Initiative that, among other things, helps help farmers grow cotton with less water use. Read more about the Better Cotton Initiative on page 34.

We aim to improve water management in our supply chain through:

- Our audit programme, which monitors the environmental requirements we place on our suppliers.
- Monitoring the water footprint of factories that use wet processes, such as dyeing or washing.
- The Cleaner Production Programme and the Mill Development Programme, aiming to improve the environmental performance of fabric producers.
- Our support for WaterAid. We have been supporting the NGO since 2002.

POLICY

In June 2008, H&M signed the CEO Water Mandate, a voluntary initiative from the UN Global Compact).

CEO WATER MANDATE

The CEO Water Mandate is a voluntary initiative from the Global Compact. It consists of a group of companies that have committed to work collectively on issues of sustainable water management.

The mandate commits H&M to improve both our own and our suppliers' water efficiency, improve wastewater quality and report transparently on progress. Specifically it covers six main areas:

- direct operations
- supply chain and watershed management
- collective action
- public policy
- community engagement
- transparency.

Here you can read our Communications on Progress on the six key elements of the Mandate. Read more about the CEO Water Mandate and the Global Compact at www.unglobalcompact.org.

COMMUNICATIONS ON PROGRESS – WATER

In line with the key elements of the CEO Water Mandate, here you will find our Communications on Progress – Water (COP-Water).

DIRECT OPERATIONS

Although retail is a comparably low user of water, we aim to minimise the use of water in our own operations. One area where we can influence water use is in our stores and

warehouses. When we built a store or distribution centre in 2009 we followed certain guidelines.

For stores:

- low-flow toilets
- low-flow taps in hand basins and kitchen sinks.

For distribution centres:

- low-consumption toilets
- low-flow taps
- shower armatures with automatic stop function.

For distribution centres we also have the following general guidelines:

- minimise the use of potable water
- use rainwater to rinse toilets
- use rainwater for external irrigation (irrigation system and external taps).

SUPPLY CHAIN

Water use and efficiency

Since 2008, we have been working with suppliers to measure their water use so that we can understand the water footprint of different types of production.

In 2009, we collected water-use data from 296 suppliers with own or subcontracted wet processing units. Comparing this water use with suppliers’ output, such as kilos of product or number of garments produced, has provided the water efficiency of our suppliers.

Suppliers’ water use

Water use efficiency index for suppliers with wet processing (litres/kilo of product)

Less than 100 l/kg products	71%
100 200 l/kg products	16%
More than 200 l/kg products	13%

We mapped the location of these units and compared it against water scarcity maps as provided by the WBCSD (World Business Council for Sustainable Development). This showed that out of the assessed 296 factories, 84 are located in areas which are already or have been prognosticated to become extreme water scarce by 2025. Eight factories are located in areas which were classified as water scarce.

In 2010, we will analyse these 92 factories one by one in terms of water sources, total water use and water efficiency. Based on this we will then look into further benchmarks and related measures.

WASTE WATER

Since 2006, we have required suppliers to treat their waste water to improve its quality and make it as safe as possible for discharge back into the environment. Waste water quality has to meet specific quality levels as defined by Business for Social Responsibility (BSR), or relevant laws, depending on which is stricter.

These requirements focus on key water quality measures such as organic and chemical pollution levels and suspended solids within the waste water.

We have monitored waste water quality by asking suppliers to submit the results of their quality tests. Suppliers can either use laboratories that are recommended by us or use the same testing standards as those used by our recommended laboratories.

Suppliers’ waste water quality

In 2009, the waste water quality of 198 production units with wet processes and their own treatment plants was assessed against the BSR guidelines, compared to 162 in 2008 (146 in 2007). The following was found:

- 78.8% of suppliers reported biological oxygen demand (BOD) within the lowest threshold (less or equal to 30 mg/l), an improvement from 73.4% in 2008
- 93.3% of suppliers reported chemical oxygen demand (COD) within the lowest threshold (less or equal to 200 mg/l), an improvement from 90.6% in 2008
- 76.3% of suppliers reported total suspended solids (TSS) results within the lowest threshold (less or equal to 30 mg/l), an improvement from 58.5% in 2008.

If we find that the quality of suppliers' waste water falls below our prescribed limits, we ask them to draft action plans. Within our regular audit programme we also check for example, the functionality of waste water treatment plants or if sludge resulting from waste water treatment is handled according to legal requirements.

COLLECTIVE ACTION

The CEO Water Mandate calls for collective action to bring about sustainable water management.

BCI

We work with the Better Cotton Initiative (BCI) on a programme to reduce the environmental impact of cotton by using less water and fertiliser, and fewer pesticides. Early trials show that the Better Cotton system can provide water savings of up to 32% over standard growing methods. Read more about the Better Cotton Initiative on page 34.

Denim production

Rinse-washing denim garments to achieve a certain finish is a water-intensive process. Reducing this water use was the target of one of our pilot projects in 2009, with three suppliers in Bangladesh, two in Pakistan and two in southern China.

CASE STUDY

Reducing water use in denim production

Rinse-washing denim garments to achieve a desired finish is a water-intensive process. Reducing this water use was the target of a pilot project in 2009 with three suppliers in Bangladesh, two in Pakistan and two in southern China.

Working in partnership with the chemical supplier Dow Corning, the project has introduced a special silicone-based chemical in the washing process that reduces the number of washes needed. The new process is not effective with all types of washing styles, but can deliver water savings of up to 30%. Trials showed a saving of around 25 litres per pair of jeans.

In the long term we would like all denim suppliers to use the system or equal/better performing alternative techniques whenever applicable. More immediately in 2010, we plan to expand the project and to sign up more suppliers. Part of the challenge of the project is persuading suppliers to adopt the system and the new chemical, particularly in areas where water is free and suppliers worry about additional costs and new techniques, as is the case in Bangladesh.

Cleaner Production Programme

For four years we have worked with fabric mills that have dyeing operations encouraging them to improve their environmental practices. These suppliers are H&M's second-tier suppliers where we have limited influence. We take a voluntary approach to addressing environmental issues with two programmes in both Bangladesh and China. The programmes consist of around 40 easy-to-implement environmental measures that are directly linked to cost savings and profitability.

CASE STUDY

Cleaner Production Programme, China

For four years we have worked with fabric mills that have dyeing operations encouraging them to improve their environmental practices. Most of these companies are H&M's second-tier suppliers where we have limited influence. We take a voluntary approach to tackling environmental issues with this programme. It consists of around 40 easy-to-implement environmental measures that are directly linked to cost savings and profitability.

We do not normally have a direct relationship with the mills that provide our suppliers with fabric so our approach relies on the voluntary involvement of the fabric mills. A few of our suppliers are vertically integrated, meaning they manufacture fabric in addition to making garments, and in these cases the environmental requirements of our Code of Conduct apply.

In some cases uptake of environmental improvements by fabric mills has been patchy, despite the fact that some of the improvements have been shown to have a return on investment in months rather than years. To encourage uptake we made some improvements in 2009. Firstly we created links to consultants to help mills implement environmental improvements without affecting quality, cost or output. Secondly, and perhaps more importantly, we asked fabric mills to pay a small commitment fee (around SEK 50,000) to be part of the programme.

We hoped that by paying a fee and having consultants on hand to help, mills would develop an increased sense of commitment and motivation to implement improvements. With the onset of the economic crisis, however, most of the mills felt the commitment fee was too much and involvement in the programme has trailed off. As a result of this, we have refocused our effort by working on a new partnership approach with cleaner fabric production in conjunction with a number of partners, for example through the Responsible Sourcing Initiative.

Cleaner Production Programme, Bangladesh

During 2009, we refocused our approach to our Cleaner Production Programme in Bangladesh for 2010 onwards. We have entered into a long-term cleaner production project with a number of partners, these are:

- South Asia Enterprise Development Facility (SEDF) an arm of the International Finance Corporation (IFC)
- Solidaridad – a Dutch NGO
- Natural Resources Defence Council (NRDC) – a US based environmental NGO.

The programme will run for six years. In addition to making environmental improvements with fabric producers, it aims to improve skill-levels within Bangladeshi suppliers, service providers and textile consultants.

The programme aims to develop and test different cleaner production methodologies that improve water and energy use. The aim also is to establish benchmarks so that good and poor performance can be easily identified. The best methods will be developed into a best practice toolkit, which will help to promote the spread of cleaner production.

In addition to this, two different approaches to developing best practices will be explored:

1. Peer-to-peer: suppliers will work with similar types of suppliers. These groups will gather to discuss their understanding and experiences of what has and has not worked with the cleaner production methods being tested.
2. Consultant-led: advice and testing being driven by external consultants. The consultants being used are expert organisations in textile consulting and include NEC from Pakistan and Conquest from Tirupur in southern India.

At H&M, we plan to identify six vertically integrated suppliers for the project and pay a commitment fee for each supplier. Furthermore we are supporting the project through expertise and create contact to our key suppliers. Our next step for this project is to, in early 2010, identify key suppliers to work with on the project.

PUBLIC POLICY

H&M is not currently engaged in any public policy work related to water.

COMMUNITY ENGAGEMENT

Since 2002 we have supported the international NGO, WaterAid and support its water and sanitation projects in Asia and Africa. WaterAid works to provide safe, clean water, teaches communities about the importance of good hygiene practices and develops effective sanitation to prevent water-related diseases. In 2009, we contributed SEK 4.6 m (USD 640,000) to WaterAid.

TRANSPARENCY

In 2009 we submitted our first COP-Water. The water section of this report forms our second COP-Water.

CARBON & ENERGY

Everyone needs to do their part to reduce greenhouse gas emissions. We are no exception. We are finding ways to continuously improve energy efficiency and lower our carbon footprint across our operations.

COMMITMENT

In 2005, we committed to reduce our carbon footprint relative to sales by 10% by 2009, compared to a 2004 base year. We met this target and instead of 10% we achieved a reduction of 32%.

Update

Our new target covering 2010-2012 performance, commits us to:

Reduce H&M group's carbon dioxide emissions relative to sales by a minimum of 5% per year compared to the previous year – from 2010 through to 2012.

In accordance with the Retail Declaration on Energy Efficiency and Renewable Energy, within the framework of the European Retail Round Table (ERRT), we also commit to:

- reduce energy consumption per square metre of commercial premises by a minimum of 20% by 2020 compared to 2007
- work towards exceeding the European Commission's target of sourcing 20% renewable energy by 2020.

Read more about our new target and our performance (on page 46).

TRANSPORT

Approach

The size and geographical spread of our business requires different means of transport in various parts of the world. As our business grows, our transportation needs will increase further. The challenge is to meet our transportation needs with limited use of natural resources and as low emissions as possible.

Transporting with less impact on the environment involves working with environmentally sound transport companies

and switching to rail or sea transport where possible and increasing our transport efficiency.

All of H&M's road transport providers must meet certain environmental criteria. Read about the current requirements www.hm.com/environment.

We aim for all our carriers in North America to become SmartWay certified. SmartWay is a programme run by the US Environmental Protection Agency (EPA) offering certification to carriers. In order to be certified, carriers must set and meet environmental and fuel efficiency targets and commit to reporting emissions data on a yearly basis to the EPA.

In 2009, around 70% of our carriers were SmartWay certified.

Read more about SmartWay at www.epa.gov/smartway.

COLLABORATION ACTIONS

We recognise that addressing transport issues can sometimes be best achieved by collaborating with others, for example when developing environmental requirements for transport providers.

In 2009, transport amounted to 51% of our carbon footprint. We took part in a number of initiatives to reduce the impact of transporting our goods.

Clean Shipping Project

The Clean Shipping Project is aimed at improving the environmental performance of the shipping industry. Companies that are cargo owners or buy shipping services sign up to be members of the Clean Shipping Network. Read more about the Clean Shipping Project in a short interview on page 82.

CASE STUDY**Clean Shipping Project**

The Clean Shipping Project is aimed at improving the environmental performance of the shipping industry. Companies that are cargo owners or buy shipping services sign up to be members of the Clean Shipping Network.

The Clean Shipping Index is an environmental performance index made up of 20 environmental aspects relevant to shipping. Maritime transport service providers enter vessel specific data into a database creating a score which cargo owners can then use as one of several parameters to look at when purchasing transport services. The index covers the following categories:

- chemicals
- water, fuel and waste control
- CO₂
- NO_x
- SO_x and PM (particulate matter).

H&M is part of the Clean Shipping Network and we have continued to work on improving the Clean Shipping Index and its use amongst our carriers.

Update

In 2009, four of our six shipping carriers were registered in the index database. Two did not due to a lack of data. In 2010, we aim for all providers in the database.

Read more about the Clean Shipping Project at www.cleanshippingproject.se.

ERRT

H&M works in a collaborative way with members of the European Retail Round Table (ERRT). During 2009, we worked together to develop a tool for evaluating truck carriers' environmental performance.

CASE STUDY**Developing transport requirements within the ERRT**

H&M works in a collaborative way within the ERRT. During 2009 we worked together to develop a tool for evaluating truck carriers' environmental performance.

This web-based performance tool will initially be applied to all carriers in Europe (EU and Turkey), followed by Asia. Data gathered from these carriers will be used to determine a realistic minimum score requirement that will lead to an overall improvement in terms of environmental performance among our carriers.

Beginning in 2010, the minimum requirements we currently place on our contracted service providers will then be based on this tool.

The minimum requirements for Europe will then include that:

- 71-80% of truck carriers' drivers must have received training in fuel-efficient driving.
- Trucks carrying H&M goods must not be more than 10 years old.
- All nominated and potential truck service providers must have a CO₂ reduction target that is accompanied with an action and follow-up plan.

TRAVEL

Approach

We have an updated travel policy in place since 2008. The policy since then includes more stringent environmental considerations than previously.

Each manager is responsible for ensuring that these requirements are met in his or her department. This policy requires all employees travelling for business purposes to ensure that:

- Each trip is well justified and cannot be replaced, for instance by a phone- or web-conference.
- When choosing the place of a meeting, the distance travelled by all attendees and the accessibility by public transport is considered.
- Appropriate means of transport are used:
 - Trains should be used for all journeys of less than 600 km if sensible.
 - Public transportation should be used rather than taxis when this is available, safe and time permitting.
 - Colleagues should always share cars wherever possible.

ACTION

For several years H&M also offers audio and web conferencing. During 2009 the external system was not promoted actively because we began testing with a new audio and web conferencing facility that has been built in-house.

The new system is planned to be launched in 2010 and will replace our existing teleconference provider. The launch will then be accompanied by a communication campaign to make employees aware of the new system and promote its use.

STORES AND DIRECT OPERATIONS

Approach

Any construction related to H&M stores follows documented environmental requirements. We also provide our sales country organisations with environmental guidance. When new stores are designed we set targets for the energy efficiency of our lighting.

Environmental guidelines

In 2009, we distributed updated environmental guidelines for all our sales country organisations. These include among others guidelines and requirements on energy use and its measurement. In accordance with the Retail Declaration on Energy Efficiency and Renewable Energy, within the framework of the European Retail Round Table (ERRT), we commit to reduce energy consumption per square metre of commercial premises by 20% by 2020.

Environmental building specifications

For all newly built (275 in 2009) or refurbished stores, we have a number of environmental requirements in place. Several of them relate to energy efficiency. This includes requirements for escalators, elevators and store lighting. Read more about how we limit the energy use of store lighting in action.

COMMITMENT

In accordance with the Retail Declaration on Energy Efficiency and Renewable Energy, within the framework of the European Retail Round Table (ERRT), we commit to:

- Reduce energy consumption per square metre of commercial premises by a minimum of 20% by 2020 compared to 2007
- Work towards exceeding the European Commission's target of sourcing 20% renewable energy by 2020.

ACTION

In 2009, energy used in our stores, offices and distribution centres amounted to 42% of the carbon emissions within our operations and transport. We took a number of initiatives to improve our energy use.

Reducing energy use from store lighting

When stores are designed we have targets for the energy efficiency of our lighting. Depending on the design and concept of the store, we target either 30 or 40 watts per square metre. A few small changes resulted in big reductions:

- Dimming of the 70W downlights and spotlights led to a 15% reduction in their energy use.
- Dimming all the light tubes installed behind our built out panels resulted in a 30% reduction in their energy use.

- Lowering the effect of the fitting room downlights from 35W to 20W, a 50% reduction in their energy use.
- Installing sensors in the fitting rooms to dim the light tubes behind the mirrors when they are not in use.

Update

Above requirements have been valid for all stores which are newly built or were refurbished in 2009.

Distribution centres

In October 2008, we opened our largest distribution centre yet in Hamburg, Germany. When planning the facility, sustainable thinking was taken into account. For example, the roof has 5,300 square meters of solar panels. The H&M owned installation contributes renewable energy capacity to the grid. Estimated yearly electricity production from the installation is 480,000 kWh, which makes carbon dioxide reductions of up to 480 tonnes possible. The solar power plant is the largest of its kind in the Hamburg region.

In 2010, we plan to build another large distribution centre and within that to incorporate further environmental measures.

SUPPLY CHAIN

Our goal is to understand where the main impacts arise across the life cycle of our products. To help understand the wider climate impact and carbon emissions of garments, we funded a Business for Social Responsibility (BSR) study in 2009.

Overview

Our aim was to understand the wider climate impact and carbon emissions of garments. In particular H&M felt the need to identify priority areas for action or additional research required so that we can begin to reduce carbon emissions more widely than from our direct operations and transport alone.

BSR STUDY FINDINGS

Individual garment types have different emissions profiles, but the findings give an overall picture of the aggregate greenhouse gas emissions for clothing.

AREAS OF HIGH CARBON INTENSITY

Garment use

Once a garment is produced, the energy used during its lifetime is the single most important contributor to its overall emissions profile. However, there are some interesting variations:

- Tumble drying is the single largest energy user and avoiding this will reduce emissions substantially.
- Hand wash garments are likely to have lower use phase emissions.
- The energy source (e.g. renewable or conventional energy) of machines used to launder garments can dramatically reduce emissions.
- Several studies indicated that garments are often washed more than necessary and this increases emissions.

Raw materials

The fibre used in a garment's fabric is the second most important contributor to emissions:

- Synthetic fibres have a comparatively high emissions profile due to the energy needed to create their raw materials. However, synthetic fibres often hold less water so reducing the need for drying, which can be energy intensive if a tumble dryer is used.
- Wool has comparatively high emissions due to the methane produced by sheep. However, wool garments often require dry cleaning or hand washing, which are the lower emission washing options during the garment's life.
- Plant fibres such as cotton and linen have comparatively low emissions, particularly linen because it requires fewer pesticides, fertiliser and irrigation than cotton. They do however retain more water and linen is more likely to be ironed which increases emissions.

Other factors include transport, which makes up only a small proportion of a garment's total emissions. Most studies, however, assume that transport is mainly done by ship and factoring in airfreight will considerably increase emissions. Garment lifespan is another factor. A garment that is only washed a handful of times will have lower lifetime emissions than a garment washed hundreds of times. However, a short lifespan garment will have much higher emissions on a per wear basis.

It is interesting to note that our greenhouse gas reporting for shipping and distribution and retail is only a small segment of the life cycle carbon emissions of our products. This shows that we need to focus our attention on the supply side of our garments' life cycle as well as with consumers who use energy during the use of our products.

Read more on how we advise consumers on garment care on page 54.

NEXT STEPS

The study results stress the need to further address the carbon emissions resulting from raw material production, garment manufacturing and garment use.

We are, however, realistic and finding the best ways to tackle this challenge will require further research and time. As a first step we have initiated first trials in gathering data from some selected and key suppliers. Based on this we are currently developing broader tools to be tested in 2010 and are accordingly looking into finding appropriate resource efficiency measures together with our suppliers.

PERFORMANCE

We monitor and measure energy use and carbon dioxide (CO₂) emissions across our business. This includes emissions from energy use in our stores, distribution centres and offices, those caused by transportation of our goods, as well as our business travel and company-owned cars.

Our target between 2005 and 2009 has been to reduce CO₂ emissions by 10% relative to sales, using 2004 as baseline year. The data shows we have achieved and substantially exceeded this target.

We have developed a new target period for 2010-2012 following an expanded data scope. More information can be found on page 47.

You can find further details on our carbon emissions in our annual response to the Carbon Disclosure Project at www.cdproject.net.

CO₂ EMISSIONS AND TARGET FOLLOW-UP

Our target has been to reduce CO₂ emissions by 10% relative to sales until 2009, using 2004 as baseline year. We have exceeded this target and achieved a reduction of 32% instead.

As shown in the chart, in 2009 we emitted 2.63 tonnes of CO₂ per SEK m turnover compared to 3.84 tonnes of CO₂ per SEK m turnover in our targets' baseline year 2004.

The total actual carbon dioxide emissions for 2009 were 311,858 tonnes, an increase of 11% compared to 2008, while our turnover increased by 14%.

Compared to the baseline year 2004, total carbon emissions increased by 29% while our turnover increased by 88%.

Compared to 2008, significant reductions could be achieved in emissions resulting from business travel and fuels from company-owned cars, both in relative and absolute terms. Good relative reductions have been achieved in transports while emissions resulting from buildings (including energy use) increased.

	2004	2005	2006	2007	2008	2009
CO ₂ emissions (tonnes per SEK m sales including VAT)	3.84	4.15	3.75	2.75	2.70	2.63
Target	-	-	-	-	-	3.45

STORES AND DIRECT OPERATIONS

Electricity use in our stores, offices and distribution centres as well as fuels and heating in our distribution centres lead to a total of 130,701 tonnes of carbon emissions. In total this is an increase of 27% compared to 2008 and accounts for 42% of our total emissions. Electricity use in the entire company increased by 9% in absolute figures compared to a turnover increase of 14%. This indicates an increased energy efficiency. However, changes in emission factors from electricity production have been a major contributor to increased emission figures.

TRANSPORT

Transport emissions stand for 51% of the total carbon emissions. Total emissions resulting from transport increased compared to 2008 by 4%, while our turnover rose by 14%.

There are a number of factors which have contributed to this relative reduction of which some are described below.

Many shipments from production countries to sales countries by transit are made by truck. We focus on using transport solutions that include rail and sea transports and try to avoid air and truck transport wherever possible.

