



CONSCIOUS* ACTIONS SUSTAINABILITY REPORT 2010

***IS THE NAME FOR ALL THE WORK WE DO TO
OFFER YOU MORE SUSTAINABLE FASHION,
BOTH TODAY AND TOMORROW**



THINK BEFORE YOU PRINT

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CONSCIOUS* ACTIONS SUSTAINABILITY REPORT 2010

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PROVIDE FASHION
FOR CONSCIOUS
CUSTOMERS

2

CHOOSE
AND REWARD
RESPONSIBLE
PARTNERS

3

BE ETHICAL

4

BE CLIMATE
SMART

5

REDUCE, REUSE,
RECYCLE

6

USE NATURAL
RESOURCES
RESPONSIBLY

7

STRENGTHEN
COMMUNITIES

A MESSAGE FROM OUR CEO



WELCOME TO OUR CONSCIOUS* ACTIONS SUSTAINABILITY REPORT 2010

The year was full of highlights at H&M as we welcomed customers to spectacular new stores in exciting locations around the world, including three new markets: South Korea, Turkey and, via franchise, Israel. We also expanded online sales to the UK, one of H&M's biggest markets.

During the year, our in-house designers created a range of well-received fashion collections and we launched successful collaborations with fashion icons Lanvin and Sonia Rykiel, as well as with world-renowned architect, Jean Nouvel. We acquired full ownership of the brands Monki, Weekday and Cheap Monday and continued developing our brand COS and our home textile concept, Home.

By the end of 2010, we were offering fashion and quality at the best price to customers in 38 countries, through more than 2,200 stores. Profits for the year were up 13 percent

to SEK 25 billion and sales were up to SEK 127 billion (including VAT), making H&M one of the world's largest fashion retailers.

With size comes responsibility and influence. We want our customers always to feel that we do our best to ensure that the fashion we offer has been made, transported and sold responsibly. Taking this responsibility seriously creates opportunities for H&M and we see it as part of our business proposition.

We strive to improve our customer offering at all times. Adding sustainability value to our products is one way to achieve this. This way we can, together with our millions of customers, make a positive contribution to a more sustainable future.

We are often asked how we can offer fashion at such affordable prices. We can do this because we have many years of experience, efficient logistics, strong market knowledge, long-term relationships

with our suppliers and as few middlemen as possible.

Today's economy is global and it is not a question of whether companies like ours should be present in developing countries, it is a question of how we do it.

A misconception seems to be that the price of a product automatically tells us something about the working conditions of the people who produced it. What truly matters are the efforts to improve conditions in supplier factories and the results we achieve.

For H&M, sustainability is a natural part of doing business in a globalised world. Stable purchasing and sales markets, in which people are treated with respect and where resources are used responsibly, are essential to our business model. Naturally, we have to play a role in making this business context a reality.

Salaries, workers' rights and health and safety are some of the most

A MESSAGE FROM OUR CEO

“To continue our efforts to play as full a role as possible, we have made sustainability the responsibility of all departments in the company.”

important challenges in our supply chain and we are happy to see progress on most of our requirements. We have also taken steps to increase our influence on stages further back in our value chain.

By contributing both to improvements in standards and to economic growth, foreign trade can play a major role in the development of countries and can help to lift people out of poverty. As a buyer, H&M indirectly creates jobs for hundreds of thousands of people in the countries we source from. We believe that, by being present in these countries and using our influence to promote good practice, we can make a lasting difference.

To continue our efforts to play as full a role as possible throughout our operations, we have made sustainability the responsibility of all departments in the company. This means that we move further towards integrating social and environmental concern into the daily decision-making for everyone at H&M.

To help each department to find ways of converting this responsibility into action, in 2010 we introduced seven broad commitments as the core of our sustainability strategy.

We also gave our sustainability programme a name: H&M Conscious. As part of this new approach, we will communicate to colleagues, customers and other stakeholders, the Conscious Actions we are taking to fulfil these strategic commitments.

As a starting point, Spring 2011 will see our first Conscious Collection hit H&M stores worldwide. This co-ordinated fashion range for women, men and children will be made from environmentally adapted materials. Following this collection, a continuous range of Conscious Products will be available in our stores, making it easier for our customers to make an informed and more sustainable choice.

Given our determination to be a responsible business, it is natural that we continue to support the

10 principles of the United Nations Global Compact.

Among our achievements in 2010 was our announcement in September, together with Levi Strauss & Co, of a global ban on sandblasting in favour of other techniques used to create a worn look on garments such as denim. This move is part of our ongoing work to improve the health and safety of workers in the apparel industry.

H&M is one of the world's largest users of certified organic cotton. In 2010, the amount we used increased once again, to more than 15,000 tonnes. 2010 also saw the first cotton harvest from the Better Cotton Initiative (BCI), a multi-stakeholder programme aimed at bringing social and environmental improvements to conventional cotton growing. In 2010, we set a new, ambitious target for all cotton in H&M garments to come from sustainable sources, including Better Cotton, organic and recycled cotton, by 2020.

In 2011, we are taking H&M to five more new markets. In March, we



The Conscious Collection, made with environmentally adapted materials, hits H&M stores worldwide in spring 2011.

A MESSAGE FROM OUR CEO

opened successfully in Croatia and Romania. This autumn we will open the first H&M store in Singapore, as well as launching in two new franchise markets, Morocco and Jordan.

Our target is to increase the number of stores by 10-15 percent per year and to increase sales in comparable units. This growth, which is fully self-financed, will take place alongside a continued emphasis on quality, sustainability and continued high profitability.

In our global expansion it is important that we keep strengthening H&M as an attractive employer. Today H&M employs about 87,000 people; they are the key to our success. In order to encourage and acknowledge our employees' long-term involvement, at the beginning of 2011, we launched a long-term incentive programme for all H&M employees. The H&M Incentive Program rewards all employees on the same basic principle, regardless of position, salary level or age. This means that our employees will be able to benefit from H&M's expected

growth in value in the same manner as a shareholder.

By keeping and attracting skilled, creative and devoted colleagues around the world, we hope to stay at the forefront of sustainable business practices.

Thank you for taking the time to learn more about our sustainability work.



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

“Today’s economy is global and it is not a question of whether companies like ours should be present in developing countries, it is a question of how we do it.”

ABOUT H&M

We believe we have a responsibility towards everyone who contributes to our success and to the environment around us

H&M's business concept is to offer our customers fashion and quality at the best price. Our in-house designers create a wide and varied product range for everyone who loves fashion, whatever their age. Quality is key, right through from the first design idea to our customers' experience of our products. That means meeting or exceeding our customers' expectations. For us, that includes working hard to be sustainable in everything we do. H&M is driven by strong values and we aim for sustainability to play a role in every decision we make. We want to offer our Conscious Customers a more sustainable choice in fashion.

GLOBAL PRESENCE, GLOBAL IMPACT AND REACH

In 1947, Hennes opened in Västerås, Sweden. Today, H&M Hennes & Mauritz AB sells fashion for all the family under the brands of H&M, COS, Monki, Weekday and Cheap Monday, along with home textiles at H&M Home. With more than 2,200 stores, we are now present in 38 countries on four continents, with H&M stores opening in five more markets in 2011. In addition, internet and catalogue sales are available in eight countries, now including the UK. Our size and growth help us to make our products, our company and our industry more sustainable.

We do not own or operate any of the factories producing our goods, but instead work with approximately 700 suppliers in around 30 countries, mainly in Asia and Europe. Without a doubt, our global presence has an impact on the people and communities around us, as well as on the environment. Garments can require heavy use of water throughout their life cycle and we all share the urgent task to confront the threats of climate change.

We believe we have a responsibility towards everyone who contributes to our success and to the environment around us – from the cotton fields to our customers. Actively working to fulfil this responsibility is a prerequisite for being able to maintain quality and profitability in the long term.

You can read more about our business development at:

www.hm.com/annualreport

H&M AT A GLANCE

- 38 markets
- 2,206 stores
- 87,000 employees
- Sales including VAT SEK 127 billion
- Profit after tax SEK 18.7 billion





10

HIGHLIGHTS FROM 2010

1

We opened the doors to our first H&M store in Turkey. H&M also launched in Israel and South Korea. Our brand Monki took its first steps out of Europe and was warmly welcomed in Hong Kong, with customers queuing up outside for the whole opening week.



2

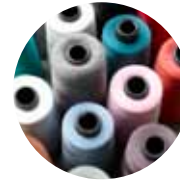
In February, H&M launched a collection of knitwear and playful accessories for women and girls designed by French fashion icon, Sonia Rykiel. A specially designed bag was sold in our stores with 30 percent of the sales price going to H&M and UNICEF's All for Children project.

3

In November, one of the biggest fashion events of the year hit around 200 H&M stores across the globe: our collaboration with the French fashion house Lanvin, full of colourful tailored party dresses. In early 2011, we transformed cut remnants from the production of this collection into a new, fashionable collection – the Waste Collection.

4

H&M is also growing through our Shop Online and catalogue sales. With the launch in the UK in 2010, these sales channels are now available in eight countries and we have announced plans for a US launch around the turn of 2011/2012.



We used more organic cotton than ever before in our products, more than 15,000 tonnes

5

We announced our target for all our cotton to come from sustainable sources by 2020. This includes organic cotton, recycled cotton and better cotton harvested through the Better Cotton Initiative, in which H&M is an active member together with other retailers and organisations such as WWF.



8

We used more organic cotton than ever before in our products – more than 15,000 tonnes. This is an increase of 77 percent compared to 2009 and it makes H&M one of the largest users of organic cotton in the world (2009: rank 5 according to Textile Exchange).

9

In 2010, H&M together with Levi Strauss & Co. announced a global ban on sandblasting, a technique used to give garments a used or worn-out look. Without appropriate protection, the use of this technique can impose health risks on workers. We are happy to see that many other companies are now joining this complete ban.

10

Raising awareness of worker rights among those who work in our supply chain is a vital part of our strategy to contribute to long lasting improvements in conditions. We continued our training programme, using short films to educate workers in Bangladesh and, since the start of 2008, we have reached more than 300,000 workers. We will expand this successful programme to India in 2011.

6

The Garden Collection, made with environmentally adapted materials, hit our stores in spring, with up-to-the-minute designs and customers queuing up in front of H&M stores across the globe.

7

In order to show our appreciation for our employees, H&M initiated an incentive programme for all employees. The programme is due to start in 2011, with a donation from the Stefan Persson family of around 4 million H&M shares – with a value of approximately SEK 1 billion – to the Swedish Foundation named H&M Incentive Program Stiftelse.



THE GARDEN COLLECTION
LAUNCHED IN 2010

ABOUT THIS REPORT

HOW WE REPORT

We report activities and progress on our sustainability programmes annually. This report covers the global group operations of H&M Hennes & Mauritz AB. We have aligned the reporting period with our fiscal year, which is from 1 December – 30 November. Our last sustainability report was published in April 2010.

Our 2010 Conscious* Actions Sustainability Report is structured according to our [seven strategic commitments](#). As signatories to the UN Global Compact, we publish this report as our Communication on Progress (COP). As we are also signatories to the UNGC's CEO Water Mandate, you can find the related [COP](#) in this report as well.

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

this report on page [142](#). 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 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 our own efforts to elicit feedback from our stakeholders, some of which is published in this report, add value and credibility to our sustainability work and reporting. We recognise that many of our stakeholders expect our reporting to be independently assured. We have invested significant resources in developing our data systems and analysis and we are constantly looking to improve the way we report. As such, we have now started a process to look into options for assuring our reporting.

FEEDBACK

We would be happy to hear your feedback on this report. To tell us what you think or ask any questions you might have, please contact hendrik.alpen@hm.com.



MEMBERSHIPS AND INDEXES



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 10 universally accepted principles concerning 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.



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 Turkey and publishes results on its website. Read more about independent monitoring and verification at www.fairlabor.org. Our brand, Cheap Monday, is member of the Fair Wear Foundation (FWF) and its suppliers are subject to independent monitoring under their scope www.fairwear.org.



SUSTAINABLE APPAREL COALITION (SAC)

As a group of sustainability leaders in the apparel sector, including H&M, the coalition works on a collaborative approach to improve the environmental and social impacts of apparel and footwear products. Read more about our involvement on page 21.



FTSE4GOOD INDEX

H&M has been independently assessed according to the FTSE4Good criteria and has satisfied requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria and are positioned to capitalise on the benefits of responsible business practices.



BUSINESS FOR SOCIAL RESPONSIBILITY (BSR)

H&M has been a member of Business for Social Responsibility (BSR) for several years. BSR is a global network of more than 250 member companies, which aims to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration www.bsr.org.

Other responsible investment indices of which H&M is a constituent of, include: the Dow Jones Sustainability Index Nordic; ECPI Ethical Index Euro; ECPI Ethical Index Global; and the OMX GES Sustainability Nordic Index.

VISION, POLICY AND STRATEGY

By adopting new technologies and methods, we can work preventatively to minimise our environmental footprint

VISION

H&M's business operations aim to 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.

SUSTAINABILITY POLICY

H&M's business concept is to offer fashion and quality at the best price. Quality includes ensuring that products are manufactured in a way that is environmentally and socially sustainable. Like all H&M's activities, 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 sustainable social and environmental standards 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

co-operation 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



We take the entire life cycle of our products into account.

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.

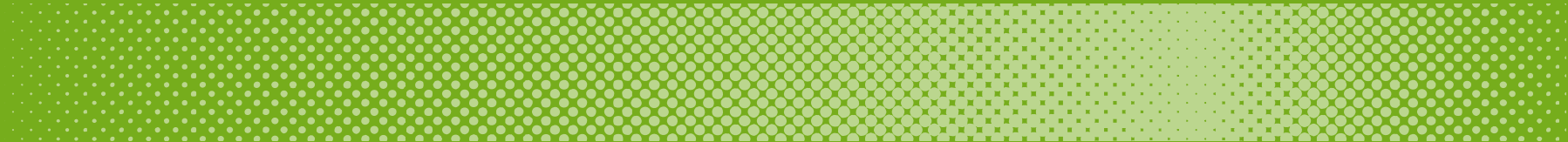
SUSTAINABILITY STRATEGY

At H&M, we see sustainability as 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.

We aim to follow a product life cycle approach in our sustainability work. While we do take into account that our influence is stronger closer to our own operations, we are working hard to minimise our impact and contribute to positive change along our entire value chain. Thereby, we interact with various stakeholders such as our customers, employees, suppliers as well as local and international NGOs and Unions, authorities, our shareholders and many more in a mutual dialogue.

We work to make H&M a business in which sustainability is a natural and fully integrated part of everything we do, and a responsibility that all our departments share and manage together. Our Head Office-based CSR Support department anchors and supports this process.

PRODUCT LIFE CYCLE



The strength of H&M's focus and influence along the product life cycle

OUR SEVEN COMMITMENTS:

1. PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

Make products with an added sustainability value.

2. CHOOSE AND REWARD RESPONSIBLE PARTNERS

Work with partners who share our values.

3. BE ETHICAL

Always act with integrity and respect.

4. BE CLIMATE SMART

Be energy-efficient and inspire others to reduce total CO₂ emissions.

5. REDUCE, REUSE, RECYCLE

Aim for zero waste to landfill.

6. USE NATURAL RESOURCES RESPONSIBLY

Conserve water, soil, air and species.

7. STRENGTHEN COMMUNITIES

Contribute to the development of the communities where we operate.

OUR COMMITMENTS

To continue the implementation of this strategy and to help us remain at the forefront of our industry, we defined seven strategic commitments on sustainability in 2010. These were defined based on our previous long-term goals, our long experience with our sustainability work and our constant dialogue with our stakeholders. The commitments guide our efforts to make our business and products economically, environmentally and socially more sustainable.

To emphasise and clarify our efforts internally and externally, we have given our sustainability programme a name: H&M Conscious. This name stands for all our work-in-progress for a more sustainable fashion future.

Our Conscious Actions work towards fulfilling our commitments. You can read about some of these Actions throughout this report and find out about our progress. As part of our shared responsibility approach, further Conscious Actions will be developed continually throughout our organisation.

Alongside these actions, we offer our customers Conscious Products, a selection of more sustainable fashion choices. The starting point will be a first Conscious Collection, which hits our stores in April 2011.

INTEGRATING AND MANAGING SUSTAINABILITY

As our sustainability strategy sets out, all departments at H&M are individually responsible for integrating sustainable thinking into their business routines, initiating actions and setting goals in order to fulfil our commitments.

This shared responsibility approach moves us away from having a CSR department that drives all our sustainability activity, to a CSR support department that sets overall targets, defines strategies and guides other departments within H&M.

In Autumn 2010, individual meetings were held with the different departments within our organisation. Discussions were based on an analysis, conducted by the CSR support team, of that department's impact on our sustainability. This process will continue throughout 2011.

Actions necessary to enable us to fulfil our seven commitments were then agreed on at follow-up sessions. So far, hundreds of different suggestions for further Conscious Actions have been reviewed by the CSR support department and included in an action plan for 2011.

Sustainability issues influencing more than one department are discussed in a decision-making forum called the Green Room.

MANAGING SUSTAINABILITY AS A SHARED RESPONSIBILITY

CSR support department

Our CSR team comprises over 90 employees of whom 15 are part of our Head Office CSR support department, primarily based in Stockholm. Alongside its work to provide expert support to other business functions and to co-ordinate goals, our CSR support department is responsible for approving methods and tools for data gathering and reviewing performance. Our Head of CSR reports directly to our CEO. The vast majority of our CSR team work in our 15 production offices around the world. From there, they work directly with our suppliers to support them in complying with our Code of Conduct and develop strategies and methods to make our supply chain more sustainable.

Business functions

Each department develops action plans in line with H&M's strategic commitments, implements them, measures and analyses their performance and reports results to the CSR support department.



INTERVIEW WITH HELENA HELMERSSON, HEAD OF CSR

YOU STARTED AS NEW HEAD OF CSR AT H&M IN 2010 – WHAT IS YOUR VISION?

Improving the environmental and social sustainability of our supply chain has been a major focus of our work since the 90s and it will remain a core part of our programme. My long-term vision here is to see our suppliers and their employees able to take full ownership of their sustainability issues. Although I know that there is still a long way to go, we are making progress. But today, sustainability is about so much more than just our direct suppliers. We have already taken important steps to reduce impacts further down our value chain.

Alongside our goal for all the cotton we use to be produced more sustainably by 2020, we have started to look at the carbon and water use impact of our products across their entire life cycle. In the future, being at the forefront of sustainability will mean aiming both to

be carbon neutral and to produce zero waste. That has to be our ultimate aim. I think it is important to bring our customers along with us on this journey. We need to make them more aware of all the work we do to be more sustainable. Fashion should be fun and we want our customers to be able to rely on us taking our responsibility seriously. We want to inspire them to adapt their own behaviour too; for example, by lowering the temperature at which they wash their clothes. I hope that giving our sustainability programme a name, H&M Conscious, will make it easier to engage with our customers on these issues and help them to make more sustainable choices.

WHAT DO YOU THINK ARE YOUR BIGGEST CHALLENGES AHEAD IN THIS POSITION?

Remaining at the forefront of sustainability in our industry is a challenge. The crucial factor is how well we manage to extend our work to improve social and environmental conditions further down our value chain.

The other big challenge is to tackle complex structural issues that underlie much of our supply chain sustainability issues, many of which require an industry-wide response. The discussion about minimum wages in Bangladesh last year is one such example. There, engagement with other buyers and using our joint influence over lawmakers was needed in order for us to make a difference. Taking an active role in public policy, working further towards collaborative actions and building bridges that lead to lasting improvements are some of the things we will put even more focus on in the future.

OBVIOUSLY, H&M HAS A LOT OF GOOD INITIATIVES, BUT HOW SUSTAINABLE CAN H&M BE WHEN OFFERING GARMENTS THAT COST SO LITTLE?

We can offer our customers a more sustainable choice. We can make a difference to hundreds of thousands of people working in our supply chain and to the environment and communities around us. We work hard to make this difference bigger every

“We can make a difference to hundreds of thousands of people working in our supply chain and to the environment and communities around us.”



day. Today there are a lot of companies offering garments at affordable prices. We believe that improving conditions and creating a leaner supply chain that is more efficient, stable and sustainable will give us competitive advantages in the long run, so this work is not incompatible with offering our customers the best price.

IF THAT'S THE CASE, HOW DO SALES PRICES AND THE WAGES OF GARMENT WORKERS RELATE TO EACH OTHER?

Many people seem to believe that low prices are automatically related to bad working conditions and low wages. In fact, today, many garments are produced in low cost countries, regardless of their sales price. The truth is that the price of a garment does not tell us much about how it is produced. We share many of our suppliers with a lot of other brands. Wages for the workers are the same no matter which brand's order they work on. What matters is the effort companies make to improve conditions.

This makes minimum wages in the supply chain a competition neutral factor and, as we did just recently in Bangladesh, we will continue to use our influence and demand minimum wages be increased wherever they are not enough to live on.

With more than 60 years' experience in this business, we have learned a lot about those factors that make it possible for us to offer fashion at such affordable prices. And we have continuously invested in strengthening these.

Our size and our ability to buy large volumes play an important role as well. We cut out middlemen wherever possible and instead focus on long-term, direct and stable relations with our suppliers. This close co-operation helps us to learn from each other and to co-operate in a more efficient way. Having a growing business partner like H&M allows our suppliers to plan their business development better and we support this through active capacity planning with them. This means that our suppliers can set their prices on

the basis of a lower level of risk and we, in turn, can pass these benefits on to our customers – a win-win situation.

TALKING ABOUT WIN-WIN SITUATIONS, HOW DOES YOUR SUSTAINABILITY WORK CONTRIBUTE TO BETTER BUSINESS?

Associating social and environmental improvements with profit is actually not hard; and it's not only the obvious things, like energy and resource efficiency leading to cost savings. Treating our employees and business partners in a fair way helps us to retain talent and build long-term and trusting relationships. As cotton is our most important raw material, we work hard to gain influence over this stage further back in our value chain. Supporting those in our value chain to become better at what they do makes their business more sustainable and our supply more stable and efficient.

What is more, I strongly believe that our customers will increasingly appreciate our efforts to offer more sustainable products as well.

So, by integrating sustainable thinking throughout our company, we can gain advantages that help us to remain competitive and continue to deliver quality and fashion at the best price.

1 PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

IN THIS SECTION

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Product safety and quality	23 ▶

Our business idea is to offer our customers fashion and quality at the best price. To us, quality includes our products being safe and being produced and sold under good conditions, with limited impact on the environment. We work hard to meet and exceed our customers' expectations and constantly to improve our products. We want to offer our customers products that have added sustainability value and empower them to make more informed and sustainable choices.

30,000 chemical tests conducted



USD 2,500,000 of donations generated by sales of cause-related products

\$2.5m

2010

Sustainable Apparel Coalition formed

CONSCIOUS PRODUCTS



GARDEN COLLECTION

In 2010, H&M for the first time offered a full fashion collection made from organic or recycled materials such as organic cotton, organic linen, recycled polyester and Tencel®. Investing in such materials and demonstrating how they can be used to make fashionable garments that meet our customers' demands was an important objective. Recycled polyester used for this collection was made from PET bottles. This collection represented about 5 percent of our total of garments produced from environmentally adapted materials. The interest from both fashion media and our customers has been very high.



The Garden Collection successfully combined more sustainable materials with fashionable designs.

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

CONSCIOUS PRODUCTS



CONSCIOUS COLLECTION - SUSTAINABLE STYLE BY H&M

We aim to make it easier for our customers to make an informed and more sustainable choice. H&M Conscious is the name for all the work we do for a more sustainable fashion future. In our stores, this name will, from now on, highlight all the products that come with added sustainability value.

Following the success of the Garden Collection, H&M is introducing this concept with a first dedicated Conscious Collection in Spring 2011. Our designers have been inspired by different shades of white, one of the most important fashion colours this spring. The Collection is made with more sustainable materials such as organic cotton, Tencel® and recycled polyester. The launch of this collection will be promoted through different communication activities. Read more about how we work towards more sustainable use of raw materials from page 83.



With the launch of the Conscious Collection, a spring fashion range for women, men and children, hits H&M stores globally. Being made with environmentally adapted materials, the Collection is a starting point for a continuous concept.

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS CONSCIOUS PRODUCTS

2,037,600
Garments labelled with the
Flower eco-label sold in 2010

THREE QUESTIONS TO ANN-SOFIE JOHANSSON, HEAD OF DESIGN AT H&M



WHAT DO CONSCIOUS CUSTOMERS EXPECT FROM H&M?

I think our customers expect us to act in a responsible and sustainable way in everything we do; and, of course, they want us to continue offering fashion basics and the latest designs, made with respect to people and planet, at an affordable price.

WHAT CAN YOUR DESIGN TEAM DO TO MEET THESE REQUIREMENTS?

We think a lot about the materials we use. And increasingly, we use materials that are better for the environment. It's not limited to organic

cotton anymore. The range of materials is much broader today and as designers, we have the chance to show what great garments you can make out of them.

We also think about how garments can be designed so that as little waste as possible results from their production. We can also use remnants to make new clothes. This is good for the environment and, in turn, helps us to offer our customers the best value for money.

YOU OBVIOUSLY HAVE GREEN AMBITIONS, BUT H&M SELLS MILLIONS OF GARMENTS EACH YEAR. IS THERE NOT A CONTRADICTION?

We want to offer our millions of customers a better choice. Our scale means that we can have a big impact on the fashion industry – in our supply chain and beyond. Fashion should be fun and our customers should be able to rely on us taking our responsibilities seriously. This also includes offering our customers designs that are meant to last longer than just one season.

EU FLOWER ECO-LABEL

Since 2005, we have sold baby wear bearing the EU's Flower eco-label. The label 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, baby wear bearing the Flower eco-label also complies with H&M's own Chemical Restrictions.

We plan to continue with the use of the Flower eco-label. In 2010, we sold 2,037,600 certified garments, which is 9 percent more than the year before (2009: 1,875,000). Since 2010, all of our Flower eco-labelled garments contain at least 3 percent organic cotton, while many are made of 100 percent organic cotton.

COSMETIC PRODUCTS MADE WITH ORGANIC INGREDIENTS

Debuting in stores at the beginning of March 2010, our range of everyday cosmetic essentials, including shower gel, body scrub, body lotion, hand cream and lip balm, are all based on natural and organic ingredients. They are certified by Ecocert, Europe's biggest certification body for organic and natural cosmetics. These products go together with matching toilet bags made from organic cotton.



PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

CONSCIOUS PRODUCTS

SUSTAINABLE APPAREL COALITION

The environmental and social challenges around the global apparel supply chain affect our entire industry. These challenges reflect some structural issues that no individual company can solve alone.

Therefore, a group of sustainability leaders in the apparel industry, including H&M, began meeting in 2010 with a common goal of developing a universal index to measure environmental and social performance of apparel products and to identify opportunities for pre-competitive collaboration in the apparel supply chain to improve performance. The common vision is an apparel industry that produces no unnecessary environmental harm and has a positive impact on the people and communities associated with its activities.

For H&M, product innovation is crucial and this initiative, is an important forum to share experiences and best practice. We believe that it can define good processes in different life cycle

stages objectively, and measure associated impacts.

The companies that form the Sustainable Apparel Coalition are, together, developing an industry-wide measurement tool: an Apparel and Footwear Index for sustainability performance. This will be tested in 2011. It has an approach that enables companies to evaluate the entire apparel life cycle, from materials, manufacturing and packaging to transportation, use and end of life.

We believe that transparent, credible, practical and universal tools and standards for defining and measuring environmental and social performance, will support the individual interests of all stakeholders.

Initially, the aim will be for the index to support the coalition members in identifying and choosing better practices. The expectation is that consumer-facing scores will be developed in the future. We will continue to communicate our engagement in the Sustainable

Apparel Coalition, and its progress, as the work proceeds.

For more information visit
www.apparelcoalition.org

COLLECTIONS THAT INVEST IN OUR COMMUNITIES

Offering products with added sustainability value can also involve engaging with our customers to support our community investment projects and help raise awareness on the issues they address. In recent years, we have introduced more and more collections and products offering our customers the choice to contribute to selected projects in the areas of education, HIV/AIDS and water. In addition, many of the products in these collections are made from sustainable materials such as organic cotton. Read more about these projects and our work to strengthen communities on page 100.

Fashion Against Aids For the third year in a row, together with Designers Against Aids, H&M launched a collection to raise awareness around

HIV/AIDS and to contribute to prevention projects with a donation of 25 percent of sales prices. The 2010 collection came right in time for the summer's festival season and featured dedicated designs.

WaterAid Since 2002, we have supported WaterAid with 10 percent of the sales price of selected swimwear products. In 2010, we dedicated a whole collection to support WaterAid. This programme has raised around GBP 1.7 million.

All for Children Throughout the year different products hit our stores, supporting the All for Children project that H&M and UNICEF funded together with the help of a USD 4.5 million donation from H&M. A donation of 30 percent of the sales price of these products involves our customers in supporting children in cotton producing areas in India. In 2010, this generated an additional USD 160,000.

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

CONSCIOUS PRODUCTS

Save the Oceans In 2010, our customers supported WWF's work to protect South East Asia's Coral triangle, home to about three-quarters of all coral species such as whale sharks and marine turtles. This generated more than SEK 2.2m (USD 310,000) in 2010.

**H&M's Fashion
Against AIDS
collection**



PRODUCT SAFETY AND QUALITY

Our customers do not just want products that look good, are long-lasting and safe to use – they also want our products to be made and sold in ways that do not harm people, animals or the environment.

In order to achieve this, we continuously refine our processes and methods. We have a strict quality assurance process in place that starts as early as possible in the product life cycle. Our challenge is to adapt our high quality standards to new fashions, products and market regulations and for our products to remain affordable.

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

- Improving product quality
- 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. Even so, we are continuously looking for ways to

make them better and in many cases we apply even stricter standards.

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. Overall, more than 500,000 quality tests on our products were made in 2010.

We have 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 key suppliers to operate their own quality assurance programmes, with good chemical management, early risk assessments and testing to identify potential quality risks. Currently, about 80 percent of our key suppliers are approved to perform physical tests. Further random tests are carried out by H&M on a monthly basis to monitor compliance.

Our local teams are responsible for doing follow-up checks to make

sure suppliers are meeting our requirements.

These teams are supported by a central function where our common standards and requirements are developed.

We have a procedure in place to ensure that products can be rapidly recalled, in case they fall short of our standards and reach our stores despite our well developed system for quality assurance.

If 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 caused the failure in order to prevent it from happening again. The last product recall occurred in 2008.

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

PRODUCT SAFETY AND QUALITY

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. At these meetings we share our knowledge of retailing and textile production and discuss safety issues with both authorities and other companies.

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.

H&M also does not allow animal testing on cosmetic and hygiene products, either during production or on the finished products.

CHEMICAL MANAGEMENT

It can take a lot of chemicals to make clothes. We are working hard to limit the use of 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.

We ban or limit chemical substances that are environmentally hazardous or harmful to humans in all products through the H&M chemical restriction list which all suppliers must commit to complying with.

Our Chemical Restrictions list has been updated 10 times since 1995, most recently in 2009; it now contains around 270 restricted substances.

