



H&M CONSCIOUS* ACTIONS

≈

SUSTAINABILITY REPORT 2011

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

*Please think
before you print*

CONSCIOUS ACTIONS SUSTAINABILITY REPORT 2011

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H&M CONSCIOUS

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A MESSAGE FROM OUR CEO



KARL-JOHAN PERSSON

At H&M, our business concept is to offer fashion and quality at the best price. For us, sustainability is at the core of the concept of quality and part of our corporate values.

Our customers are the heart of our business. They are increasingly showing an interest in sustainability and we want them to feel confident that everything they buy from us is produced with respect for people and the environment. Adding sustainability value to our products is therefore an important way of strengthening our customer offering.

H&M is a design-driven and innovative fashion company. We currently have five brands and around 2,500 stores in 43 countries on four continents. In 2011, we entered exciting new markets in Singapore, Romania, Croatia and,

via franchise, Morocco and Jordan. In 2012, we plan to open first stores in Bulgaria, Latvia, Malaysia, Mexico, and, via franchise, Thailand. Our goal is to increase our number of stores, in both new and existing markets, by 10–15% each year.

In pursuing this growth, we want to make more sustainable fashion accessible and affordable to more people around the world. To achieve this, we must tackle the

challenges that H&M and the entire fashion industry unquestionably face. These include climate change, working conditions and wages at supplier factories and the long-term availability of natural resources, to mention just a few.

“Our customers
are the heart
of our business.”

“Our vision is
clear: All our
operations
should be run
in a way that is
economically,
socially and
environmentally
sustainable.”

A MESSAGE FROM OUR CEO

“Adding sustainability value to our products is an important way to further strengthen our customer offering.”

To put this vision into practice, we have developed H&M Conscious – our approach to integrating our sustainable thinking into everything we do. Last year, we set out our seven strategic commitments. Working to fulfil these commitments, we are continuously creating what we call ‘Conscious Actions’ throughout our business. These are activities and targets designed to move us closer to our vision. In this report, you can read about the progress we have made in taking these Conscious Actions.

I’m very proud of all our achievements over the past year, but a number of things really stand out. One of the highlights of 2011 was that we, together with various stakeholders and experts, developed a dedicated plan to support social development in Bangladesh. Bangladesh is one of our most important sourcing markets and we want to ensure that the garment industry has a positive impact on the country’s development, not just by contributing jobs, but also skills, education, health, and improvements in labour and women’s rights.

To build a more sustainable fashion future, our industry needs to keep finding new ways of using resources as responsibly and efficiently as possible.

I am particularly proud to see that H&M is now using more organic cotton than any other company in the world. This is just the start. Our target is to use only sustainable cotton by 2020. A further increase in our use of organic cotton will be a part of that, but this year also saw the first clothes made from Better Cotton hit H&M stores around the world. Reducing stress

on the environment and improving social conditions for farmers, Better Cotton will have a key role to play in helping us reach our target.

We also continued to introduce new innovative materials. Our first garments made from organic hemp were launched. This fibre has a limited environmental impact and, we believe, great potential for the future.

“I’m proud to see that H&M is the world’s biggest user of organic cotton.”

A MESSAGE FROM OUR CEO

Given H&M's size and increasingly global reach, we have a big impact on the world around us. But just as big are the opportunities we have to make a difference through the Conscious Actions we take.

“In order to fulfil our commitments and tackle the complex challenges in our industry, we need to collaborate with others.”

Our scale means that we have the opportunity to promote change well beyond the borders of our own operations – for example, by promoting improvements in the working conditions of the more than one million people around the world who work in our suppliers' factories. But in order to tackle the complex challenges across our industry, we need to collaborate with others.

We play an active role in initiatives like the Sustainable Apparel Coalition, the UN Global Compact and the Better Cotton Initiative, which are vital to meeting our goals. In 2011, we joined the Fair Wage Network, an initiative that works to promote fair wages in global supply chains; an ambition that we fully support. We also engaged

with Greenpeace and teamed-up with a number of fashion and sportswear brands to help lead our industry towards zero discharge of hazardous chemicals in our value chain.

We are proud of all the achievements we have made during the year. But we are also aware of the challenges ahead. We strive to be as transparent as possible about the progress we make. This report is an important part of that. Thank you for taking your time to learn about our Conscious Actions.



KARL-JOHAN PERSSON
CEO, H & M Hennes & Mauritz AB

“Our scale means that we have the opportunity to promote change well beyond the borders of our own operations.”

OUR STRATEGY

H&M Conscious is the name for all H&M's work for a more sustainable fashion future. It is an approach to managing our business based on the vision that all our operations should be run in a way that is economically, socially and environmentally sustainable. This means that the needs of both present and future generations should be respected in everything that we do.

People, planet and profit: at H&M, we believe that being fully aware of the interconnected nature of these three elements is the key to the long-term success of our business.

In order to help us achieve our vision, we broke it down into seven strategic, long-term commitments.

1 *Provide fashion for
conscious customers*

2 *Choose and reward
responsible partners*

3 *Be ethical*

Be climate smart **4**

5 *Reduce, reuse,
recycle*

6 *Use natural resources
responsibly*

7 *Strengthen communities*

OUR STRATEGY

These commitments are an integral element of our business strategy and they cover every stage of our product life cycle, from designing our fashion to how our customers care for the garments they buy.

Based on constant dialogue with our external stakeholders and our colleagues across the business, we have built a process to identify and prioritise the actions that we need to take over the short and medium term to help us to meet each of these long term commitments. We call all these our Conscious Actions. Throughout the year we monitor the progress we make towards completing these actions, review and improve our methods and add more actions as our understanding of how to fulfil our commitments improves.

This report sets out the Conscious Actions we have taken or worked towards during 2011 and describes how far we have come in making the vision of H&M Conscious a reality.

A PRODUCT'S LIFE CYCLE

H&M aims to offer fashion and quality at the best price. In doing this, we have an impact on the world around us. We create job opportunities and contribute towards economic growth, but we also use natural resources and cause carbon emissions. As a result, we face a number of sustainability challenges throughout our value chain. H&M Conscious aims to tackle these challenges and, in doing so, create new opportunities for long term business success.

To demonstrate what we mean, on the following pages we have set out the biggest challenges at each stage of the life cycle of our products. Below each stage we have listed in which section of this report you can find more information about the Conscious Actions through which we work to address these challenges.

For those challenges most closely related to our core operations, H&M has the ability to directly influence the impact we make. For others, our influence is more indirect; for example, we can make a difference through our choices about

what goods and services we buy, by working closely with our business partners, or by collaborating with our stakeholders to tackle the challenges that we share with our industry and with the communities in which we operate.



OUR VALUE CHAIN AND ITS CHALLENGES



DESIGN

LEVEL OF INFLUENCE:
direct ————— indirect

Sustainability starts with the very first design idea. It's about the materials we choose and how easy we make it for our customers to care for their clothes in a conscious way. Our challenge is to offer our customers fashion that they can afford and that they love for several seasons.

Read more in:

- ☑ Provide fashion for conscious customers
- ☑ Reduce, reuse, recycle
- ☑ Use natural resources responsibly

RAW MATERIALS

LEVEL OF INFLUENCE:
direct ————— indirect

Producing raw materials like cotton requires a lot of water and goes with concerns about chemical use and working conditions. We do not purchase any raw materials directly, but we work hard to increase our influence over the way they are produced through collaborations and by driving demand for sustainable alternatives.

Read more in:

- ☑ Provide fashion for conscious customers
- ☑ Use natural resources responsibly
- ☑ Reduce, reuse, recycle



FABRIC PROCESSING

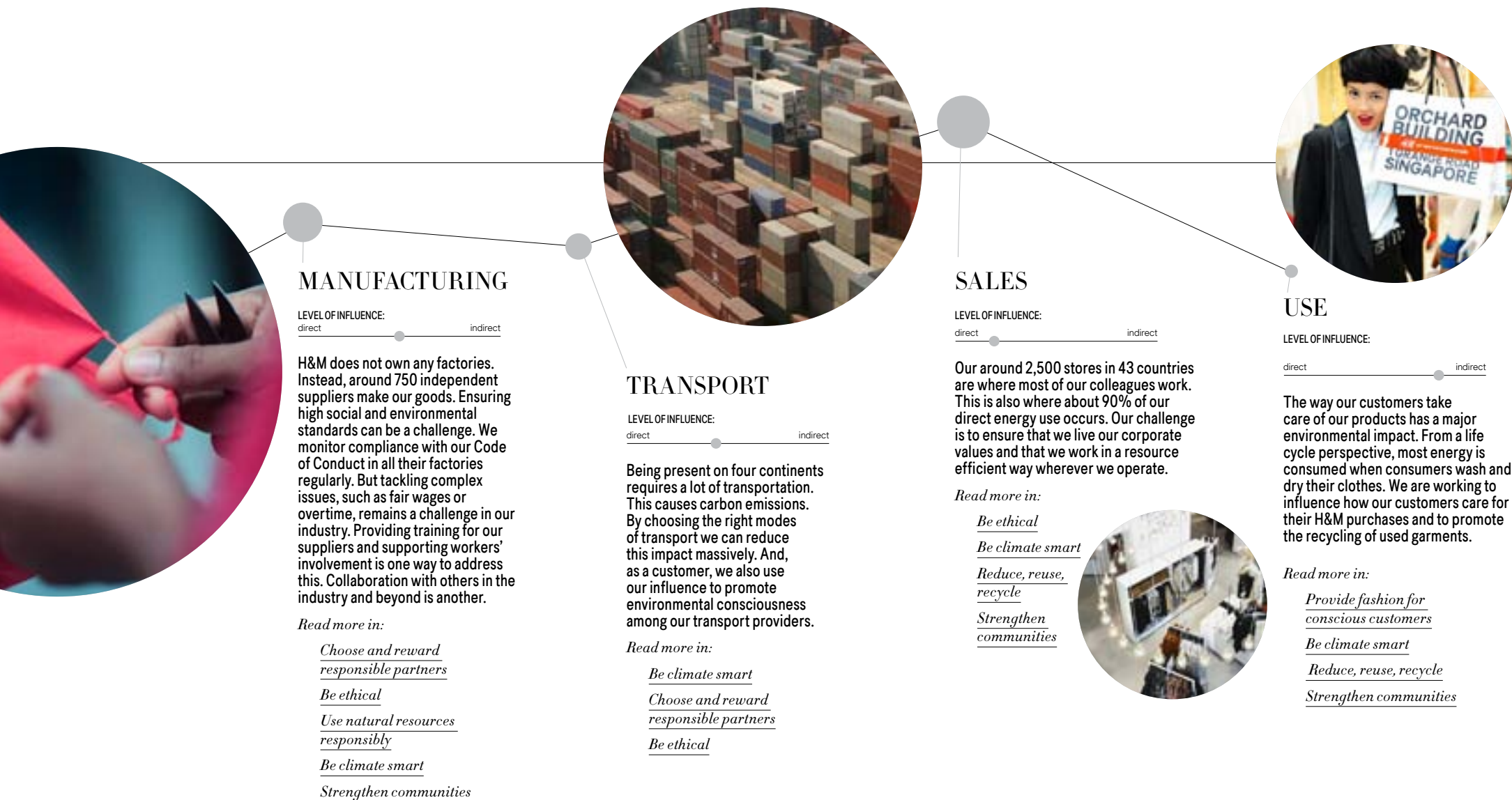
LEVEL OF INFLUENCE:
direct ————— indirect

Fabric production can require intensive use of chemicals, raising concerns for the environment and for the health of workers. We do not have direct business relationships with fabric mills, but we have nevertheless started to build up voluntary partnerships with a number of mills to work together towards improvements.

Read more in:

- ☑ Choose and reward responsible partners
- ☑ Use natural resources responsibly

OUR VALUE CHAIN AND ITS CHALLENGES



ENGAGING WITH OUR STAKEHOLDERS

Close collaboration with our stakeholders, both internal and external, is essential in enabling us to tackle the challenges we face throughout our value chain.

There are a lot of people that contribute to the success of our business, from cotton farmers and workers in our suppliers' factories to our in-store colleagues and our customers. Each of our stakeholder groups has their own perspective on our business.

Throughout the year, we try to maintain regular dialogue with each major group. This helps not only to gain an insight into their needs and viewpoints, but also serves to ensure that we benefit from the broader understanding of our business that they can often offer.

Usually, this engagement is done directly through our relevant in-house teams. Other times, it is through actively taking part, and often a lead, in various multi-stakeholder initiatives.

The table on page 9 sets out our key stakeholder groups, some of the ways we engage with them and what we have learned their main areas of concern to be.

We want to take Conscious Actions on the issues that are most material to our business and the input we receive from our stakeholders helps us to prioritise the Conscious Actions we take and the resources we invest in them.

📄 hm.com/whatotherssay

63%

OF OUR COLLEAGUES
ARE COVERED BY
COLLECTIVE BARGAINING
AGREEMENTS

ESTIMATED
10m
INTERVIEWS WITH
FACTORY WORKERS
CONDUCTED

8.7m

FANS ON FACEBOOK

ENGAGING WITH OUR STAKEHOLDERS

CUSTOMERS	COMMUNITIES	EMPLOYEES	SUPPLIERS	INDUSTRY PEERS	POLICY-MAKERS	NGOs	INVESTORS
H&M is a customer-focused company. Understanding and meeting their needs is at the core of everything we do.	H&M is closely connected with communities around the world in which our stores are located and those that host our supplier factories.	We want our employees to be advocates for H&M brands. Motivated and satisfied employees means better customer interactions and a better and more productive workplace.	Our suppliers are our valued business partners. Stable and long term relations are key to mutual growth. Strengthening their ownership over their sustainability issues and involving their employees is important in enabling long-term sustainable development.	Some challenges are best addressed collectively. We work with industry peers and even companies operating in other sectors to define industry standards and common responses to shared challenges.	H&M and our suppliers are subject to rules set by policy-makers. Maintaining dialogue with them helps us to stay informed about, and sometimes to help shape, our legal and regulatory context.	NGOs are expert advisers on standards and practices throughout our value chain. We rely on their expertise and independence to ensure that we meet the most up-to-date standards and to make us aware of any concerns.	H&M is a publicly listed company. As such, we are accountable to our investors.
HOW WE ENGAGE							
<ul style="list-style-type: none"> In-store customer interactions Customer service organisation Social media (8.7 million Facebook fans, 600,000 Twitter followers) Market research Consumer media Consumer organisations 	<ul style="list-style-type: none"> Through community partners Interactions with local authorities Through NGO interaction (local + global) Interactions with IGOs and governments Interviews with workers in supplier factories through our Full Audit Programme (FAP) 	<ul style="list-style-type: none"> We have an open-door policy, encouraging constant feedback Store or union representation in many markets European Works Council (EWC) Meetings facilitated through our global framework agreement with Union Network International (UNI) Regular individual performance reviews Employee surveys in some markets 	<ul style="list-style-type: none"> Individual meetings throughout a partnership Introduction meetings with new suppliers Full Audit Programme (FAP) Training modules Interviews with workers in supplier factories through Full Audit Programme 	<ul style="list-style-type: none"> Multi-stakeholder initiatives such as the Fair Labour Association (FLA), Sustainable Apparel Coalition and Better Cotton Initiative Various regional and local initiatives such as Sector Roundtables Different forms of pre-competitive collaboration 	<ul style="list-style-type: none"> Individual meetings Industry-wide meetings Responses to official consultations Dialogue through intermediaries 	<ul style="list-style-type: none"> Regular meetings or ad hoc dialogue on global and local level Specific programmes with global local NGOs countries Direct partnerships Partnerships through membership organisations, like the Better Cotton Initiative Community investments 	<ul style="list-style-type: none"> Annual General Meeting Annual and quarterly reports and related press and telephone conferences Sustainability reporting Monthly sales figures Individual meetings
KEY ISSUES							
<ul style="list-style-type: none"> Product design Product quality and durability Product affordability New store locations and markets Supply chain working conditions Chemicals used in production processes Green transport and waste management 	<ul style="list-style-type: none"> Community investments Employment opportunities and impacts on growth and development Environmental impact Community support (i.e. disaster relief or garment donations) 	<ul style="list-style-type: none"> Job security and growth Pay and working conditions Equal opportunities Training and career progression Supply chain working conditions Conscious Actions in store 	<ul style="list-style-type: none"> Long-term relationships Order/capacity planning Capacity building and skills transfer Compliance with our requirements Social dialogue and worker involvement 	<ul style="list-style-type: none"> Industry-wide social and environmental challenges, such as supply chain working conditions and environmental impacts Best practice in pre-competitive matters Legal and regulatory requirements 	<ul style="list-style-type: none"> Regulatory and legal compliance Local labour and environmental standards (including minimum wages and social dialogue) Product safety and quality standards Climate change Uzbek cotton 	<ul style="list-style-type: none"> Labour rights and supply chain working conditions Social and economic development contribution Water and chemicals management Environmental impacts 	<ul style="list-style-type: none"> Sales development Profitability Sustainability matters Expansion

MANAGEMENT AND GOVERNANCE

Like all H&M's activities, our sustainability work is based on a drive for continuous improvement. This is demanded and monitored throughout our business. We work to make sustainability a natural and fully integrated part of everything we do.

This is led from the very top; our Head of Sustainability reports directly to our CEO and overall responsibility for sustainability is retained by our Executive Management Team.

Our 20 people strong head office Sustainability team is responsible for developing global targets, reviewing progress and encouraging and advising all relevant departments on the development and implementation of material Conscious Actions.

With this support, all departments at H&M are then individually responsible for developing and carrying out the Conscious Actions necessary to fulfil our seven commitments.

All functions report on their Conscious Actions on an annual basis to our CEO, CFO and Head of Sustainability, who jointly approve them. They review the progress made towards fulfilling our seven commitments twice a year.

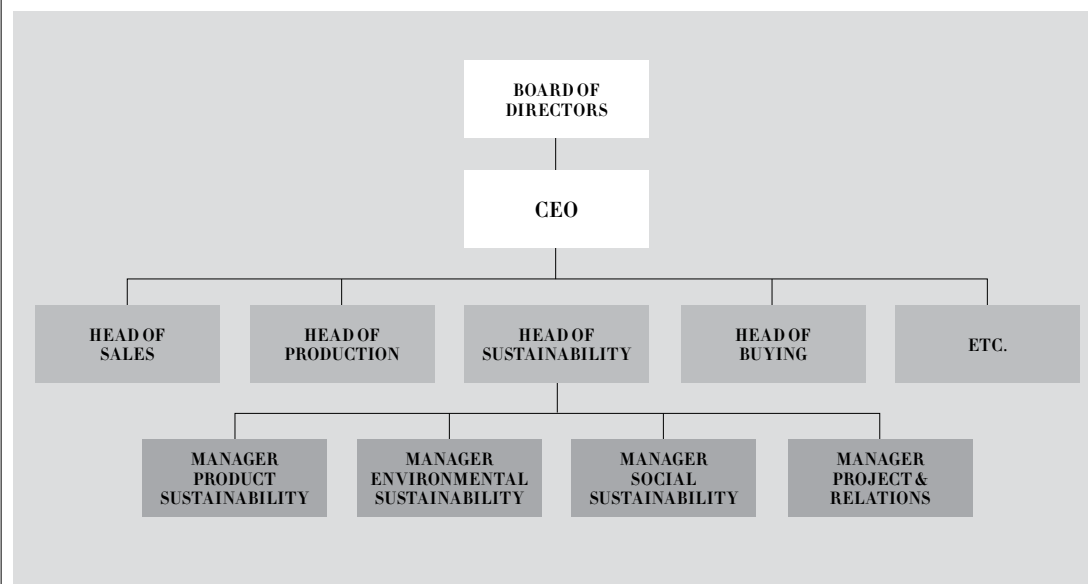
Sustainability matters are also regularly discussed by our Board of Directors and during 2011 our Head of Sustainability presented H&M's sustainability performance during one of six board meetings.