In 2009, we reduced the number of shipments via our transit warehouse in Hamburg and instead shipped directly to the sales countries. Since 2008 we have decreased the volumes shipped by ocean and air via transit by 40%.

By using a different type of transport on many of our transport routes, we have been able to make a saving in emissions.

In 2009, our aim was to transport goods from Turkey to Germany, Poland and Belgium, countries where some of our major distribution centres are located, by rail in place of road. 62% of the goods shipped from Turkey to Germany (one of our largest sales countries), were shipped by rail instead of truck (2008: 22%). For the routes between Turkey and Poland the share of rail went up to 87% in 2009 from 10% in 2008, on the route to Belgium from 0% to 52%.

We also increased the share of goods shipped by rail from transit to sales countries from 44% to 60%, resulting in a 705 tonnes decrease in the amount of CO₂ emitted.

In 2008, 100% of all shipments from Turkey to Hong Kong were done by air, in 2009 we decreased this by 26% resulting in 513 tonnes less CO₂ emissions.

TRAVEL

Business travel amounted to 6% of the total emissions in 2009. Total emissions resulting from this source decreased by 13% compared to 2008, while our sales (including VAT) increased by 14%. Total emissions resulting from fuels for company-owned cars decreased by 7%. We believe this is a major result from the implementation of our revised travel policy.

NEW TARGET 2010–2012

Our new target commits us to reduce H&M group's carbon dioxide emissions relative to sales by a minimum of 5% per year compared to the previous year from 2010–2012.

The main elements of the new target are:

- **Rolling baseline:** our previous target had a 2004 baseline for the whole five-year target period. The new target has a rolling baseline, meaning that the baseline for emissions reductions will always be the previous year's outcome.
- **Committed reductions:** we are committed to achieving a minimum 5% reduction each year. If there is a shortfall in the year we will offset the shortfall in the target, so the baseline for the following year will always be at least 5% lower than the previous year. This is an important factor for pushing forward improvements in efficiency and reducing emissions. If we exceed the 5% target then the actual performance achieved will be used as a more ambitious baseline.

We will report on data relating to this new target with an expanded scope in line with the accounting and reporting guidelines of the World Resources Institute's Greenhouse Gas Protocol (GHG Protocol).

Shorter horizon

We decided to set the targets over a shorter time horizon than the previous one because in the next three years we expect to see a number of changes in global climate change policy, bringing more clarity to the framework of carbon regulation and incentives for market transformation to a low carbon economy.

A short-term target period is also more tangible and immediate. We feel that it will keep up pressure internally to develop reduction initiatives sooner rather than later.

EXPANDING THE SCOPE OF DATA

For 2010, we have established a new target and to go with this we have revised the methodology and boundaries of our greenhouse gas emissions reporting. For this reason we are reporting two sets of figures for 2009. One is like-for-like with previous years, to provide comparative data for our outgoing target and the second is based on our new expanded scope building the baseline for our new target period.

With the expanded scope our emissions reporting goes in line with the accounting and reporting guidelines of the World Resources Institute’s Greenhouse Gas Protocol (GHG Protocol).

The implication of the alignment with the GHG Protocol guidelines is an increase in our greenhouse gas emissions. Emission sources, which are additionally covered by our reporting include:

- Emissions from our COS, Monki and Weekday brands.
- Emissions estimates for stores where we pay our landlord for electricity rather than having a direct contract with an electricity supplier.
- Emissions estimates for CO₂ equivalent data (CO₂e) related other relevant greenhouse gases, namely methane (CH₄), nitrous oxide (N₂O) and HFC that relate to leakage from air conditioning units.

We report scope 1 emissions relating to our direct fuel use in our operations and company cars, which following these guidelines make up 3% of our total emissions. Scope 2 emissions come from the purchase of electricity and heat for our stores, offices and distribution centres and make up 60% of our emissions. The remaining 37% are scope 3 emissions related to business travel and transport of our products. The total emissions according to this expanded scope make up 398,160 tonnes CO₂e, which equals 3.35 tonnes CO₂e emitted per million SEK turnover.

SCOPE	CO ₂ E (TONNES)	SHARE
1	11,951	3%
2	238,201	60%
3	148,007	37%
	398,160	100%

RECYCLING & WASTE

Waste is an important issue in H&M stores and distribution centres. Our environmental guidelines provide direction on recycling and how to handle waste including hazardous materials, such as fluorescent tube lights, batteries, electronic equipment, glues and other chemicals.

APPROACH

Waste is an important issue in H&M stores and distribution centres. Our environmental guidelines among others provide guidance on how to handle waste in our stores and operations.

Sales country organisations handle solid waste in a variety of ways, for example depending on the facilities individual stores have available to them. Some stores use the waste-handling facilities of the shopping centre or landlord, others have separate waste handling contracts or return waste to our distribution centres. Unfortunately this provides a challenge for data gathering and we do not yet have consistent data for the whole business. But you can read about some major actions addressing issues of waste and recycling in our operations in this section.

ACTIONS**Mail order**

We offer mail order and internet shopping in Sweden, Norway, Finland, Denmark, the Netherlands, Germany and Austria.

In 2009, all paper used in our mail order catalogues was manufactured by chain of custody certified mills and the majority of the fibre originated from certified forests. The paper also carries the eco-label of the European Union, the Flower, which stands for the environmental credentials of the paper. All printers used for catalogue printing are certified to the ISO14001 environmental management system. In addition, all of our mail order packaging boxes are made of cardboard with at least 60% recycled content.

CONSUMER BAGS

We have conducted an in-depth life cycle analysis to determine the best environmental choice for our consumer bags. We have compared a range of bag materials, including virgin and recycled polyethylene (PE) plastic, paper, starch-based plastic, oxi-bio plastic and cellulose based PE.

Perhaps surprisingly to some, the study showed that:

- PE bags need less energy in production than many other options
- PE bags use less space during transport, particularly compared to paper bags
- PE bags are durable and can be reused
- PE bags can be easily recycled
- 85% of PE's embodied energy can be extracted when incinerated.

Update

Based on the results, H&M considers recycled PE plastic to be the best available alternative. By using recycled PE, we can reduce the demand for virgin oil and increase the demand for recycled material. Recycled PE only uses 50% of the energy in production compared to virgin plastic production and can of course be recycled again.

As a result, we will launch a new recycled PE plastic bag in selected countries in early 2010, followed by remaining countries later in the year.

PRODUCT PACKAGING

H&M constantly strives to find better packaging solutions using fewer resources and causing less waste.

Update

As one example of how we worked about finding better packaging solutions for our products, in 2009 our designers worked on new packaging for men's boxer shorts. The new packaging uses 50% less material and therefore less energy, in both production and transportation. The packaging is now also fully recyclable and can easily be separated to make it easier for our customers to do so. And it also helps keeping our prices low by reducing packaging costs by over 60%.

PAPER AND PRINTING

In order to understand our impacts better and identify where sustainable alternatives are required, we have analysed our 2008 use of paper.

We mapped the type of paper and paper products being used, their origin, and how they were produced. Paper use ranges from transport cartons, hang tags and gift boxes to office paper, receipt rolls, H&M magazine and our mail order catalogue. With this knowledge, in 2010 we will continue to assess where best to focus.

In 2009, all printers at our head office and IT department have been set to double-sided printing as the default setting.

STORE MATERIALS

In 2009, we changed our standard poster size in stores and now use poster frames that allow us to use printed paper instead of board. This resulted in a reduction of material use and waste of around 50%. We have also started to use sales materials that can be reused in more than one sales campaign.

Update

In 2009, 79% of the hangers we used were sent for recycling. Most of the remaining hangers are reused in store.

SHOP FITTINGS

We have had standard requirements for shop fittings for several years. These state the materials that can and cannot be used from an environmental and health perspective. The suppliers that refurbish or build our stores must follow these requirements.



PRODUCTS

OUR BUSINESS IS ABOUT OFFERING OUR CUSTOMERS FASHION AND QUALITY AT THE BEST PRICE. TO H&M, QUALITY INCLUDES MEETING OR EXCEEDING OUR CUSTOMERS' EXPECTATIONS OF OUR PRODUCTS AND OF H&M AS A COMPANY. OUR CUSTOMERS DO NOT JUST WANT PRODUCTS THAT LOOK GOOD, LAST WELL AND ARE SAFE TO USE – OUR PRODUCTS SHOULD ALSO BE MADE AND SOLD IN WAYS THAT DO NOT HARM PEOPLE OR THE ENVIRONMENT.

PRODUCT RESPONSIBILITY

H&M products should be practical, durable, well made, functional, safe and free from harmful chemicals.

In order to achieve this we continuously develop our routines and methods. Our challenge is to adapt our high quality standards to new fashions, products and market regulations and for our products to remain affordable.

APPROACH

Our responsibility to our customers includes our activities and initiatives to ensure customers are safe and satisfied with our products. We focus on:

- improving the quality of our products
- ensuring product safety
- restricting the use of harmful chemicals.

We follow the precautionary principle. As a minimum, we comply with all laws and the strictest regulations of our operating markets. This means that the strictest standards of all the countries in which we operate are the ones we apply to all our products, wherever they are sold. In some cases we go beyond this and apply even stricter standards.

Our product policy commits us to the following:

- H&M children's clothing should be comfortable and practical. H&M strives not to sell children's clothing that might be perceived as provocative.
- Prints on tops and other goods may not be offensive, racist, sexist, political or religious.
- All goods are labelled with their country of manufacture.

Read the full product policy in Performance.

QUALITY

All of our products have to meet the toughest quality regulations and standards. Even so, we are continuously looking for ways to make them better.

APPROACH

Our customers expect our products to be practical, durable, well made, well fitting, functional, safe and free from harmful chemicals.

To meet these expectations we continuously develop our methods and processes to improve the quality and design of our products. We have a strict quality assurance process in place that starts early in the product life cycle. Our product quality standards meet or exceed the strictest regulations in any of the countries where our products are sold.

QUALITY ASSURANCE

For several years our lab teams have performed physical, chemical and safety tests. Today, we work increasingly on proactive quality assurance rather than routine testing.

During 2009, we developed common methods for suppliers to take a more active role in quality assurance with their own labs, working to our standards. Our aim is for all major suppliers to operate their own quality assurance with good chemical management, early risk assessments and testing to identify potential quality risks.

Our local teams are responsible for doing follow-up checks to make sure suppliers are meeting our requirements. The teams are supported by a central function, where our common standards and requirements are developed.

Despite having a well-developed system for quality assurance and product safety, occasionally products that fall short of H&M's standards reach our stores. We have a procedure in place to ensure that these products can be rapidly recalled.

After an unsafe product has been identified, the quality department and production managers decide on a global recall. Sales are stopped immediately in all markets, and the relevant authorities are informed. Information is sent internally to colleagues and customers, through channels such as newspaper adverts, the internet and signs in store.

Our quality department then analyses what has occurred in order to prevent it from happening again.

Update

In 2009, we developed common methods for suppliers to take a more active role in quality assurance with their own labs, working to H&M standards.

No products were recalled during the year.

Read more about our quality assurance tests on page 53.

CHILDREN'S SAFETY

Our aim is to offer the safest children's garments in the market. This means that child safety is a vital factor throughout all stages of production. We educate our staff both at the buying office and in our production offices about children's safety and potential product risks.

We carry out a risk assessment to ensure that every product intended for children is safe, and check for any potential hazards, such as small parts, sharp edges and drawstrings or cords.

We follow the laws and standards of whichever country of sale has the strictest regulations. Based on these laws we create specific guidelines and standards for our products, and share them internally and with our suppliers.

We are active in European working committees where standards for the EU market are set. In these meetings we share our knowledge of retailing and textile production, and discuss safety issues with both authorities and other companies.

Update

During 2009, the European working committee began working on a technical report with the aim to further improve the safety of children's clothing. Initially, the focus will be on buttons and small parts. H&M took part in two EU meetings during the year.

GARMENT CARE

The greatest share of a product's lifetime energy consumption is in the customer's washing at home.

To make it easier for our customers we label our products with the highest permitted temperature. However, choosing to wash at a lower washing temperature saves energy washing at 40°C uses around half as much energy as washing at 60°C and most detergents wash just as well at this lower temperature. H&M does recommend that heavily soiled clothes and underwear are always washed at the highest temperature allowed.

We also provide tips about how customers can consider the environment when caring for their clothes. Read more at www.hm.com/care.

COSMETIC PRODUCTS

H&M requires that all H&M-branded cosmetic products are produced according to Good Manufacturing Practices (GMP) for cosmetics. GMP sets a defined level of the quality and safety of the production and the finished products. Since 2007, there is also an ISO standard for cosmetic GMP.

In late 2008, a new cosmetic legislation was adopted in the EU. Although effective in 2013, the legislation has strengthened the demands on the production and safety of cosmetic products.

H&M also does not allow animal testing on cosmetic and hygiene products, either during production or on the finished products. Read more about animal welfare on page 35.

Update

We have started the process of meeting the new cosmetic legislation by requiring our suppliers to implement the GMP ISO standard. We aim to meet the legislative demands well before 2013.

CHEMICAL MANAGEMENT

It can take a lot of chemicals to make clothes. We are working hard to limit the amount of harmful chemicals used for our products. Fewer harmful chemicals means less risk to the environment, the workers in our supply chain and of course our customers.

APPROACH

Producing clothes can require intensive use of chemicals. We work to limit the use of harmful chemicals in all of our products for the sake of the environment and the safety of employees within our supply chain, our own employees and of course our customers.

Many chemicals are banned in our production processes and residues must not be present in finished garments. Others are allowed only below certain thresholds.

These thresholds and bans are set out in our Chemical Restrictions list, which all suppliers must commit to comply with. The list has been updated ten times since 1995, most recently in 2009.

QUALITY CONTROL OF SUBCONTRACTORS

The distances and locations of our Indian suppliers' suppliers and subcontractors, such as dye mills, often made it hard for our quality control team to assess them as frequently as we would like. To deal with this challenge we trained our main suppliers to audit and report on their suppliers and subcontractors.

The outcomes so far have been an increase in suppliers' awareness and better compliance with our Chemical Restrictions.

POLICY & LEGISLATION

H&M's strict Chemical Restrictions List and compliance with REACH legislation ensures that our products are safe and free from harmful chemicals. Some of our baby wear also bears the EU's Flower eco-label. The Flower certifies that harmful substances have been limited and water pollution reduced across the whole production chain, from the raw cotton to the final product.

CHEMICAL RESTRICTIONS

We restrict chemical substances that are environmentally hazardous or harmful to humans in all products through the H&M Chemical Restriction list. Our chemicals requirements are always based on the highest legal standard in any of our sales countries and often go further than the law demands. They are based on information from authorities, NGOs and scientific reports.

All suppliers must comply with our Chemical Restrictions List. We educate, support and audit our suppliers to help them meet its requirements.

Update

In 2009, we initiated a programme to phase out solvent-based adhesives, when technically possible, from the manufacturing process, replacing it either with less harmful solvents or with water-based adhesives.

The Chemicals Restriction list now contains around 270 restricted substances. In 2009, around 50,000 chemical tests were performed. We also fine-tuned our chemical test routine, which rewards suppliers for good chemical management. This led to better implementation rates.

Read our Chemical Restrictions list at www.hm.com.

REACH (REGISTRATION, EVALUATION, AUTHORISATION AND RESTRICTION OF CHEMICALS)

REACH is an important piece of legislation requiring that all chemical substances produced or imported in the EU are registered. We were an early supporter of the legislation, which came into force in 2007.

The Substance Information Exchange Forum (SIEF) is a European Commission platform set up to help potential registrants of the same substance exchange information. All pre-registrants are expected to join together and prepare information for the final registration of the substance. In 2009 we joined all relevant SIEF forums.

Under REACH, companies must notify the European Chemicals Agency when importing into the EU articles containing more than 0.1% of a Substance of Very High Concern (SVHC) and if the total amount of the SVHC imported exceeds one tonne per year.

We continuously monitor the development of the SVHC list. Our Chemical Restrictions list includes all SVHCs relevant for our product range, and consequently we do not import any products that require notification.

Update

As part of the REACH legislation, importers are required to respond within 45 days to a request from an EU customer to check if a product contains an SVHC above the 0.1% threshold. We have created guidelines and forms for all our European stores to help our colleagues handle these types of requests. During 2009, we responded to five customer requests.

FLOWER ECO-LABEL

We sell baby wear bearing the EU's Flower eco-label. The Flower certifies that harmful substances have been limited and water pollution reduced across the whole production chain, from the raw cotton to the final product. As with all other H&M garments, babywear bearing the Flower label also complies with H&M's own Chemical Restrictions.

Update

In 2009, we sold 1,875,000 Flower-labelled garments, which is 34% more than the year before and over our target.

We plan to continue with the use of the Flower eco-label. In 2010, we will begin using organic cotton in all of our Flower baby garments. Some of these garments will be made of 100% organic cotton and others will be made of an organic cotton blend. Read more about our use of raw materials on page 33 and about the Flower eco-label at www.eco-label.com.

WORKING WITH OTHERS

Working together with regulatory authorities and other brands is an important part of our efforts to contribute to good chemical management within the textile industry.

AFIRM COLLABORATION

H&M is a member of the steering committee of AFIRM, which is a multi-company forum that aims to advance the global management of restricted substances in the apparel and footwear supply chain.

During the year, the American Apparel and Footwear Association held two seminars about restricted chemicals, focusing on garments and footwear manufacturers in India. H&M presented at both seminars in Chennai and New Delhi.

Other AFIRM projects during 2009 dealt with test methods, development of new seminar material and audit protocols. Read more about our position on restricted chemicals on page 55.

Read more about AFIRM at www.afirm-group.com.

CHEMICAL LEGISLATION IN DEVELOPING COUNTRIES

During 2009, we contributed to a course to improve chemical legislation and enforcement policies in developing countries. The course was jointly organised by the Swedish Chemicals Agency and the Swedish International Development Cooperation Agency.

Participants worked at relevant authorities in their home countries and came to Sweden for a few weeks to study chemical legislation and management. The intention was that they return home with the knowledge to influence their own countries to enforce better practices, helping to raise chemical management to a safe and well-controlled level.

LEATHER WORKING GROUP

Leather products have a relatively high environmental impact, for instance due to the use of polluting chemicals in the tanning process. In 2009, we joined the Leather Working Group, which promotes sustainable and appropriate environmental business practices within the footwear leather industry. The group consists of suppliers, retailers, NGOs and other stakeholder organisations.

Read more about the Leather Working Group at www.blcleathertech.com/blc_Leather_Working_Group.aspx.

PHASING OUT SOLVENT-BASED ADHESIVES

Due to their inherent harmful properties, it is our aim to phase out the use of solvent-based adhesives in shoes and bags when technically possible.

This will significantly improve working conditions in factories and reduce the impact the production has on the environment.

Update

During 2009, we worked together with chemical manufacturers, producers of adhesives and accessory, bag and shoe suppliers to identify the possibilities to substitute solvent-based adhesives with a water-based alternative. Several tests and trials were made with satisfactory results. An example of a reduction of volatile organic compounds (VOC) in one of our shoe styles, is that converting to a water-based adhesive reduced the VOC content by 65%.

Starting 2010, more products made with water-based adhesives will be available in our stores.



EMPLOYEES



PEOPLE MAKE OUR BUSINESS. BEING A RESPONSIBLE COMPANY HELPS US ATTRACT AND RETAIN THE TALENT WE NEED TO FULFIL OUR BUSINESS GOALS. IN RETURN, WE OFFER A WORKPLACE WHERE OUR CO-WORKERS CAN BE THEMSELVES AND WHERE THEIR INITIATIVES COUNT.

APPROACH

We employ 76,000 people in 35 countries. But no matter where they are in the world, all our people should expect the same things: a culture of respect for the individual, and a safe and healthy working environment.

We are a value-driven company and we strive to apply this to everything we do. This includes our approach to our employees and can be a challenge as we operate in many countries with different cultures and values.

Our colleagues are a major factor in our success, profitability and growth. By 30 November 2009, we employed 75,613 people (53,476 full-time equivalent). To match our growth plans, our recruitment needs will continue to be sizeable in the years to come. In support of this, in 2009 we improved our recruitment page on the H&M website.

OUR VALUES

The H&M culture is based on a number of values that describe in simple terms how we strive to work.

We believe in people and their ability to act on their own initiative, who test the boundaries and have the courage to put forward their ideas. These are the very same values on which H&M was once founded. Being straightforward and showing team spirit is encouraged, as well as common sense and cost-consciousness – and not least, keeping it simple and avoiding unnecessary bureaucracy.

H&M believes that a value-driven business structure will allow us to grow while maintaining a lean organisation. Furthermore, we have a strong belief that our values attract and retain the right people and this contributes to our success.

We give our colleagues the opportunity to grow and develop within H&M, providing training wherever possible. We want our employees to feel that H&M is a place where their personality is valued and they can develop themselves.

One of our challenges is to maintain our culture whilst operating in many countries. At the same time, we believe that we can find people that are right for H&M anywhere it is a matter of finding the right individual and personality. We continue to focus on maintaining the H&M culture, for example by holding different workshops and training, but the most important thing is that everyone at H&M leads by example.

Update

In 2009 we implemented our global employee policies on discrimination and equality, and diversity – minimum standards that apply wherever we work. The aim of these policies is not to replace the local approach, but to provide a baseline standard for all of the countries we operate in. We also worked on a globally applicable grievance procedure for employees. Read the full policies on discrimination and equality, and diversity the Policies section.

GROWING TOGETHER

As a company that strives to be responsible and at the forefront of sustainability, this also helps us attract and retain motivated employees who can support the growth of H&M.

Our business target is to increase our number of stores by 10–15% per year with continued high profitability. To meet this goal, it is essential that we attract enough talent to support our growth.

In 2009, we improved our global job site on hm.com to provide information on our approach and opportunities. We do not have standardised career plans, but prefer to respond to individual needs and interests so that we are able to find a good fit between the individual and the position. Through our recruitment section we are able to provide an insight into what working at H&M is like.

At H&M, we often recruit internally, and store experience can offer our existing employees a way into the other business units of the company. When we do recruit from outside of H&M, it is common that employees receive in-store training. Our recruitment site helps to clarify expectations that prospective employees may have.