For more information go to:

http://www.hm.com/filearea/corporate/fileobjects/pdf/en/RM_DOWNLOAD_RESPONSIBILITY_CHEMICAL_LIST_PDF_ENGLISH_GB_1276265087308.pdf

In 2010, around 30,000 chemical tests were performed, mainly in external laboratories. We also fine-tuned our chemical test routine, which rewards suppliers for good chemical management. This led to better implementation rates.

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.

REACH - EU LEGISLATION

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.

Under REACH, companies must notify the European Chemicals Agency when importing into the EU articles containing more than 0.1 percent 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.

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 percent threshold. We have guidelines

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS PRODUCT SAFETY AND QUALITY

450,000
Pairs of shoes produced
with water-based adhesives

and forms in place at all of our European stores to help our colleagues handle these types of requests. During 2010, we responded to six customer requests.

BAN OF TOLUENE

Another major project was to screen and identify the use of toluene in our production processes for accessories. Toluene is a solvent that is connected to a number of health risks for production workers.

We found that toluene is still widely used in many production processes. A workshop with all relevant suppliers has been organised to educate them about the negative health impacts of toluene.

In close co-operation with suppliers and chemical companies, we have started to substitute toluene with less harmful substances. By March 2011 we will have phased out toluene entirely.

FLUOROCARBON-FREE OUTERWEAR

Fluorocarbons are substances commonly used for making outerwear water resistant. They are extremely persistent and can accumulate in the natural environment. High concentrations have been found in animals near the top of the food chain. For a long time, alternatives to fluorocarbons proved elusive, but they are now starting to appear. During 2010, H&M launched its first fluorocarbon-free water resistant outerwear, without compromising quality or price. It is our ambition to increase the number of fluorocarbon-free garments.

WATER-BASED PU (POLYURETHANE)

In co-operation with the chemical company Bayer, we started to conduct trials to convert traditional solvent-based polyurethane (PU) material into water-based PU.

The first results were very promising, but much more work needs to be done to ensure quality and scalability, and greater investment is necessary.

Nevertheless, we hope to get the first products produced with water-based PU in our stores in 2011.

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

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.

AFIRM projects during 2010 dealt with the harmonisation of test methods, supplier seminars and development of supplier material.

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

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 reduce risks for manufacturing workers and lessen the impact of production on the environment.

In 2009, we started working with chemical manufacturers, producers of adhesives and accessory, bag and shoe suppliers to identify possibilities to substitute solvent-based adhesives with water-based alternatives. Several successful tests and trials took place. For one of our shoe styles, converting to a water-based adhesive reduced the volatile organic compounds (VOC) content by 65 percent.

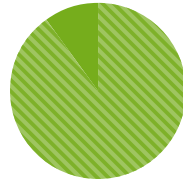
In 2010, 90 percent of H&M's bags were produced using water-based adhesives. For shoes, we began to implement our production using water-based glues in three factories, which together produced more than 450,000 pairs of shoes. We aim to encourage more suppliers to switch to water-based alternatives and aim to increase production to 2 million pairs in 2011.

PROVIDE FASHION FOR CONSCIOUS CUSTOMERS PRODUCT SAFETY AND QUALITY

We plan to produce
500,000
pairs of leather shoes in 2011 with
leather from certified tanneries

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.



90%

of our bags were produced using water-based in favour of solvent-based adhesives

A shoe collection in collaboration with Swedish Hasbeens will arrive in H&M stores in April 2011.

Through this Group, we aim to promote sustainable and appropriate environmental practices within the footwear leather industry. In 2010, we began to co-operate with nine tanneries and conducted tests to ensure their compliance with our quality requirements. We also plan to produce 500,000 pairs of leather shoes in 2011 with leather from certified tanneries.

Read more about the Leather Working Group at:
www.leatherworkinggroup.com



2 CHOOSE AND REWARD RESPONSIBLE PARTNERS

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H&M does not own any of the factories that manufacture our products. Instead, production takes place at around 1,700 factories that are owned or subcontracted by almost 700 suppliers, mainly in Asia and Europe.

We believe that we have a responsibility towards everyone who contributes to our success. Many suppliers are located in countries where human rights violations are a risk. Therefore we commit to choose and reward responsible partners who share our values and work towards continuous improvement of their social and environmental practice. We work directly with our suppliers towards these improvements. Increasingly, we are also working to improve conditions in other parts of our value chain.

300,000

More than 300,000 garments workers in Bangladesh have been educated on their rights through short films since 2008

1,938

1,938 audits on active factories



Average of 3.5 sustainability activities per active factory

OUR SUPPLY CHAIN

Our approach is to use our influence wherever possible to promote good practice and raise awareness, both with our suppliers and their employees as well as others along our value chain. We believe that working together in partnership is the best way we can make a positive difference.

Our supply chain involves a number of processes and people:

BUYERS

Our buying office is based in Stockholm, Sweden. Here our designers, pattern makers and buyers, together with merchandisers in our production offices, create, plan and purchase our collections.

MERCHANDISERS

Based in one of our 15 production offices in Asia and Europe, merchandisers are the link between H&M's buying office and our suppliers. They identify which suppliers to place orders with.

AUDITORS

Also based in our production offices, our audit team, consisting of 76 people, monitors suppliers' compliance with our Code of Conduct through our Full Audit Program (FAP). Today they additionally focus on supporting progress with actions that go beyond monitoring.

SUPPLIERS

All our suppliers sign our Code of Conduct before producing for H&M and we monitor their compliance with it. We aim for our suppliers to take more and more ownership for ensuring good working conditions and environmental performance themselves. We support them in a number of ways, including the provision of training and capacity building. We also help them to develop and improve management systems that will avoid non-compliance on an ongoing basis. Our primary focus is on our key suppliers.

FACTORY EMPLOYEES

Hundreds of thousands of people work in our supplier factories. We think that factory employees should know their rights and be able to claim them. As a buyer, we have the responsibility and opportunity to contribute to better workplace conditions and work to raise awareness of rights at work both with factory employees and managers.

BELOW WE HAVE DEFINED SOME OF THE TERMS USED IN THIS REPORT:

Supplier: an independent company with which H&M has a direct business relationship.

Production Unit / Factory: all factories where production for H&M takes place. This includes our suppliers' own factories and those subcontracted by our suppliers, such as stitching, washing or printing units.

Subcontractor: independent factory that is contracted by our suppliers to perform certain parts of the production process. Subcontracted factories (just as other factories), need to first be approved by H&M and 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: our best suppliers in terms of the balance between price, lead-time, compliance with our Code of Conduct, quality and sampling. They work closely with H&M as partners and long-term planners.

CHOOSE AND REWARD RESPONSIBLE PARTNERS OUR SUPPLY CHAIN

H&M has been working on improving conditions in the supply chain since the 90s. Lars-Åke Bergqvist, Tobias Fischer, Maritha Lorentzon and Veronique Rochet were with us from the very start of this journey. Here they talk about how it all started, how far we have come and where it will lead us.

HOW WOULD YOU DESCRIBE THE DEVELOPMENT OF H&M'S SUPPLY CHAIN EFFORTS UNTIL TODAY?

Maritha: "It was in the 90s, when the occurrence of child labour in Bangladesh came up on the table, that the internal discussion about how to work with our supply chain became more intense. We started the implementation process of our first Code of Conduct. It was at this time that we realised the extent and complexity of our supply chain. Since then, it has been a process and we have gradually been learning along the way that there are subtle problems that we need to address to come to terms with the big issues. We know more today than we did back then and make better informed decisions.

The internal communication has also improved and we are working closer together with our suppliers, trying to support them as much as we can in their efforts to improve."

WHAT IS DRIVING THE PROGRESS AMONG THE SUPPLIERS?

Lars-Åke: "We started with an approach you could call policing. We pushed suppliers to comply with our requirements and sometimes even terminated business relations if not. We had to learn our lessons; for example, that real lasting progress is only made when our suppliers understand their non-compliance issues. Today our work is much more about co-operation. We help our suppliers to improve through a full package of activities – not just auditing. We believe that encouraging our suppliers in an open and clear dialogue, where H&M speaks with one voice throughout our different departments, are success factors to make our supply chain more sustainable.

IS IT POSSIBLE TO SPEED UP THE PROGRESS?

Tobias: "There must be a natural growth. It's a matter of trust between us and the suppliers as well as between our suppliers' management and their workers. We believe in meaningful industrial relations and we see an increasing awareness among the workforce of their rights. The health and safety situation among the workers has improved a lot but there is still a long way to go when it comes to issues regarding for example worker's rights. The challenge today is to achieve a broad impact from what we do in terms of capacity building instead of being involved in projects with a limited reach."

HOW DO YOU SEE YOUR ROLES AND H&M'S EFFORTS WITHIN THE NEXT FIVE TO TEN YEARS?

Veronique: "We believe our suppliers will take a greater ownership of the process. They will do more and they will to a higher degree understand why they are doing what they are doing. In the future, our suppliers will strengthen their dialogue with their



Maritha Lorentzon, Tobias Fischer, Veronique Rochet and Lars-Åke Bergqvist have been working on improving conditions in our supply chain since the 90s.

stakeholders and our role will be to facilitate this dialogue. We also see a stronger focus on environmental issues; how we can gain from being more efficient and saving energy. We will try to work with those issues further back in the value chain and work towards getting the workers more involved in the process."

OUR CODE OF CONDUCT

Drawn up in 1997, our Code of Conduct builds the basis of our efforts to make our supply chain more sustainable. It outlines the requirements we place on all of our suppliers and their subcontractors for improving working conditions and environmental practices in their operations. Factories must work towards full compliance with the Code and we conduct regular audits to assess their level of compliance through our Full Audit Programme.

A commitment to our Code is mandatory to enter into a business relationship with H&M. H&M's Code of Conduct is based on the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work and the UN Convention on the Rights of the Child. It also stipulates that local legislation must be observed. The latest revision to the Code was in 2009.

Our Code of Conduct has eight sections, covering:

- Legal requirements
- A ban on child labour
- Health and 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, we provide an implementation guide for suppliers. This guidance is available in English, Chinese, Turkish and Romanian.

Our Code of Conduct is available in more than 20 languages at:

http://www.hm.com/gb/corporateresponsibility/informationmaterial_downloadsarchive.nhtml



In order to become a supplier, our Code of Conduct must be signed and minimum requirements must be fulfilled.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

OUR CODE OF CONDUCT

EXPANDING THE SCOPE OF OUR CODE

As part of our effort to take a life cycle view of our products, we have expanded the reach of our Code to cover all H&M business partners including manufacturers of non-commercial products. These are goods that are not sold in our stores and range from interior items, such as mannequins, stands and hangers, to mail order and other materials.

Initial trial audits on these type of suppliers have shown that the supply chain for such goods is very different from our products' supply chain, which our existing audit programme is tailored to. As a result, we have started developing methods for auditing suppliers of non-commercial goods.

INTEGRATING OTHER BRANDS WITHIN THE H&M GROUP

The H&M Group today consists of a number of brands. In 2008, H&M acquired 60 percent of FaBric Scandinavien AB, which includes the brands Monki, Weekday and Cheap Monday. In 2010, we acquired the remaining shares to take full ownership of FaBric Scandinavien.

Production for Weekday and Monki takes place at H&M suppliers and is covered by our Full Audit Programme. Currently, H&M suppliers do not make Cheap Monday products and to prepare these suppliers for the requirements of our Full Audit Programme we started to introduce some basic requirements for existing Cheap Monday suppliers in late 2009 and through 2010. Production for Cheap Monday is covered by FaBric Scandinavien's affiliation with the Fair Wear Foundation (FWF) www.fairwear.org.

COS was launched in 2007 and all production is covered by H&M suppliers and our Code of Conduct.



Production for our brands Monki and Weekday is now fully covered by H&M's Full Audit Programme.

HOW OUR SUPPLY CHAIN SUSTAINABILITY PROGRAMME EVOLVED

In the 1990s we started work to improve conditions in our supply chain. Since then we have learned a great deal. See how our programme has developed.

①

1997

Launch of our first Code of Conduct.

②

1998 - 1999

Mapping the extent of our supply chain. First audits focused on visual inspections.

③

1999 - 2000

Audits going deeper - focus on documentation, including wage and working hour records, age certificates and employment contracts.

④

2001 - 2004

Focus on dialogue - worker interviews become part of our audits - first training programmes for suppliers and their employees developed - environmental requirements become part of audits and we publish our first CSR-reports.

⑤

2005 - 2009

We go further beyond monitoring, including extensive capacity building for both management and employees - launch our Full Audit Programme (FAP) and become accredited members of the FLA.

⑥

2010

Going beyond auditing with focus on capacity-building and supplier ownership, worker empowerment, responsible purchasing practices and public policy; starting extended monitoring scope to second tier stages.

MONITORING AND GRADING

2,514 analyses of supplier management systems in 2010

The Full Audit Programme (FAP) is the main tool we use to monitor our suppliers' compliance with our Code of Conduct. Additionally, we focus on helping our suppliers to develop management systems that can prevent non-compliance.

We conducted a total of 1,938 audits on active factories in 2010. As part of a revised approach, we have started to place a strong focus on analysing the existence and effectiveness of our suppliers' management systems instead of remedying instances of non-compliance when they arise. In this way we feel that we can help suppliers even more to understand and prevent workplace and environmental issues more effectively day-to-day, rather than just responding to the findings of our (or other buyers') audits.

INCREASED FOCUS ON MANAGEMENT SYSTEMS

The introduction of our Management System Scorecard in 2009 was a key development in this regard. Some workers' rights issues, such as freedom of association, forced labour and discrimination can be hard to identify in standard audits, so we have developed our approach further in response to this.

Rather than only looking for instances of these issues, we now assess

whether factories have management systems in place that are aimed at preventing violations, and how effective these systems are.

The management system evaluation covers:

- Policy
- Organisation
- Routines and procedure
- Feedback and control mechanisms.

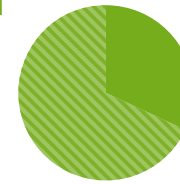
Each area receives a score depending on how well it is functioning. This provides the management with a gap analysis that helps them develop internal systems to prevent non-compliance in the future. During 2010, a working group within our CSR function developed the management system scorecard further by calibrating the assessment approach to take into account differences in our production markets. The following graph on page 36 shows that in 2010, we analysed a total of 2,514 management systems in the areas of:

- Grievance systems and communications

- Health and safety
- Recruitment, introduction and dismissal procedures
- Rules and regulations
- Environment health & safety
- Workers' rights
- Subcontracting.

During 2011, we will work towards integrating the results of these analyses into our newly developed index-based supplier grading system - ICoC. See page 36 for more information.

CHOOSE AND REWARD RESPONSIBLE PARTNERS MONITORING AND GRADING



HEAD AUDITS

68% unannounced
32% announced

NUMBER OF AUDITS 2007 – 2010



2010 figures include audits only on those factories with active production. Figures for 2007-2009 include audits on possible new factories, even if they were not approved for H&M production.

HEAD AUDITS

In general terms, the audit process involves an inspection of the factory site, management as well as worker interviews and an examination of a variety of company files and records, such as timesheets, wage records and employment contracts, to determine compliance with the questions in 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.

Head audits, which are the main audit within an audit cycle of a factory, can take up to six person-days. Once complete the results are discussed with the factory management and the supplier and factory being audited are required to draft a correction plan that outlines the timing and responsibilities for correcting areas of non-compliance. A 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.

FOLLOW-UP AUDITS

Follow-up audits are part of the improvement process and focus on the progress against the correction plan developed after the initial head audit. A full audit cycle regularly consists of one head audit and three follow-up audits over a period of 18-24 months. An important part of this approach 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.

MONITORING RESULTS

In total, we conducted 1,938 audits on active factories in 2010. Figures provided in previous sustainability reports also included audits on factories seeking approval to become H&M suppliers that were not yet approved or active. The comparable equivalent figure for 2010 is 2,561 audits.

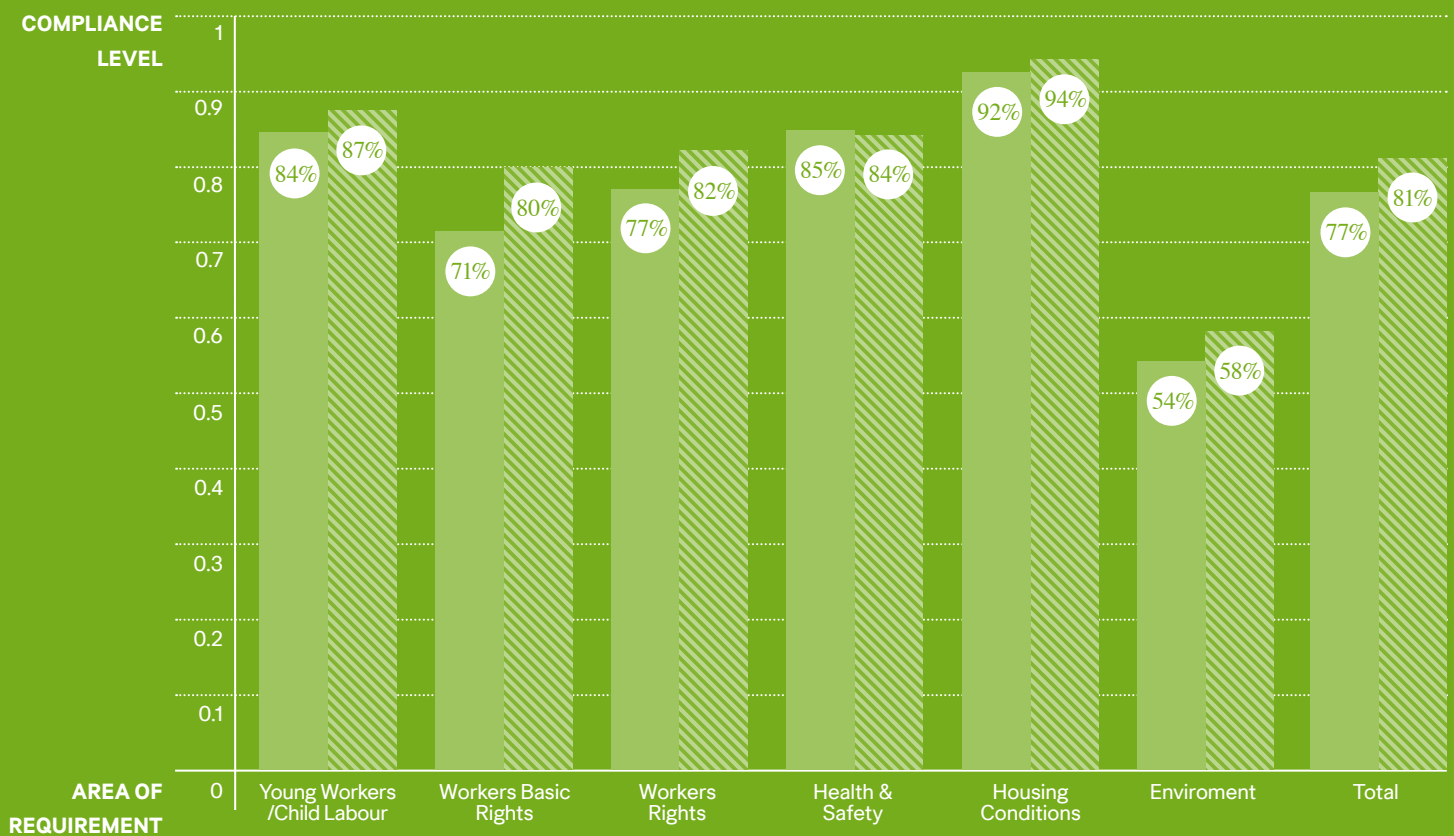
On average, each active factory was audited 1.14 times during 2010. We prioritise countries with higher risks of violations. This means there is a broad deviation with this indicator for different countries, from a high of 1.57 audits per factory in Bangladesh, to 0.15 in Italy.

68 percent of all our head audits were unannounced and we work to further increase this percentage.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

MONITORING AND GRADING

COMPLIANCE PROGRESS FROM HEAD AUDIT TO HEAD AUDIT PER AREA OF REQUIREMENTS



PROGRESS FROM HEAD AUDIT TO HEAD AUDIT

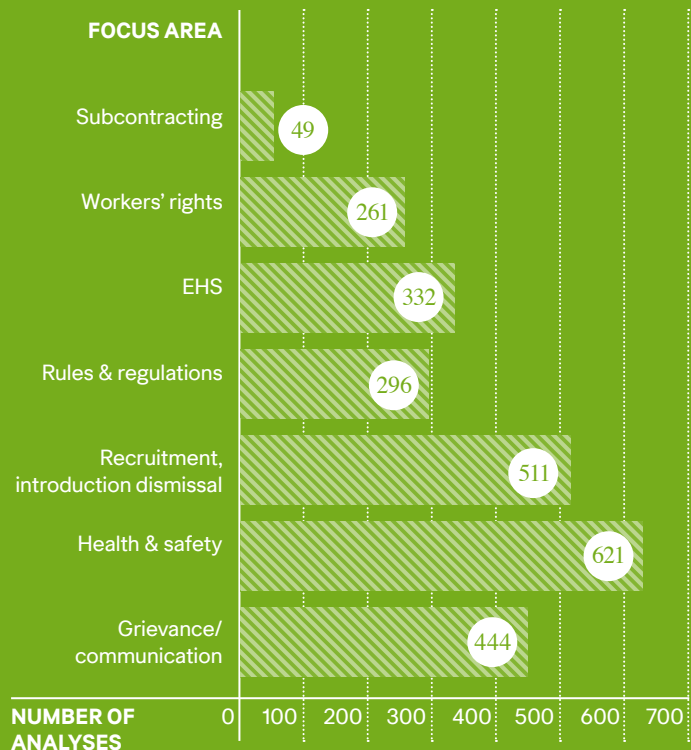
By the end of 2010, a total of 175 factories had completed their third full audit cycle. The data opposite shows the progress these factories have made during this process. Improvements in our audit methods over time and other factors have an effect on the direct comparability of the results although we aim to provide the greatest comparability possible.

The data shows a 4 percent points improvement in the total compliance level, from 77 percent in 2009 to 81 percent in 2010. The areas with strongest improvement are workers' basic rights and environmental requirements. We see a slight decrease of 1 percent in regard to compliance with health and safety requirements. Data and commentary on this indicator, including a breakdown by region, as well as further 2010 audit results are contained in the performance appendix.

CHOOSE AND REWARD RESPONSIBLE PARTNERS MONITORING AND GRADING

1,938
audits on active
factories in 2010

MANAGEMENT SYSTEM ANALYSES 2010



INTRODUCING AN INDEX-BASED GRADING SYSTEM - ICOC

During 2009 and 2010, we have developed and tested a new and more sophisticated way of measuring our suppliers' level of compliance with our Code of Conduct. We launched the new system in December 2010 and from 2011 onwards it will replace our previous system, which graded suppliers and potential suppliers into five broad categories. Details on our outgoing grading system can be found in our 2009 Sustainability Report.

WHAT IS THE ICOC?

ICoC (Index Code of Conduct) is a quantitative index that scores suppliers on every requirement in our Code of Conduct. The new system defines the compliance level of a factory as a percentage based on the results of our audits. The system provides a clearer, more accurate and ultimately comparable grading system.

It is an improvement over our five-level grading system where the possibility for significant differences between suppliers within the same grading level existed; and where a factory in a lower

grading level could in fact have met the requirements of a higher level in some, but not all requirements.

The ICoC system also includes our increased focus on management systems.

MINIMUM REQUIREMENTS

There are still minimum requirements that supplier factories must meet before entering into a business relationship with H&M. To assess compliance with these requirements, our auditors visit each potential new supplier factory prior to a possible order placement and decide on whether or not the factory can be approved. These requirements include:

- Absence of forced labour
- A ban on child labour
- Payment of at least the relevant minimum wages
- Fundamental safety provisions
- Compliance with the H&M chemical restrictions
- Waste water treatment (for factories with wet processes).

These requirements are not weighted and H&M does not accept any breaches.

IMPROVED COMMUNICATION

Our trials have shown that the index also makes communication with our suppliers easier and creates additional motivation to score up. It helps our suppliers to identify weak areas in their operations and develop their management systems to address these weaknesses. We also expect the new system to give us a better picture of the effectiveness of non-compliance remediation and capacity building activities.

IMPROVED INTEGRATION WITH PURCHASING SYSTEMS

Supplier gradings have been integrated within our purchasing systems for a number of years and define which suppliers our buyers can or cannot source from. The new system will allow further integration of sustainability aspects into our purchasing decision-making and will help us to choose and reward the suppliers with the best sustainability performance.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

MONITORING AND GRADING

In order to support this further integration, a working group consisting of different roles from all of our production regions was set up in 2010 together with a number of key suppliers. Read more about responsible purchasing practices on page 53.

INITIAL ICoC RESULTS

Taking a sneak peak at our ICoC results, we see a pattern of general improvement:

- New factories completing their first audit in 2010 have an average ICoC result of 71%
- Factories that were new to H&M in 2008/2009 and completed their second head audit in 2010 scored an average ICoC result of 75 percent
- Long-term supplier factories that completed their third head audit in 2010 gave an average ICoC score of 79 percent.

Our first full year of using ICoC is 2011 and we will report full audit results in next year's Sustainability Report.

JOINT ASSESSMENTS

In 2010, we tested a Joint Assessment Programme (JAP) together with a number of suppliers in China. Joint assessments are based on the same methodology and material as our Full Audit Programme, but H&M and factory staff conduct the audit together. Joint assessments can help to increase our suppliers' understanding of their sustainability performance and opportunities for improvements.

LIMITED AUDITS

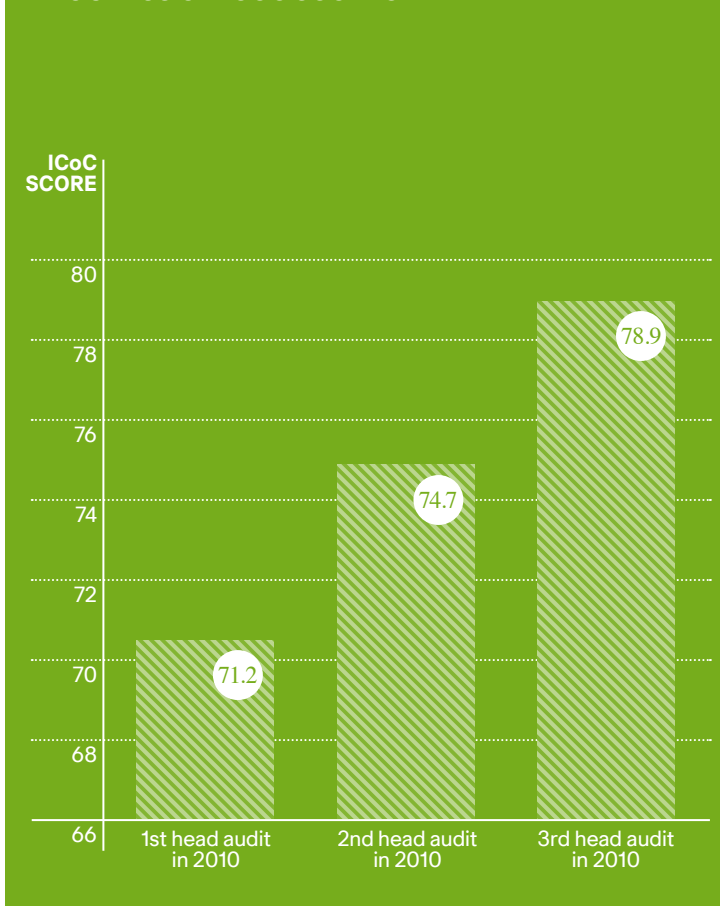
For some years we have been working on finding ways to extend our influence on stages further back our value chain, such as fabric production. In addition to voluntary programmes that encourage better practices, we have developed our Limited Audit Programme. Limited audits focus on selected requirements and aim to tackle the most urgent challenges that are specific to the production processes conducted in a factory.

Using this approach, we have now started auditing selected fabric mills in China and Bangladesh, as well as weaving centres in India.

FABRIC MILLS

In 2009, we started identifying fabric mills in China and Bangladesh that are considered key to our suppliers and production. During 2010, we scaled up the identification to include more mills and we now have 24 mills in China and nine in Bangladesh that take part in our Mill Development Programme. All mills that are considered key to our operations are now required to sign our Code of Conduct prior to fabric booking and work towards compliance with our Code of Conduct using our Limited Audit Programme. Read more about our Mill Development Program on page 49.

PROGRESS ON ICoC SCORES



CHOOSE AND REWARD RESPONSIBLE PARTNERS

MONITORING AND GRADING

WEAVING CENTRES

In 2009, we started looking at working conditions at weaving centres in India that take part in the production of woven scarves. These centres supply our first-tier suppliers with woven fabrics for scarves and are second-tier suppliers. Such weaving centres have rarely been subjected to the influence of brands and their requirements.

Because the production process is less complex compared to other products, we have been able to identify and gain access to this production stage, and weaving centres are now integrated into our Limited Audit Programme.

HOME WORKING

In some countries our suppliers are permitted to use home work for specific parts of the production process. There are several concerns around home working, but 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 female home workers would be unable to take up employment due to household and parental responsibilities. For these reasons H&M has decided to accept home work in some situations, guided by a clear policy that defines which tasks and under what circumstances home work can or cannot be used.

Any operation that is part of the industrial process and can be performed in a factory should be performed there. Home working is only accepted when special workmanship is required and can be considered as handicraft, such as beading or embroidery.

We require our suppliers to inform us when home working is being used. Home working often takes place in villages situated some distance from our suppliers' factories and this can make it harder to monitor whether worker rights are being upheld. In 2010, however, we conducted 23 audits on home working locations in order to ensure that our policy is lived up to.

INDEPENDENT MONITORING AND VERIFICATION

H&M is a member of the Fair Labor Association (FLA) a non-profit organisation dedicated to improving working conditions. The FLA brings together multiple stakeholders from buyers, suppliers, NGOs and others to create lasting solutions aimed at protecting the rights of workers and improving working conditions. H&M has been a member of the FLA since 2006 and we became accredited members in 2008, following a two-year assessment process by the FLA.

Since 2006, the FLA has conducted independent audits of our suppliers in China and, since 2009, also in Turkey. The results of these audits are published in an independent report at www.fairlabor.org. In 2010, the FLA conducted 13 verification audits at supplier factories (10 in Turkey and three in China).

During 2010, H&M got involved with an FLA training programme in China for social dialogue. Read more about this workers' participation project in the Beyond Monitoring section (pg. 52).

H&M Group's brand, Cheap Monday, is a member of the Fair Wear Foundation (www.fairwear.org) and suppliers are monitored independently by the Foundation.

All export-oriented garment production in Cambodia, including production by our Cambodian suppliers, is subject to independent monitoring by Better Factories Cambodia (www.betterfactories.org).