Major sustainability issues influencing more than one

department are discussed in a decision-making forum called the Green Room with the involvement of our CEO.

Additionally, about 90 people from our sustainability team operate from


our 15 production offices around the world. 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.



HOW WE REPORT

We are committed to transparent reporting on the progress we make towards meeting our seven commitments.

Our Sustainability Report, which is produced annually, covers our sustainability activities and programmes and our progress in making our operations and products more sustainable. The scope of the Report includes the global Group operations of H & M Hennes & Mauritz AB, including all its brands (H&M, COS, Weekday, Monki, Cheap Monday) as well as its fully or partially-owned subsidiaries globally. It reports on performance during the period from 1 December 2010 – 30 November 2011. Additional information is available online at hm.com/sustainability.

 hm.com/sustainability

Our last Sustainability Report was published in April 2011. We are signatories to the UN Global Compact, and our annual sustainability report also acts as our Communication on Progress (COP).

All data is collected by our Sustainability team from the relevant functions within our organisation and from external parties. It is reviewed by our controllers and relevant experts in our Sustainability team.

Unless specified, all data concerning suppliers and supplier factories includes all suppliers and factories that were approved for production during the reporting period. Each supplier may own or subcontract to various factories. Factories included in our scope include manufacturing or processing (i.e. washing or dyeing) factories that are owned

or subcontracted by our suppliers. The provided number of worker interviews is an estimate based on all audits conducted, including those performed on factories that did not get approved.

Please note that currency conversions from SEK to other currencies are approximate figures based on the conversion rate valid on 30 November 2011. Exact figures are provided in SEK only.

This report is designed to make on screen reading as convenient as possible.

IMPROVING OUR REPORTING PROCEDURES

We are committed to open and honest disclosure and our reporting is part of that process. We believe that our involvement in multi-stakeholder initiatives, as well as our own efforts to elicit feedback from our stakeholders, adds value and credibility to our reporting and we have taken into account comments received through this dialogue in selecting our material issues and choosing which Conscious Actions to take.

We also recognise that many of our stakeholders expect our reporting to be independently assured. During 2011 we evaluated different options for assuring our report and we will continue this process during 2012. As part of this we conducted a gap-analysis of our 2010 report together with Ernst & Young. The feedback has been considered in producing

HOW WE REPORT

this report and in the further development of our data systems. In 2011, we invested in a new central data collection and reporting IT-system, and we plan to continue implementing this during 2012.

GLOBAL REPORTING INITIATIVE (GRI)

We use the GRI G3 Sustainability Reporting Guidelines. 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. H&M's disclosure level against the GRI G3 framework is B (self-declared).

☐ hm.com/GRIindex

☐ hm.com/howwereport




HIGHLIGHTS FROM 2011


“H&M continues to demonstrate leadership and innovation through their expansion of organic cotton utilisation.”

LaRhea Pepper,
Managing Director, Textile Exchange

NO. 1 IN ORGANIC COTTON

According to the latest data reported by the organisation Textile Exchange, H&M is the biggest user of certified organic cotton in the world. We started using organic cotton in 2004 and since 2007 we have offered a range of 100% organic cotton garments. In 2011, we further increased our use of organic cotton by more than 20% and it now represents 7.6% of our entire cotton use. This increase, combined with the expected future growth in the use of Better Cotton, means that we are on target to meet our goal of using more sustainable cotton only by 2020.

 [Find out more here](#)

 [Find out more online](#)




20%
FURTHER
INCREASE OF
ORGANIC
COTTON USE

FIRST BETTER COTTON HITS H&M STORES

Cotton is the raw material we use the most. H&M's aim is for all cotton in our ranges to come from more sustainable sources by 2020. We plan to further increase our use of certified organic cotton and recycled cotton, but using more Better Cotton is particularly key to meeting this target. H&M is an active member of the Better Cotton Initiative. In 2011, we launched our first denims made from Better Cotton in H&M stores around the world. This cotton is grown in a way that reduces stress on the local environment and improves the livelihoods and welfare of farming communities. First harvesting projects conducted by WWF showed reductions in pesticide use of 32-81% and water savings of 32-49%. At the same time, net profits of participating farmers increased by 15-20%.

 [Find out more here](#)

 [Find out more online](#)

JEANS, BETTER COTTON

“Before, we used an average of 120 litres of pesticides a year, costing about EUR 825. Since starting the Better Cotton programme we have significantly reduced our pesticide use, which increases our profits and is better for our health and our environment.”

Drissa Coulibaly, Cotton Farmer, Mali

HIGHLIGHTS FROM 2011



SKIRT, ORGANIC HEMP

INTRODUCING ORGANIC HEMP

H&M is always looking for new ways of bringing our customers more sustainable fashion. Organic hemp is the latest addition to H&M's constantly growing range of conscious materials. Organically grown, it uses less water than cotton or linen, doesn't need pesticides or fertilisers and can thrive in all sorts of soils and climates. What used to be used in ropes, nets and sacking, can now be used in the latest fashion. In autumn 2011, H&M's Conscious Collection featured our first organic hemp garments, alongside clothes made from a range of other sustainable materials.

[Find out more here](#)

[Find out more online](#)

“Hemp can be very like both linen and cotton in fabric form, but it has many advantages from an environmental perspective. It doesn't need to be sprayed with pesticides, it doesn't need as much water and it grows quickly and almost anywhere.”

Cia Sohlman, responsible for sustainable materials strategy and development, H&M's Buying Office, Stockholm

INTENSIFIED EFFORTS FOR A BETTER BANGLADESH



Bangladesh is an important purchasing market for H&M but also one of the world's poorest nations. Clothing manufacturing employs several million people and accounts for a large proportion of the country's exports. As a long-term buyer, H&M wants to contribute to lasting improvements for people working in the clothing industry. That is why, in 2011, we developed an ambitious plan to support long term social development in Bangladesh.

The plan includes projects to support improved social dialogue and better fire safety in garment factories, training and access to health care for garment workers. As part of the plan we also work to strengthen the position of women in the community by providing grants for female students in higher education and by setting up a helpline for women exposed to violence and discrimination.

[Find out more here](#)

[Find out more online](#)

3m

WORKERS IN
BANGLADESH TO
BE TRAINED IN
FIRE SAFETY
UNTIL 2013

440,000

WORKERS IN
BANGLADESH TRAINED
ON THEIR RIGHTS
SINCE 2008

HIGHLIGHTS FROM 2011

ADDRESSING FAIR WAGES



Wages in our supply chain are a key focus in our sustainability work. Wage structures in global supply chains are often complex. That is why in 2011, H&M joined the Fair Wage Network. The initiative works to bring together fashion brands, garment producers, NGOs, worker representatives and researchers to promote fair wages around the world. In order to gain a better understanding of wage structures in our supply chain, in 2012 the Fair Labor Association (FLA) will independently assess wage structures at around 200 of H&M suppliers' factories in Bangladesh, Cambodia, China and India, which account for more than half of total production for the H&M Group. The concept of a 'Fair Wage' takes into account living costs, profitability and whether or not wages are set through

negotiations. We hope that this knowledge and the network will help us in further promoting fair wages in our supply chain and our industry.

[Find out more here](#)

[Find out more online](#)

2,024

AUDITS CONDUCTED ON
ACTIVE SUPPLIER
FACTORIES

WE USED
RECYCLED POLYESTER
EQUIVALENT TO
9.2m
PET BOTTLES

“The Fair Wage assessment is an essential step to identify wage practices among suppliers, and will provide H&M with remedial elements to address the issues. Participation in the Fair Wage Network will also allow H&M to seek common solutions with other brands and CSR actors.”

Daniel Vaughan-Whitehead,
Co-Initiator Fair Wage Network

TOP, RECYCLED CUT REMNANTS



TOWARDS CLOSING THE LOOP

Extracting natural resources for the manufacture of garments and letting them end up in landfill after use does not make business sense. We all have to think much harder about becoming more resource-efficient. Turning worn clothes into something usable again could be one way to achieve this. While there's still a long way to go to close the resource loop on a large scale, we teamed up with iCollect in 2011 to initiate a pilot project in 17 H&M stores in Switzerland to collect used garments from

customers to be recycled. We plan to extend this project to all our stores in Switzerland and evaluate opportunities to extend this to other countries.

[Find out more here](#)

[Find out more online](#)

HIGHLIGHTS FROM 2011

TOWARDS ZERO DISCHARGE

During 2011, H&M engaged with Greenpeace regarding our shared ambition to eliminate the use of hazardous chemicals and achieve zero discharge of such substances in global textile production. Since 1995 H&M has been working to reduce the use and impact of hazardous chemicals using an approach based on the Precautionary Principle. As a leading actor with a well reputed approach to chemicals management, H&M has the size and ability to encourage change within the industry. In 2011, H&M, together with adidas Group, C&A, Li Ning, NIKE, Inc. and Puma, developed a joint roadmap and an ambitious action plan to set a new standard for environmental performance and lead our industry towards achieving zero discharges of those chemicals by 2020.

[Find out more here](#)

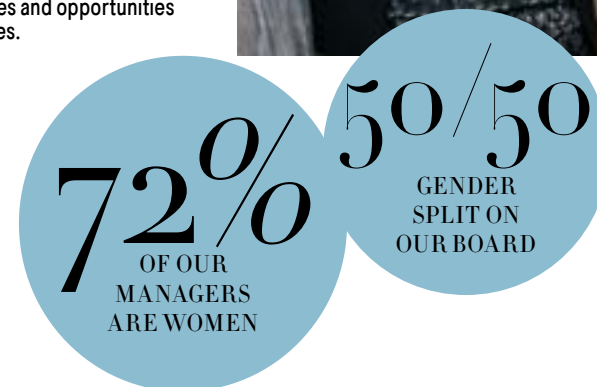
[Find out more online](#)

“By committing to ‘detox’ its supply chain, H&M is not only setting the trend for this season and the future, it is also sending a clear message to other brands that using toxic chemicals to make our clothing is no longer in vogue. H&M’s landmark commitment has the potential to be a catalyst for wider change across the fashion industry. H&M must now use its size and influence to lead the entire fashion industry towards a toxic-free future, by working with other committed brands to bring about cross-industry and systemic change.”

Marietta Harjono, Toxic Campaigner
at Greenpeace International

INTRODUCING OUR MINI-MBA

A successful company needs good leaders. In a company in which most employees work in around 2,500 stores worldwide, our store managers play a very important role. They are the key to ensuring that our company’s values are represented in-store and that our colleagues around the world are properly supported. In the summer of 2011, the first 19 H&M UK managers graduated from our pilot Mini-MBA programme. From increasing profitability to envisaging the H&M store of 2020, this initiative aims to give our best managers the tools both to improve performance today and to understand the long-term challenges and opportunities H&M faces.





1

COMMITMENT



PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

1

COMMITMENT



PROVIDE FASHION FOR CONSCIOUS CUSTOMERS

Our business idea is to offer fashion and quality at the best price. To us, 'quality' includes that our products should be produced, transported and sold with care for people and the environment.

Our customers are at the core of everything we do and our success depends on our ability to deliver what they want.

We always want to inspire and surprise our customers and strengthen our customer offering. As they become increasingly conscious of environmental and social issues, adding sustainability value to our products is one way to achieve this. By making more sustainable choices available to all our customers around the world, we can together contribute to a more sustainable fashion future.

Our regular coordinated Conscious Collections are at the forefront of both fashion and sustainability. They show very clearly that choosing greener fashion does not mean compromising on design or price. Our permanent broad range of various Conscious Products makes a better choice easier for our customers and applies these innovations on a bigger scale.

But this is only the beginning of our journey. We keep working every day to make all our products more sustainable, piece-by-piece and throughout our entire range.

Learn here about some of the Conscious Actions we are taking to fulfil this commitment.



JOHAN WARD

**JOHAN WARD,
HEAD OF
SUSTAINABILITY,
H&M BUYING
OFFICE,
STOCKHOLM**

"For me, our commitment to provide fashion for conscious customers means first of all to listen to our customers and offer them the products and collections they want. But it's also about informing and educating our customers about what we do to make fashion more sustainable in a transparent and understandable way. And it means that we have to keep inspiring our customers with the designs we offer, the materials we use, the innovations we introduce and the constant improvements we work to achieve in everything we do."

No. 1
USER OF ORGANIC
COTTON IN THE
WORLD

2.4m
PAIRS OF SHOES
MADE WITH
WATER-BASED
ADHESIVES

29%
INCREASE IN
SALES OF EU-FLOWER
LABELLED
GARMENTS

CONSCIOUS ACTIONS

USE ONLY MORE SUSTAINABLE COTTON

TIMESCALE: 2020

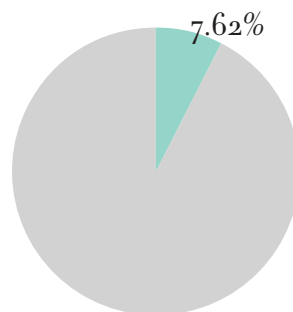
STATUS SNAPSHOT: 7.62% OF THE COTTON WE USE COMES FROM MORE SUSTAINABLE SOURCES

Cotton is the material we use most. It is a natural, renewable material with many advantages, but it also carries a number of concerns. For example, conventionally grown cotton can have heavy impacts on the environment. By 2020 at the latest we aim for all our cotton to come from sustainable sources that require less water, pesticides and fertilisers and also helps farmers and communities to improve their standard of living. This includes organic cotton, Better Cotton and recycled cotton. By 2011, 7.62% of the cotton we used came from these sources. This share is almost entirely achieved by our increased use of organic cotton but over the coming years, Better Cotton in particular will play a more prominent role. As a result, we are on track to reach our ambitious target for all our cotton to be from more sustainable sources by 2020.

☑ hm.com/cotton

☑ bettercotton.org

1.0 % OF MORE SUSTAINABLE COTTON
ON H&M'S COTTON USE



DRESS, ORGANIC COTTON

CONSCIOUS ACTIONS

CONTINUE TO INCREASE USAGE OF ORGANIC COTTON

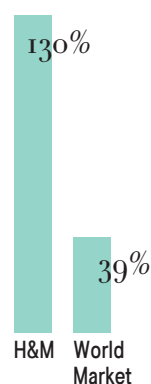
TIMESCALE: ONGOING
STATUS SNAPSHOT: WORLD'S NO. 1 USER OF CERTIFIED ORGANIC COTTON

According to Textile Exchange's latest *Global Market Report on Sustainable Textiles 2010* (launched in summer 2011), H&M is the world's biggest user of certified organic cotton. We will continue to support increases in global production of organic cotton, but we do expect growth rates to normalise (our average growth from 2007–2010 amounted to 130%). In 2011, we nevertheless further increased our use of organic cotton by more than 20%. It now represents 7.6% of all the cotton we use.

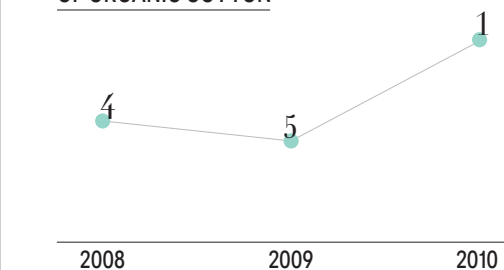
hm.com/cotton

textileexchange.org

1.1 AVERAGE GROWTH IN ORGANIC COTTON USE H&M VS WORLD MARKET 2008-2010



1.2 H&M'S RANK AS USER OF ORGANIC COTTON*



* SOURCE: textile exchange

LAUNCH FIRST GARMENTS MADE OF BETTER COTTON IN H&M STORES

TIMESCALE: 2011
STATUS SNAPSHOT: FIRST GARMENTS IN H&M STORES

Our first denim products made with Better Cotton reached H&M stores during 2011. We expect the amount we use to increase considerably in the coming years. For 2012, our target is for Better Cotton to represent about 5% of our total cotton use. It is one of the key initiatives towards achieving our goal of using more sustainable cotton only by 2020. As a member of the council of the Better Cotton Initiative we are actively engaged in working towards its success.

hm.com/cotton

bettercotton.org

CONSCIOUS ACTIONS

SUPPORT INNOVATION IN SUSTAINABLE MATERIALS

TIMESCALE: ONGOING
STATUS SNAPSHOT: ORGANIC HEMP INTRODUCED

H&M is an important user of many innovative, more sustainable fabrics like Tencel, recycled materials and organic linen. By driving demand, we want to strengthen the market for these materials and encourage further innovation. In 2011, we extended our range of materials and introduced our first garments made with organic hemp. H&M also supports Mistra and their 'Fashion Future' project. The project aims to promote systemic change in the fashion industry. It produces detailed research on textile recycling and among other things, on how to speed up the market introduction of new innovative sustainable materials.

🔗 hm.com/consciousmaterials

🔗 mistra.org

DEVELOP SUSTAINABILITY INDEX LABELS FOR OUR PRODUCTS

TIMESCALE: ONGOING
STATUS SNAPSHOT: PILOT TEST CONDUCTED ON 4 PRODUCTS

For conscious customers, trying to understand whether or not a product has been produced in a sustainable way can be difficult. H&M is a founding member of the Sustainable Apparel Coalition which aims to develop an index that gives apparel and footwear products a clear score against key sustainability indicators. This will make it easier for customers to compare products and make an informed choice. In 2011, we initiated a joint pilot of the first version of the index and tested the process internally on four products. The evaluation of this test is planned for the beginning of 2012.

🔗 hm.com/memberships

🔗 hm.com/apparelcoalition

🔗 apparelcoalition.org



CONSCIOUS ACTIONS

HELP DEVELOP EUROPEAN STANDARDS FOR ENVIRONMENTAL PRODUCT LABELLING


TIMESCALE: 2012
STATUS SNAPSHOT: ENGAGED IN PROJECT WITH FRENCH GOVERNMENT

During 2011, we engaged with the French government in an initiative called the Grenelle Project. The project involves identifying measurements for environmental impacts and finding the best ways to make these impacts transparent for customers. As part of the project, H&M looked at one of our t-shirts and evaluated the total water use, CO₂e emissions and eutrophication impacts throughout its life cycle, from growing the cotton to the disposal or recycling of the garment. Collecting the necessary quality data for this ambitious undertaking is a challenge. However, in 2012 we plan for these t-shirts to come with hang tags that inform our French customers about the garment's environmental impacts. We hope that this project will help in the development of standards for transparent product impact disclosure within the EU, as well as helping us to improve our own performance.

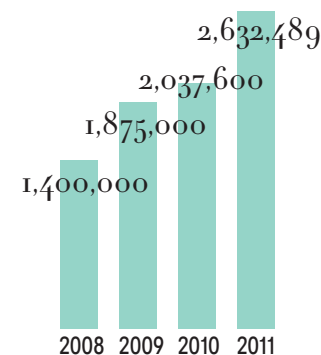
INCREASE SALES OF GARMENTS LABELLED WITH THE EU FLOWER BY AT LEAST 15%

TIMESCALE: ANNUALLY
STATUS SNAPSHOT: 29% INCREASE ACHIEVED

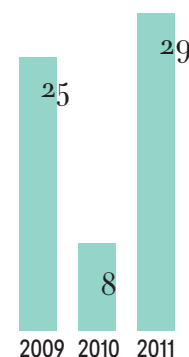
Since 2005, we have sold baby wear bearing the EU's Flower eco-label. The label certifies that harmful substances have been limited and water pollution reduced across the whole production cycle of these garments. As with all other H&M garments, baby wear must also comply with H&M's strict *Chemical Restrictions*. In 2011, we sold 2,632,489 pieces, an increase of 29% on the previous year. This performance indicates strong demand from our customers for these products. Our target is to increase sales by 15% annually. We also plan to make these garments out of 100% organic cotton by 2012.

 eco-label.com

1.3 PIECES SOLD BEARING THE EU FLOWER LABEL



1.4 % INCREASE PER YEAR



CONSCIOUS ACTIONS

INTRODUCE CLIMATE-SMART WASHING AND CARE INSTRUCTIONS

TIMESCALE: 2012
STATUS SNAPSHOT: NEW CARE AND WASHING INSTRUCTIONS IN DEVELOPMENT

Ensuring that our customers are well informed about sustainable fashion extends to how they care for the garments they buy from H&M. The 'user phase' accounts for about 40% of the climate impact of a garment's lifecycle. Reducing the washing temperature from 60 degrees to 40 degrees or less can save 50% in energy use. To inspire our customers to reduce this impact, in 2011, we started working on complementing our care and washing instructions with climate-smart alternatives. We have been in close discussions with Ginetex, the owner of the current global standard care labelling system, to support this goal. We plan to introduce the first garments labelled with climate-smart care instructions in our stores in 2012.