In 2010, we are looking to build on our recruitment process by looking for best practices in different H&M markets and to streamline our approach.

PERFORMANCE

Key statistics on our workforce are detailed below:

Full-time and part-time employees

Full-time employees: 45%

Part-time employees: 55%

Employment contract type

Permanent employment contract: 83%

Temporary employment contract: 17%

Ratio of salary between women and men

Store Managers: 0.92

Store Department Managers: 0.95

Visual Merchandisers: 0.94

Sales Advisors: 0.97

Warehouse employees: 0.95

TRAINING & DEVELOPMENT

Our employees are a major factor in our success. We provide them with the tools and training they need to develop and grow together with H&M.

Training and development continues throughout an H&M employee's career and is supported by an annual performance review that identifies possibilities for further progression and associated training and development needs. Managers in stores or other internal trainers carry out most of our training.

APPROACH

When our employees develop, H&M develops. Managers in stores or other internal trainers carry out most of our training. Yearly performance reviews for all employees are a common practice.

Update

The average number of training days per employee in our sales organisation in 2009 was approximately 10 days for new sales staff and 40-80 days for new management. These figures refer to both theoretical and practical training. The average number of training days for existing sales staff was 2.25 and 0.5 days for existing management positions.

Our training structure is based around mandatory and non-mandatory training that is relevant to all H&M operations globally. There are also several different national and local training courses that aim to meet employees' and country-specific needs.

In addition to the global induction training modules that every employee needs to complete, there are individual induction training modules for certain tasks tailored to the role, such as for store managers, floor managers and visual merchandisers.

These training modules cover knowledge such as: what it means to be good retailers; staff development; garment presentation; and controlling. Allied to these, there are a number of non-mandatory global training modules. H&M also offers training courses at national level that are

tailored to each country's specific needs. In total, our sales organisation works with 67 different training modules.

INDUCTION TRAINING

Our employee's training experience begins from the day they join us. H&M's mandatory induction training consists of different subjects, such as:

- an introduction to H&M
- garment handling and care
- security
- customer service
- textiles and
- sustainability.

H&M has identified three key methods of delivering training successfully which follow a set format: offsite in a classroom environment in new countries; in groups in-store; and individual in-store training.

During 2010 we will continue to focus on ensuring that every new employee receives our induction training. We strive to make relevant training tools more accessible for the right target groups and will focus on managers, including floor and store managers.

E-LEARNING

In 2008, H&M set up a pilot e-training initiative in Spain, Sweden and the UK. This continued in 2009 in these countries and also in Italy.

Comparing traditional training methods for new sales staff with the 4.5 hours' training provided in the form of the e-learning pilot has proved that e-learning is more favourable.

Our 2009 tests have shown that e-learning is a useful tool if tailored and used in the correct way. They also showed that mentors are needed to follow up on training with staff to discuss how to apply the knowledge gained and to understand our values in day-to-day work.

To date, more than 2,000 people have completed the training. The e-learning pilot will continue in 2010 to help us assess whether we can implement this type of training in other countries.

CUSTOMER SERVICE TRAINING

In 2009 H&M rolled out a global training initiative on customer service for all sales employees in stores. The purpose of this training was to improve their customer service skills and build on their knowledge of campaign products.

The training consists of two parts and is integrated into daily morning meetings in store. These are: customer service-focused training; and pre-campaign training.

The customer service-focused training is provided during the 15-minute morning meeting for all employees in every store, six days a week throughout the year. Every other week the morning meetings also cover pre-campaign product information.

In some stores we have already seen positive results. In 2010 this initiative will continue and will also cover challenging customer situations.

JOB ROTATION

H&M encourages on-the-job learning. Trying different tasks and roles also presents a good opportunity for our colleagues to develop.

Stores and warehouses

In-store job rotation may mean that a person's duties vary from customer service, the cash desk and fitting rooms through to visual display and the follow-up of advertising and campaigns.

Warehouse employees also alternate between different tasks, for instance unloading, counting, labelling and loading garments.

Cross store

When new stores are opened either in existing sales countries or in new markets, the new employees are supported by more experienced co-workers. This can take the form of colleagues from established H&M countries supporting a new store for a period before, during and after opening. Alternatively, individuals or groups of colleagues from new countries or stores may receive training in an existing established market.

TRAINING ON SUSTAINABILITY

As part of our shared responsibility strategy, it is important that everyone at H&M understands how we want to do business and how we integrate social and environmental concerns into our decision-making. We offer basic training on sustainability as part of our training at H&M.

Update

We regularly use employee engagement channels, such as the H&M intranet and our employee magazine, Wallpaper, to provide information to our people on our approach to sustainability issues. In 2009, we published the second sustainability issue of Wallpaper.

Sustainability is part of our employees' induction training, including store staff. We also provide information on current topics to our staff so that they are up to date and able to respond to customer enquiries. Many of our sales countries also use our CSR film, which was introduced in 2008 for this training.

EQUALITY & DIVERSITY

We are a global company, as are our policies and values. We are committed to providing equal opportunities to all our employees and potential employees, wherever we operate in the world.

COMMITMENT

Our priority is to seek highly motivated and outgoing team players who look for personal growth and possess an entrepreneurial spirit. We feel that a diverse team of employees who have these attributes is essential to our success.

We aim to make working at H&M equally accessible and have policies in place to guide this approach.

POLICIES

H&M's discrimination and equality policy is based on the ILO convention (C111 Discrimination). In addition to this, we also have a global diversity policy. Our policies are communicated to all employees through channels such as staff handbooks and Welcome to H&M folders.

Read more about discrimination and equality, and diversity in the Policy section.

PERFORMANCE

At H&M the majority of our colleagues are women and they are well represented in management positions. The share of women holding positions of responsibility is as follows:

Board of Directors (including two employee representatives, excluding two deputy employee representatives): 56% female, 44% male

Group Level Management (including CEO): 38% female, 62% male

Sales Country Managers: 48% female, 52% male

Production Office Managers: 46% female, 54% male

Buying Office Division Heads: 57% female, 43% male

Buying Office Section Heads: 83% female, 17% male

Sales Area Managers: 66% female, 34% male

Store Managers: 78% female, 22% male

Total management positions: 77% female, 23% male

Total workforce: 81% female, 19% male.

DIALOGUE & EMPLOYEE RELATIONS

At H&M, we believe in being straightforward and apply the open door principle, which gives every employee the right and opportunity to discuss work-related issues directly with management. All of our employees also have the right to freedom of association and collective bargaining.

APPROACH

Across all of our operations, around 67% of H&M employees are covered by collective bargaining agreements. We strive for good relations with all our employees and the employee associations and trade unions that represent them. As of 2009, our Employee Relations department is part of our Human Resources department. Employees are represented at Board level, with two of the nine Board members being employee representatives.

EUROPEAN WORKS COUNCIL (EWC)

H&M first signed an agreement with the EWC in 1997 and this was amended in 2007. H&M and UNI-Europa are signing parties to the agreement.

Update

In 2009 there were 11 employee representatives from Austria, Belgium, Germany, Netherlands, Norway, Sweden and Finland.

Meetings between management and all representatives are held on an annual basis and with EWC's select committee twice a year. Topics discussed in 2009, focused on: health & safety, paying particular attention to distribution centres; measures to support aging employees within the workforce; and a good balance between part-time and full-time employees.

UNION NETWORK INTERNATIONAL (UNI)

Our Global Framework Agreement with UNI declares that both parties regard the International Labour Organization's Declaration on Fundamental Principles and Rights at Work to be the cornerstone for our cooperation. Our main contact point for this agreement is the Swedish Commercial Workers union, Handels, which is a member of UNI.



COMMUNITIES

OUR OPERATIONS TOUCH COMMUNITIES IN MANY DIFFERENT COUNTRIES. SUPPORTING THESE COMMUNITIES IS THEREFORE AN IMPORTANT PART OF OUR RESPONSIBILITY. IN THE LONG TERM, INVESTING IN THE COMMUNITIES WHERE WE WORK CAN ALSO HELP OUR OPERATIONS BECOME MORE SUSTAINABLE.

In 2009, our community investments amounted to more than SEK 34.1 m (USD 4.7 m).

APPROACH

It is important that we contribute to positive and sustainable change in the communities around us. Our efforts should be focused, efficient and sustainable and have a clear connection to our business, and to our stakeholders' and society's needs.

FOCUS AREAS

We focus our efforts on three areas; education and employment of women and youth, water and innovation of sustainable textile materials. This way, we can work with issues where we genuinely have an opportunity to make a difference.

Our community investment work builds on three complementary pillars; community partners, community projects and community support. Through those pillars, we can work holistically and meet the diverse needs of the communities where we operate.

The types of activities we carry out include community projects, cause-related marketing campaigns and donations of money and clothes to selected charity organisations. We also support communities by providing emergency relief in case of major catastrophes.

POLICY

Community investments refer to all activities that we carry out from a philanthropic perspective such as community projects, cause-related marketing campaigns and donations of money and clothes to charity organisations. We have a policy that guides the investments we make. Read our Community Investment Policy in the Policies section.

PROJECTS

Supporting projects in the communities where H&M works is a cornerstone of our community investments. It is through our projects that we can work practically to address crucial issues and contribute to positive and sustainable change. Here you can read about our new projects, and the projects we have continued to work on.

ALL FOR CHILDREN

We take a clear stand against all use of child labour and are working closely with UNICEF to address this issue. For some time, our cooperation with UNICEF has focused on children in cotton-producing areas in India.

H&M does not purchase cotton directly and therefore we are not able to impose demands on cotton and cottonseed producers. However, by cooperating with UNICEF we can help address the causes of child labour and improve conditions.

In 2007 and 2008, UNICEF conducted a study commissioned by H&M to research the social conditions of children in two cotton-producing areas in the state of Tamil Nadu in India. Around 1.2 million children live in these areas and there is a history of child labour due to a variety of factors such as poverty, lack of education and low awareness of children's rights.

Update

Following the study in June 2009, we launched the All for Children project together with UNICEF. This is our most ambitious community initiative to date. We aim to combat the root causes of child labour in cotton cultivation and improve the situation of children in two districts in Tamil Nadu. The five-year project is supported with a SEK 40 m (USD 4.5 m) donation from H&M and run by UNICEF. It is focused on five specific areas:

- addressing child protection policies and structures
- education
- community mobilisation
- social protection
- health and nutrition services.

Throughout the five-year period H&M will launch various products in support of All for Children. Of the sales generated, we will contribute 30% to this project. Customers and other stakeholders can find regular updates and background information to the initiative through a dedicated website (www.hm.com/allforchildren).

HIV/AIDS PREVENTION IN CAMBODIA

Although HIV prevalence in Cambodia is declining, it is still high in urban areas and the epidemic is increasingly affecting women. H&M has been supporting UNICEF's HIV/AIDS Prevention and Care programme in Cambodia, which aims to reduce the transmission of HIV among young people and high-risk groups. The project includes activities such as health promotion sessions, a national HIV hotline and HIV testing services.

Some of the project activities are especially targeted at young women in the garment industry, which is one of the high-risk groups identified in the programme. H&M has used its access to the factories to help UNICEF reach young female garment workers.

Update

During the year, almost 50,000 young students benefited from HIV-related life skills education. Also, more than 37,000 people including women and children were tested for HIV.

Within the frame of the factory programme, more than 530 peer educators were trained in the 12 factories in the programme. 4,620 female factory employees received HIV and life skills education through peer educators, and around 82,000 workers were reached through health promotion sessions conducted in the factories. Six of the factories established HIV workplace committees to ensure the sustainability of this initiative.

FASHION AGAINST AIDS

In 2008, H&M and Designers Against AIDS (DAA), along with well-known designers, musicians and artists, joined forces to launch a fashion collection called Fashion Against Aids (FAA). The aim was to increase awareness about HIV/AIDS among youth and 25% of sales were donated towards HIV/AIDS prevention projects.

So far, the FAA initiative has raised a total of SEK 31.4 m (USD 4.3 m). In 2008, we donated SEK 15 m (USD 2 m) from sales to DAA and YouthAIDS in support of their HIV/AIDS prevention projects. DAA has primarily invested the money in their International HIV/AIDS Awareness Education Centre (IHAEC) in Antwerp, Belgium. The centre will train students in running HIV/AIDS awareness projects by using pop culture and media elements. YouthAids has used the funds in an urban youth centre in Port-au-Prince, Haiti and an HIV/AIDS and drug prevention programme for high-risk youth in Yekaterinburg, Russia.

Update

In 2009, we followed up on the success of the first FAA campaign with another collection. Sold in all of our markets (except the Middle East), the collection generated a total of SEK 16.4 m (USD 2.2 m).

In order to expand the reach of the donation, we added two more organisations to the beneficiaries list – MTV's Staying Alive Foundation and UNFPA. The donation to MTV's Staying Alive Foundation will support 20 grants awarded to young people involved in HIV/AIDS awareness, education and prevention campaigns. UNFPA will direct the donation to its Y-Peer programs in Turkey, Egypt, Bahrain and Oman with the aim to educate young people in the areas of sexual reproductive health and HIV/AIDS.

WATERAID

WaterAid is an international NGO that works to improve access to safe water, hygiene and sanitation in the world's poorest communities. We have supported WaterAid since 2002 by selling a specially designed bikini. Of the sales generated, 10% have been donated to WaterAid's water and sanitation projects.

Update

In 2009 we expanded our WaterAid swimwear collection to include swimwear for children and men, as well as women, and were able to raise more than SEK 4.6 m (USD 640,000) for WaterAid.

We decided that this year's donation should support WaterAid's projects in three countries where our products are made: Bangladesh, India and Pakistan. The donations to India and Bangladesh will support specific programmes. We have not taken this approach in Pakistan as WaterAid is not yet well established there.

Bangladesh

In Bangladesh, our donation (SEK 2.2 m, USD 310,000) will support WaterAid's three-year Advancing Sustainable Environmental Health project. The project focuses on the slums of Dhaka, Bangladesh's capital city: to help communities manage water supplies, promote hygiene education, raise awareness and to campaign for community rights to access to sanitation and safe water. Targets include helping over 4,500 people gain access to safe water and sanitation and aiding 2,000 households to better manage solid waste.

India

The donation to India (SEK 1.8 m, USD 250,000) will support WaterAid's Country Programme and two water and sanitation projects in the Nalanda and Saharsa districts in the state of Bihar. In these districts WaterAid will help the local community plan and manage safe water and sanitation services and make them better prepared for floods and their potential effects on water, sanitation and health services.

Pakistan

In Pakistan, our donation (SEK 580,000; USD 80,000) will support WaterAid's Country Programme which aims to develop the skills of local organisations and communities to plan and manage projects independently.

H&M TRAINING CENTRE, DHAKA

In 2009, our Training Centre in Dhaka, Bangladesh, celebrated its tenth anniversary of training young people to become sewing and knitting machine operators.

Each year the centre admits 100 students. Training lasts four months and is conducted by experienced instructors. As well as technical skills, the students are also taught life skills and about workers' rights through role-playing and lectures. At the end of the training, students are guaranteed a job at selected H&M suppliers.

Update

Since the Training Centre was founded, 23 training courses have been run in Dhaka, with a total of 1,042 graduates.

We aim to encourage similar initiatives by openly sharing the concept and our experiences with NGOs, other organisations and of course our suppliers.

WOMEN IN RETAIL PROGRAMME, SAUDI ARABIA

Following the opening of our first store in Saudi Arabia in 2008, we collaborated with our franchise partner Alshaya, which runs all H&M stores in the country, to set up a retail training programme for women in the city of Jeddah.

The programme aims to promote female employment in Saudi Arabia and increase the opportunities for women to work in the Saudi retail sector. It will provide women with the necessary knowledge and experience to work in a retail store. Students who successfully complete the college-based 12-week course will be offered a job, either at H&M or at other Alshaya retail outlets in Saudi Arabia.

The Women in Retail programme has been delayed in 2009. We aim to start the programme in 2010.

CANCER AWARENESS CAMPAIGNS

Cancer is a major concern in many of the countries where we operate. As many of our customers and employees are women, breast cancer is one of H&M's particular concerns.

In collaboration with national organisations, we have carried out activities in several of our sales countries to raise cancer awareness among H&M staff and customers.

Denmark

During Breast Cancer Awareness Month in October 2009, our Danish stores sold special breast cancer awareness bracelets to raise money and awareness. The entire sales of the bracelets were donated and generated a total of SEK 440,000 (USD 63,000) which was donated to Kræftens Bekæmpelse to support breast cancer research.

Spain and Portugal

To support the fight against breast cancer we sold a specially designed ladies bag in March 2009. The bag cost EUR 9.90 and was sold in all our stores in Spain and Portugal. We donated the entire profit of SEK 100,000 (USD 12,000) to the Spanish Association Against Cancer and SEK 19,000 (USD 2,300) to the Volunteer Association for Breast Cancer (Laço) in Portugal.

US

In July 2009 we conducted a customer donation initiative that generated about SEK 670,000 (USD 93,000) for the American Cancer Society in support of Hope Lodges. The 28 Hope Lodges offer cancer patients and their families a free, temporary place to stay when available treatment is distant from their homes. Customers contributed to the campaign by making voluntary donations at the cash registers.

In October 2009, 622 of our US staff joined customers for 51 Making Strides Against Breast Cancer walks throughout the US. Making Strides events are community-based breast cancer fundraising and awareness walks. Teams of walkers come from thousands of corporations, hospitals, schools and community organisations throughout the US. Our customers, staff, their friends and family raised more than SEK 1.1 m (USD 154,000) for the American Cancer Society, including SEK 210,000 (USD 30,000) directly from H&M.

H&M'S ANNIVERSARY FOUNDATION

Jubileumsstiftelsen (H&M's Anniversary Foundation), set up in connection with our 60th anniversary in 2007, supports projects aimed at improving the quality of life for people in the countries H&M operates in.

Hand in Hand

In 2009 the foundation continued to support Hand in Hand, a charitable trust active in Tamil Nadu, India. Hand in Hand's objective is to eradicate extreme poverty with a focus on education, employment, income generation and

empowerment. To achieve this, the trust is implementing an integrated community development programme, which includes activities such as establishment of citizen centres, self-help groups, medical camps and facilitating access to credit.

Update

The Anniversary Foundation's donation of SEK 1.8 m (USD 250,000) in 2009 went towards the Integrated Community Development Programme in ten villages in Tamil Nadu.

Among the many successes from last year was the establishment of 11 evening class centres to help children complete their education. A total of 317 women were taught to read and 22 free medical camps were held.

Read more about Hand in Hand at www.handinhand.nu.

Save the Children Sweden

In 2009 the Anniversary Foundation began a three-year commitment, with a contribution of SEK 2.195 m (USD 310,000), to support a new Centre for Child Rights and Corporate Social Responsibility (CCR CSR) in China, set up by Save the Children Sweden.

The centre helps Chinese and foreign businesses in and around China implement an approach to children's rights. Activities at the centre cover research and analysis, capacity building, training and workshops, and consultancy.

Our support will help with the development and running of the centre's English and Chinese website and hotline. The hotline will provide the best portal for information on business and children's rights in China.

FURTHER SUPPORT FOR UNICEF

H&M collaborates with UNICEF Canada

In autumn 2009, H&M Canada partnered with UNICEF Canada to raise funds and awareness for the Kenya Girls Scholarship Programme. This programme aims to help girls from rural and nomadic communities in northeastern Kenya complete their high school education and go to university.

The focus of the campaign was an organic cotton bag sold in selected stores across Canada for CAD 12.95. An internal

competition to design the bag's artwork was won by Steven Pham, a sales advisor from our Pacific Centre location. From each bag sold, 25% of sales went towards the programme.

In 2009 we sold 2,099 bags through our retail stores, and doubled this amount by holding local sample sales. In total, more than SEK 164,000 (USD 23,000) was raised.

H&M collaborates with UNICEF Finland

Around Christmas 2009 our 38 Finnish stores and UNICEF arranged the 'A euro for UNICEF' campaign to raise funds for UNICEF's global work to protect the rights of children. Participating customers donated a euro or more at the cash registers points when paying for their purchases. The campaign was well received by customers, raising more than SEK 1 m (USD 140,000).

H&M collaborates with UNICEF Sweden

H&M Sweden has worked with UNICEF since 2004. In 2009 our Swedish stores collaborated on a spring and Christmas campaign. In addition to this we also run a continuous 'Round Up' campaign that enables customers to make a direct donation to UNICEF at the cash registers when shopping in store.

Spring campaign 'Buy the UNICEF pin'

The UNICEF spring campaign started 1 April and ended on 1 May with the UNICEF Comedy Gala broadcast on TV. The purpose of the campaign was to raise money for UNICEF by selling a UNICEF pin badge in H&M stores for SEK 20.

Christmas 'Buy the perfect Christmas gift polio vaccine'

The UNICEF Christmas campaign in Swedish stores focused on selling the perfect Christmas gift – 48 doses of polio vaccine for children around the world who need it the most, for SEK 49.50. Customers were able to buy this in the form of a gift card to give to friends or family, and UNICEF ensured the polio vaccine was given to children in need.

This year, the Spring and Christmas campaigns, combined with the year-long 'Round Up' campaign generated a total of SEK 2.34 m (USD 330,000), a record for H&M Sweden.

PARTNERS

Some of the challenges we face in the communities where we work are complex and not always something we can manage on our own. This is why we have chosen to partner with selected organisations that can help us to address these issues and achieve results that we alone cannot.

UNICEF

H&M entered into a partnership with UNICEF in 2004. UNICEF works with families, communities and governments worldwide to protect and promote the rights of all children.

Since the beginning of its partnership with UNICEF, H&M has made annual donations to the organisation. Amongst other issues, we have contributed to girls' education, HIV/AIDS prevention in Cambodia and children's rights in Uzbekistan. H&M has also supported UNICEF's disaster relief work on several occasions.

Update

Together with UNICEF, we set up the All for Children project, a new five-year partnership to improve the conditions for children in cotton-producing areas in southern India.

In 2009, UNICEF received a total of around SEK 7.6 m (USD 1.1 m) from H&M for all projects.

Read more about UNICEF at www.unicef.org and about All for Children at www.hm.com/allforchildren.