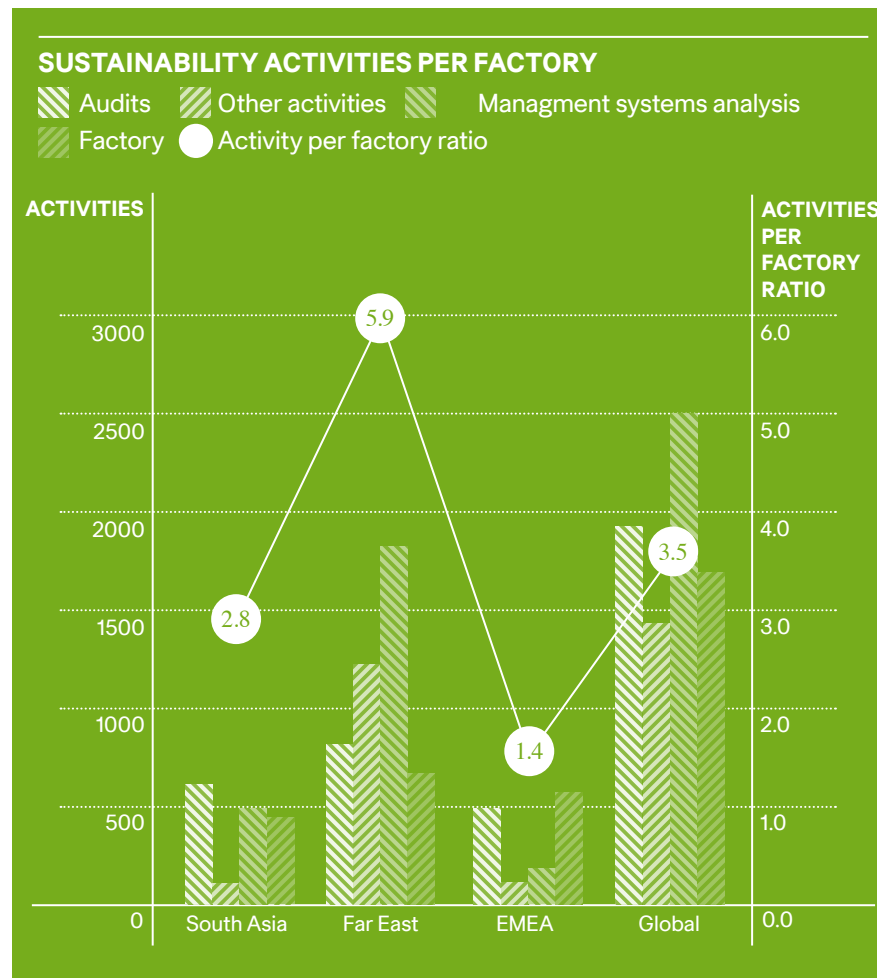
CHOOSE AND REWARD RESPONSIBLE PARTNERS MONITORING AND GRADING

3.5
sustainability activities
per active factory on
average in 2010

FACTORY PRESENCE

In addition to our Full Audit Programme, our presence in our suppliers' factories goes far beyond just auditing. Activities such as capacity building, workshops and training with our suppliers, as well as management systems analysis are some of the additional sustainability activities that accompany our audit programme.

On an average, 3.5 sustainability activities were carried out for each active factory in 2010. Our suppliers are also in constant contact with other functions from our production offices, such as our merchandising and quality departments. This means that we have a regular presence at supplier factories and thereby provide strong support for the development of our suppliers throughout our relationship.



CHOOSE AND REWARD RESPONSIBLE PARTNERS

MONITORING AND GRADING

WHY DO WE HAVE OUR OWN AUDITORS?

We are sometimes asked why we do not rely completely on external monitoring and have a 76-strong team working on supplier monitoring and supporting their progress. The answer is very clear to us.

By doing audits ourselves we immediately get a comprehensive picture of how well our suppliers comply with our social and environmental requirements. This allows us to make the right decisions from a position of knowledge – both in order to support our suppliers in achieving long-term improvements and in taking the right purchasing decisions. The knowledge we gain from this close view of our suppliers is needed to help bring a broader perspective into our decision-making. Other advantages of having our own audit team include:

Comparability – audit results are produced by the same evaluation method that is calibrated within our production countries, so we get comparable data and results.

Values – we transfer our company values to suppliers when representing H&M during the audit and the remediation process.

Knowledge – we transfer our knowledge and experience to the suppliers and factories, improving their capability to identify and address their own weaknesses and in turn, developing our own knowledge within H&M.

Understanding – we get to understand the root cause of non-compliance and can work on remediation plans in conjunction with suppliers.

To maintain the quality of our audits, auditors receive a thorough 12-week introduction training and ongoing training in order to develop their skills further. We think that additional independent monitoring and verification can deliver valuable input to help develop our own methods and routines and at the same time strengthen the credibility of our audit programme.



HOW WE SUPPORT OUR SUPPLIERS IN MAKING IMPROVEMENTS

We are serious about supporting our suppliers in improving their social and environmental performance. Our work consists of much more than just auditing. Here are the different activities our CSR team has undertaken at a randomly-selected supplier factory during one audit cycle, which usually takes 18-24 months.



* Management System

** Environmental Health and Safety

BEYOND MONITORING

Monitoring our suppliers is an important part of our work and has been for more than 10 years. We have seen many supplier improvements resulting from these efforts and we have now started auditing stages of our products' life cycle further back our value chain. But we believe that bringing about sustainable change for complex issues, such as wages or freedom of association, requires more than just monitoring.

Our aim is to shift from regulating and closely monitoring our suppliers, to creating sustainable progress with the active participation of our suppliers' factories and their workers.

To tackle issues on an industry – or country-level, we also believe in engaging with industry bodies and governments, as well as trade unions, NGOs and other brands. This is a vital part of our approach and our daily work. Therefore, we focus on four major areas:

- Building management capacity and strengthening supplier ownership
- Raising workers' awareness of their rights
- Responsible purchasing practices
- Public policy.

NUMBER OF RECORDED CAPACITY BUILDING ACTIVITIES 1 DEC 2009 – 30 NOVEMBER 2010

Region	Education/ workshop	Meeting	Screening	Grand total
Total South Asia	5	59	40	104
Total Far East	371	134	730	1235
Total EMEA and other	22	63	33	118
Grand Total	398	256	803	1457

Notes: Above is the number of recorded capacity-building activities where we invest in our suppliers' development during the year. The table includes both smaller and larger activities and is the first attempt by H&M to illustrate the magnitude of our capacity-building programme. We have not included activities where we invite suppliers to participate in external activities or where we internally develop our auditors.

CHOOSE AND REWARD RESPONSIBLE PARTNERS BEYOND MONITORING

BSR BEYOND MONITORING WORKING GROUP

At the start of 2010, H&M joined the Business for Social Responsibility (BSR) Beyond Monitoring working group. The group consists of a number of international companies with the common goal of shifting from just policing their supply chain to bringing about sustainable change to the complex challenges they face.

Accordingly, the working group is built on four pillars that are well aligned with our own strategy:

- Supplier ownership of labour and environmental conditions
- Internal alignment between commercial and sustainability objectives of buyers
- Empowering workers to be informed and participatory constituents
- Public policy frameworks that foster public-private dialogue, partnerships, and local solutions.

Read more about this initiative and outcomes at: www.bsr.org/consulting/working-groups/beyond-monitoring



We aim for suppliers to better understand their issues and opportunities.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – BUILDING MANAGEMENT CAPACITIES AND STRENGTHENING SUPPLIER OWNERSHIP

Lasting improvements require our suppliers to understand better their sustainability issues and to see the benefits of good social and environmental performance. In the long run, we want our suppliers to take charge of their own sustainability. We call this approach supplier ownership.

Besides auditing their progress, today, we focus on supporting our suppliers by building management knowledge and capacities and helping them to assess their own performance so that they can detect opportunities to improve their own business. During 2010 we performed a total of 1457 capacity building activities (for more details see graph on page 42).

10 STEPS FOR STRENGTHENING SUPPLIER OWNERSHIP

- 1 Get to know the reality and issues in each factory through audits
- 2 Have an open dialogue with suppliers and define clear achievable targets for improvements and remediation of non-compliance
- 3 Have a frequent presence in the factories, not only through audits, and create a close and long-term co-operation with the supplier
- 4 Train audit teams to prepare for moving from a policing agent to a catalysing partners
- 5 Listen to stakeholders, including our suppliers themselves, their employees, trade unions, NGOs, government, industry bodies and other brands; and share knowledge
- 6 Function as a facilitator and help to build suppliers' management capacity
- 7 Know where suppliers can find additional help in strengthening their capacities and link them up with, for example, NGOs, development agencies, consultants or government bodies
- 8 Show the benefits of a sustainable mindset and performance, and reward suppliers for progress
- 9 Educate workers on their rights
- 10 Prepare suppliers for joint assessments and where possible self-assessments, resulting in self-reporting.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

**BEYOND MONITORING –
BUILDING MANAGEMENT
CAPACITIES AND STRENGTHENING
SUPPLIER OWNERSHIP**

**CASE STUDY: SUPPORTING IMPROVEMENTS AT ACCESSORY
AND SHOE SUPPLIERS IN CHINA**

We have been working with accessory and shoe suppliers in China since 2008 to address higher levels of non-compliance with our Code of Conduct by this supplier group. A lower frequency of audits by retail brands in general and a greater use of chemicals in this sector has led to more non-compliance, particularly related to health and safety and environmental requirements.

In 2009, we launched a modular training approach with the aim of improving compliance in a step-by-step manner rather than trying to address all shortcomings at once. The first module focused on environmental health and safety issues; and module two on wages, compensation, overtime and recruitment procedures.

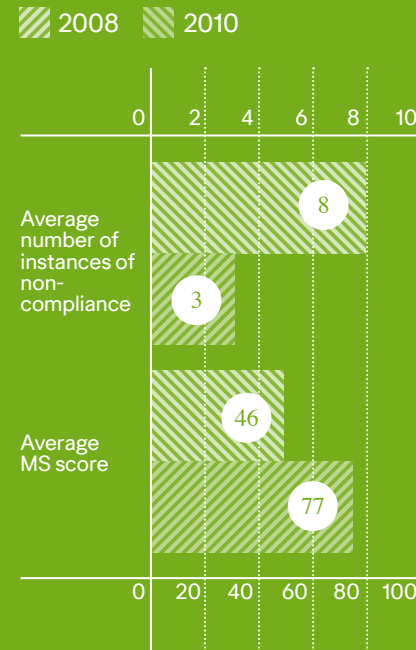
In 2009, 36 factories participated in the training and this has risen to 46 factories in 2010, representing about 50 percent of H&M's accessory production. When comparing 2009 and 2010 audits, non-compliance with

environmental and health and safety requirements have decreased by 63 percent at participating factories and 77 percent now have sufficient management systems for health and safety issues, compared to 46 percent in 2009.

We have also seen improved communication and grievance systems for workers and some factories have implemented bonus systems to boost employee motivation. Wage record data is now automatically reported to H&M on a regular basis.

We will continue this training programme in 2011 and maintain the focus on compensation structures in order to further support the positive progress made in this area.

**PROGRESS ON EHS COMPLIANCE
AND MANAGEMENT SYSTEM
(MS) SCORE IN PARTICIPATING
FACTORIES**

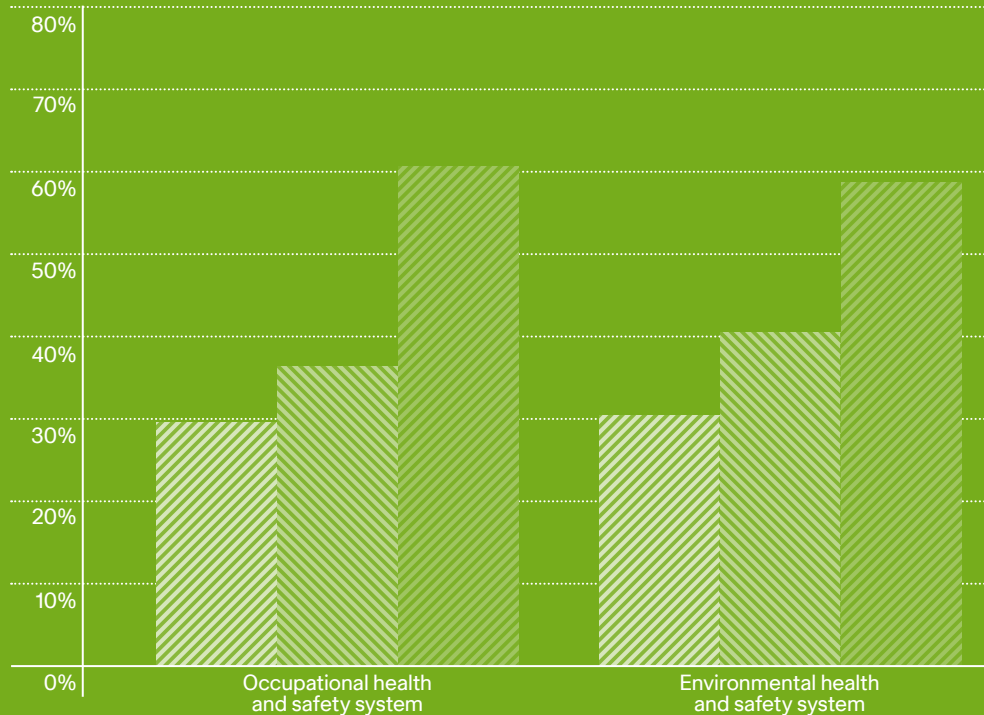


CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – BUILDING MANAGEMENT CAPACITIES AND STRENGTHENING SUPPLIER OWNERSHIP

PROGRESS IN MANAGEMENT SYSTEM SCORES AFTER JOINT ASSESSMENT PROGRAMME

▨ May 2010 ▨ August 2010 ▨ November 2010



JOINT ASSESSMENTS

In order to increase our suppliers' understanding of their sustainability issues and opportunities, we tested a Joint Assessment Programme (JAP) in China in 2010. Joint assessments are based on the same methodology and material as our Full Audit Programme, but H&M and factory staff conduct the audit together and use audit tools jointly and transparently. This way, both can mutually agree on:

- Current weak areas
- Desired state / targets
- Actions to reach targets.

In 2010, we conducted joint assessments at nine underwear factories. The focus of these initial joint assessments has been on environmental health and safety issues and related management systems. The following chart indicates the improvements in management systems quality.

In 2011, we plan to extend joint assessments to a wider range of factories and include more aspects of our Code of Conduct requirements.



CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – BUILDING MANAGEMENT CAPACITIES AND STRENGTHENING SUPPLIER OWNERSHIP

CASE STUDY: TOWARDS CHANGING WAGE STRUCTURES IN CHINA

In China our main focus in recent years has been on ensuring that workers receive the correct wages and that wage systems become more transparent. We have learned that the wage system in China is complex and at times incomplete, which has led to a lack of transparency for workers, our auditors and sometimes for factory management themselves.

In general, the wage systems have been a mix of piece-rate wages, monthly attendance and yearly loyalty bonuses, and deductions for absence and production errors. This complex structure makes it difficult to verify the actual salary of an individual worker. For workers it is often hard to compare wages from one employer to another and even to judge if they are being paid correctly for their working hours.

SUPPORTING SUPPLIERS

During the last two years we have supported suppliers and their

factories in making progress through the following measures:

- Labour rights seminars to fill the knowledge gap with suppliers and factories on what the law says and how it should be implemented. A total of 40 suppliers, with 80 factories participated.
- External Support Programme (ESP) which, among other issues, focuses on securing better HR systems in factories, including proper salary and working hours systems. In 2010 46 factories were enrolled (2009: 36).
- Audits help to focus the attention of factory management on internal management systems, rules and regulations, and wage and payment systems.
- Follow-up audits, which ensure that wage systems are in place and the data coming from factory wage systems is correct, as well as supporting factory management to analyse wage and overtime data

MONTHLY REPORTING

We believe transparency is the first step to driving change and to encouraging transparency among

suppliers. Our CSR team in China has required about 50 percent of our Chinese supplier factories, including all our key suppliers, to submit wage and overtime records monthly for all workers. We have also focused on ensuring that all factories issue relevant labour contracts and payslips to all workers, and that they pay workers' wages on time.

SETTING TARGETS

We have set firm individual targets for the period 2009-2011 that outline what the factories need to achieve to establish sufficient wage systems and pay correct and transparent wages. The targets, and the consequences of losing business with H&M if not reaching them within the timeframe, have been clearly communicated to our suppliers.

ENCOURAGING RESULTS

The results have been encouraging so far and we receive correct wage and overtime data from our suppliers. H&M auditors verify the information when making factory visits. In most cases honesty and transparency,

linked with support from H&M to improve wage structures in factories, has led to positive results. With the few cases where suppliers have not been transparent, H&M has temporarily stopped the business relationship with the supplier until compliance has been achieved.

Our data shows that workers are now essentially getting the correct minimum wage per hour worked. We can also see that more and more workers are getting correct compensation for overtime work. The payment systems become more transparent and understandable for workers, factory management and for H&M auditors.

NEXT STEPS

In 2011, we plan to invite other brands into a discussion on a joint approach to wages in the supply chain in China.

We are also in discussions with the FLA about participating in their Fair Wage Network in our key purchasing markets.

See: www.fair-wage.com

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – BUILDING MANAGEMENT CAPACITIES AND STRENGTHENING SUPPLIER OWNERSHIP

COMMENTARY ON WAGES BY AURET VAN HEERDEN, PRESIDENT AND CEO OF FLA:

“The issue of wages has been a real challenge for the CSR movement, but that is finally starting to change. Buyers, suppliers, trade unions and NGOs are all looking at new ways of getting to grips with the fact that real wages globally have not kept pace with economic growth. In order to rectify this untenable situation, leading buyers, like H&M, have set about systematically collecting wage data, analysing the contexts and the causes of low wages, and then developing strategies for correcting the imbalances.

One of the key realisations in this process has been that we need to look beyond the numbers. The nominal wage taken home by the worker is important but it is only part - some would say a small part - of the wage picture.

Even when wages meet or exceed the legal minimum wage there are other questions to ask. Is there wage inequality in the enterprise? Do wages reflect the workers' contribution to productivity and quality? Are they set through a process of dialogue? Only by looking at the full wage picture can we understand the precise areas where remedies are required.

H&M has done a tremendous amount of work to collect the necessary data and we are very happy to be working with them to analyse the wage situation in their global supply chain, with a view to developing strategies for improvement. This should result in more equity and social dialogue around wages, and ultimately, higher wages for workers.”

MILL DEVELOPMENT PROGRAMME

In general, we do not have direct business relationships with second-tier suppliers such as fabric mills. Our influence is, therefore, less and the possibility to set requirements is limited. Fabric production can require intensive use of chemicals and faces a number of environmental and health and safety concerns. For some years we have therefore focused our work on supporting fabric mills in becoming more sustainable through voluntary programmes such as our Cleaner Production Programme.

Our Mill Development Programme, which we started working on in 2008, targets fabric suppliers in China and Bangladesh that are key to our production and which we have the closest indirect business relationship with. The programme is run in close co-operation with our quality team and aims to improve compliance at this second-tier stage of our value chain. Improvements are targeted with both our chemical restrictions and the environmental and safety requirements from our Code of

Conduct following our Limited Audit Programme. All participating mills sign our Code of Conduct.

In 2010, 24 mills in China and nine mills in Bangladesh took part in the Programme. Following our first audits we have seen a major improvement in the practices in this sector, which has rarely been the subject of auditing by brands.

- The vast majority of the mills now meet wastewater requirements and where these have not been met, we have signed an agreement with the mill to make relevant improvements
- Most safety requirements are met and workers receive relevant training
- All participating mills now have sufficient policies and management systems in place to prevent child labour and to ensure proper recruitment processes.

Given the positive outcome of this programme, we will continue to develop it and aim for the Mill Development Programme to become a regular routine for fabric mills in both China and Bangladesh.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – BUILDING MANAGEMENT CAPACITIES AND STRENGTHENING SUPPLIER OWNERSHIP

TRAINING SUPPLIERS’ EHS PERSONNEL IN INDIA

One of the biggest challenges with suppliers in India is that most of the workers in charge of compliance with our environmental health and safety (EHS) requirements have little knowledge of technical issues like chemical handling and environmental management. This leads to high levels of non-compliance in these areas.

We therefore decided to launch a project to train workers with technical responsibilities in supplier factories on our compliance requirements, such as chemists in charge of quality issues. The programme started with an introductory seminar in October 2010 in Bangalore and representatives from 10 supplier factories have been identified to receive intensive training on H&M’s specific requirements on environmental issues and chemical handling.

After this, the newly-trained workers assessed their own factories and submitted correction plans to H&M outlining timelines and concrete actions. This will be followed by an H&M assessment in February 2011 to verify corrective actions and provide suggestions for further improvements.

The key success factor for this project will be the ownership and understanding of our requirements by workers with knowledge and interest in these issues.

A second seminar is planned for May 2011 to discuss status, achievements and challenges, and to plan further steps to sustain a safe workplace. The goal of this initiative is to have zero compliance issues by the end of 2011 and if successful the programme will be rolled out to all Indian suppliers in 2012.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – RAISING WORKERS’ AWARENESS OF THEIR RIGHTS

If we want our suppliers to be in charge of their own sustainability in the long run, this needs to involve their employees. Employees need to know their rights and how to claim them. Ultimately, we want them to be able to influence their situation through dialogue with their employers. Achieving this position remains a challenge today as many sourcing countries lack sufficient systems for industrial relations and, even if they do exist, workers’ committees do not always function effectively.

To tackle these challenges, we have in recent years initiated training programmes to raise workers’ awareness of their rights and procedures to claim them. For several years, through our audit programme, we have also monitored the existence and effectiveness of worker/management communication systems, such as grievance systems and effective workers’ committees.

WORKERS’ AWARENESS FILMS IN BANGLADESH AND INDIA

To address this need we collaborated with local NGOs in Bangladesh to develop a series of five short films, supported by training packages. The films cover some of the key issues covered by our Full Audit Programme, namely:

- Maternity leave
- Leave and documentation
- Abuse and grievance
- Health and safety
- Overtime.

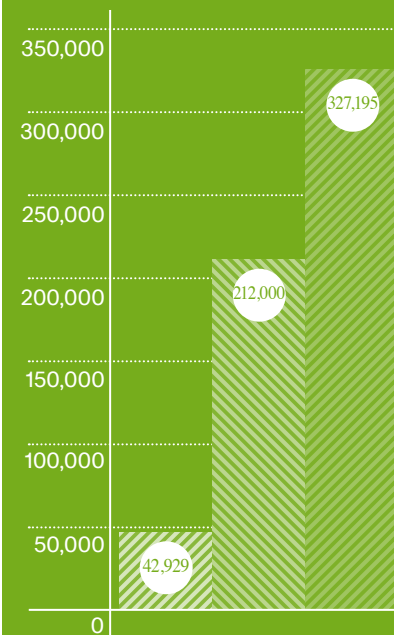
Grievance systems and worker/management communication are cross-cutting issues that are emphasised in all the films. The films show day-to-day scenarios and suggest how workers and managers should deal with situations that might arise.

Besides raising awareness, our aim has been to encourage more suppliers to improve their own training of employees, for example by using these resources to help educate new employees. Feedback has been excellent and factories have requested films covering additional topics.

During 2010, we continued to distribute the films to all new suppliers, and shared the material with other brands. In 2010, more than 115,000 workers and middle managers viewed the films.

WORKERS AND MIDDLE MANAGERS REACHED THROUGH AWARENESS RAISING TRAINING FILMS (ACCUMULATED)

2008 2009 2010



CHOOSE AND REWARD RESPONSIBLE PARTNERS BEYOND MONITORING – RAISING WORKERS’ AWARENESS OF THEIR RIGHTS

Since 2008 more than 300,000 garment workers and middle managers in Bangladesh have been educated on worker rights through short films.

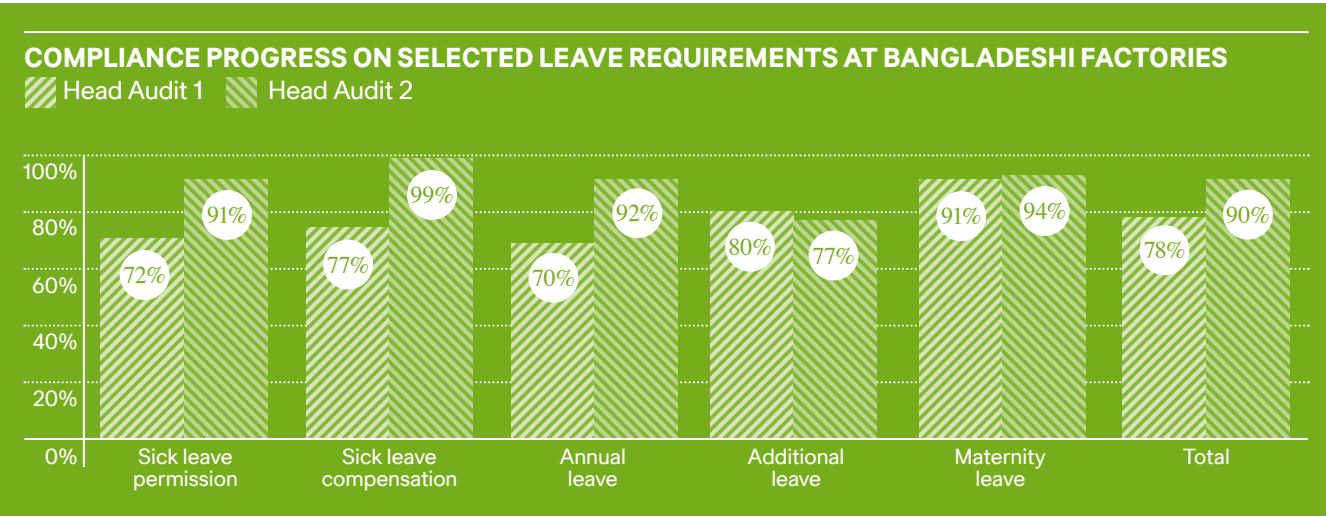
Our audits show encouraging developments in compliance related to the issues covered in the films. As the chart below shows, the compliance level for leave (time-off) issues at 86 factories in Bangladesh that have participated in this training has improved from 78 to 90 percent between their first and second head audits. This supports our belief that raising awareness can have a positive effect on compliance since workers start claiming their rights more effectively.

Due to its success, we have decided to adopt this approach to awareness-raising in India, where we will produce a number of locally adapted short films together with the NGO Solidaridad. The programme in India will start during 2011.

WORKERS’ CAPACITY BUILDING PROJECT - INDIA
Since 2007 we have run a modular training project in Tirupur, India. One of the challenges this training aims to address is that workers’ committees

often exist at factory level, but do not always function effectively to promote workers’ rights and ensure worker participation.

By raising awareness of workers’ rights and the understanding of local labour laws, the project aims to encourage workers to support their worker committees and develop appropriate strategies for communication and grievance-handling systems.



Involving our suppliers’ employees is part of our work.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – RAISING WORKERS’ AWARENESS OF THEIR RIGHTS

The training consists of three modules:

Module I: Education on monetary benefits to enable workers to access their Social Security benefits.

Module II: Education on workers’ rights to show their rights on working conditions and workplace environment, including working hours, minimum wages, equality, health and occupational safety etc.

Module III: Education for all committee members to create an understanding of what a functional committee is and to develop strategies to improve their work.

We currently have three suppliers and five factories participating in the project and each of these has implemented a so-called WCB-team that ensures all new employees receive training on their rights and that all employees receive monthly refresher training to maintain knowledge. To date in these factories, 86 percent of all workers have received training on module I, and 83 percent have started training in module II.

FLA WORKER PARTICIPATION PROJECT - CHINA

China is a market that faces a number of challenges when it comes to worker participation. Freedom of association is not permitted by law and although we see positive tendencies many factories still lack sufficient systems for dialogue between workers and management.

At the same time, the Chinese garment industry increasingly faces labour shortages and the challenge of retaining skilled workers. We believe that improving worker participation is key to tackling these challenges and will lead to more stable supply from China that includes better working conditions. So in 2010, we decided to join the FLA’s Worker Participation Project to support progress in this area.

The project is designed to create a platform for worker/management dialogue and provides training to worker representatives and factory managers. Currently, two of our suppliers are participating in this

project, which will continue through 2011. The desired outcome is improved communication systems in the factories and at the end of the project these will be evaluated and we will then decide whether to scale-up the project.



Worker participation in China needs further improvements.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – RESPONSIBLE PURCHASING AND SUPPLIER RELATIONS

We have high expectations of our suppliers, in terms of quality, prices, lead times and Code of Conduct compliance. 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 meet our standards. This has an impact on how we design, plan and purchase our collections.

THE CHALLENGE

Late changes to a product's design or poor communication with our suppliers can lead to tight production lead times. This can result in inefficiencies and affect the working conditions at our suppliers' factories and the quality of the products.

H&M aims to ensure that our own purchasing practices do not conflict with the requirements of our Code of Conduct. This can sometimes be difficult as we strive to meet the demands of our customers. Regular mutual feedback, open communications and clear expectations all play an important role in overcoming this challenge.

A PARTNERSHIP APPROACH

Long-term partnerships with our key suppliers provide mutual benefits.

Together with our suppliers we can plan ahead and learn from each other, enabling us to develop and grow together. For our suppliers, being a good partner to H&M includes actively working towards full compliance with

our Code of Conduct. Showing this commitment brings related benefits, such as long-term order planning and stable orders over time. All factories have a Code of Conduct grade based on the results of our Full Audit Programme and this will change to a more accurate and comparable index-based score as we roll out our new ICoC grading system in 2011 (see page 36 for details).

PRICE SETTING AND PAYMENTS

We think an honest approach and mutual transparency are the basis for a good business partnership. 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 of both reasonable market prices and our suppliers' costs in order to agree a fair price. We follow the ethos of 'negotiating, not bargaining'. Payment



A close dialogue is essential.

procedures for our chosen suppliers are clearly agreed in advance and our policy is that we will pay all invoices on time.

Regardless of the price that might be offered, however, we would not consider a supplier that does not comply with the minimum requirements of our Code of Conduct or our quality standards.

CHOOSE AND REWARD RESPONSIBLE PARTNERS

BEYOND MONITORING – RESPONSIBLE PURCHASING AND SUPPLIER RELATIONS

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.

As part of our commitment to good communications, we strive to apply pre-order product planning, with early information about product specifications, wherever possible. With our key suppliers we develop long-term capacity plans about six to 12 months in advance and aim to plan our purchasing process accordingly. These planning systems help suppliers to monitor their capacity, performance and adherence to our Code of Conduct.

As a fashion company in a fast-moving market, we need to meet our customers' demands. This can sometimes mean late changes on product orders. Intensive capacity and pre-order planning alongside our suppliers, with clarity on volumes and lead times, can help to minimise this.

We want our suppliers to be good partners to H&M. We reward suppliers that show strong improvement, in terms of business performance and Code of Conduct compliance, with stable orders or higher order volumes.

Our commitment to suppliers is clear – through working with H&M, we want them to grow and develop further.

SUPPLIER DEVELOPMENT

In order to support the development of our suppliers, H&M places a focus on sharing knowledge and providing training. We think this contributes to a more sustainable supply chain.

Our production offices around the world are responsible for identifying the right suppliers and allocating production. 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 on our suppliers. Code of Conduct compliance determines

which suppliers can and cannot be used and can also play a role in defining order quantities placed with certain suppliers.

ENDING SUPPLIER RELATIONS RESPONSIBLY

While rejecting suppliers could be seen as a quick fix to react to instances of non-compliance, H&M commits to work together with our suppliers to make long-lasting improvements through our partnership approach. We clearly inform suppliers about the business risks that can result from non-compliance and seek to educate them and support their development. Where there are problems, we work to encourage improvements.

Despite this, 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, the termination of contracts has a significant impact and can leave

thousands of garment workers unemployed. H&M therefore not only has responsibilities to a supplier during a relationship, but also when a relationship comes to its end.

