



H&M

CONSCIOUS
ACTIONS

*Sustainability
Report 2012*

CONSCIOUS ACTIONS

Sustainability Report 2012

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The CEO interview

2012 was another successful and exciting year for H&M. But how do continued strong growth and sustainability go together? Read about this and more in an interview with our CEO Karl-Johan Persson.



Karl-Johan Persson, CEO

How do you view the concept of fashion in regards to sustainability?

Fashion is and remains a form of self-expression. I'm proud to know that we play a part in that. We want to help people create their personal style and love what they buy for several seasons. And we want to make it easy for them to choose more sustainable fashion and to take care of their clothes in a conscious way.

How does sustainability fit with H&M's business model and continued growth?

Our business idea is to offer fashion and quality at the best price. Sustainability is an increasingly important part of this. I strongly believe that sustainability will more and more become a hygiene factor in our industry. Our goal is for H&M to be at the forefront of sustainability. We work hard to always strengthen our customer offering. I think that adding sustainable value to our products is one of the keys to do so.

What opportunities do you see in integrating sustainability into the business model?



Adding sustainability value to our products is one of the keys to strengthen our customer offering. ”

We take a long-term view on our business. And there is no way for us not to think about and invest in our sustainability, because it simply makes business sense.

To begin with, using resources efficiently often means reducing costs. But there's much more to this than the obvious. →

The CEO interview

I'm really happy to see that our customers and colleagues show such interest in sustainability. This opens great opportunities to strengthen our customer offering, build our brands and attract and retain the talent we need for our continued growth.

And contributing to economic growth, jobs and stability in our purchasing markets and creating strong partnerships with the best suppliers helps to secure the supply we need in the years to come. More than that, our strong presence in these countries provides us with the great opportunity to improve the lives of hundreds of thousands of people and help develop entire communities.

What were the biggest steps on this journey in 2012?

We were named the biggest user of organic cotton in the world for the second year in a row.

We are the first fashion retailer in the world to launch a global system to collect old clothes and help them to a new life. In the long run, we want to upcycle these clothes into



new ones, reducing the impact on the environment and providing us with access to future resources for making more sustainable fashion.

From 2013, together with WWF, we will set new standards for water stewardship in our industry. Again, this collaboration opens great opportunities to engage our customers on the important issue of water and to help secure the availability

There is no way for us not to think about and invest in our sustainability, because it simply makes business sense.”

of clean water for all of us in the years to come.

What are the challenges?

There are many challenges in our industry and our business. I'm proud of all my dedicated colleagues who work with great passion every day to make H&M and our industry more sustainable. But in order to achieve great results, we need to focus and, together with our stakeholders, balance the right priorities. To name a few of these priorities, it's about closing the loop on textile fibres and waste and playing our part in combating climate change and growing water scarcity.

Ensuring that all workers in supplier factories earn enough to live on in a decent number of hours is another key challenge. It's a complex issue and solutions need to consider the competitiveness and development of entire countries. Our whole industry has more to do to find and implement exactly such solutions. And the tragic, recent factory fires show again that safety can't be taken serious enough.



The CEO interview

I also think that we have more to do to overcome common misconceptions such as that only expensive products can be sustainable. In fact, the retail price of a garment doesn't show how hard a brand has worked to improve conditions. Obviously, it is our job to engage more closely with our stakeholders and customers on this matter.

How do you work to tackle these challenges?

In a variety of ways. As an integral part of our day-to-day work and our strategy. And of course in the close collaboration with our suppliers and other stakeholders.

But many of these challenges can't be solved by one company alone. That's why we play a very active role in initiatives like the Sustainable Apparel Coalition and the Global Compact. And we need to support authorities in making the right decisions. For example, I met with Sheikh Hasina, Prime Minister of Bangladesh, to express H&M's support to raise the minimum wage for garment workers and for regular wage reviews.

In order to create lasting improvements, we need to promote systemic change that involves everyone concerned.”

At H&M we believe in a fast pace and sometimes I feel that the changes we want to see do not happen as fast as we would like. But in order to create lasting improvements, we need to promote systemic change that involves everyone concerned. Our size gives us the opportunity to promote such change well beyond our own operations.

We see a lot of innovative smaller sustainable fashion brands on the market. I think this is a great development. At H&M, we can help lift such innovations to a larger scale. Together this will hopefully lead to a more sustainable fashion future.



30 years from now, where do you see H&M and sustainability in the fashion industry in general?

We take a long-term view on our business. My grandfather founded the company in 1947. I want to see H&M continue to be successful and create jobs and growth all over the world for many years to come. I want H&M to be seen as a leader in terms of innovation, sustainability and, of course, great fashion. I hope that

in the future, upcycling old clothes will be a standard in our industry, that workers in supplier factories can negotiate wages and working conditions in a fair dialogue with their employers, that making clothes will have a minimal impacts on waters and that consumers all over the world can easily build their personal style with sustainable fashion. And that H&M has played its part on this journey.

About H&M CONSCIOUS

We want to take on the challenge of making fashion sustainable and sustainability fashionable.”

At H&M, we like to think of sustainability as a word of action, something we do rather than something we simply say. It is an ongoing process with a clear direction to be continuously improved. It is a journey that requires determination, passion and teamwork. Because together with our colleagues, stakeholders, business partners and peers, real, lasting change is possible.

It's about the 3 Ps. *People, planet, and profit.* All highly interconnected. All equally important. The earth is facing scarcity issues on many fronts. Clean water, energy and cotton, to name a few. Our business is no exception. Our vision is that all our operations should be run in a way that is economically, socially and environmentally sustainable. Turning this vision into a reality helps us do great business using fewer resources. It also allows us to contribute to better lives for people and communities around the world.



*The global need for energy is estimated to increase by 45% by 2030**

*The need for fresh water by 30%**

*And for food by 50%**

But it goes beyond that. We want to make more sustainable choices in fashion available, affordable and attractive to as many people as possible. Together with our millions of customers we can bring massive change – from improving the livelihood of a cotton farmer to how our customers care for the clothes they buy.

We want our colleagues to be proud of where they work. We want our customers to feel reassured about the fashion they buy and that we have exceeded their expectations. We can see there are clear opportunities to further strengthen our customer offering by adding sustainability value to our product lines. We want to take on the challenge of making fashion sustainable and sustainability fashionable.

We have made great achievements on this journey, but together with our entire industry we have much more to do. The biggest challenges today include climate change, impacts on water across the textile value chain as well as overtime and wages in supplier factories. Another major challenge is the growing resource scarcity, while →

* SOURCE The report of the United Nations Secretary-General's High Level Panel on Global Sustainability.

About H&M CONSCIOUS

too many textiles end up in landfills.

We want to use our scale to bring about systemic change to our industry and across our entire value chain. In doing so, we are at the forefront of sustainability.

That is why we have created H&M Conscious. With seven ambitious strategic commitments at its heart, this is the name for all the work we do for a more sustainable fashion future. Hundreds of what we call Conscious Actions – big and small, short and long term – work to put these commitments into practice.

This is our 11th sustainability report. While we remain humble before our challenges, we are very excited by the Conscious Actions we have taken and the progress we have made. This report outlines some of the Conscious Actions we have taken or worked towards during 2012.

This report has been prepared using the GRI G3.1 guidelines. Please find further details on how we report here (page 90).



OUR SEVEN COMMITMENTS

1.
Provide fashion for conscious customers
2.
Choose and reward responsible partners
3.
Be ethical
4.
Be climate smart
5.
Reduce, reuse, recycle
6.
Use natural resources responsibly
7.
Strengthen communities

Key HIGHLIGHTS *from 2012*



No.1 in ORGANIC COTTON *– The story continues*

According to the organisation Textile Exchange, we are topping the charts in organic cotton use for the second year in a row. But wait, there's more. Aside from further increasing our use of organic cotton in the future, we're investing heavily in Better Cotton and gradually increasing our use of recycled cotton. All together, we are right on track with our target to use only cotton coming from these sources by 2020 at the latest.

DON'T *let* FASHION ***go to* WASTE!**

Too much fashion ends up in landfills. We love fashion and thought: Does this really have to be the end of the story? We think not. That's why we are now the first fashion company in the world that offers its customers around the globe the opportunity to hand in clothes, from any brand, that they no longer want. In return, they receive a small reward as thanks. We will then help to reuse and recycle all of them, ultimately aiming to close the textile loop.



Game-changing WATER **PARTNERSHIP *with* WWF**

For the past ten years, we have worked hard to reduce water impacts along our value chain. Now, together with WWF, we are taking this to a whole new level. In a three-year partnership, we will work towards implementing a holistic water stewardship strategy that aims to be a game-changer for our industry and beyond. Starting with the decisions our designers make at the drawing table all the way through to promoting better water management amongst public policy-makers. →

Key HIGHLIGHTS *from 2012*

Clever CARE LABELS are a go

Did you know that 36 percent of the climate impact in a garment's life happens when being washed or tumble dried in our homes? Well, if not, you're certainly not alone. To make it easier for all of us to care for our clothes in a conscious way, we collaborated with Ginetex, the owner of the current global care label standard to develop the new so-called clevercare label. Our first garments will carry this label in Summer 2013.



JOINING forces for fair dialogue in CAMBODIA

Together with IF Metal, one of Sweden's largest unions, we are starting up a unique project to strengthen the dialogue between employees and employers in the Cambodian textile industry. Today's relations are often confrontational. The aim is to help both trade unions and employers, to find lasting solutions in fair collective bargaining processes that benefit the workers and create a stable market.

TRANSPARENCY to the NEXT LEVEL

For many years we have worked hard to build strong, long-term relations with our suppliers based on trust and transparency. We invested time, money and a lot of heart. Now, we're taking this work to the next level and have just published our supplier factory list. Why? Because we think that transparency brings positive change. And because we want to incentivise our suppliers to take ownership over their sustainability and recognise the progress they are making.



Key HIGHLIGHTS *from 2012*



For FAIR wages

We believe that everyone in the fashion industry should earn a fair wage that is enough to live on. In 2012, our CEO Karl-Johan Persson met the Bangladeshi Prime Minister, Sheikh Hasina, to underline H&M's support for higher minimum wages and regular wage reviews. It's a complex challenge, but we keep working hard together with our suppliers, their workers, industry peers and governments and by setting up model factories to achieve the needed systemic change.

No to PFCs

Perfluorinated compounds (PFCs) are commonly used to make products water repellent. As practical as they are, once released into the environment they remain for a long time and can harm the reproduction of organisms. For many years, we have worked hard to find better alternatives which meet our quality requirements. In 2010, we launched our first products made with a PFC-free alternative. And we've continued the work to scale this up. Now, we are one of the first brands that has banned PFCs from all its products.



All for Children goes BANGLADESH

We extended our All for Children collaboration with UNICEF to now include Bangladesh. With one of the largest garment industries in the world, the country is experiencing strong economic growth. That said, half of the 60 million children still live below the international poverty line. The project will run for five years to support about one million people in and around the capital Dhaka. With almost USD 8 million, this also marks our biggest single community investment to date.

The CHALLENGES *along our* VALUE CHAIN

H&M Conscious aims to tackle the challenges across our entire value chain and, in doing so, creates new opportunities for long-term business success.

For those challenges most closely related to our core operations, we have the ability to directly influence the impact we make. For others, our influence is indirect; for example, we can make a difference by choosing conscious raw materials or responsible 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.



DESIGN

INFLUENCE *High*

IMPACT *High*

Sustainability starts with the very first design idea. Our challenge is to create affordable fashion that our customers love from season to season and that is easy to care for in a conscious way. It's about the materials we choose and using these as efficiently as possible, while considering impacts on people, costs and the environment right from the start.

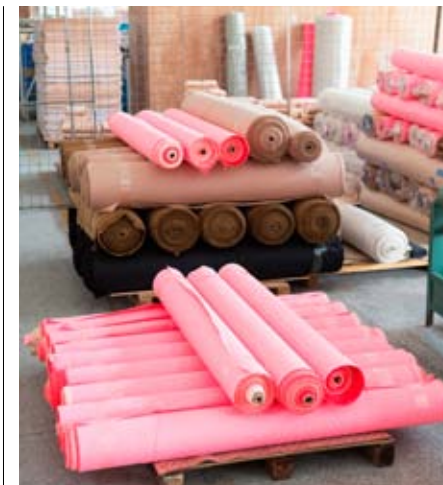


RAW MATERIALS

INFLUENCE *Low*

IMPACT *High*

Working conditions, intense water and chemical use are concerns associated with processing raw materials (e.g. cotton). We do not purchase raw materials directly, but by making conscious choices we can significantly reduce impacts. We need to use raw materials as efficiently as possible and work towards closing the loop. Our active involvement with the BCI, Textile Exchange or UNICEF increases our influence.



FABRIC PROCESSING

INFLUENCE *Low*

IMPACT *High*

Fabric processing also raises concerns regarding water, chemicals and working conditions as well as carbon emissions. Usually, we do not have direct business relationships with mills but we work with a dedicated mill development program and with important stakeholders such as Solidaridad and NRDC. We also work to increase the traceability of fabric used for our clothes to increase our influence.

The CHALLENGES *along our* VALUE CHAIN



MANUFACTURING

INFLUENCE *Medium*

IMPACT *High*

Ensuring high social and environmental standards with our 785 suppliers can be a challenge especially in terms of complex industry-wide issues such as wages, overtime and safety. We not only monitor factory compliance but also provide training for our suppliers and their workers, promote social dialogue and collaborate with others such as Better Work, the Fair Labor Association and the Fair Wage Network.



TRANSPORT

INFLUENCE *Medium*

IMPACT *Low*

Transport represents approximately 3 percent of the carbon emissions in a garment's lifecycle. However, by choosing the right modes of transport we can reduce this impact further. And, as a customer, we also use our influence to promote environmental consciousness amongst our transport providers.



SALES

INFLUENCE *High*

IMPACT *Medium*

Our more than 2,800 stores in 48 countries across 4 continents (incl. franchises) are where most of our colleagues work. This is also where about 90 percent of our direct energy use occurs. Our challenge is to ensure that we live our corporate values and that we work in a resource-efficient way wherever we operate, including energy efficiency and increasingly sourcing renewable energy.



USE

INFLUENCE *Medium*

IMPACT *High*

The way our customers take care of our products has a major environmental impact. From a life cycle perspective, about 36 percent of all carbon emissions occur when consumers wash and tumble dry their clothes. We are working to inspire our customers towards conscious garment care and reward them for bringing old clothes to H&M stores. We will then help to reuse and recycle all of them. →

The CHALLENGES along our VALUE CHAIN

Challenges in the life of a T-shirt...

...and ways to tackle them

10% of all pesticides in the world are used in cotton production.

Conventional cotton used in a T-shirt needs as many as 15 bathtubs of water to grow.