WATERAID

WaterAid is an international NGO that works to give the world's poorest people access to safe water, sanitation and hygiene education.

Our support of WaterAid dates back to 2002. Every year, we design an exclusive bikini range with a 10% contribution to WaterAid per item sold.

Since the start of the partnership, H&M has raised more than SEK 14.4 m (USD 2 m) for WaterAid's water and sanitation projects, primarily in Bangladesh, where some of H&M's clothing is produced. This enables H&M to both support and have a direct impact on improving the lives of many people in the local community.

Read more about WaterAid at www.wateraid.org.

SUPPORT

An important part of our community investment work is to provide support in times of crisis. In cases of major catastrophes, H&M makes direct contributions to emergency relief efforts and humanitarian aid. In addition to this, H&M regularly donates clothes to victims of war and natural disasters, and to other people in need.

DISASTER RELIEF

In April 2009, an earthquake occurred in L'Aquila in central Italy, leaving more than 200 people dead and 1,500 people injured. Following the catastrophe, H&M Italy donated SEK 100,000 (USD 13,000) to UNICEF's relief and recovery efforts.

DONATIONS OF GARMENTS

Each year H&M donates large quantities of clothes to aid organisations in countries we operate in. This includes samples and clothes that do not comply with H&M's quality requirements. We do not, however, give away clothes that do not meet our safety requirements and chemical restrictions.

Update

In 2009, H&M donated around 500,000 garments to local aid organisations like Helping Hands, the Red Cross and Caritas.

During the year, we also began reviewing our routines for handling clothes donations to ensure that as many items as possible reach those who need them.

SWEDEN – HELPING HANDS

H&M has an agreement with Helping Hands, an independent voluntary aid organisation. Helping Hands collects returned garments from some of our Swedish stores and distribution centre, and leftover samples from our Head Office, and sends them to people in need in other countries.

Around 72,000 garments were donated during 2009.

Q & A

Q & As

Q & A WITH INGRID SCHULLSTRÖM, CSR MANAGER, ON WAGES AT OUR SUPPLIERS

DON'T YOU THINK WORKERS IN GARMENT FACTORIES SHOULD EARN ENOUGH TO LIVE ON?

We absolutely agree that every worker in a garment factory should earn enough to live on.

As a single company we can demand all our suppliers to pay their employees the wages and compensations they are entitled to. And we do so, very clearly through our Code of Conduct. We check if these requirements are truly followed during each factory audit.

WHY DON'T YOU IN YOUR CODE OF CONDUCT REQUIRE YOUR SUPPLIERS TO PAY A LIVING WAGE INSTEAD OF JUST THE MINIMUM WAGE?

So far, minimum wages as defined by relevant laws, or in some cases collective bargaining agreements, are the only existing standards we can refer to. However, we think that the minimum wage in some countries, such as Bangladesh, is too low. We would immediately welcome a raise in the minimum wage here as well as a yearly revision. It is also important to remember that the vast majority of all garment workers earn substantially more than the minimum wage, thanks to skills and performance-based wage structures.

IF YOU THINK THAT WAGES ARE TOO LOW IN A COUNTRY LIKE BANGLADESH – WHY DON'T YOU JUST TAKE THE INITIATIVE TO IMPLEMENT A LIVING WAGE IN THOSE FACTORIES SUPPLYING TO H&M?

Like most garment retailers, H&M does not own any factories. Therefore we do not set or pay the wages ourselves. Also, H&M is rarely the only buyer at a suppliers' factory. If we would individually demand a supplier to pay a certain H&M-defined wage, that would mean that different workers in the same factory could earn different wages, depending on which customer they are currently producing for. We have in fact offered to pay higher prices to cover up for additional costs if suppliers in Bangladesh raise the wages. But they refuse for competitive reasons as their cost level would rise and they may lose business from other buyers.

IS THERE NOTHING YOU CAN DO THEN TO INCREASE THE WAGES IN BANGLADESH?

We have tried! In the autumn of 2009 we took the initiative of writing a letter, signed by a number of large retailers, to the Bangladeshi government to request them to increase the minimum wage immediately and for them to review it regularly. The letter was sent early 2010. The Bangladeshi government has recently asked the Minimum Wage Board to review the minimum wages of garment workers.

HOW THEN DO YOU THINK A LIVING WAGE CAN BE IMPLEMENTED?

The wage level in a country is defined by the general level of development of the country. Improved education, strengthening of trade unions, responsible governments and foreign trade are some factors needed to increase wage levels. A so-called living wage cannot be imposed from the outside, it has to be established inside the country. Ideally for us, the legal minimum wages should be equal to a *minimum living wage*.

Q & A WITH TOBIAS FISCHER AND ERIK CARLBORG, REGIONAL CSR MANAGERS IN CHINA, ON SUPPLIER TRANSPARENCY

WHAT DO YOUR ROLES ENTAIL?

We work as regional CSR managers in Hong Kong and Shanghai, which means that we are responsible for the implementation of H&M's sustainability strategy in the Far East region.

WHAT HAS BEEN YOUR MOST DIFFICULT CHALLENGE WHEN IT COMES TO STRENGTHENING WORKERS' RIGHTS AND IMPROVING WORKING CONDITIONS IN SUPPLIER FACTORIES?

To start with, to be able to accomplish anything at all we need a clear picture of what the situation is like in factories producing for us. Unfortunately, in China it is common for factories to keep actual salary and working time records from auditors. This lack of transparency has been very challenging and hard to break through. Our auditors and factory compliance staff ended up in a cat and mouse game, where auditors chased true documents and factory staff kept finding more sophisticated ways of hiding those records. We have not been able to rely on the documents provided to us during audits, and factory staff has found it hard to trust that showing correct documents will not lead to loss of business.

WHAT HAVE YOU DONE TO OVERCOME THIS CHALLENGE?

We have worked very hard to convince our suppliers that the only way forward is to work together in an open way. We did this by guaranteeing that, to begin with, showing us actual working hours and salaries would not lead to less business with H&M. Also, aligning our Code of Conduct efforts and our business practices has played a major part in this process. Our Code of Conduct and production teams have spoken with one voice and suppliers that have kept showing us fake records have gradually been phased out.

We noticed that suppliers became more interested in actually improving their practices rather than just putting energy into faking documents, which has been very encouraging. We believe that this is a huge breakthrough, because without trust and transparency we would not be able to achieve anything except what can be verified with the eye – basically

the physical working environment and safety issues. Going forward, we need to maintain transparency, keep supporting factories in achieving real progress and rewarding them for doing so.

WHAT CAN H&M DO FURTHER TO IMPROVE WORKERS' SITUATION AT WORK IN SUPPLIER FACTORIES?

Our suppliers' employees need to know both their rights and their obligations to be able to claim their rights in a constructive manner. Therefore, we need to facilitate education of factory employees so that they can voice their own concerns. We will continue to stress the importance of setting up proper communication and grievance channels, and support our suppliers' improvement efforts by facilitating workshops and seminars and introducing them to service providers that can help improve labour practices. For instance, we will run a project with the Fair Labor Association in 2010 with the aim to improve dialogue between factory employees and managers. If it is successful, we hope to replicate it in more factories. And like we said, we need to keep focusing on maintaining an open and constructive cooperation with our suppliers – show them why and how they could become more responsible and productive employers and businesses, and reward their progress.

Erik Carlborg 1978–2010

Erik Carlborg, Regional CSR Manager in Shanghai, passed away on 26 January 2010 following sudden illness.

Erik joined H&M in 2006, and began working as an auditor. He was passionate, energetic and determined, and he did not avoid the difficult and sometimes inconvenient discussions and actions that his role entailed. This made him great at what he did, and we are grateful for his contribution to furthering H&M's sustainability work in our supply chain.

Erik was always an inspiration, and now, he reminds us of how precious and fragile life is, and that we have to make the most of the time we get.

We miss our colleague, we miss our friend.

Q & A WITH MARITHA LORENTZON, GLOBAL CODE OF CONDUCT COORDINATOR, ON FREEDOM OF ASSOCIATION AT OUR SUPPLIERS

WORKERS IN SEVERAL COUNTRIES WHERE H&M'S PRODUCTS ARE MANUFACTURED FIND IT HARD TO ORGANISE FREELY – AT THE SAME TIME H&M'S AUDITS DO NOT UNCOVER MANY VIOLATIONS OF FREEDOM OF ASSOCIATION, HOW IS THIS THE CASE?

The FLA refers to some areas covered in corporate codes and addressed in audits, as 'the silent benchmarks', for instance freedom of association and forced labour – and we agree. We can act when there is an obvious violation, for example workers being dismissed for trying to organise, but it is very difficult to determine if there is any invisible threat to workers in a factory. In that sense, auditing alone does not deliver the appropriate tool to address freedom of association in a more systematic way, which would also be visible in the non-compliance findings.

HOW DOES H&M BECOME AWARE OF VIOLATIONS OF WORKERS' RIGHT TO ORGANISE AND HOW DO YOU REACT?

The most common way for us to get this information is directly from workers or from trade unions. In such cases, we act directly by initiating an investigation about the allegations made. If found to be correct, H&M would immediately request the violating company to take action, otherwise we would terminate our business. In many cases H&M is not the only buyer, which is why it is important to join action with other brands to achieve progress. If there is a trade union involved we prefer direct negotiations between them and the concerned supplier.

WHAT DOES H&M DO TO PROMOTE THE WORKERS' RIGHT TO ORGANISE AND BARGAIN COLLECTIVELY?

Many factory employees do not have knowledge about their basic rights, for example freedom of association. It is therefore one of our focus areas to educate suppliers' workers in their rights including making them aware of their legal right to organise. We also support workers' committees to be active in factories, and in this way promote the understanding of the democratic process of choosing representation in dialogue with the management.

Obviously, this challenge is even greater in countries where freedom of association is not permitted by law. We are planning to participate in a FLA project called PREPARE, to address this issue in China. The aim is to set up some kind of workers' committees, to promote the dialogue between workers and management. The challenge here is that, in many countries, there is basically no experience of electing representatives freely.

Q & A WITH HALIDE ALAGOZ, PRODUCTION OFFICE MANAGER IN SHANGHAI, ON SUPPLIER RELATIONS AND RESPONSIBLE PURCHASING

WHAT DOES YOUR ROLE AT H&M ENTAIL?

I am working as the Production Office Manager in Shanghai and our office coordinates our business in China, Cambodia, Vietnam and Indonesia for knit and woven products for all our brands. I am in charge of creating short and long-term strategies within our region to reach our company goals and enable the region to be prepared for future needs and challenges.

I also have a second role at the moment: Global Knitwear Product Manager, where I am accountable for setting and communicating global strategies for the knitwear product category that will generate a sustainable global capacity.

HOW DO YOU CONTRIBUTE TO THE SUSTAINABILITY OF H&M'S BUSINESS?

A very important part of my role is about ensuring that the supply chain in this region is willing and able to be our close business partners to achieve our goals and future challenges and share the same values. So, sustainability is at the top of our agenda both because it is the right thing to do and also by focusing on win-win solutions it generates great business opportunities and supports our values.

We do not only demand our suppliers to meet our requirements and ensure the alignment through strict controls, but we are working on building a full transparent relationship where all problems are openly discussed and common ground is identified to reach solutions.

My Production Office Manager role gives me an opportunity to be close to the challenges and be a part of solutions, whereas my Global Production Manager role gives me the opportunity to have a perspective and a full picture of the global situation.

HOW DO YOU BALANCE H&M'S COMMERCIAL REQUIREMENTS AND SOCIAL AND ENVIRONMENTAL PERFORMANCE AT SUPPLIER FACTORIES?

As a company with a strong commitment to long-term solutions rather than quick fixes, it is not enough to give importance to commercial criteria alone such as price, quality and delivering on time. We want to make sure that the

products we buy are produced in a responsible manner. Our Code of Conduct and Code of Ethics are non-negotiable for a supplier to be able to start and continue working with H&M.

We are monitoring the performance of our suppliers, both in terms of these commercial KPIs and the way they take care of social and environmental compliance in their factories.

Before each season, we go through an extensive supplier evaluation process. Every team in our organisation evaluates their performance and action plans. It is not only results and what we can measure in each field that defines our decision on the level of partnership we want to build with a supplier, but even more importantly, it is about their mentality and approach towards further improvements and system implementation.

The suppliers with a better awareness and compliance status as well as commercial results are privileged with increased and stable long-term business with H&M, compared with those with better commercial results but poor understanding of our Code of Conduct. Even if this creates challenges for our production organisation to secure short-term results, it generates stronger capacity and better results in the long term.

Through building strategic partnerships with our suppliers, we managed to create real-life examples to show how it pays off to have the right understanding. A supplier can reach high compliance standards and also secure good prices, quality and quick deliveries through capacity-building activities, increased efficiencies and reduced worker turnover rates.

We are aware of the difficulties they are facing to meet the challenges and we are encouraging them to share their problems with us in a transparent manner so that we can find solutions together, based on our business values.

HOW CAN H&M AS A BUYER CONTRIBUTE TO BETTER WORKING CONDITIONS AT SUPPLIER FACTORIES?

H&M has a change-agent role in terms of compliance and improving conditions in this industry. Years ago our initial efforts started with requesting, instructing and controlling when the supply base was a stranger to such issues and now with the increased awareness and willingness we are creating

a more participative and collaborative approach towards problems. Through stakeholder dialogue, training and projects, we are initiating capacity building programmes for our suppliers, creating mutually agreed ambition levels and methods for different issues.

We have participated in different projects, from improving efficiency and cost reduction to healthcare systems to supervisor training. Securing right systems and increasing worker awareness play a key role in these efforts.

WHAT CHALLENGES DOES RESPONSIBLE PURCHASING ENTAIL?

The biggest challenge, I believe, is to undertake short-term challenges while securing long-term ones. It is very challenging to provide customers from all around the world with the right goods with the right quality and the price when they want it. You need to act quickly and it may be tempting to take an action that will be a solution for the short term. However, we are working on keeping the right balance of these decisions versus the long-term capacity building strategies and commitments we have with our business partners.

Our aim is to be able to offer our customer the best deal in our stores but also ensure them that our goods are produced in a responsible manner. The opportunities we provide them with in our stores have been generated in a way that contributes to the economical, social or environmental welfare of the countries where we operate.

This is our responsibility towards our customers, our business partners, people who manufacture our products and communities where we operate.

WHAT CAN H&M DO TO BECOME A MORE RESPONSIBLE BUSINESS PARTNER?

We have to keep on building good, long-term, stable relations with our strategic business partners and build a transparent and clear communication. This way we can understand them better and ensure their understanding for future challenges to achieve good short and long-term results. It is very important to build a relationship based on trust and shared business values. We have to find the right way to keep our promises versus being flexible to adapt to changing conditions and customer demands. Through our partnerships with suppliers, we are improving in understanding the effects of our decisions and taking necessary action. We are also communicating the reasons behind our decisions in a clear way to our suppliers.

We meet a lot of challenges but we consider every challenge as an opportunity to turn it to an advantage.

Q & A WITH CHI YAN CHAN, OWNER OF GARMENT MANUFACTURER TAK SUN, CHINA

WHAT DID YOU EXPECT FROM THE SUPPLIER DEVELOPMENT PROGRAMME?

I expected consulting, but the programme turned out to be more like a coaching exercise that requires my management team to deeply reflect on our management philosophy.

WHAT WERE THE BENEFITS AND CHALLENGES OF THE PROGRAMME?

The greatest challenge is the change imposed upon our management philosophy. The constant growth in the past years has exceeded my personal capacity. The programme's key performance indicators have shown our shortcomings in management style.

My family has always been very hands-on in the management of the factory. Our belief in personal and deep involvement allows us to perform consistently. However, in the past year we have felt the need and tried to include others other than family members in the management team, but they clearly do not have the same commitment. But each KPI meeting has reinforced the urgency to include more talent in the management team.

Another major challenge has been to keep the overtime work below 60 hours per worker and month. The key problem is seasonal order placement. We have tried to reduce overtime work during non-peak season, but once peak kicks in, overtime increases drastically. We have tried to make progress within CSR by focusing on wages rather than overtime.

I guess the greatest benefit of the supplier development programme is that it provided a scoreboard to review our progress; and I am challenged to review the promises I have made and face my shortcomings in delivering on those promises.

WHAT ELSE HAVE YOU LEARNED FROM THE PROGRAMME?

When it comes to prices, delivery and sample quality and speed, we have achieved ground-breaking progress as this has always been top of my agenda. Although we have made an effort in the field of CSR, this area has at times been set aside as I am fighting to get business in this tough economic

climate. But using the KPIs forces me to focus on other areas than just financial performance. The KPIs also help me see the bigger picture, and the facts and numbers provide tangible guidelines that are more trustworthy than just my gut feeling. I still believe that this business requires the passion and commitment that we as owners have, but the project has shown the benefit and rationality of taking a back row seat to see the bigger picture.

HAVE YOU SEEN ANY CONNECTION BETWEEN FINANCIAL AND CSR-RELATED KPIS?

Yes and no. It is quite simple – with more orders, workers are able to earn more. We have a piece rate system, so I focus most of my efforts on increasing the workload to combat CSR problems. A stable financial performance and stable orders are fundamental to solving CSR problems.

Throughout this year, I have had many thoughtful discussions with Erik [Erik Carlborg, Regional CSR Manager at H&M in Shanghai]. We have analysed why certain workers are able to earn higher wages, and others are not. Obviously there is the matter of efficiency, but the data also shows that the utilisation of workers' time is important as we work with a piece rate system. It is a question of how we manage the workforce. Most supervisors let our experienced employees work more because they do not need as much monitoring as the beginners. This creates a problem as experienced workers get an enormous workload while new employees do not have much chance. Therefore, we have changed supervisors' compensation schemes to include CSR scores – they are rewarded for maintaining a high utilisation rate of all workers within their production line. The initial results have shown a more equal share of workload and income.

Q & A WITH JANET MENSINK, SOLIDARIDAD

FROM YOUR PERSPECTIVE, WHAT IS THE MAJOR CHALLENGE FOR RETAILERS LIKE H&M, WHEN IT COMES TO THEIR SUPPLY CHAINS?

The supply chain for a retailer like H&M, from fibre to fashion, covers all the sustainability issues you can imagine. This includes global problems like carbon emissions and energy, but also very local context-specific issues like water use and emissions and labour situation. Often there is no 'one fits all' solution, which leads to a complexity of issues to address.

WHAT CAN YOU SAY ABOUT H&M'S RESPONSE TO THAT CHALLENGE?

We feel that H&M acknowledges the complexity and is in open dialogue with all stakeholders to find solutions and 'hands-on' projects to identify better practices.

HOW COULD H&M IMPROVE?

We feel H&M has serious intentions, though it's difficult to quantify that. It is, for outsiders like us, sometimes unclear how this relates to the business aspect: targets/objectives, dialogue between CSR department and sourcing department. It would be useful for us if more information could be shared in order to understand more of the ambitions and possible challenges in reaching them.

Q & A WITH HENRIK LAMPA, CSR MANAGER – PRODUCTS, ON COTTON

WHAT IS YOUR ROLE AT H&M?

I am part of H&M's CSR support team at the head office, and I manage our products group. My task is to look for ways to make our products more environmentally and socially sustainable, so this involves a lot of cooperation both with our buying office in Stockholm and our production offices all over the world, as well as a number of external stakeholders.

WHY HAS COTTON BECOME A MAJOR ISSUE ON H&M'S SUSTAINABILITY AGENDA?

Volume wise, cotton is our main raw material. There are many positive aspects of cotton – it has nice properties as a material and it provides income for many in developing countries.

At the same time, conventional cotton growing brings many negative social and environmental consequences that need to be addressed.

COULD YOU EXPLAIN H&M'S COTTON STRATEGY?

We have worked with organic cotton for some years now, and will continue to do so – our target is to increase by 50% each year until 2013.

But as I said, conventional cotton has negative effects and this is why we also work to make this kind of cotton more sustainable. We do this through the Better Cotton Initiative. When Better Cotton becomes available we will begin including it in our products, and we hope that farmers will be spurred on by us requesting Better Cotton.

Finally, we also use some recycled cotton, to take care of textile waste in the production chain. We want as much as possible of the precious cotton being harvested to be put to good use.

WHAT EXACTLY MAKES BETTER COTTON BETTER?

There are minimum criteria for Better Cotton, for instance that those who use pesticides are properly trained and that only legally registered pesticides are used. But the main thing about Better Cotton is continuous improvement towards a more profitable and sustainable crop. When farmers learn to grow more with fewer chemicals and less water, their profitability will improve, which in turn will enable them to, for example, send their children to school. So there are direct and indirect social and environmental benefits as well.

WHEN AND HOW WILL CUSTOMERS FIND BETTER COTTON IN H&M'S STORES?

The first cotton that meets the Better Cotton criteria will reach the market in early 2011. We will demand and use Better Cotton, and we aim for big volumes. But our customers should know that this is not another labelling scheme, so our products will not bear individual Better Cotton hangtags. This is about continuous improvement on a large scale.

Q & A WITH JAN AHLBOM, CLEAN SHIPPING PROJECT

WHAT MAKES THE ISSUES THAT THE CLEAN SHIPPING PROJECT ADDRESSES IMPORTANT?

Shipping causes major emissions both to air and water that have serious consequences for humans and the environment. The international environmental law concerning shipping is lagging.

WHAT CAN COMPANIES LIKE H&M DO?

If large buyers of sea transport, such as H&M place similar and reasonable requirements on their sea transport providers we can get a 'snowball' rolling. Simply put, it can become beneficial for shipping companies to take environmental measures and by so doing gain market share. In the same way a shipping company that does not do anything risks being out of the market.

WHAT CAN YOU SAY ABOUT H&M'S CONTRIBUTION?

Ever since the Clean Shipping Project was launched, H&M has been an active promoter of the project and we have had their full support. Now we are entering into an exciting phase where shipping companies need to meet certain basic conditions to be able to compete for contracts.

Q & A WITH TOMAS PERSSON, QUALITY MANAGER

HOW DO YOU MAKE SURE THAT H&M PRODUCTS ARE SAFE TO USE?