When a relationship needs to be ended, we commit to a reasonable phase-out period and inform our suppliers around three to six months in advance, in order to give them the time and opportunity to find other customers. When a supplier closes down factories, we try to influence them to follow legal requirements.

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Many of the challenges we face in order to make our entire value chain more sustainable are complex and go far beyond the individual factory level. Many issues concern whole industries or require country-specific solutions. Also, the deeper down our value chain we go the less direct our business relations become and our influence weakens.

Teaming up with partners on voluntary programmes and using our influence to improve public policy related to supply chain issues are some of the actions we take to tackle these challenges.

TOWARDS HIGHER WAGES IN BANGLADESH

In Bangladesh, the government does not review minimum wage levels regularly and systems for employees to negotiate directly with their employers are generally not sufficient.

FOR SUSTAINABLE WAGES

We see that statutory minimum wages, sector standards, and preferably collective agreements, are the only realistic systems to achieve sustainable development of wages across an industrial sector. We also believe that these systems must define wage levels that are enough to live on. Our Code of Conduct requires our suppliers to pay wages based on whichever of these systems provides the highest wages.

Until 2010, the minimum wage level for the garment industry in Bangladesh was last reviewed in 2006. During this time living costs have increased resulting in minimum wages going down in relative terms.

ENGAGING WITH THE BANGLADESHI GOVERNMENT

Where minimum wages are too low, we can use our influence to demand systematic improvements. In January 2010, together with a number of other companies, we sent a letter to the government of Bangladesh. Together, we requested an urgent review of the minimum wage and the establishment of a mechanism for a yearly review.

In a second letter from our CEO, Karl-Johan Persson, to the Prime Minister in August 2010, we reiterated our initial requests and clearly expressed our commitment to long-term business relations with our Bangladeshi suppliers and our willingness to accept price increases that might arise as a consequence from this salary revision.

At H&M we strive for long-term and stable business relations with suppliers. We have been buying from suppliers in Bangladesh since 1982 and have had a full-time production office in Dhaka since 1986.

MINIMUM WAGES INCREASE

A minimum wage board was formed in spring 2010 and a new minimum wage, valid from November 2010, was defined in August. Wages increased by 67 to 81 percent, depending on job categories. We regard minimum wages or equivalent standards as competition neutral and these increases can only be regarded as positive.

While we appreciate this is a step into the right direction, we still request that the government creates a mechanism for automatic annual wage reviews to ensure that minimum wages develop in line with living costs. During autumn 2010, we continued discussions on how we can strengthen our contribution to positive development in Bangladesh even further and continue to underline our commitment

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to the country. We will report on further actions as they are decided.

MEDIATING INDUSTRIAL DIALOGUE IN CAMBODIA

Unlike Bangladesh, Cambodia has extensive experience in industrial relations and collective bargaining. Nevertheless, this year's minimum wage negotiations resulted in a major conflict between unions and employers' groups. Unions called for strikes and the employer's association, GMAC, regarded the strikes as illegal referring to a court decision from September. Employers reacted by locking striking workers and union leaders out of work and even with dismissals. Of the most affected factories, two supplied H&M among others.

Through our production office in Phnom Penh we kept in constant contact with the unions, GMAC, the ILO and the Better Factories Cambodia Programme, as well as other retailers. We decided to work with a number of other retailers to send a letter of concern to GMAC, the unions involved and the government,

urging all parties to return to a meaningful dialogue and good faith negotiations.

We also held several direct meetings both with union, as well as GMAC representatives, in order to mediate between the two sides. During this process we could see the positions of the two sides easing and moving closer together.

By the beginning of November, however, around 800 workers, of whom 510 were employees of the two factories supplying H&M, had not had their jobs reinstated, so we continued discussions at factory level. As a result, all 360 employees at one of the two factories supplying H&M were reinstated by mid-November. By mid-February 2011, the remaining 150 workers at the second factory were re-employed, and a Memorandum of Understanding was signed between the factory and trade union.

At H&M, we take a clear stand in support of meaningful industrial relations and the freedom of association for workers wherever we operate.

To reduce the risk of conflict in Cambodia in the future and to return to the usually positive industrial relations in the garment sector, we are aiming to encourage all of our suppliers to sign a Memorandum of Understanding with relevant unions in 2011 that will see both parties agreeing to settle disputes through an arbitration council and respecting its decisions.

TUOMO POUTIAINEN, CHIEF TECHNICAL ADVISOR, ILO BETTER FACTORIES CAMBODIA

"H&M is one of the first international buyers participating in the programme and using its assessment, advisory and training services. International buyers such as H&M have, through their engagement, committed to be part of the solution in improving working conditions. This is not only occasionally, when there are crisis situations, but long-term support for building of sustainable enterprises. H&M can help address problems of today, as well as helping to overcome Cambodia's often confrontational industrial relations, and work towards providing a better future for workers, factories and consumers alike."

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TACKLING SUMANGALI SCHEMES IN THE INDIAN GARMENT INDUSTRY

In September 2010, Dutch newspaper De Volkskrant published a series of articles on bonded labour in Coimbatore in Tamil Nadu, India. The articles described young women employed under a so-called, sumangali scheme.

Sumangali schemes are considered a form of forced labour and were first recognised in the late 1980s. They involve young women being sent from villages to spinning mills as part of a supposed ‘marriage assistance system’. In Tamil “sumangali” refers to an unmarried girl becoming a respectable woman through marriage. In return for their work the women are promised a substantial dowry at the end of a three-year contract.

H&M views sumangali schemes as absolutely unacceptable and not compliant with our Code of Conduct. We address the issue with our suppliers and monitor the existence of any kinds of forced labour through our

audit program. Sumangali schemes mainly occur in spinning mills and our audit program can ensure that such practices are not used in spinning mills owned by vertically integrated suppliers. Spinning mills are, however, usually second-tier suppliers and we do not have direct influence on this production stage. We therefore have to work to address this issue through collaborative actions and public policy.

H&M EXPERIENCE WITH SUMANGALI SCHEMES

One of the companies mentioned by De Volkskrant was KPR Mills India. In early 2009 we audited KPR Mills India as a potential new garment supplier. Through our audits we discovered a sumangali scheme at their spinning mill and as a result we did not approve KPR mills as a supplier.

In May 2010, we were approached by Quantum Knits a garment factory which, since our audit in 2009, had become a separate manufacturing unit of KPR mills. We audited the manufacturing unit as a potential new supplier factory and as compliance

with our minimum requirements was proven we approved this unit for future H&M production.

Being aware of the affiliation with KPR mills and the earlier audit results, we also conducted an extended visit to their spinning mill again. We checked company records, such as payrolls and employment contracts, and interviewed workers who confirmed they received monthly salaries and were free to leave after work.

Based on these results, we started our collaboration with Quantum Knits in August 2010 by placing a small test order to evaluate them further. As part of this evaluation we conducted a follow-up audit in September 2010. This audit showed that management had a low desire to co-operate with H&M in the transparent manner we expect from all our suppliers. As a result, we decided not to continue the collaboration. Because only a test order had been placed with the supplier, termination was valid immediately and did not have a major effect either on the factory’s business and connected jobs or on our supply.



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ACTIONS AGAINST SUMANGALI SCHEMES

To address the issue of sumangali schemes on a broader scale and to reach out to second-tier stages throughout the industry, we are in close dialogue with a number of key stakeholders. In 2010, we:

- Sent a letter to Apparel Exporters Promotion Council (AEPC) requesting that they address the issue with members and government authorities
- Discussed the issue with the Textile Secretary at the Ministry of Textiles in March 2010
- Raised the issue within the Brands Ethical Working Group (BEWG), which includes other leading brands that source from India
- Held meetings with the Tirupur Exporters Association (TEA) in October and November together with other brands to create a stakeholder initiative chaired by TEA

- Encouraged our suppliers in Tirupur to lobby the Southern India Mills Association (SIMA) and TEA to take responsibility for the issue
- Discussed the issue within the Better Cotton Initiative (BCI)
- Started to map spinning mills used by our suppliers in India and Bangladesh.

BANNING SANDBLASTING OF TEXTILES

Sandblasting is a technique used to give garments, in particular denim, a used or worn-out look. In 2006, media reports drew attention to studies that highlighted serious health risks to workers from unprotected use of this technique.

Back then, we immediately implemented strict protection requirements for suppliers when using sandblasting. We supported this with training for suppliers using sandblasting and monitored compliance with our requirements through our audit programme.

Even with these protective measures, we felt the need to minimise further the risks to workers in our own and other companies' supply chains. As a result, we decided to stop buying and retailing any products that used

sandblasting after December 2010. Instead, alternative techniques such as manual scraping will be used to achieve the same effects.

To encourage other companies to join this ban, we teamed up with Levi Strauss & Co. and together, announced a global ban on sandblasting for all of our products and brands. We are happy to see that other big companies have since declared a similar ban.

Even with our ban, we have decided to continue monitoring sandblasting conditions in supplier factories even though the process is no longer allowed for H&M production. In this way, we are continuing to minimise the health and safety risks to suppliers' workers from sandblasting, and overall to better practices in the industry.

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DEVASTATING FIRE AT BANGLADESHI SUPPLIER

On 25 February 2010, a devastating fire took the lives of 21 workers at Garib & Garib, one of our supplier factories in Bangladesh. Our thoughts are with the families, and especially the children, who lost dear family members and whose lives have been drastically changed by this incident.

The fire was caused by a short circuit in the factory warehouse and workers were trapped due to heavy smoke, which made it impossible to use the fire escape routes. In the wake of the fire, we wanted to show our support and voluntarily contributed to those who were affected. Our immediate concern was the children who had lost parents and we engaged Save the Children Sweden-Denmark (SCSD) to make an assessment of the situation for them and their needs.

In total, 25 children lost one parent. The children range from 4 to 17 years old and the assessment showed that all the families concerned live in villages under poor conditions, where the loss of a parent's income would have a significant impact on their life. Together with SCSD we determined that their core needs were to continue their education and also their ongoing food and clothing requirements.

Based on suggestions from SCSD, we developed a voluntary support programme for the affected children. This involves directly paying 2,000 Taka per month to the 25 children until they turn 18 and payments started in March 2010. In addition to this, 100,000 Taka has been deposited in each child's name and will become

available after their 18th birthday. The Bangladesh Rehabilitation Assistance Committee (BRAC) is monitoring the payments made to the families, as we want to ensure that the monthly payment really benefits the children.

There have been plenty of challenges to arranging this support, such as locating the families all over the country and finding a bank that is able to ensure payments and withdrawal all over Bangladesh. Our gratitude goes to BDDL bank which was brave enough to take on the challenge and co-operate on this issue.

Additional compensation to the victims of the fire has been made through the supplier's insurance.

This procedure was discussed during a roundtable meeting with a number of trade unions and NGOs, that was facilitated by the global union federation, ITGWFL. The meeting agreed that buyers and unions should address together the lack of social security systems in Bangladesh at government level. H&M will continue to follow up on this.

We have also decided to dedicate SEK 1 million for a fire safety improvement project that should benefit the whole garment industry in Bangladesh beyond our own supplier base. The objectives are to analyse and tackle the root causes of poor fire safety in close collaboration with the relevant authorities and to raise fire safety awareness among factory management and workers.

Continues on the following page

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DEVASTATING FIRE AT BANGLADESHI SUPPLIER

The fire safety improvement plan includes:

- Conducting a study in co-operation with the Bangladesh University of Engineering and Technology to understand the root causes of poor electrical installations in Bangladeshi garment factories and figure out potential actions to tackle these root causes.
- Contacting the public Fire Safety Civil Defence to gain a better understanding of how fire safety licences are issued. Through this we identified very good knowledge among the staff, but too few resources to ensure that issued licences are up-to-date. We have addressed this issue with the Bangladeshi government and will also follow-up through the Buyers Forum Bangladesh.
- Producing films to raise awareness on fire safety among workers and factory management in collaboration, with other brands through the Buyers Forum Bangladesh.
- Collaborating with the two most important employer associations, BGMEA and BKMEA, to incorporate requirements for electrical safety at all their member factories.

JOINING FORCES WITH OTHER BUYERS

The sustainability challenges within the global retail business affect everyone in the industry. These challenges are often universal issues that no company can solve on its own. We also often share suppliers with other retail brands.

As a result, we find that collaborating with industry peers can help to increase the level of influence we have on a particular issue where working alone we would have less influence. We see sharing best practice and developing ways to jointly tackle common challenges as a key way to take our sustainability work further and make the whole industry more sustainable. To deliver on this approach we are involved in a number of forums that aim to improve collaboration between different companies in our industry.

BUYERS FORUM BANGLADESH

This forum was initiated in 2006 by H&M together with GAP Inc. and a number of other companies. The

forum is co-ordinated with the help of IFC-SEDF, a part of the World Bank Group. Today it functions as a forum for around 20 brands to discuss topics such as workers' rights issues and grey areas in local labour laws, and seeks to build consensus to address these issues with one voice. As explained above, the Forum addressed the issue of minimum wages through a joint letter to the Bangladesh government. Other initiatives include developing a common health and safety checklist for factories to ensure compliance with buyers' requirements. This is instead of factories having to possibly adopt different requirements from different buyers.

BRANDS FORUM HONG KONG

This forum is in development and aims to bring brands together with representatives of the Chinese garment industry. The Forum will work on collaborative approaches to issues such as workers' rights and aims to build a platform for joint capacity building initiatives.

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BRANDS CO-OPERATION FORUM INDIA

This is a group of buyers that sources garments from India and consists of around 25 companies, as well as some agents and third party auditors. The Forum meets every three months and H&M is an active member and chairs some of the sub-groups, including the accessories group. In 2010, the Forum used its joint influence to address the issue of sumangali schemes at industry level. It also provides a platform to share knowledge about issues of special national concern, such as home working or the implementation of new minimum wages in the Bangalore area.

MULTI-STAKEHOLDER INITIATIVES

Beyond collaboration by brands, multi-stakeholder initiatives are some of the best ways to create dialogue between different partners and to build a consensus on how to tackle issues that concern all partners equally. Besides our strong affiliation with the Fair Labor Association (FLA), the UN Global Compact and a number

of other global or industry-wide initiatives, H&M is actively involved in several local or national multi-stakeholder initiatives, including:

BETTER FACTORIES CAMBODIA

We have supported the International Labour Organization's Better Factories Cambodia (ILO-BFC) programme since 2005. The programme combines assessments of working conditions with advisory and training services. It addresses the core needs of workers, unions, government and the international buyers who participate in the programme through a fee-based subscription system. Participation in the programme is mandatory for all export garment factories in Cambodia. H&M was one of the first international buyers to participate in the programme and use its assessment, advisory and training services. As an active member, we participate in two forums a year. The programme has contributed to significantly improved compliance with our Code of Conduct by Cambodian suppliers. Since 2008, we have used the ILO-BFC's assessments to promote further

improvements and limit our own audits to requirements not covered by the programme.

Read more about ILO-BFC at:
www.betterfactories.org

BETTER WORK

The International Labour Organization (ILO) started the Better Work programme with the aim of bringing employees and employers together to find solutions to workers' issues and ensure a sustainable labour market. The programme is based on the Better Factories Cambodia model and currently covers Vietnam, Jordan and Lesotho, with the intention of rolling it out in more and more countries in Asia and the Pacific region. In 2009, the Better Work Vietnam programme was initiated in the Ho Chi Minh City area and there are plans to expand it to Indonesia. Both countries are home to H&M suppliers and we welcome their inclusion.

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

GARMENT SECTOR ROUNDTABLE INDIA

This new initiative aims to bring together brands, manufacturers, trade unions, NGOs, IGOs, third-party monitoring organisations and researchers to participate in a dialogue about macro-level issues of the Indian garment sector such as wages, safety or environmental standards. H&M is very positive about the Roundtable's potential to address these issues in India. In addition to participating, we will continue to promote participation in the roundtable with others in the industry. The first roundtable meeting was held in January 2011.

3 BE ETHICAL

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Being ethical is about doing the right thing. We believe that we have a responsibility to act with integrity and respect towards everyone who contributes to our success. We commit to being ethical in all our operations. This includes the way we interact with our customers, our employees, our suppliers and all our other stakeholders. Our ethical approach is firmly rooted in our corporate values and we take a clear stand against corruption and any form of discrimination throughout our operations.

50% of our board members are women and 50% men



58 hours of training per employee in 2010

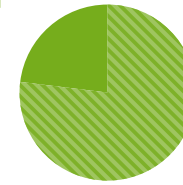


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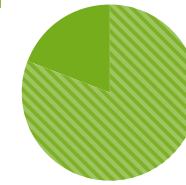
Incentive Program for employees launched based on a donation of shares valued at SEK 1 billion*

*based on the share price on 6 September 2010

A FAIR PARTNER TO OUR COLLEAGUES



71%
H&M management positions occupied by women*



81%
H&M Total workforce are women

H&M has been expanding strongly for many years and with more than 87,000 employees in 38 countries, our responsibility is greater than ever. Our approach is shaped by a fundamental respect for the individual. This applies to every aspect of employment, from fair wages, working hours and freedom of association to equal opportunities for growth and development within the company. Importantly, our approach to being a good employer includes those countries where laws and regulations fall short of our own requirements.

*all management positions including store managers. Share per category women/men in percent: Board of directors: 50/50, group level management (incl. CEO): 39/61, sales country managers: 48/52, production office managers: 44/56, division heads (buying office): 47/53, section heads (buying office): 60/40, area managers (sales): 62/48, store managers: 77/33.

A VALUES-DRIVEN WORKPLACE

The H&M culture is defined by a number of enduring values. No matter where we are in the world, our culture and spirit are instantly recognisable. Having a values-driven business has allowed us to build a nimble, proactive and lean organisation that can grow quickly. Having clear values can also help us to attract and retain the right people, further contributing to our success.

We believe in our people and their ability to take their own initiative. We encourage employees to test their boundaries and put forward new ideas. Being straightforward and showing team spirit is encouraged, as is common sense, cost-consciousness and not least, keeping it simple and avoiding unnecessary bureaucracy.

In 2010, we updated our values. We initiated a series of workshops for all employees to ensure our colleagues understand our values and to provide an opportunity to discuss their interpretation of them.

DIVERSITY AND EQUALITY

Being an ethical company includes taking a clear stand against discrimination wherever we operate. As we operate in 38 countries, cultural diversity is part of our daily work. We see workforce diversity, in terms of age, gender and ethnicity, as an asset to the company at all levels. We seek to ensure equality of opportunity throughout the company. For example, 50 percent of our board members are men and 50 percent, women.

Not all countries in which we operate have clear and comprehensive labour legislation. Therefore it is important for us to have global guidelines for diversity and equality, based on the International Labour Organization convention (C111 Discrimination). We published our policies in full in our 2009 Sustainability Report available in the archive at www.hm.com/consciousactions2010.

RECRUITMENT

During 2010, we set out to improve on our recruitment process by identifying best practice in different H&M markets and streamlining our global approach.

We launched a new career site, on which candidates are able to match themselves to different job roles. By creating a series of films, checklists and an online quiz, we now encourage candidates to find out for themselves if they have a profile and attitude that matches our culture and expectations.

We aim for all candidates to have an equal chance to be chosen for a given position. Our Applicant Tracking System, launched in 2010, is designed to guarantee a good welcome and timely response for each new candidate. It also tracks their progress through the entire recruitment process, enabling us to maximise fair access to our positions. To date, the system has been rolled out in 10 countries.

BE ETHICAL

A FAIR PARTNER TO OUR COLLEAGUES

TRAINING & DEVELOPMENT

One of our ambitions is to 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 they are valued and can develop.

Each employee received an average of 58 hours of training in 2010 and during the year five new training themes were produced. To guarantee the quality of our training, we have been working on a project to streamline training materials and synchronise training records at H&M. Additionally, development is supported by regular performance review dialogues.

Also introduced this year was the Global Role Profiles programme for our senior store positions. Through this, we aim to increase the potential for international employee exchanges and to support our expansion into new markets by having a team of trained and H&M-ready employees available.



Our colleagues are key to our success.

ONGOING TRAINING PROCESS

A key focus in 2010 was to make training activities more hands-on and accessible for all employees. The previous year, we introduced the Sales Advisor service-training concept, which encouraged our store management teams to take a greater responsibility for training.

INDUCTION TRAINING

Our rapid expansion makes it increasingly challenging for us to ensure that all employees are welcomed into our organisation in a consistent, efficient and high-quality manner.

We offer a blended approach to training, whereby e-learning and classroom sessions are combined

to create a teaching methodology that is easy to duplicate internationally. We strive to make relevant training tools as accessible as possible to our target groups.

During 2010, new materials were produced for a blended curriculum of classroom, workshop, follow-up and independent study. We also introduced a blended learning programme for sales advisors in new markets such as Turkey and Romania.

LMS (LEARNING MANAGEMENT SYSTEM)

During 2010, H&M took a strategically important decision to invest in a Learning Management System. This LMS will help to optimise our vast library of training resources and serve as the central hub for our training initiatives. When launched, the system will run company-wide and be accessible to all employees.

BE ETHICAL

A FAIR PARTNER TO OUR COLLEAGUES

50% of our employees are covered by collective bargaining agreements

TRAINING AND COMMUNICATION ON SUSTAINABILITY

Sustainability is part of our employees' induction training, including store employees. As part of the launch of the first Conscious Collection in spring 2011, we have integrated related sustainability information in our daily sales advisor campaign training.

We regularly use employee engagement channels, such as the H&M intranet and our employee communication tool, H&M Wallpaper, to provide information on sustainability topics. In 2010, we published two special issues of H&M Wallpaper focused on sustainability. We have now decided to include a sustainability topic on the back of each regular edition so that these can simply be switched. Thereby we can increase our sustainability communication through this channel and reduce paper use by a third.

EMPLOYEE RELATIONS

At H&M, we apply an 'open door' principle, which gives every employee the right to discuss work-related issues directly with management. Our employees also have the right to collective bargaining. Accordingly, across all of our operations, around 50 percent of H&M employees are covered by collective bargaining agreements. We strive for good relations with all our employees and with employee associations and trade unions that represent them. In 2009, our Employee Relations department became part of our Human Resources department. Employees are represented at board level, with two of the nine Board members being employee representatives.

CASE STUDY: H&M INCENTIVE PROGRAM

In order to show our appreciation for our employees, H&M is starting an incentive programme for all employees. The programme is being started in 2011 with a donation from the Stefan Persson Family, of approximately 4 million H&M shares at a value of approximately SEK 1 billion (based on the share price on 6 September, 2010) to the Swedish foundation, Stiftelsen H&M Incentive Program. The intention is to encourage and acknowledge employees' long-term involvement and to further strengthen H&M as an attractive employer globally. H&M intends to make annual contributions to the foundation, with an amount equivalent to 10 percent of the increase in dividend in relation to the previous year's dividend, under normal circumstances. Return on the foundation's funds is to be evenly distributed to employees over time, regardless of their position or salary level. This means that employees will be able to benefit from H&M's expected growth in value in the same manner as a shareholders.



BE ETHICAL

A FAIR PARTNER TO OUR COLLEAGUES

We underline our commitment to employee representation through our Global Framework Agreement with UNI (Union Network International, www.uniglobalunion.org). This declares that both the company and our employees regard the International Labour Organization's Declaration on Fundamental Principles and Rights at Work to be the cornerstone of our co-operation. Our main contact point for this agreement is the Swedish Commercial Workers Union, Handels, which is a member of UNI.

Read the agreement at:

www.hm.com/filearea/corporate/fileobjects/pdf/en/RM_UNI_AND_HM_LINK_1178884959035.pdf

EUROPEAN WORKS COUNCIL (EWC)

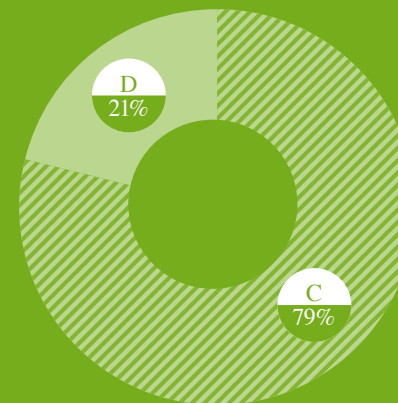
H&M first signed an agreement with the EWC in 1997 and this was amended in 2007. H&M and UNI-Europa are signatories to the agreement.

Meetings between management and all representatives are held on an annual basis and with EWC's select committee, twice a year. Topics discussed in 2010 included the working environment, particularly in our distribution centres, and the balance between part-time and full-time employees. Countries represented in EWC 2010 are: Austria, Belgium, Germany, Netherlands, Norway, Sweden, Finland and since 2010, Denmark and Spain.

- A. Full-time employees
- B. Part-time employees



- C. Permanent employment contract
- D. Temporary employment contract



Goze Sener, part-time employee at our new H&M store in Istanbul.

ANTI-CORRUPTION



95% Of H&M employees attended a code of ethics related workshop

At H&M, we make it a rule to act with integrity at all times. This means that H&M does not accept any form of bribery and we take a clear stand against corruption. We address these issues through our Code of Ethics, which has been in place since 2003.

CODE OF ETHICS

The Code of Ethics states a zero tolerance policy on bribery and corruption and that business partners should not provide any kind of gifts or favours to H&M employees. In the same way, H&M employees must not require or accept any personal advantages from a business partner.

The Code applies to all business partners and all H&M employees who are in regular contact with them.

We make all our business partners and employees aware of the Code and we provide information to help them understand it. All of them must sign the Code before they can be accepted as suppliers to H&M and around 90 percent of them have received related training.

All relevant employees sign the Code of Ethics and commit to comply. In our production offices, all employees have signed the Code and approximately 95 percent of them have attended related workshops. In 2010, a total of 6,125 of our employees received

training. We inform all new employees of the Code during the recruitment process.

H&M has a confidential whistle-blowing procedure in place whereby potential breaches can be reported confidentially.

Our Code of Ethics was revised in 2010 in order to make it usable for our suppliers in their relations with their own suppliers.

In 2010, we reported all possible instances of Code violation through our internal incident reporting tool. We identified a total of 12 cases; eight of them led to the termination of employment contracts with H&M. One supplier business relationship was terminated.

Our Code of Ethics is available on our website at:
www.hm.com/gb/corporateresponsibility/informationmaterial/downloadsarchive.nhtml

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. Examples of lobby work include requesting the Bangladeshi government to review minimum wage levels and addressing the issue of forced child labour in the Uzbek cotton industry on EU level.

PAYMENT OF TAXES

H&M pays taxes and other fees according to local laws and regulations in the countries in which we operate. H&M paid SEK 6.3 billion in tax at Group level in 2010. We follow the OECD guidelines on transfer pricing as the basis for how profits should be distributed and taxed in international companies.

For more information please see our fiscal annual report at:
www.hm.com/annualreport

RESPONSIBLE MARKETING

H&M communicates its business idea of ‘fashion and quality at the best price’ through the various advertising campaigns we produce each year throughout the world. H&M’s marketing has a major impact and it is essential for us to convey a positive image. H&M’s advertising images do not aim to communicate any specific ideal, but rather a range of styles and attitudes.

H&M’s advertising campaigns are produced centrally in Sweden by H&M’s marketing department in co-operation with creative professionals located in the major fashion hubs of the world. The campaigns are designed to be clear and simple and aim to inform our customers of what is new at H&M. All of the campaigns show the season’s designs and the price of the clothes pictured. The advertisements that we produce are largely identical in all of our markets, but the media strategy is adapted to local requirements and conditions.

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 own representatives. The choices of models are discussed internally as well as with the agencies. As outlined in our advertising policy, the models depicted in must portray

the current fashion in a positive and healthy manner. The company deliberately distances itself from drug and alcohol abuse, and will not use models that do not portray H&M in a way that is in accordance with that policy.

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.

We also run cause-related marketing campaigns such as Fashion Against Aids, aiming to raise awareness on HIV/AIDS among young target groups. Read more about this in the strengthen communities commitment section on page 100.



Our Fashion against Aids campaign aims to raise awareness on HIV/AIDS.

4 BE CLIMATE SMART

IN THIS SECTION

Be climate smart70 ▶

Climate change is one of the major challenges of our time. We commit to acting climate smart and we strive to be as energy efficient as possible and to use more renewable energy. We also want to inspire customers to reduce their climate impact during the user phase and encourage climate smartness throughout our value chain and beyond.

750,000 kWh

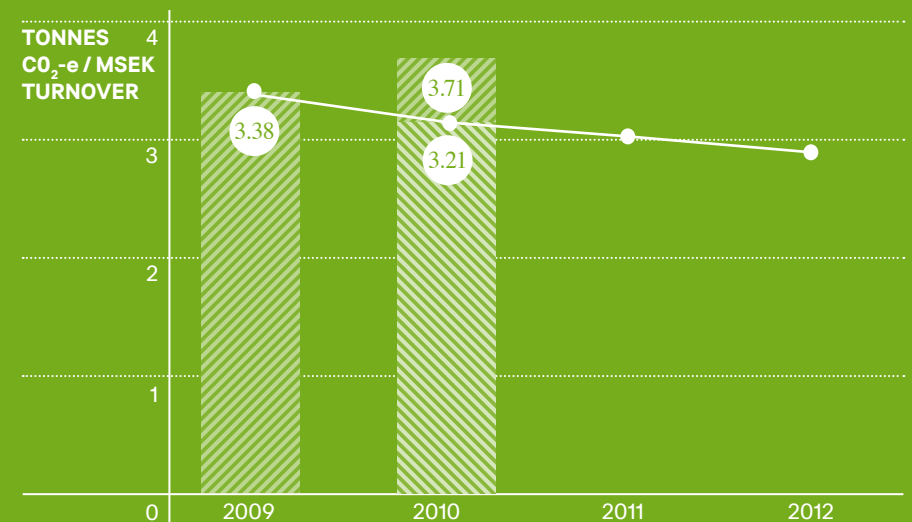
750,000 kWh of solar energy expected to be generated annually by photovoltaic solar panels at our distribution centres in Germany and Belgium

8%

Energy use decreased by 8% from 2007 to 2010 in all H&M stores

CO₂-e emissions

- Total eCO₂
- Total after offsetting
- Target



Energy use decreased by 8 percent from 2007 to 2010 in all H&M stores

We have a target to reduce greenhouse gas emissions by 5 percent relative to sales year-on-year until 2012. We strive to have energy efficient operations and to use renewable energy and we have set targets in these areas as well.

In the long term, we aspire to contribute to more greenhouse gas reductions globally than our operations emit. The nature of our core business requires transport and electricity, so achieving a zero carbon footprint is a challenge. To achieve our aspiration we know that we will need to use our influence to raise awareness and take action on climate change well beyond the scope of our operations.

This means our focus needs to be on developing and supporting emissions reductions in all parts of our value chain and beyond – whether with customers, suppliers and those operating deeper in our value chain, or raising awareness with the general public and lobbying governments for stricter legislation or climate policy and frameworks.

REDUCING GREENHOUSE GAS EMISSIONS

Everyone needs to play a part in reducing greenhouse gas emissions. We are no exception and we work towards reducing emissions resulting

from operating our stores, offices and warehouses as well as business travel. Choosing the way our goods are transported and influencing our transport partners to adopt better practices are other important factors in reducing emissions.

Our research, however, shows that the production and user phase of our garments have the highest climate impact. For this reason we are increasingly working to use our influence to reduce emissions throughout our products' life cycle.