4 m² of agricultural land has been used. The space required to produce 100 T-shirts is enough to grow 700 kg of potatoes.

36% of its climate impact occurs when it is washed and tumble-dried at home.

5% of all waste in US landfills is textiles. Enough to fill 32,750 Boeing 747s.



Choosing organic cotton means zero pesticides.

H&M's current organic and Better Cotton usage means over 140,000 kg fewer pesticides used in 2012 alone.

Better Cotton requires 20% less water.

Recycled materials do not need to be grown on any agricultural land.

Switching from 60 to 40 degrees when washing saves 41% of the energy used. With an average of 3 wash loads per week, German households could save more than 440 million euros each year.

95% of all textiles can be recycled.

FIGURES ARE ESTIMATIONS BASED ON FOLLOWING SOURCES panna.org; epa.gov; landtechnik.uni-bonn.de. The impact reduction figures from Better Cotton are based on results from BCI projects in India (water & pesticides), Pakistan and Mali (pesticides).

ENGAGING *with our* STAKEHOLDERS and joining forces for SOLUTIONS



13
million fans
on Facebook

No one understands the situation of a garment worker better than the garment worker. Or the experiences of a sales advisor than someone actually working on the store floor. This is why the constant and open dialogue with our stakeholders is so important to us.

Close collaboration with our stakeholders, both internal and external, is essential in enabling us to tackle the challenges we face throughout our value chain. Diversity and a multitude of voices lead to innovation and the insight into our stakeholders' knowledge and viewpoints helps us prioritise the Conscious Actions we take and the resources we invest.

Throughout the year, we work to maintain regular dialogue with each major group*. We do this on day-to-day basis, through regular formal stakeholder roundtables on a global and local level, dedicated surveys, media analyses, our active partici-

pation in several multi-stakeholder initiatives and as part of our strategic business intelligence.

JOINED FORCES

But more than that, we seek to join forces with our stakeholders in order to tackle some of the major challenges in our industry. Challenges that affect everyone along our value chain and that no company can solve on its own.

In order to find and implement the required solutions, we need to team up with our peers, suppliers, NGOs and many more players. We see sharing best practice and developing ways to jointly tackle common challenges as key to taking our sustainability work further and making the whole industry more sustainable.

Collaborating with others can help to increase the level of influence we have and set new standards – voluntary or legislative, well beyond our sphere of direct influence.

To this end, we are involved in a number of local and global indus-

try collaborations, partnerships and multi-stakeholder initiatives, such as the Better Cotton Initiative (BCI), Sustainable Apparel Coalition (SAC), Fair Labor Association (FLA), Fair Wage Network (FWN), Better Work and the Roadmap to Zero Discharge of Hazardous Chemicals.

- > hm.com/memberships
- > hm.com/stakeholderdialogue

*Including customers, colleagues, communities, suppliers and their employees, industry peers, NGOs, IGOs, policy-makers and investors.

9,815 interviews
with garment workers

423 responses to anonymous
supplier satisfaction survey

86% of colleagues
filled in employee survey

Acknowledgements

Knowledge bears weight, but achievement bears lustre as the saying goes and here are some of the indeces, rankings and awards that assessed and recognised our sustainability performance during the year.

Dow Jones Sustainability Index

FTSE4Good

Global 100 List

World's Most Ethical Companies

Newsweek Green Ranking

Source Award Finalist

Textile Exchange Future Shaper

Rank a Brand

> hm.com/whatotherssay

How we ORGANISE ourselves

Our Head of Sustainability reports directly to our CEO

Our sustainability ambitions are born from our corporate values and our drive for constant improvement. This is demanded and monitored throughout our business.

Sustainability is an integral element of our business strategy. Our Head of Sustainability reports directly to our CEO and the responsibility for the implementation of our sustainability strategy is held by our executive management team.

We have a total of around 170 colleagues who work with sustainability as a core task. Our over 20 people strong, head office Sustainability team is responsible for developing global targets, reviewing progress, encouraging and advising all relevant departments on the development and implementation of material Conscious Actions.

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

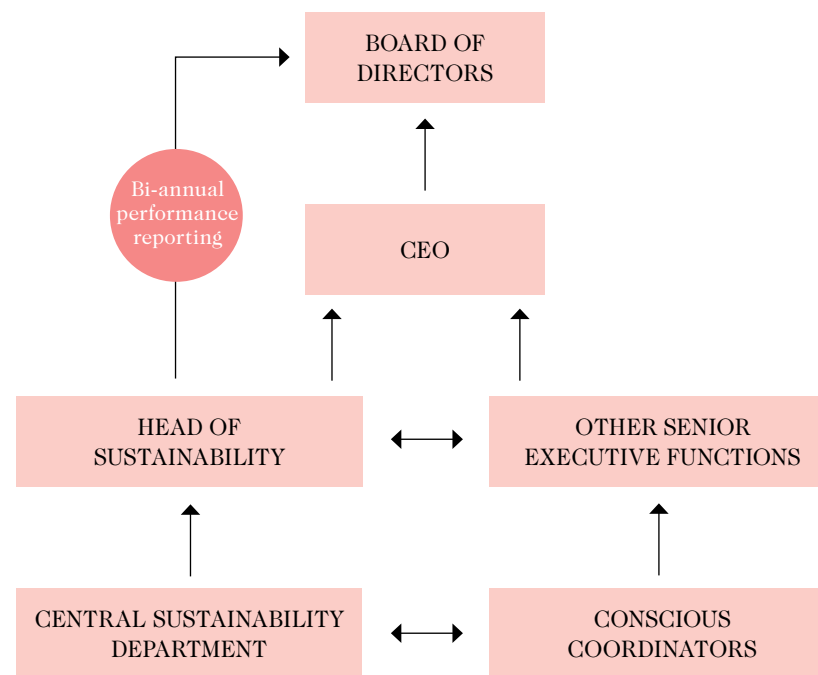
Our CEO, CFO and Head of Sustainability review the progress made twice a year. Just as frequently as our Head of Sustainability reports performance against key sustainability indicators to our Board of Directors.

Major sustainability issues influencing more than one department or conflicting interests are discussed in a decision-making forum called the Green Room with the involvement of our CEO.

About 100 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 help to make our supply chain more sustainable.

Around 50 so-called Conscious Coordinators work in our different departments and country offices supporting the implementation of our global sustainability strategy in their organisations.

ORGANISATION CHART



Around 170 people work with sustainability as a core task.”

COMMITMENT ONE

Provide fashion for conscious customers



Our business concept is to offer fashion and quality at the best price. To us, quality is so much more than the fabric you can touch between your fingertips. Quality includes that our products should be designed, produced, transported and sold with care for people and the environment.

It's about every facet along our entire value chain. And of course about listening to our customers. Because it's all about the fashion they love and what inspires them. More sustainable fashion is an added value to our offering that our customers are increasingly looking for.

Our Conscious Collections show that choosing more sustainable fashion does not mean compromising on design or price. Our permanent Conscious range applies these innovations on a larger scale and makes a better choice easily accessible all year long. Together we can contribute to a more sustainable fashion future.

Conscious fashion, however, is not just about our customers' choices. We keep working hard to make all our products more sustainable, piece by piece. Because, quite simply, it's the right thing to do.

Provide fashion for conscious customers

Performance overview

HIGHLIGHTS FROM 2012

- We used more certified organic cotton than any other company in the world, for the second year in a row.
- 11.4% of the cotton we used came from more sustainable sources, including 7.8% organic cotton and 3.6% Better Cotton. By 2020 at the latest, we want to reach 100%.
- We launched a collection of evening dresses made of conscious materials worn by celebrities around the world, clearly showing that affordable more sustainable fashion is ready for the red carpet.
- Our support for innovation in sustainable materials continues. For example, we used as much recycled

polyester as is equivalent to 7.9 million plastic bottles.

- To make it easier for consumers to care for their clothes in a conscious way, we collaborated with Ginetex, the owner of the current global care label standard to develop a new clevecare label.
- We became a member of the board of the Sustainable Apparel Coalition (SAC).

PROGRESS REPORT

COMMITMENT ONE		<i>Provide fashion for conscious customers</i>		
		STATUS		
CONSCIOUS ACTION		STARTED	MORE TO DO	ON TRACK/ ACHIEVED
1.1	Use only more sustainable cotton*			
1.2	Support innovation in sustainable fibres			
1.3	Promote more sustainable leather			
1.4	Make 7 million pairs of shoes using water based adhesives			
1.5	Inspire our customers to join our Conscious Actions			
1.6	Introduce conscious wash and care instructions			
1.7	Help set industry standard for measuring product sustainability			
1.8	Collaborate with French government in pilot on product lifecycle assessment			
1.9	Provide best possible sustainability training for buyers and designers			
1.10	Increase the knowledge amongst our sales advisors about our sustainability work			
1.11	Translate new sustainability website into multiple languages			

* Please find an independent assurance statement related to GRI 3.1 indicator EN1 (cotton) here (page 91-92).

2,200 hours
of training on
sustainability
for our designers and buyers

27% of our leather shoes
were made from leather certified by
the Leather Working Group (LWG)

375,000 visitors to
our sustainability
website

7.4 million
pairs of shoes made
using water-based
adhesives

Provide fashion for conscious customers

Stakeholder Voice

**NIELS OSKAM,
FOUNDER, RANK A BRAND**

Through the use of clear and transparent labelling, H&M is enabling the rapidly-increasing number of conscious consumers to make more sustainable shopping choices. H&M labelling indicates, for example, when clothing is made of preferred materials such as organic cotton.

The annual Sustainability Report published by H&M gives good insight into the company's policies and performance around: reducing carbon emissions, environmental impact and improving labour conditions in the countries which produce their goods. This allows consumer organisations like Rank a Brand to use the information and provide consumers with clear facts, empowering them to make sustainable shopping decisions.

Rank a Brand encourages H&M to expand its investments in sustainability projects such as the Better

Cotton Initiative and the Roadmap towards Zero Discharge of Hazardous Chemicals. In addition, we would love to see H&M shift their targets from reducing carbon emissions relative to sales to reducing their absolute annual carbon emissions. As the turnover of H&M grows year after year, planet earth does not.

All together there is a long way to go, to make fashion garments in a way that is fair and sustainable, but that is what consumers expect from companies, and it's totally worth it!

H&M is enabling the rapidly-growing number of conscious consumers to make more sustainable shopping choices. ”

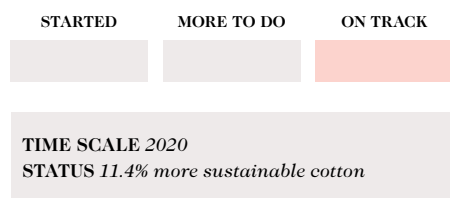
Niels Oskam, Founder, Rank a Brand



Provide fashion for conscious customers

CONSCIOUS ACTION 1.1

Use only more sustainable cotton



Cotton is the material we use most. It is a natural, renewable material with many advantages, but it also raises a number of concerns. For example, conventionally-grown cotton can have a heavy impacts on the environment such as intense use of water and pesticides. Organic cotton, Better Cotton and recycled cotton reduce this impact significantly. That's why, by 2020 at the latest, we aim for all our cotton to come from such more sustainable sources. Doing so also helps farmers and their communities improve their standard of living.

Looking at our 2012 figures, we are on track on this journey. We maintained our position as the largest user of certified organic cotton for the second consecutive year according to Textile Exchange's

latest Organic Cotton Market Report 2011. Since then we have continued to increase the volume of organic cotton we use by more than 20 percent and it now represents 7.8 percent of our total cotton use.

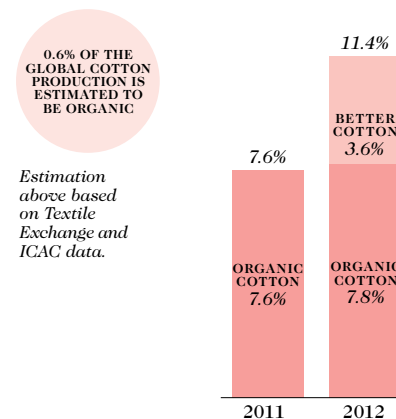
We also took big steps into Better Cotton, which now makes 3.6 percent of our cotton use. This means significant reductions in water and chemical use and better livelihood for hundreds of thousands of cotton farmers who are trained in better farming techniques through the Better Cotton Initiative's (BCI) implementation partners Solidaridad and WWF.

Recycled cotton is still a niche product today, but we believe that in line with our ambition to close the textile loop, more recycled cotton will be available in the future.

"H&M's world-leading use of organic cotton continues to drive demand. This supports cotton farmers, encourages innovation and with its fashion forward Conscious Collections, H&M lifts more sustainable fashion to scale."

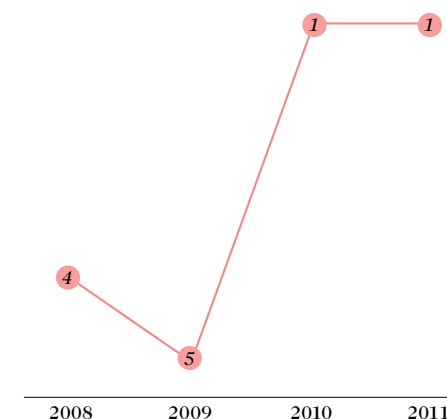
LaRhea Pepper, Managing Director, Textile Exchange

% OF MORE SUSTAINABLE COTTON ON OUR TOTAL COTTON USE



As requested by many of our stakeholders and for comparability reasons we report our use of more sustainable cotton in percentages and not by weight. Please find an independent assurance statement related to GRI 3.1 indicator EN1 (cotton) here (page 91-92).

H&M'S RANK AS USER OF ORGANIC COTTON 2008-2011



Latest available data according to Textile Exchange's Organic Cotton Market Report 2011, published in Autumn 2012.

WHAT IS MORE SUSTAINABLE COTTON?

	REDUCED WATER USE	NO CHEMICAL OR PESTICIDE USE	SIGNIFICANTLY REDUCED FERTILISER OR PESTICIDES USE	SOCIAL CRITERIA APPLIED	BAN ON GMO COTTON	LARGE-SCALE AVAILABILITY
Conventional Cotton	no	no	no	no	no	yes
Better Cotton	yes	no	yes	yes	no	yes
Organic Cotton	no	yes	yes	no	yes	no
Recycled Cotton	yes	yes	yes	no	no	no

We consider certified organic cotton, Better Cotton and recycled cotton as more sustainable cotton.

Provide fashion for conscious customers



No. 1 user
of organic
cotton in
the world

Stakeholder Voice

**JANET MENSINK, INTERNATIONAL PROGRAM COORDINATOR
SUSTAINABLE FASHION, SOLIDARIDAD NETWORK**

What are the benefits of Better Cotton?