Attention to quality and safety is really important to us. We carry out tests and inspections all the way through the production process, from the design stage through manufacture, to make sure that all our products live up to our quality and safety standards.

If we, despite our efforts, should find that any product is unsafe, we have a recall procedure to stop the selling and inform the customers to return what they have bought.

HOW DO YOU MAKE SURE THAT MANUFACTURERS COMPLY WITH H&M'S CHEMICAL RESTRICTIONS?

Firstly, all H&M suppliers commit to comply with our chemical restrictions.

We educate our suppliers and regularly audit the factories to make sure that they fully understand our requirements, and are able to fulfil them.

As a last step to ensure compliance, the products are tested at independent test labs.

WHAT DO YOU DO TO PROMOTE THE USE OF FEWER AND SAFER CHEMICALS IN GARMENT MANUFACTURE?

We continuously work with our suppliers to raise awareness of best practice, and of alternatives to risky chemicals. We have also put into practice specific projects that will help us take harmful chemicals out of the manufacturing process. For example, we have a programme to phase out solvent-based adhesives and replace them with water-based alternatives.

We collaborate with other major retailers through AFIRM, a group with the objective to reduce the use of harmful substances in garment and footwear supply chains. Through these partnerships we arrange seminars for suppliers to exchange information on best practices.

We recently joined the Leather Working Group, which promotes sustainability within the leather industry.

WHAT ARE YOUR GOALS FOR THE NEXT FEW YEARS?

Our goal in the next one to three years is that all suppliers should operate their own quality assurance, have good chemical management and operate early risk assessments and testing to identify and deal with potential quality risks.

We will continuously develop our routines and methods to adapt our quality standards to new fashions, products and market regulations.

*Q & A WITH SANNA LINDBERG, HEAD OF HUMAN RESOURCES**WHAT DO YOU DO TO MAKE H&M A GREAT PLACE TO WORK?*

You should ask some of my colleagues here at H&M! I can definitely tell you what we aim for and what kind of atmosphere we are trying to create, but our employees are the ones who can say whether we are successful at it or not.

We are a fast-growing company and this means that we constantly need more team-players who are as passionate about fashion and business as we are. We offer different exciting jobs where you can have lots of responsibility from day one. So if you are curious to learn about different parts of our business, you have the opportunity to try different positions, departments and levels.

We respect our employees' rights and of course we have policies to guide us, but our way of treating people sits more in our culture than in manuals. Being open-minded and believing in people is part of what makes us H&M. Here, you should not feel that you have to leave your personality at home.

BEING PRESENT IN 35 COUNTRIES ACROSS THE WORLD, HOW ARE YOU ABLE TO SPREAD AND MAINTAIN H&M'S VALUES?

One of the reasons we are successful abroad is that we are able to find people who like our way of working – we employ individuals, not countries. Regardless of where we are, it is important that everyone at H&M, not just managers, leads by example. We also have to keep talking about the importance of living the values and constantly remind ourselves that our culture is a big part of our success.

WHAT ARE YOUR MAIN PRIORITIES FOR THE NEXT 1 – 3 YEARS?

People, people, people! In the more than 60 years that H&M has been around, our people have played a major part in the company's success. One thing is for sure – as we keep expanding we have to make sure that we have the right people in the right place at the right time. And of course we want our employees to feel that we are a good company to work for. I became Head of HR for the H&M group last fall, and right now my team and I are reviewing our way of working to see how we can improve further. Check in with us again next year and we will let you know how we have done.

*Q & A WITH ROBERT BYLUND, EMPLOYEE REPRESENTATIVE, EWC**WHICH EMPLOYEE RELATIONS ISSUE DO YOU THINK IS THE MOST IMPORTANT FOR RETAILERS LIKE H&M TO ADDRESS?*

We are currently discussing the issue of providing full-time jobs for all those who want to work full time. Also, I think, it is about making sure that a good working environment applies to all employees.

WHAT CAN YOU SAY ABOUT H&M'S RESPONSE TO THIS ISSUE?

H&M is willing to discuss these issues and showed openness to work in a kind of project together with the EWC, which is good.

HOW WOULD YOU DESCRIBE THE COOPERATION WITH H&M WITHIN THE EUROPEAN WORKS COUNCIL FROM YOUR PERSPECTIVE?

I feel that we have a good cooperation and communication with H&M. It gets better and better all the time.

WHAT ARE THE MAJOR ISSUES DISCUSSED IN THE FORUM?

Currently, we talk about the issue of full-time versus part-time work, working conditions in the logistics and about what can be done in order to support elderly employees.

WHERE DO YOU THINK H&M IS GOOD AS AN EMPLOYER, WHERE WOULD YOU LIKE TO SEE IMPROVEMENTS?

H&M is a good employer and most of us feel that it is a good company to work with. One improvement I would see would be to listen more to us employees and what we want and to the problems that some of us have in stores and the logistics.

APPENDIX 1

PERFORMANCE

AUDITS BASIC FIGURES

COUNTRY	FAP (FULL AUDITS)		FUP (FOLLOW-UP AUDITS)		TOTAL AUDITS		AVERAGE NUMBER OF AUDITS PER ACTIVE FACTORY
	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	
Bangladesh	94	65%	245	76%	339	73%	1.68
India	97	41%	154	53%	251	49%	1.03
Pakistan	16	31%	29	90%	45	69%	1.45
Sri Lanka	4	0%	4	0%	8	0%	0.67
TOTAL SOUTH ASIA	211	50%	432	68%	643	62%	1.31
China (excl. Hong Kong)	311	72%	467	52%	778	60%	1.38
Hong Kong	1	100%	0	0	1	100%	0.25
Indonesia	30	67%	22	64%	52	65%	1.27
Cambodia	24	67%	15	80%	39	72%	1.15
South Korea	9	11%	15	7%	24	8%	0.38
Vietnam	5	60%	4	0%	9	33%	0.82
Thailand	1	100%	1	0%	2	50%	0.67
TOTAL FAR EAST	381	70%	524	52%	905	59%	1.26

AUDITS

BASIC FIGURES

COUNTRY	FAP (FULL AUDITS)		FUP (FOLLOW-UP AUDITS)		TOTAL AUDITS		AVERAGE NUMBER OF AUDITS PER ACTIVE FACTORY
	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	
Turkey	204	84%	247	67%	451	75%	1.35
Bulgaria	25	84%	46	76%	71	79%	1.48
Romania	35	74%	31	35%	66	56%	1.94
Italy	25	8%	0	0%	25	8%	0.19
Portugal	12	0%	2	0%	14	0%	0.45
Tunisia	3	0%	3	33%	6	17%	0.55
Egypt	1	100%	4	25%	5	40%	0.71
Morocco	2	50%	3	0%	5	20%	0.63
Lithuania	0	0%	4	75%	4	75%	0.67
Greece	3	33%	0	0%	3	33%	0.18
Poland	1	100%	2	0%	3	33%	0.50
Latvia	0	0%	2	50%	2	50%	0.67
Czech Republic*	0	0%	1	0%	1	0%	0.00
Ukraine	1	0%	0	0%	1	0%	0.33
Hungary	1	0%	0	0%	1	0%	1.00
France	0	0%	0	0%	0	0%	0

AUDITS BASIC FIGURES

COUNTRY	FAP (FULL AUDITS)		FUP (FOLLOW-UP AUDITS)		TOTAL AUDITS		AVERAGE NUMBER OF AUDITS PER ACTIVE FACTORY
	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	NO.	% UNANNOUNCED	
Great Britain	0	0%	0	0%	0	0%	0
Netherlands	0	0%	0	0%	0	0%	0
Sweden	0	0%	0	0%	0	0%	0
Total EMEA	313	72%	345	63%	658	67%	0.99
Australia	0	0%	0	0%	0	0%	0
Brazil	0	0%	0	0%	0	0%	0
GRAND TOTAL	905	66%	1301	60%	2206	63%	1.18

*One audit in the Czech Republic has been conducted on a factory which did not supply H&M in 2009. We focus our audit efforts on our key suppliers and follow a risk assessment approach. Accordingly the average number of audits per factory can vary between countries.

Active production countries per region

FAR EAST: China (incl. Hong Kong), South Korea, Indonesia, Cambodia, Vietnam, Thailand

SOUTH ASIA: India, Bangladesh, Pakistan, Sri Lanka

EMEA† (EUROPE, MIDDLE EAST, AFRICA): Turkey, Italy, Bulgaria, Romania, Portugal, Greece, Tunisia, Egypt, Lithuania, Poland, Ukraine, Latvia, Hungary, Moldova, France, Great Britain, Morocco, Sweden, Netherlands

†including one factory from Australia and Brazil

AUDITS OVER 5 YEARS

AUDITS

BASIC FIGURES

	2009	2008	2007	2006	2005
Total number of audits	2,206	2,526	2,012	1,493	2,670
Number of full audits (FAP)	905	812	948	581	0
Number of follow-up audits (FUP)	1,301	1,697	1,035	442	0
Other audits	0	0	0	451	2,670
Audits conducted by FLA	19	17	24 (+5 verification audits)	19	0
Share of audits conducted on potential new factories	18%	21%	25%	31%	25%

SUMMARY PROGRESS BETWEEN FAP AUDITS

SUMMARY OF PROGRESS BETWEEN FAP AUDITS	FAR EAST		SOUTH ASIA		EMEA		TOTAL	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
Young worker requirements	75%	16%	45%	38%	86%	83%	78%	47%
Child labour	1%	3%	2%	1%	2%	1%	2%	2%
Workers' basic rights	24%	15%	21%	29%	19%	17%	21%	20%
Workers' rights	41%	20%	17%	22%	17%	20%	26%	21%
Health & Safety	17%	9%	11%	12%	16%	19%	15%	13%
Housing conditions	8%	4%	13%	7%	25%	15%	9%	5%
Environment	34%	37%	37%	44%	39%	51%	37%	45%
Sandblasting & chemical handling	11%	0%	24%	24%	22%	0%	23%	24%
TOTAL	26%	15%	18%	22%	19%	23%	21%	20%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
CHILD LABOUR								
Are all workers of or above minimum age as required by national law or H&M's Code of Conduct?	1%	3%	2%	1%	2%	1%	2%	2%
TOTAL	1%	3%	2%	1%	2%	1%	2%	2%
YOUNG WORKER REQUIREMENTS								
Are workers below 18 working under legal conditions?	75%	16%	45%	38%	86%	83%	78%	47%
TOTAL	75%	16%	45%	38%	86%	83%	78%	47%
WORKERS' BASIC RIGHTS								
Is absence of forced labour confirmed?	2%	1%	2%	13%	1%	1%	2%	5%
Do foreign and migrant workers have equal employment terms as local workers?	0%	0%	2%	0%	0%	0%	0%	0%
Do foreign and migrant workers have a residential permit/working permit?	11%	3%	0%	0%	18%	5%	12%	3%
Are all workers protected from any forms of abusive behaviour in the factory?	2%	4%	9%	27%	4%	3%	5%	11%
Are all workers protected from any form of physical abuse or sexual harassment?	0%	0%	1%	4%	0%	0%	1%	1%
Is freedom of association respected?	0%	0%	0%	1%	0%	0%	-	0%
Does the factory have legally required worker committees?	40%	0%	20%	0%	45%	0%	-	0%
Do the workers have the right to bargain collectively?	2%	2%	0%	3%	0%	1%	0%	2%
Is there a grievance system in place in the factory?	88%	47%	62%	79%	49%	54%	66%	60%
Is there a system for dialogue between workers and management?	83%	73%	64%	70%	64%	73%	70%	72%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
WORKERS' BASIC RIGHTS								
Are all workers, regardless of gender, ethnic, religious or geographical background, treated equally?	0%	1%	0%	0%	1%	0%	1%	1%
Do all workers have an employment contract?	40%	20%	43%	68%	32%	38%	38%	42%
Are all relevant areas covered in the contract?	17%	0%	36%	0%	33%	0%	-	0%
TOTAL	24%	15%	21%	29%	19%	17%	21%	20%
WORKERS' RIGHTS								
Are the regular working hours within the legal limit?	57%	4%	7%	5%	14%	24%	25%	11%
Are monthly overtime hours within the legal limit?	91%	71%	83%	67%	68%	65%	81%	68%
Does the basic salary amount to at least the legal minimum wage for normal working hours (including piece rate workers)?	42%	8%	8%	6%	10%	15%	20%	10%
Is overtime compensated according to the law to workers with monthly salary?	56%	21%	12%	16%	29%	44%	29%	27%
Is overtime compensated according to the law to piece rate workers?	82%	0%	22%	100%	36%	0%	-	100%
Are wages paid regularly and on time?	7%	15%	21%	38%	13%	12%	14%	21%
Are deductions fair and reasonable?	7%	0%	15%	0%	9%	0%	-	0%
Are correct wages paid?	30%	0%	24%	0%	13%	0%	-	0%
Does the factory pay social security?	68%	12%	11%	13%	26%	23%	40%	17%
If there is no social security system, are the workers covered by alternative insurance?	31%	100%	9%	0%	0%	0%	-	100%
Is sick leave duly granted?	3%	14%	10%	16%	2%	7%	5%	12%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
WORKERS' RIGHTS								
Is sick leave compensated by the factory according to the law?	62%	38%	5%	18%	4%	11%	31%	26%
Is annual leave granted and paid for according to law?	59%	25%	14%	24%	20%	16%	31%	22%
Are all additional types of leave, stipulated by law, granted?	23%	17%	14%	22%	5%	8%	14%	16%
Is maternity leave given and paid for according to law?	38%	16%	3%	8%	0%	1%	14%	8%
Are pregnant women guaranteed their employment during and after pregnancy?	1%	0%	0%	1%	0%	0%	0%	0%
Does the factory fulfil the legal requirement concerning day care?	20%	32%	29%	45%	62%	32%	32%	41%
TOTAL	41%	20%	17%	22%	17%	20%	26%	21%
HEALTH & SAFETY								
Are all basic safety requirements met?	2%	5%	11%	8%	13%	15%	9%	10%
Are all additional safety requirements met?	47%	13%	18%	15%	35%	40%	33%	23%
Are regular evacuation drills performed?	7%	8%	6%	18%	17%	51%	10%	26%
Are hazardous machines equipped with necessary protection?	10%	15%	7%	8%	37%	32%	20%	18%
Is personal protective equipment (PPE) provided and used, where necessary?	30%	27%	22%	25%	37%	44%	29%	31%
Is adequate first aid equipment available, and first aid training provided?	20%	9%	11%	10%	26%	27%	19%	15%
Are any workers trained in first aid?	21%	23%	6%	12%	12%	46%	10%	27%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
HEALTH & SAFETY								
In case of injury or illness, can medical care for the workers be provided with short notice?	14%	4%	8%	8%	15%	4%	12%	5%
Can workers drink water without health risks?	2%	3%	12%	13%	15%	13%	10%	9%
Does the factory provide a canteen/dining area available for all workers?	4%	6%	10%	15%	5%	8%	6%	10%
Is the factory clean and free from dirt and dust?	51%	6%	11%	8%	18%	6%	27%	6%
Is the temperature in the factory tolerable to work in?	4%	5%	8%	8%	6%	10%	6%	7%
Is the spot removal content in accordance with H&M's Chemical Restrictions list, performed in well ventilated area, using adequate PPE?	13%	7%	23%	17%	24%	11%	20%	12%
Is the light in the factory sufficient for intended work?	0%	0%	0%	1%	1%	1%	0%	1%
Is there a sufficient number of toilets?	2%	3%	4%	13%	2%	3%	3%	6%
Are toilets clean and maintained?	45%	11%	13%	18%	9%	8%	22%	12%
Do the workers have unlimited access to the toilets?	3%	4%	3%	11%	2%	3%	3%	6%
TOTAL	17%	9%	11%	12%	16%	19%	15%	13%
ENVIRONMENT								
Does the factory have the legally required environmental permits/licences?	12%	9%	10%	19%	22%	24%	14%	18%
Are the chemical containers properly labelled?	66%	56%	57%	49%	38%	42%	55%	49%
Are the solvent based chemicals in compliance with H&M's Chemical Restrictions list?	11%	0%	5%	0%	18%	0%	-	0%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
ENVIRONMENT								
Does the factory have safety data sheets for all chemical products both in storage and workshop?	62%	55%	64%	62%	47%	71%	59%	63%
Have the workers regularly handling chemicals been trained in safe chemical handling?	32%	47%	53%	67%	52%	70%	46%	63%
Is the information in the safety data sheets on storage and PPE implemented?	45%	41%	62%	63%	50%	64%	54%	57%
Is the outgoing waste water treated?	6%	15%	19%	32%	7%	11%	13%	23%
Are there clear signs that the waste water treatment system is in use?	13%	0%	20%	10%	11%	0%	17%	6%
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines whichever is strictest?	6%	8%	19%	20%	9%	20%	14%	17%
Does the waste water treatment capacity exceed the waste water going to the waste water treatment plant?	4%	0%	14%	0%	0%	0%	-	0%
Is sludge from the waste water treatment disposed of in a legal or otherwise responsible manner?	27%	13%	28%	36%	11%	19%	26%	26%
Is the hazardous waste disposed of in a legal manner?	41%	43%	12%	43%	56%	63%	36%	51%
TOTAL	34%	37%	37%	44%	39%	51%	37%	45%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
HOUSING CONDITIONS (ONLY APPLICABLE FOR FACTORIES WITH HOUSING FACILITIES)								
Is the dormitory separated from the factory building?	1%	0%	13%	14%	0%	0%	1%	1%
Can the workers enter and exit the dormitory at any time?	5%	0%	13%	0%	0%	0%	6%	0%
Does everyone living in the dormitory have an individual bed?	0%	0%	13%	0%	0%	0%	1%	0%
Are workers granted some personal privacy?	28%	22%	38%	29%	0%	0%	29%	22%
Does the dormitory meet required basic safety?	3%	5%	13%	25%	0%	50%	3%	7%
Is there a sufficient number of clean toilets?	9%	3%	0%	0%	0%	0%	9%	3%
Are facilities for private hygiene provided?	6%	1%	13%	0%	0%	50%	6%	1%
Is the dormitory generally clean and hygienic?	17%	6%	0%	0%	0%	0%	16%	6%
If there is a staffed kitchen in the dormitory, is it clean and hygienic?	11%	8%	0%	0%	0%	0%	8%	6%
Is the temperature in the dormitory tolerable?	1%	1%	13%	0%	100%	0%	3%	1%
Are regular evacuation drills performed?	11%	0%	33%	0%	100%	0%	12%	0%
Are all additional safety requirements met?	11%	0%	33%	0%	100%	0%	13%	0%
TOTAL	8%	4%	13%	7%	25%	15%	9%	5%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
SANDBLASTING & CHEMICAL HANDLING								
Are legally required air quality measurements done?	0%	0%	29%	100%	17%	0%	21%	100%
Is ventilation sufficient?	0%	0%	6%	100%	0%	0%	5%	100%
Are the legally required health checks in place in the factory?	0%	0%	50%	0%	0%	0%	25%	0%
Are the workers educated on safe handling and risks?	0%	0%	53%	100%	0%	0%	39%	100%
Is there a wash station in direct connection to the workshop in case dust or chemicals gets in workers' eyes?	0%	0%	18%	0%	29%	0%	19%	0%
Is hearing protection worn if there is a noisy environment, e.g. sandblasting?	50%	0%	22%	0%	0%	0%	21%	0%
Does the factory have the required permit for doing sandblasting?	0%	0%	0%	0%	0%	0%	0%	0%
Does the sandblasting material contain less than 1% crystalline silica (SiO ₂)?	0%	0%	40%	100%	0%	0%	31%	100%
Is ventilation adopted for sandblasting activity?	0%	0%	10%	0%	0%	0%	8%	0%
Is the sandblasting done in a separate area?	0%	0%	18%	0%	0%	0%	14%	0%
Is compulsory PPE used?	0%	0%	56%	0%	0%	0%	42%	0%
Is additional PPE provided by the employer?	0%	0%	22%	0%	0%	0%	17%	0%
Do the cleaning staff have compulsory PPE when cleaning sandblasting area?	0%	0%	20%	0%	0%	0%	15%	0%
Are the workers handling potassium permanganate in storage and mixing using the PPE needed?	0%	0%	12%	0%	50%	0%	22%	0%

PROGRESS BETWEEN FAP AUDITS

AUDIT QUESTION	FAR EAST (234 FACTORIES)		SOUTH ASIA (224 FACTORIES)		EMEA (250 FACTORIES)		TOTAL (708 FACTORIES)	
	NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE		NON-COMPLIANCE	
	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT	2ND FAP AUDIT	1ST FAP AUDIT
	%	%	%	%	%	%	%	%
SANDBLASTING & CHEMICAL HANDLING								
Are the workers spraying chemicals using the PPE needed?	50%	0%	36%	0%	50%	0%	41%	0%
Are the workers spongeing chemicals wearing impervious gloves?	0%	0%	0%	0%	0%	0%	0%	0%
Is the potassium permanganate stored safely?	0%	0%	18%	0%	63%	0%	30%	0%
TOTAL	11%	0%	24%	24%	22%	0%	23%	24%
GRAND TOTAL	26%	15%	18%	22%	19%	23%	21%	20%

PROGRESS BETWEEN FAP AUDITS

By the end of 2009, a total of 708 out of 1,876 active factories had completed their second FAP audit (full audit) as part of our Full Audit Programme. This means, that after a first full audit and up to three related follow-up audits they have passed a second full audit during 2009. The above data shows the progress they have made during this process. After 2008 only 162 factories had passed their second full audit; this number of factories now provides a better base for reasonably assessing the progress made through our Full Audit Programme in comparable factories.

We see some progress for most requirements in both the South Asia and EMEA region, particularly regarding environmental requirements. All regions show good progress on this issue. For most other requirements, particularly from the area of workers' rights such as overtime and overtime compensation or leave, the Far East region shows mostly different results, with occasional heavily increased non-compliance levels. Previously, we had to identify that many of our suppliers in China did not show a satisfactory level of transparency. During the last year we put strong focus on reaching out for full transparency with our Chinese suppliers, and we are confident to have achieved important steps in this direction for 2009. Figures as reported above are accordingly an expected result which demonstrate to us that we are on the right track to 1) to further remediate non-compliances through our Full Audit Programme and 2) to have reached a high level of transparency in China. Accordingly, improved transparency has lead to higher non-compliance findings in the Far East region. Read more about what we did to face this challenge in China in an interview with our CSR Managers Tobias Fischer and Erik Carlborg in Hong Kong and Shanghai on page 75.