We have three group-wide targets relating to energy use and climate change:

- Reduce the H&M group's carbon dioxide emissions relative to sales by a minimum of 5 percent per year from 2010, compared to each previous year, until 2012
- Source at least 20 percent of our energy from renewable energy sources by 2020

- Reduce energy use in stores by 20 percent per square metre by 2020, compared to 2007.

DESIGNING OUR CARBON DIOXIDE REDUCTION TARGET

In 2009, we set a new three-year climate target to reduce carbon dioxide equivalent (CO₂-e) emissions by 5 percent relative to sales each year from 2010 until 2012, using the previous year as a baseline. We have also committed to offset any shortfall if we do not meet the 5 percent reduction to ensure that our baseline for the following year is 5 percent below the previous year. If we perform better than our target, the baseline is set against the better performance rather than at 5 percent.

In order to report our emissions independently from currency fluctuations, we now report CO₂-e in tonnes per million SEK converted from local sales currencies using consistent exchange rates from the baseline year of 2009.

705,000 kWh
 of solar energy expected to be generated annually by photovoltaic solar panels at our distribution centres in Germany and Belgium

EMISSIONS PERFORMANCE 2010

In 2010, the first year of our new target, we did not achieve the desired 5 percent reduction in emissions and as the chart above shows, we emitted 3.71 tonnes of CO₂-e for every million SEK of turnover in 2010; this compares to 3.38 in 2009 and is a 10 percent increase year-on-year. Our target emissions level for 2010 was 3.21.

Since we missed our target, we have fulfilled our commitment to offset emissions equivalent to achieving a 5 percent reduction over 2009. This means 67,000 tonnes of CO₂-e have been offset using Tricorona's UN* and Gold Standard certified carbon

reduction projects based on renewable energy production. The offsets are spread across three specific projects:

- Yangjiayao: a wind farm in Ningxia province, China
- Tongliao: a wind farm in inner Mongolia, China
- Sri Balaji: a biomass project in India that uses agricultural waste such as cotton and rice husks as fuel.

In absolute terms, our CO₂-e emissions for scope I-III emissions in 2010 were 497,265 tonnes, an increase of 25 percent compared to 2009, while our sales (excluding VAT) increased by 15 percent.

Both absolute and relative reductions were achieved in heating and other fuel use in distribution centres as well as business travel; however, these were significantly outweighed by increases in emissions from goods transport and electricity use. Our total energy use in 2010 was 5,610,730 gigajoules (GJ). Read more about transport on page 73 and electricity use in our stores on page 72.

CO₂-e emissions by source 2009-2010

Scope	CO ₂ -e 2010	Share	CO ₂ -e 2009	Share	Change
1 (direct fuel use)	11,466	2.3%	11,951	3%	-4%
2 (purchased electricity and heat)	270,422	54.4%	238,201	60%	14%
3 (transport and business travel)	215,377	43.3%	148,007	37%	46%
Total	497,265	100%	398,160	100%	25%

* The projects have been assessed and authorised by the UN body CDM Executive Board, which also issue the certified emissions reductions from the projects.

2010 CO₂ BY EMISSIONS SOURCE

- A. People transport B. Goods transport by air
 C. Goods transport by road D. Goods transport by sea
 E. Goods transport by rail F. Stores G. Other facilities



Data note: When setting our 2010-2012 carbon reduction target in 2009, the methodology and boundaries of our greenhouse gas reporting were revised to add more emission sources, compared to our previous target cycle for 2005-2009. As a result, in this year's report we can only provide trend data for 2009 and 2010 for comparison.

RENEWABLE ENERGY USE

Our target for renewable energy is to source at least 20 percent of our energy from renewable sources by 2020. This target was set through our involvement with the European Retail Round Table (ERRT).

Unlike our target for reducing energy use in stores, it is currently difficult to monitor progress against this target. This is due to the lack of a solid framework defining what qualifies as renewable energy use in voluntary greenhouse gas accounting and reporting by companies. As a result, we are working with different stakeholders, such as the ERRT and its members, the World Resources Institute (WRI) and Carbon Disclosure Project (CDP), to find a consensus on how to define, measure and report on renewable energy use.

Despite this uncertainty, we are still making investments in this area. Photovoltaic solar panels have been installed on the roof of our new distribution centre in Belgium, which is due to come into operation in spring

2011. Our distribution centre in Hamburg was also built with photovoltaic solar panels on its roof and has been in operation since 2008.

The installation in Belgium will cover 2,030 square metres and estimated annual electricity production will be 225,000 kWh. The installation in Hamburg covers 5,300 square metres and generates around 480,000 kWh annually, making carbon dioxide reductions of up to 480 tonnes possible.

OUR STORES

The electricity we use in our facilities worldwide (stores, distribution and data centres and offices) is increasing in absolute terms but in relation to the growth of our business it remains steady. Our stores account for around 89 percent of this electricity use.

Store lighting and heating, ventilation and air conditioning (HVAC) are major energy consumers in our stores. In order to reduce their energy use – and thereby reduce emissions and costs – we follow documented environmental

requirements when building our stores. These guidelines are constantly updated to make sure we capture new and more energy efficient solutions. Our target for energy efficiency is to reduce store energy use per square metre of floor space by 20 percent by 2020, against a 2007 baseline. The target was set as part of our involvement with the European Retail Round Table (ERRT).

Visit their site at: www.errt.org

ENERGY EFFICIENCY PERFORMANCE 2010

We are pleased to report that across all H&M stores the energy use per square metre has been reduced by 8 percent between 2007 and 2010. This shows that the addition of newer stores that follow our environmental design guidelines help us achieve considerable per square metre energy savings over our older stores.

When excluding new stores and only comparing stores that have been open since the baseline year of 2007, it is encouraging that we have achieved

a 5 percent reduction in energy use per square metre by the end of 2010. This shows that we are achieving good energy reductions from focusing on improved energy management, including in our existing stores.

LIGHTING

We are actively contributing to developments in lighting technology and look for improvements that will suit H&M's needs.

In recent years, we have been working more closely with lighting manufacturers on optimising store lighting. One fruitful example of this collaboration is the dimming of sales-area lighting, which was introduced for all new stores in mid-2009 and has reduced sales-area energy use by 13 percent. This change alone has helped us reduce store energy use by around four million kilowatt-hours and CO₂-e emissions by approximately 1,400 tonnes in 2010.

LED lighting is a very interesting technology for the future and H&M has already started to use it in some



1,400 tonne reduction in CO₂-e emissions in 2010 through in-store lighting optimisation



Transport of our goods stands for **43.3%** of our greenhouse gas emissions

applications due to clear energy savings and beneficial lifespan and maintenance characteristics.

DATA CENTRES

As our company grows so does our need for effective and suitable IT capacity. Data centres are significant energy users and we are continuously implementing measures to increase their energy efficiency.

During 2010, we consolidated several data centres and virtualised 50 percent of our servers. During the process we updated our IT infrastructure resulting in increased utilisation, better performance and reductions in both cost and energy requirements.

When choosing locations for new data centres we consider options for passive cooling technology, which takes advantage of the external climate to provide cooling with minimal energy use.

Over the course of 2010, we have improved life cycle management for our IT platform as well as the recycling

process for infrastructure that is at the end of its life. For emergency generators we have also switched from traditional diesel oil to a sulphur-free, synthetic fuel made from natural gas that releases fewer emissions.

Recently, H&M received the Green Data Centre of the Year Award 2010 from Swedish IT experts, Coromatic.

Visit their site at: www.coromatic.se

TRANSPORT

The size and geographical spread of our business requires different means of transport in various parts of the world. Our challenge is that, as our business grows, our transportation needs will increase further and we need to meet these needs with limited use of natural resources and as few 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.

In 2010, CO₂-e emissions from transport increased 31 percent year-on-year. This increase is the largest contributor to the increase in total emissions seen in 2010, and has particularly been driven by a large increase in emissions from airfreight. This increase in air transport was mainly due to instability in our production markets created by reduced capacity at our suppliers.

SHIFTING MODES OF TRANSPORT

For a number of years we have focused on shifting to more environmentally conscious modes of transport. In Europe, we are increasingly shifting from road to rail when moving goods from Turkey, an important sourcing market, to our European planning markets. The table below shows progress in making this shift to date and this will continue in 2011 and 2012.

An even more positive change has been taking place in transport from Turkey to our Asian sales markets, where the aim is to shift from air transport to ocean carriers. Airfreight was still used for the smaller Japanese and Korean markets in 2010, while ships accounted for 85 percent of transport to China and 99 percent to Hong Kong, our two largest sales markets in Asia.

COLLABORATING WITH TRANSPORT PROVIDERS

As we don't own any transport facilities, influencing our transport partners to improve their environmental performance is an important part of our work. For many years we placed our own environmental requirements on transport service providers. However, we believe that environmental requirements that are adopted by a wider group of stakeholders have a better chance of achieving a positive impact. We are therefore actively involved in collaborations to develop and promote common standards in transport industries.

Planning markets (Europe)	Share of rail freight	
	2009	2010
Central (Germany, Austria, Netherlands, Slovenia)	25%	23%
East (Poland, Finland, Russia, Czech Republic, Slovakia)	48%	51%
South (Belgium, France, Italy, Greece)	40%	75%
UK	0%	38%

SMARTWAY

SmartWay is a program run by the US Environmental Protection Agency (EPA) that offers evaluation and certification of the environmental performance of road carriers. All SmartWay Partners are recognised for their commitment to reducing emissions in their fleets. In 2010, around 90 percent of our core road carriers in the US and Canada were registered as SmartWay partners, up from 70 percent in 2007.

Of these carriers, 70 percent have achieved the highest SmartWay evaluation score. This score demonstrates the best environmental performance and recognises carriers using most of the commercially available fuel saving strategies and evaluating emerging technologies. For 2011, we aim for all our core carriers to be SmartWay partners.

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

WAYAHEAD

Working in collaboration with members of the European Retail Round Table (ERRT) we have developed a tool for evaluating European truck carriers' environmental performance. The tool is named WayAhead and starting in 2010 we have used it to communicate our minimum requirements for transport service providers, and for evaluating their environmental performance.

Our minimum requirements for transport providers in Europe now include:

- At least 70 percent 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.

So far, only some of our European core carriers are registered in the WayAhead database. We will continue to roll out our new minimum requirements among our carriers and aim for all carriers to be registered in the database during 2011.

Together with a group of other companies, we have also started looking into the possibility of setting up a programme in Europe similar to the SmartWay programme from the US Environmental Protection Agency. We strongly believe in the concept and feel there is a need for such a programme in Europe; this work will continue in 2011. The future implementation of such a programme in Europe would be at the expense of the ERRT WayAhead initiative we currently promote in Europe.

Read more about WayAhead at:
www.way-ahead.org

CLEAN SHIPPING PROJECT

The Clean Shipping Project aims to improve the environmental performance of the shipping industry. We have been part of the Clean Shipping Network for a number of years and continue to work on developing the Clean Shipping Index and promoting its use amongst our carriers.

The Clean Shipping Index monitors the environmental performance of maritime transport service providers worldwide. Service providers enter vessel-specific data into a database, which creates a score that transport buyers can use when purchasing transport services. Originally limited to Sweden, the Index was launched Europe-wide in 2010.

During 2010, we made it a minimum requirement for our six core carriers to have their fleets registered in the Clean Shipping Index and we achieved 100 percent compliance with this by the end of the year. For 2011, we aim to have our five largest sub-carriers registered. Also in 2011, together with the other Network partners, we aim to develop a method for thirdparty verification of the data submitted.

In 2010, the Clean Shipping Project was awarded 'Green Initiative of the Year' at the Sustainable Shipping Awards held in London. At the same event, three of our six core shipping carriers were among the five nominated for 'Sustainable shipping operator of the year'. One of them, APL, won the award.

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

BUSINESS TRAVEL

As a growing company with a presence in 38 countries, business travel is required. We try, however, to minimise emissions from business travel and have a clear policy in place that considers a number of environmental aspects. These include:

- Each trip must be well justified and cannot be replaced, for instance, by phone or web conference
- When choosing the place of a meeting, the distance travelled by all attendees and the accessibility by public transport must be considered
- Appropriate means of transport shall be 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.

Compared to 2009, business travel emissions fell 16 percent relative to sales in 2010.

PROMOTING IMPROVEMENTS IN OUR VALUE CHAIN

As reported in 2009, we funded a study by Business for Social Responsibility (BSR) to investigate the carbon impact of our products from a life cycle perspective. The results of the study clearly showed that carbon intensity is the highest during the user phase of garments, followed by the raw material production and the manufacturing process.

WORKING WITH SUPPLIERS TO REDUCE EMISSIONS

To broaden the scope of our work on reducing carbon emissions to include these stages of our products' life cycle, we have started working with our first-tier manufacturing suppliers. The BSR study indicates that the emissions from the cutting and sewing phase alone are on the same scale as the emissions from transport and retail that we have reported for several years.

Poor energy efficiency and high carbon intensity in our suppliers' manufacturing units have an adverse effect on the environment and pose a number of business risks. These include reputational risks, reduced competitiveness from costs linked to energy prices and carbon regulation, and potential disruptions to production from stress on national energy systems as well as climate change impacts.

From 2010-2012 we will focus on 100-120 supplier factories globally. These will represent all major H&M production markets and an important share of our total production. The aim is to increase their energy efficiency and reduce carbon intensity while at the same time learning how we can develop the initiative on a larger scale and set greenhouse gas emissions targets in our supply chain beyond 2012.

Participating factories will be required to monitor their energy use and greenhouse gas emissions and share the results with us. Unless they have recently participated in a similar program, they will also need to enrol in a regional Supplier Energy Efficiency Program (SEEP) that we are setting up in partnership with various organisations and that will run for a period of 6-12 months.

SUPPLIER ENERGY EFFICIENCY PROGRAMMES (SEEP)

During 2010 we have worked with a variety of partners to set up energy efficiency support programmes in a

number of our production countries. The programmes connect supplier factories with energy service companies that will review the scope for efficiency gains and provide solutions, as well as training, workshops, and support for developing action plans and follow-up.

Based on initial factory reviews we see a potential for energy reductions of up to 20 percent at participating factories, at the same time as building suppliers' knowledge and in-house expertise on evaluating energy use and realising reduction opportunities.

To test out their functionality, we piloted three programmes in 2010, two in China and one in Bangladesh.

CHINA

In the Shanghai region we joined a programme run by BSR, which covered eight factories supplying H&M in addition to factories supplying other brands.

In Guangdong we teamed up with EHS Academy and developed a

programme that involves six of our supplier factories in this region.

BANGLADESH

In Bangladesh we teamed up with GTZ and five of our suppliers to take part in an energy saving programme.

The results from these three programmes will guide our approach to expanding the energy efficiency initiative in our supply chain during 2011. We foresee a mix of programmes and workshops depending on the production market and the type of factory, but all will aim to deliver the same results in terms of energy reductions.

Our goal is to engage 100-120 supplier factories by the end of 2012 and to follow-up on their improvements.

USER PHASE

The greatest share of an H&M product's lifetime energy consumption comes from customers' washing garments at home. To make it easier for our customers we label our products with the highest permitted

temperature for washing. Choosing to wash at a lower washing temperatures, however, saves energy, and 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.

We do, however, recommend that heavily soiled clothes and underwear are always washed at the highest temperature allowed. We provide tips about how customers can consider the environment when caring for their clothes on our website and from spring 2011 will also communicate through our stores.

Read more about tips on conscious garment care at:

www.hm.com/care

HOW OUR WORK AGAINST CLIMATE CHANGE EVOLVED

Climate change is one of the major threats of our time. At H&M we are committed to acting climate smart and we increasingly work to reduce emissions beyond our own operations. Here is our journey so far.

1

MEASURING IMPACTS

We started measuring and reporting on the carbon emissions resulting from our own operations and the transport of our goods in 1999.

2

SETTING OUR SIGHTS

In 2005, we set up our first target to reduce carbon emissions relative to sales by 10% by 2009, compared to 2004 as a baseline.

3

MAKING COMMITMENTS

In 2008, in line with the ERRT declaration on energy efficiency and renewable energy, we committed to reducing energy use per store m² by 20% and to using a minimum of 20% renewable energy, both by 2020.

4

ACHIEVING OUR TARGET

We fulfilled our target in 2009 and instead of 10%, we achieved reductions of 32%.

5

RAISING THE BAR

As a result, in 2009 we developed a new target, committing us to reducing emissions by 5% each year throughout 2010 - 2012, with a rolling baseline.

6

A MORE HOLISTIC APPROACH

With the development of this new target, we shifted our approach to reducing more greenhouse gases than just carbon, now also including methane and nitrous oxide.

7

A LIFE CYCLE PERSPECTIVE

Also in 2009, we conducted a study together with BSR evaluating the climate impacts of garments from a life cycle perspective.

8

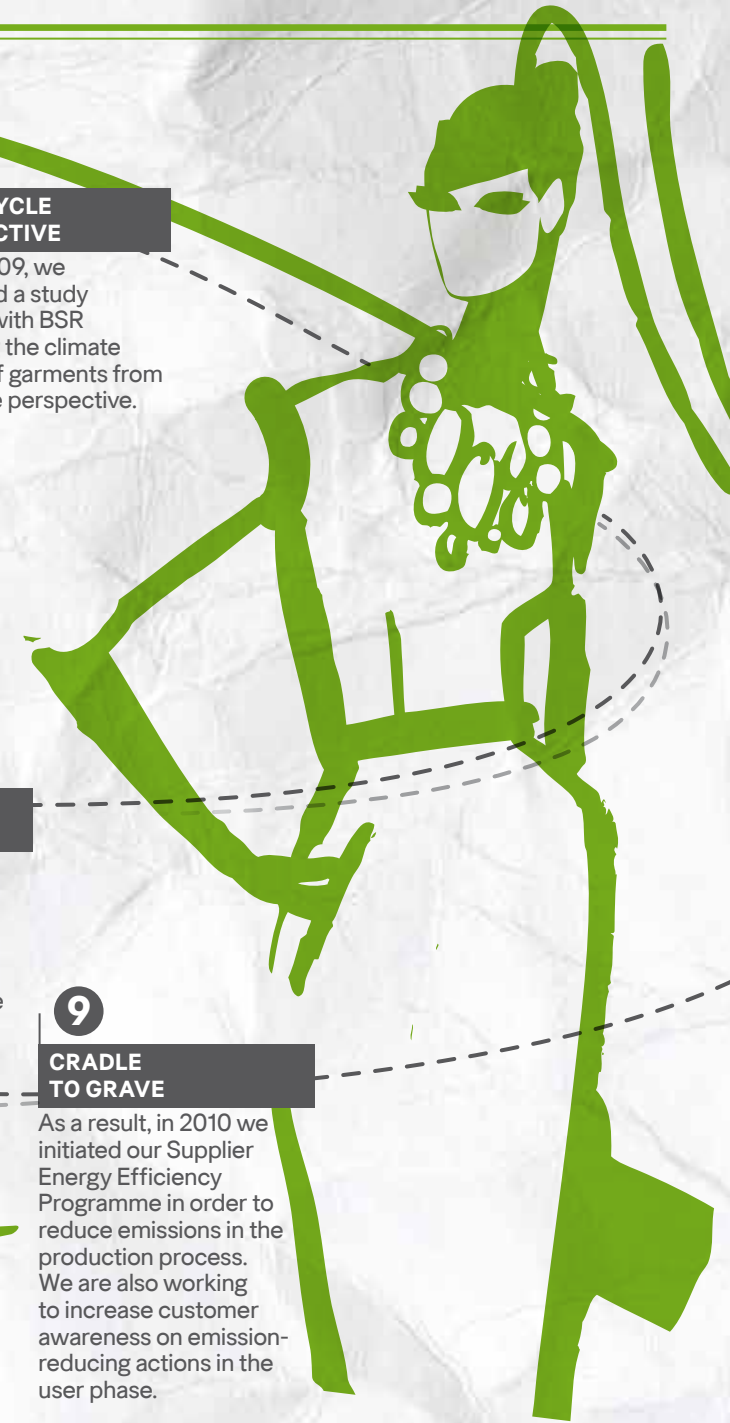
BE CLIMATE SMART

Consequently, with our 2010 'climate smart' commitment we've expanded our scope and are working to inspire others to reduce their emissions.

9

CRADLE TO GRAVE

As a result, in 2010 we initiated our Supplier Energy Efficiency Programme in order to reduce emissions in the production process. We are also working to increase customer awareness on emission-reducing actions in the user phase.



5 REDUCE, REUSE, RECYCLE

IN THIS SECTION

Reduce, reuse, recycle79 ▶

Waste is an important issue in our stores and distribution centres. Transport and product packaging, as well as shopping bags, shop fittings and construction waste from building new stores are some of the sources. By committing to reduce, reuse and recycle, we aim to minimise our waste impacts as much as possible. Our ultimate aim is to send zero waste to landfill.

1,600 tonnes of recycled materials used to create new garments

1,600

Since 2010 all our standard consumer bags are made of recycled materials

85% of all hangers that were not reused in store were recycled after use



REDUCE, REUSE, RECYCLE

PRODUCT PACKAGING

We are constantly striving to find better packaging solutions that use fewer resources and cause less waste. With this in mind, we developed Environmental Guidelines for Packaging in 2010 to help us make more sustainable choices when designing product packaging. The Guidelines cover the entire packaging chain, from raw material selection to production and end-of-life. Some of the main components are:

- Keeping the amount of material in our packaging to a minimum without compromising its function
- Using recycled materials
- Using material from certified sources, such as FSC-certified paper and board
- Using single materials and avoiding mixing materials, such as laminates or stickers, to improve recyclability
- Choosing standard packaging shapes to minimise waste in production
- Designing packaging to optimise space-use making it more efficient to transport

- Making packaging easy to separate so that it can easily be recycled or reused.

RECYCLED CARRIER BAGS

During 2010, we switched to recycled material for all of our standard plastic consumer bags. They are now made from 50 percent post-consumer and 50 percent pre-consumer recycled polyethylene (PE).

By using recycled PE, we reduce the demand for virgin oil and increase the demand for recycled plastic waste, which supports the recycling economy. When producing recycled PE it takes only 50 percent of the energy required to produce virgin plastic and it can also be recycled again. Recycled plastic has the same durability as virgin plastic and the bag can therefore be reused by a consumer many times before it is finally recycled.

Our plastic bags are available in five different sizes, allowing us to give the best sized bag for the garments sold. We provide packing guidelines to advise our employees in-store which

bag to use in order to minimise unnecessary plastic use.

We also sell reusable bags made from different textile materials in our stores, which can be used as an alternative to plastic bags.

TRANSPORT PACKAGING

We have guidelines for the transport packaging that is used to send our garments from production countries to our distribution centres. The guidelines cover both the quality and environmental requirements of the packaging.

For several years we have been successful in minimising the use of single garment packaging when transporting products from producers to our distribution centres. When we send the garments from our distribution centres to our stores, we use transport boxes that are reusable and these are sent back to distribution centres to be used again. With these two actions, we have almost eliminated waste from transport packaging ending up in our stores.



REDUCE, REUSE, RECYCLE

IN-STORE AND DISTRIBUTION CENTRE WASTE

We aim to minimise all waste types that are generated in our stores and distribution centres.

Waste management regulations and recycling opportunities vary from country to country, and sometimes even from region to region within a country. Some stores use the recycling facilities offered by shopping centres or landlords and others have separate waste contracts, or return waste to our distribution centres.

This broad variation of situations poses a challenge; however, our general requirement is that all waste should be reused or recycled, such as transport packaging and hangers. These requirements are outlined in our internal Waste and Recycling Guide, which is part of our 'Store Book' that guides all store employees. The principles and priorities in the Guide are not limited to stores and apply equally to warehouses and offices.

Our environmental guidelines for waste also provide direction on how to handle hazardous waste, such as fluorescent tube lights, batteries, electronic equipment, glues and other chemicals.

RECYCLING OF HANGERS

We use a lot of hangers at H&M. However, almost all of the hangers are reused in stores. When hangers cannot be reused they are sent for recycling and our recycling rate for 2010 was 85 percent, up from 79 percent in 2009.

During 2010, we also started to focus on reducing the total number of hangers we use by cutting down on hanger types. Ten different types have been removed from our range of hangers and in 2011 two more will be phased out. These will be replaced with a new multi-function hanger.

RECYCLING WASTE FROM STORE CONSTRUCTION

We have had standard requirements for store construction and store fittings for several years. These state



Hanger recycling went up 6% points.

the materials that can and cannot be used from an environmental and health perspective and suppliers that refurbish or build our stores must follow these requirements.

Building or rebuilding stores can create a lot of waste. Much of this, however, can be recycled and in many cases lead to cost reductions. To make sure that we make the best of these opportunities throughout our operations, we have developed further guidance for all our sales countries and will begin to demand recycling reports for our construction projects from 2011 onwards.

Less resource use and less waste with leaner construction.

During 2010, we trialled new methods to make the construction of new and refurbished stores leaner and more efficient. The initial results from the trials show that we can complete new store interiors in around 10 days at the same time as improving quality. With the new approaches, we can reduce impacts in several ways:

- Less impact on customers and colleagues through noise or dust
- Reduced construction costs and loss of sales
- Higher recycling rates of old materials
- More efficient use of building materials and less scrap waste.

REDUCE, REUSE, RECYCLE

1,600
tonnes recycled materials
turned into new garments

MAIL ORDER

All of our mail order packaging boxes are made of cardboard with at least 60 percent recycled content.

RECYCLED FABRICS

We are using more and more recycled materials for our garments. In 2010, we used 1,600 tonnes of recycled wool, recycled cotton and recycled polyester. We also sold about 65,000 accessories made out of recycled tetrapacs. Recycled polyester is often generated from PET bottles. Recycled wool and cotton usually reuse textile remnants. In early 2011, we transformed cut remnants from the production of our 2010 collection designed by the French fashion house Lanvin into a new, fashionable collection, which we called the Waste Collection .



HOW PET BOTTLES BECAME FASHIONABLE GARMENTS

Polyester fleece is a soft, warm, wool-like material used for a variety of garments across H&M's range. Here's how it can be made from recycled PET, reducing energy and resource, as well as waste.

1 | COLLECTION AND SORTING

Containers are collected from recycling, sorted, sterilised, crushed into chips and melted at 270°C.

2 | SPINNING AND STRETCHING

The melted polyester is forced through a sieve-like device, cooled and spun to form fibres called tow. Then it is stretched and crimped for strength.

4 | CARDING AND SPINNING

A carding machine aligns the fibres that are then spun into yarn.

5 | DYEING AND KNITTING

Then the yarn is dyed and knitted or woven into a fabric.

6 | GARMENT MANUFACTURE

The fabric is cut and sewn according to a pattern drawn up by one of our designers.

3 | TOW IS STRETCHED AND STRENGTHENED

The tow is pulled through the rollers of a drawing machine to stretch and strengthen it before being cut into short pieces of fibres.

6 USE NATURAL RESOURCES RESPONSIBLY

IN THIS SECTION

Raw materials.....	84 ▶
Water	93 ▶
Paper and store interiors	99 ▶

Our business depends on natural resources. Increasing scarcity of resources like water highlights how important it is for all of us to use natural resources responsibly, considering the needs of both present and future generations. To operate as a sustainable business, we are committed to conserving water, soil, air and species.

100%

All of the paper used in our mail order catalogues is Flower eco-labelled



75% of non-drinking water used in our biggest distribution centre comes from rainwater

50,000,000L

50 million litres of water saved in denim production

100%

Of cotton targeted to come from more sustainable sources by 2020

USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

BOLD STEPS TOWARDS MORE SUSTAINABLE RAW MATERIALS

Raw materials like cotton can have a heavy impact on the environment. 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 also require heavy use of pesticides and fertilisers, which can cause pollution and pose health risks to farmers.

Although we do not source any raw materials directly, we are committed to working actively to reduce their impacts. H&M's aim is for all cotton in our range to come from sustainable sources by 2020 at the latest. That means 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 see as the keys to achieving this target.

INTERVIEW WITH HENRIK LAMPA, CSR MANAGER PRODUCTS

WHAT PART OF H&M'S OPERATIONS USES THE MOST NATURAL RESOURCES?

Our biggest natural resource use is in the production of our garments. Cotton is the raw material we use the most. It is a renewable resource, but it comes with a number of challenges, including the use of chemicals and water intensive processes. We also use some synthetic fabrics. These fabrics are usually derived from oil, which is a non-renewable resource; but these are well suited for recycling.

WHAT DO YOU DO TO USE NATURAL RESOURCES MORE RESPONSIBLY?

We started our work to improve resource use in the cotton supply chain several years ago. For some years, we have been using more and more certified organic cotton

and introduced products made from recycled materials. We have also been very actively involved in the Better Cotton Initiative. Now, we have set the firm target that all our cotton should come from sustainable sources. Additionally, we will continue to increase the use of recycled fibres, like recycled polyester and wool.

WHERE DO YOU SEE THE GREATEST POTENTIAL FOR FUTURE RESOURCE SAVINGS?

We have just started scaling-up our use of recycled fabrics. I believe that this will drive further innovations and the future will bring many more opportunities for recycling. This can mean less waste and less use of natural resources; and it makes perfect business sense.



USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

BETTER COTTON INITIATIVE

H&M is actively involved in the Better Cotton Initiative (BCI). The BCI is a long-term multi-stakeholder initiative that develops and promotes good farm practices, allowing more cotton to be grown while reducing water and chemical use and protecting both working conditions and biodiversity. The system has 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, clothing companies, cotton producer groups and trade and industry bodies. We have been involved with the BCI since its inception in 2004 and are an elected member of the organisation's council.

We regard the BCI as the key initiative to help us reach our goal to source all cotton in our range from sustainable sources at the latest by 2020. To assist the transition from trial to



68,000 cotton farmers were educated on better farming practices through the BCI.

implementation phase, we will invest EUR 500,000 in 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 as well, even though the minimum requirements might not yet be met. The BCI follows a strategic implementation plan until 2012, after which the system will be reviewed. It follows 10 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 and Central Africa. The first cotton from this programme was harvested in autumn 2010 and we have worked closely with our suppliers in order to learn how practically to integrate Better Cotton into our products.

During 2010, the BCI, through its implementing partners WWF and Solidaridad, trained around 68,000 farmers in Pakistan, India and Mali. The aim is to train at least 150,000 farmers in 2011.

More information about the BCI can be found at: www.bettercotton.org

HOW H&M BECAME ONE OF THE WORLD'S BIGGEST USERS OF ORGANIC COTTON

According to Textile Exchange, H&M was the 5th largest user of certified organic cotton worldwide in 2009. Since then, we have increased the amount by another 77%, to more than 15,000 tonnes. Using organic cotton alongside Better Cotton and recycled cotton is part of our long-term strategy towards using only sustainable cotton by 2020.

① FIRST TRY IN THE 1990s

We launched an organic cotton collection called "Nature Calling". Garments were mostly uncoloured and after a while sales tapered off.

② A SECOND SHOT IN 2004

We started over with 20 tonnes, blending it into selected garments to test new ways of working, without compromising on designs.

③ 2007 - OUR FIRST WHOLE COLLECTION

In spring, we offered our first, full range of garments made with organic cotton in all departments at H&M.

⑤ HIGHLY RANKED IN 2009

Our efforts made H&M the 5th largest user of organic cotton in the world in 2009. Source: Textile Exchange.