📄 hm.com/care

PROVIDE BEST POSSIBLE SUSTAINABILITY TRAINING FOR BUYERS AND DESIGNERS

TIMESCALE: ONGOING
STATUS SNAPSHOT: 3,600 HOURS OF TRAINING FOR BUYERS AND DESIGNERS

To offer more sustainable products to our conscious customers, our buyers and designers who decide what products we offer, have to be well informed about the sustainability value of different items. We provide dedicated internal and external training courses for these colleagues. For example, during 2011 we provided 3,600 hours of training related to sustainability.



INCREASE THE KNOWLEDGE AMONG OUR SALES ADVISORS ABOUT H&M'S SUSTAINABILITY WORK

TIMESCALE: ONGOING
STATUS SNAPSHOT: NEW TRAINING METHOD INTRODUCED

We want our colleagues to feel proud of where they work. We also want to support everyone at H&M in delivering the best possible customer service. That is why with the launch of our first Conscious Collection in 2011 we rolled out a mandatory in-depth training programme for our sales advisors. This informed them about the sustainable materials used in the collection and how they relate to H&M's sustainability work. A study conducted during summer 2011 showed that whilst, as a result, sales advisor knowledge on conscious materials was good, other aspects of our sustainability work were not always as well understood as we would wish. That is why for 2012 we want to scale up this programme and integrate a broader range of topics.

📄 hm.com/training

CONSCIOUS ACTIONS

PRODUCE 2 MILLION PAIRS OF SHOES WITH WATER-BASED ADHESIVES INSTEAD OF SOLVENT-BASED ONES

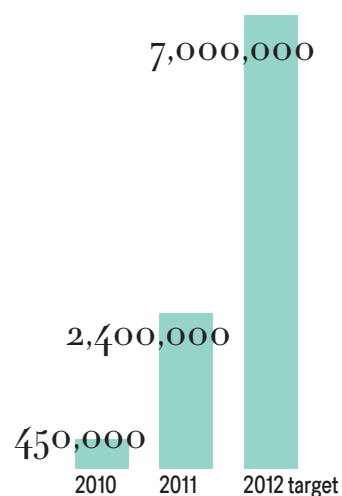
TIMESCALE: 2011
STATUS SNAPSHOT: 2,433,772 PIECES PRODUCED

Solvent-based adhesives are often used in the production of shoes and bags, but they can be harmful to workers in factories if not handled with sufficient protection. In 2009 we started working with chemical manufacturers, producers of adhesives and accessory, bag and shoe suppliers to identify possible water-based alternatives. Trials showed that the content of volatile organic compounds (VOCs) could be reduced by 65%. In 2011, 100% of our bags were produced using these water-based adhesives.

In 2010, 450,000 pairs were produced this way as well. By the end of 2011, we had increased this by more than 400% to more than 2.4 million pairs. Our goal for 2012 is now to produce 7 million pairs.

 hm.com/chemicals

1.5 PAIRS OF SHOES MADE WITH WATER-BASED ADHESIVES



2,4 MILLION PAIRS OF SHOES MADE WITH WATER-BASED ADHESIVES

CONSCIOUS ACTIONS

PURCHASE 500,000 PAIRS OF SHOES MADE WITH LEATHER FROM CERTIFIED TANNERIES

TIMESCALE: 2011
STATUS SNAPSHOT: 60,000 PAIRS OF SHOES PRODUCED

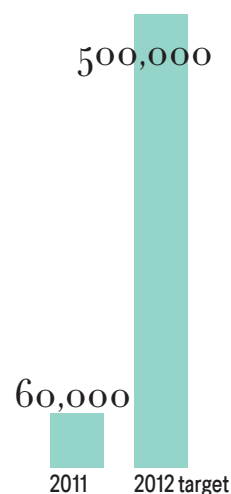
Leather products can require quite intense chemical treatment using substances that can harm the environment. While we restrict hazardous chemicals through our Chemical Restriction List, we do not source any leather directly and have therefore less direct influence over this stage of our value chain. So, in 2009, we joined the Leather Working Group (LWG) in order to promote sustainable business practices in this sector. Tanneries must comply with high environmental standards before being rated by the Group.

We planned to produce 500,000 pairs of shoes made with leather from LWG certified tanneries. However, in order to ensure process quality and guarantee the availability of the certified leather, we decided to start with a smaller number and produced slightly more than 60,000 pair of shoes, as well as around 13,000 bags. We will revert to the target to produce 500,000 pairs of shoes in 2012.

☑ hm.com/memberships

☑ leatherworkinggroup.com

1.6 PAIRS OF SHOES MADE WITH LEATHER FROM CERTIFIED TANNERIES



60,000 PAIRS OF SHOES MADE WITH CERTIFIED LEATHER



2

COMMITMENT



CHOOSE AND REWARD RESPONSIBLE PARTNERS

2 COMMITMENT CHOOSE AND REWARD RESPONSIBLE PARTNERS

H&M does not own any of the factories that manufacture our products. Instead, production takes place at around 1,650 factories that are owned or subcontracted by almost 750 suppliers. Managing our value chain effectively to ensure that quality and ethical standards are maintained is a major challenge. Large parts of our global Sustainability and Production Office teams are dedicated to this task.

Garment production is often located in countries where human rights violations are a risk and environmental awareness is less developed. Respect for people and the environment is an essential part of H&M's values. We use our influence to promote better working conditions and environmental consciousness throughout our value chain. We focus on strengthening our suppliers' ability to take ownership for their sustainability issues and on working towards greater involvement of the

workers themselves. This contributes to stability in the producing countries and tends to translate to more efficient operations and higher quality products.

Our commitment is to choose and reward responsible partners who share our values and are willing to work with us to improve their social and environmental practices. Increasingly, to leverage similar sustainability and commercial benefits, we are also working to improve conditions in other parts of our value chain.

We have a set of policies in place that guide us in our daily work. Additionally, we developed Conscious Actions through which we are working to fulfil this commitment. See some of them in the following section and find out how far we have come.



GUSTAV LOVEN

GUSTAV LOVEN,
PRODUCTION
OFFICE
CONTROLLER,
SHANGHAI

"For me, this commitment is about helping our suppliers to see a clear connection between social and environmental responsibility and their bottom line. We try to link partnership growth plans to specific social and environmental goals and encourage the sharing of best practice between top performing suppliers and those who are trying to take important steps forward. To reward responsible partners, a major challenge is how to measure social and environmental performance. Our ICoC index is of great help in this regard, but a bit of common sense is also important. I think H&M's culture of empowering employees to make the right decisions is an important part of the mix."

442,031

WORKERS IN
BANGLADESH TRAINED
ON THEIR RIGHTS
SINCE 2008

ESTIMATED
9,000
WORKING
DAYS INVESTED IN
SUSTAINABILITY
ACTIVITIES TARGETING
OUR SUPPLIER
FACTORIES

5.6

SUSTAINABILITY
ACTIVITIES PER
KEY FACTORY

CONSCIOUS ACTIONS

ENSURE THAT WE CHOOSE RESPONSIBLE PARTNERS WITH GOOD POTENTIAL FOR IMPROVEMENT WHEN SOURCING FOR NEW PRODUCTION CAPACITY

TIMESCALE: ONGOING

STATUS SNAPSHOT: 99% OF ALL FACTORIES AUDITED BEFORE RECEIVING ORDERS

H&M is a growing company. As we grow, we constantly need to seek new production capacity. As part of our sourcing strategy, we only allow production for H&M to take place with suppliers and in factories that sign our Code of Conduct and commit to our values. This is the case whether they are owned directly by our suppliers or subcontracted to them. And it remains the case regardless of the price they offer. New partners must comply with the minimum requirements from our Code from the beginning and show the necessary willingness to work towards full compliance.

When assessing a potential new partner, we start by providing them with detailed training about the expectations we have of a responsible partner. If, based on this understanding, they continue to show a strong willingness to work with H&M, our commercial sourcing teams often start with a compliance screening process, supported by dedicated tools. If this first assessment is positive, our auditors conduct an in-depth head audit. They have the mandate to take the final decision about whether a supplier or individual factory fulfils

H&M's minimum requirements and has the potential for further performance improvements in order to become a long term partner for H&M. In 2011, our auditors did not approve 24% of the potential new factories. All factories that are approved in this initial assessment are covered by our Full Audit Programme, through which H&M continuously monitors the progress made by each factory. New partners usually show a less strong sustainability performance than our long term partners – a clear indication of the improvements that our partnership approach promotes (see graph 2.7, p33).

📄 hm.com/monitoring

📄 hm.com/beyondmonitoring

📄 hm.com/codeofconduct

EXTEND THE SCOPE OF OUR CODE OF CONDUCT TO INCLUDE OTHER BUSINESS PARTNERS

TIMESCALE: ONGOING

STATUS SNAPSHOT: CODE ALIGNED AND FIRST CONTRACTS ADOPTED, FIRST AUDITS CONDUCTED

The values and standards applied to the suppliers who produce our commercial goods are equally relevant to H&M's other partners. During 2010, we updated our Code of Conduct so that it could also be applied to companies providing us with other services – for example shop interiors, marketing materials, IT support or logistics. In 2011, the first of the relevant departments, such as our logistics team, included the Code into contracts with their partners and we conducted the first audits to verify compliance. We will continue integration with more business partners during 2012.


📄 hm.com/codeofconduct

CONSCIOUS ACTIONS

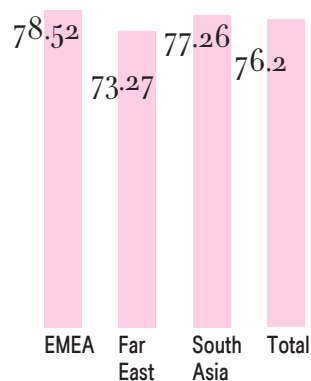
INTRODUCE NEW SUPPLIER SUSTAINABILITY PERFORMANCE INDEX – ICOC

TIMESCALE: 2011
STATUS SNAPSHOT: INTRODUCED GLOBALLY

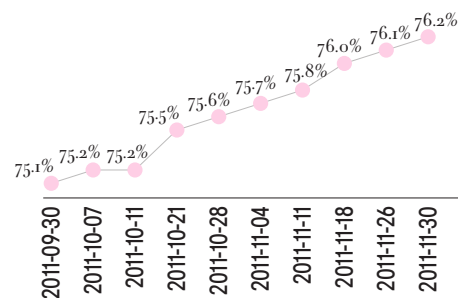
We are constantly looking for ways to improve our audit systems. As part of our Full Audit Programme (FAP), in 2011, we introduced a new index for measuring performance and grading our suppliers, the Index Code of Conduct (ICoC). This gives every supplier a score (max. 100%) based on their level of compliance with our requirements (see graph 2.8, p33) and the quality of their management systems (see graph 2.9, p34). This allows more accurate benchmarking of our supplier factories, helps them to identify priorities for further improvements and supports us in rewarding better performing partners. The index will serve as our main tool to follow up and report on our supply chain's sustainability performance. By the end of 2011, the average score among our supplier factories was 76.2%. Early trend data indicates progress is being made (see graphs 2.0 and 2.1). Key and selected factories show a better performance throughout following their close partnership with H&M (see graph 2.2, p30).

 hm.com/monitoring

2.0 ICoC GRADE BY REGION 1 SEPTEMBER 2011 – 30 NOVEMBER 2011



2.1 ICoC GRADE DEVELOPMENT 1 SEPTEMBER 2011 – 30 NOVEMBER 2011



Timespan from September–November has been chosen to provide most comparable and quality secured data.



CONSCIOUS ACTIONS

STRENGTHEN LONG-TERM SUPPLIER RELATIONS

TIMESCALE: 2011

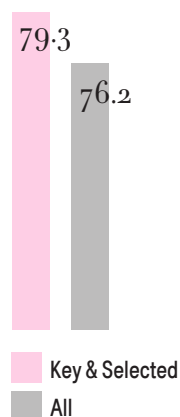
STATUS SNAPSHOT: NEW SUPPLIER RELATIONSHIP MANAGEMENT STRATEGY LAUNCHED

To strengthen our supplier capacity management processes, we launched a new supply chain strategy in Summer 2011. The Supplier Relationship Management strategy rests on creating mutual benefits and long term strategic business relationships with our best suppliers. Well-managed business relationships can turn into successful strategic alliances, based on shared risks and shared rewards supporting sustainable business performance. H&M considers open communication and trust to be critical to the success of the relationship. As part of this approach, suppliers are grouped into different categories. Platinum and Gold suppliers, for example, are long-term strategic partners that share values and long term goals. Such long-term partnerships provide mutual benefits for the supplier, for example by securing stable business through long term capacity planning up to 5 years ahead. By the end of 2011, 150 of our 747 suppliers were graded platinum or gold. These 150 suppliers represent 58% of all production for H&M (see graph 2.3). As one supplier may often own or use a number of factories, we also introduced a new grading system

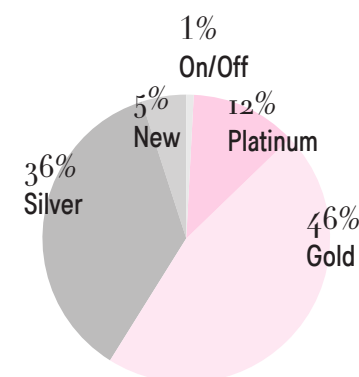
for factories. Factories graded 'selected' or 'key' are higher performing ones in relation to a variety of key factors. As a result, these factories show an above average performance on sustainability (see graph 2.2). Currently, 392 out of 1,652 factories are holding this grade and represent 52% of all production for H&M (see graph 2.4).

hm.com/supplierrelations

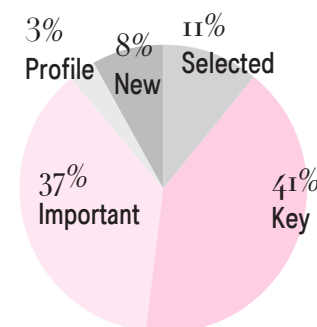
2.2 ICOC SCORE FACTORIES GRADED 'SELECTED' OR 'KEY' VS FACTORY AVERAGE



2.3 ORDER PLACEMENT PER SUPPLIER CATEGORY



2.4 ORDER PLACEMENT PER FACTORY CATEGORY



CONSCIOUS ACTIONS

FURTHER INTEGRATE SUSTAINABILITY CRITERIA INTO OUR ORDER SYSTEMS

TIMESCALE: 2012

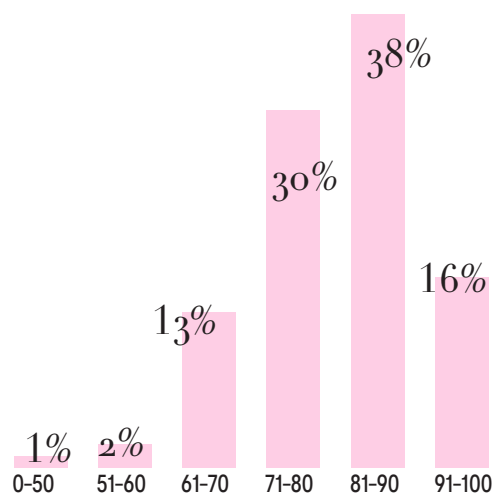
STATUS SNAPSHOT: NEW INDEX (ICoC) FOR MORE SYSTEMATIC INTEGRATION DEVELOPED

As a step to further integrate sustainability criteria into our sourcing practices we are introducing our supplier sustainability index (ICoC) into systems and processes relating to capacity planning and order placement. During 2011, we developed a 'Quantity-Weighted' version of this index. This quantitative instrument can be used for analysis, goal setting and follow-up to make sure that we are rewarding the right suppliers with our business. While this integration process will continue during 2012, the first analysis of our data shows that during 2011, 54% of our products were made in factories with an ICoC-score of 81% or higher. While we will continue evaluating this data during 2012, this indicates that orders are more likely to be placed with factories with better sustainability performance.

☑ hm.com/supplierrelations

☑ hm.com/monitoring

2.5 % OF PIECES ORDERED PER ICoC RANGE



CONSCIOUS ACTIONS

HELP TO IMPROVE COMPLIANCE WITH OUR CODE OF CONDUCT THROUGH REGULAR MONITORING

TIMESCALE: ONGOING
STATUS SNAPSHOT: 2,024 AUDITS CONDUCTED

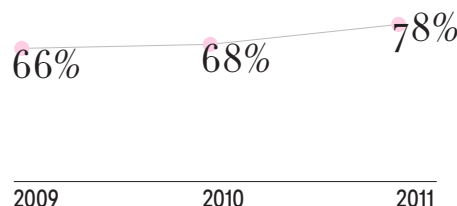
In order to follow up on how our business partners comply with the requirements of our Code of Conduct and to support their progress, we monitor them regularly through our Full Audit Programme (FAP) throughout our partnership. We work to constantly improve our audit methods in order to ensure that we are getting an accurate picture of supplier performance. This also helps H&M and our suppliers to understand and address the root causes of any non-compliance. Additional independent monitoring helps verify our audit systems. In 2011, we conducted a total of 2,024 audits (98 of these using our LAP-method). 964 of these were head audits and 1,060 follow-up audits. As a result of our efforts to increase the share of unannounced head audits, their ratio went up to 78% (2010: 68%) (see graph 2.6). While the audit intensity may differ substantially from country to country based on the level of risk identified, on average every factory was audited 1.2 times during 2011. But monitoring alone is not enough. That's why we go beyond monitoring and focus on helping our suppliers to strengthen their ownership over

their sustainability issues, for example by building their management capacities, helping to improve management systems or conducting joint audits, as well as by promoting social dialogue and increasing workers' awareness of their rights.

- Find more details in our supply chain data overview (p. 44-47)
- hm.com/monitoring
- fairlabor.org

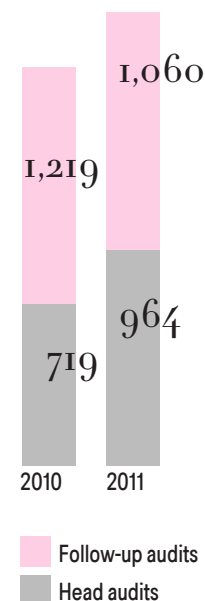
2,024
FACTORY
AUDITS

2.6 % OF HEAD AUDITS THAT WERE UNANNOUNCED



ESTIMATED
10,000
WORKER
INTERVIEWS
CONDUCTED

2.7 NUMBER OF AUDITS CARRIED OUT



CONSCIOUS ACTIONS

UPDATE AUDIT METHODOLOGY TO STRENGTHEN FOCUS ON WORKERS' BASIC RIGHTS, INCLUDING FREEDOM OF ASSOCIATION

TIMESCALE: 2011

STATUS SNAPSHOT: METHOD UPDATED, TRADE UNION REPRESENTATION IN FOCUS

In connection with the introduction of our ICoC grading system, we launched the third updated version of our FAP-audit questionnaire. Compliance levels for workers' basic rights have historically been high, however we recognise that detecting non-compliance can be a major challenge. To be sure that our audits are accurate, we strengthened our methodology for complex yet extremely important issues like forced labour and freedom of association. As part of this, we have made a major shift in the way we assess compliance with the right to freedom of association. Instead of asking if a worker's right to freedom of association is respected, we now measure if trade unions are actually in place.