Better Cotton is a holistic and innovative approach to change the cotton sector. It strives for continuous improvement on economic, social and environmental issues that have a very negative footprint if cotton is cultivated conventionally. Its scope is global, aiming for a mainstream solution. The Better Cotton Initiative is set up in a multi-stakeholder setting, and backed by major brands and retailers, farmer organisations, traders and manufacturers and civil society organisations. The interesting aspect of Better Cotton is that brands and retailers aren't simply complying with a standard; they are also investing in training farmers to help them cultivate more sustainable cotton.

Why do you support Better Cotton in addition to organic cotton?

Both standards have proven to impact the lives of cotton farmers and their environment. Solidaridad is working with the two systems in the field, meaning that we train and support farmers to convert to smarter and more sustainable agriculture. More cotton with fewer resources. We have first-hand experience that both better and organic cotton lead to measurable improvements at the farmer level, including less pesticide use, increased income and better conditions for labourers.

What difference does it make for people and the environment if a company like H&M switches from conventional cotton to more sustainable cotton?

Converting to a more sustainable economy is only possible when the private sector is driving this change. H&M can be a game changer! That H&M switches to more sustainable cotton, such as



organic and Better Cotton can literally change the lives of hundreds of thousands of farmers and the communities they live in.

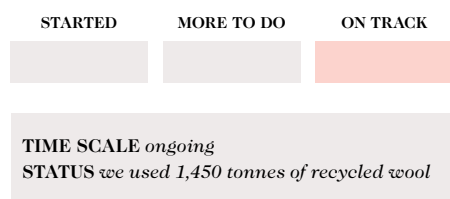
That H&M switches to more sustainable cotton can change the lives of hundreds of thousands of farmers.”

Janet Mensink, Solidaridad Network

Provide fashion for conscious customers

CONSCIOUS ACTION 1.2

Support innovation in sustainable fibres



Alongside our target to use only more sustainable cotton, H&M is an important user of many innovative fabrics like Tencel®, recycled wool, recycled cotton, organic linen and organic hemp.

By driving demand, we want to strengthen the market for these materials and encourage further innovation. This is a key to tackling some of the challenges in our industry and offers business opportunities – like turning PET-bottles into exclusive red carpet dresses. This reduces both the need for virgin resources as well as consumer waste. We used as much recycled polyester as is equivalent to 7.9 million PET bottles in 2012.

We use the fibre benchmark created by the organisation MADE-BY

to inform our material choices. Besides promoting the best options, we are working to gradually phase out those materials classified as least sustainable (class D). We also support Mistra and their ‘Future Fashion’ project, which promotes systemic change in the fashion industry. It produces detailed research on textile recycling and amongst other things, on how to speed up the market introduction of material innovations.

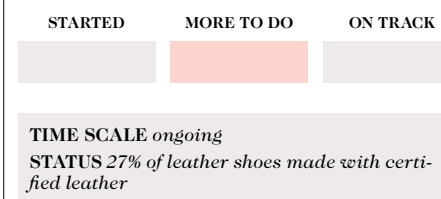
> hm.com/consciousmaterials

H&M plays a leadership role by showing other brands in the same space that it is possible to create fashion collections that are more environmentally responsible. ”

Allanna McAspurn, CEO, MADE-BY

CONSCIOUS ACTION 1.3

Promote more sustainable leather



Leather products can require 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. This is why in 2009 we joined the Leather Working Group (LWG) to promote sustainable business practices in this sector. Tanneries must comply with high environmental standards before being certified by the Group.

We work to ensure that as much of the leather used to make our products as possible comes from LWG-certified tanneries. In 2012, 27 percent of the leather shoes in our stores were made of such leather. Most of the leather used, however,

came from Portugal which has not been prioritised for certification due to high EU standards. China is another important sourcing market for leather with greater environmental challenges. As a consequence, 63 percent of Chinese leather used came from LWG-certified tanneries.

H&M only accepts products made of leather from animals that have been bred for meat production. No vulnerable or endangered species may be used. We do not sell exotic animal skins and do not allow cow leather originating from India due to poor transport conditions.

> leatherworkinggroup.com



Provide fashion for conscious customers

CONSCIOUS ACTION 1.4

Make 7 million pairs of shoes using water-based adhesives



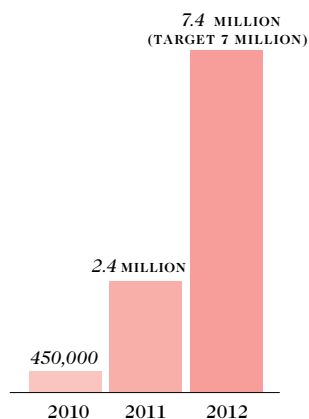
7 million pairs. We exceeded that goal as well and produced 7.4 million pieces. We aim to further increase this figure in the future.

Solvent-based adhesives are often used in shoe and bag production, but they can be harmful to workers in factories if not handled with sufficient protection. In 2009, we started working with chemical manufacturers, adhesive producers 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 percent without compromising quality.

In 2010, 450,000 pairs were produced this way. By the end of 2011, we had increased these numbers by more than 400 percent to more than 2.4 million pairs. Since then, 100 percent of our bags are also produced using water-based adhesives.

For 2012, our goal was to produce

NO. OF SHOES PRODUCED USING WATER-BASED ADHESIVES



Using water-based adhesives is better for the health of those who make the products.

Provide fashion for conscious customers

CONSCIOUS ACTION 1.5

Inspire our customers to join our Conscious Actions

STARTED MORE TO DO ON TRACK



TIME SCALE *ongoing*

STATUS *global system to collect old clothes for reuse and recycling launched*

While we need to keep working hard to make fashion more sustainable, we know that our customers play an important role, too. That's why we want to inspire them to join our Conscious Actions. To achieve this, we want to make conscious choices easy, available, affordable and attractive to as many people as possible. But more sustainable product choices alone are not enough.

We involve our customers on a number of fronts. Through dedicated collections and campaigns we team up with them to help communities and raise awareness of important matters. Our Fashion Against Aids campaign focused on HIV/Aids awareness, H&M for Water on water issues in some of the poorest communities in the world and our All for Children collections support

our work with UNICEF in India and Bangladesh on children's rights. We are also expanding our community investments through in-store donation campaigns.

We want to create fashion that our customers love from season to season and that helps them build their personal style. But if the point comes when some clothes are no longer right, we want to make it easy for customers to not let them go to waste. Through our new global initiative we are collecting unwanted clothes, from any brand, in H&M stores in all our markets to help reuse and recycle them.

We also try to inspire climate and water-conscious garment care. And we are working in several ways to make informed choices as easy as possible for consumers, for example through the Sustainable Apparel Coalition.



H&M has the strength and ability to bring sustainability ideas to the marketplace at scale. In the future I would like to see new business models – fewer products and different ideas about fashion. ”

Kate Fletcher, author of the book *Sustainable Fashion and Textiles: Design Journeys (2008)* and reader at the Centre for Sustainable Fashion, London College of Fashion

Provide fashion for conscious customers

CONSCIOUS ACTION 1.6

Introduce conscious wash and care instructions



Making fashion more sustainable includes inspiring our customers to choose conscious garment care.

The ‘user phase’ accounts for about 36 percent of the climate impact of a garment’s lifecycle. Water eutrophication – resulting, for example, from washing detergents and softeners – also arises to about 30 percent when clothes are washed in our homes.

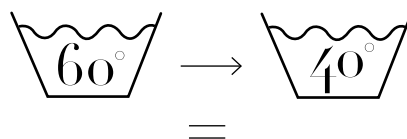
There are many ways to reduce this impact in a smart way without compromising on comfort or increasing costs. For example, reducing the washing temperature from 60 to 40 degrees can save 41 percent in energy use. What’s more, it keeps clothes just as clean and fresh – and it saves money!

We want to play a part in inspiring

our customers to reduce this impact. That’s why we started discussions with Ginetex in 2011. Ginetex is the owner of the current global standard care labeling system. Our aim was to develop a globally-applicable care label that encourages consumers to care for their clothes in a more conscious way.

We chose to collaborate with Ginetex in order to create a common standard for all brands globally to avoid a patchwork of different standards and labels, that would make things more confusing for everyone. This new so-called clevercare label is now available to all apparel brands globally. The first orders carrying this new label are planned to reach our stores in summer 2013.

> hm.com/care
> clevercare.info



41% LESS ENERGY USE

CONSCIOUS ACTION 1.7

Help set industry standard for measuring product sustainability



Joining forces with industry peers and other stakeholders is key to tackling the major sustainability challenges in our industry. This is why we joined the Sustainable Apparel Coalition in 2011. This quick-growing multi-stakeholder initiative today brings about 50 percent of the global apparel and footwear production including brands such as Patagonia, GAP Inc., Nike Inc. and many more together with other key stakeholders such as suppliers, academics, and NGOs. Together, we are working to build a common approach for evaluating product sustainability performance, using what is known as the Higg Index.

Created in 2012, the index provides all members with a common tool to measure and benchmark the environmental and social impacts of

their products. This in turn helps to highlight areas ripe for technological innovation and to set the right priorities. At H&M, we tested the pilot version of the Higg Index during the year and found great value in it. A challenge of how to apply the index on a larger scale, however, remains and will require continued work.

Ultimately, taking this groundbreaking work another step further, the Sustainable Apparel Coalition aims to translate the Higg Index into consumer labelling, allowing customers to compare the sustainability performance of apparel and footwear products across products and even brands. In line with our aim to make more sustainable choices as easy as possible for consumers, we fully support this ambition.

> apparelcoalition.org

Provide fashion for conscious customers

CONSCIOUS ACTION 1.8

Collaborate with French government in pilot on product lifecycle assessment



During 2011, we started collaborating with the French government in an initiative called the Grenelle Project. The project involves identifying measurements for environmental impact and finding the best ways to make this impact transparent for customers.

As part of the project, we looked at one of our t-shirts and evaluated the total water use, CO₂ 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 was a challenge that helped us in gaining valuable knowledge. In 2012, we launched a dedicated website disclosing the exact results of this analysis to our French customers.

The results underline the importance of the user phase on CO₂ emissions and water eutrophication and the high water-intensity of cotton cultivation.

The take-home from this project will be of great help in our continued work to analyse and minimise impacts of apparel products throughout their lifecycle. It will hopefully also support the process of developing legislation for transparent product impact disclosure in the EU – an ambition that we support.

ENVIRONMENTAL IMPACT OF A T-SHIRT THROUGHOUT ITS LIFECYCLE



CONSCIOUS ACTION 1.9

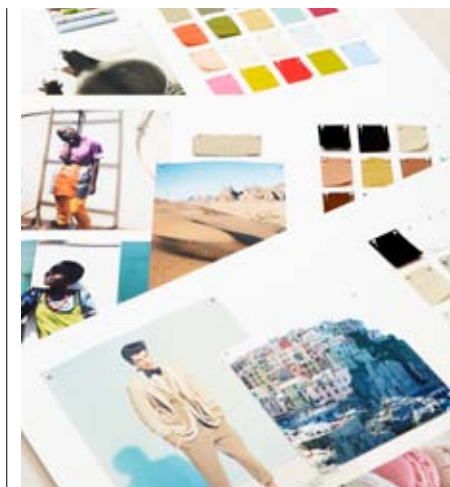
Provide best possible sustainability training for buyers and designers



In order to offer more sustainable fashion to our conscious customers, buyers and designers have to be well informed about the sustainability values and the impact of different products and their decisions.

To this end, we provide dedicated mandatory training for these colleagues.

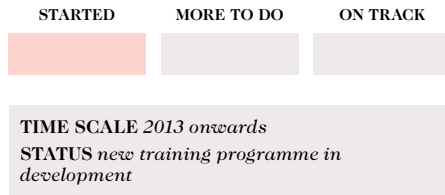
Additional internal and external in-depth training courses are encouraged for people in key positions and on a voluntary basis, for example in collaboration with the Sustainable Fashion Academy. In 2012, we provided a total of 2,200 hours of sustainability training for our buyers and designers.



Provide fashion for conscious customers

CONSCIOUS ACTION 1.10

Increase the knowledge amongst our sales advisors about our sustainability work



We want our colleagues to feel proud of where they work and confident that they can deliver the best possible customer service. So together with the launch of our first Conscious Collection in 2011, we rolled out a mandatory training programme for all our sales advisors.

A study showed that while our colleagues were well-versed in conscious materials, other aspects of our sustainability work were not always as well known.

That is why in 2012, we started developing a broader sustainability training ladder including extensive mandatory training for all our colleagues. Additional mandatory role-specific and voluntary training courses are planned from 2013 onwards.

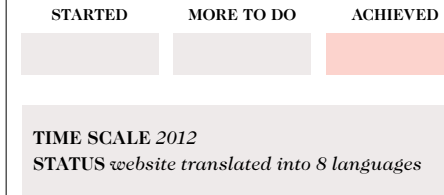


I would like to see more sustainability training for staff and more sustainability communication to our customers in store, such as signs or posters.”

Marcel Krink, Sales Advisor in H&M store DE714, Karlsruhe, Germany

CONSCIOUS ACTION 1.11

Translate new sustainability website into multiple languages



We want to make a conscious and informed choice as easy and attractive to our customers as possible. As part of this, we translated our new sustainability website into eight major languages spoken in some of our most important markets. The aim is to provide as transparent information as possible to both our interested customers as well as other stakeholders, complementing our annual sustainability reporting.

The website also features a regularly updated blog from our Head of Sustainability, keeping our stakeholders informed about our progress and activities.

> hm.com/conscious



375,000
visitors to our
sustainability
website

COMMITMENT TWO

Choose and reward responsible partners



We set high standards for our suppliers and regularly monitor how well they live up to them. Likewise, in order for them to deliver their very best we need to be a good partner ourselves.

The challenge is that garment production is often located where human rights are at risk and environmental awareness is less developed. As a labour-intensive industry, for many of these countries this means the first step in industrial development, contributing to jobs and economic growth. As a company, we want to make sure that sourcing from these countries contributes to a positive development for the community and to better lives for the people working in this sector.

Respect for people and the environment is an essential part of our values. We use our influence to promote better working conditions

and environmental consciousness throughout our value chain.

Our commitment is to choose and reward responsible partners who share our values and who are willing to be transparent and work with us to improve their social and environmental practices. We provide training and support for improvements.

Production takes place at around 1,800 factories that are owned or subcontracted by 785 suppliers. We look for long-term partnerships with our suppliers and engage in strategic partnerships with the best ones. And we reward good sustainability performance with better business. As a result, our some 150 strategic partners make more than 50 percent of our products.

We focus on working towards greater involvement of the workers themselves and on empowering our suppliers to take ownership of their sustainability issues. A close collaboration with our industry peers and many other stakeholders is key for change.