④ BUILDING ON SUCCESS

By the end of 2007 we had purchased 2,000 tonnes. We made this the baseline of our target to increase use by 50% each year.

⑥ MORE THAN 15,000 TONNES IN 2010

Growth continues and our Garden Collection shows that organic or recycled fabrics, high fashion, and commercial success work very well together.

⑦ NEW TARGETS FOR 2020

We have set a target to only use cotton from sustainable sources; by that we mean organic cotton, recycled cotton and Better Cotton.

USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

We used more organic cotton than ever before – more than 15,000 tonnes, making H&M one of the largest users of this material in the world.

ORGANIC COTTON

We started our work with organic cotton back in 2004. Since then we have continually increased our use of independently certified organic cotton and seen growing customer demand. In 2010, we reached 15,000 tonnes, which makes H&M one of the largest users of organic cotton in the world (according to Textile Exchange 2009 Organic Market Report H&M was ranked 5 based on a use of 8,500 tonnes in 2009).

Organic cultivation reduces the potential negative impact of cotton on local water quality and biodiversity.

Grown in Turkey, India and China, all our organic cotton is independently certified by accredited certification bodies (Control Union and IMO). Additionally, all factories handling organic cotton products are certified according to the relevant standards, OE 100 and OE Blended. All our products with organic cotton have a transaction certificate (TC) issued by a third party certifier (IMO and Control Union), which verifies the content of the organic fibre.

Organic cotton is used in all our clothing divisions (men, women, teenagers, children and home). We offer both 100 percent 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 percent 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 percent each year from this level will mean that our target is to reach a total of 15,000 tonnes by 2013, a figure we have in fact already achieved. While we are pleased to have met this target early, we are realistic about the fact that we cannot sustain growth in the use of organic cotton at the rates witnessed in recent years (77 percent in 2010 and 183 percent in 2009). This is because our own growth has outstripped the growth in supply of

organic cotton. Therefore, we have opted to retain our target.

Read more about organic cotton at:
www.hm.com/environment or
www.textileexchange.org

TRANSITIONAL COTTON

Since 2008, we have made efforts to include transitional cotton into our products in order to support farmers in the fragile phase of transition from conventional to organic farming. As announced in our targets for 2009, we booked 250 tonnes of transitional cotton in China and agreed on related conditions. Unfortunately, as a result of unforeseen issues with our supplier, this agreement could not be fulfilled. Given these issues, we have decided to focus on our goal to use only cotton from more sustainable sources by 2020.

H&M is a member of Textile Exchange (formerly Organic Exchange), 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. In May 2010, H&M hosted the 'sustainable fashion seminar' held by Textile Exchange, together with Made-by.

USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

RECYCLED AND ORGANIC MATERIALS AT H&M



ORGANIC COTTON

Organic cotton is cotton that, among other things, has been grown without the use of chemical fertilisers or pesticides. All organic cotton used for H&M products has been independently certified according to the relevant Textile Exchange standards and are verified by a Transaction Certificate (TC).



ORGANIC LINEN

Organic linen is linen that has been grown without the use of hazardous chemicals. Organic linen used for H&M products is independently certified according to the GOTS-standard and comes with full transaction certification (TC).



RECYCLED POLYESTER

Recycled polyester is polyester made from PET-bottles or textile waste. Independent third party certification usually follows the Global Recycling Standard (GRS) developed by the organisation Textile Exchange.



RECYCLED POLYAMIDE

Recycled polyamide is polyamide made from fishing nets or textile waste. Independent third party certification usually follows the Global Recycling Standard (GRS) developed by Textile Exchange.

RAW MATERIALS

RECYCLED AND ORGANIC MATERIALS AT H&M (CONTINUED)



RECYCLED COTTON

Recycled cotton is cotton made from textile remnants in production. Independent third party certification usually follows the Global Recycling Standard (GRS) developed by Textile Exchange.



RECYCLED WOOL

Recycled wool is wool made from worn-out woollen garments and remnants of fabric. Independent third party certification usually follows the Global Recycling Standard (GRS) developed by Textile Exchange.



TENCEL®

Tencel® is a silk-like, renewable material which has been produced with minimised environmental impact out of cellulose. Tencel® is a brand owned by fibre manufacturer, Lenzing. The generic name for the material is Lyocell. H&M considers only Tencel® manufactured by Lenzing as a more sustainable material.

USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

65,000
accessories made
of recycled tetrapac

OTHER MORE SUSTAINABLE MATERIALS

We are using and continuously trying out other new more sustainable materials in our products. These include different recycled and organic materials as well as Tencel®. Although the use of these fibres is an investment in the future, we have seen increasing amounts used in 2010. Our use of recycled wool, recycled cotton and recycled polyester amounted to 1,600 tons.

We also sold more than 65,000 accessories made of recycled tetrapac. This will continue with the launch of the Conscious Collection in spring 2011. Read more about the use of more sustainable materials at www.hm.com/materials.

MATERIALS 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 the protection of endangered species is important to us. For several years, we have been committed to not using genuine

fur in our collections and to not testing our cosmetic products on animals. H&M is a Fur Free Alliance-listed retailer.

You can read more about the Fur Free Alliance at:
www.infurformation.org

In 2009, we updated our product policy and added, amongst others, stricter requirements on angora wool, merino wool, use of animal skin and feathers and downs.

Accordingly, during 2010 we began auditing angora farms. We implemented a self-assessment programme for all farms supplying into the H&M value chain and a traceability system to connect farms supplying angora fibres to our suppliers. We aim to provide detailed results in next year's report, but the initial findings appear to be positive.

You can read the full policy at:
www.hm.com/gb/corporateresponsibility/aboutourproducts/productpolicy__productpolicy.nhtml

IMPROVING TRACEABILITY OF COTTON

Our audit programme focuses on all of our first-tier suppliers and their subcontractors, such as washing or dyeing units. But we rarely have any direct influence on raw material production such as cotton. To ensure that the cotton included in our fashion meets sustainability standards, we put a lot of effort into making the entire textile value chain more traceable and transparent. Co-operating with others is one way of achieving improvements.

HISTORIC FUTURES STRINGS SOFTWARE

We are piloting web-based Strings software from Historic Futures, which aims to enable improved traceability and transparency throughout our value chain. Currently being tested with six fixed supply chains in Bangladesh and China, the system requires suppliers at each stage of the chain to input data on exactly how much material, fabric or finished pieces they have passed on to the next stage.

The pilot project will run from November 2010 to May 2011. It started by focusing on educating each factory to use the software and began tracking all deliveries from 1 January 2011.

The aim is to achieve full traceability on all H&M orders throughout the projects and to evaluate Strings' usability and the reliability of the collected data. The project gives us the opportunity to trial software to find out if it is scalable and whether it has the potential to be rolled-out more widely.

STAGES OF CONVENTIONAL COTTON SUPPLY

The supply chain of today's conventional cotton can be very complex. We work hard to increase our influence on this stage of our value chain and improve traceability. Our target for 2020 is only to use more sustainable cotton such as organic cotton, Better Cotton or recycled cotton – all fully traceable.

1
CONVENTIONAL COTTON SEEDS
These days, conventional cotton seeds are often genetically modified. These seeds may not be used for organic cotton.

2
COTTON PRODUCTION
Organic cotton is grown without the use of any chemical fertilisers or pesticides. Better Cotton limits the use of both, which in turn, helps to reduce water use, thereby increasing profitability for farmers.

3
MIDDLEMEN
In some countries such as India, middlemen buy the cotton seed from the farmers.

4
COMPRESSION, OR 'GINNING'
The seed cotton now gets compressed into bales – the so-called ginning. First seed and lint are separated, then the seeds go through dryers to reduce moisture before being compressed into bales.

5
LOCAL AND GLOBAL TRADE
Often global or local traders then buy these raw cotton bales and sell them on to spinners.

6
SPINNING YARN
Spinners make yarn out of the raw cotton.

7
FABRIC MANUFACTURE
This yarn can then be bought by fabric mills to make fabric.

8
GARMENT MANUFACTURE
These fabrics are then usually bought by our first-tier suppliers to cut and sew ready-made garments out of them using designs developed by H&M designers.



USE NATURAL RESOURCES RESPONSIBLY

RAW MATERIALS

COTTON FROM UZBEKISTAN

H&M takes a clear stand against child labour and does not accept underage workers being used anywhere in our value chain – including cotton cultivation. One of our concerns is the use of forced child labour in cotton cultivation in Uzbekistan. H&M will never accept forced and/or child labour and therefore, as long as the government of Uzbekistan continues to compel children to work in its cotton fields, Uzbek cotton cannot be an option for H&M and our supply chain.

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 wherever we can. However, Uzbekistan is one of the largest cotton producers in the world and avoiding the use of cotton from there is a serious challenge.

So, although it would not be fair to guarantee a boycott, H&M has taken several steps in order to avoid cotton from Uzbekistan. For some years, we have taken the approach of both influencing decision-makers in Uzbekistan and developing trustworthy tracing systems on the origin of conventional cotton in our value chain.

As announced in last year's report, we moved further towards joining forces with other retailers and stakeholders. In 2010, we attended a multi-stakeholder meeting hosted by the Responsible Sourcing Network, a new project of As You Sow and the Institute for Human Rights and Business, in partnership with Anti-Slavery International and Calvert Investments. More than 50 consumer brands, retailers, investors, trade associations, NGOs and trade unions came together under the theme of

'Ending Forced Child Labour in Uzbekistan's Cotton Sector' in Brussels on the 7 April. Our aim was to deepen international co-operation towards achieving this objective.

Together with other attendees, we sent a letter to Uzbekistan's Ambassador in Brussels encouraging them to attend the ILO conference in June 2010. H&M also contacted the Swedish minister of trade asking for this issue to be raised at the EU level.

As our traceability systems improve, the absolute exclusion from our supply chain of producer countries that refuse to meet standards will become possible. Ultimately, we aim for all cotton to come from sustainable, fully traceable sources by 2020 at the latest.

H&M AND WATER

Water is an important resource used in garment production. In 2003, we started to limit water pollution resulting from garment production. We are continually working to increase water efficiency along our value chain.

1 | **IN THE BEGINNING...**
We started by requiring wastewater treatment from all supplier factories with wet processes in 2003.

2 | **£1.7m TO WATERAID SINCE 2002**
Since 2002, H&M has supported WaterAid, with donations amounting to about GBP 1.7 million.

3 | **IMPROVING PRACTICE**
In 2005, we launched our first Cleaner Production Programme, aiming to improve environmental practice at fabric mills and vertically integrated suppliers with the help of 40 easy-to-implement measures.

4 | **SETTING THE STANDARD**
Since 2006, we have required wastewater to be treated against the BSR standard or, if more stringent, local law.

5 | **SIGNING UP FOR CHANGE**
In June 2008, we became a signatory to the CEO Water Mandate.

6 | **SPREADING OUR INFLUENCE**
With our mill development programme, since 2009 we have also monitored wastewater treatment at a growing number of fabric mills, which are second tier suppliers.

7 | **THE BIGGER PICTURE**
Since 2009, we have also collected data from relevant supplier factories.

8 | **FIRST TESTS SHOW SAVINGS OF 32%**
In 2009, first test harvests of Better Cotton showed 32% water savings in cotton growing compared to conventional farming practices.

9 | **50 MILLION LITRES SAVED IN 2010**
In 2010, we saved 50 million litres of water in denim and are targeting 100 million litres in 2011.

WATER

As well as being needed for growing cotton, water plays a part in other stages of our products' lives, including processing fabrics and washing finished products. We want to improve the way we manage water throughout our product life cycles. In June 2008, we signed the CEO Water Mandate, a voluntary initiative from the UN Global Compact. The mandate commits H&M to improve both our own and our suppliers' water efficiency, improve wastewater quality and report transparently on our progress.

You can read about our progress on the six key elements of the Mandate in the following pages.

More information about the CEO Water Mandate can be found at:
www.unglobalcompact.org



Wastewater must be treated at H&M suppliers and we monitor its quality.

OUR DIRECT OPERATIONS

Although the retail sector is a relatively low user of water, we still aim to minimise usage in our own operations. When building a new store or distribution centre, we follow guidelines aimed at reducing water use. This includes low-flow taps, low water-use toilets and showers with automatic stop functions.

Our newly-built distribution centres also have rainwater utilisation systems for toilet flushing and maintaining lawn and garden areas. In our largest distribution centre in Hamburg, this generates about 75 percent of the non-drinking water used each year. We will incorporate the same system in a new distribution centre currently being built in Belgium.

VALUE CHAIN AND WATERSHED MANAGEMENT

The garment value chain impacts on water supply in two key ways. Firstly, the production of raw materials and the manufacturing process can both have a negative effect on water sources through their use of pesticides, fertilisers or their production of polluted wastewater. Secondly, some of our supply chain is located in areas facing water stress,

75%
of the water used for toilet flushing and irrigation in our biggest distribution centre comes from rainwater

USE NATURAL RESOURCES RESPONSIBLY

WATER

such as China and India, yet our suppliers operations depend directly on the availability of water.

This challenging combination of factors means that improving water-use practices throughout our value chain is of huge importance to us.

COTTON

Cotton is the raw material we use the most and it is a thirsty crop. H&M is very active in promoting more sustainable cotton cultivation. We work towards reducing water use in cotton cultivation through our affiliation with the Better Cotton Initiative.

SUPPLIER WATER EFFICIENCY

We monitor the water efficiency of supplier factories (see graph to the right). In 2010 we collected data from 326 factories. We prioritise our work to improve supplier water efficiency with those suppliers located in areas where water is considered scarce, as defined by the World Business Council for Sustainable Development.



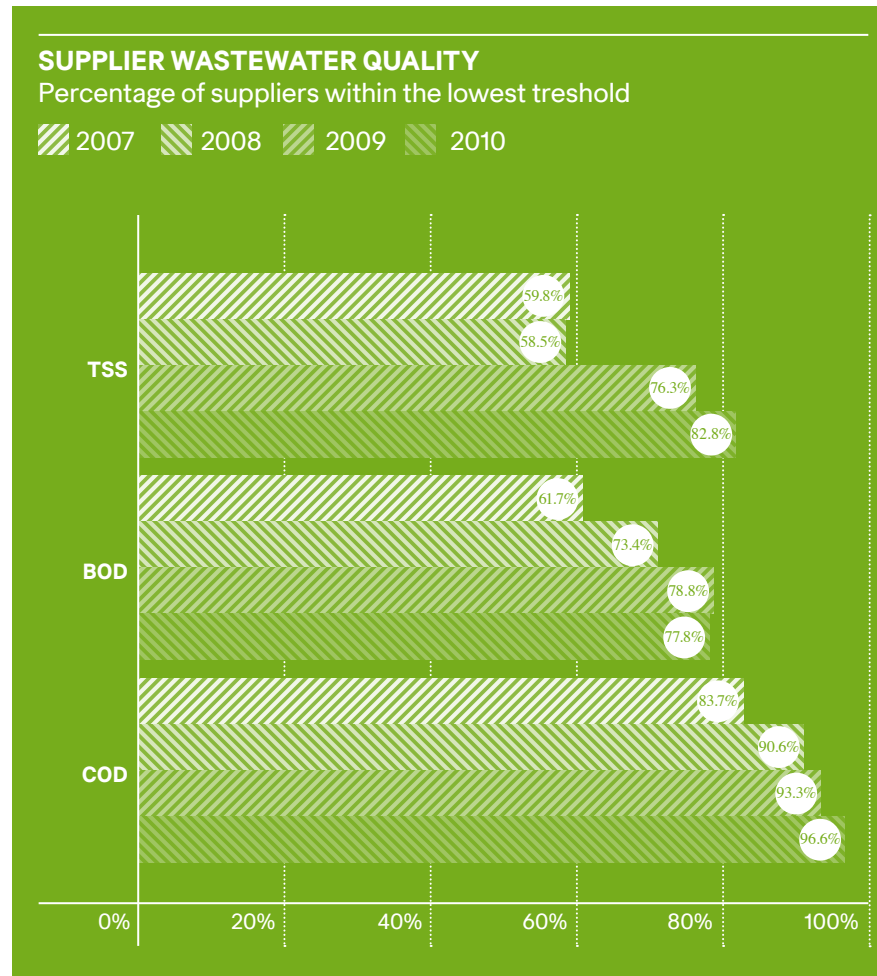
USE NATURAL RESOURCES RESPONSIBLY

WATER

SUPPLIER WASTEWATER QUALITY

Since 2006 we have required suppliers who have wet processes such as dyeing to avoid environmental damage by treating their wastewater. Wastewater quality in our supply chain has to meet quality levels defined by Business for Social Responsibility (BSR) or relevant local laws, depending on which is stricter. These requirements form part of our supplier audit programme.

We focus on key water quality measures such as organic and chemical pollution levels and suspended solids within the ww – TSS (total suspended solids), BOD (biological oxygen demand) and COD (chemical oxygen demand). The graph to the right shows the share of suppliers in the lowest threshold for each of these indicators, against the BSR standard. We are happy to see further progress for both TSS and COD, with almost all our suppliers now reaching the lowest threshold. There has been a slight decrease in BOD and we will monitor developments for this indicator.



USE NATURAL RESOURCES RESPONSIBLY

WATER

WATER CONSCIOUS DENIM SAVES 30%

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.

These showed that process optimisations can deliver water savings of up to 30%. In 2010, we produced denim following this approach on a greater scale and achieved water savings of approximately 50 million litres relative to previous production methods. As a result, we plan to introduce this technique for all our denim suppliers in Bangladesh and will investigate how it can be used in the washing process for other products.



USE NATURAL RESOURCES RESPONSIBLY

WATER

COLLECTIVE ACTION

Consistent with our approach towards sustainability, actions taken collectively with other companies and organisations can help us to address issues that we cannot influence strongly enough on our own. Collective actions can promote better practice not just in our own supply chain operations, but also throughout the industry.

BETTER COTTON INITIATIVE

The Better Cotton Initiative (BCI) is at the core of our initiatives to tackle excessive water use in cotton production. Early trials show that the Better Cotton system can provide water savings of up to 32 percent over standard growing methods.

Read more about our work with the Better Cotton Initiative on page [49](#).

CLEANER PRODUCTION PROGRAMME

The production of the fabric can also be very water intense and involve the use of chemicals. Fabric mills are second-tier suppliers with which H&M has no direct business relations. Through our Mill Development Programme (see page [85](#)), we have started auditing some selected mills. However, a voluntary approach to encourage more fabric mills to improve their environmental performance is still needed to extend good practice.

Therefore we address environmental issues with programmes in Bangladesh and China. The programmes promote around 40 easy-to-implement environmental measures that are directly linked to cost savings and profitability.

China

As announced in our 2009 report, the programme now involves the NGOs Solidaridad and the Natural Resource Defense Council, as well as the Chinese Dyeing Mill Association, to further promote better practices in Chinese mills. The programme runs on-site evaluations, provides action plans and workshops and shares best practice examples. Currently 10 mills are participating in the programme.

Bangladesh

From May 2010, the programme has become a multi-stakeholder initiative involving the NGOs IFC-SEDF, TNO and Solidaridad, as well as a number of other brands. It is designed to have a sector-wide impact through the promotion of environmental improvement measures. Currently, six vertically integrated H&M suppliers participate.

WATER DISCLOSURE WORKING GROUP

During 2010 H&M joined the Water Disclosure Working Group (WDWG), set up within the UN CEO Water Mandate. This new group will drive the harmonisation of existing and emerging corporate water disclosure initiatives. It aims to provide clear guidance and to establish a common metric for water footprint. This will improve corporate reporting on water use and supply, thereby highlighting best practice. H&M is committed to adding our own experience and knowledge to this process.

PAPER AND STORE INTERIORS

100%
of the paper used for our mail
order catalogues is EU Flower
eco-labelled

PAPER

We use a lot of paper at H&M, ranging from transport cartons, hang tags and gift boxes to office paper, receipt rolls, the H&M magazine and our mail order catalogue.

We have a policy that paper made from fibre that originates from a country with a tropical rainforest must be Forest Stewardship Council (FSC) certified. Our ambition is to increase our use of FSC certified paper globally, regardless of the origin. For example, all of our receipt rolls are made of FSC-certified paper. FSC is a leading international forest certification association, guaranteeing that the paper comes from a sustainable source.

In 2010, we developed guidelines for the procurement of paper and paper products in order to help buyers at H&M make sustainable choices. It encourages the use of recycled fibre or fibre from certified sustainable sources and more environmentally conscious bleaching and printing processes.

Our greatest paper use is in our mail order catalogue. For this, we use EU-Flower labelled paper and the majority of the fibre comes from certified forests. The printers used for the catalogue are certified under ISO14001. All of our mail order packaging boxes are made of cardboard with at least 60 percent recycled content.

All of our head office printers are set to double-sided printing as the default setting.

INTERIORS FIXTURES AND FITTINGS

Store furniture and fittings can carry an environmental burden from their manufacture, use and disposal. This includes the raw materials used for their manufacture, hazardous treatments, energy and water use during production, and their disposal.

We have environmental guidelines for our interior department to use when choosing materials. We also have a set of requirements that suppliers of shop fittings must follow. These state the

materials that can and cannot be used from an environmental and health perspective.

ENVIRONMENTAL REQUIREMENTS IN CONSTRUCTION

We set high standards for ourselves in terms of environmental responsibility and we expect our business partners to adopt equally high standards.

Materials and substances that are hazardous for humans or the environment must be avoided in construction work for H&M.

We follow the precautionary principle, which means that if a material or substance is suspected of being hazardous it should be avoided whenever possible, without compromising quality and safety. For example, all installations must be PVC-free and water-based paints should always be used indoors.

We expect our business partners to contribute to our efforts to preserve natural resources. We also encourage the use of new technologies that can reduce negative environmental

impacts from both the construction and the operation of H&M stores and other premises. We also have requirements that mixer taps in washrooms, kitchens and toilets should be fitted with water-saving devices. All stores should also have adequate space for waste handling and separation.

7 STRENGTHEN COMMUNITIES

IN THIS SECTION

- Policy and Focus 101 ▶
- Community Projects 103 ▶
- Community support 107 ▶

Our operations have an impact on communities around the world. We contribute to economic growth in the areas that H&M and our suppliers operate in and use our influence to promote better social and environmental conditions. Investing in the communities around us extends these improvements more widely and in turn, benefits our business.

More than 100,000 people have been provided with safe water through our collaboration with WaterAid since 2002



\$6,500,000 generated through our 2008-2010 Fashion Against Aids collections

631,295

631,295 garments donated to charities in 2010

POLICY AND FOCUS

SEK 32.7m
million invested in our
communities in 2010 alone

Our global community investment policy guides the investments we make. Our efforts should be focused, efficient and sustainable and have a clear connection to our business, and to our stakeholders' and society's needs.

We focus our efforts on three areas:

- Employment and education among women and youth
- Water
- Innovation of sustainable materials.

Our community investment work builds on three pillars outlined in our global community investment policy:

- Our long-term community partners, UNICEF and WaterAid
- A number of distinct community projects
- Ongoing community support.

These pillars work together to meet some of the diverse needs of the communities in which we operate.

Community activities undertaken across H&M include cause-related marketing campaigns and donations of money and clothes to selected charity organisations. We also provide emergency relief in the event of major catastrophes. In 2010 alone, H&M invested SEK 32.7 million (USD 4.65 million).

LONG-TERM PARTNERS

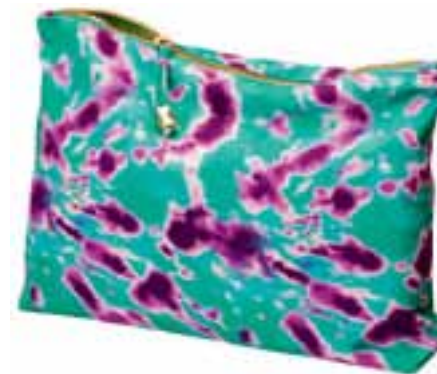
Forming relationships with expert international partners allows us to address some major global issues to an extent that would be impossible if we acted alone. We co-operate with our long-term partners on different projects, aiming to improve conditions for communities we touch. We encourage our customers to offer their own support.

UNICEF

H&M began a partnership with UNICEF in 2004. Since the beginning of the partnership, we have made annual donations to the organisation. In 2010, UNICEF received around SEK 13.8 million (USD 1.96 million) from H&M for all projects.

WATERAID

This international NGO works to give the world's poorest people access to safe water, sanitation, and hygiene education. Our support for WaterAid dates back to 2002. Since the start of the partnership, we have raised almost SEK 20 million (approximately USD 2.8 million) for WaterAid's water and sanitation projects.



STRENGTHEN COMMUNITIES

POLICY AND FOCUS

OUR COMMUNITY INVESTMENTS 2010 AT A GLANCE

PROJECT / ISSUE	PARTNER	COUNTRY	INVESTMENT 2010 (SEK)
All for Children	UNICEF	India	11,888,358
HIV/AIDS awareness	DAA, YouthAids, MTV Staying Alive Foundation, UNFPA	Various	10,654,002
Safe water, hygiene education and sanitation	WaterAid	Bangladesh, India and Pakistan	4,101,300
Fire Prevention in garment factories	H&M	Bangladesh	1,000,000
Education	Mentor	Sweden	1,500,000
Disaster relief	UNICEF	Haiti	719,500
Disaster relief	UNICEF	Pakistan	738,500
Local donations	Mainly UNICEF	Various	1,709,422
Others			400,000
		Total H&M	32,711,082

DONATIONS MADE BY H&M'S ANNIVERSARY FOUNDATION 'JUBILEUMSSTIFTELSEN'

Education and poverty eradication	Hand in Hand	India	1,900,418
Children's rights	CCR CSR	China	665,000
Access to safe water	FRANK	India	950,334
		Total Jubileumsstiftelsen	3,515,752

COMMUNITY PROJECTS

\$4.5m
for All for Children – our
5-year project with UNICEF

We support directly a number of projects in the communities in which H&M and our supply chain operate. It is through these projects that we can work to address the most relevant issues locally and contribute to positive and sustainable change in communities touched by our operations.

ALL FOR CHILDREN

We take a clear stand against all use of child labour and, today, incidents of children working in our first-tier supply chain occur rarely. However, as we do not purchase cotton directly, we are not in a position to impose demands on cotton and cottonseed producers. In 2009, in co-operation with UNICEF, we launched the All for Children project to address the causes of child labour and improve conditions in Indian cotton production.

The All for Children project focuses on five specific areas:

- Addressing child protection policies and structures
- Education
- Community mobilisation
- Social protection
- Health and nutrition.

It targets 1.7 million children up to 14 years of age, in the districts of Salem and Dharmapuri in the state of Tamil Nadu. A special focus is put on about 300,000 of the most vulnerable children.

ALL FOR CHILDREN: WHAT HAVE WE ACHIEVED AFTER ONE YEAR?

Local committees for child protection formed in 70 regions (panchayats) covering 250,000 people

4,600 former child labourers are no longer working and back in school

Access to welfare and health support for vulnerable children and their families

Awareness training for more than 8,200 employees in the Indian health system to increase vitamin A supplement distribution and de-worming for 300,000 children under six

Awareness training on children's rights for teachers at over 100 schools with a combined total of more than 70,000 pupils.



We have a dedicated website where we provide regular updates on the progress made in this project:

www.hm.com/allforchildren

STRENGTHEN COMMUNITIES COMMUNITY PROJECTS

\$2.6m
generated since 2002
to support WaterAid

The five-year project is supported by a SEK 40 million (USD 4.5 million) donation from H&M. Throughout the duration of the project, H&M is launching different products in support of All for Children. A series of four cotton bags was available during 2010. Of the sales generated in 2010, 30% was donated to this project, adding over USD 160,000 of additional funding.

Fashion Against Aids generated more than SEK 10.6 million in 2010

FASHION AGAINST AIDS (FAA)

Since 2008, H&M and Designers Against AIDS (DAA) have joined forces to launch a yearly fashion collection called Fashion Against AIDS (FAA). The main aim is to increase awareness about HIV/AIDS among youth. Furthermore, 25 percent of sales proceeds are donated towards HIV/AIDS prevention projects. During the first year of the project, we donated the money raised to DAA and YouthAids. In 2009, we added MTV's Staying Alive Foundation and the United Nations Population Fund (UNFPA) to the list.



In 2010, we followed the success of the previous campaigns with another collection, designed to offer our customers the best wardrobe for the summer music festivals. The collection generated donations to the value of more than SEK 10.6 million (USD 1.5 million). So far, the FAA initiative has raised a total of about SEK 42 million (USD 6 million).

WATERAID

WaterAid is an international NGO that works to improve access to safe water, hygiene and sanitation in the world's poorest communities. H&M has collaborated with WaterAid since 2002, transforming the lives of over 110,000 of the world's poorest people by improving access to safe water, hygiene education and sanitation. Every year, H&M supports WaterAid by selling a specially designed swimwear collection. Of the sales generated, 10 percent has been donated to WaterAid's water and sanitation projects. Since the start of the partnership, H&M has raised more than SEK 18 million (USD 2.6 million) for WaterAid's work in some of the

countries where production for H&M takes place: Pakistan, Bangladesh and India.

WHAT HAVE WE ACHIEVED?

BANGLADESH

As a result of the donations from H&M and our customers, about 50,000 people have been provided with access to safe water and about 29,000 with sanitation.

INDIA

We support four projects in India which, together, provide more than 200,000 people with access to safe water and almost 100,000 now have access to sanitation.

PAKISTAN

While WaterAid's national programme is our project partner in Pakistan, we have directed available money to support the victims of the devastating floods in the country in 2010. With the support provided by H&M, WaterAid reached over 50,000 people, distributing 278,000 water purification tablets and providing hygiene kits to around 7,300 families.

ANDREW COOK, DIRECTOR OF COMMUNICATIONS & FUNDRAISING AT WATERAID

"H&M has supported WaterAid's vital work to transform the lives of thousands of the world's poorest communities since 2002. WaterAid is very proud of our partnership with H&M, which has raised over GBP 1.7 million. This fantastic amount has funded projects in Bangladesh, India and Pakistan to provide safe water, improved hygiene and sanitation to families and children. Access to these basic human needs enables children to go to school and families to build livelihoods so that they can take the first steps out of poverty and look forward to brighter futures."

STRENGTHEN COMMUNITIES COMMUNITY PROJECTS

127,423
garment workers in Cambodia
educated on HIV/AIDS

UNICEF HIV/AIDS PREVENTION CAMBODIA

H&M has been supporting UNICEF's HIV/AIDS Prevention and Care Program in Cambodia, one of our production countries. The programme was designed to run for five years ending in 2010. Its aim was to reduce the transmission of HIV among young people and high-risk groups and limit the impact of the epidemic on children and their families. We have used our access to factories to help UNICEF reach out to young female garment workers. In this way, we have been able to raise awareness among our suppliers of their own role in protecting the health of their workers. The program also supports education on the issue among youth throughout the country, as well as HIV counselling and testing.

H&M TRAINING CENTRE IN DHAKA

For 11 years, H&M has run a centre in Dhaka, Bangladesh, where young people can train to become sewing and knitting machine operators. The main aim of the centre is to provide

UNICEF HIV/AIDS PREVENTION CAMBODIA: WHAT HAVE WE ACHIEVED?