We overturned our rule that non-compliance on related requirements would result in immediate supplier rejection. Non-compliance will instead now result in lower compliance scores. In turn, improvements can now be incentivised with higher scores. This can mean that compliance figures look worse, but we prefer to know the truth and help bring about real improvements. While the challenge of addressing freedom of association in China remains, we are already gaining a better picture of trade union representation among our supplier factories. To support these shifts in our auditing practices, we have provided additional dedicated training to all our auditors. This year, two training workshops were conducted by the Fair Labor Association (FLA) and the consultancy Just Solutions.

hm.com/monitoring

fairlabor.org

2.8 COMPLIANCE LEVEL: FREEDOM OF ASSOCIATION/TRADE UNION REPRESENTATION



■ Audit question: Is freedom of association respected? (2010)
 ■ Audit question: Is there a trade union represented in the factory? (2011)

*China not included due to the fact that freedom of association is generally not granted by law.

CONSCIOUS ACTIONS

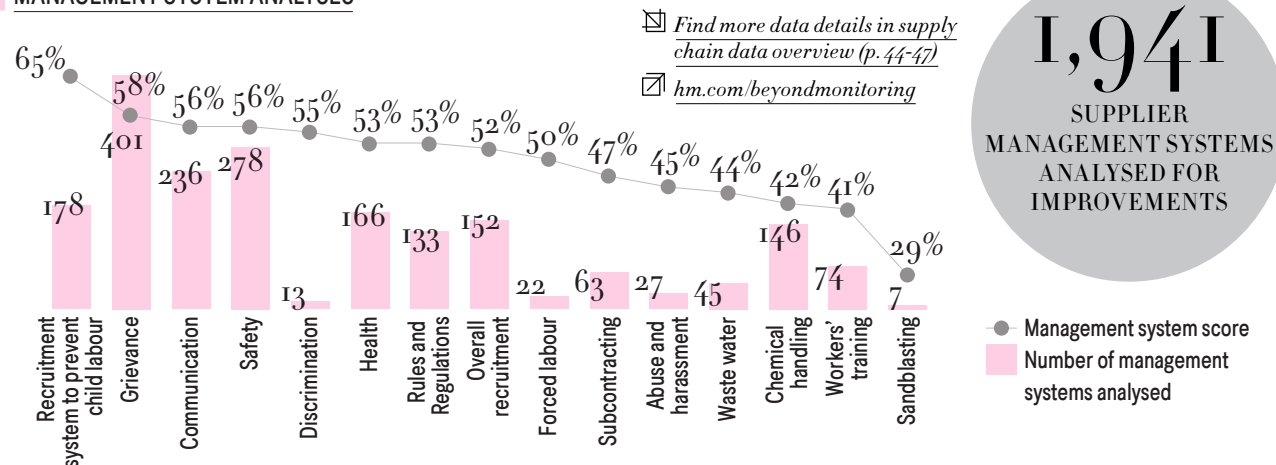
STRENGTHEN SUPPLIER OWNERSHIP OVER SUSTAINABILITY BY SUPPORTING BETTER MANAGEMENT SYSTEMS

TIMESCALE: ONGOING
STATUS SNAPSHOT: 1,941 MANAGEMENT SYSTEMS ANALYSED

In the long run, we want our suppliers to take charge of their own sustainability. We call this approach ‘supplier ownership’. One way to achieve this is to help our suppliers in developing better management systems. We systematically assess the effectiveness of these systems in our supplier factories in order to prevent non-compliance issues from arising. Through our ICoC grading system we score each factory on their management systems. The score feeds into its total grading, alongside its

compliance score. During 2011, we updated our management systems scorecard and provided two person days of related training to each of our auditors. During the year, we conducted a total of 1,941 management system analyses and focused particularly on systems related to grievance, communication and safety – areas that are fundamental to our suppliers’ ability to develop ownership over their sustainability issues. We regard a meaningful dialogue between management and workers, including functional grievance and communication systems, as key to preventing issues from arising or, if they do, to solving them in good faith.

2.9 MANAGEMENT SYSTEM ANALYSES



CONSCIOUS ACTIONS

SUPPORT SUPPLIERS IN BUILDING BETTER ENVIRONMENTAL HEALTH & SAFETY (EHS) MANAGEMENT SYSTEMS

TIMESCALE: ONGOING

STATUS SNAPSHOT: PROGRAMME TO BUILD SUPPLIERS' EHS CAPACITIES LAUNCHED

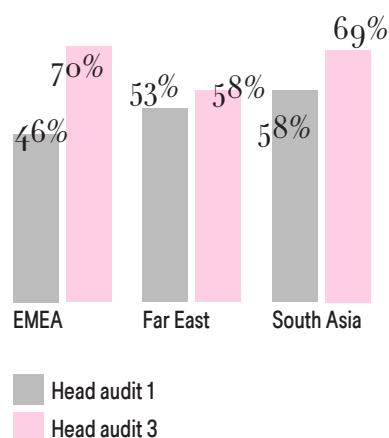
In 2008, we created a role in each of our production offices dedicated to working with Environmental, Health and Safety (EHS) issues. Often, however, suppliers do not have the necessary competence in house to manage EHS issues effectively. To address this, in 2011, we launched the Building of Supplier EHS organisation programme. This aims to build a corresponding role at our supplier factories that works and communicates with our production office EHS experts to help drive improved performance. Looking at how this impacts on compliance, we can see a clear positive trend (see graph 2.10).

Building on this, in 2011 we initiated a capacity building project together with internationally renowned consultancy TUV Rheinland. Ten factories with wet processes participated in the programme, as these types of factories are often chemical intensive. The aim was to support them in maintaining a system for workplace organisation and cleanliness, while significantly improving health and safety and chemical management using the 5S method. Whilst

this programme was still being rolled out at the end of 2011, there were some very promising initial results. For example, participating factories reported an average productivity increase of 20%.

hm.com/beyondmonitoring

2.10 COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS



The data shows the progress on compliance with environmental requirements (including chemical handling) among all factories in our supplier base between their first and third head audit.

STRENGTHEN SUPPLIER OWNERSHIP OVER SUSTAINABILITY THROUGH CAPACITY BUILDING

TIMESCALE: ONGOING

STATUS SNAPSHOT: 1,339 CAPACITY BUILDING ACTIVITIES

Besides auditing the progress our suppliers make and helping them to improve their management systems, we focus on building their capacity, for example through training and workshops. The aim is to strengthen their ownership over their sustainability issues and help them to detect opportunities to improve their business. During 2011, we conducted 1,339 capacity building activities, investing an estimated 5,300 person hours. These activities are part of our strategy to go beyond monitoring. Together with audits, management systems analysis and screenings, this leads to a high intensity of sustainability activity per factory (2011: 3.3 activities per factory). Due to their higher importance to our sourcing, we put a stronger focus on 'key' factories, leading to an average of 5.6 activities (see graph 2.19, p45).

hm.com/beyondmonitoring

CONSCIOUS ACTIONS

STRENGTHEN SUPPLIER OWNERSHIP OVER SUSTAINABILITY THROUGH JOINT AUDITS

TIMESCALE: 2012
STATUS SNAPSHOT: 20 JOINT AUDITS CONDUCTED

During 2010/2011, we introduced a Joint Audit Assessment Programme (JAP) in China in collaboration with 20 factories. Joint assessments are based on the same methodology as our Full Audit Programme, but H&M and factory staff conduct the audit together. This way, our suppliers learn to identify weaknesses in their operations better and we can mutually agree on targets for improvement and actions to achieve these. The Joint Audit Programme will initially be available only for our strategic partners with an advanced in-house sustainability organisation. As a next step, we plan to develop a Self Audit Programme (SAP) for this group of suppliers. The purpose is to complement our audits and to strengthen our suppliers' in-house sustainability management capacity. Pilots are planned for Spring 2012.

📄 hm.com/beyondmonitoring

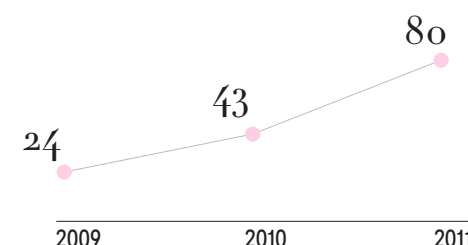
CONTINUE TO ENGAGE FABRIC MILLS IN OUR MILL DEVELOPMENT PROGRAMME

TIMESCALE: ONGOING
STATUS SNAPSHOT: 80 MILLS PARTICIPATING (2010: 43)

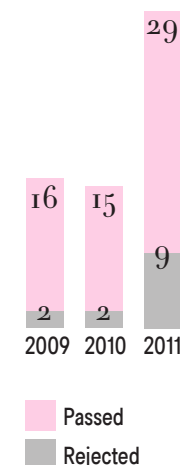
The Mill Development Programme, which started in 2008, targets fabric mills in China and Bangladesh; key fabric providers to our suppliers. It aims to improve compliance with both our chemical restrictions and the environmental and safety requirements of our Code of Conduct, which all participating mills are required to sign. This is in line with our Limited Audit Programme at this second tier of our value chain. In 2011, 80 mills were a part of the programme (69 in China and 11 in Bangladesh). Following our first audits we have seen a major improvement in practices in this sector, which has rarely been the subject of auditing by international brands. We have also had to reject nine mills due to severe incidents of non-compliance, mainly on minimum wages, missing fire alarms and the use of banned chemicals (see graph 2.12). We have made this programme a routine element of our work in China and Bangladesh and intend to extend this to India during 2012.

📄 hm.com/milldevelopment

2.11 NUMBER OF MILLS PARTICIPATING IN THE MILL DEVELOPMENT PROGRAMME



2.12 NUMBER OF LAP-AUDITS CONDUCTED ON PARTICIPATING MILLS



CONSCIOUS ACTIONS

MAKE FURTHER CONTRIBUTIONS TO IMPROVED FIRE SAFETY IN BANGLADESH

TIMESCALE: 2013

STATUS SNAPSHOT: FIRE SAFETY AWARENESS FILMS PRODUCED AND DISTRIBUTED

Fire safety is a major issue in Bangladeshi garment factories. Poor electrical installations and bad maintenance often create significant fire hazards. We have found that too few resources are available at the Fire Safety Civil Defense authority to ensure that fire safety licences are up-to-date. We have raised this concern with the Bangladeshi Government and engaged the Bangladeshi University of Engineering and Technology and a specialist consultant to assess the electrical installation in two factories. These assessments will be finalised in Spring 2012. We have produced two training films to increase fire safety awareness amongst employees at all levels in garment factories. We contacted various other brands in September 2011 and together with 18 of them, we launched this training module in collaboration with the most important employer associations in the sector (BGMEA and BKMEA), reaching out to all of the approximately 4,500 exporting garment factories in Bangladesh. Accordingly, approximately 3 million workers will

receive the training until 2013. This way, we hope to bring improvements in fire safety across the entire Bangladeshi garment industry.

✍ hm.com/beyondmonitoring

✍ thedailystar.net/newDesign/news-details

18

BRANDS JOINED
FORCES FOR BETTER
FIRE SAFETY

3m

WORKERS
TO BE TRAINED
ON FIRE SAFETY



CONSCIOUS ACTIONS

FACILITATE PERFORMANCE IMPROVEMENTS AT ACCESSORIES SUPPLIERS IN CHINA

TIMESCALE: ONGOING

STATUS SNAPSHOT: 61 FACTORIES IN CHINA PART OF DEDICATED PROGRAMME

Another of our capacity-building projects has focused on accessories factories in China. Its aim is to improve compliance with our requirements in this sector, which is less frequently subject to audits from retail brands and often has a high level of chemical usage. The programme has identified the areas in which remedial work is necessary to enable factories in the sector to comply with H&M's requirements, such as environment, health and safety and workers' rights. Building on the intensive training programme that has been running since 2008, we organise an annual 'fair', where carefully selected consultants offer their services in areas such as workers' basic rights, HR, contracts, grievance procedures, forced labour, EHS and discrimination.

Our audit results show that participating factories improved performance more than non-participating ones. This clearly indicates the impact that capacity-building can have and that is why we see it as a key element of our strategy, alongside audits and management system analysis.

2.13 PARTICIPATING ACCESSORIES FACTORIES



ICoC score on related requirements 2008 vs 2011 and participating vs comparable non-participating factories (both in China).



CONSCIOUS ACTIONS

INCREASE WORKERS' AWARENESS OF THEIR RIGHTS

TIMESCALE: ONGOING

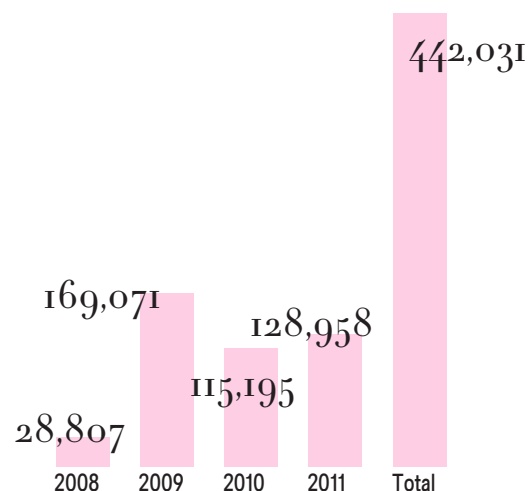
STATUS SNAPSHOT: MORE THAN 440,000 WORKERS EDUCATED

Often, workers in supplier factories are themselves unaware of their rights and how to claim them. In 2008, we teamed up with suppliers and local NGOs in Bangladesh to develop a series of five short films and training packages in order to increase this awareness. During 2011, we continued to distribute the films to all new supplier factories, and also shared the material with other brands. 128,958 workers and middle managers were trained in 2011 alone and, since the start of the project, some 440,000 workers and middle managers received this training. 84% of all factories producing for H&M in Bangladesh are now using the films as part of their worker training programme. Due to its success, during 2012, we plan to produce and implement similar films in India alongside the NGO Solidaridad.

☑ hm.com/beyondmonitoring

☑ hm.com/monitoring

2.14 NUMBER OF WORKERS TRAINED PER YEAR
AND ACCUMULATED 2008-2011



CONSCIOUS ACTIONS

PROMOTE BETTER SOCIAL DIALOGUE IN THE GARMENT INDUSTRY IN BANGLADESH

TIMESCALE: 2013

STATUS SNAPSHOT: CONFERENCE HELD WITH BROAD ATTENDANCE OF RELEVANT ACTORS;
TRAINING PROGRAMME FOR SELECTED SUPPLIERS STARTED

At H&M, we believe that social dialogue is a key element of successful and stable business operations – both for ourselves and for our suppliers. However, many of the countries our suppliers are located in lack systems of social dialogue, such as collective negotiations on wages and working conditions. In Bangladesh in particular, this has in the past lead to violent unrest and instability. With help of a comprehensive training programme, we have selected suppliers to develop best practice examples of social dialogue at individual factories. The training, conducted by consultants from Just Solutions, will, amongst other things, lead to the democratic election of functioning worker participation committees. The project is part of H&M's Bangladesh Development Plan.

📄 hm.com/beyondmonitoring

📄 hm.com/bangladeshplan

“Through our participation in the social dialogue project, I strongly believe that we will contribute to stabilising the dialogue between the management and the workers.”

Rubana Huq, Managing Director
at MG Shirtex Ltd., Bangladesh

ASSESS WAGE STRUCTURES AT SUPPLIER FACTORIES AGAINST FAIR WAGE CONCEPT

TIMESCALE: 2012

STATUS SNAPSHOT: 200 FACTORIES BEING ANALYSED BY INDEPENDENT AUDITORS

For many years, we have required all our suppliers to pay their employees the wages they are entitled to, by law or through other applicable standards such as collective bargaining agreements. However, we also want to play a role in ensuring that these wages are fair. That is why in 2011 we joined the Fair Wage Network and initiated an independent evaluation of wage structures at about 200 supplier factories that together produce more than 50% of our products. The concept of a 'Fair Wage' takes into account living costs, profitability and whether or not wages are set through negotiations. Assessments are being conducted by independent auditors of the Fair Labor Association (FLA) at the beginning of 2012. We expect the data to provide us and our suppliers with helpful knowledge to further address this complex and important issue.

📄 hm.com/fairwages

📄 fair-wage.com

📄 fairlabor.org

CONSCIOUS ACTIONS


SUPPORT IMPROVEMENTS IN WORKPLACE HEALTH & SAFETY AND COMMUNICATION SYSTEMS IN CAMBODIA

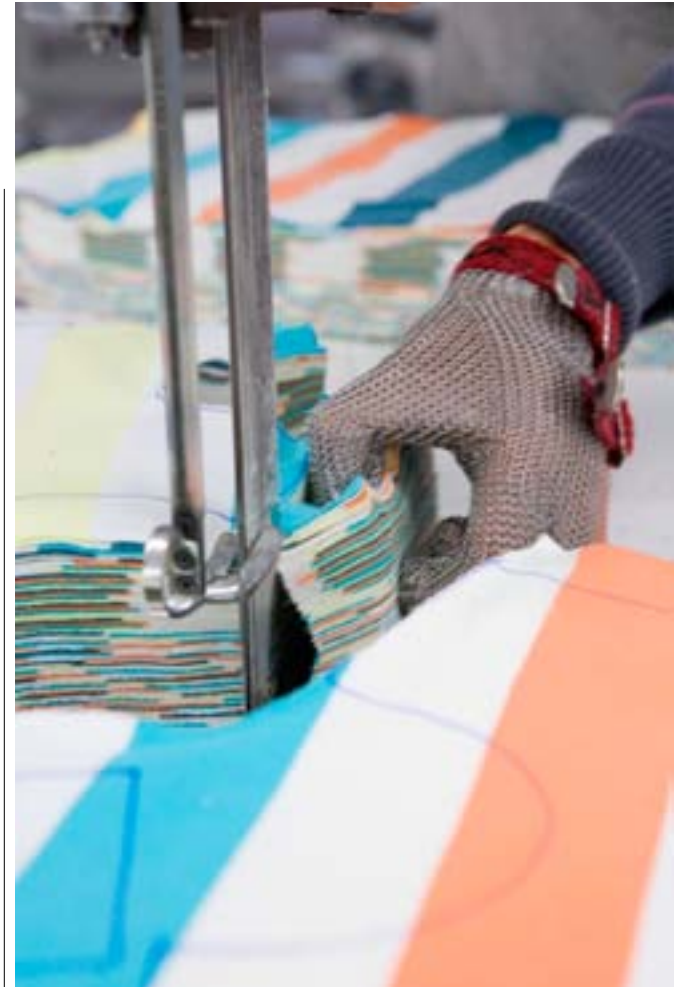
TIMESCALE: ONGOING

STATUS SNAPSHOT: FACTORY ACTION PLANS FOLLOWED-UP, INDUSTRY WIDE ACTION PROMOTED

During the summer and autumn of 2011, incidents of mass illness occurred in ten Cambodian garment and footwear factories, of which five factories were producing for H&M, among others. In order to understand the underlying reasons for these worrying incidents, H&M appointed external experts to evaluate these factories. The challenge has been to find out why these incidents happened only in Cambodia and at factories producing different kinds of products, which made it difficult to find a pattern. The investigation reports do not point out one single reason or explanation. Instead, they identified a number of improvement opportunities, as well as a lack of communication between managers and workers, some of which was due to language barriers. In line with the recommendations from these reports, the concerned factories developed dedicated action plans and improvements have been achieved in cooling, ventilation and chemical handling. In other areas, including grievance handling and the creation of Health & Safety committees that involve workers, further progress is needed. We continue our work to

also address this issue at an industry level through our close relationship with the ILO-BFC Program and with other concerned stakeholders across Cambodia. Furthermore, we continue working on a thorough action plan in order to find lasting solutions to this complex challenge throughout the sector.

 justmeans.com/reports



CONSCIOUS ACTIONS

CONTINUE TO PROMOTE IMPROVEMENTS IN THE UZBEK COTTON INDUSTRY

TIMESCALE: ONGOING

STATUS SNAPSHOT: PLEDGE SIGNED TO NOT INTENTIONALLY USE UZBEK COTTON

H&M does not accept underage workers being used anywhere in our value chain, including in cotton cultivation. The global cotton supply chain is often complex and we do not have direct business relations with cotton producers, but we are nevertheless constantly addressing the issue of forced child labour in the Uzbek cotton industry. In 2011, together with about 60 other brands, NGOs and others, we signed a pledge facilitated by the Responsible Sourcing Network committing us not knowingly to use Uzbek cotton. We are working continuously to improve the traceability of the cotton used for our products. While our systems continue to evolve, we aim for all cotton to come from more sustainable, fully traceable sources by 2020 at the latest. At the same time, we have worked to influence relevant policy-makers. In 2011, the European

parliament rejected a trade deal that would have made it easier for Uzbekistan to export textiles to Europe. We continue to welcome political efforts that can help to end the use of child labour in Uzbekistan.