All this in turn can contribute to greater stability in the producing countries and tends to translate into more efficient operations and higher quality products.

Increasingly, we are also working to improve conditions in other parts of our value chain.

Choose and reward responsible partners

Performance overview

HIGHLIGHTS FROM 2012

– We conducted 2,541 audits at our supplier factories (first tier). Together with training and other support, this totals an average of 3.6 activities per factory, all working to improve their sustainability.

– Our CEO visited the Prime Minister of Bangladesh, Sheikh Hasina, to emphasise H&M’s support for higher minimum wages and regular wage adjustments in the country.

– Together with the Swedish union, IF Metall, we initiated a project in Cambodia aiming to improve the dialogue between employers and unions and to strengthen collective bargaining.

– Our supplier sustainability performance index (ICoC) increased from 76.5 to 78.4 during 2012.

– As a result of our work to build strong, long-term relationships with our suppliers, we decided to publish our supplier list.

570,821 workers
in Bangladesh
trained in their rights
since 2008

9,815 interviews
with workers in our supplier
factories

More than **100,000 workers** and middle managers in Bangladesh have received additional training in fire safety

PROGRESS REPORT

COMMITMENT TWO		Choose and reward responsible partners		
		STATUS		
CONSCIOUS ACTION		STARTED	MORE TO DO	ON TRACK/ ACHIEVED
2.1	Be a responsible partner to our suppliers			
2.2	Choose responsible partners			
2.3	Have best possible knowledge about our value chain and our suppliers’ sustainability performance*			
2.4	Go beyond monitoring and help suppliers strengthen their sustainability ownership			
2.5	Further increase sustainability performance amongst supplier factories			
2.6	Reward good sustainability performance with better business			
2.7	Increase workers’ awareness of their rights			
2.8	Promote higher wages for garment workers across the industry			
2.9	Set up model factories			
2.10	Ensure freedom of association and promote social dialogue			
2.11	Reduce overtime in supplier factories			
2.12	Support better health for factory workers in Cambodia			
2.13	Continue to promote improved fire safety in Bangladesh			
2.14	Continue to promote an end to Sumangali schemes in the Indian textile industry			
2.15	Request ban on Uzbek cotton			

* Please find an independent assurance statement related to GRI 3.1 indicator AF 14 here (page 91-92).

Choose and reward responsible partners

Stakeholder Voice

VIVEKA RISBERG,
DIRECTOR, SWEDWATCH

What are the biggest challenges of the fashion industry from your perspective?

Garments are produced mainly in countries with repressive regimes that do not promote human rights and sound wage processes based on UN standards and gender equality. Women especially, who constitute a majority of the workforce in the fashion industry, are deprived of their rights. Therefore a major challenge for the industry is to both support garment workers and at the same time use its leverage on a national and international level for increased wages and improved working conditions. Less water consumption, clean cotton production and replacing cotton with other materials are of course important challenges for the industry, too.

What role do you think H&M plays in tackling these challenges?

H&M is a forerunner and in some

aspects a role model in the industry: On a strategic level because of its continuous dialogue with decision makers and on the operational level because of the focus on worker's rights in the factories.

Where do you see H&M's strengths?

The company's size and expansion are natural strengths that give H&M a mandate and possibility to influence. The top management's engagement stands out as a good example in the sector. The company's efforts in measuring and rewarding compliant suppliers shows that CSR is not only an external issue but on its way to be core.

What actions would you like to see from H&M in the future?

I would like to see H&M upgrading the Code of Conduct's demand for minimum wage to a wage to live on as well as greater actions for respecting human rights in Bangladesh and extra attention to the situation of working women.

H&M is a forerunner and in some aspects a role model in the industry. ”

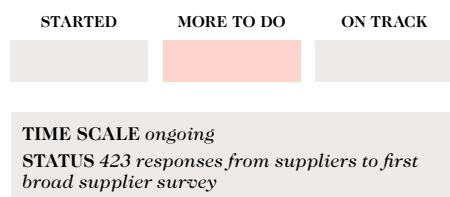
Viveka Risberg, Director, Swedwatch



Choose and reward responsible partners

CONSCIOUS ACTION 2.1

Be a responsible partner to our suppliers



We have high expectations of our suppliers in terms of quality, prices, lead times and sustainability. But demanding positive change from our suppliers starts with us. We have a responsibility to ensure that our purchasing processes enable our suppliers to live up to our demands by providing fair lead times, fair pricing, on-time payments and clear communication. We work with them in close partnership to learn from and understand each other and to reward suppliers with good sustainability performance.

Having our own production offices close to our suppliers allows us to have a constant dialogue with them. We strive for long-term relationships. Key for our suppliers are long-term partnerships and mutual growth, together with good planning in order

to utilise their capacity as effectively as possible and plan their continued growth. That's why as part of our supplier relationship management we offer our strategic partners up to five-year mutual capacity planning.

In order to check how well we live up to our partnership approach, we surveyed our suppliers to see how they feel about working with us. It was the first time we conducted such an extensive supplier survey and we received 423 responses to the anonymous questionnaire. The results indicate that the vast majority of the respondents were satisfied with their business relationship with us (around 90 percent), while satisfaction was even higher amongst our strategic partners. More than 70 percent said that their partnership with H&M has improved since we introduced our supplier relationship management programme in 2011. It also shows that most of our suppliers think that we have reasonable and clear demands on lead times, prices and flexibility.

> hm.com/responsiblepurchasing

*Our 148 strategic partners
make 53% of our products*



Long-term partnerships and mutual capacity planning are key to suppliers.

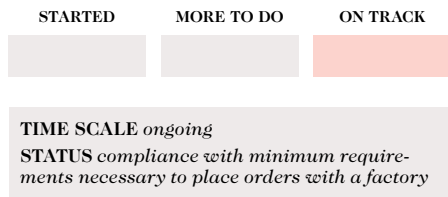
Choose and reward responsible partners



96%
of all factories
audited before first
order placement

CONSCIOUS ACTION 2.2

Choose responsible partners



We are a growing company. With 10 to 15 percent new stores per year, we constantly need to source new production capacity. As part of our sourcing strategy, we only allow production 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 by them. And it remains the case regardless of the price they offer.

New partners must comply with the minimum requirements of 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 part-

ner. If, based on this understanding, they continue to show a strong willingness to work with us in a trustful and transparent manner, our commercial sourcing teams often starts 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 our minimum requirements and has the potential for further improvement. Only after our auditors' approval orders can be placed with any factory.

In 2012, we audited 485 potential new supplier factories and of these did not approve 25 percent (119). All factories that are approved in this initial assessment are covered by our Full Audit Programme (FAP), through which we continuously monitor the progress made by each factory and work to remediate any non-compliance that might arise.

> hm.com/monitoring

We set high social and environmental standards for our suppliers.

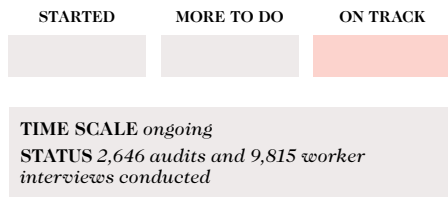


25%
of potential
new
factories
were
rejected
at the first
audit

Choose and reward responsible partners

CONSCIOUS ACTION 2.3

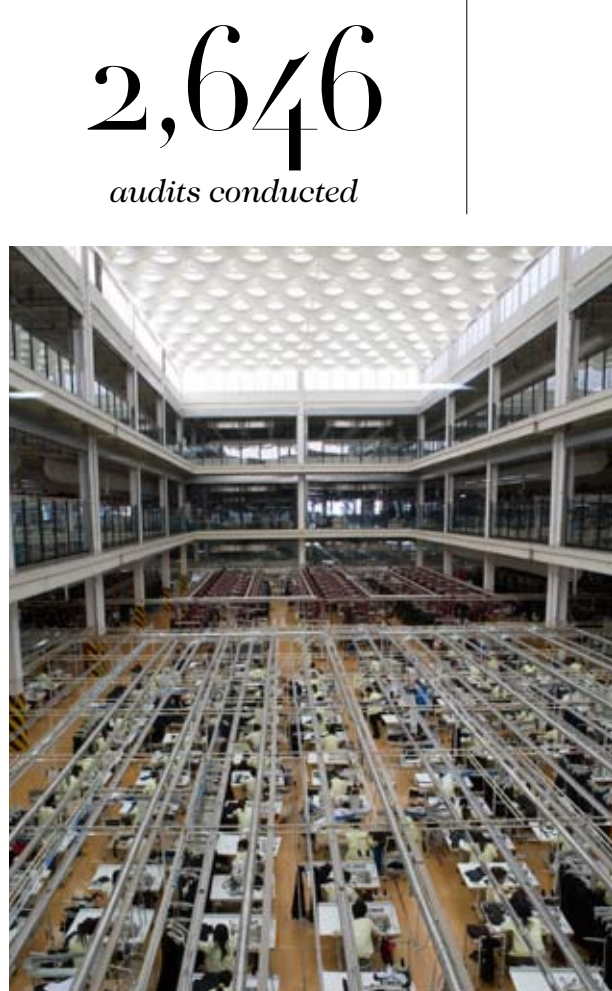
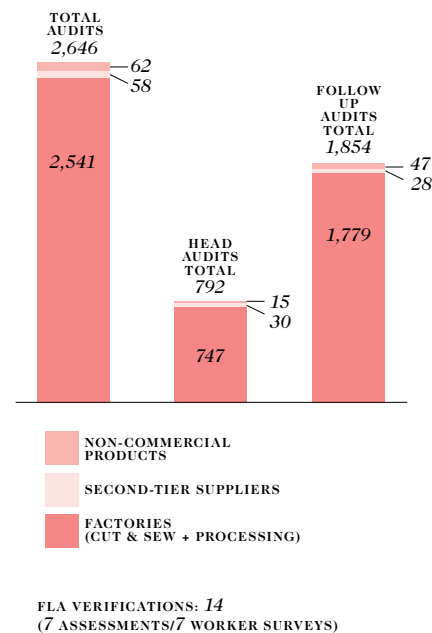
Have best possible knowledge about our value chain and our suppliers' sustainability performance



Through our 15 production offices around the world, more than 1,800 of our colleagues work to maintain close relations with our suppliers and support their performance in various areas. This gives us the opportunity to understand each market and supplier on an in-depth level. Through our strong presence, we can also work as closely as possible together with our suppliers on a daily basis, integrate what we learn in our business decisions and interact with local stakeholders.

There are around 100 sustainability experts based in our production offices who regularly audit our supplier factories' compliance with our Code of Conduct and support improvements. Our audits follow a constantly updated list of around 300 questions and include an

NO. OF AUDITS ON ACTIVE FACTORIES



inspection of the factory, management interviews, document checks and interviews with workers. Audits are complemented with thorough management system analysis, aiming to prevent any non-compliance in a sustainable manner.

Initial head audits are largely unannounced (2012: 66 percent). Our Code of Conduct covers 100 percent of our commercial goods suppliers, with audit intensity varying based on our risk assessments and the importance of the factory to our business. Any non-compliance detected requires the supplier to draft a remediation plan which is followed up on by us. Wherever needed, we provide or facilitate additional support in implementing the remediation plan. We publish all detailed audit results here.

Results from our audits are aggregated in our Index Code of Conduct (ICoC index). Each factory and each-supplier is rated with an ICoC score (max. 100 percent) based on their compliance. These scores are clearly communicated to each factory. It's also an integrated working tool in →

Choose and reward responsible partners

62%
of our suppliers' employees are female

our purchasing processes. Our data shows that strategic factories show a stronger performance than factories that we have just started working with – a clear indication of the improvements that our partnership approach promotes.

Additional independent verification audits conducted by the Fair Labor Association (FLA) ensure the quality of our audit programme and help us to constantly improve our methods as we strive to tackle root causes of non-compliance in a transparent, trustful and sustainable manner.

We have continued our work to increase our influence over stages further down in our value chain. For the past few years, we have increased our engagement through our Mill Development Programme, which we continue to work with. In 2012, we conducted a total of 58 audits on second-tier suppliers and we now require all our first-tier suppliers to provide us with information on the fabric mill for each order. The aim is to deepen our knowledge and influence over fabric mills. We are

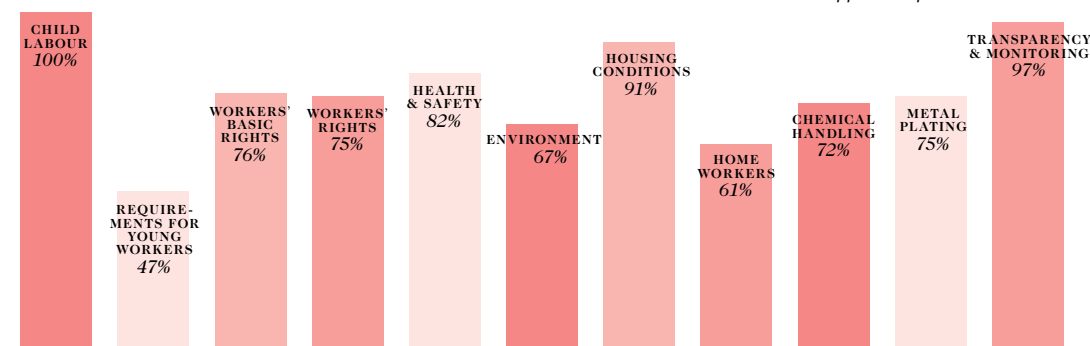
also extending the use of our Code of Conduct to include suppliers of non-commercial products such as store interiors and marketing material and conducted a total of 62 head- and follow-up audits.

Seeking to further expand the transparency of our supply chain, we have decided to disclose the list of our supplier factories, covering about 95 percent of our production volume. This publication is a consequence of our focus on strong and long-term partnerships with suppliers, allowing us to disclose their names without major concerns about competition on production capacity.

- > hm.com/monitoring
- > hm.com/supplychain
- > hm.com/supplierlist

9,815
worker interviews
conducted

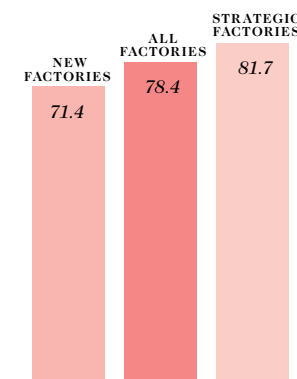
SUPPLIER FACTORY COMPLIANCE LEVEL PER AREA OF REQUIREMENTS



The data shows the compliance level of all supplier factories approved for production as of 30 Nov 2012. Further details including a regional breakdown are available at hm.com/suppliercompliance.