Awareness training provided to 127,423 garment workers in 14 factories

4,682 people brought into public healthcare programmes through their factories

12 factories established HIV workplace committees to continue HIV awareness programmes

Surveys showed that by the end of the project, 82 percent of the workers had comprehensive knowledge about HIV/AIDS (2008: 59 percent)

27,689 women made use of the helpline provided

32,924 men and women took advantage of anonymous testing and counselling services (VCCTs)



young people with the opportunity to improve their living conditions by taking on skilled work. At the end of the training, students are guaranteed a job at selected H&M suppliers. The target is to train 100 trainees every year. Since the start of the project, a total of 1,122 people have received the training. We aim to encourage similar initiatives by openly sharing the concept and our experiences with NGOs, suppliers and other international companies.

WOMEN IN RETAIL PROGRAMME SAUDI ARABIA

Following the opening of our first franchise store in Saudi Arabia in 2008, we are in the process of establishing a retail training program for women in the city of Jeddah, together with our franchise partner Alshaya. The centre is aiming to open during Spring 2011 and will promote female employment in Saudi Arabia, particularly in the retail sector. Students who complete the college-based 12-week course will have improved skills that will support their employment opportunities in the retail sector.

STRENGTHEN COMMUNITIES

COMMUNITY PROJECTS

IMPROVING HEALTHCARE FOR GARMENT WORKERS IN BANGLADESH

High rates of worker absenteeism are an issue for many textile producers in Bangladesh. At the same time, some workers go to work even though they may be feeling unwell. One reason is a lack of knowledge among workers about their rights and correct procedures for any kind of leave. We are working to raise awareness among workers through initiatives like our Workers Awareness Film Project (see page 50).

Another reason is that affordable healthcare is often not available if factories do not provide it to workers. A survey we conducted among workers in three factories showed that workers spend over 200 Taka (around USD 2.80) each month on healthcare for themselves and their families – a significant sum for many of them. As a result of this finding, we have teamed up with USAID's project, Smiling Sun, and our suppliers to offer healthcare to workers and their families for a low fee of 10 Taka

(USD 0.14) at 320 clinics run by Smiling Sun in over 60 Bangladeshi districts. The supplier and H&M will contribute an additional 20 Taka each. The project started in November 2010 and we aim to have 10,000 workers signed up for the program by the end of 2011.

H&M ANNIVERSARY FOUNDATION

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

HAND IN HAND

In 2010, the Anniversary 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 through education, employment, income generation and empowerment. To achieve this, the trust is implementing programs including citizen centres, self-help groups and medical camps and facilitating access to credit. The projects reach out to almost 50,000

people in three areas, each consisting of 10 villages. In 2010 the Anniversary Foundation donated SEK 1.9 million (USD 270,000).

CCRCSSR

For the second consecutive year, the Anniversary Foundation contributed to Save the Children's Centre for Children's Rights and Corporate Social Responsibility (CCRCSSR) in China. With a total contribution of SEK 2.2 million (USD 310,000) the donation assists the centre in its work to help businesses in and around China to address children's rights issues. Activities at the centre include 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 aims to provide the best source of information on children's rights for businesses in China.

Alongside this support from the H&M Anniversary Foundation, H&M is a member of the CCRCSSR Working

Group. Together with a number of other brands, we participate in the development of an intervention service for use in the rare cases in which underage workers are found in the Chinese garment export sector. H&M also contributes to the production of training materials to reach migrant worker parents to share techniques with them to communicate better with their children back home.

FRANK WATER PROJECT

In 2010, the Anniversary Foundation expanded its support to the FRANK Water Project. With a donation of SEK 950,000 (USD 135,000) this smaller, UK-based charity provides access to clean water for the world's poorest communities. Through funding received from the Anniversary Foundation, 10 clean water projects will be implemented in villages in Andhra Pradesh, South East India, to provide safe water for about 70,000 people.

631,295
garments donated
to charities in 2010

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 we regularly donate clothes to selected partner organisations.

DISASTER RELIEF

In January 2010, a devastating earthquake occurred in Haiti, leaving more than 222,000 people dead and more than 300,000 injured. H&M donated SEK 719,500 (USD 100,000) to UNICEF's relief efforts. Several sales countries, including Canada, Sweden, US, Japan, Austria, UK and Ireland, launched their own support efforts, enabling customers to make direct donations to UNICEF in H&M stores.

In response to the floods in Pakistan, in August 2010, we donated SEK 738,500 (USD 100,000) to support UNICEF's relief efforts.

DONATIONS OF GARMENTS

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

Unfortunately, we learned that not all of our stores followed our policy. Therefore we have introduced an updated policy and additional implementation guidance.

The updated policy states that all unsold products should be donated to charity or, if possible, be recycled into something useful. The charities chosen must meet basic criteria and undertake to provide H&M with a report that specifies the amount of goods received as well as how and where the goods have been used. Our policy also allows for charitable organisations to sell donated garments to generate funds that support their work. In total, we donated 631,295 garments globally in 2010.

Note: Currency conversions are wherever possible reported according to the conversion rate at date of transaction. In some cases data has not been available and conversions are based on rates valid at 30 November 2010.

PERFORMANCE APPENDIX 2010

The following pages provide additional key data from our sustainability report and supply chain audit programme. Additional data on our employees can also be found as well as target follow-ups and our 2011 Conscious Actions Plan.

Please note that we have adjusted our sustainability report to match H&M's financial reporting year. As a result, the reporting period for this report and all data in this appendix is 1 December 2009 to 30 November 2010. For certain data, one month's overlap has occurred.

Audit data includes all active manufacturing and processing (e.g. washing or dyeing) suppliers and factories. As these technically can be temporarily rejected and then re-approved after a correction plan has been carried out successfully, data from these factories is included independent of being graded approved or rejected at the reports cut-off date (30 November 2010).

Permanently rejected suppliers and factories are deactivated and excluded. Likewise, we have not included data from factories that were approved by the CSR-team during the reporting period but have not yet been activated for production at reporting year-end.

In our regional reporting, we consolidate Cambodia, China, Indonesia, South Korea, Thailand, Vietnam and Taiwan as our Far East region. The South Asia region consists of Bangladesh, India, Pakistan and Sri Lanka. The EMEA and other region includes our European suppliers as well as a few suppliers in North Africa.

SUPPLIERS AND FACTORIES

	Region	Active suppliers 2010	Active factories 2010
Number of active suppliers /factories per region	South Asia	179	444
	Far East	301	664
	EMEA and others	195	585
	Total	675	1693

NOTES:

Data shows the number of suppliers as well as factories which are owned or subcontracted by our suppliers and approved and used for production of H&M goods in 2010. In 2010, the active factory base increased by 112 units to 1,693 factories, compared to 2009. This is an increase of 7 percent, which is in line with our expectations and a result from H&M's growth.

AUDITS

Countries/regions	Number of head audits	Percent unannounced	Number of follow-up audits	Percent unannounced	Total number of audits	Percent unannounced	Average number of audits per active factory
Audits on active factories							
Bangladesh	125	83%	219	52%	344	63%	1.57
India	90	62%	115	65%	205	64%	1.19
Pakistan	18	67%	32	63%	50	64%	1.61
Sri Lanka	13	69%	5	60%	18	67%	0.82
Total South Asia	246	74%	371	57%	617	64%	1.39
China (excl. Hong Kong)	216	69%	462	42%	678	50%	1.41
Hong Kong	0		1		1	100%	1.00
Indonesia	23	100%	59	81%	82	87%	1.55
South Korea	6	17%	12	17%	18	17%	0.30
Cambodia	17	65%	16	63%	33	64%	0.73
Thailand	2	50%	0		2	50%	0.40
Vietnam	13	46%	2	50%	15	47%	0.88
Taiwan	1	100%	0		1	100%	1.00
Total Far East	278	69%	552	46%	830	54%	1.25
Bulgaria	17	59%	42	69%	59	66%	1.59
Italy	10	0%	5	0%	15	0%	0.15
Lithuania	0		0		0		
Mauritius	0		0		0		

AUDITS

Countries/regions	Number of head audits		Percent unannounced		Number of follow-up audits		Percent unannounced		Total number of audits		Percent unannounced		Average number of audits per active factory	
	Number of head audits	Percent unannounced	Number of follow-up audits	Percent unannounced	Total number of audits	Percent unannounced	Average number of audits per active factory							
Portugal	3	33%	7	0%	10	10%	0.53							
Romania	9	11%	39	59%	48	50%	1.37							
Turkey	134	76%	191	65%	325	70%	0.94							
Egypt	4	0%	6	33%	10	20%	1.11							
Greece	3	0%	2	50%	5	20%	0.71							
Morocco	3	0%	1	0%	4	0%	0.67							
Poland	5	20%	1	0%	6	17%	1.20							
Tunisia	3	0%	0		3	0%	0.30							
Latvia	1	100%	1	100%	2	100%	1.00							
Czech Republic	0		0		0									
Ukraine	2	0%	1	0%	3	0%	1.00							
Hungary	0		0		0									
Serbia	1	0%	0		1	0%	1.00							
Total EMEA and other*	195	59%	296	61%	491	60%	0.84							
						40%								
Total	719	68%	1,219	53%	1,938	59%	1.14							
FAP audits					1,864									
LAP audits					74									

AUDITS

Audits on active factories (continued)

NOTES:

Data includes the number of audits on manufacturing and/or processing factories approved and used for production of H&M goods. Because we have removed audits conducted on prospective factories that are not yet approved and used for production in this year's report, the number of 1,938 audits for 2010 is not comparable to previous years' figures. The comparable figure for all audits in 2010, including active, inactive and prospective suppliers is 2,561.

In 2010, we performed 1,938 audits, of which 59 percent were unannounced. Of the 719 head audits, 415 (58 percent) were on new factories audited by H&M for the first time. Most of the unannounced audits were made in the South Asia region (63 percent) and the fewest were in EMEA and other regions in 2010 (44 percent).

Of our 1,938 audits, 74 were performed using the Limited Audits Programme (LAP).

Note that audits comprise only the verification element of our supply chain programme. Other elements include non-audit supplier development activities, such as remediation plans and capacity building activities. Examples of such activities include management systems assessments, training activities and workshops. More details can be found in the "choose and reward responsible partners" section of this report.

OTHER SUSTAINABILITY ACTIVITIES

SUMMARY OF SUPPLY CHAIN SUSTAINABILITY-PROGRAM ACTIVITIES 2010

Our Full Audit Programme consists of audits (head audits and follow-up audits), management systems analyses and other capacity-building activities. The data below gives a first impression of the extent of our programme beyond monitoring. We will continue to elaborate on the analysis and presentation of this data in future reports.

	Region	Training/workshop	Meeting	Screening	Total
Number of recorded capacity-building activities 2010	South Asia	5	59	40	104
	Far East	371	134	730	1235
	EMEA and other	22	63	33	118
	Total	398	256	803	1457

NOTES:

The data above shows the number of recorded capacity-building activities where we invested in our suppliers' development during the year. The table includes smaller and larger activities and is a first attempt by H&M to illustrate the scale of our capacity-building programme. We have not included occasions where we invited suppliers to participate in external activities or where we provided training and development for our auditors.

OTHER SUSTAINABILITY ACTIVITIES

Region	Grievance/ communication	Health & Safety	Recruitment, introduction dismissal	Rules & Regulation	EHS	Workers' rights	Subcontracting unannounced	Total	
Number of management system analyses	South Asia	197	116	43	28	53	21	45	503
	Far East	212	436	434	245	275	223	0	1825
	EMEA and other	35	69	34	23	4	17	4	186
	Total	444	621	511	296	332	261	49	2514

NOTES:

Management systems analyses are part of our ambition of moving beyond only monitoring our suppliers via audits. We aim to help them understand the root causes of compliance problems and to support them in developing sustainable, internal management systems to avoid audit violations. We started management system analyses in 2009 and will work further on evaluating and representing data in future reports.

Region	Audits	Capacity building activities	Management systems analysis	Total number of programme activities	Average number of programme activities per factory	
Average number of total activities per factory	South Asia	617	104	503	1224	2.8
	Far East	829	1235	1825	3888	5.9
	EMEA and other	492	118	186	794	1.4
	Total	1938	1457	2514	5906	3.5

NOTES:

Although it is difficult to directly compare audits with management systems analyses or other capacity-building activities, we have tried to develop a programme activity ratio per factory to illustrate and compare our efforts in different regions.

COMPLIANCE PROGRESS AT COMPARABLE FACTORIES

PER CHAPTER (Compliance)	Far East 20 factories		South Asia 112 factories		EMEA 42 factories		Total 174 factories	
	head audit 1	head audit 3	head audit 1	head audit 3	head audit 1	head audit 3	head audit 1	head audit 3
Progress from head audit one to head audit three at comparable factories								
Young Workers / Child Labour	79%	67%	95%	98%	64%	75%	84%	87%
Workers' Basic Rights	81%	79%	65%	82%	82%	74%	71%	80%
Workers' Rights	71%	59%	76%	87%	82%	81%	77%	82%
Health & Safety	87%	81%	87%	85%	79%	81%	85%	84%
Housing Conditions	93%	93%	90%	97%	n/a	n/a	92%	94%
Environment	54%	53%	60%	70%	40%	65%	54%	68%
Total	79%	72%	77%	83%	75%	79%	77%	81%

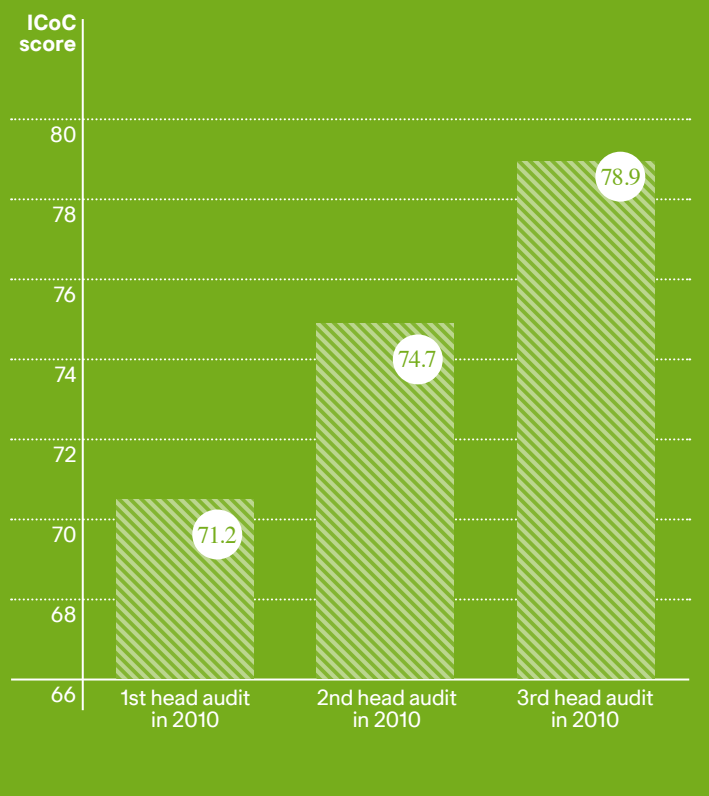
NOTES:

By the end of 2010, a total of 174 factories had completed their third head audit (eight of these have even completed their fourth) within our Full Audit Programme. This means, that after a first full audit cycle of head audit and, typically, three follow-up audits, these factories have also completed a second full audit cycle of head audit and follow-ups and gone through a third head audit. A single audit cycle takes around 18 months to two years.

The data shows the comparable progress these factories have made during this process. Understanding how compliance has developed between first head audit and third head audit provides a good base for assessing the progress factories have made through our Full Audit Programme. Even though progress in our compliance results is measured on 'like-for-like' factories, there are factors such as changes in our method which have an effect on the result. For this reason Code of Conduct requirements for metal plating, home workers and sandblasting do not apply to this comparison, as these were added to our Full Audit Programme after the first of these factories had entered their first audit cycle. All factories where we have performed three head audits are included in the data, although during this period they may have been rejected or deactivated for production. (continues on next page)

COMPLIANCE PROGRESS AT COMPARABLE FACTORIES

PROGRESS ON ICoC SCORES



Overall, the data shows a positive development of the compliance level of four percentage points, from 77 percent compliance in head audit one, to 81 percent in head audit three. In the Far East region, however, the data shows a decrease in compliance from 79 percent to 72 percent. These figures must be seen in the light of a small number of factories (20) in their third audit cycle in this region. This is also a result of higher transparency between H&M and suppliers in the region, as well as changed legislation and improved auditing, especially with regard to workers' rights requirements. The best progress can be seen in the South Asia region (77 percent to 83 percent on 112 factories), followed by the EMEA region (75 percent to 79 percent on 42 factories). The areas with strongest positive performance globally are workers' basic rights and environmental requirements.

Supplier progress, when measuring comparable factories, is also confirmed when comparing the compliance level of new factories against active factories in their third audit cycle, that have been a partner with H&M for at least three years. Initial analyses from our new ICoC system show new factories receiving their first audits in 2010 scoring an average 1 under the ICoC system. Factories that were new in 2008/2009 and completing their second full audit in 2010 had an average ICoC score of 75. Long-term supplier factories that completed a third head audit in 2010 had an average ICoC score of 79.

While we can see good results with factories addressing non-compliances during audit cycles, factors such as our work to continually refine our auditing methods with more and better questions, ongoing training of our auditors, and an increase in transparency with suppliers have, in parallel, led to more non-compliances, masking potentially better improvements in suppliers' sustainability performance.

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question	Young worker's requirements				
	Are all workers above or the same age as the minimum age required by the national law, and H&M's Code of Conduct?*	100%	100%	100%	100%
	Are workers younger than 18 working under legal conditions?	32%	70%	21%	31%
	Subtotal	77%	97%	76%	82%
	Workers' basic rights				
	Is absence of forced labour confirmed?	97%	100%	100%	99%
	Do foreign and migrant workers have equal employment terms as local workers?	100%	100%	100%	100%
	Do foreign and migrant workers have residential permit/working permits?	83%	100%	75%	83%
	Are all workers protected from any form of abusive behaviour in the factory?	99%	92%	98%	96%
	Are all workers protected from any form of physical abuse or sexual harassment?	100%	100%	100%	100%
	Is freedom of association respected ?	100%	100%	100%	100%
	Does the factory have legally required worker committees?	76%	84%	50%	73%
	Do workers have the right to bargain collectively?	100%	100%	100%	100%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total	
Compliance level from all 2010 audit results on active factories per audit question (continued)	Is there a grievance system in place in the factory?	15%	32%	42%	26%	
	Is there a system for dialogue between workers and management?	22%	35%	29%	28%	
	Are all workers, regardless of gender, ethnicity, religion or geographical background, treated equally?	100%	100%	100%	100%	
	Do all workers have employment contracts?	67%	63%	67%	66%	
	Are all relevant areas covered in their contracts?	71%	74%	54%	68%	
	Subtotal	76%	82%	82%	79%	
	Workers' rights					
	Are the regular working hours within the legal limit? (Excl. overtime)	45%	96%	82%	72%	
	Are monthly overtime hours within the legal limit?	12%	20%	43%	22%	
	Does the basic salary amount to at least the legal minimum wage for normal working hours (including piece rate workers)?	95%	96%	94%	95%	
Is overtime compensated according to the law regarding workers on monthly salaries?	45%	91%	53%	65%		
Is overtime compensated according to the law regarding piece rate workers?	17%	69%	60%	30%		
Are wages paid regularly and on time?	96%	89%	96%	93%		

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total	
Compliance level from all 2010 audit results on active factories per audit question (continued)	Are deductions fair and reasonable?	89%	93%	92%	91%	
	Are correct wages paid?	79%	90%	87%	85%	
	Does the factory pay social security?	27%	83%	57%	49%	
	If no social security system in place, are workers covered by alternative insurance?	56%	86%	69%		
	Is sick leave duly granted?	89%	88%	97%	91%	
	Is sick leave compensated by the factory according to the law?	34%	95%	97%	60%	
	Is annual leave granted and paid for according to law?	32%	88%	77%	62%	
	Are all additional types of leave stipulated by law, granted to all workers?	54%	72%	97%	69%	
	Is maternity leave given and paid for according to law?	45%	97%	99%	75%	
	Are pregnant women guaranteed their employment during and after pregnancy?	100%	100%	100%	100%	
	Does the factory fulfil the legal requirement concerning day care?	83%	76%	32%	73%	
	Subtotal	58%	85%	81%	73%	
	Health & Safety					
	Are all basic safety requirements met?	98%	93%	93%	95%	
Are all additional safety requirements met?	48%	46%	55%	49%		
Are regular evacuation drills performed?	85%	88%	71%	83%		

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Are hazardous machines equipped with necessary protection?	76%	87%	34%	69%
	Is personal protection equipment provided and used, where necessary?	59%	64%	58%	61%
	Is adequate first aid equipment available, and first aid training provided?	65%	89%	55%	71%
	In case of injury or illness, can medical care for the worker be provided with short notice?	78%	90%	91%	85%
	Do workers have access to safe drinking water?	96%	91%	86%	92%
	Does the factory provide a canteen/dining area available for all workers?	95%	90%	95%	93%
	Is the factory clean and free from dirt and dust?	40%	87%	76%	65%
	Is the temperature in the factory tolerable to work in?	93%	83%	95%	90%
	Is the spot removal content in accordance with H&M's restriction list, performed in well ventilated area, using adequate personal protection equipment?	59%	65%	54%	61%
	Is there a sufficient number of toilets?	97%	98%	93%	96%
	Are toilets clean and maintained?	53%	72%	89%	68%
	Do the workers have unlimited access to the toilets?	100%	98%	99%	99%
	Subtotal		77%	83%	78%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Environment				
	Does the factory have the legally required environmental permits/licences?	86%	94%	75%	88%
	Are the chemical containers properly labelled?	24%	14%	49%	24%
	Are solvent-based chemicals in compliance with H&M's chemical restriction list?	52%	93%	64%	68%
	Does the factory have safety data sheets for all chemical products both in storage & workshop areas?	24%	18%	43%	25%
	Have the workers who regularly handle chemicals been trained in safe chemical handling?	52%	58%	58%	55%
	Is the information in the safety data sheets on storage and personal protection equipment implemented?	40%	25%	51%	36%
	Is outgoing waste water treated?	84%	91%	78%	86%
	Are there clear signs that the waste water treatment system is in use?	97%	90%	100%	93%
	Does the treated waste water quality meet requirements in local legislation and / or BSR guidelines, whichever is more stringent?	71%	81%	85%	78%
	Does the waste water treatment capacity exceed the waste water going to the waste water treatment plant?	90%	92%	100%	92%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Is sludge from the waste water treatment disposed of in a legal or otherwise responsible manner?	58%	85%	89%	76%
	Is hazardous waste disposed of in a legal manner?	61%	97%	56%	71%
	Subtotal	54%	66%	62%	60%
Housing conditions					
	Are the dormitories separated from the factory building?	100%	100%	not applicable	100%
	Can the workers enter and exit the dormitory at any time?	100%	100%	not applicable	100%
	Does everyone living in the dormitory have an individual bed?	100%	100%	not applicable	100%
	Are workers granted some personal privacy?	47%	100%	not applicable	49%
	Does the dormitory meet required basic safety standards?	98%	60%	not applicable	97%
	Are there enough clean toilets?	89%	100%	not applicable	90%
	Are facilities for private hygiene provided?	90%	100%	not applicable	91%
	Is the dorm generally clean and hygienic?	82%	100%	not applicable	83%
	If there is a staffed kitchen in the dorm, is it clean and hygienic?	85%	100%	not applicable	87%
	Is the temperature in the dormitory tolerable?	100%	100%	not applicable	100%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Are regular evacuation drills performed?	77%	40%	not applicable	76%
	Are all additional safety requirements met?	85%	40%	not applicable	84%
	Subtotal	88%	86%	not applicable	88%
	Home workers requirements (Home working is rarely conducted in the Far East and EMEA. Results for Far East apply to one factory only.)				
Is home working performed in a workers' home or workplace chosen by the workers themselves and which is not owned by employer?	100%	100%	not applicable	100%	
Are all workers, involved in home working, perceived to be above or the same age as the minimum age required by the national law, and H&M's Code of Conduct?	not applicable	100%	not applicable	100%	
Are young workers, involved in home working, attending school?	not applicable	100%	not applicable	100%	
Do all home workers perform their work voluntarily at all times?	100%	93%	not applicable	93%	
Do foreign and migrant workers have residential permits?	0%	100%	not applicable	92%	
Are home workers free to organise a union or co-operative?	not applicable	100%	not applicable	100%	
Is collective bargaining respected?	not applicable	100%	not applicable	100%	
Is there a grievance system in place?	0%	14%	not applicable	13%	

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Do all home workers have an agreement?	0%	86%	not applicable	80%
	Can the amount of work be completed, by one person, within a reasonable number of working hours?	100%	100%	not applicable	100%
	Does the hourly rate amount to at least the legal minimum hourly wage?	0%	50%	not applicable	47%
	Subtotal	43%	84%	not applicable	82%
Sandblasting & chemical treatments					
(Sandblasting is no longer allowed for H&M production.)					
	Are legally required air quality measurements done?	50%	50%	40%	45%
	Is ventilation sufficient?*	100%	100%	100%	100%
	Are the legally required health checks in place in the factory?	50%	100%	83%	81%
	Are the workers educated on safe handling and risks?	0%	69%	50%	52%
	Is a wash station connected directly to the workshop in case dust or chemicals get in workers' eyes?	50%	79%	67%	71%
	Is hearing protection worn if there is a noisy environment, e.g. sandblasting?	100%	100%	67%	92%
	Does the factory have the required permit for sandblasting?	100%	100%	100%	100%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Does the sandblasting material contain less than 1% crystalline silica (SiO ₂)	100%	100%	100%	100%
	Is ventilation adopted for sandblasting activity?	100%	89%	100%	92%
	Is the sandblasting done in a separate area?	100%	100%	100%	100%
	Is compulsory personal protective equipment used?	100%	100%	50%	91%
	Is additional personal protective equipment provided by employer?	100%	86%	100%	91%
	Does the cleaning staff have compulsory personal protection equipment when cleaning sandblasting area?	100%	71%	100%	80%
	Are the workers handling potassium permanganate in storage and mixing are using the personal protection equipment needed?	100%	100%	33%	83%
	Are the workers spraying chemicals using the personal protection equipment needed?	75%	64%	33%	57%
	Are the workers spongeing chemicals wearing impervious gloves?	100%	100%	100%	100%
	Is the potassium permanganate stored safely?	100%	92%	43%	81%
	Subtotal		77%	88%	66%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Metal Plating (Metal plating related questions have in 2010 only been applicable to 3 factories in the Far East region.)				
	Is there a suitably-qualified person in charge of chemical handling?	100%	not applicable	not applicable	100%
	Are the workers educated on safe handling and risks?	100%	not applicable	not applicable	100%
	Is the ventilation adapted for metal plating?	100%	not applicable	not applicable	100%
	Does the factory have a chemical inventory list?	78%	not applicable	not applicable	78%
	Is compulsory personal protective equipment used?	100%	not applicable	not applicable	100%
	Is there a wash station connected directly to both the workshop in case chemicals get in workers' eyes?	78%	not applicable	not applicable	78%
	Are the legally required health checks conducted in the factory?	22%	not applicable	not applicable	22%
	Are the non-compatible chemicals separated in both storage and in the workshop?	100%	not applicable	not applicable	100%
	If hydrofluoric acid is used is it handled safely?	100%	not applicable	not applicable	100%
	Subtotal	85%	not applicable	not applicable	85%
TOTAL	70%	82%	79%	76%	

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

	Region	Far East	South Asia	EMEA	Total
Compliance level from all 2010 audit results on active factories per audit question (continued)	Chapter from audit questionnaire				
	Young Workers/ Child Labour	77%	97%	76%	82%
	Workers Basic Rights	76%	82%	82%	79%
	Workers Rights	58%	85%	81%	73%
	Health & Safety	77%	83%	78%	79%
	Housing Conditions	88%	86%	not applicable	88%
	Environment	54%	66%	62%	60%
	Sandblasting & Chemical Treatment	77%	88%	66%	80%
	Metal Plating	85%	not applicable	not applicable	85%
	Home Workers	43%	84%	not applicable	82%
	TOTAL	70%	82%	79%	76%

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

Compliance level from all 2010 audit results on active factories per audit question (continued)

NOTES:

The figures provided are based on all non-compliances detected during full audits on active manufacturing and/or processing factories conducted between 1 December 2009 – 30 November 2010. The compliance results should only be seen as a snapshot of the compliance level of the factories we were working with at the report's cut-off date. Not every question from our audit questionnaires applies to every factory and is therefore only raised where relevant. Accordingly, in order to create the greatest possible accuracy and transparency, compliance levels are weighted according to the frequency with which each related question from our audit questionnaire was raised during our Full Audit Programme. Percentage figures therefore, do not necessarily relate either to the total number of audits conducted or to the number of factories in total. Please note that year-on-year figures do not relate to comparable factories but depend on where in the audit cycle the majority of the factories are during the year as well as the number of new factories.

The selection of data in 2010 differs from previous years since we are now only using data from factories we are actively working with (active factories). This means that compliance data for new factories that during 2010 were approved and activated for supplying H&M are included, but audit results from potential new factories which were never activated and accordingly, never started to work for H&M, are excluded.

Since we constantly improve our method, raise our expectations, add and update the audit questions, to make it easier to detect violations, the compliance data should not be compared year-on-year. In addition to this complexity and incomparability we would like to highlight a few factors which need to be understood for the data not to be misinterpreted.

When comparing compliance figures it is important to notice that South Asia and Europe are progressing, but the Far East has experienced a negative compliance development. This is mainly an effect of the above mentioned audit methodology development, extended regulations and increased transparency. As the share of factories from the Far East increased in H&M's total factory base, this has an affect on our total compliance data.

COMPLIANCE LEVEL FROM ALL 2010 AUDITS

Compliance level from all 2010 audit results on active factories per audit question (continued)

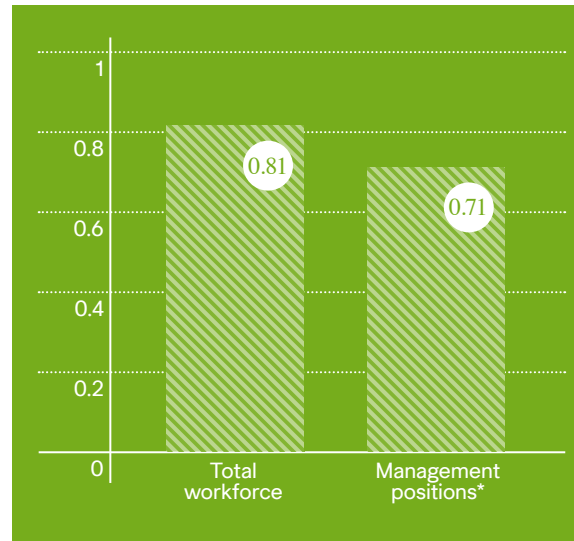
Some questions address complex issues, such as discrimination or freedom of association, where non-compliances are difficult to detect through audits. You can find some of these questions marked in green above, indicating a 100% compliance level. We are aware that although no violations could be detected during our audits, these issues require our attention. Accordingly, management system, a further emphasis on communication and grievance systems, as well as awareness-raising among both, our suppliers and their employees, on such issues are important parts of our strategy and daily work.