📄 hm.com/cotton

📄 sourcingnetwork.org

CONTINUE TO PROMOTE BAN ON SANDBLASTING AMONG OTHER BRANDS

TIMESCALE: ONGOING

STATUS SNAPSHOT: BAN ON SANDBLASTING FOR OUR PRODUCTION IN PLACE SINCE 2010

Sandblasting is a technique used to create worn looks, mainly on denims. But without the use of sufficient protection equipment it can be hazardous for workers. In 2010, H&M, together with Levi's, introduced a ban on the use of sandblasting in our supply chains, having already enforced strict safety requirements since 2006. To further eliminate the use of this technique in our industry, we support the international union ITGLWF in their work to encourage more brands to follow our example. We also continue to audit safety requirements for sandblasting facilities in factories that produce for H&M, even though they are no longer permitted to use these facilities for H&M production. More and more of these factories are deciding to replace sandblasting with safer alternatives, such as manual scraping or laser techniques.

📄 hm.com/sandblasting

📄 itglwf.org

CONSCIOUS ACTIONS

ADDRESS THE ISSUE OF SUMANGALI SCHEMES IN THE INDIAN TEXTILE INDUSTRY THROUGH COLLABORATIVE ACTION

TIMESCALE: ONGOING

STATUS SNAPSHOT: TIRUPUR EXPORTER ASSOCIATION (TEA) REQUESTED ALL MEMBER COMPANIES TO BOYCOTT SPINNING MILLS WITH SUMANGALI SCHEMES

Sumangali schemes are a form of forced labour that involves young women being sent from their home villages usually to work in spinning mills. In Tamil, ‘sumangali’ refers to an unmarried girl becoming a respectable woman through marriage. In return for their work the women and their families are promised a dowry at the end of a three-year contract. H&M views sumangali schemes as absolutely unacceptable and not compliant with the minimum requirements of our Code of Conduct. We address the issue with our suppliers and monitor the existence of any kinds of forced labour through our audit programme. However, as sumangali schemes occur mainly in spinning mills, which are usually second-tier suppliers, we do not have direct contractual influence. We therefore work to address this issue through collaborative actions and public policy.

In 2011, we joined an Ethical Trade Initiative (ETI) project, which coordinates efforts by the industry and by local stakeholders, such as Tirupur People’s Forum (TPF) and Tirupur Stakeholder Forum (TSF). As a result, Tirupur Export Association (TEA) has requested that their members boycott spinning mills where such schemes are in operation.

📄 hm.com/beyondmonitoring



OUR SUPPLY CHAIN DATA AT A GLANCE

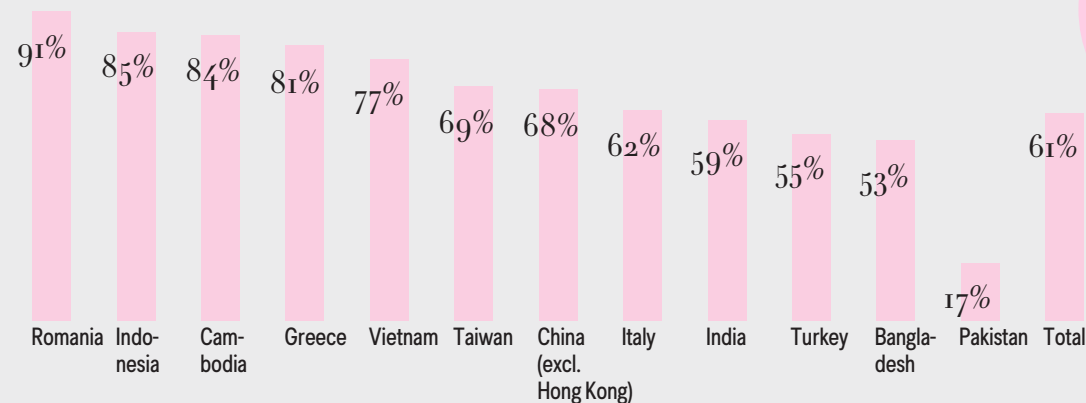
As we strive to be as transparent as possible, on the following pages we present an overview of data from our supply chain and our supplier Full Audit Programme.

Based on estimates from information submitted by our suppliers, globally 61% of the employees at our supplier factories are women. This represents about 700,000 in total.

In 2011 we worked with 747 suppliers. Out of these, 150 are long term strategic partners. 58% of all pieces ordered were placed with these partners.

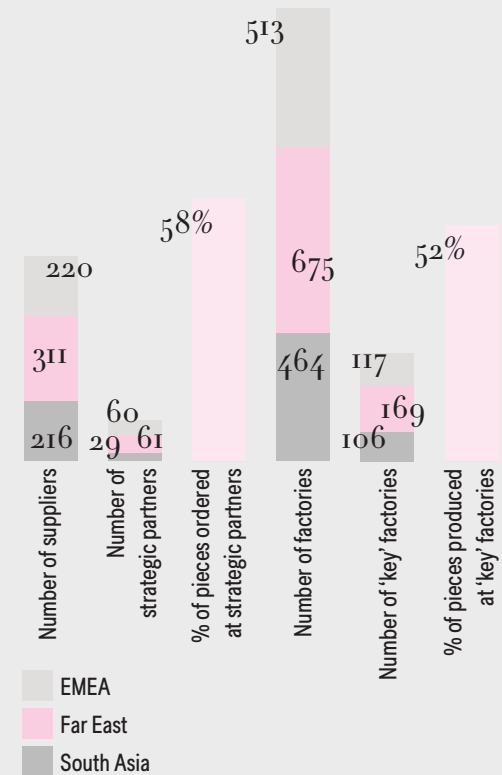
Each of our suppliers may own or subcontract multiple factories. This means that, globally, 1,652 factories were approved for making goods for the H&M Group. 392 of these were considered 'key' factories, representing 52% of the ordered pieces. These key factories show an above average sustainability performance (see graph 2.20, p46).

2.16 % FEMALES IN SUPPLIER FACTORIES IN SELECTED COUNTRIES



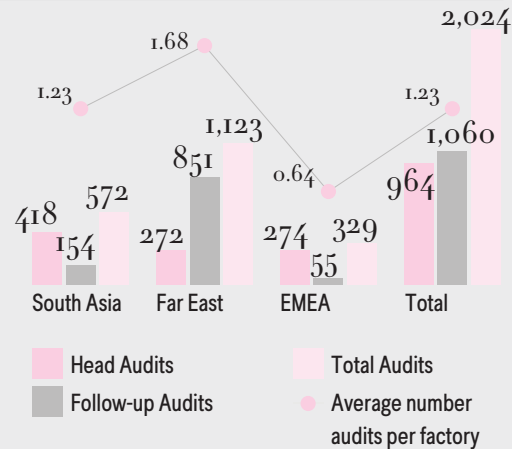
61%
OF THE EMPLOYEES
AT OUR SUPPLIER
FACTORIES
ARE WOMEN

2.15 SUPPLIERS AND FACTORIES



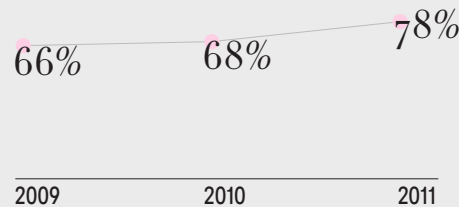
OUR SUPPLY CHAIN DATA AT A GLANCE

2.17 HEAD AUDITS AND FOLLOW-UP AUDITS PER REGION



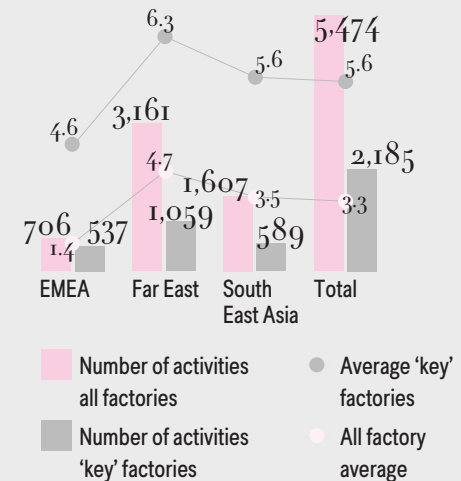
We conducted a total of 2,024 audits in 2011. Most of these were follow-up audits in the Far East region. Most head audits were conducted in the South Asia region. The average number of audits per factory increased to 1.23 (2010: 1.14).

2.18 % OF HEAD AUDITS THAT WERE UNANNOUNCED



Our ambition is that as many head audits as possible should be unannounced. Over the last two years, the ratio of unannounced head audits increased from 66% to 78%.

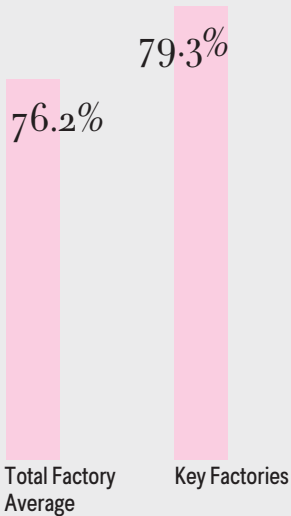
2.19 SUSTAINABILITY ACTIVITIES



We monitor all our supplier factories regularly through audits. We also support them through management system analysis, screenings, workshops or trainings. Together, on average, each factory received such support 3.3 times during 2011. 'Key' factories were on average subject to 5.6 such activities.

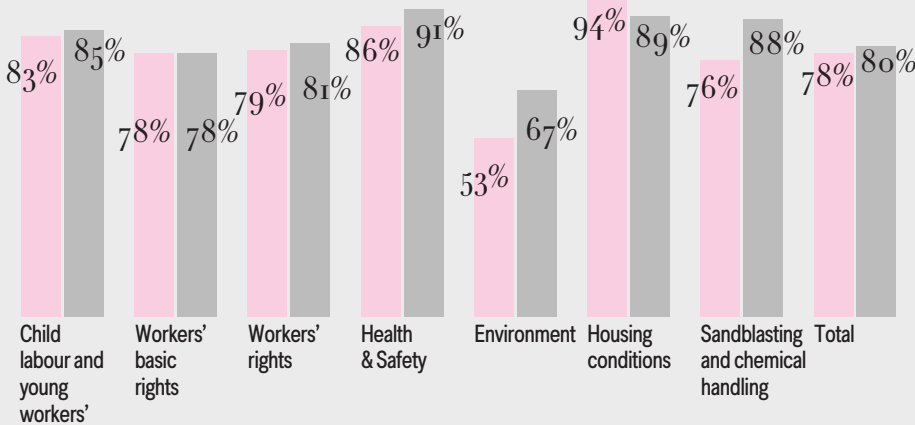
OUR SUPPLY CHAIN DATA AT A GLANCE

2.20 AVERAGE SUPPLIER SUSTAINABILITY SCORE (ICoC)



The average sustainability score (ICoC) among all factories reached 76.2% in 2011. Key factories show above average performance.

2.21 PROGRESS FROM HEAD AUDIT 1 TO HEAD AUDIT 3 PER AREA OF REQUIREMENTS




By the end of 2011 a total of 400 factories (142 in EMEA, 63 in Far East and 195 in South Asia) had completed their third head audit within our Full Audit Programme. One audit cycle takes around 18 – 24 months and includes typically one head audit and three follow ups. The data show that these factories achieved a two percentage point increase in their total compliance during this process. This must be seen in the light of improvements in our audit methods over time, which has an effect on the direct comparability of the results, although we aim

to make the data as comparable as possible. This is particularly the case for workers' basic rights. During 2011, a methodological change has been implemented for this area of requirements in order to improve the detection of instances of non-compliance. As a large number of factories (225) completed their third head audit during 2011 based on this improved methodology, we had expected a decrease in compliance with workers' basic rights and were pleased to see a stabilised level instead.

OUR SUPPLY CHAIN DATA AT A GLANCE

	COMPLIANCE LEVEL FROM 2011 AUDITS ON ALL ACTIVE FACTORIES PER AREA OF REQUIREMENTS			
	EMEA	FAR EAST	SOUTH ASIA	TOTAL
Area of requirements	Compliance	Compliance	Compliance	Compliance
Child Labour and young workers	65%	84%	99%	84%
Workers' basic rights	70%	84%	76%	77%
Workers' rights	76%	62%	83%	75%
Health and safety	76%	73%	81%	78%
Environment	68%	59%	63%	62%
Housing	68%	85%	80%	84%
Home workers	n.a.	32%	n.a.	32%
Sandblasting and chemicals	52%	70%	75%	70%
Metal plating	n.a.	78%	100%	82%
Transparency and monitoring	95%	93%	98%	96%
Grand Total	73%	74%	80%	77%

 Please find details per audit question and further commentary here.

Production countries 2011:

EMEA: Bulgaria, Denmark, Egypt, France, Germany, Greece, Italy, Latvia, Lithuania, Morocco, Netherlands, Poland, Portugal, Romania, UK, Ukraine, Sweden, Tunisia, Turkey

Far East: China (incl. Hong Kong), Cambodia, Indonesia, South Korea, Taiwan, Thailand, Vietnam

South Asia: Bangladesh, India, Pakistan, Sri Lanka

Supplier and factory terminology definitions:

Supplier is an independent company with which H&M has a direct business relationship. Factories are all factories which were approved for production. This includes factories owned or subcontracted by our suppliers.

One supplier may own or subcontract multiple factories. 'Key' factories are factories graded either 'key' or 'selected' in our factory grading system. These factories are identified as best performing factories in various regards, including sustainability and significance to our business. 'Strategic' partners are suppliers graded either platinum or gold in our supplier relation management system.

Second-tier suppliers or factories are the suppliers of our suppliers, such as fabric or yarn manufacturers. In general, H&M has no direct business relationship with actors at this stage of the value chain.



3

COMMITMENT



BE
ETHICAL

3 COMMITMENT BE ETHICAL

To us, being 'ethical' means acting with integrity at all times and in all of our activities. We rely on many thousands of people and hundreds of relationships with other companies and organisations in delivering our business objectives. Whether they are customers, colleagues or business partners, we believe that showing respect towards everyone who contributes to H&M's success is fundamental to our business.

Our ethical approach is firmly rooted in our corporate values. We take a clear stand against all forms of corruption and regard our diversity as an asset. Our employees are key to our success and it's vital for us to retain our committed and talented colleagues, and as we grow to attract even more such people. As a result, we want to ensure that we are a fair partner to them as well as to our suppliers. We, as a minimum, comply with all relevant laws and regulations and, beyond that, aim to act ethically in everything we do.



ANN-CHARLOTTE BERGLIND

**ANN-CHARLOTTE BERGLIND,
EMPLOYEE RELATIONS
MANAGER, H&M
HEAD OFFICE,
STOCKHOLM**

"Being ethical in my daily work is all about creating a positive Employee Relations climate. One that respects and supports the rights of our colleagues. Creating an atmosphere that values each and every person at H&M as our greatest asset is crucial for our success. Engaged employees, fully involved in, and enthusiastic about, their work, will continue to provide our customers with great customer service and help H&M to grow and to employ even more colleagues."

5,434

NEW FULL-TIME EQUIVALENT JOBS CREATED

6 years

AVERAGE LENGTH OF EMPLOYMENT OF OUR FULL-TIME COLLEAGUES

50%

OF OUR BOARD MEMBERS ARE WOMEN

CONSCIOUS ACTIONS

CONTINUE TO CREATE AND CONTRIBUTE TO EMPLOYMENT OPPORTUNITIES

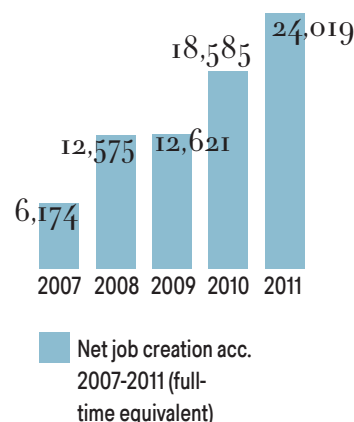
TIMESCALE: ONGOING
STATUS SNAPSHOT: 5,434 NEW FULL-TIME EQUIVALENT JOBS IN 2011

H&M is a growing company. Our aim is to increase our number of stores by 10-15% each year. In 2011 alone, we created more than 5,400 new full-time equivalent jobs net. Over the last five years, our growth has resulted in the net creation of 24,019 full-time equivalent jobs globally. Additionally, our business contributes to job opportunities for more than one million people employed by our suppliers. While the economic climate is challenging in many countries, we are confident that we will create further employment both in our own operations and throughout our value chain.

hm.com/fairpartner

INCREASE
5,434
FULL-TIME EQUIVALENT JOBS
CREATED IN 2011

3.0 ACCUMULATED NET JOB CREATION 2007-2011 (FULL-TIME EQUIVALENT)



9%
GROWTH
IN EMPLOYMENT
IN 2011

INITIATE AN INTERNAL AUDIT PROGRAMME TO MONITOR COMPLIANCE WITH HR RELATED POLICIES AND PROCESSES

TIMESCALE: 2012
STATUS SNAPSHOT: AUDIT METHOD DEVELOPED

For several years, we have had an internal audit system in place to monitor compliance with different internal policies and guidelines in all our in-house operations. Building on this, we have developed a dedicated internal audit procedure for HR-related processes and policies, including training requirements and employee relations policies such as those covering diversity, discrimination and equality. The first audits are planned to be completed in early 2012.

hm.com/fairpartner

CONSCIOUS ACTIONS

IMPLEMENT NEW GLOBAL ANTI-HARASSMENT POLICY

TIMESCALE: 2012

STATUS SNAPSHOT: POLICY UNDER DEVELOPMENT

All our colleagues have the right to work in an environment free of harassment. To emphasise this, in 2011 we initiated the development of a globally-applicable anti-harassment policy. We plan to finalise the policy in 2012 and communicate it to all colleagues. We intend to make this policy, as well as all other relevant policies, part of our mandatory induction process for all new employees within the H&M Group. Compliance with the policy in our different subsidiaries will be promoted through our new dedicated HR audit procedure.

📄 hm.com/fairpartner



DEVELOP AND IMPLEMENT A GLOBAL TRAINING SYSTEM

TIMESCALE: 2013

STATUS SNAPSHOT: TRAINING SYSTEM DEVELOPED AND FIRST TESTS SUCCESSFULLY CONDUCTED

We want our colleagues to feel valued and to give them the opportunity to grow and develop within H&M. As we grow, we need to ensure that our training is of a consistent quality worldwide while also taking into account diverse local needs. Therefore, we have strengthened our global training organisation and developed a global learning management system called 'GROW'. Among other benefits, the system allows all our employees globally to access e-learning courses and relevant information about training within the H&M Group. It also serves as a course booking facility for instruction-led training sessions (ILT) and a library for mandatory and optional training courses, including education on sustainability. All of the courses are made up of modules suited to different needs. We use various training techniques, including ILT, which is classroom-based, and self-study with e-learning tools, which is carried out either at the workplace or from home. The system will go live during 2012 and the implementation will continue into 2013.