Please find further analysis of non-compliances focus issues and related targets in our 2009 target follow-up and our 2010 targets.

SUMMARY

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

NON-COMPLIANCE PER AREA OF REQUIREMENTS	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
Child labour	7	2%	10%	1	1%	3%	7	2%	5%	15	2%	6%
Young workers' requirements	177	80%	47%	5	17%	39%	134	86%	91%	316	78%	66%
Workers' basic rights	908	25%	23%	611	21%	20%	649	21%	20%	2,168	23%	21%
Workers' rights	2,157	41%	39%	1,071	29%	20%	750	20%	25%	3,978	31%	29%
Health & Safety	1,053	21%	20%	630	18%	8%	1,001	24%	19%	2,684	21%	16%
Housing conditions	300	13%	10%	36	32%	13%	3	25%	28%	339	14%	11%
Environment	631	42%	59%	339	42%	38%	257	49%	51%	1,227	43%	50%
Sandblasting & chemical treatment	32	32%	39%	46	27%	23%	48	38%	16%	126	31%	30%
Metal plating	4	17%	43%	2	22%	n.a.	0	0%	n.a.	6	18%	43%
Home workers	53	51%	n.a.	21	36%	n.a.	9	29%	n.a.	83	43%	n.a.
TOTAL	5,322	29%	29%	2,763	24%	17%	2,858	24%	25%	10,943	26%	24%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
CHILD LABOUR												
Are all workers of or above minimum age as required by national law or H&M's Code of Conduct?	7	2%	10%	1	1%	3%	7	2%	5%	15	2%	6%
TOTAL	7	2%	10%	1	1%	3%	7	2%	5%	15	2%	6%
YOUNG WORKERS' REQUIREMENTS												
Are workers below 18 working under legal conditions?	177	80%	47%	5	17%	39%	134	86%	91%	316	78%	66%
TOTAL	177	80%	47%	5	17%	39%	134	86%	91%	316	78%	66%
WORKERS' BASIC RIGHTS												
Is absence of forced labour confirmed?	7	2%	2%	2	1%	1%	3	1%	1%	12	1%	1%
Do foreign and migrant workers have equal employment terms as local workers?	0	0%	0%	1	1%	0%	0	0%	0%	1	0%	0%
Do foreign and migrant workers have a residential permit/working permit?	34	13%	7%	0	0%	0%	2	15%	27%	36	13%	8%
Are all workers protected from any form of abusive behaviour in the factory?	5	1%	1%	17	8%	5%	13	4%	3%	35	4%	3%
Are all workers protected from any form of physical abuse or sexual harassment?	0	0%	0%	0	0%	1%	1	0%	2%	1	0%	1%
Is freedom of association respected?	0	0%	0%	0	0%	0%	0	0%	0%	0	0%	0%
Does the factory have legally required worker committees?	61	37%	-	58	29%	-	111	52%	-	230	40%	-
Do the workers have the right to bargain collectively?	1	2%	0%	0	0%	1%	0	0%	0%	1	0%	1%
Is there a grievance system in place in the factory?	303	90%	90%	179	85%	67%	147	60%	60%	629	80%	73%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009.	% 2009	% 2008	NO. 2009.	% 2009	% 2008	NO. 2009.	% 2009	% 2008	NO. 2009.	% 2009	% 2008
Is there a system for dialogue between workers and management?	286	86%	89%	162	80%	69%	147	69%	79%	595	80%	80%
Are all workers, regardless of gender, ethnic, religious or geographical background, treated equally?	3	1%	0%	0	0%	0%	2	1%	3%	5	1%	1%
Do all workers have an employment contract?	138	39%	39%	100	47%	41%	109	39%	42%	347	41%	40%
Are all relevant areas covered in the contract?	70	21%	-	86	42%	n.a.	111	42%	-	267	33%	-
TOTAL	908	25%	23%	611	21%	20%	649	21%	20%	2168	23%	21%

WORKERS' RIGHTS

Are the regular working hours (excl. overtime) within the legal limit?	199	57%	16%	116	36%	7%	70	22%	29%	385	39%	18%
Are monthly overtime hours within the legal limit?	305	88%	81%	265	83%	71%	183	61%	57%	753	78%	70%
Does the basic salary amount to at least the legal minimum wage for normal working hours (including piece rate workers)?	123	34%	24%	32	10%	7%	40	12%	22%	195	19%	18%
Is overtime compensated according to the law to workers with a monthly salary?	144	56%	61%	80	26%	19%	119	39%	55%	343	40%	46%
Is overtime compensated according to the law to piece rate workers?	204	80%	-	90	78%	-	22	43%	-	316	75%	-
Are wages paid regularly and on time?	21	6%	24%	36	12%	26%	36	12%	27%	93	10%	26%
Are deductions fair and reasonable?	29	9%	-	35	15%	-	14	7%	-	78	11%	-
Are correct wages paid?	90	26%	-	64	26%	-	41	13%	-	195	22%	-

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
WORKERS' RIGHTS												
Does the factory pay social security?	252	71%	48%	71	39%	13%	107	33%	41%	430	50%	38%
If there is no social security system, are the workers covered by alternative insurance?	95	41%	-	59	40%	-	0	0%	-	154	40%	-
Is sick leave duly granted?	20	6%	25%	46	22%	13%	19	7%	9%	85	10%	16%
Is sick leave compensated by the factory according to the law?	221	65%	51%	12	9%	13%	6	8%	5%	239	44%	32%
Is annual leave granted and paid for according to law?	206	60%	56%	39	19%	21%	64	25%	27%	309	38%	36%
Are all additional types of leave, stipulated by law, granted?	102	31%	42%	53	35%	26%	11	5%	9%	166	24%	27%
Is maternity leave given and paid for according to law?	136	40%	36%	7	4%	5%	2	1%	0%	145	18%	15%
Are pregnant women guaranteed their employment during and after pregnancy?	7	2%	1%	1	0%	1%	0	0%	0%	8	1%	0%
Does the factory fulfil the legal requirement concerning day care?	3	12%	36%	65	41%	28%	16	73%	45%	84	41%	31%
TOTAL	2157	41%	39%	1071	29%	20%	750	20%	25%	3978	31%	29%
HEALTH & SAFETY												
Are all basic safety requirements met?	19	5%	20%	47	15%	9%	48	15%	25%	114	11%	18%
Are all additional safety requirements met?	186	51%	39%	95	45%	10%	136	47%	40%	417	48%	31%
Are regular evacuation drills performed?	68	19%	40%	58	18%	18%	94	31%	46%	220	22%	36%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
HEALTH & SAFETY												
Are hazardous machines equipped with necessary protection?	16	12%	21%	12	6%	7%	100	40%	33%	128	22%	20%
Is personal protective equipment (PPE) provided and used, where necessary?	127	39%	57%	64	31%	18%	88	47%	44%	279	39%	40%
Is the building considered as safe?	1	-	-	2	-	-	0	-	-	3	100%	-
Is adequate first aid equipment available and first aid training provided?	112	31%	38%	33	16%	6%	137	48%	21%	282	33%	23%
Are any workers trained in first aid?	6	75%	45%	0	0%	9%	0	0%	37%	6	60%	31%
In case of injury or illness, can medical care for the workers be provided with short notice?	52	15%	5%	32	15%	6%	77	28%	7%	161	20%	6%
Can workers drink water without health risks?	10	3%	5%	46	14%	9%	46	15%	20%	102	10%	11%
Does the factory provide a canteen/dining area available for all workers?	10	3%	5%	25	13%	11%	15	6%	11%	50	7%	9%
Is the factory clean and free from dirt and dust?	191	52%	15%	48	15%	7%	111	36%	5%	350	35%	9%
Is the temperature in the factory tolerable to work in?	18	5%	4%	27	13%	4%	25	9%	9%	70	8%	6%
Is the spot removal content in accordance with H&M's Chemical Restrictions list, performed in well ventilated area, using adequate PPE?	64	29%	18%	83	52%	6%	84	47%	13%	231	41%	13%
Is the light in the factory sufficient for intended work?	1	13%	1%	0	0%	0%	0	0%	1%	1	10%	1%
Is there a sufficient number of toilets?	12	3%	4%	11	5%	3%	8	3%	4%	31	4%	4%
Are toilets clean and maintained?	154	43%	22%	42	20%	9%	27	10%	12%	223	26%	15%
Do the workers have unlimited access to the toilets?	6	2%	2%	5	2%	3%	5	2%	5%	16	2%	3%
TOTAL	1053	21%	20%	630	18%	8%	1001	24%	19%	2684	21%	16%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
ENVIRONMENT												
Does the factory have the legally required environmental permits/licences?	28	17%	17%	9	10%	11%	21	33%	39%	58	19%	24%
Are the chemical containers properly labelled?	131	74%	805	65	78%	58%	46	70%	37%	242	74%	61%
Are the solvent based chemicals in compliance with H&M's Chemical Restrictions list?	32	24%	-	5	6%	-	14	23%	-	51	19%	-
Does the factory have safety data sheets for all chemical products both in storage and workshop?	128	72%	75%	67	82%	66%	40	61%	52%	235	72%	65%
Have the workers regularly handling chemicals been trained in safe chemical handling?	78	45%	82%	56	68%	63%	39	59%	66%	173	54%	71%
Is the information in the safety data sheets on storage and PPE implemented?	104	61%	71%	58	71%	67%	51	77%	54%	213	67%	65%
Is the outgoing waste water treated?	14	14%	10%	18	30%	9%	7	18%	17%	39	19%	11%
Are there clear signs that the waste water treatment system is in use?	4	7%	13%	15	30%	6%	1	10%	10%	20	17%	9%
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines, whichever is strictest?	11	20%	12%	14	28%	16%	3	38%	24%	28	25%	15%
Does the waste water treatment capacity exceed the waste water going to the waste water treatment plant?	3	6%	-	7	14%	-	1	11%	-	11	10%	-
Is sludge from the waste water treatment disposed of in a legal or otherwise responsible manner?	20	33%	34%	13	27%	13%	2	20%	22%	35	30%	22%
Is the hazardous waste disposed of in a legal manner?	75	44%	76%	9	15%	14%	29	48%	72%	113	39%	59%
TOTAL	631	42%	59%	339	42%	38%	257	49%	51%	1227	43%	50%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
HOUSING CONDITIONS												
Is the dormitory separated from the factory building?	3	1%	3%	0	0%	18%	0	0%	50%	3	1%	5%
Can the workers enter and exit the dormitory at any time?	9	5%	3%	2	20%	0%	0	0%	50%	11	5%	3%
Does everyone living in the dormitory have an individual bed?	1	1%	1%	3	30%	20%	0	0%	50%	4	2%	3%
Are workers granted some personal privacy?	91	45%	43%	7	70%	40%	0	0%	50%	98	46%	43%
Does the dormitory meet required basic safety?	17	8%	18%	4	40%	10%	0	0%	50%	21	10%	18%
Is there a sufficient number of clean toilets?	23	11%	6%	1	10%	10%	0	0%	0%	24	11%	6%
Are facilities for private hygiene provided?	12	6%	5%	3	30%	10%	0	0%	0%	15	7%	5%
Is the dormitory generally clean and hygienic?	38	19%	12%	2	20%	0%	0	0%	0%	40	19%	11%
If there is a staffed kitchen in the dormitory, is it clean and hygienic?	3	10%	13%	0	0%	13%	0	0%	-	3	9%	13%
Is the temperature in the dormitory tolerable?	2	1%	1%	0	0%	10%	1	100%	0%	3	1%	2%
Are regular evacuation drills performed?	55	28%	-	8	80%	-	1	100%	-	64	31%	-
Are all additional safety requirements met?	46	23%	-	6	60%	-	1	100%	-	53	25%	-
TOTAL	300	13%	10%	36	32%	13%	3	25%	28%	339	14%	11%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
HOME WORKERS												
Is the work performed in home or work place chosen by the workers themselves and which is not owned by employer?	0	0%	-	2	29%	-	0	0%	-	2	7%	-
Are all workers, involved in home work, perceived to be above or the same age as the minimum age required by the national law, and H&M's Code of Conduct?	0	0%	-	0	0%	-	0	0%	-	0	0%	-
Are young workers, involved in home work, attending school?	0	0%	-	3	50%	-	0	0%	-	3	33%	-
Are all home workers performing their work voluntarily at all times?	0	0%	-	1	14%	-	0	0%	-	1	4%	-
Do foreign and migrant workers have a residential permit?	1	100%	-	0	0%	-	0	0%	-	1	100%	-
Are home workers free to organise a union or cooperative?	0	0%	-	0	0%	-	0	0%	-	0	0%	-
Is collective bargaining respected?	0	0%	-	0	0%	-	0	0%	-	0	0%	-
Is there a grievance system in place?	17	100%	-	5	83%	-	4	80%	-	26	93%	-
Do all home workers have an agreement?	17	100%	-	7	100%	-	3	60%	-	27	93%	-
Can the amount of work be produced, by one person, within a reasonable number of working hours?	1	6%	-	0	0%	-	0	0%	-	1	4%	-
Does the hourly rate amount to at least the legal minimum hourly wage?	17	100%	-	3	60%	-	2	50%	-	22	85%	-
TOTAL	53	51%	-	21	36%	-	9	29%	-	83	43%	-

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
SANDBLASTING & CHEMICAL HANDLING												
Are legally required air quality measurements done?	5	63%	92%	2	25%	25%	3	38%	33%	10	42%	70%
Is ventilation sufficient?*	0	0%	8%	2	13%	10%	1	13%	0%	3	9%	8%
Are the legally required health checks in place in the factory?	6	86%	86%	4	67%	0%	0	0%	0%	10	43%	57%
Are the workers educated on safe handling and risks?	3	43%	50%	11	69%	56%	3	30%	0%	17	52%	45%
Is there a wash station in direct connection to the workshop in case dust or chemicals gets in workers' eyes?	4	40%	23%	4	27%	30%	6	50%	33%	14	38%	27%
Is hearing protection worn if there is a noisy environment, e.g. sandblasting?	2	29%	56%	2	20%	20%	1	20%	0%	5	23%	40%
Does the factory have the required permit for doing sandblasting?	0	0%	50%	0	0%	0%	0	0%	0%	0	0%	30%
Does the sandblasting material contain less than 1% crystalline silica (SiO ₂)?	2	29%	29%	2	18%	80%	0	0%	100%	4	17%	54%
Is ventilation adopted for sandblasting activity?	0	0%	11%	1	9%	0%	1	17%	0%	2	9%	6%
Is the sandblasting done in a separate area?	0	0%	11%	2	18%	0%	1	17%	0%	3	12%	6%
Is compulsory PPE used?	1	25%	0%	3	33%	60%	2	50%	0%	6	35%	27%
Is additional PPE provided by the employer?	2	50%	0%	3	33%	0%	2	50%	0%	7	41%	0%
Do the cleaning staff have compulsory PPE when cleaning sandblasting area?	1	50%	0%	1	11%	33%	2	50%	0%	4	27%	20%
Are the workers handling PP in storage and mixing using the PPE needed?	2	40%	38%	2	15%	10%	8	57%	17%	12	38%	24%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
Are the workers spraying chemicals using the PPE needed?	3	60%	60%	5	50%	40%	8	67%	33%	16	59%	46%
Are the workers spongeing chemicals wearing impervious gloves?	0	0%	43%	0	0%	0%	2	50%	20%	2	25%	22%
Is the potassium permanganate stored safely?	1	11%	20%	2	15%	20%	8	57%	0%	11	31%	17%
TOTAL	32	32%	39%	46	27%	23%	48	38%	16%	126	31%	30%
METAL PLATING												
Is there a responsible person with chemical education?	0	0%	100%	0	0%	-	0	0%	-	0	0%	100%
Are the workers educated on safe handling and risks?	0	0%	100%	1	100%	-	0	0%	-	1	25%	100%
Is ventilation adopted for metal plating?	0	0%	0%	0	0%	-	0	0%	-	0	0%	0%
Does the factory have a chemical inventory list?	1	33%	0%	0	0%	-	0	0%	-	1	25%	0%
Is compulsory PPE used?	0	0%	0%	0	0%	-	0	0%	-	0	0%	0%
Is the wash station in direct connection with the workshop in case chemicals get in workers' eyes?	2	67%	100%	0	0%	-	0	0%	-	2	50%	100%
Are the legally required health checks in place in the factory?	1	33%	-	1	100%	-	0	0%	-	2	50%	-
Are the non-compatible chemicals separated in storage and in the workshop?	0	0%	0%	0	0%	-	0	0%	-	0	0%	0%
If hydrofluoric acid (HF) is used is it handled safely?	0	0%	-	0	0%	-	0	0%	-	0	0%	-
TOTAL	4	17%	43%	2	22%	-	0	0%	-	6	18%	43%
GRAND TOTAL	5322	29%	29%	2763	24%	17%	2858	24%	25%	10943	26%	24%

NON-COMPLIANCE FINDINGS FROM FAP AUDITS

The figures provided in the above tables are based on all findings from FAP audits (full audits) conducted during 2009 and 2008. In order to create the greatest possible accuracy and transparency, non-compliance levels are weighted according to the frequency each related question from our audit questionnaire was raised during our Full Audit Programme. Questions are only raised where applicable. Accordingly, percentage figures do not necessarily relate to the total number of audits conducted and not to the number of factories in total. Please note therefore that figures do not relate to comparable factories. Audit results from potential new factories, which have been rejected and accordingly never started to work for H&M (55 factories), or have in 2009 been newly approved for supplying H&M (350 factories), are included in the 2009 figures. This means that non-compliances from a total of 405 factories, which have at the time of the audit not yet been supplying H&M, are included in the figures. However, we believe disclosing these figures delivers a transparent picture of our audit results in total and the issues faced on this scale.

During 2009, we further improved our data systems. All figures now refer to the number of violations per requirement as detected during an audit. Previously, figures related to all findings detected during an audit, while one violation could be based on multiple findings. Although comparing 2008 figures gathered through the new and the previous system showed only limited variations, we believe that this is a further step towards improving data quality. To maintain comparability of the reported data, we have therefore updated the 2008 figures disclosed in this report accordingly. Please note, that minor variations to the data as disclosed in our 2008 report result from this.

Several indicators, especially from the area of workers' rights, such as overtime remain to show high non-compliance levels. Partly, this results from further improved supplier transparency in the Far East region (China). Read more about this issue in an interview with our CSR Managers in that region, Tobias Fischer and Erik Carlborg.

Please see our 2009 target follow-up and our 2010 targets for further commentary on major focus issues.

NON-COMPLIANCE FINDINGS FAP AUDITS/FOCUS ISSUES

FOCUS ISSUES RELATED AUDIT QUESTION	FAR EAST			SOUTH ASIA			EMEA			TOTAL		
	NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE			NON-COMPLIANCE		
	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008	NO. 2009	% 2009	% 2008
Do all workers have an employment contract?	138	39%	39%	100	47%	41%	109	39%	42%	347	41%	40%
Are monthly overtime hours within the legal limit?	305	88%	81%	265	83%	71%	183	61%	57%	753	78%	70%
Is overtime compensated according to the law to workers with a monthly salary?	144	56%	61%	80	26%	19%	119	39%	55%	343	40%	46%
Is overtime compensated according to the law to piece rate workers?	204	80%	no. req.	90	78%	no. req.	22	43%	no. req.	316	75%	no. req.
Does the basic salary amount to at least the legal minimum wage for normal working hours (including piece rate workers)?	123	34%	24%	32	10%	7%	40	12%	22%	195	19%	18%
Is sick leave duly granted?	221	65%	51%	12	9%	13%	6	8%	5%	239	44%	32%
Is there a grievance system in place in the factory?	303	90%	90%	179	85%	67%	147	60%	60%	629	80%	73%
Are all basic safety requirements met?	19	5%	20%	47	15%	9%	48	15%	25%	114	11%	18%
Have the workers regularly handling chemicals been trained in safe chemical handling?	78	45%	82%	56	68%	63%	39	59%	66%	173	54%	71%
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines, whichever is strictest?	11	20%	12%	14	28%	16%	3	38%	24%	28	25%	15%

FOLLOW-UP ON GLOBAL SOCIAL TARGETS 2009

FOCUS AREA	ACTIVITIES
Secure auditing method	Ensuring audit quality and internal comparability by developing a benchmarking tool during 2009.
Secure all internal CoC-routines in production offices	Develop internal audit tool and conduct internal audits globally to secure data quality.
Auditor capacity building	Provide training in already identified development areas such as communication and environmental requirements. Through auditor evaluation tool (developed 2008) conduct gap-analysis and identify further auditor development areas. Parallel activity will be to develop training material on management system.

FOLLOW-UP ON GLOBAL SOCIAL TARGETS 2009

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2008*	GOAL 2009	RESULT 2009	COMMENT
EMEA					
Overtime	17a	55%	41%	39%	By close cooperation with our most important suppliers we have been able to see progress towards this goal. Workshops, awareness-raising and remediation activities focusing on our most important suppliers have contributed to reduced non-compliances with regard to the issue of overtime.
Minimum wage	16	22%	20%	12%	By close cooperation with our most important suppliers we have been able to see progress towards this goal. Workshops, awareness-raising and remediation activities focusing on our most important suppliers have, as well as improved routines in our suppliers' selection of potential new subcontractors, contributed to reduced non-compliances with regard to the issue of minimum wages.
Waste water treatment	68a	24%	14%	38%	We did not meet the target, as further non-compliance remained in three factories. We have in the meantime conducted follow-up audits on these factories and we were able to identify further progress. After this, only one factory remained non-compliant with the requirement. We will focus further on this issue and set a related target for 2010.