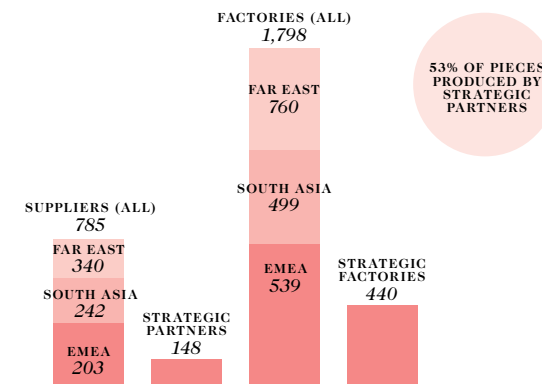
Please find an independent assurance statement related to GRI 3.1 indicator AF 14 here (page 91-92).

AVERAGE SUSTAINABILITY PERFORMANCE SCORE (ICoC) PER FACTORY CATEGORY



New factories = results at first audit
All and strategic factories = results from existing factories by 1 Dec 2011

NO. OF SUPPLIERS AND FACTORIES BY REGION

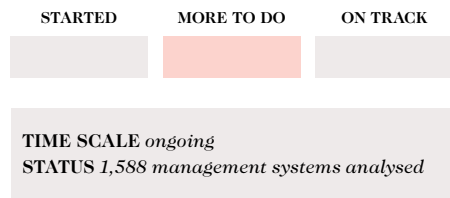


One supplier can own or subcontract to one or more factories. Strategic factories are normally factories owned or subcontracted by our strategic partners.

Choose and reward responsible partners

CONSCIOUS ACTION 2.4

Go beyond monitoring and help suppliers strengthen their sustainability ownership



Monitoring our suppliers is important, but not enough to create lasting change. Over the past few years we have therefore focused on going beyond monitoring to create sustainable progress with the active participation of our supplier factories and their workers. Our long-term aim is for our suppliers to increasingly take charge of their own sustainability. That's why we are investing major resources in helping them improve their management systems and provide and facilitate extensive training to factory management, mid-level management and workers themselves in order to strengthen their in-house sustainability capacities.

Our focus is on our strategic partners, where we have stronger influence and bigger impact. This way, complementing our purchasing prac-

tices and auditing, we ultimately aim to significantly extend the improvements in the sustainability performance amongst our suppliers.

During 2012, we conducted 1,588 management system analyses amongst our supplier factories. Together with about 2,300 other activities (such as capacity building and workshops) and 2,541 audits, each factory received an average of 3.6 (strategic factories 4.7) activities aiming to improve their sustainability.

We are happy to see that more and more of our suppliers are taking a strong ownership over sustainability today, publishing their own sustainability reports and showing a strong record of performance measurements. In Sri Lanka, we have therefore started to test self-reporting of sustainability performance with selected suppliers that have reached a very mature level in their sustainability. The test will be conducted and evaluated throughout 2013.

> hm.com/beyondmonitoring

AVERAGE NUMBER OF SUSTAINABILITY ACTIVITIES STRATEGIC FACTORIES VS. ALL FACTORIES



1,588
supplier management
system analyses
conducted

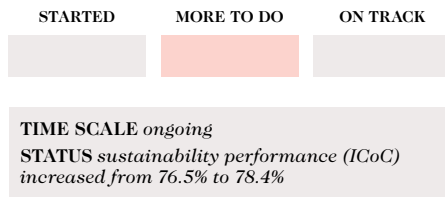
A healthy business requires long-term sustainability. H&M's self-assessment project helped us to calibrate our internal audit procedures according to H&M's requirements.”

Mrs. Ranga Ranmadugala, CEO, Brandix Essentials Ltd., Sri Lanka

Choose and reward responsible partners

CONSCIOUS ACTION 2.5

Further increase sustainability performance amongst supplier factories



Ultimately, by being a good partner to our suppliers, continuously monitoring and strengthening our suppliers' sustainability management, and rewarding good performance we want to increase their sustainability performance further. In addition, by increasing awareness of their rights amongst factory workers, promoting social dialogue and rewarding the best performing suppliers with better business, we hope to contribute to a positive development in the factories and their surrounding communities.

We focus on our strategic factories where we have the strongest impact. We use our ICoC index to measure their sustainability performance, consisting of compliance results from our audits. Each factory and each supplier holds an ICoC score that is

clearly communicated. Through our in-house production office organisation, they are closely integrated into our purchasing systems. We conduct annual dialogue meetings with our suppliers in which we amongst other things discuss their sustainability performance and their achieved ICoC score and together set priorities for further improvements.

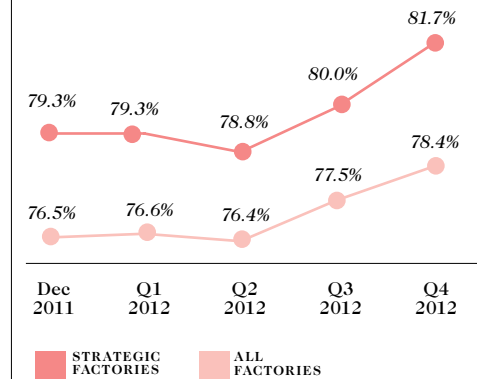
Over the year we have seen continued progress across our entire supplier base with constantly increasing ICoC scores, while our strategic factories have shown an overall higher performance level as well as a stronger increase throughout the year. We will continue our work to promote improvements and closely monitor and report on the progress made.

> hm.com/monitoring

The sustainability performance amongst our supplier factories improves measurably.



PROGRESS IN FACTORY SUSTAINABILITY PERFORMANCE (IN ICoC SCORES)



Applies to comparable factories that were used for production from 1 Dec 2011.

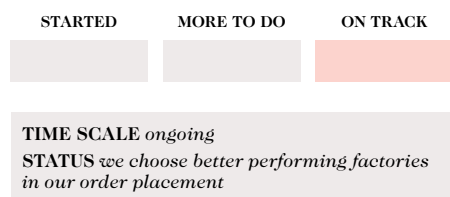
H&M's efforts in measuring and rewarding compliant suppliers shows that CSR is on its way to be core.”

Viveka Risberg, Director, Swedwatch

Choose and reward responsible partners

CONSCIOUS ACTION 2.6

Reward good sustainability performance with better business



In order to sustain and incentivise good sustainability performance, we need to ensure that we reward our suppliers with what they would appreciate most - long-term business relationships and growth opportunities.

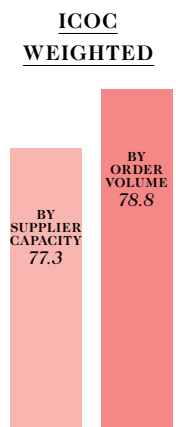
Our strong in-house sustainability teams, based in our production offices close to our suppliers, help us integrate results from audits into our order placement and sourcing processes. We have integrated the performance score (ICoC) for each supplier factory into our planning and order systems, aiming to place more and bigger orders with the better performing factories.

In order to measure how well we perform in terms of this ambition, we compare the ICoC scores of our supplier factories weighted by order

volume with scores weighted against the available capacity in our factory base. The data show that we choose better performing factories in our order placement. Our supplier survey indicates that our suppliers experience and appreciate such reward.

We have also integrated sustainability closely in our supplier relationship management, offering long-term strategic partnerships with our best performing suppliers. Such strategic partnerships provide mutual benefits, for example by securing stable business through long-term capacity planning up to five years ahead. Out of our 785 suppliers, currently 148 strategic partners (19 percent) make 53 percent of our products.

> hm.com/supplierrelations



5.8

years average length of supplier relations

Stakeholder Voice

JOYCE CHEN, MERCHANDISE MANAGER, HEMPEL (CHINA), CO. LTD

How long have you been working as supplier of H&M?

We have been working with H&M for around 20 years, since we started our business in 1992. Back then we only had 120 workers. Since then we have been growing together with H&M year by year and today, we employ more than 3,000 people. And we keep expanding – we opened a new factory in 2010.

What has changed since the start?

In our industry, production has moved from Turkey to China and recently from China to Bangladesh. We have continued to grow, but we need to continuously improve in order to keep up with demands on quality, on-time delivery, capacity, prices and sustainability. During the partnership, H&M has perfected the related systems and continuously increased the focus on sustainability. As a supplier, we receive in-depth training to improve our sustainability and H&M itself is driving several

projects on workers' rights and environmental protection backed by clear values and targets to achieve.

How would you describe your partnership with H&M?

It's a close collaboration between business partners. H&M has high demands on transparency and in turn offers the same. The feedback is fast, helping us to react quickly and keep a fair mutual dialogue. Long-term capacity planning and continuous increases in orders are important for our business and closely linked to H&M's sustainability requirements.

What would you like to see from H&M to further improve the partnership?

Most important is stable order placement also during the low season. I would also like to see even more sharing of best practice amongst suppliers when it comes to quality and sustainability.

Choose and reward responsible partners

Stakeholder Voice

**DAN REES, DIRECTOR,
BETTER WORK**

How long have you been collaborating with H&M?

We started our collaboration with H&M in 2005 in the Better Factories Cambodia Programme.

What was your first impression of H&M?

Our impression was that H&M was a company that took CSR seriously, focusing on improving factory conditions and not just following a “tick-the-box” approach in auditing, which was common at that time.

How did the partnership evolve?

Better Work is now partnering with H&M in more countries. We have seen how the business has developed more strength and depth in its efforts to improve factory conditions. H&M is honest about what they want and what they can and cannot do. And they deliver on promises.

What do you think are H&M's strengths when it comes to sustainability?

H&M is ahead of the curve in CSR. Their commitment to sustainability is supported by all levels of their organisation. The company has strong and decisive leadership, good relations with key stakeholders, skilled staff and it is large enough to drive real change in the supply chain.

What actions would you like to see from H&M in the future?

We would like to scale up our impact and make the most of H&M's leadership. We would encourage H&M to get more suppliers involved in Better Work. Sustainability should be placed at the heart of H&M's business strategy, decision-making and negotiations with suppliers.

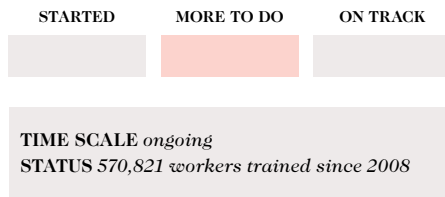


Choose and reward responsible partners

570,821
workers *have been* educated
about their rights since 2008

CONSCIOUS ACTION 2.7

Increase workers' awareness of their rights



Workers in supplier factories are often unaware of their rights. We believe that only workers who are aware of their rights can constructively claim them and contribute to a more sustainable garment industry.

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. 570,821 workers and middle managers received this training since the start of the project in 2008. During 2012, 128,790 workers and middle managers were trained.

In 2012, we developed similar short films also in India together with four other brands. We will implement the program in 2013.

We also work to increase workers awareness on their rights through our regular work with all our supplier factories, requiring the availability of our Code of Conduct for workers in local language and putting focus on functioning grievance systems and social dialogue.

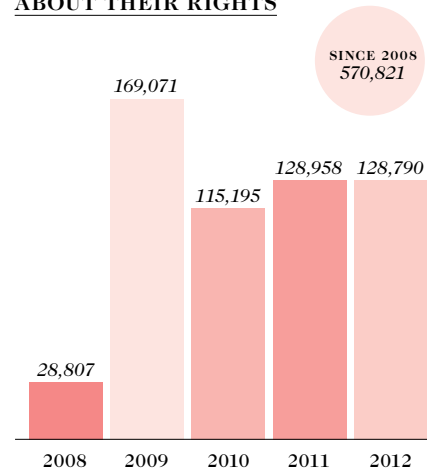
Each year we conduct thousands of worker interviews through which – among other things – we check the level of awareness for example on their right to freedom of association or how their wages are actually calculated. Looking back into the past four years, we can see good improvements in workers' awareness particularly in China making us confident to further focus on this strategic element of our work.

> hm.com/beyondmonitoring

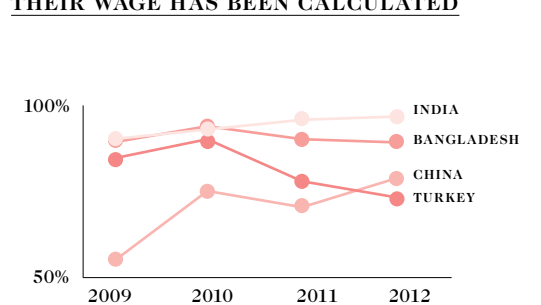
Workers in our supplier factories in Bangladesh receive training on their rights using short films.



NO. OF WORKERS EDUCATED ABOUT THEIR RIGHTS



% OF WORKERS WHO KNOW HOW THEIR WAGE HAS BEEN CALCULATED



Based on results from 3,420 worker interviews.

Choose and reward responsible partners

CONSCIOUS ACTION 2.8

Promote higher wages for garment workers across the industry

STARTED	MORE TO DO	ON TRACK
<p>TIME SCALE <i>ongoing</i> STATUS <i>independent fair wage assessments conducted</i></p>		

Everyone in the garment industry should earn enough to live on. There is no doubt. One of the basic requirements set out in our Code of Conduct, is that factory workers must be paid at least the minimum wage guaranteed by law. The Code of Conduct also expresses a clear intent that the salary must enable for the workers to support themselves and their families.

In order to ensure this throughout our industry, further systemic change is needed. The challenges along this way are diverse and complex. For example: Can individual factories pay higher wages than their competitors without putting their business and jobs at risk? How can one single buyer ensure that workers earn more in a factory that may be working for 10 or 20

different customers? And how can we ensure that wage developments in garment factories contribute to a natural growth in society without risking the competitiveness of entire countries?

These are serious challenges but they are not excuses. We believe that empowered workers are the ultimate key to fair wages and working conditions. While we are realistic about the fact that there is a long way to go in many countries, until wages are negotiated in fair collective bargaining processes, this must be the ultimate aim. In order to achieve this, we work on three levels.

We work to increase the awareness on their rights among workers through dedicated projects in Bangladesh and India and through our regular work with all our suppliers.

On the factory level, we have for many years now been monitoring the compliance with applicable minimum wages or collective bargaining agreements. In 2011, we joined the



When it comes to workers' wages our standpoint is clear: We support the Bangladeshi workers' demand for higher wages and regular reviews of the minimum salary.”

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

Fair Wage Network and as part of this the FLA conducted independent assessments of wage structures in about 200 of our supplier factories. Following this, we work to implement the fair wage concept in selected model factories aiming to deliver best practice examples.

We work to strengthen the social dialogue in our supplier factories and reward those that have trade union representation and functioning worker committees in place.

Both empowered workers and best practice examples from individual factories can help to bring systemic change to countries and sectors.

We also want to contribute to this by directly using our influence on decision makers and promote functioning systems for minimum wages, their reviews and collective bargaining on industry level.