📄 hm.com/training



CONSCIOUS ACTIONS

ENSURE BEST POSSIBLE WORKPLACE SAFETY

TIMESCALE: ONGOING
STATUS SNAPSHOT: 3,684 EVACUATION TRAINING SESSIONS ARRANGED

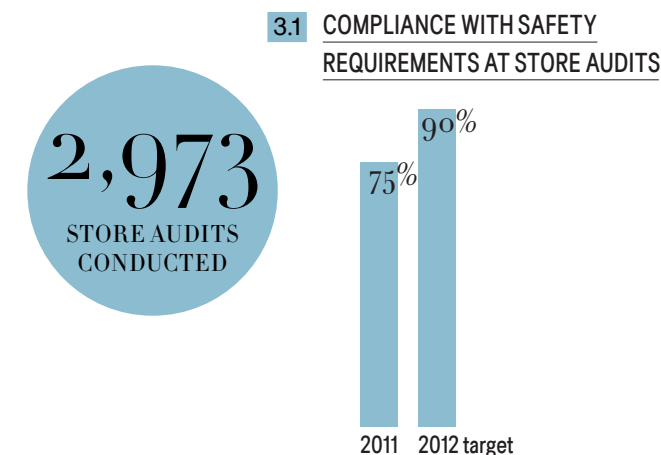
We want to create a pleasant working environment throughout our operations. This includes ensuring that our employees are safe. Where accidents and occupational illness are a risk, measures must be taken to prevent them. All employees working at H&M have a responsibility for safety, so training is vital. We need to ensure that 100% of our employees are trained from the beginning of their employment. This is why we will start integrating our security and safety training into our digital Learning Management System during 2012.



INCREASE COMPLIANCE WITH SAFETY POLICIES IN OUR STORES TO 90%

TIMESCALE: 2012
STATUS SNAPSHOT: 75% COMPLIANCE

Over recent years, we have worked to strengthen the collection of safety-related data from our global business units. To minimise the risk of accidents, we conduct yearly audits in all our stores. As part of this, the auditor helps stores to make action plans to reach our standards for a safe working environment. We are targeting a compliance level of 90% by the end of 2012.



CONSCIOUS ACTIONS

PROTECT CUSTOMER AND EMPLOYEE DATA

TIMESCALE: ONGOING

STATUS SNAPSHOT: 894 TRAINING SESSIONS ON INFORMATION SECURITY

As a major retailer, H&M does hold data about both our customers and our employees. This includes data used in our mail order operations. Many stakeholders are increasingly concerned about data security risks. H&M sets a high standard in protecting personal privacy. Our data security standard stipulates, among other things, that:

- Personal data shall be processed only for the purpose for which the information is collected
- No more personal data is processed than is necessary with regard to the purpose of the processing
- The personal data processed is correct and, if necessary, up-to-date
- All reasonable measures are taken to correct, block or eliminate incorrect data
- The personal data shall not be kept longer than necessary
- Personal data shall be protected from unauthorised use/processing.

Collection and protection of personal data by our subsidiaries throughout the world must comply with relevant national standards and legislation. Employee data that is handled at Group level (through H&M Hennes & Mauritz AB), such as data included in our global training system, as well as by all Sweden-based subsidiaries, needs to comply with all related Swedish legislation.

📄 hm.com/privacypolicy



ENSURE COMPLIANCE WITH OUR CODE OF ETHICS

TIMESCALE: ONGOING

STATUS SNAPSHOT: APPROXIMATELY 100% OF CONCERNED EMPLOYEES SIGNED THE CODE

As well as requiring our external business partners to sign up to our Code of Ethics, we have made it mandatory for all our employees globally who are in contact with business partners to do so too. Based on an assessment of our entire business, central office positions have been identified as carrying higher risks. In 2011, approximately 100% of all employees in concerned positions and around 90% of all our business partners had signed the Code and most of them have received related training. We will continue to focus on implementation and training. During 2011, we conducted six related internal audits to verify that sufficient monitoring processes are in place in all our business units. During 2011, we handled seven incidents of non-compliances, of which five led to terminations and two to formal written warnings.

📄 hm.com/codeofethics

CONSCIOUS ACTIONS

RAISE AWARENESS OF OUR CODE OF ETHICS AMONG ALL OUR EMPLOYEES

TIMESCALE: END OF 2012

STATUS SNAPSHOT: TRAINING FOR LOWER RISK CATEGORY EMPLOYEES DEVELOPED

Based on our risk assessment, our Code of Ethics is mandatory only to employees in contact with business partners, however we aim to create broader awareness among all employees about our policy. By the end of 2012, 100% of all employees defined as lower risk (e.g. sales advisors in our stores) should have received dedicated information. In order to ensure that new employees receive the same information, we have made it a mandatory element of their induction process.

📄 hm.com/codeofethics



OUR COLLEAGUES' DATA AT A GLANCE

On the following pages, we present an overview of data relating to our colleagues around the world.

29
YEARS IS THE
AVERAGE AGE OF
OUR COLLEAGUES

63%
OF OUR COLLEAGUES
ARE COVERED BY
COLLECTIVE
BARGAINING
AGREEMENTS

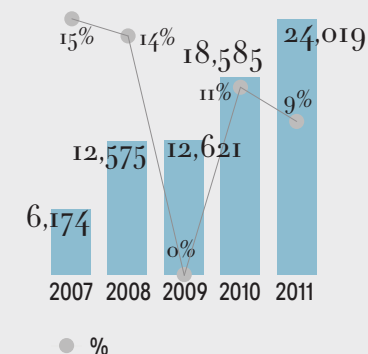
3.2 NUMBER OF EMPLOYEES 2006-2011



The H&M Group keeps growing and creating new jobs, both in total as well as in full-time equivalents.

MORE THAN
94,000
EMPLOYEES
(2010: 87,000)

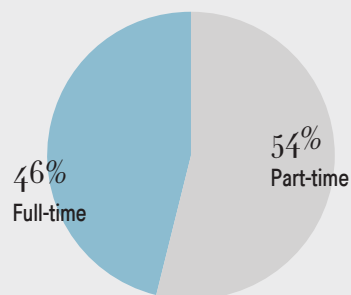
3.3 ACCUMULATED NET JOB CREATION 2007-2011 (FULL-TIME EQUIVALENT)



Over the last five years, our growth created a net job contribution of accumulated 24,019 full-time equivalent jobs globally. This amounts to an average net creation of more than 4,800 jobs or 10% per year.

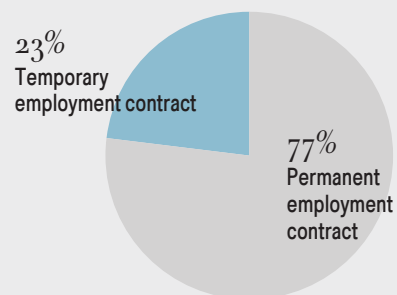
OUR COLLEAGUES' DATA AT A GLANCE

3.4 RATIO FULL-TIME VS PART-TIME EMPLOYEES 2011



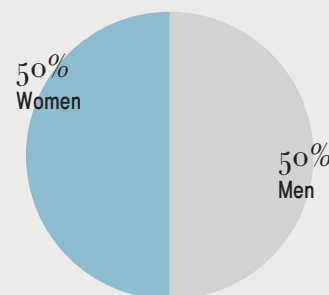
54% (2010: 60%) of our employees work part time and 46% (2010: 40%) full time. Full-time and part-time positions are defined according to applicable national or local standards. Part-time positions are often occupied by students or parents.

3.5 RATIO PERMANENT VS TEMPORARY EMPLOYMENT CONTRACTS 2011



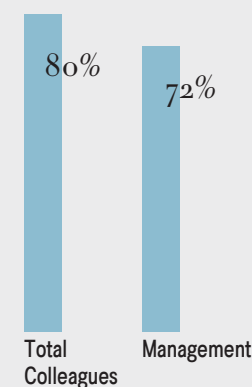
77% (2010: 79%) of our employees have permanent employment contracts, 23% (2010: 21%) temporary ones. This includes replacements during parental leave or other kinds of leave.

3.6 RATIO MEN VS WOMEN AT BOARD OF DIRECTORS



While we do not follow a formal quota, our Board of Directors is equally split between women and men (five women and five men, including two female employee representatives).

3.7 RATIO OF FEMALES



80% of all our colleagues are women, and they also represent 72% of our management positions (from store managers to CEO).





4

COMMITMENT



BE CLIMATE SMART

4

COMMITMENT

BE CLIMATE SMART

Climate change is one of the major challenges of our time. As much as any other organisation or individual on the planet, we have an interest in taking action to tackle this, and also a responsibility to do so.

The nature of our core business means that we consume energy for transport and electricity. We strive to be as energy efficient as possible and to ensure that an ever-greater proportion of our energy comes from renewable sources.

In the long term, we aspire to contribute to more greenhouse gas reductions globally than our operations emit. To achieve this aspiration we need to use our influence to raise awareness and encourage action on climate change well beyond the scope of our direct operations.

We are developing and supporting emissions reduction initiatives – by working with transport providers and supplier factories, by raising awareness among the general public and by lobbying governments for stricter legislation.

We want to inspire our customers to play their own role in reducing the climate impact of buying and using our products.



HIDEAKI TAKAMI

**HIDEAKI TAKAMI,
REGIONAL
LOGISTICS
CONTROLLER –
ASIA, HONG KONG**

“Today, H&M’s logistics are on a global scale with a high level of complexity. Transporting goods can have a big climate impact. My work is to collect necessary information to support and encourage all our logistics sites to be as efficient as possible, save energy, and minimise climate impacts. I believe that being climate smart can be achieved by good team work and by making sure that everyone who can play a role in reducing our emissions is well informed about how to do so. I’m happy to be a part of this.”

-11%

ENERGY USE
PER SQUARE METRE
IN STORE
SINCE 2007

OVER
80%

OF VOLUMES
SHIPPED FROM OUR
SUPPLIERS TO OUR
DISTRIBUTION CENTRES
BY SEA OR RAIL

3.16

TONNES CO₂e
PER MILLION
SEK OF SALES
(2010: 3.33 TONNES)

CONSCIOUS ACTIONS

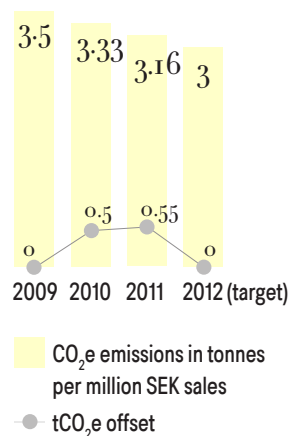
REDUCE DIRECT GREENHOUSE GAS EMISSIONS BY 5% RELATIVE TO SALES

TIMESCALE: EACH YEAR UNTIL 2012
STATUS SNAPSHOT: ACHIEVED

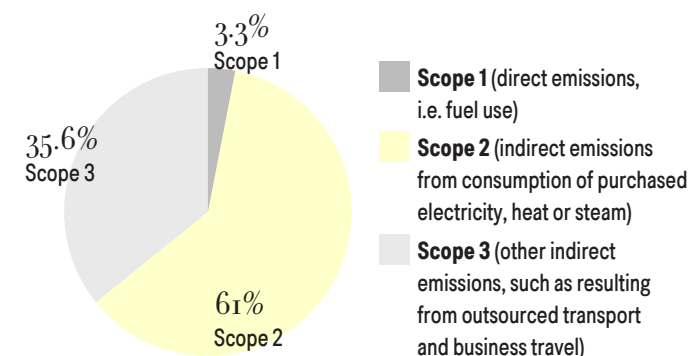
In 2011, we achieved our target for a 5% reduction in emissions through offsetting. CO₂-e emissions per million SEK sales were 3.16 tonnes (2010: 3.33). The reduction was achieved through reducing the transportation of goods via air by 32%, through improved energy efficiency in our stores and by offsetting using Gold Standard verified carbon reduction projects. During 2011, H&M began using an energy and resource management software system which is enabling major advances in environmental data collection and analysis. For consistency and comparability of our climate impact year on year, we have applied the new system to our climate results back to 2009, our baseline year. The result is a slight shift in the base year intensity (from 3.38 to 3.50 tCO₂e/MSEK sales), but the trajectory of climate target remains a minimum 5% reduction year on year.

hm.com/climate

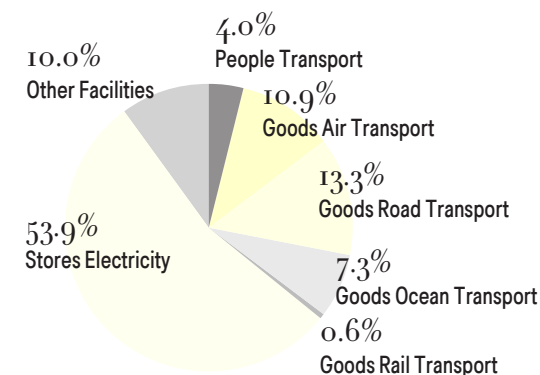
4.0 CO₂-e EMISSIONS IN TONNES



4.1 2011 CO₂ BY SCOPE



4.2 2011 CO₂ BY EMISSIONS SOURCE



CONSCIOUS ACTIONS



“By supporting Gold Standard carbon reduction projects, H&M is mitigating climate change and benefiting communities around the world. The support of H&M makes clean energy available in growing economies to displace the use of fossil fuels, as well as providing additional benefits at the project sites, such as employment for residents, improved air quality, and support for local schools.”

Jonathan Shopley, Managing Director,
The Carbon Neutral Company

-5%
IN RELATIVE
CO₂-E EMISSIONS

41

FACTORIES PARTICIPATING
IN SUPPLIER ENERGY
EFFICIENCY PROGRAMMES

100%
OF OUR TRANSPORT
PARTNERS IN THE
US AND CANADA
ARE SMARTWAY
REGISTERED

CONSCIOUS ACTIONS

REDUCE ENERGY USE IN STORES BY 20% PER SQUARE METRE, COMPARED TO 2007

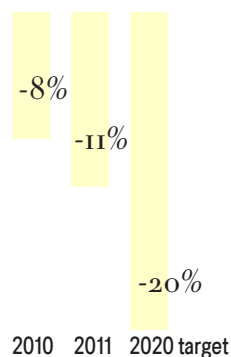
TIMESCALE: BY 2020

STATUS SNAPSHOT: 11% REDUCTION IN ENERGY USE PER STORE SQUARE METRE

Our target for energy efficiency is to reduce store energy use per store square metre by 20% by 2020, against a 2007 baseline. With an 11% reduction achieved by 2011, we are on track to achieve this target. Total energy use has been reduced in newly built and rebuilt stores through the implementation of environmental guidelines for new stores. Reductions in existing stores are the result of a constant management focus on energy efficiency.

 hm.com/climate

4.3 REDUCTIONS OF ENERGY USE PER STORE SQUARE METRE (2007 BASELINE)



USE LED LIGHTS FOR ALL STORE SIGNS AT NEW STORES

TIMESCALE: BY 2011

STATUS SNAPSHOT: ALL NEW STORES EQUIPPED WITH LED STORE SIGNS

LED lights save up to 75% of energy use compared to neon lights. In 2011 we have made it a requirement to use LED lights for logo signs in all newly built stores. We estimate that this shift during 2011 alone has made possible a reduction of about 470 tonnes CO₂e – equivalent to the emissions caused by the electricity use of about 60 households in one year. We plan to gradually replace the signs across all our stores as these are rebuilt or refurbished.

 hm.com/energy

CONSCIOUS ACTIONS

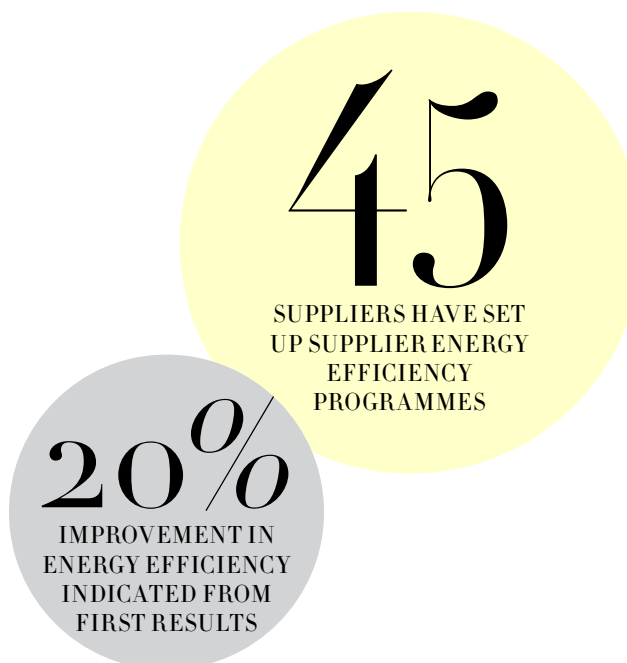
PROMOTE ENERGY EFFICIENCY IN OUR SUPPLY CHAIN

TIMESCALE: 2012 AND BEYOND
STATUS SNAPSHOT: 41 FACTORIES PARTICIPATING

At H&M, we recognise that our climate responsibility extends not only to our direct emissions and those of our energy providers, but also to those emissions that are created in the manufacturing and distribution of the goods that we sell. During 2010, we worked with business partners to set up Supplier Energy Efficiency Programmes in a number of our production countries. The programmes connect supplier factories to energy service companies to identify potential efficiency gains and provide support for developing action plans to take advantage of these. Our target is to include 100–120 factories within these programmes by 2012. By 2011, 45 factories in China, Bangladesh, India and Turkey had undergone (14) or started (31) this process. During 2011, we developed data baselines for participating factories and we will evaluate their performance against these during 2012. Already, the first data indicate energy efficiency improvements of around 20%. They also highlight the importance of improving energy efficiency at this stage of our

product life cycle as they indicate that the 45 factories participating so far alone emit a similar amount of CO₂ to all our c. 2,500 stores.

📄 hm.com/energy



SOURCE AT LEAST 20% OF OUR ENERGY FROM RENEWABLE SOURCES

TIMESCALE: 2020
STATUS SNAPSHOT: OWN PHOTOVOLTAIC INSTALLATION GENERATES ABOUT 705,000 KWH

Sourcing more electricity from renewable sources is a key target, but it remains difficult to monitor progress in achieving it because of the lack of a robust framework for defining what qualifies as renewable energy.

We are working with a range of stakeholders, including the European Retail Round Table (ERRT) and its members, the World Resources Institute (WRI) and the Carbon Disclosure Project (CDP), to find a consensus on how to define, measure and report on renewable energy use. Despite this uncertainty, we have made investments to help us move towards this target. For example, photovoltaic solar panels have been installed at our distribution centres in Germany and Belgium. In 2011, both generated approximately 705,000 kWh of solar energy – enough to supply about 130 average European households with energy for one year.