FOLLOW-UP ON GLOBAL SOCIAL TARGETS 2009

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2008*	GOAL 2009	RESULT 2009	COMMENT
SOUTH ASIA					
Overtime	15	71%	68%	83%	We have initiated a long-term project with a number of key suppliers aiming to understand and remediate causes of excessive overtime. The programme started later than planned and as a consequence did not yet lead to progress in non-compliances. However, we have seen first results in reduced overtime per employee and improved record systems. We will therefore continue to make further efforts on this issue in 2010.
Sick leave	21	13%	Reduction	9%	We have seen slight progress on this target and tendencies over the year have made us confident that we will meet further reductions in non-compliance. We will continue to follow up on further progress through our Full Audit Programme.
Annual leave	22	21%	Reduction	19%	We have seen slight progress on this target and tendencies over the year have made us confident that we will meet further reductions in non-compliance. We will continue to follow up on further progress through our Full Audit Programme.
Grievance/ communication systems	10	67%	41%	85%	Almost all factories have grievance/communication systems in place. However, we also register non-compliance on this audit question in case we see any constraints with the functionality of the grievance system. We will continue working towards well-functioning grievance systems together with our suppliers and set a related target for 2010.
Chemical handling	64	63%	32%	68%	The existence of training in chemical handling at our suppliers has increased. However, during 2009 we decided to further strengthen our requirements and registered every subrequirement as a non-compliance with regard to overall chemical handling training. This has led to a higher non-compliance level. We will continue to follow up this issue and set a related goal in 2010.
Waste water treatment	68a	16%	8%	28%	2008 figures related to the requirements as outlined by the local legislation. During 2009 we started requiring compliance with the BSR water quality guidelines, if stricter. In some countries this has led to a higher non-compliance level. Accordingly, we did not meet the target of reducing non-compliance to 8% and set a new target for 2010 to follow up on this issue.

FOLLOW-UP ON GLOBAL SOCIAL TARGETS 2009

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2008*	GOAL 2009	RESULT 2009	COMMENT
FAR EAST					
Correct wage	18a	24%	13%	6%	In 2009 we identified substantial progress on wages being paid regularly and on time. In order to further follow up on the issue of correct wages we have now set a new target for 2010 by focusing on verifying the basic salary amounts to at least the legal minimum wage for normal working hours and set a new target also relating to correct overtime compensation.
Contracts	13a	39%	21%	39%	We did not achieve progress on the issue of employment contracts and will continue to follow up on this with our suppliers in 2010.
Grievance/ communication systems	10	90%	47%	90%	We have not seen progress towards this goal during 2010. When looking at individual markets Cambodia is standing out as a better example. One third of the factories have a proper grievance system in place. Training programmes and awareness-raising measurements, particularly in China, have not shown the effects we wished for. We will therefore look into the related activities and continue to stress to our suppliers the importance of functioning grievance and communication systems, as we believe functioning grievance systems are an important base for long-lasting improvements and working conditions.
Waste water treatment	68a	12%	6%	20%	Waste water treatment plants are in place in all applicable factories. We have been focusing on assessing the functionality of these plants and it has become apparent that during 2009 there were eight factories which did not yet meet the required BSR water quality guidelines or could not provide sufficient waste water testing reports. We are continuing to follow up on this issue during 2010.
Health & Safety systems	27	20%	8%	5%	Through focusing on the existence of functional management systems with regard to health & safety issues we see progress on this issue and met our target for 2009. However, work on maintaining the compliance level and achieving further progress will continue.
Chemical handling	64	82%	42%	45%	Although we can see some progress towards our goal, we did not manage to fully reach it mainly as a result of slower progress in China. Therefore we will continue to follow up on this issue in our 2010 targets.

*During 2009 we have further improved our data systems. All figures do now refer to the number of violations per requirement as detected during an audit. Previously, figures related to all findings detected during an audit, while one violation could be based on multiple findings. Although comparing 2008 figures gathered through the new and the previous system showed only limited variations, we believe that this is a further step towards improving data quality. Therefore, and to maintain comparability over time, all figures for 2008 and 2009 are reported according to this improved system. Please note that minor variation to the data as disclosed in our 2008 report can result from this.

GLOBAL SOCIAL TARGETS 2010

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2009	GOAL 2010	ACTIVITIES	RESPONSIBLE
EMEA					
Is overtime compensated according to the law to workers with monthly salary?	17a	39%	34%	Via close cooperation with our most important suppliers, we aim for further improved transparency and thereby address and improve overtime compensation. Additionally we will focus on educating the workers in their rights (e.g. overtime, compensation).	Pelle Karlsson
Does the basic salary amount to at least the legal minimum wage for normal working hours?	16	12%	10%	Via capacity building with our most important suppliers' CoC-organisations, we aim to further reduce the number of potential new production units that would fail an audit by breaching minimum wage requirement.	Pelle Karlsson
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines, whichever is the strictest?	68a	38%	25%	We will continue providing education and training in order to raise the awareness levels of waste water requirements. We work together with and request action plans from non-compliant suppliers and will continue to follow up on the progress made.	Pelle Karlsson

GLOBAL SOCIAL TARGETS 2010

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2009	GOAL 2010	ACTIVITIES	RESPONSIBLE
SOUTH ASIA					
Grievance system	10	85%	64%	Continue to raise awareness on rights among our suppliers' employees through film project in Bangladesh.	Basirun Nabi
Overtime hours	15	83%	75%	We will continue with a long-term project started in 2009, which aims to understand and remediate the root causes of excessive overtime. We focus on nine key suppliers in this project.	Basirun Nabi
Is sick leave duly granted?	20*	22%	18%	We will further raise workers' awareness on their rights for example through our film project and will simultaneously involve management in ensuring that related policies and routines for sick leave are kept to.	Basirun Nabi
Have the workers regularly handling chemicals been trained in safe chemical handling?	64	68%	38%	We will further focus on related training with our key suppliers.	Basirun Nabi
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines, whichever is the strictest?	68a	28%	14%	We will continue to focus on following up on the corrective actions planned by suppliers based on the water data tests collected in 2009 in order to fully meet BSR requirements.	Basirun Nabi

*2009-related questions 21 & 22 have been changed to question 20, since this addresses the root cause of leave issues.

GLOBAL SOCIAL TARGETS 2010

REGION/ISSUE	RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE (NO.)	NON-COMPLIANCE 2009	GOAL 2010	ACTIVITIES	RESPONSIBLE
FAR EAST					
Do all workers have an employment contract?	13a	39%	30%	Continue awareness-raising among our suppliers and support them to implement human resources Management Systems.	Tobias Fischer
Does the basic salary amount to at least the legal minimum wage for normal working hours?	16	34%	25%	Clear communication of our expectations to our suppliers in combination with education and implementation of well functioning management and administration systems. Together with the suppliers we will monitor and verify the systems and the data. We will also further integrate wage-related requirements into our purchasing routines and systems.	Tobias Fischer
Is overtime compensated according to the law to piece rate workers?	17b	80%	80%	Clear communication of our expectations to our suppliers in combination with education and implementation of well functioning management and administration systems. Together with the suppliers we will monitor and verify the systems and the data.	Tobias Fischer
Have the workers regularly handling chemicals been trained in safe chemical handling?	64	45%	35%	We will provide our suppliers with training on safe chemical handling both from our internal auditors and from external service providers. This will be followed up together with the implementation of environment and health & safety management systems among our suppliers.	Tobias Fischer
Does the treated waste water quality meet requirements in local legislation and/or BSR water quality guidelines, whichever is the strictest?	68a	20%	20%	We plan to finalise and evaluate the performance of the waste water treatment plants in the region and continue working with our suppliers to make sure all meet the BSR standards and monitor this through random testing. The activities taken might lead to higher number of non-compliance.	Tobias Fischer

CO₂ EMISSIONS

CO₂ EFFICIENCY TARGETS

Our target has been to reduce carbon dioxide (CO₂) emissions by 10% relative to sales until 2009, using 2004 as baseline year. We have exceeded this target and achieved a reduction of 32% instead.

As shown in the chart, in 2009 we emitted 2.63 tonnes of CO₂ per SEK million sales compared to 3.84 tonnes of CO₂ per SEK million sales in our targets' baseline year 2004.

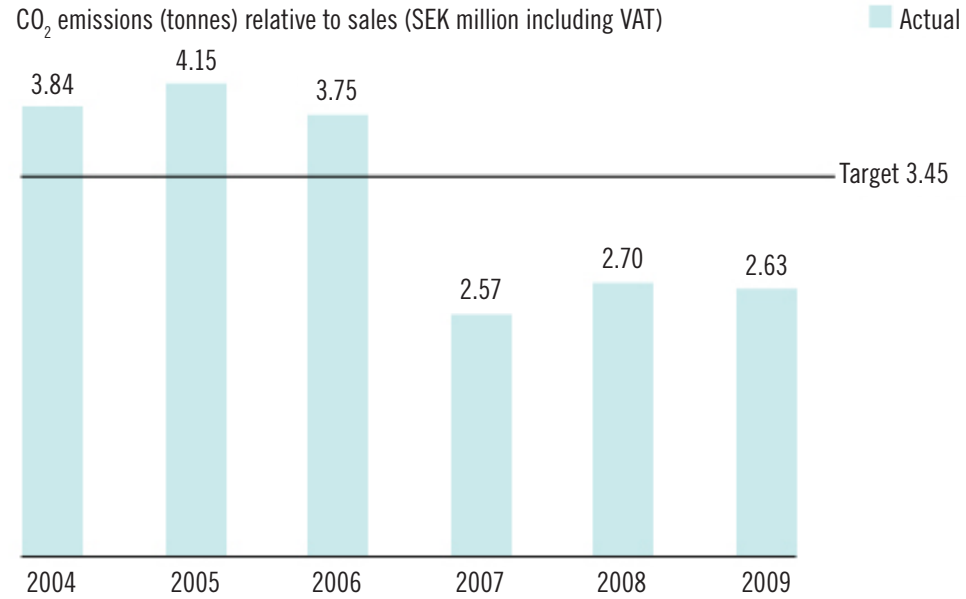
The total actual CO₂ emissions for 2009 were 311,858 tonnes, an increase of 11% compared to 2008, while our turnover increased by 14%. Compared to the baseline year 2004, total carbon emissions increased by 29% while our turnover increased by 88%.

Compared to 2008, significant reductions could be achieved in emissions resulting from business travel and fuels from company-owned cars, both in relative and absolute terms. Good relative reductions have been achieved in transports while emissions resulting from buildings (including energy use) increased.

CO ₂ EMISSIONS BY SOURCE	2009			2008			2007			2006			2005	
	SHARE	TONNES	CHANGE FROM LAST YEAR	SHARE	TONNES	CHANGE FROM LAST YEAR	SHARE	TONNES	CHANGE FROM LAST YEAR	SHARE	TONNES	CHANGE FROM LAST YEAR	SHARE	TONNES
Distribution centres (fuel & heating)	3%	9,581	11%	3%	8,632	14%	3%	7,601	7%	2%	7,125	-39%	4%	11,599
Electricity (entire company)	39%	121,120	28%	34%	94,557	60%	25%	59,162	-51%	40%	120,949	3%	39%	117,647
Total (buildings)	42%	130,701	27%	37%	103,189	55%	28%	66,763	-48%	42%	128,075	-1%	43%	129,246
Transport (road, sea, rail)	34%	106,776	1%	38%	105,565	10%	41%	96,163	6%	30%	90,682	9%	28%	83,149
Transport (air, incl. air from sea/air combination)	17%	52,991	12%	17%	47,525	-5%	21%	50,142	-20%	21%	62,426	-12%	24%	71,131
Total (transport)	51%	159,767	4%	55%	153,090	5%	62%	146,305	-4%	51%	153,108	-1%	52%	154,280
Business travel	6%	18,723	-13%	8%	21,480	1%	9%	21,335	28%	6%	16,691	31%	4%	12,537
Fuel for company-owned cars	1%	2,667	-7%	1%	2,875	6%	1%	2,714	7%	1%	2,531	8%	1%	2,346
Grand total	100%	311,858	11%	100%	280,634	18%	100%	237,117	-21%	100%	300,405	1%	100%	298,409

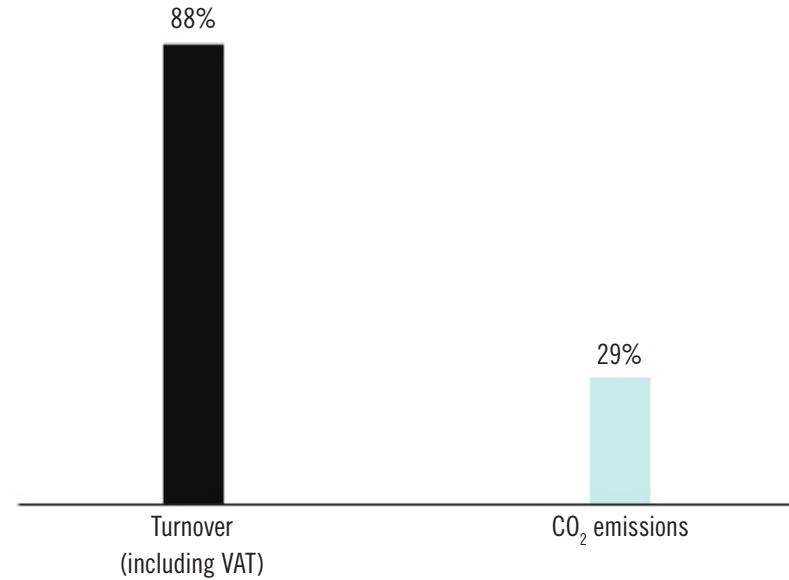
CO₂ EMISSIONS

CO₂ EFFICIENCY TARGETS 2004–2009



INCREASE IN TURNOVER

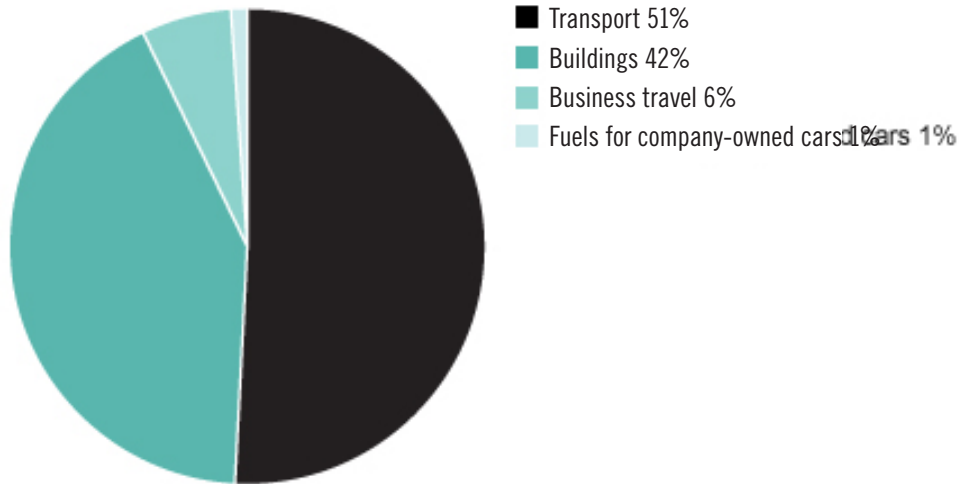
Change in turnover and CO₂ emissions 2008-2009



CO₂ EMISSIONS BY SOURCE 2009

CO₂ EMISSIONS 2009

By source



FOLLOW-UP ON 2009 GLOBAL ENVIRONMENTAL TARGETS

OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2009 ○ NOT COMPLETED ⊗

TARGET	OUTCOME	STATUS	TIMEFRAME	RESPONSIBLE
Include 250 tonnes of transitional cotton into H&M's supply chain	●	The transitional cotton has been booked and will be blended into garments produced in 2010.	2009/2010	Henrik Lampa, Halide Alagoz
Increase the number of garments labelled with the Flower eco-label by 20% over the previous year	●	Achieved an increase of 34% (in total 1,875,000 garments).	2009	Charlotte Tholsby
Increase the use of recycled and recyclable materials by making our plastic bags out of recycled materials	●	Plastic bags made from recycled materials were introduced in 2009 and are being released globally in 2010.	2009/2010	Viveca Kleebinder, Madelene Ericsson
Pilot water-saving washing techniques in denim laundries	●	Pilot successful and program to be gradually extended.	2009	Lars Doemer
Identify hot spots where wet processing units with high water use and/or low water efficiency are located in water-scarce areas	●	Identification of wet processing units completed. 92 out of 296 factories are located in water-scarce or extreme water-scarce areas. Further measures based on this to be developed.	2009/2010	Henrik Lampa
Identify a method of monitoring the carbon footprint of our supply chain	○	Study conducted by BSR on carbon emissions from a garment's life cycle perspective. Further development of methods to measure and final initiating measurement to be done.	2009	Henrik Lampa, Mikael Blommé
Installed wattage for all sales area lighting in new stores reduced by 13%	●	All newly built stores are now constructed accordingly.	August 2009	Peter Ekeberg, Magnus Tångring

FOLLOW-UP ON 2009 GLOBAL ENVIRONMENTAL TARGETS

OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2009 ○ NOT COMPLETED ⊗

TARGET	OUTCOME	STATUS	TIMEFRAME	RESPONSIBLE
To test out energy-efficient solutions in conjunction with the building of a new warehouse	○	In progress. Currently in planning status. Construction planned during 2010.	2010	Martin Winckler-Carlsen, Mikael Blommé
To reduce H&M's carbon dioxide emissions by 10% relative to the size of the company measured in terms of sales	●	Target has been met and exceeded (32% reduction achieved).	December 2009	Ingrid Schullström, Mikael Blommé
Reduction of energy use in stores by 20% per square metre	○	In progress.	2020	Ingrid Schullström, Mikael Blommé
At least 20% of energy use in stores from renewable energy sources	○	In progress.	2020	Ingrid Schullström, Mikael Blommé

GLOBAL ENVIRONMENTAL TARGETS 2010

TARGET	TIMEFRAME	RESPONSIBLE
Organic cotton mix in all of our Flower-labelled baby garments	2010	Charlotte Tholsby, Madelene Ericsson
Increase amount of organic cotton used by 50% each year compared to the previous year's goal (15,000 tonnes by 2013)	2013	Anna Attemark
Use cotton in H&M's supply chain from first Better Cotton Initiative implementation season	2010	Henrik Lampa, Karl-Gunnar Fagerlin
All cotton to come from sustainable sources (such as by now Better Cotton, organic cotton, recycled cotton)	2020	Karl-Gunnar Fagerlin
Initiate supply chain carbon footprint monitoring	2010	Henrik Lampa, Mikael Blommé
Test out energy-efficient solutions in conjunction with the building of a new warehouse	2010	Martin Winckler-Carlsen, Mikael Blommé
Reduce the H&M Group's carbon dioxide emissions relative to sales by minimum 5% per year compared to the previous year	2010-2012	Ingrid Schullström, Mikael Blommé
Reduction of energy use in stores by 20% per square metre	2020	Ingrid Schullström, Mikael Blommé
At least 20% of energy use in stores from renewable energy sources	2020	Ingrid Schullström, Mikael Blommé

EMPLOYEES

EMPLOYEES PER JOB CATEGORY (% OF TOTAL WORKFORCE)*

Store manager: 2.6%

Department manager (in-store): 6.2%

Visual merchandiser: 6.5%

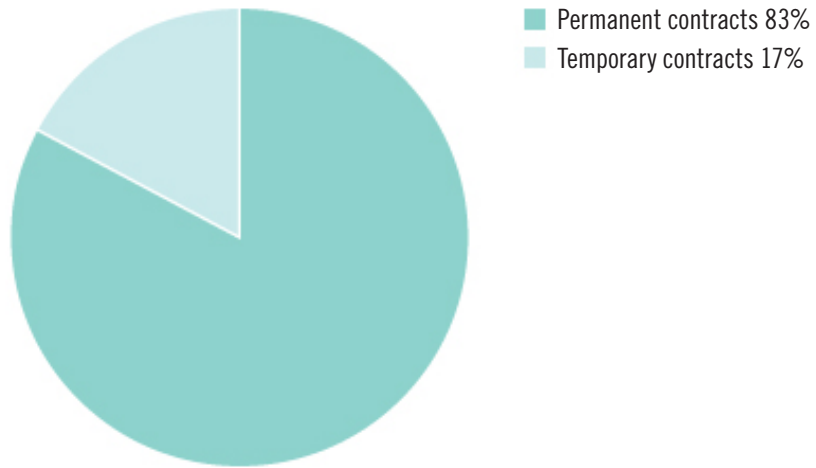
Sales advisor: 66.2%

Warehouse employees: 6.6%

*Applicable for the most common and comparable categories (88% of total workforce).

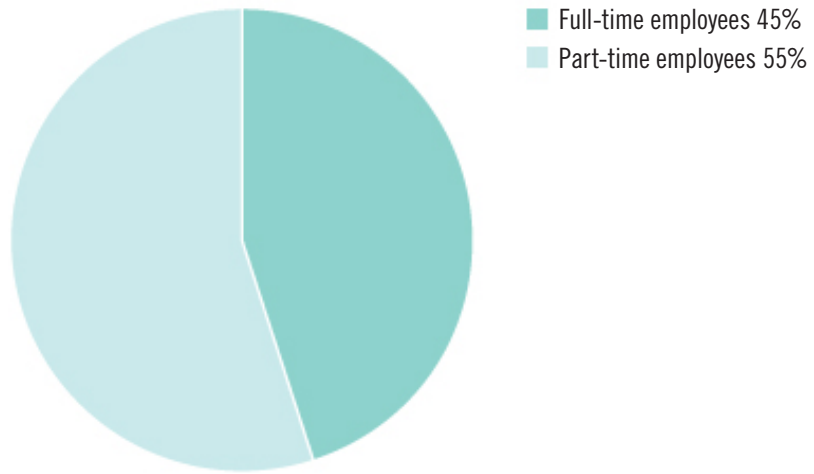
EMPLOYEES

EMPLOYMENT CONTRACT TYPE 2009



EMPLOYEES

FULL AND PART-TIME EMPLOYEES 2009



EMPLOYEES

GENDER DIVERSITY IN MANAGEMENT POSITIONS

Board of Directors: 56% female, 44% male

Group Level Management (incl. CEO): 38% female, 62% male

Sales Country Managers: 48% female, 52% male

Production Office Managers: 46% female, 54% male

Buying Office Division Heads: 57% female, 43% male

Buying Office Section Heads: 83% female, 17% male

Sales Area Managers: 66% female, 34% male

Store Managers: 78% female, 22% male

Total: 77% female, 23% male

Not including franchise operations.