Our CEO met with the Bangladeshi Prime Minister, Sheikh Hasina, to underline H&M's support for workers' claims for higher wages and

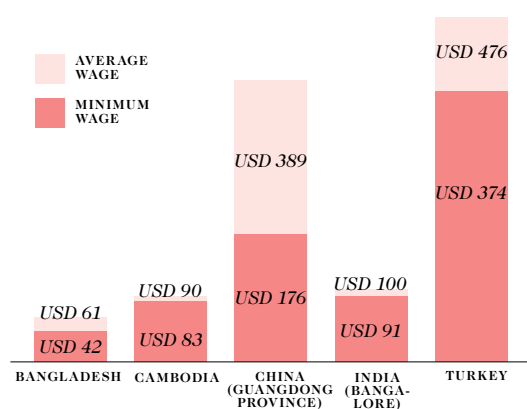
Choose and reward responsible partners

systems to continuously review and adjust wages to increases in the cost of living. The meeting followed two letters sent to the Government of Bangladesh in 2010, after which minimum wages in the country were increased by up to 81 percent, although systems for annual reviews are still missing.

In Cambodia, we teamed up with the Swedish union IF Metall to help local employer organisations and unions develop functioning collective bargaining systems for the entire sector. Rewarding suppliers for good sustainability performance supports this work with clear business benefits and security for suppliers through a strong integration of sustainability into our purchasing practices and our commitment to long-term relationships.

> hm.com/beyondmonitoring
 > fair-wage.com

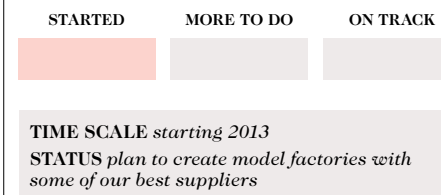
APPLICABLE MONTHLY MINIMUM WAGES VS. AVERAGE WAGES



Data based on audit results from representatively selected factories in each country/region. Wages applicable for machine operators (usually the largest group of employees) excluding overtime. In China, piece-rate systems often apply, hence wage data for China is not comparable.

CONSCIOUS ACTION 2.9

Set up model factories



We place high demands on our supplier factories – in various regards including sustainability. We are already seeing many of our strategic partners performing very well against these requirements while still keeping up with constant improvements. But we also know that many of our suppliers and our entire industry have more potential to improve.

To showcase that leadership in sustainability can go well together with best performance in all other areas, we want to team up with some of our best partners and create model factories. These best practice examples should set standards for our industry in many areas, including quality, sustainability, efficiency and lead times.

By doing this, together with these model factories we also want to work to implement the fair wage concept. We are currently in the process of identifying the best suited partners for this endeavour.

> hm.com/beyondmonitoring



Choose and reward responsible partners

CONSCIOUS ACTION 2.10

Ensure freedom of association and promote social dialogue

STARTED MORE TO DO ON TRACK

TIME SCALE *ongoing*
 STATUS *21% of our supplier factories have trade union representation in place*

At H&M, we believe that social dialogue and the fundamental right to freedom of association are key elements of successful and stable business operations – both for ourselves and for our suppliers. But many of the countries in which our suppliers are located lack systems of social dialogue, such as collective bargaining on wages and working conditions. In Bangladesh and Cambodia in particular, this has led to violent unrest and instability in the past.

In 2011, we 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. Factories with trade union representation in place are now being rewarded

with higher ICoC scores. Freedom of association, however, remains a major challenge in many of the markets in which we operate due to various political and societal reasons. We want to play our part in going beyond just monitoring freedom of association and contribute to improved social dialogue in our supply chain.

In 2011, we launched a social dialogue project in Bangladesh. We selected five factories to set best practice examples on democratic workplace representation. Since then we provided the management and workers with comprehensive training through external experts who also facilitated a total of 140 improvement circles involving more than 2,500 workers. In these circles, workers and managers discussed issues such as wages, leave, working clothes and protective gear at work, leading to jointly-agreed solutions.

In 2012, we initiated a new exciting project in another important production market: Cambodia. Unlike many other emerging markets, Cambo-

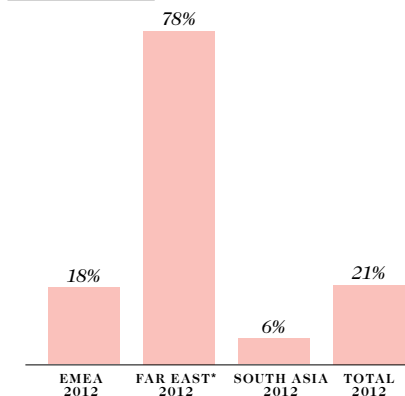
dia has a long history of collective bargaining and trade union representation. 100 percent of our supplier factories in the country have trade unions in place. However, negotiations in the sector are often confrontational, resulting in dead ends.

Together with the Swedish trade union IF Metall, and several other stakeholders, we have set up a unique project aiming to educate trade unions and employers on the importance of solution-oriented, fair negotiations. We hope that this results in more stable market conditions with better results for the workers in Cambodia.

In China, freedom of association remains a challenge due to political reasons. Workplace representation brings new opportunities for worker involvement which is why we promote workplace committees amongst our suppliers.

> hm.com/beyondmonitoring

% OF SUPPLIER FACTORIES WITH TRADE UNION REPRESENTATION PER REGION



*China and Vietnam are not included as national legislation allows only one national trade union.

Choose and reward responsible partners

Stakeholder Voice

ERIK ANDERSSON, INTERNATIONAL SECRETARY AT THE SWEDISH UNION IF METALL

What are the biggest challenges of the fashion industry from your perspective?

The biggest challenge certainly is to achieve decent and fair working conditions for all employees in the textile industry.

How important is the collaboration amongst companies and other stakeholders in overcoming these challenges?

It is very important that H&M is working for good cooperation between suppliers and their employees.

Looking at Cambodia – how does the country differ from other markets and what is needed to improve the situation of garment workers?

Cambodia is a country with a low standard of employment conditions and low wages for the garment

workers. The trade union movement needs to be better equipped through education and training in order to better represent their members in negotiations with employers and to improve employment conditions and wages through collective bargaining agreements.

What role does H&M have in tackling these challenges?

Through its auditing program, H&M monitors and follows up on that the applicable ILO conventions which are stated in H&M's Code of Conduct are followed by their suppliers. In Cambodia, H&M has a close cooperation with ILO's Better Factories Cambodia which is active in improving compliance with the ILO conventions in the readymade garment industry in the country.

Where do you see H&M's strengths?

H&M has its own organisation on the ground in Cambodia that follows up the suppliers' compliance with H&M's Code of Conduct. And

H&M has a close cooperation both with the suppliers, unions, government bodies and Better Factories Cambodia.

What actions you would like to see H&M take in the future?

As major action for the future, I see that H&M and IF Metall together carry out the project which we are jointly planning for Cambodia,

aiming to train and educate both the employers and the unions in negotiating collective bargaining agreements in good faith.



Choose and reward responsible partners

CONSCIOUS ACTION 2.11

Reduce overtime in supplier factories

STARTED	MORE TO DO	ON TRACK
TIME SCALE <i>ongoing</i> STATUS <i>further industry efforts needed</i>		

Overtime continues to be a major challenge in the garment industry. Even though we require all suppliers to comply with national labour laws regarding overtime, non-compliance is common throughout the industry. By the end of 2012, we registered a compliance rate of 17 percent on overtime hours within the legal limits among our supplier factories.

One way we can help minimise overtime is through our own buying behaviour – fair lead times, clear communication and long-term capacity planning help suppliers to improve their staff planning and to reduce the need for overtime to meet production deadlines.

Sadly, this alone does not yet guarantee less overtime. Further improvements in supplier opera-

tions and management systems are needed. Adding to the complexity of the issue, overtime compensation is often an important contributor to additional income, resulting in workers themselves often demanding for overtime to increase their pay.

Together with our suppliers we have gained knowledge about the structural causes of overtime and entered several projects in this regard, for example aiming to decrease overtime by increasing their efficiency. Through our supplier relationship management we can reduce stress on suppliers through our purchasing decisions, and through our management system analysis and capacity building we work to help suppliers overcome structural issues in their operations.

However, the challenge of overtime remains a core issue in our industry. It will require further scalable solutions in close connection with further promotion of higher wages while considering market-specific needs. We are committed to further focus on this challenge.



Choose and reward responsible partners

CONSCIOUS ACTION 2.12

Support better health for factory workers in Cambodia



In 2012, incidents of workers fainting or feeling nauseous were reported in seven factories in Cambodia. Out of these factories, four also produced garments for H&M and 218 workers were affected there. We ordered independent assessments to find the root causes of these worrying incidents, but the results were not conclusive. One reason was that these incidents only happened in Cambodia and in factories producing different kinds of products making it difficult to find a pattern.

To address this concerning issue, we have worked together with Better Factories Cambodia (ILO-BFC), our suppliers and industry associations to adopt measures to prevent such incidents.

In line with recommendations, the concerned factories developed dedicated action plans. Improvements have been achieved in cooling, ventilation and chemical handling. In other areas, including grievance handling, health and safety committees that involve workers have been created.

We also initiated a six-month programme to engage more local staff to take middle management positions. This is intended to improve communication between Khmer-speaking workers and the often Chinese-speaking management. We are also training HR and Compliance employees in improved communication and grievance systems. Some 179 key personnel received this training.

We are continuing our work to also address this issue on an industry level through our close relationship with the ILO-BFC programme and with other concerned stakeholders across Cambodia. Furthermore, we are continuing to work on a broader action plan to help implement last-

ing solutions to this complex challenge throughout the sector.

- > hm.com/beyondmonitoring
- > betterfactories.org

179
human resource
employees in
supplier factories trained
in improved
communication

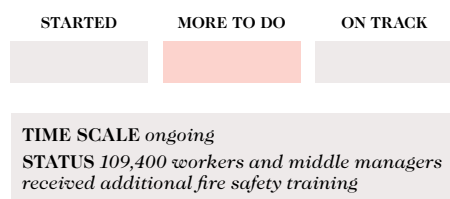


We work closely with various stakeholders in Cambodia.

Choose and reward responsible partners

CONSCIOUS ACTION 2.13

Continue to promote improved fire safety in Bangladesh



Fire safety is a major issue in Bangladeshi garment factories. Poor electrical installations and bad maintenance often create significant fire hazards. In order to make a safe workplace the norm throughout the sector, we think that it is essential to involve all stakeholders such as the government, industry organisations, trade unions and other brands. This is why we developed two training films to increase fire safety awareness amongst employees at all levels in garment factories. We teamed up with 18 other brands and employer associations in the sector, BGMEA and BKMEA, to spread this training not only in our some 200 supplier factories, but across the entire industry.

So far, the training material has, according to BGMEA, been distrib-

uted to more than 1,250 factories and at H&M supplier factories alone more than 100,000 workers have received the training. Our aim is to reach out to approximately 4,500 exporting garment factories in Bangladesh with around 3 million workers by the end of 2013.

Based on a study that we conducted in 2011, we raised the concern of lapsed fire-safety licenses with the Government of Bangladesh and engaged the Bangladeshi University of Engineering and Technology as

We teamed up with 18 other brands and local stakeholders aiming to reach some 3 million workers in Bangladesh with additional fire safety training. ”

well as a specialist to assess the electrical installation in four factories.

These assessments were finalised in Spring 2012 and their results were presented to concerned stakeholders at a seminar in Dhaka. The most common shortcomings in regards to electrical safety such as poor-quality materials, poor maintenance and lack of proper electrician training were discussed. During the seminar, a number of actions were proposed, including introducing stricter legislation and inspections.

In order to set a good example, we have stipulated that all our supplier factories conduct electrical assessments in their factories, and have offered to share the costs with them.

Together with the Fire Defence and Civil Department, we have also conducted five factory assessments on fire safety, involving the factories' worker representatives.

The assessments have shown that a continued increase in awareness about fire safety is needed

and we hope that the continuation of related training programmes will help to address this issue with stronger impact.

> hm.com/beyondmonitoring

109,400
workers and middle managers in H&M supplier factories alone have received additional fire safety training

Choose and reward responsible partners

CONSCIOUS ACTION 2.14

Continue to promote an end to Sumangali schemes in the Indian textile industry



Sumangali schemes are a form of forced labour that involves young women being sent from their home villages to work, usually, 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.

We view 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.

Sumangali schemes occur mainly in spinning mills, over which we normally do not have direct contractual

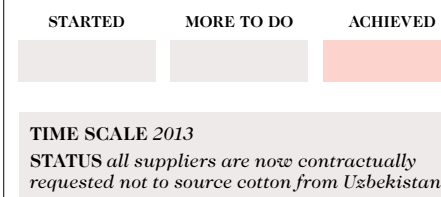
influence. We are therefore working hard to address this issue through collaborative actions and public policy, while continuing to work towards increasing our influence over this stage.

In 2012, we decided to join a three-year, multi-stakeholder project run by the Ethical Trading Initiative (ETI). The project aims to tackle this issue in joint efforts with all concerned stakeholders on a community as well as industry level. This includes awareness-raising amongst the general public and active engagement with suppliers and spinning mills as well as the relevant local governments and regulators.

- > hm.com/beyondmonitoring
- > ethicaltrade.org

CONSCIOUS ACTION 2.15

Request ban on Uzbek cotton



Using underage anywhere is completely unacceptable. The global cotton supply chain is often complex and we do not have direct business relationships with cotton producers. Nevertheless, we address the issue of forced child labour in the Uzbek cotton industry regularly.

In 2011, together with about 60 other brands and NGOs, we signed a pledge facilitated by the Responsible Sourcing Network committing us not knowingly source Uzbek cotton.

Additionally, 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.

Since the beginning of 2013, we contractually request all our suppliers to not source any cotton from Uzbekistan - neither directly nor through their suppliers. This now also includes a commitment to monitor compliance along their value chain, allowing us to perform random verification checks.

In parallel, we are mapping all fabric mills used by our suppliers and working on setting up the required data systems to track the origin of fabrics used to make our clothes.

While our tracing systems continue to evolve, we aim for all cotton to come from more sustainable, fully traceable sources by 2020 at the latest.

- > hm.com/cotton
- > sourcingnetwork.org

COMMITMENT THREE

Be ethical



Being ethical is about doing the right thing. It means to not only treat our partners and colleagues fairly, but to try to go beyond the legal minimum. Words like transparency, integrity, respect, honesty, values and responsibility capture our essence of our commitment to being ethical.

We rely on thousands of people and relationships 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 based on our commitment to respect human rights, taking a clear stand against corruption and is firmly rooted in our corporate values.

Be ethical

Performance overview

HIGHLIGHTS FROM 2012

– To underline our strong commitment to human rights, we launched a specific Group-wide human rights policy based on the UN Guiding Principle on Business and Human Rights.

– 60% of our colleagues are covered by collective bargaining agreements.

– We launched a new global learning management system to streamline our employee training across our global operations.