📄 hm.com/climate

CONSCIOUS ACTIONS

TRANSPORT AS MANY GOODS AS POSSIBLE VIA ENVIRONMENTALLY PREFERABLE MODES

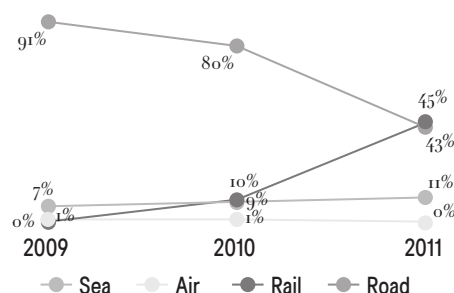
TIMESCALE: ONGOING

STATUS SNAPSHOT: MORE THAN 80% OF ALL GOODS SHIPPED VIA SEA OR RAIL FROM SUPPLIERS

In 2011, more than 80% of the volumes we transported were shipped from suppliers to our distribution centres via sea or rail. As an example of how we work, we are increasingly shifting from road to rail when moving goods from Turkey, an important sourcing market, to our European sales markets. On the routes from Turkey to our Asian sales markets, we have also worked to limit air transport and use ocean carriers instead. Graph 4.4 shows progress to date in making this shift. For the first time, in 2011 most of the goods coming from Turkey were transported by rail. Air transport has been almost completely avoided. Given this positive development, we will continue working to shift transport to environmentally preferable modes wherever possible.

hm.com/transport

4.4 RATIO OF VOLUMES SHIPPED (m³) PER MODES OF TRANSPORT FROM TURKEY 2011



ENCOURAGE ALL OUR MAIN ROAD CARRIERS IN NORTH AMERICA TO BECOME SMARTWAY PARTNERS

TIMESCALE: 2011

STATUS SNAPSHOT: 100% OF CORE ROAD CARRIERS ARE NOW SMARTWAY PARTNERS

Where road transport has to be used, we aim to limit emissions as much as possible. SmartWay is a programme 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 from their fleets. In 2011, all of our core road carriers in the US and Canada were registered as SmartWay partners, up from 70% in 2010.

hm.com/transport

epa.gov/smartway

CONSCIOUS ACTIONS

PROMOTE THE DEVELOPMENT OF A SMARTWAY EQUIVALENT SYSTEM IN EUROPE

TIMESCALE: ONGOING
STATUS SNAPSHOT: DISCUSSION ONGOING

Alongside other companies, in 2010, we started promoting the possibility of setting up a programme in Europe similar to the SmartWay programme in the US. We strongly believe in the concept and feel that there is a need for such a programme. Future implementation in Europe would replace the ERRT WayAhead initiative, which we currently promote among our carriers in Europe.

📄 hm.com/transport

ENCOURAGE ALL OUR CORE CARRIERS IN EUROPE TO BECOME WAYAHEAD REGISTERED

TIMESCALE: 2012
STATUS SNAPSHOT: IN MOST COUNTRIES ACHIEVED

Until a SmartWay equivalent is developed in Europe, WayAhead, which we developed in collaboration with members of the European Retail Round Table (ERRT), remains the best tool for evaluating European truck carriers' environmental performance. Since 2010 we have used it to communicate our minimum requirements for transport service providers and to evaluate their compliance. By the end of 2011, our transport partners in most European countries were registered. We are confident that our carriers in the few remaining countries will be registered during the 2012 tender processes.

📄 hm.com/transport

📄 way-ahead.org

PROMOTE THE CLEAN SHIPPING INDEX AMONG OUR OCEAN CARRIERS

TIMESCALE: 2011
STATUS SNAPSHOT: ALL SHIPPING PROVIDERS ARE NOW REGISTERED

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 promote 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 scores their performance. Originally limited to Sweden, the Index was launched Europe-wide in 2010. Registration in the Clean Shipping Index was made a minimum requirement for our core ocean carriers in 2010. Since 2011, all our shipping providers have been registered and submitted the requested data. We have now made it a requirement that data for at least two of their registered vessels must be third party verified.

📄 hm.com/transport

📄 cleanshippingproject.se



5

COMMITMENT



REDUCE,
REUSE,
RECYCLE

5
COMMITMENT
REDUCE,
REUSE,
RECYCLE

Offering our customers fashion and quality at the best price means that we need to keep unnecessary costs down. Making the most of the resources we buy and avoiding waste at every stage of our value chain is central to this. This resource efficiency also helps us to minimise the negative environmental impact of our operations.

Manufacturing waste, transport and product packaging, shopping bags, shop fittings and construction waste from building new stores are all sources of waste generated across our operations.

We want to reduce, reuse or recycle wherever possible. Our ultimate aim is to send zero waste to landfill.

However, at H&M we believe that our commitment to waste reduction should go beyond this. We also want to use our position as a major retailer to help our customers and business partners to reduce the waste that they generate.



DAVID ROSTRON

DAVID ROSTRON,
BUILDING
CONTROLLER
H&M UK AND
IRELAND, LONDON

“Helping the environment is a personal thing to me, but being a part of H&M allows me to contribute to a team effort with much wider impact. As building controller, I can combine cost savings with sustainability goals such as increasing recycling rates for operational and construction waste or reducing the electricity use in all stores. As part of my role I also work with experts to identify how we can reduce both the operational and embedded carbon of our stores. Reducing our impact on the environment makes good business sense – but it’s also something we have to do as human beings before future generations pay the price. Being part of a corporation that can and does make a difference means a lot to me.”

USING REUSABLE
BOXES FOR
TRANSPORT TO OUR
STORES SAVES

400,000

TREES EACH YEAR
COMPARED TO USING
CONVENTIONAL
CARTONS

WE USED
RECYCLED
POLYESTER
EQUIVALENT TO

9.2m
PET
BOTTLES

100%
OF OUR PLASTIC
CONSUMER BAGS ARE
MADE OF RECYCLED
MATERIAL

CONSCIOUS ACTIONS

INITIATE A PILOT PROJECT TO COLLECT WORN GARMENTS FOR RECYCLING IN H&M STORES

TIMESCALE: BY 2011
STATUS SNAPSHOT: PILOT CONDUCTED IN 17 STORES

During 2011, we teamed up with iCollect to initiate a pilot in 17 of our stores in Switzerland to collect used garments from customers for recycling. To encourage our customers to take part in this initiative, we offered an H&M gift voucher for each bag of clothes brought to our stores. We plan to extend this project to all our stores in Switzerland and evaluate opportunities to extend this also to other countries.

📄 hm.com/recycling
📄 ico-spirit.com

DEVELOP A GROUP-WIDE WASTE STRATEGY

TIMESCALE: 2012
STATUS SNAPSHOT: STRATEGY IN DEVELOPMENT

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 circumstances poses a challenge to implementing a consistent Group-wide approach. Our general requirement is that all waste should be reused or recycled, such as transport packaging and hangers. In order to have better knowledge and control over our waste impacts at a Group level, we are currently developing a global waste strategy. As part of this, we are working towards improved reporting on relevant waste indicators.

📄 hm.com/recycling

DRESS MADE FROM RECYCLED CUT REMNANTS



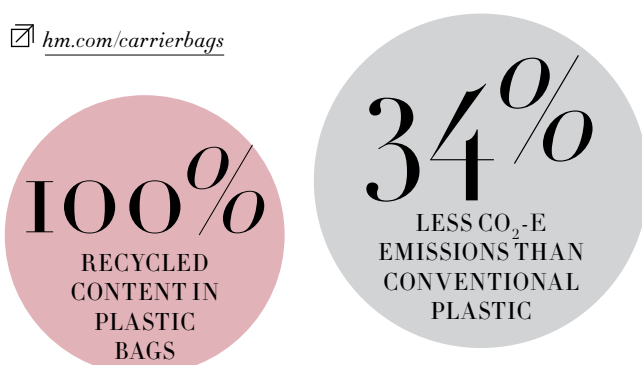
CONSCIOUS ACTIONS

MAKE 100% OF OUR PLASTIC CARRIER BAGS OF RECYCLED MATERIAL

TIMESCALE: 2010
STATUS SNAPSHOT: 100% RECYCLED PE USED

Carrier bags can cause a lot of waste. In order to determine the best environmental choice for our consumer bags, we conducted an in-depth life-cycle analysis comparing various materials. This showed that recycled plastic is the best available choice, with lower environmental impacts than paper. That is why we have switched to a recycled material for all of our standard plastic consumer bags. Since 2010, they have been made from 50% post-consumer and 50% pre-consumer recycled polyethylene (PE). This change has led to estimated savings in CO₂-e emissions of approximately 34% relative to conventional plastic.

📄 hm.com/carrierbags



FURTHER PROMOTE INNOVATION AND THE USE OF RECYCLED FABRICS

TIMESCALE: ONGOING
STATUS SNAPSHOT: RECYCLED POLYESTER EQUALLING 9.2 MILLION PET BOTTLES USED

We use a range of recycled materials to make some of our clothes, for example recycled cotton, recycled wool and recycled polyester. Recycled polyester is often made of PET plastic bottles. The amount that we used in 2011, equates to more than 9.2 million such bottles. While further innovations will be needed to help recycled materials play a bigger commercial role, we believe that we can support this process by driving demand and thereby encouraging further innovations.

📄 hm.com/consciousmaterials



OUR PLASTIC CARRIER BAGS; NOW 100% RECYCLED

CONSCIOUS ACTIONS

MINIMISE TRANSPORT PACKAGING

TIMESCALE: ONGOING

STATUS SNAPSHOT: REUSABLE TRANSPORT BOXES SAVE MORE THAN 400,000 TREES COMPARED TO STANDARD PAPER CARTONS

For many years, we have worked to use as little transport packaging as possible. This helps us to limit both our environmental impacts and our costs. When we send the garments from our distribution centres to our stores, we use reusable transport boxes instead of cartons. This makes savings of more than 400,000 trees possible compared with using new, conventionally made cardboard boxes for each delivery. We also work to minimise the use of single garment packaging when transporting products from our suppliers to our distribution centres. By 2011, we managed to minimise the use of such packaging to almost zero.

REDUCE WASTE RESULTING FROM CONSTRUCTION OF NEW STORES

TIMESCALE: ONGOING

STATUS SNAPSHOT: GUIDANCE DEVELOPED

We aim to increase the number of H&M stores by 10 – 15% each year. Building or rebuilding stores can create a lot of waste. Much of this, however, can be recycled and in many cases this can 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. We have also started to demand recycling reports for our construction projects.





6

COMMITMENT



USE NATURAL RESOURCES RESPONSIBLY

6

COMMITMENT



USE NATURAL RESOURCES RESPONSIBLY

From using cotton to transporting finished garments and lighting our stores, H&M is a consumer of natural resources. We depend on them throughout our value chain to do business and meet the needs of our customers.

However, increasing scarcity of some resources globally, like oil and minerals, and regionally, like water or agricultural land, means that access to these vital inputs for our business cannot be taken for granted.

At H&M, we recognise how important it is for all of us to use natural resources responsibly, considering the needs of both present and future generations.

Growing scarcity tends to mean rising costs, so resource efficiency will increasingly be seen as a source of competitive advantage in our industry.

To operate as a sustainable business, we are committed to conserving water, soil, air and species. We also try to influence our customers and other stakeholders to help them use natural resources responsibly as well.



CLAIRE HAU & LARS DOEMER

CLAIRE HAU & LARS DOEMER,
GLOBAL H&M
PRODUCTION
OFFICE, HONG
KONG

“As a part of the global production office, we work closely with all our local production offices on environmental issues. We support and initiate projects and programmes on energy and water saving and substitution of hazardous chemicals that lead to more responsible use of natural resources. Acting proactively, we also work intensively with different industry partners, like the chemical industry, to find better alternatives and methods for production processes.”

3.5m

KG LESS
PESTICIDE USED
DUE TO OUR USE OF
ORGANIC COTTON

300m

LITRES OF WATER
SAVED IN DENIM
PRODUCTION
(TARGET 100M)

100%

OF H&M PAPER
CARRIER BAGS
MADE OF FSC
CERTIFIED
PAPER

CONSCIOUS ACTIONS

MAKE 100% OF OUR PAPER CARRIER BAGS FROM FSC CERTIFIED PAPER

TIMESCALE: 2011

STATUS SNAPSHOT: 100% FSC CERTIFIED PAPER FOR ALL H&M PAPER BAGS

We use paper bags under certain circumstances, for example for specific H&M campaigns, or due to legislation in some countries. While they only represent 5-10% of our total use of bags, we still want to make sure that they are produced with minimal impact on the environment. All paper bags used in H&M stores are now made of paper that originates from FSC certified forests.

📄 hm.com/carrierbags

REDUCE ENVIRONMENTAL IMPACTS IN COTTON CULTIVATION BY USING MORE SUSTAINABLE COTTON

TIMESCALE: ONGOING

STATUS SNAPSHOT: AROUND 3.5 MILLION KG OF PESTICIDES SAVED

By aiming to use only more sustainable cotton by 2020, we want, amongst other things, to contribute to significant reductions in the use of pesticides, fertilisers and water. The amount of organic cotton that we are already using today means that around 3.5 million kg less pesticide is used, compared with conventional cotton. This reduction will increase as we progress towards our 2020 target. The planned increase in our use of Better Cotton will also result in major water savings. Trial projects showed that farmers adopting the Better Cotton systems used 32% – 49% less water than before.

📄 hm.com/cotton

📄 bettercotton.org

DRESS, ORGANIC COTTON



CONSCIOUS ACTIONS

HELP TO LEAD OUR INDUSTRY TO ZERO DISCHARGE OF HAZARDOUS CHEMICALS

TIMESCALE: BY 2020

STATUS SNAPSHOT: JOINT ROADMAP DEVELOPED TOGETHER WITH INDUSTRY PEERS

Since 1995, H&M has been working practically to reduce the use and impact of hazardous chemicals. As a leading actor with a well reputed Chemicals Management approach, H&M has the scale and ability to go beyond ensuring that our own products are safe, to also encourage change within our entire industry – a huge challenge, but one that we take very seriously. That's why we teamed up with adidas Group, C&A, Li Ning, NIKE, Inc. and Puma to develop a joint roadmap. In addition, we have initiated a set of complementary individual actions. This includes additional measures to ensure the compliance with our usage ban on APEOs which we have had in place since 2009. We follow up on this target through a dedicated section on our website.

hm.com/zerodischarge

hm.com/chemicals

CONTINUE CONSTANTLY TO REVIEW AND UPDATE OUR CHEMICAL RESTRICTIONS

TIMESCALE: ONGOING

STATUS SNAPSHOT: RESTRICTION LEVELS MADE PUBLIC IN 2011

We restrict chemicals considered as hazardous through the H&M Chemical Restrictions list which all suppliers are contractually bound to comply with. Our Chemical Restrictions list has been updated 10 times since 1995, most recently in 2009. It now contains more than 200 restricted substances. Our restrictions are, as a minimum, always based on the highest legal standard in any of our sales countries. As stated in our Sustainability Policy, we apply the Precautionary Principle. This means that we act proactively to restrict chemicals, even if there is still scientific uncertainty about whether they are harmful, and often go well beyond legislative demands. To ensure this, we always keep ourselves up to date on the latest developments and consider information from authorities, NGOs and scientific reports. We made the restrictions list public many years ago. In 2011, we decided to increase our transparency further by disclosing all related restriction levels for textile products. We plan to publish an updated list

at the beginning of 2012 which will also disclose restriction levels for all non-textile products, for example cosmetics.

hm.com/chemicals

hm.com/zerodischarge

MORE THAN
200
SUBSTANCES
RESTRICTED

AROUND
30,000
CHEMICAL TESTS
CONDUCTED ANNUALLY

CONSCIOUS ACTIONS

BAN FLUOROCARBONS

TIMESCALE: 2012

STATUS SNAPSHOT: FIRST FLUOROCARBON-FREE OUTERWEAR IN STORE

Fluorocarbons are commonly used for making outerwear water resistant. Unfortunately, they are extremely persistent and bio-accumulative. At H&M, we sell only a few water-resistant products. Nevertheless, we want to make sure that these are made without the use of these substances. For a long time, available alternatives showed major downsides – for example being elusive. But since 2010, we have found and used one alternative that has proved to deliver both, good quality and fewer risks for the environment. Starting with our children's wear range, products using this alternative have been available in our stores since then. They are labelled with the "Bionic Finish Eco"-label. We are currently testing a second alternative in order to ensure reliable supply. Following this, we aim to fully ban fluorocarbons by 2012.

📄 hm.com/bionicfinish

REPLACE SOLVENT-BASED POLYURETHANE (PU) WITH WATER BASED ALTERNATIVE

TIMESCALE: BY 2014

STATUS SNAPSHOT: DIFFERENT ALTERNATIVES TESTED

Handling solvent-based chemicals can be harmful to workers, so we aim to phase out the use of any such substances in the production of our products wherever technically feasible. In co-operation with the chemical company Bayer, we conducted trials to convert traditional solvent-based polyurethane (PU) material into water-based PU. We tested a range of alternatives that could be used for different product types and styles. The first results were very promising, but ensuring quality and scalability remains a challenge. The next step is to launch products using water based PU and gradually scale-up our use.

📄 hm.com/chemicals



CONSCIOUS ACTIONS

BAN TOLUENE FROM PRODUCTION

TIMESCALE: 2011

STATUS SNAPSHOT: USAGE BAN ENFORCED

Toluene is a solvent which is connected to a number of health risks for production workers. During 2010, H&M identified that toluene was being widely used in the production of accessories. A workshop with all relevant suppliers was held to educate them about the negative health impacts of toluene. In close co-operation with suppliers and chemical companies, we have identified suitable substitutes and enforced a global ban on toluene in our supply chain. We will continue to monitor the implementation through our chemical management testing routines.

📄 hm.com/chemicals

PROMOTE THE DEVELOPMENT OF HARMONISED CORPORATE WATER ACCOUNTING AND REPORTING STANDARDS

TIMESCALE: ONGOING

STATUS SNAPSHOT: ACTIVE INVOLVEMENT IN WATER DISCLOSURE WORKING GROUP

H&M joined the Water Disclosure Working Group (WDWG) in 2010. The group is part of the UN CEO Water Mandate. It works to drive the harmonisation of existing and emerging corporate water disclosure initiatives. The development of the first pilot guidelines is currently planned for the end of 2012.

📄 hm.com/water

📄 [CEO Water Mandate](#)

H&M FOR WATER-COLLECTION



CONSCIOUS ACTIONS

PROMOTE REDUCED WATER CONSUMPTION IN GARMENT PRODUCTION

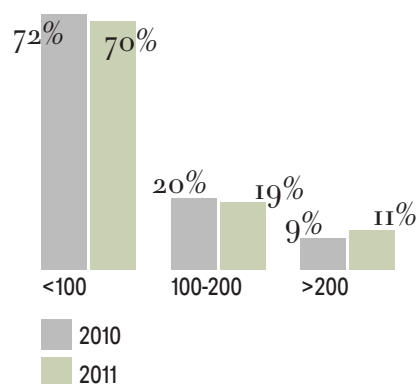
TIMESCALE: ONGOING

STATUS SNAPSHOT: 70% OF REPORTING FACTORIES USE LESS THAN 100 LITRES PER KG OF GARMENTS

We monitor water efficiency at supplier factories. We focus on factories located in water scarce areas, as defined by the World Business Council for Sustainable Development. We measure the use of water per kg of products made and provide our suppliers with this data. While it can at times be a challenge to motivate suppliers to make savings in countries where water is free of charge (i.e. Bangladesh), we complement the monitoring with dedicated projects to drive water savings in denim production and through our cleaner production programme.