As can be seen from the data, the existence and sufficiency of communication and grievance systems, overtime and its compensation, as well as chemical handling are some of the issues requiring further progress and remain high on our agenda. We can see positive tendencies on all overtime requirements on a global level with, for example, compliance on overtime compensation for workers with monthly salaries improving to 65% (2008: 54%). You can read throughout this report and particularly in the 'choose and reward responsible partners' chapter how we work towards further progress on these issues.

*During each audit and all other visits to our supplier factories (a total of 5906 in 2010 just done by our auditors) we immediately react in case a worker appears to be below the legal age (for example 18 years in Bangladesh, 16 years in China). Luckily, this is only very rarely the case today. However, we take each indication very seriously. In 2010, we followed up on 9 cases of workers below the legal minimum age at factories that supplied H&M or were approved for production. The majority of cases were detected in China, where the legal minimum age is 16 years and school often ends at the age of 15, so that this one year gap can result in a higher risk of employment. All cases were resolved immediately. In each individual case, actions were taken to ensure economic or educational support in each child's best interest. Follow up audits in the relevant factories showed successful remediation, leading to a 100% compliance level in our data system. We worked with the concerned suppliers to improve their management systems to ensure no such employment shall happen again.

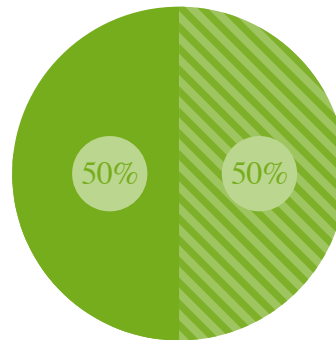
OUR EMPLOYEES

Ratio of women in total workforce and in management positions



*All management levels including store managers. Ratio of women/men per category (%): Board of directors: 50/50, group level management (incl. CEO) 39/61, sales country managers 48/52, production office managers 44/56, division heads (Buying Office) 47/53, section heads (Buying Office) 60/40, area managers (sales) 62/48, store managers 77/33.

Ratio of women/men on our board of directors



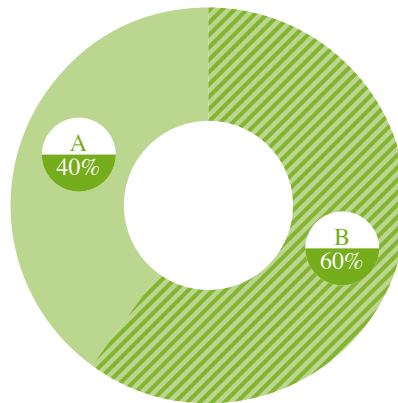
OUR EMPLOYEES

Ratio of basic salary between women and men (Due to changes in our data system, 2009 full year data is provided. We will continue reporting updated figures with our next report.)



Ratio of full-time / part-time employees

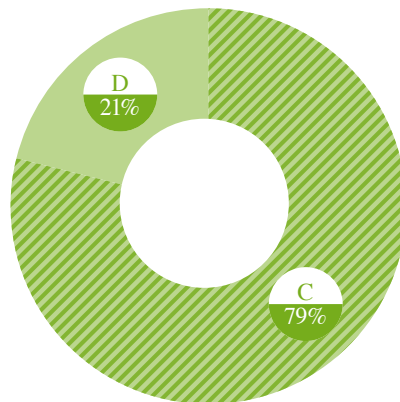
A. Full-time employees
B. Part-time employees



OUR EMPLOYEES

Ratio of employees with permanent and non-permanent contracts

- C. Permanent employment contract
- D. Temporary employment contract



NOTES:

As the above charts show, the ratio of women to men on our Board of Directors is 50:50. Further, the female/male ratio across all levels of management, is nearly equal to the ratio across the entire workforce.

As the salary ratio figures (data 2009) show, the average basic salary of female employees in our biggest employee category by far – sales advisers in stores – is 97% that of their male counterparts.




Differences can occur, for example, due to the length of employment. 79% of our employees have permanent employment contracts. Non-permanent employment contracts are often used for replacements e.g. during parental or other kinds of leave. 60% of our employees work part-time, while the definition of part-time varies massively between the different countries we operate in. For example, a 35-hour week could mean full-time employment in France, while this would be counted as part-time employment in Sweden.

2010 SUPPLY CHAIN TARGET FOLLOW UP

-  Unfulfilled
-  In progress
-  Fulfilled

Remediation of regional critical non-compliance issues

REGION: EMEA




ISSUE	Compliance 2009	Compliance 2010	Target 2010	Responsible	COMMENT
Is overtime compensated according to the law regarding workers on monthly salaries?	61%	 46%	66%	CSR team Europe	Turkey is the main driver of lower compliance on this question. The main reason for this performance is an increased share of audits on newly approved factories. New factories usually have a lower compliance level and affect the overall audit results accordingly. All factories not complying with this requirement have developed action plans and we are confident to identify broad compliance during the coming second head audit.
Does the basic salary amount to at least the legal minimum wage for normal working hours?	88%	 90%	90%	CSR team Europe	In order to provide sustainable improvements, we have initiated a "CoC Responsible Training Project" including interactive workshops. We have in addition encouraged our suppliers to take responsibility and supported them in building monitoring and remediation systems.
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines whichever is more stringent?	62%	 81%	75%	CSR team Europe	Although we achieved our target, we will continue to focus on sustaining this good development in existing, as well as new factories in 2011.

2010 SUPPLY CHAIN TARGET FOLLOW UP

-  Unfulfilled
-  In progress
-  Fulfilled

Remediation of regional critical non-compliance issues (continued)

REGION: SOUTH ASIA



ISSUE	Compliance 2009	Compliance 2010	Target 2010	Responsible	COMMENT
Grievance systems	15%	 29%	36%	CSR team South Asia	We put a high focus on grievance systems during our audits and also work to improve related management systems. In Bangladesh our Rights & Responsibility awareness films has been continued to be used both, new and existing supplier factories. This has led to a better understanding of the importance of a well functioning grievance system. Whilst we've made substantial improvement we have not fully achieved our target and will continue to focus on promoting effective grievance systems.
Overtime hours	17%	 20%	25%	CSR team South Asia	We continued our long-term oriented project with selected key suppliers to understand and remedy the root causes of overtime. We also extended this project from 9 factories in Bangladesh, to additional 8 factories in India and one in Pakistan.
Is sick leave duly granted?	78%	 87%	82%	CSR team South Asia	We exceeded our target by 5 percent points. We will continue to focus on this issue for new factories to sustain this progress.

2010 SUPPLY CHAIN TARGET FOLLOW UP

-  Unfulfilled
-  In progress
-  Fulfilled

Remediation of regional critical non-compliance issues (continued)

REGION: SOUTH ASIA

ISSUE	32%	50%	62%	Responsible	COMMENT
	Compliance 2009		Compliance 2010	Target 2010	
Have the workers who regularly handle chemical been trained in safe chemical handling?	32%	 50%	62%	CSR team South Asia	We focused on this question during our audits and provided thorough education to our suppliers. This led to significantly improved compliance. However, as we did not meet our target, we will continue to focus on this issue in 2011.
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines, whichever is the more stringent?	72%	 80%	86%	CSR team South Asia	We took random waste water samples and conducted quality tests to measure fulfilment of our requirements. Where results were below the required standard, factories had to submit a credible action plan. We will continue to monitor the water testing quality, in addition to the mandatory testing done by factories themselves.

2010 SUPPLY CHAIN TARGET FOLLOW UP

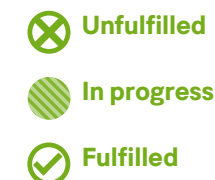


Remediation of regional critical non-compliance issues (continued)










REGION: FAR EAST

ISSUE	Compliance 2009	Compliance 2010	Target 2010	Responsible	COMMENT
Does the basic salary at least amount to the minimum wage for regular working hours?	66%	88%	75%	CSR team Far East	Working towards a more transparent wage structure in China has been a core focus of our work. You can read more about this in this report. Consequently, compliance has increased substantially and we exceeded our target by far.
Do all workers have employment contracts?	61%	59%	70%	CSR team Far East	During 2010 we conducted a total of 278 head audits in the Far East region (216 of them in China). Out of these, 66% were head audits on new factories which H&M had not placed orders with before. Usually, new factories show a lower compliance than our long-term partners. This affects our audit data in this region with a lower compliance level for 2010. We expect improved results as soon as these new factories have fulfilled their first audit cycles and entered their second head audit in 2011. The reasons for the high number of audits at new factories is mainly the continued growth of H&M, resulting in overall increased sourcing. Additionally, we have phased out suppliers that we believe will not be able to meet our social and environmental compliance expectations in the future.
Is overtime compensated according to the law regarding piece rate workers?	20%	17%	20%	CSR team Far East	
Have the workers who regularly handle chemicals been trained in safe chemical handling?	55%	55%	65%	CSR team Far East	
Does the treated waste water quality meet requirements in local legislation and/or BSR guidelines whichever is the more stringent?	80%	62%	80%	CSR team Far East	

2010 ENVIRONMENTAL TARGET FOLLOW UP



Environmental target follow up

Organic cotton mix in all of our flower eco labelled baby garments	 2010	All EU flower eco-labelled garments now contain between three and 100% organic cotton.
Increase amount of organic cotton used by 50% each year compared to the previous year's goal	 2013	2010 target of 4.500 tonnes exceeded by far (15.100 tonnes used in 2010).
Use first Better Cotton (BCI) for H&M products	 2010	First Better Cotton has been harvested in 2010/2011 season. Procurement from this season will happen in 2011.
All cotton to come from sustainable sources (such as Better Cotton, organic cotton, recycled cotton)	 2020	We are progressing well against this target. The use of organic cotton continued to increase substantially. Better Cotton from the first harvesting season will be integrated into our products from 2011 on.
Initiate supply chain carbon footprint monitoring	 2010	Baseline data collection for important suppliers on major markets collected. Further steps to follow.
Test out energy-efficient solutions in conjunction with the building of a new warehouse	 2010	The new DC in Belgium will be LEED-certified and equipped with photovoltaics. The building starts operations in spring 2011.
Reduce the H&M group's carbon dioxide emissions relative to sales (MSEK) by minimum 5% per year compared to the previous year	 2010-2012	Achieved through high quality offsets.
Reduction of energy use in stores by 20 % per square metre	 2020	So far achieved an 8% reduction for H&M stores, compared to 2007 baseline.
At least 20 % of energy use in stores from renewable energy sources	 2020	In progress. Read more at Renewable energy use (LINK).

CONSCIOUS ACTION PLAN 2011

As outlined in our strategy, we are working towards sustainability become a fully integrated responsibility, shared by all the different departments in our organisation. Therefore, in 2010 we gathered hundreds of suggestions for additional Conscious Actions from around the company to support delivery of our commitments. Our CSR Support team has reviewed these together with the departments responsible for the actions. The outcome is our Conscious Actions Plan 2011. It describes a number of smaller and bigger actions that we aim to take during the year in addition to the actions, targets and goals you can already read about throughout this report. You can read how far we have come in our 2011 report.

1. PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

Buying: Introduce our first garments with Better Cotton (BCI)

Buying: Revise our strategy on organic cotton

Buying: Further internal education on more sustainable materials

Buying: Continuous development of Conscious Products

CSR Support: Support production teams (Quality assurance and product development) in environmental optimisation

CSR Support: Identify additional research areas within the area of more sustainable materials

CSR Support: Continued focus on water saving measures in production

CSR Support and Quality: Identify further alternative chemicals for substitution

CSR Support: Further develop traceability methods for the raw materials we use

CSR Support: Develop strategy for garment recycling

Sales: Provide training on H&M Conscious Actions and Products to sales staff

Sales: Develop and distribute our “green material guide”

Production India: Engage 4–5 suppliers in BCI and establish a working method for using the cotton in production.

2. CHOOSE AND REWARD RESPONSIBLE PARTNERS

Marketing: Start auditing print suppliers

Construction: Contractors to sign Code of Conduct

Logistics: Include Code of Conduct in contracts with logistic service providers

CSR Support: Benchmark against ISO26000

CSR Support: FLA fair wage project in China, India and Bangladesh

CSR Support: Evaluate opportunities for closer co-operation with ITGWLF

CSR Support: Establish framework for the use of manpower services organisations

CONSCIOUS ACTION PLAN 2011

CSR Support: Strengthen internal and external EHS competence through further training and appoint an EHS competence center in our organisation

CSR Support and Production: Establish framework for the development of our FAP audit programme towards increased supplier ownership

Production Bangladesh: Contribute to increased fire safety in Bangladesh in co-operation with various stakeholders, develop fire prevention films, address among others electrical safety, fire licence issuing

Production Bangladesh: Include workers in H&S audits as part of Fire Safety Project

Production Bangladesh: Conduct study on existing wage structures

Production Bangladesh: Continue to request regular wage reviews and discuss further actions with different stakeholders

Production Bangladesh: Conduct research on unions and worker-management communication

Production Bangladesh: Include all our key suppliers in project to tackle excessive overtime

Production Bangladesh: Secure further integration of audit results in sourcing process (ICOC)

Production Bangladesh: Chemical training for middle management and establishing an EHS responsible in all Key factories

Production Bangladesh: Continue to follow up on worker awareness films

Production India: Cover 100% of key suppliers in Bangalore with worker awareness films

Production India: Engage chosen key suppliers in supplier ownership programmes

Production Turkey: Support establishment of EHS responsables at factory level

Production China: Initiate HR training for selected suppliers

Production China: Investigate the possibility of launching a grievance hotline with selected suppliers

Production China: Conduct gap analysis of risks of human rights violations and forced labour in the supply chain

Production Indonesia: Initiate workshop for suppliers on freedom of association together with ILO.

3. BE ETHICAL

HR: Start the work with building an H&M Academy

HR: Secure good and stable succession planning by evaluating and identifying current and future need for talented people and leaders

HR: Introduce a training ladder and synchronise with our roles

H&M: Continuous activities to reach zero breaches of our Code of Ethics

Production: Continue to conduct Code of Ethics seminars and workshops with all our suppliers

Production: Introduce SRM (suppliers relationship management) programme.

4. BE CLIMATE SMART

Buying: Complement our garments' care/washing instructions with a climate smarter alternative

Logistics: Investigate possibilities to shift mode of transport from road to rail for tradelanes from our DC's to as close to our stores as possible

Logistics: Evaluate pilot for shipping goods by rail from Shanghai to Hamburg and look into possibilities of upscaling this

Construction: Use LED light for all new store signs

Production: Expand Supplier Energy Efficiency Programme to include 100-120 factories.

5. REDUCE, REUSE, RECYCLE

Production: Map waste flows at first tier suppliers

Construction Department: Develop best practice guidelines for handling of construction waste.

6. USE NATURAL RESOURCES RESPONSIBLY

Production: Conduct water scarcity studies in different sourcing markets

Interior, Marketing, Visual Merchandising, Quality &

CSR Support: Develop and implement environmental guidelines for sourcing of non-commercial goods

Interior, Marketing, Visual Merchandising & Quality:

Develop and implement chemical restrictions for suppliers of non-commercial goods

Marketing: Increase the traceability of pulp when purchasing paper/paper products

Production Bangladesh: Identify ETP environmental best practices.

7. STRENGTHEN COMMUNITIES

CSR Support: Investigate opportunities to expand All for Children to other countries

Production Bangladesh: Proceed with developing a five-year plan to further support a positive development in Bangladesh, including initiatives like and All For Children project and the expansion of our Training Centre Model.

GRI CONTENT INDEX AND APPLICATION LEVEL

BACKGROUND TO THE GRI SUSTAINABILITY REPORTING GUIDELINES

This index is organised using the G3 (3rd Generation) Global Reporting Initiative (GRI) Guidelines. The Apparel and Footwear Sector Supplement Indicators, in pilot form, have also been considered and are highlighted in green text. **The United Nations Global Compact (UNGC) Principles** are referenced below. The disclosure level against the G3 framework is B (self-declared).






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

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant





INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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.		A message from our CEO		
1.2	Description of key impacts, risks, and opportunities.		A message from our CEO; Global presence, global impact and reach; Interview with Helena Helmersson		
Commentary on 1.2	Description of key impacts, risks and opportunities: Where applicable, this should include an assessment of supply chain performance.		A message from our CEO; Global presence, global impact and reach; Interview with Helena Helmersson		
2. ORGANISATIONAL PROFILE					
2.1	Name of the organisation.		Global presence, global impact and reach		
2.2	Primary brands, products, and/or services.		Global presence, global impact and reach		
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.		www.hm.com/annualreport		
2.4	Location of organisation's headquarters.		www.hm.com/annualreport		
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.		www.hm.com/annualreport ; performance appendix		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant









INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
2.6	Nature of ownership and legal form.		www.hm.com/annualreport		
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).		www.hm.com/annualreport		
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 capitalisation broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. 		A message from our CEO; www.hm.com/annualreport		
2.9	Significant changes during the reporting period regarding size, structure, or ownership.		A message from our CEO		
2.10	Awards received in the reporting period.		Data centres		

3. REPORT PARAMETERS

REPORT PROFILE

3.1	Reporting period (e.g., fiscal/calendar year) for information provided.		How we report		
3.2	Date of most recent previous report (if any).		How we report		
3.3	Reporting cycle (annual, biennial, etc.).		How we report		
3.4	Contact point for questions regarding the report or its contents.		Feedback		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
REPORT SCOPE AND BOUNDARY					
3.5	Process for defining report content <ul style="list-style-type: none"> • Our commitments • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. 		Vision, Policy and Strategy; Seven commitments		
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).		How we report		
3.7	State any specific limitations on the scope or boundary of the report.		How we report		
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.		How we report		
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.		Performance appendix; designing our carbon dioxide reduction target		
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).		How we report; Performance appendix		
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.		How we report; Performance appendix		
GRI CONTENT INDEX					
3.12	Table identifying the location of the Standard Disclosures in the report.				

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASSURANCE					
3.13	Policy and current practice with regard to seeking external assurance for the report.		Assurance		
4. 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.		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).		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.		Corporate Governance Report		
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.		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).		Corporate Governance Report		
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.		Corporate Governance Report		
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.		Corporate Governance Report		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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.		About H&M; Code of Conduct; Code of Ethics		
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.		Corporate Governance Report		
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.		Corporate Governance Report		
COMMITMENTS TO EXTERNAL INITIATIVES					
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.		Sustainability Policy		
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.		Memberships; Throughout the report		
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations.		Memberships; Throughout the report		
4.14	List of stakeholder groups engaged by the organisation.		Memberships; Working in partnership, Throughout the report		
4.15	Basis for identification and selection of stakeholders with whom to engage.		Sustainability Strategy; Sustainability Policy		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.		Sustainability Policy; Memberships and indexes; Working in partnership; Collective Action; Collaborating with transport providers; Employee relations; Community partners		
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.		Our commitments; Assurance, Working in partnership; Donation of garments; Throughout the report		

5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

SUPPLY CHAIN STANDARDS AND PRACTICES SECTION

DMA	Management Approach Disclosures		Choose and reward responsible partners; Sustainability Policy		
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ASPECT: CODE OF CONDUCT

AF1	Code of conduct content and coverage. **		Our Code of Conduct		
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ASPECT: AUDIT PROCESS

AF2	Parties and personnel engaged in code of conduct compliance function.**		Monitoring and grading		
AF3	Compliance audit process.**		Monitoring and grading		










-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: GRIEVANCE PROCEDURES					
AF4	Policy and procedures for receiving, investigating, and responding to grievances and complaints.**		Monitoring and grading; Raising workers' awareness on their rights; Employee relations		
ASPECT: CAPACITY BUILDING					
AF5	Strategy and scope of efforts to strengthen capacity of management, workers and other staff to improve in social and environmental performance.**		Beyond monitoring; Training and communication on sustainability		
ASPECT: BUSINESS INTEGRATION					
AF6	Policies for supplier selection, management, and termination.**		Introducing and index-based grading system - ICoC; Responsible purchasing and supplier relations		
ASPECT: CODE OF CONDUCT					
AF7	Number and location of workplaces covered by code of conduct.**		Choose and reward responsible partners; Our supply chain; Our Code of Conduct		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant









INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: AUDIT PROCESS					
AF8	Number of audits conducted and percentage of workplaces audited.**		Monitoring Results		
ASPECT: NON-COMPLIANCE FINDINGS					
AF9	Incidents of non-compliance with legal requirements or collective bargaining agreements on wages.**		Monitoring Results		
AF10	Incidents of non-compliance with overtime standards.**				
AF11	Incidents of non-compliance with standards on pregnancy and maternity rights.**		Monitoring Results		
AF12	Incidents of the use of child labour.**		Monitoring Results		
AF13	Incidents of non-compliance with standards on gender discrimination.**		Monitoring Results		
AF14	Incidents of non-compliance with code of conduct.**		Monitoring Results		
AF15	Analysis of data from code compliance audits.**		Monitoring Results		
ASPECT: REMEDIATION					
AF16	Remediation practices to address non-compliance findings.**		Monitoring and grading		
ASPECT: BUSINESS INTEGRATION					
AF17	Actions to identify and mitigate business practices that affect code compliance.**		Responsible purchasing and supplier development		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant
















INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ECONOMIC PERFORMANCE INDICATORS					
ASPECT: ECONOMIC PERFORMANCE					
DMA	Management Approach Disclosures		A message from our CEO; About H&M; Annual Report		
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.		Annual Report		
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.		Be climate smart; Annual Report	 7	
EC3	Coverage of the organisation's defined benefit plan obligations.		Annual Report		
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.				
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.				

GRI CONTENT INDEX













-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: INDIRECT ECONOMIC IMPACTS					
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.		A message from our CEO; Strengthening communities		
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional indicator)		A message from our CEO; Global presence, global impact and reach		
ENVIRONMENTAL PERFORMANCE INDICATORS					
DMA	Management Approach disclosures		Sustainability Policy		
ASPECT: MATERIALS					
AF18	Programs to replace organic-based adhesives and primers with water-based adhesives and primers.		Phasing out solvent-based adhesives		
AF19	Practices to source safer alternative substances to those on the restricted substances list, including description of associated management systems.		Product safety & quality; Chemical management		
EN1	Materials used by weight or volume.		Raw materials	 8	We disclose the total use of organic cotton and recycled materials. We do not disclose total material volumes due to competitive reasons.
Commentary on EN1	Materials used by weight or volume: <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. 				
















-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
EN2	Percentage of materials used that are recycled input materials.		Other more sustainable materials	 8, 9	We disclose the total use of recycled materials. We do not provide percentages due to competitive reasons.
AF20	List of environmentally preferable materials used in apparel and footwear products.		Recycled and organic materials at H&M		
ASPECT: ENERGY					
EN3	Direct energy consumption by primary energy source.		Emissions performance 2010	 8	
EN4	Indirect energy consumption by primary source.		Emissions performance 2010	 8	
AF21	Amount of energy consumed and percentage of the energy that is from renewable sources.		Emissions performance 2010; Renewable energy use	 8, 9	
EN5	Energy saved due to conservation and efficiency improvements. (Additional indicator)		Energy efficiency performance 2010	 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)		Renewable energy use	 8, 9	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved. (Additional indicator)		Emissions performance 2010; Transport; Supplier Energy Efficiency Programmes	 8, 9	

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: WATER					
EN8	Total water withdrawal by source.		Water	 8	Supplier water usage per kg of products.
EN9	Water sources significantly affected by withdrawal of water. (Additional indicator)		Supplier water efficiency	 8	
EN10	Percentage and total volume of water recycled and reused. (Additional indicator)		Our direct operations	 8	
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.				In most cases, we rent locations in central urban locations. Accordingly, we do not consider reporting on this indicator as material.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.		Use natural resources responsibly; Organic Cotton; Better Cotton Initiative	 8	
EN13	Habitats protected or restored. (Additional indicator)				
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional indicator)		Organic Cotton; Better Cotton Initiative; Materials from animals and wood	 8	










-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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)				
ASPECT: EMISSIONS, EFFLUENTS, AND WASTE					
EN16	Total direct and indirect greenhouse gas emissions by weight.		Emissions performance 2010	 8	
EN17	Other relevant indirect greenhouse gas emissions by weight.		Emissions performance 2010	 8	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)		Reducing greenhouse gas emissions; Emissions performance 2010	 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.		Supplier wastewater quality	 8	Supplier waste water quality
Commentary on EN21	Total water discharge by quality and destination: For Footwear: Reporting on total chromium discharges under Compilation 2.3 For Apparel: Reporting on the discharge of antimony, arsenic, cadmium, Compilation 2.3. To be following the appropriate International Organisation for Standardisation (ISO) analytical method or its equivalent.		Water		
EN22	Total weight of waste by type and disposal method.				
Commentary on EN22	Total weight of waste by type and disposal method: Report on pumice, stones and sand under Compilation 2.1				
EN23	Total number and volume of significant spills.				








-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	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.		Conscious Products	 7, 8, 9	
Commentary on EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation: In addition to Compilation 2.2, report on specific programs 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.		A message from our CEO; Conscious products; Product safety and Quality; Be climate smart; Reduce, reuse, recycle; Use natural resources responsibly		
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.				

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	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)		Transport	 8	
ASPECT: OVERALL					
EN30	Total environmental protection expenditures and investments by type. (Additional indicator)		Better Cotton Initiative	 8, 9	
LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS					
DMA	Management Approach disclosures		Be ethical		
	Include the use of foreign migrant workers.		Our Code of Conduct; Monitoring Results		Relevant to our supply chain.
ASPECT: EMPLOYMENT					
AF22	Policy and practices regarding the use of employees with non-permanent and non-full-time status.**		Diversity and equality		
AF23	Policy regarding the use of home working.**		Home working		Relevant to our supply chain only.
AF24	Policy on the use and selection of labour brokers, including adherence to relevant ILO Conventions.**		Our Code of Conduct, Home working; Sumangali Scheme - India		









-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: WAGES AND HOURS					
AF25	Policy and practices on wage deductions that are not mandated by law.**		Our Code of Conduct; Towards changing wage structures in China		
AF26	Policy on working hours, including definition of overtime, and actions to prevent excessive and forced overtime.**		Our Code of Conduct; Workers' awareness films in Bangladesh and India		
ASPECT: DIVERSITY AND EQUAL OPPORTUNITIES					
AF27	Policy and actions to protect the pregnancy and maternity rights of women workers.**		Our Code of Conduct; Workers' awareness films in Bangladesh and India		
ASPECT: EMPLOYMENT					
LA1	Total workforce by employment type, employment contract, and region.		A fair partner to our colleagues; Annual Report		
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)				As various local regulations and standards apply we do not aggregate data on Group level.
AF28	Percentage of foreign migrant workers as a portion of total workforce, broken down by region.				

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: LABOUR/MANAGEMENT RELATIONS					
LA4	Percentage of employees covered by collective bargaining agreements.		Employee relations	 1, 3	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.				As various local regulations and standards apply we do not aggregate data on Group level.
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.		Employee relations; Mediating industrial dialogue in Cambodia		
AF30	Percentage of workplaces where, in the absence of a trade union, there are worker-management committees, broken down by country.		Raising workers' awareness on their rights		
ASPECT: OCCUPATIONAL HEALTH AND SAFETY					
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs.(Additional indicator)				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.				

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
Commentary on LA7	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.		Monitoring results; Joint Assessments; Banning sandblasting of textiles		Narrative coverage in regard to our supply chain.
AF31	Initiatives and programs to respond to, reduce, and prevent the occurrence of musculoskeletal disorders.				
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.				
LA9	Health and safety topics covered in formal agreements with trade unions. (Additional indicator)		Employee relations	 1	Formal agreements with trade union are handled locally and data is not aggregated at Group level.
ASPECT: TRAINING AND EDUCATION					
LA10	Average hours of training per year, per employee, by employee category.		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)		Training & development		
LA12	Percentage of employees receiving regular performance and career development reviews. (Additional indicator)		Training & development		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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.		Diversity and equality	 1, 6	Breakdown of board and other management categories according to gender.
LA14	Ratio of basic salary of men to women by employee category.		Performance appendix	 1, 6	Please note that due to changes in our data system, 2009 full year data is provided. We will continue reporting updated figures with our coming reports.
AF32	Actions to address gender discrimination and to provide opportunities for the advancement of women workers.		Diversity and equality	 1, 6	
HUMAN RIGHTS PERFORMANCE INDICATORS					
DMA	Management Approach disclosures		Sustainability Policy; Our Code of Conduct		
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.		Choose and reward responsible partners; Our Code of Conduct	 1, 2, 3, 4, 5, 6	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		Our Code of Conduct; Monitoring and grading	 1, 2, 3, 4, 5, 6	











-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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)		Training and communication on sustainability; Responsible purchasing and supplier relations	 1, 2, 3, 4, 5, 6	Narrative description of training and communication activities provided.
ASPECT: NON-DISCRIMINATION					
HR4	Total number of incidents of discrimination and actions taken.		Monitoring results	 1, 2, 6	Violations against our discrimination policy in our own operation are handled locally and data is not aggregated on Group level. As non-compliances detected in our supplier factories are part of our global supplier audit data related data is reported.
ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
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.		Employee relations; Our Code of Conduct; Monitoring and grading; Beyond Monitoring; FLA worker participation project	 1, 2, 3	

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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.		Our Code of Conduct; Monitoring and grading; Cotton from Uzbekistan; All for Children	 1, 2, 5	
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.		Our Code of Conduct; Monitoring and grading	 1, 3, 4	
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)				
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		Sustainability Policy, Strengthening Communities		

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: COMMUNITY					
SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.		Strengthening communities		
AF33	Priorities in community investment strategy.		Policy and focus		
AF34	Amount of investment in worker communities broken down by location.		Our community investments 2010 at a glance		
ASPECT: CORRUPTION					
SO2	Percentage and total number of business units analysed for risks related to corruption.		Code of Ethics	 10	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.		Code of Ethics	 10	
SO4	Actions taken in response to incidents of corruption.		Code of Ethics	 10	
ASPECT: PUBLIC POLICY					
SO5	Public policy positions and participation in public policy development and lobbying.		Political contribution and lobbying; Working in partnership - influencing public policy	 1, 2, 3, 4, 5, 6, 7, 8, 9, 10	

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
Commentary on SO5	Public policy positions and participation in public policy development and lobbying: 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		Political contributions and lobbying; Working in partnership - influencing public policy	 1, 2, 3, 4, 5, 6, 7, 8, 9, 10	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country (Additional indicator)		Political contribution and lobbying	 10	
ASPECT: ANTI-COMPETITIVE BEHAVIOUR					
SO7	Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes. (Additional indicator)				
ASPECT: COMPLIANCE					
SO8	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		Provide fashion for conscious customers		
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.		Quality Assurance	 1	

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
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					
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.		REACH		
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)				
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional indicator)				
ASPECT: MARKETING COMMUNICATIONS					
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		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)				

-  Full coverage
-  Partial coverage
-  No coverage
-  Not relevant

INDICATOR	DESCRIPTION	EXTENT OF REPORTING COVERAGE	LOCATION LINKS	UNGC PRINCIPLE(S)	NOTES
ASPECT: COMPLIANCE					
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.				
CROSS-CUTTING COMMENTARY Apparel and Footwear Sector Specific					
ASPECT: 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 programs in workplaces within the reporting organisation’s supply chain.			A message from our CEO; Training and communication on sustainability	

** Reporting organisations must also include entities that they monitor (i.e., those defined as under significant influence by the Report Boundary guidance).