– 100% of our commercial goods suppliers and 47% of all concerned colleagues received dedicated training in our Code of Ethics and we aim to reach 100% for both by the end of 2013.

H&M has shown awareness of their company's exposure to corruption challenges in its supply chain and has put great efforts into transparency and reporting on their activities.””

Birgitta Nygren, Transparency International Sweden

PROGRESS REPORT

COMMITMENT THREE		STATUS		
<i>Be ethical</i>		STATUS		
CONSCIOUS ACTION		STARTED	MORE TO DO	ON TRACK/ACHIEVED
3.1	Ensure awareness and understanding of our Code of Ethics			
3.2	Launch new Group-wide Human Rights Policy			
3.3	Promote diversity and ensure equality amongst our colleagues			
3.4	Ensure good workplace relations and dialogue with our colleagues in all markets			
3.5	Attract and retain talent			
3.6	Develop and implement a new global training system			
3.7	Introduce updated global leadership programme			
3.8	Reach over 90 percent compliance with our safety standards in our stores and offices			
3.9	Communicate our business idea through responsible advertising			

5 years is the average length of employment of our full-time colleagues

7,402 additional jobs created (net, full-time equivalent)

74% of our managers and 50% of our board members are WOMEN

We became Corporate Supporter Member of Transparency International Sweden in January 2013

Be ethical

Stakeholder Voice

BIRGITTA NYGREN, MEMBER OF THE BOARD, TRANSPARENCY INTERNATIONAL SWEDEN

What are the biggest challenges for the fashion industry in fighting corruption?

As it is common for fashion companies like H&M to locate their production in developing countries, they automatically expose themselves to the risk of corruption as bribery is a very common practice in these countries. Facilitation payments and bribes to ensure shipment are common requirements. Therefore, it is the utmost importance that these companies make sure that their anti-corruption policies are applied by all employees, all subcontractors and every agent and intermediary throughout the supply chain.

Where do you see H&M's strengths in tackling these challenges?

H&M has shown awareness of their company's exposure to such challenges at an early stage, and the company leadership has put great

effort into transparency and reporting on their activities in the developing countries in which they operate.

What actions would you like to see from H&M in the future?

I would like to see H&M keep up their good work fighting corruption by identifying innovative ways to ensure compliance.

I would like to see H&M keep up their good work fighting corruption by identifying innovative ways to ensure compliance.”

Birgitta Nygren, Member of the Board, Transparency International Sweden



Be ethical

CONSCIOUS ACTION 3.1

Ensure awareness and understanding of our Code of Ethics



We take a clear stand against corruption, as emphasised in our Code of Ethics. Mutual trust and transparency are important in all our relationships, including our colleagues and business partners. As a result, we apply a zero tolerance policy. But much more than that, we take a proactive approach, aiming to prevent any non-compliance through training and creating a strong awareness amongst both our colleagues and suppliers.

Risk assessments across our entire business found that the risk for non-compliance is highest with colleagues who are in contact with external business partners. For some time now it has been mandatory for those colleagues to sign and comply with our Code of Ethics, supported by dedicated training.

By 2012, an estimated 47 percent of all our concerned colleagues received dedicated training and participated in related workshops. Our target is to reach 100 percent by the end of 2013. But we also want all other colleagues to be aware of our policy. That's why we have made this a part of our mandatory induction training for all employees.

Beyond our internal operations, corruption continues to be a challenge in some of the countries where we operate and particularly where many suppliers are located. We have made it mandatory for all our suppliers and business partners to sign a tailor-made version of our Code of Ethics as a minimum requirement of any business relationship with H&M. 100 percent of our commercial goods suppliers have received related training.

In 2012, we updated our supplier code to amongst others now clearly state that any kind of bribery or facilitation money as part of the price of goods or services goes against H&M's principles. In this way we hope to contribute to further

systemic change and value building in countries of concern.

We audit the effectiveness of our compliance-monitoring processes in all our business units. We also have a global whistleblowing system. In 2012, we handled 34 incidents of non-compliance, 12 of which led to terminations and eight to formal written warnings. Most of these concerned theft of company property and accepting gifts.

> hm.com/anticorruption

We became Corporate Supporter
 Member of Transparency
 International Sweden
 in January 2013



Be ethical

CONSCIOUS ACTION 3.2

Launch new Group-wide Human Rights Policy



Respecting human rights has always been vital to us both as an employer, business partner and corporate citizen. This is reflected for example in our values, our business principles our Global Framework Agreement with UNI Global Union and our Code of Conduct.

To underline our strong commitment to human rights, we launched a Group-wide human rights policy based on the UN Guiding Principles on Business and Human Rights in 2012. The policy has been reviewed by a broad range of stakeholders such as UNICEF, UNI Global Union and human rights specialists, including Professor John Ruggie who has served as the United Nations Secretary-General's Special Representative for Business and Human Rights. We are committed to human rights in our

operations, supply chain and in the communities in which we operate.

One example is our comprehensive efforts to improve working conditions in our supply chain. Wherever possible, we also want to use our influence to promote the fulfilment of human rights in the countries we operate in, for example through public advocacy. As outlined in our new policy, an important part of managing human rights issues is to conduct due diligence processes, such as risk assessments, that focus on human rights impacts affected by our business activities. Particular attention is paid to some of the key issues in our industry:

- Labour rights
- Women's rights
- The right to water

We developed human rights impact assessments and due diligence tools during 2012 and started to use these for any new production markets from late 2012 and onwards.

We seek to apply a similar method to all new sales markets identified as risk markets for entry from 2014 onwards. We are also looking at developing tools and methods for conducting human rights impact assessments on existing high-risk sales and production markets in the future. We will monitor the implementation through our internal audit process.

> hm.com/policies



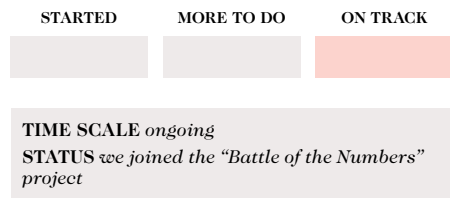
The substance of H&M's human rights policy statement closely tracks the relevant provisions of the UN Guiding Principles on Business and Human Rights. ”

Professor John Ruggie, UN Special Representative on the issue of human rights and transnational corporations and other business enterprises

Be ethical

CONSCIOUS ACTION 3.3

Promote diversity and ensure equality amongst our colleagues



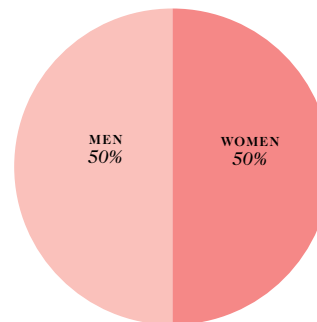
We see team diversity as an asset to the company at all levels, something reflected clearly in our corporate values. We welcome the opportunity to put this into action as often as possible. From promoting our colleagues all the way to appointing members to our board regardless of gender, age, sexual orientation, religious beliefs and more, we are dedicated to ensuring equal opportunity throughout the company and we have related policies in place.

78 percent of our colleagues are women, so it is integral to our operations that leadership reflects that. 74 percent of our managers and 50 percent of our board members are women, too. In addition, we are now taking part in an initiative called the "Battle of the Numbers." Together with nine top multinationals in Swe-

den, companies such as Ericsson, Sandvik and Volvo, we will implement programs dedicated to increasing the number of female leaders.

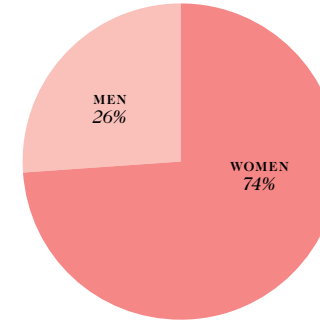
- > hm.com/fairpartner
- > hm.com/policies
- > battleofthenumbers.se

**RATIO WOMEN/MEN
IN OUR BOARD OF
DIRECTORS**



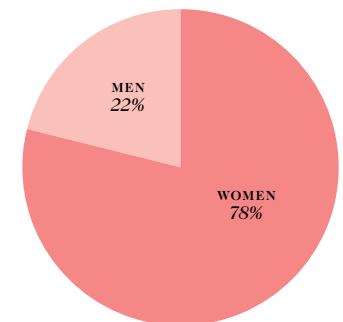
Based on a total of ten board members (eight ordinary members elected by the the Annual General Meeting and two employee representatives. Two female deputy employee representatives not included).

**RATIO WOMEN/MEN
IN MANAGEMENT
POSITIONS**

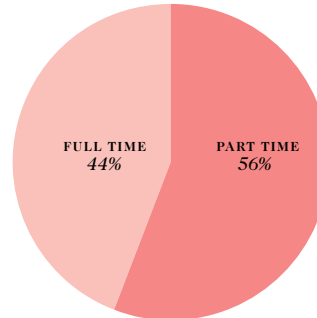


Starting with store managers.

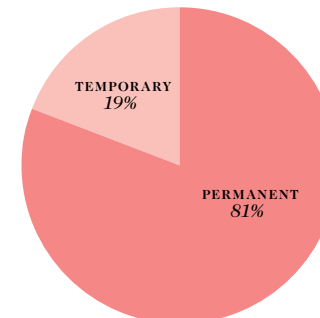
**RATIO WOMEN/MEN
AMONGST ALL
COLLEAGUES**



**RATIO FULL TIME/
PART TIME
COLLEAGUES**



**RATIO PERMANENT/
TEMPORARY EMPLOYMENT
CONTRACTS**

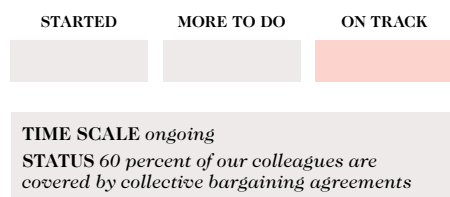


29.4
*years is the
average age
of our colleagues*

Be ethical

CONSCIOUS ACTION 3.4

Ensure good workplace relations and dialogue with our colleagues in all markets



We strive to have good relations with all our colleagues, employee associations and the trade unions that represent them. Since 2004, we have had a Global Framework Agreement with UNI Global Union in place. This declares that both H&M and our employees regard the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work to be the cornerstone of our cooperation.

This includes our commitment to workplace representation and across all of our operations, 60 percent of our colleagues are covered by collective bargaining agreements. Employees are also represented at the board level and two of the ten board members are employee representatives (additionally there are two deputy employee representatives).

Besides various engagements on the local level, our global Employee Relations Manager holds regular meetings with representatives of the European Works Council (EWC).

This forum was set up as part of our collaboration with UNI Global Union and comprises of employee representatives from some of our most important sales countries including Germany, UK, France and Sweden.

We also have an open-door policy, which means every colleague is welcome to approach managers regarding work-related issues at any time.

> hm.com/fairpartner
> uniglobalunion.org

60%
of our colleagues covered
by collective
bargaining
agreements

Stakeholder Voice

ALKE BOESSINGER, HEAD OF UNI COMMERCE

What is the essence of H&M and UNI Global Union's framework agreement?

The agreement commits H&M and UNI (and its affiliates) to work together in a spirit of constructive social dialogue and to jointly resolve issues that may arise throughout H&M's operations.

What do you see as the most important success factors of the implementation of a global agreement?

UNI and H&M cooperate well so that problems can be addressed openly even if we do not always reach agreement on all issues.

Where do you see H&M's strengths in ensuring good working conditions for its employees around the world?

A good cooperation and social dialogue with local employee representatives is the key to the success of any company.

What actions you would like to see H&M take in the future?

I would like to see an even stronger emphasis on implementing neutrality at all operations regarding union organisation.

UNI and H&M cooperate well so that problems can be addressed openly even if we do not always reach agreement on all issues.

Alke Boessinger, Head of Uni Commerce

Be ethical

CONSCIOUS ACTION 3.5 *Attract and retain talent*



Our continued growth requires that we constantly attract new talent. And retain the talent we already have. Talent management is integral to our strength as a company and to ensure that everyone is able to develop to their full potential. We are also working on ensuring the quality and thoroughness of our recruitment processes and that our recruiters have all the best tools and training they need. We are developing new screening tools to ensure fairness in the recruitment process as well as maintaining a continued high calibre of applicants. We are also working on internal assessment tools based on our identified areas of expertise and values. This is in order to create transparency and ensure we have the right person in the right place while preparing them for the next steps in their career.

5
years is the average
time our full time
colleagues have
been with H&M



> hm.com/career

CONSCIOUS ACTION 3.6 *Develop and implement a new global training system*



We want our colleagues to feel valued and give them the opportunity to grow within the company. The training we give needs to be consistently excellent throughout our operations worldwide while also taking into account local needs. Therefore, we have strengthened our global training organisation and developed a learning management system called 'GROW.' Amongst other benefits, the system allows all our colleagues to access e-learning courses and relevant information about training within the H&M Group. It also serves as a course-booking facility for classroom training sessions and a library for mandatory and optional training courses, including modules on sustainability.

All of the courses are made up of modules suited to different needs.



We use various training techniques, including self-study with e-learning tools that are carried out either at the workplace or from home. The system started in 2012 and the global implementation will continue into 2014.

> hm.com/training

Be ethical

CONSCIOUS ACTION 3.7

Introduce updated global leadership programme



We are expanding and need to attract outstanding talent. Many of our managers are recruited internally and we need to retain and build the talent we have to accommodate our further growth. We have developed a new global training and education concept to equip new and potential managers with the skills they need to be good leaders and fair partners to their team.

As part of this, we have developed an updated leadership philosophy: "Leadership is about inspiration, delegation, feedback and motivation. We lead by example, always driven by our values and our ambition to make our people and business grow."

In connection to that philosophy, we have also developed a leadership pipeline, consisting of five levels

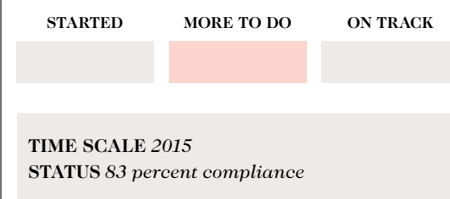
and connected to our corporate values. We have also introduced and will continue to develop leadership training for different levels to meet the requirements for our leadership. The implementation of this updated global leadership programme started in all countries in 2012.

> hm.com/career



CONSCIOUS ACTION 3.8

Reach over 90 percent compliance with our safety standards in our stores and offices



We want to create a pleasant and safe environment for our customers and colleagues throughout our operations. Wherever accidents and occupational illness are a risk, measures must be taken to prevent them. During 2012, we registered zero workplace fatalities and 5,899 workplace accidents in H&M stores globally.