6.0 SUPPLIER WATER EFFICIENCY

2010-2011



Number of factories: 305

The graph shows the ratio of factories, using less than 100, between 100 – 200, or more than 200 litres of water for making 1 kg of final clothes. Data provided is submitted by 305 of our supplier factories.

hm.com/water

SAVE 100,000,000 LITRES OF WATER IN PRODUCTION OF DENIM AND OTHER WATER-INTENSE GARMENTS

TIMESCALE: 2011

STATUS SNAPSHOT: 300 MILLION LITRES SAVED

The production of denim can be particularly water-intensive. We found out that better processes can save about 30% of the water use so, to reduce this impact, in 2009, we set up a project with suppliers in Bangladesh, China and later also Pakistan. Having saved 50 million litres of water in 2010, we set the goal to save 100 million litres in 2011. As part of this, we looked into how these water-management improvements could also help our suppliers save water when making other water-intensive products. We exceeded our target considerably, with usage reduced by 300 million litres compared to previous production processes in 2011 alone.

hm.com/water

CONSCIOUS ACTIONS

MONITOR WASTE WATER QUALITY AT SUPPLIER FACTORIES

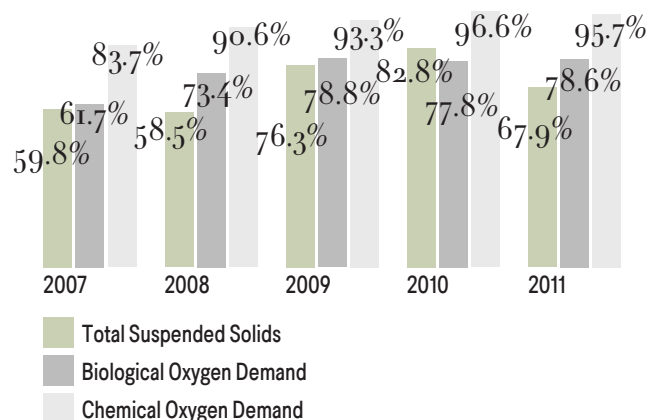
TIMESCALE: ONGOING

STATUS SNAPSHOT: IMPROVEMENTS ON BOD, STABLE ON COD, IMPROVEMENTS NEEDED ON TSS

Since 2006, we have required suppliers who have wet processes such as dyeing to avoid environmental damage by treating their waste water. Waste water quality in our supply chain has to meet quality levels defined by Business for Social Responsibility (BSR) or relevant local laws, depending on which are stricter. These requirements form part of our supplier audit programme. Water quality measures include organic and chemical pollution levels and suspended solids within the waste water – TSS (total suspended solids), BOD (biological oxygen demand) and COD (chemical oxygen demand). Graph 6.1 shows the ratio of supplier factories in the lowest threshold for each of these indicators, against the BSR standard. The more factories are in the lowest threshold, the better the performance. The data shows a slightly increased proportion of factories in the best threshold for BOD, and a slight decrease for COD, while we face a major decrease for TSS. We will continue to monitor the development with relevant suppliers and, wherever needed, request dedicated action plans to improve performance.

 hm.com/water

6.1 SUPPLIER WASTE WATER QUALITY MEASURES



DEVELOP AND IMPLEMENT ENVIRONMENTAL GUIDELINES FOR THE PURCHASE OF NON-COMMERCIAL GOODS

TIMESCALE: 2012

STATUS SNAPSHOT: GUIDELINES INCLUDING CHEMICAL RESTRICTIONS DEVELOPED

H&M has established a series of guidelines to promote more sustainable choices when purchasing non-commercial goods. These are products that we do not sell but use ourselves, for example to decorate our stores or for marketing material. Alongside specific guidelines for a broad range of materials, we also included detailed chemical restrictions. The aim is to protect the health & safety of our customers and employees in our stores and to promote the development of more environmentally conscious products in this sector. First suppliers have already signed the restrictions list as part of their contract with H&M and we will continue the implementation during 2012. We have started to follow up on this new requirement through a mix of random chemical tests, audits, self-reporting and by requesting Material Data Safety Sheets (MSDS). We plan to evaluate our processes during 2012.

CONSCIOUS ACTIONS

PURCHASE RSPO CERTIFICATES FOR ANY PRODUCTS CONTAINING PALM OIL

TIMESCALE: BY 2012
STATUS SNAPSHOT: ALL PALM OIL USED COMPENSATED FOR

Palm oil is associated with environmental harms, such as deforestation, and with social issues, such as poor working conditions. H&M uses very little palm oil; just nine tonnes in 2011. This was mainly used to make candles that are sometimes offered in our HOME collection. Despite this low amount, we still want to contribute to a more sustainable palm oil production. That's why we decided to purchase Roundtable of Sustainable Palm Oil (RSPO) certificates for all candles sold in the collection from 2012. For the nine tonnes used in 2011, we purchased Green Palm certificates.

☑ Rspo.org

☑ Greenpalm.org

0%
OF THE LEATHER,
SHELLS OR WOOD
WE USE FOR OUR
PRODUCTS MAY COME
FROM ENDANGERED
SPECIES

100%
OF OUR
COSMETIC PRODUCTS
MUST BE MADE WITHOUT THE
USE OF ANIMAL TESTING



CANDLE MADE WITH CERTIFIED PALM OIL



COMMITMENT



STRENGTHEN COMMUNITIES

7
COMMITMENT
STRENGTHEN
COMMUNITIES

H&M is a part of many communities around the world. This includes the places where our stores are located as well as communities along our supply chain.

The way we do business, our values and our growth have an impact on the development of these communities and more than one million jobs around the world. With our size, we have the opportunity to drive positive change for people and the environment in these communities. As a result, we have both an interest and a responsibility to strengthen these communities. That is why we

invest in projects that benefit communities and at the same time address issues that are important to our business.

We focus these community investments on water, the innovation of sustainable raw materials and the employment, education and health of women and youth. We also provide support to those in urgent need; for example through garment donations or financial donations in crisis situations.

In this section, we highlight some of the Conscious Actions that we are taking to live up to this commitment.



LAURA MAGGS

**LAURA MAGGS,
PR MANAGER AND
SUSTAINABILITY
RESPONSIBLE,
H&M UK AND
IRELAND**

“In recent years, sustainability has become an increasing part of my role. It makes me very proud to be part of an organisation that takes its responsibility as seriously as H&M does. I have formed local relationships with our global community partners, UNICEF and WaterAid, to instigate local co-operations that are in keeping with our global community investment strategy. We also have additional local community investment partners: the British Red Cross, the Woodland Trust, and Climate Week. By taking a collaborative ‘glocal’ approach we can engage and inspire our customers and colleagues to take further steps together towards a more sustainable future.”

MORE THAN
49m
SEK INVESTED IN
SUPPORTING COMMUNITIES
BY H&M AND OUR
CUSTOMERS

2.3m
GARMENTS
DONATED TO
CHARITABLE
CAUSES

2.8m
PEOPLE REACHED
WITH PREVENTIVE
HEALTH EDUCATION
AND CARE

CONSCIOUS ACTIONS

FURTHER CONTRIBUTE TO A POSITIVE DEVELOPMENT IN BANGLADESH

TIMESCALE: 2017
STATUS SNAPSHOT: 5 YEAR PLAN DEVELOPED

Bangladesh is an important purchasing market for H&M but also one of the world's poorest nations. Clothing manufacturing employs several million people and accounts for a large proportion of the country's exports. H&M is an important contributor to this and, as a long-term buyer, we want to make sure that we also contribute to lasting social and economic development. That is why in 2011 we developed an ambitious plan to support long-term development in Bangladesh. The aim is to strengthen workers' influence over their conditions and increase their skill level while also promoting stability in the labour market. The plan includes dedicated projects to support improved social dialogue, promote fire safety in garment factories, facilitate skills development and provide better access to health care. As part of the plan, we also work to strengthen the position of women by providing grants for female students in higher education and by setting up a helpline for women exposed to violence and discrimination.

📄 hm.com/bangladeshplan

ENGAGE OUR CUSTOMERS IN OUR COMMUNITY INVESTMENTS PROJECTS

UNTIL: ONGOING
STATUS SNAPSHOT: SEK 15,136,057 GENERATED THROUGH SALES OF CAUSE-RELATED PRODUCTS

As part of our commitment to provide fashion for conscious customers, we offer our customers products with added sustainability value. One way we do this is to offer cause-related products and collections. This way we engage our customers in supporting H&M's community projects and help raise awareness of the issues they address. In recent years, we have developed a set of reoccurring collections called 'Fashion Against Aids', 'WaterAid' and 'All for Children'. At least 25% of the net sales of these collections are invested into the related projects. In 2011, we raised SEK 15,136,057 in this way. We also encourage our customers in several of our sales countries to contribute to other good causes with direct donations made in our stores, for example in the case of major catastrophes. In 2011, our customers donated SEK 11,491,276.

📄 hm.com/faa

📄 hm.com/wateraid

📄 hm.com/allforchildren

7.0 COMMUNITY INVESTMENTS RESULTING FROM SALES OF CAUSE-RELATED PRODUCTS AND DONATIONS RAISED AMONG CUSTOMERS

15,136,057

Cause-related products

11,491,276

In-store donations



CONSCIOUS ACTIONS

INVEST IN MORE EMPLOYMENT AND EDUCATION AMONG WOMEN AND YOUTH

TIMESCALE: ONGOING
STATUS SNAPSHOT: 2,079 PEOPLE WITH IMPROVED SKILLS

The majority of our customers, our employees and also our suppliers' employees are women. Strengthening their position in society and in the labour market is therefore important to us. At the same time, improving education among youth and creating job opportunities for young people is essential for the future growth and development of many of the communities we operate in. Beside our direct economic contribution, we invest in a number of projects to support employment and education among women and young people. Some are broad programmes, such as our All for Children project (in collaboration with UNICEF) and Hand in Hand's Village Upliftment Programme (a project supported by the H&M Conscious Foundation). Others are tailor-made local projects, such as our Women in Retail project in Saudi Arabia, our own training centre in Bangladesh, and scholarships for women in Bangladesh. In 2011, 5,688 children enrolled into a bridge school or formal education through our All for Children project and another 2,079 people improved their skills through other projects.

hm.com/communityprojects



“I want to give my children a good education. I want them to become teachers themselves when they grow up. The All for Children project has improved the teaching methods in school and the food quality. Today the children come home and teach their parents about the things they have learned in school.”

Deivam, Mother of Sevvanthi, student at Pereri, G.T.R., middle school, India

CONSCIOUS ACTIONS

INVEST IN BETTER HEALTH FOR WOMEN AND YOUTH AROUND THE WORLD

TIMESCALE: ONGOING
SNAPSHOT: MORE THAN 2.8 MILLION PEOPLE REACHED WITH PREVENTIVE TRAINING AND INFORMATION OR HEALTHCARE

We support a variety of projects to promote better health around the world. Since 2008, H&M has supported the fight against HIV/AIDS through our annual Fashion Against Aids campaign. The aim of the project is both to raise awareness of HIV/AIDS among young people in our sales countries and to generate money for prevention and health projects around the world. In India and Bangladesh, two of the countries where many of our suppliers are located, our projects focus on health and nutrition. Both are among the countries with the highest rates of undernourished children in the world according to the *World Bank*. Our All for Children project works to promote children's right to health and nutrition. In cooperation with three of

our suppliers and the organisation, Smiling Sun, we provide access to affordable healthcare to garment workers and their families in Bangladesh. Through the H&M Conscious Foundation, we support Hand in Hand's work to provide free medical care in India and have just entered a new partnership with an innovative social entrepreneur called Gynius that works to combat cervical cancer in Bangladesh. Together with Wateraid we are providing safe drinking water and sanitation in Bangladesh, India and Pakistan and provide hygiene education. Altogether, H&M invested SEK 22,626,708 into these projects in 2011 alone and, together with our partners, we reached more than 2.8 million people with preventative information and more than 8,000 people with actual healthcare.

📄 hm.com/communityprojects

“The social impacts resulting from H&M's investment will improve the lives and futures of the children and the communities in which they live.”

Tim Hunter, Deputy Director Fundraising, UNICEF

INVEST IN SAFE DRINKING WATER AND BASIC SANITATION FOR SOME OF THE WORLD'S POOREST COMMUNITIES

TIMESCALE: ONGOING SINCE 2002
STATUS SNAPSHOT: 38,347 PEOPLE PROVIDED WITH ACCESS TO CLEAN DRINKING WATER IN 2011

Through H&M's partnership with WaterAid and the H&M Conscious Foundation's support for FRANK Water, we work to provide safe drinking water and sanitation for some of the world's poorest communities in Bangladesh, India and Pakistan. Since the start of our Partnership with WaterAid in 2002, contributions made have helped an estimated 150,000 people to access safe drinking water and basic sanitation. Through FRANK Water's eight projects in India, 101,550 people benefit from purified drinking water. In 2011, H&M invested SEK 6,074,000 in water-related projects.

📄 hm.com/communityprojects

“H&M's support has helped over 150,000 people gain access to clean water, improved sanitation and hygiene.”

Jan Eliasson, Chairman of the Board, Wateraid Sweden

CONSCIOUS ACTIONS

INVEST IN BETTER LIVELIHOOD IN COTTON CULTIVATING AREAS BY EDUCATING FARMERS ON MORE SUSTAINABLE FARMING TECHNIQUES THROUGH THE BETTER COTTON INITIATIVE

TIMESCALE: 2012 AND BEYOND

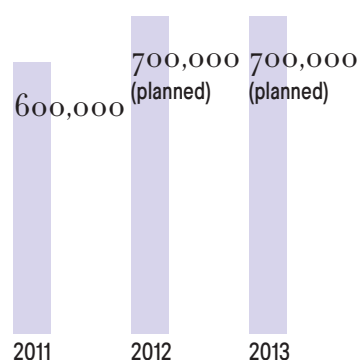
STATUS SNAPSHOT: 120,000 FARMERS TRAINED ON BETTER FARMING TECHNIQUES

H&M is a leading member of the Better Cotton Initiative (BCI) as part of our efforts to use only sustainable cotton by 2020. Besides the environmental benefits of this shift, sustainable cotton production can improve the lives of millions of farmers in developing countries. BCI helps to provide farmers with the know-how and tools to improve farming practices. This helps them to produce more with less input, which reduces their impacts on the environment and increases profitability and the welfare of the local communities. Over 120,000 farmers (approximately 66,000 in India, 47,500 in Pakistan, over 10,000 in Mali and 104 in Brazil) have been involved in the initiative so far, all receiving dedicated training.

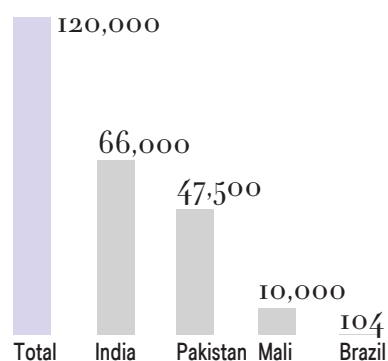
H&M invested EUR 600,000 in 2011. A further EUR 700,000 each is committed for 2012 and 2013. This helps us to increase the production of Better Cotton in line with our demands for the 2012 and 2013 production seasons.

hm.com/cotton
bettercotton.org

7.1 MONEY INVESTED IN BCI FARMER TRAINING 2010-2012 (IN EUR)



7.2 NUMBER OF FARMERS TRAINED



STRENGTHEN YOUNG WORKERS' (16+) RIGHTS IN THE WORKPLACE IN CHINA

TIMESCALE: ONGOING

STATUS SNAPSHOT: PARTNERSHIP WITH CENTER FOR CHILD RIGHT CORPORATE SOCIAL RESPONSIBILITY

Workers between the ages of 16 and 18 are protected from doing hazardous work or overtime, for example, by Chinese law. In reality, however, requirements like these are not always respected in the Chinese garment industry. To improve the situation for young workers, the H&M Conscious Foundation has cooperated with the Center for Child Right Corporate Social Responsibility since 2009 to provide personal development training sessions for young workers. These focus on communication skills and career and life planning to boost their social development. The scheme also helps to develop awareness among supplier factory managers about specific issues facing the young workforce to help create a more efficient, stable and healthy work environment.

hm.com/consciousfoundation

CONSCIOUS ACTIONS

SUPPORT PREVENTION OF DRUG ABUSE AMONG YOUTH IN SWEDEN

TIMESCALE: ONGOING SINCE 1997
STATUS SNAPSHOT: LONG TERM PARTNERSHIP WITH MENTOR

H&M cooperates with Mentor Sweden in their health promotion and drug prevention work among children and young people in Sweden. The target groups are young people between the ages of 13 and 17, parents with children 6-18 years, and schools. Mentor Sweden manages three key programmes: 'Mentoring', 'Parenting' and 'Inspiration' activities that create study motivation. The Mentoring programme offers students that are younger teens the opportunity to have a mentor for a year. H&M encourages employees in Sweden to become mentors.

 Mentor.se

SUPPORT EMERGENCY RELIEF IN EAST AFRICA AND JAPAN

In response to the devastating hunger catastrophe in East Africa, H&M has donated USD 100,000 (SEK 637,020) to support UNICEF's relief efforts. H&M has collaborated with UNICEF since 2004 and has contributed to the organisation's emergency relief work several times. In addition, H&M also donated around USD 230,000 (SEK 1,916,397) to support the Red Cross's relief work for victims of 2011's catastrophes in Japan. We also provided 208,123 garments.

In addition, we enable our customers to support people in need by initiating fundraising activities in-store. In 2011, our customers contributed with another USD 225,000 (SEK 1,732,894) to the victims in East Africa and USD 21,000 (SEK 149,000) to Red Cross work in Japan.

**USD
230,000**
DONATED TO
SUPPORT VICTIMS
OF THE DISASTER
IN JAPAN

"I find it is a wonderful idea that H&M works in collaboration with the Japan Red Cross to support the lives of communities in need."

Nodoka, Sales Advisor,
H&M store in Shibuya, Tokyo

**USD
225,000**
RAISED AMONG OUR
CUSTOMERS TO SUPPORT
VICTIMS OF THE HUNGER
CATASTROPHE IN
EAST AFRICA



CONSCIOUS ACTIONS

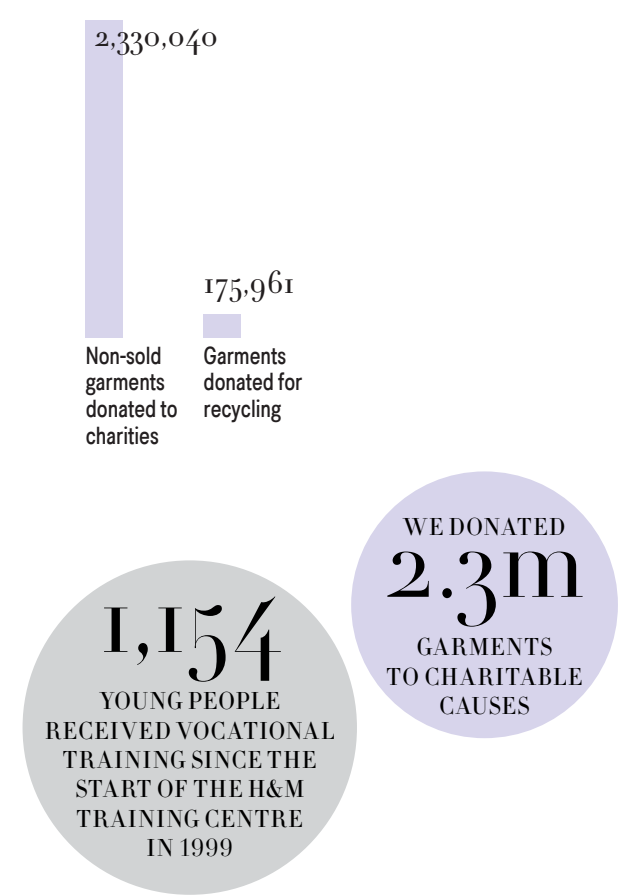
SUPPORT THE ONES IN NEED WITH GARMENT DONATIONS

TIMESCALE: ONGOING
SNAPSHOT: 2.3 MILLION GARMENTS DONATED TO CHARITABLE CAUSES

Each year, H&M donates large quantities of clothes to aid organisations in countries in which we operate. We introduced an updated garment donation policy and implementation guidance in 2010. Our policy states that all unsold, safe-to-use products should be donated to charity or, if possible, recycled into something useful. In 2011, we donated 2,509,001 (2010: 631,295) such garments globally. 2,333,040 went to charity organisations, including 208,123 garments that we provided to the Red Cross in the exceptional case of 2011’s catastrophes in Japan. In addition, 175,961 garments were donated to be recycled.

- hm.com/communities
- hm.com/recycling

7.3 GARMENT DONATIONS 2011



PICTURE CAPTION TO GO HERE



MORE INFORMATION

To find out more about H&M Conscious, our policies, read case studies and previous reports, view videos, find the latest news and much more, please visit:

📄 hm.com/conscious

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CONTACT

We would like to have your feedback.

Please send your questions or comments regarding this Conscious Actions Sustainability Report 2011 to:

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Thank you for taking time to learn more about H&M Conscious.

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