EMPLOYEES

RATIO OF SALARY BETWEEN WOMEN AND MEN*

Store manager: 0.92

Department manager (in-store): 0.95

Visual merchandiser: 0.94

Sales advisor: 0.97

Warehouse employees: 0.95

*Applicable for the most common and comparable categories (88% of total workforce).

APPENDIX 2

GRI INDEX

GRI CONTENT INDEX AND APPLICATION LEVEL

BACKGROUND TO THE GRI SUSTAINABILITY REPORTING GUIDELINES

H&M's 2009 sustainability report was put together by taking into consideration the Sustainability Reporting Guidelines and the Apparel and Footwear Sector Supplement of the Global Reporting Initiative (GRI).

The GRI reporting framework, of which the Sustainability Reporting Guidelines are the core, has three levels of application – A, B and C. Different levels of disclosure across Profile, Management Approach and Performance Indicators define whether a report is A, B or C. A '+' sign indicates the report has been externally assured.

H&M has achieved a 'self declared' level B of application.



A table displaying disclosure against the indicators from the Apparel & Footwear Sector Supplement is also shown here. Although these indicators have not been finalised, H&M have chosen to disclose against them.

The following key has been used to show the extent of report coverage in both tables:

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
PROFILE						
1. STRATEGY AND ANALYSIS						
1.1	Statement from the most senior decision maker of the organisation about the relevance of sustainability to the organisation and its strategy.	●	Approach/CEO Message	Annual Report Part 1/ CEO Letter		

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
1.2	Description of key impacts risks and opportunities.	●	Approach/CEO Message	Annual Report Part 2/ Administration Report/ Risks and uncertainties		
2. ORGANISATIONAL PROFILE						
2.1	Name of the organisation	●	Throughout report	Contact details		
2.2	Primary brands, products and/or services.	●	Approach	Annual Report Part 2/ Administration Report/ Business		
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	●	Approach	Annual Report Part 2/ Administration Report/ Notes to the financial statements		
2.4	Location of organisation's headquarters.	●	Approach/Global brand, global impact and reach	Annual Report Part 2/ Contact details		
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	Approach	Annual Report Part 1; Annual Report Part 2/Notes to the financial statements		

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
2.6	Nature of ownership and legal form.	●		Administration Report/Notes to the financial statements		
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries).	●	Approach/Global brand, global impact and reach	Annual report Part 1/ Market overview		
2.8	Scale of the reporting organisation, including: <ul style="list-style-type: none"> • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalization broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. 	●	Employees; Approach/ Global brand, global impact and reach	Annual Report Part 2/ Administration Report		
2.9	Significant changes during the reporting period regarding size, structure or ownership.	●	Approach/Global brand, global impact and reach	Annual Report Part 2/ Administration Report/ Business		
2.10	Awards received in the reporting period.	●	Approach			

3. REPORT PARAMETERS

REPORT PROFILE						
3.1	Reporting period (e.g. fiscal/calendar year) for information provided.	●	Approach/ How we report			

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
3.2	Date of most recent previous report (if any).	●	Approach/ How we report			
3.3	Reporting cycle (annual, biennial, etc.)	●	Approach/ How we report			
3.4	Contact point for questions regarding the report or its contents.	●	Approach/ How we report			
REPORT SCOPE AND BOUNDARY						
3.5	Process for defining report content <ul style="list-style-type: none"> • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. 	●	Approach/ Engaging Stakeholders			
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	●	Approach/ How we report			
3.7	State any specific limitations on the scope or boundary of the report.	●	Approach/How we report/ Performance & Downloads			
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	●				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	●	Approach/How we report/ Performance & Downloads			
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	●	Performance & Downloads			
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	Approach/How we report/ Performance & Downloads			
GRI CONTENT INDEX						
3.12	Table identifying the location of the Standard Disclosures in the report.	●	Performance & Downloads			

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	ASSURANCE					
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	Approach/How we report			
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT						
	GOVERNANCE					
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	●		Annual Report Part 2/ Corporate Governance Report		
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	●		Annual Report Part 2/ Corporate Governance Report		
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●		Annual Report Part 2/ Corporate Governance Report		

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●		Annual Report Part 2/ Corporate Governance Report		
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	●		Administration Report		
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●				
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	●		Annual Report Part 2/ Corporate Governance Report		
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation.	●	Approach/Sustainability Strategy; Supply Chain/ Code of Conduct			

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	Approach/CEO Message, Sustainability strategy	Annual Report Part 2/ Corporate Governance Report		
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●		Annual Report Part 2/ Corporate Governance Report		
	COMMITMENTS TO EXTERNAL INITIATIVES					
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	●	Approach/Sustainability Strategy			
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	●	Approach/Engaging Stakeholders			
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations	●	Approach/Engaging Stakeholders; throughout the report			

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
4.14	List of stakeholder groups engaged by the organisation.	●	Approach/Engaging Stakeholders, Sustainability Strategy; Performance & Downloads			
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	Approach/Sustainability Strategy, Engaging Stakeholders; Performance & Downloads			
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	Approach/Sustainability Strategy			
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	●	Approach/Sustainability Strategy; Employees/Dialogue & Employee Relations; Performance & Downloads			

5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

ECONOMIC PERFORMANCE INDICATORS						
Aspect: Economic Performance						
DMA	Management Approach disclosures	●	Approach	Annual Report Part 1		

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.	●	Communities	Annual Report Part 2/ The annual accounts and consolidated accounts		
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	○	Approach		● Principle 7	
EC3	Coverage of the organisation's defined benefit plan obligations.	●		Annual Report Part 2/Notes to the financial statements		
EC4	Significant financial assistance received from government.	○				
	Aspect: Market Presence					
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional indicator.)	⊘				
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	⊘				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	⊘				
Aspect: Indirect Economic Impacts Core						
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement.	⊘				
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional indicator.)	○	Approach/Global brand, global impact and reach; throughout the report			
ENVIRONMENTAL PERFORMANCE INDICATORS						
DMA	Management Approach disclosures	●	Environment			
Aspect: Materials						
EN1	Materials used by weight or volume.	○	Environment/Raw Materials		● Principle 8	Refers to the use of organic cotton
EN2	Percentage of materials used that are recycled input materials.	⊘				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Energy					
EN3	Direct energy consumption by primary energy source.	●	Performance & Downloads		● Principle 8	
EN4	Indirect energy consumption by primary source.	●	Performance & Downloads		● Principle 8	
EN5	Energy saved due to conservation and efficiency improvements. (Additional indicator.)	○	Environment/Climate & Energy		● Principle 8, 9	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional indicator.)	●	Environment/Climate & Energy		● Principle 8, 9	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved. (Additional indicator.)	●	Environment/Climate & Energy; Performance & Downloads		● Principle 8, 9	
	Aspect: Water					
EN8	Total water withdrawal by source.	○	Environment/Water		● Principle 8	Information about water usage in wet production processes
EN9	Water sources significantly affected by withdrawal of water. (Additional indicator.)	○	Environment/Water		● Principle 8	

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
EN10	Percentage and total volume of water recycled and reused. (Additional indicator.)	◑				Information about production wastewater quality available at Environment/Water
Aspect: Biodiversity						
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	◑				
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	◑				
EN13	Habitats protected or restored. (Additional indicator.)	◑				
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional indicator.)	◑				
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional indicator.)	◑				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Emissions, Effluents, and Waste					
EN16	Total direct and indirect greenhouse gas emissions by weight.	●	Environment/Climate & Energy; Performance & Downloads		● Principle 8	
EN17	Other relevant indirect greenhouse gas emissions by weight.	○	Environment/Climate & Energy; Performance & Downloads		● Principle 8	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional indicator.)	●	Environment/Climate & Energy; Performance & Downloads		● Principle 7, 8, 9	
EN19	Emissions of ozone-depleting substances by weight.	⊘				
EN20	NOx, SOx, and other significant air emissions by type and weight.	⊘				
EN21	Total water discharge by quality and destination.	○	Environment/Water		● Principle 8	Reference to waste water quality in production
EN22	Total weight of waste by type and disposal method.	⊘				
EN23	Total number and volume of significant spills.	○				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional indicator.)	◑				
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional indicator.)	◑				
	Aspect: Products and Services					
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	Environment; Products		● Principle 7, 8, 9	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	◑				
	Aspect: Compliance					
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	◑				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Transport					
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional indicator.)	●	Environment/Transport; Approach		● Principle 8	
	Aspect: Overall					
EN30	Total environmental protection expenditures and investments by type. (Additional indicator.)	⊘				
	LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS					
DMA	Management Approach disclosures	●	Employees			
	Aspect: Employment					
LA1	Total workforce by employment type, employment contract, and region.	●	Employees/Approach			
LA2	Total number and rate of employee turnover by age group, gender and region.	⊘				
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional indicator.)	⊘				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Labour/Management Relations					
LA4	Percentage of employees covered by collective bargaining agreements.	●	Employees/Dialogue & Employee Relations		● Principle 1, 3	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	◑				
	Aspect: Occupational Health and Safety					
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes. (Additional indicator.)	◑				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	◑				
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	◑				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
LA9	Health and safety topics covered in formal agreements with trade unions. (Additional indicator.)	○	Employees/Dialogue & Employee Relations		● Principle 1	
Aspect: Training and Education						
LA10	Average hours of training per year per employee by employee category.	○	Employees/Training & Development			
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional indicator.)	●	Employees/Training & Development			
LA12	Percentage of employees receiving regular performance and career development reviews. (Additional indicator.)	●	Employees/Training & Development			
Aspect: Diversity and Equal Opportunity						
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	○	Employees/Equality & Diversity		● Principle 1, 6	Breakdown of board and other management categories according to gender

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
LA14	Ratio of basic salary of men to women by employee category.	●	Employees/Our approach; Performance & Downloads		● Principle 1, 6	
HUMAN RIGHTS PERFORMANCE INDICATORS						
DMA	Management Approach disclosures	●				
Aspect: Investment and Procurement Practices						
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	●	Supply chain		● Principle 1, 2, 3, 4, 5, 6	Total numbers available
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	●	Supply chain; Performance & Downloads		● Principle 1, 2, 3, 4, 5, 6	Total numbers available
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional indicator.)	●	Employees/Training on sustainability; Supply chain/ Auditor training		● Principle 1, 2, 3, 4, 5, 6	
Aspect: Non-discrimination						
HR4	Total number of incidents of discrimination and actions taken.	○	Performance & Downloads		● Principle 1, 2, 6	Relating to our suppliers and their subcontractors

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Freedom of Association and Collective Bargaining Core					
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	●	Supply chain; Employees; Performance & Downloads		● Principle 1, 2, 3	
	Aspect: Child Labour					
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	●	Supply chain; Communities; Performance & Downloads		● Principle 1, 2, 5	Relating to our suppliers and their subcontractors
	Aspect: Forced and Compulsory Labour					
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	●	Supply chain; Performance & Downloads		● Principle 1, 3, 4	Relating to our suppliers and their subcontractors
	Aspect: Security Practices					
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional indicator.)	⊘				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
	Aspect: Indigenous Rights					
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	⊘				
	SOCIETY PERFORMANCE INDICATORS					
DMA	Management Approach disclosures	●				
	Aspect: Community					
S01	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	●	Supply chain/Responsible purchasing; Communities			
	Aspect: Corruption					
S02	Percentage and total number of business units analysed for risks related to corruption.	⊘				
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures.	●	Approach/Integrity		● Principle 10	
S04	Actions taken in response to incidents of corruption.	●	Approach/Integrity		● Principle 10	

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
Aspect: Public Policy						
S05	Public policy positions and participation in public policy development and lobbying.	●	Approach/Integrity		● Principle 1, 2, 3, 4, 5, 6, 7, 8, 9, 10	
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country (Additional indicator.)	●	Approach/Integrity		● Principle 10	
Aspect: Anti-Competitive Behaviour						
S07	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes. (Additional indicator.)	◑				
Aspect: Compliance Core						
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	◑				
PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS						
DMA	Management Approach disclosures	●				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
Aspect: Customer Health and Safety						
PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	○	Products; Approach/Our product's journey from cotton to customer		● Principle 1	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life-cycle, by type of outcomes. (Additional indicator.)	⊘				
Aspect: Product and Service Labelling Core						
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	○	Products/Chemical management			
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. (Additional indicator.)	⊘				

GRI CONTENT INDEX

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER IN SUSTAINABILITY REPORT, IF NOT STATED OTHERWISE)	ANNUAL REPORT REF. IF ANY	UNGC PRINCIPLES	NOTES
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional indicator.)	◑				
Aspect: Marketing Communications						
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	●	Approach/ Responsible marketing			
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	◑				
Aspect: Customer Privacy						
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional indicator.)	◑				
Aspect: Compliance						
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	◑				

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
STRATEGY AND ANALYSIS				
	APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON G3 STRATEGY AND ANALYSIS			
	Commentary on 1.2			
	Description of key impacts, risks and opportunities: Where applicable, this should include an assessment of supply chain performance.		Approach/Sustainability Strategy	
CROSS-CUTTING COMMENTARY				
	APPAREL AND FOOTWEAR SECTOR SPECIFIC			
Capacity Building	Commentary for “Training and Education” in the Environment, Labour, Human Rights, Society and Product Responsibility Disclosure on Management Approach sections: This guidance applies to employees internal to the reporting organisation. Indicator AF5 refers to training and education programmes in workplaces within the reporting organisation’s supply chain.		Employees/ Training and development; Supply Chain/Auditor training	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
SUPPLY CHAIN STANDARDS AND PRACTICES SECTION				
	APPAREL AND FOOTWEAR SECTOR SPECIFIC DISCLOSURE ON MANAGEMENT APPROACH			
Code of Conduct	AF1. Code of Conduct content and coverage.	●	Supply Chain/Code of Conduct	
Audit Process	AF2. Parties and personnel engaged in Code of Conduct compliance function.	●	Approach/Supply Chain	
Audit Process	AF3. Compliance audit process.	●	Supply Chain/Monitoring Suppliers	
Grievance Procedures	AF4. Policy and procedures for receiving, investigating and responding to grievances and complaints.	●	Supply Chain/Monitoring suppliers; Employees/Our approach	
Capacity Building	AF5. Strategy and scope of efforts to strengthen capacity of management, workers and other staff to improve in social and environmental performance.	●	Supply Chain/Beyond Monitoring	
Business Integration	AF6. Policies for supplier selection, management and termination.	●	Approach; Supply Chain	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
	APPAREL AND FOOTWEAR SECTOR SPECIFIC PERFORMANCE INDICATORS			
Code of Conduct	AF7. Number and location of workplaces covered by Code of Conduct.**	●	Supply Chain; Performance and Downloads	
Audit Process	AF8. Number of audits conducted and percentage of workplaces audited.**	●	Supply Chain/Audit findings and progress; Performance & Downloads	
Non-compliance findings	AF9. Incidents of non-compliance with legal requirements or collective bargaining agreements on wages.**	●	Performance & Downloads	
Non-compliance findings	AF10. Incidents of non-compliance with overtime standards.**	●	Performance & Downloads	
Non-compliance findings	AF11. Incidents of non-compliance with standards on pregnancy and maternity rights.**	●	Performance & Downloads	
Non-compliance findings	AF12. Incidents of the use of child labour.**	●	Performance & Downloads	
Non-compliance findings	AF13. Incidents of non-compliance with standards on gender discrimination.**	●	Performance & Downloads	
Non-compliance findings	AF14. Incidents of non-compliance with Code of Conduct.**	●	Performance & Downloads	
Non-compliance findings	AF15. Analysis of data from code compliance audits.**	●	Performance & Downloads	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
Remediation	AF16. Remediation practices to address non-compliance findings.**	●	Supply Chain	
Business Integration	AF17. Actions to identify and mitigate business practices that affect code Compliance.**	●	Supply Chain/ Responsible purchasing	
ENVIRONMENTAL SECTION				
	APPAREL AND FOOTWEAR SECTOR SPECIFIC DISCLOSURE ON MANAGEMENT APPROACH			
Materials	AF18. Programmes to replace organic-based adhesives and primers with water-based adhesives and primers.	○	Products/ Chemical management	
Materials	Practices to source safer alternative substances to those on the restricted substances list, including description of associated management systems.	●	Products/H&M Chemical Restriction list	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
Materials	<p>Commentary on EN1</p> <p>Materials used by weight or volume:</p> <ul style="list-style-type: none"> – Including use of pumice, stones and sand under Compilation 2.1 on “Associated process materials – Reporting on pumice, stones, and sand by weight under Compilation 2.3. 	⊘		
Materials	AF20. List of environmentally preferable materials used in apparel and footwear products.	●	Environment/Raw Materials	
Energy	AF21. Amount of energy consumed and percentage of the energy that is from renewable sources.	○	Environment/Carbon & Energy	
Emissions, Effluents and Waste	<p>Commentary on EN21</p> <p>Total water discharge by quality and destination:</p> <p>For Footwear: Reporting on total chromium discharges under Compilation 2.3.</p> <p>For Apparel: Reporting on the discharge of antimony, arsenic, cadmium, chromium, cobalt, copper, cyanide, lead, mercury, nickel and zinc under Compilation 2.3. To be following the appropriate International Organization for Standardization (ISO) analytical method or its equivalent.</p>	○	Environment/Water	
Emissions, Effluents and Waste	<p>Commentary on EN22</p> <p>Total weight of waste by type and disposal method:</p> <p>Report on pumice, stones and sand under Compilation 2.1</p>	⊘		

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
Products and Services	<p>Commentary on EN26</p> <p>Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation: In addition to Compilation 2.2, report on specific programmes to reduce environmental impact of products, including but not limited to manufacturing, product use and packaging use at the design and conceptualisation stages. Report also on the use of recycled materials and the recyclability of products and packaging. Report quantitatively where possible.</p>	●	Environment	
SOCIAL SECTION				
	<p>APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON G3 LABOUR DISCLOSURE ON MANAGEMENT APPROACH. APPAREL AND FOOTWEAR ORGANISATIONS SHOULD INCLUDE THE FOLLOWING WHEN REPORTING AGAINST THE RELEVANT DISCLOSURE ON MANAGEMENT APPROACH.</p>			
Employment	Include the use of foreign migrant workers	○	Supply Chain/ Performance & Downloads	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
	APPAREL AND FOOTWEAR SECTOR SPECIFIC LABOUR DISCLOSURE ON MANAGEMENT APPROACH			
Employment	AF22. Policy and practices regarding the use of employees with non-permanent and non-fulltime status.**	○		
Employment	AF23. Policy regarding the use of home working.**	●	Supply Chain/Home working	
Employment	AF24. Policy on the use and selection of labour brokers, including adherence to relevant ILO Conventions.**	○	Supply Chain/Code of Conduct, Home working	
Wages and hours	AF25. Policy and practices on wage deductions that are not mandated by law.**	●	Supply Chain/Code of Conduct	
Wages and hours	AF26. Policy on working hours, including definition of overtime and actions to prevent excessive and forced overtime.**	●	Supply Chain/Code of Conduct, Building management capacity	
Diversity and Equal Opportunities	AF27. Policy and actions to protect the pregnancy and maternity rights of women workers.**	●	Supply Chain/Code of Conduct	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
	APPAREL AND FOOTWEAR SECTOR SPECIFIC LABOUR PERFORMANCE INDICATORS AND COMMENTARY ON G3 INDICATORS			
Employment	AF28. Percentage of foreign migrant workers as a portion of total workforce, broken down by region.	○		
Labour/Management Relations	AF29. Percentage of workplaces where there is one or more independent trade union(s), broken down by: – Workplaces with a collective bargaining agreement – Workplaces without a collective bargaining agreement Also provide information broken down by country.	◉	Employees/Dialogue & Employee Relations	
Labour/Management Relations	AF30. Percentage of workplaces where, in the absence of a trade union, there are worker-management committees, broken down by country.	⊘		
Occupational Health and Safety	Commentary on LA 7. Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region: – Include health issues associated with reduced lung function due to dust in “Occupational disease rate” under Compilation 2.4. – Include risk assessments and preventative measures for accidents and injuries under Compilation 2.7.	◉	Annual Report Part 2/Notes to the financial statements	

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ◌ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
Occupational Health and Safety	AF31. Initiatives and programmes to respond to, reduce and prevent the occurrence of musculoskeletal disorders.	◉		
	APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON HUMAN RIGHTS DISCLOSURE ON MANAGEMENT APPROACH			
Non-discrimination	The treatment of foreign migrant workers	●	Supply Chain/Code of Conduct	
Abolition of Child Labour	Young workers as recognised by ILO Convention 182	●	Supply Chain/Code of Conduct	H&M's policy against child labour is based on ILO conventions 138 and 182, and the UN Convention on The Rights of the Child

GRI CONTENT INDEX

APPAREL & FOOTWEAR SECTOR

SUPPLEMENT

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

ASPECT	DISCLOSURE	EXTENT OF REPORTING COVERAGE	LOCATION (CHAPTER)	NOTES
	APPAREL AND FOOTWEAR SECTOR SPECIFIC SOCIETY PERFORMANCE INDICATORS AND COMMENTARY ON G3 INDICATORS			
Community Investment	AF33. Priorities in community investment strategy.	●	Communities/Approach	
Community Investment	AF34. Amount of investment in worker communities broken down by location.	●	Communities	
Public Policy	<p>Commentary on S05.</p> <p>Public policy positions and participation in public policy development and lobbying:</p> <p>Report public policy position on the inclusion of labour and environmental protections in trade agreements and the degree to which lobbying positions integrate considerations about the potential effects on workers, communities and organisations in the supply chain under Compilation 2.3.</p>	○	Approach/Integrity	
	<p>** Reporting organisations must also include entities that they monitor (i.e. those defined as under significant influence by the Report Boundary guidance).</p> <p>The UN Global Compact Principles can be found under: http://www.unglobalcompact.org/AbouttheGC/TheTENPrinciples/index.html</p>			