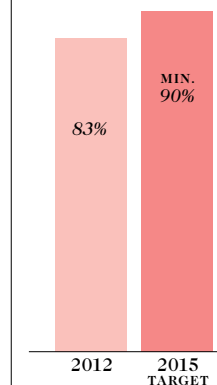
We need to ensure that all our colleagues are trained from the beginning of their employment. This is why we have started to integrate our security and safety training into our digital Learning Management System 'Grow.'

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 and shopping environment. We had set a target to reach a compliance level of 90 percent by the end of 2012. We have not fully achieved this target and reached a level of 83 percent. That's why we have set a new target to reach over 90 percent compliance by 2015 the latest.

8,320
safety training sessions conducted in H&M stores

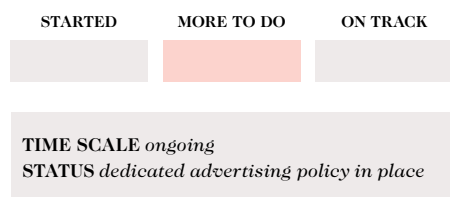
COMPLIANCE LEVEL WITH SAFETY STANDARDS



Be ethical

CONSCIOUS ACTION 3.9

Communicate our business idea through responsible advertising



We communicate our business idea through the various advertising campaigns that we produce each year throughout the world. Our advertising has a broad impact in all 48 markets. We aim to inspire a wide and diverse target group and we work with some of the world's best photographers, models and style icons.

The challenge we face is to balance between individual and cultural perceptions, customer demands, the diversity of models, looks and attitudes and at the same time produce high-fashion images and messages that support the current trends and our customer offering in an inspiring way – without conveying any specific ideal or encouraging a choice of lifestyle. We try to take all these aspects into consideration right from the start when planning our cam-

paings, but it is no easy task. This year we received feedback from the Swedish advertising ethics organisation that one of our campaigns featured a swimwear model that showed a too tanned look. As we do not wish to promote any particular ideal or lifestyle, we will take this matter into consideration in future campaign planning.

For many years, to ensure ethical standards, we have had an advertising policy in place, committing us, amongst others, to consider the impact of our advertising around the world and to choose models and images that convey a positive image.

We regularly conduct customer surveys to measure the feedback from our campaigns and are happy to see that they are generally well appreciated. We strive to consider any feedback that we receive to create inspiring campaigns.

> hm.com/responsiblemarketing



COMMITMENT FOUR

Be climate smart



Climate change is one of the major challenges of our time. Like many other organisations, we have a keen interest in tackling this – and a responsibility to do so. And as for many businesses, energy use and transport are unavoidable. We do, however, work hard to be as energy efficient as possible. And for the energy use we cannot avoid, we ultimately strive to use renewable energy only. Our goal is to reduce our operations’ total emissions by 2015 – despite our continued growth of 10 to 15 percent new stores each year.

Still, the biggest climate impact along our value chain happens outside of our operations. That’s why we also want to use our influence to encourage action on climate. This includes working with suppliers, fabric mills and transport providers in a range of voluntary programmes and collaborative initiatives to improve their energy efficiency and overall environmental performance. It also includes inspiring conscious garment care amongst customers.

Be climate smart

Performance overview

HIGHLIGHTS FROM 2012

- We reduced CO₂ emissions by 5% relative to sales by offsetting and through improved energy efficiency in our stores.
- We set a new target, committing us to reduce our operations' total emissions by 2015 the latest – despite our continued growth.
- We raised our target to ultimately source 100% of our electricity from renewables.
- We have engaged 154 supplier factories in energy efficiency programmes.
- Around 90% of transports from production countries to our distribution centres are made via sea or rail.

Climate impact across the value chain

Raw materials
15%

Fabric processing
39%

Production
4%

Transport
3%

Sales
3%

Use
36%

PROGRESS REPORT

COMMITMENT FOUR		STATUS		
<i>Be climate smart</i>				
CONSCIOUS ACTION		STARTED	MORE TO DO	ON TRACK/ACHIEVED
4.1	Reduce our operations' total greenhouse gas emissions*			
4.2	Reduce electricity use in stores by 20 percent per square metre*			
4.3	Source 100 percent of our electricity from renewable sources			
4.4	Choose and promote environmentally-conscious transport			
4.5	Promote energy efficiency amongst our suppliers			

* Please find independent assurance statement related to GRI 3.1 indicator EN16 and EN3 here (page 91-92).

15% reductions in electricity
use per square metre in our stores achieved
since 2007

784,200 kWh of solar energy generated through our own solar
photovoltaic panels – enough to supply about 145 average
European households with energy for one year

Be climate smart

Stakeholder Voice

**MOHAMED ZAHIDULLAH,
GENERAL MANAGER, DBL GROUP,
BANGLADESH**

How can fashion brands contribute to combating climate change?

Fashion brands can contribute to combating climate change by designing products that have minimum impact on climate. This may be in the form of colour intensity, requirement of dyes, chemicals, pigments, etc. on fabric. The designers and product developers need to be aware of the impact of the products they create.

What role do you think H&M takes in this regard?

With its Conscious product range, H&M lifts climate smarter material choices to a larger scale. With the size of the company this scale has a significant impact.

What's your stand on H&M's work to contribute to greenhouse gas reductions in its value chain?

We are a strategic supplier of H&M.

As such we are committed to work together in all the efforts taken by H&M in reducing emissions. One such example is the Cleaner Production Programme which DBL has joined. We are happy that our factories are amongst the best performing in the programme.

What are H&M's strengths today?

Its people, knowledgeable in-house think tanks, big capacity, large-scale expansion plan, transparency, pro-activeness in sustainability, trust from business partners and its collaborative partnership approach, even in economically difficult times.

What actions you would like to see H&M take in the future?

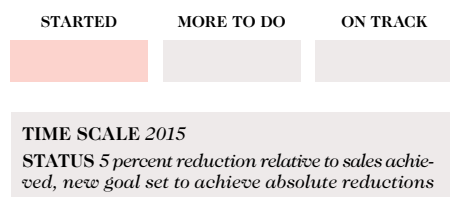
We would like to see H&M continue to combat climate change and create even more products with less climate impact.



Be climate smart

CONSCIOUS ACTION 4.1

Reduce our operations' total greenhouse gas emissions



For the last three years, our target has been to reduce our emissions by five percent relative to sales each year. We achieved this goal in 2012 by offsetting and through increased energy efficiency

Now we are taking our ambitions another step further. We want to achieve reductions in our operations' total emissions by 2015 – despite our continued growth of 10 to 15 percent new stores each year. This year, total emissions from our operations were 574,611 tonnes, with electricity use in our stores having the largest impact (50 percent). We want to achieve these reductions without offsetting any emissions. Accordingly, achieving this ambitious target requires us to further improve our energy efficiency and increase our use of renewable energy.

Still, our direct operations represent just about three percent of the climate impact in the life cycle of our products. That is why we keep working all along our value chain to contribute to emission reductions. We can reduce the impact by, for example, making conscious material and transport choices and by influencing and inspiring others to take action, too.

> hm.com/climate

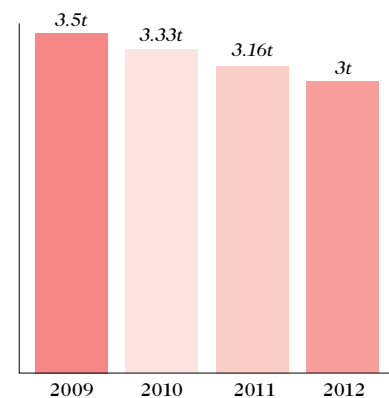
We would love to see H&M shift their targets from reducing carbon emissions relative to sales to reducing their absolute annual carbon emissions.”

Niels Oskam, Founder, Rank a Brand

CO₂e EMISSIONS BY SCOPE (IN TONNES/%)

SCOPE 1	15,282t	3%	(direct emissions; i.e. fuel use)
SCOPE 2	329,630t	59%	(indirect emissions from consumption of purchased electricity, heat or steam)
SCOPE 3	229,699t	38%	(other indirect emissions, such as resulting from outsourced transport and business travel)
TOTAL	574,611t	100%	

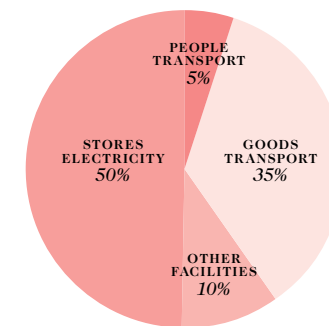
CO₂e EMISSIONS IN TONNES RELATES TO MILLION SEK SALES



Methodology aligned with Greenhouse Gas Protocol.

> ghgprotocol.org

CO₂e EMISSIONS BY SOURCE



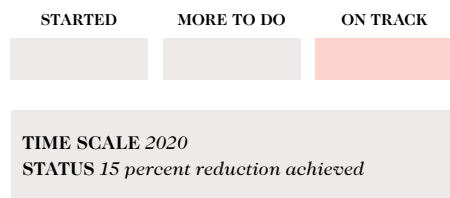
In order to report the progress against our 2012 target to reduce carbon emission relative to sales independently from currency fluctuations, we report CO₂e in tonnes per million SEK converted from local currencies using consistent exchange rates from the baseline year of 2009.

Please find an independent assurance statement related to GRI 3.1 indicator EN16 here (page 91-92).

Be climate smart

CONSCIOUS ACTION 4.2

Reduce electricity use in stores by 20 percent per square metre



Energy efficiency means minimising environmental impact. It naturally also plays a role in cost competitiveness so there are clear advantages to good energy efficiency.

A key target for our energy efficiency is to reduce electricity use per square metre in our stores by 20 percent, as compared to a 2007 baseline, by 2020. With 15 percent reduction achieved by 2012, we are on track in achieving this target. Total energy use has been reduced in newly-built and rebuilt stores by implementing our environmental guidelines for new stores. Reductions in existing stores are the result of constant management focus on energy efficiency.

We have been installing energy monitoring devices in all our stores,

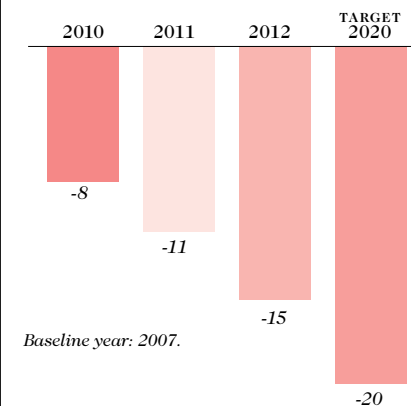


which offers us a greater ability to use energy in the stores in the best way. Energy monitoring in all stores is planned throughout 2013.

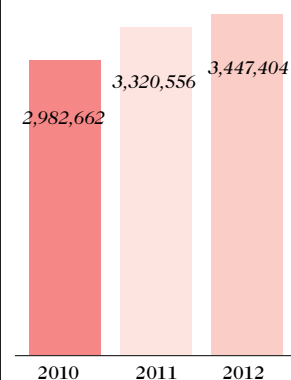
> hm.com/climate



ENERGY USE REDUCTION PER STORE SQM



DIRECT ENERGY CONSUMPTION IN GJ (SCOPE 1+2)



Please find an independent assurance statement related to GRI 3.1 indicator EN3 and here (page 91-92).

Be climate smart

CONSCIOUS ACTION 4.3

Source 100 percent of our electricity from renewable sources



Using more electricity from renewable sources is a key target, but it has been difficult to monitor progress. This is due to the lack of a robust framework for defining what qualifies as renewable energy, as well as how to account for and report CO₂ emission reductions associated with its use. So, we took action with a range of stakeholders. Together with the World Resources Institute (WRI) and the Carbon Disclosure Project (CDP) amongst others, we collaborated in a dedicated working group to find a consensus on how to define, measure and report on renewable energy use.

We are pleased to see that these joint efforts are resulting in a set of new global guidelines that are to be published in 2013. This is a critical step in ultimately helping us reduce our scope 2 emissions as well as spur

demand for renewable energy. With the guidelines in place we will be able to follow up on our performance in sourcing renewable energy.

In the meantime, we have taken this opportunity to increase our ambition to work towards sourcing all our electricity from renewable sources. We have already been making investments to help us move towards this target. In 2012, our own photovoltaic solar panels generated approximately 784,200 kWh of electricity – enough to supply about 145 average European households with energy for one year.

> hm.com/climate



The GHG Protocol applauds H&M’s commitment to renewable energy purchases and related GHG emissions reductions. With the complementary commitment to use the GHG Protocol’s Scope 2 Accounting Guidance, progress towards their ambitious renewable energy goals can be tracked and evaluated using rigorous, transparent, internationally-consistent reporting practices.”

Mary Sotos, World Resources Institute (WRI)

784,200
 kWh of solar energy generated through our own solar photovoltaic panels

Be climate smart

CONSCIOUS ACTION 4.4

Choose and promote environmentally-conscious transport

Around **90%**
of our goods were
transported *via*
sea *or* rail

STARTED MORE TO DO ON TRACK

TIME SCALE *ongoing*
STATUS *around 90 percent sea and rail transport*

The size and geographical spread of our business requires different means of transport in various parts of the world. Our challenge is that our transportation needs will increase further as our business grows. Transportation of goods stands for about 3 percent of the climate impact in our products' lifecycle. Even though this is quite a small percentage, we have the possibility to make a difference here. Our ambition is to meet these needs with limited use of natural resources and with as few emissions as possible. As we do not own any transport facilities, choosing sea or rail transport wherever possible and influencing our transport partners to improve their environmental performance are important aspects of our work.

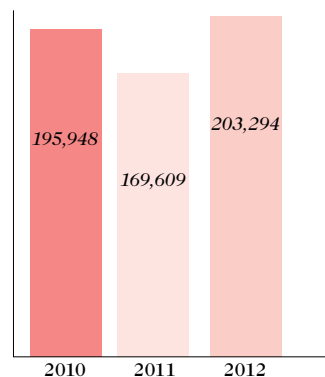
For many years now, we have had minimum requirements for transport

service providers in place. Through collaborative action we are promoting uptake of fuel-efficient technologies and increasing the environmental performance of transport providers through SmartWay, WayAhead and the Clean Shipping Project.

In 2012, around 90 percent of the shipped volumes were transported from the production country to our distribution centres via sea or rail. Since 2010, emissions resulting from transport have increased by 4 percent, while sales increased by 11 percent.

> hm.com/climate

EMISSIONS RESULTING FROM TRANSPORT 2010–2012 (TONNES CO₂e)



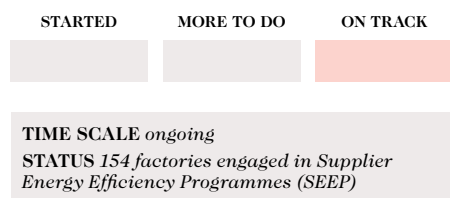
Be climate smart

CONSCIOUS ACTION 4.5

Promote energy efficiency amongst our suppliers



154
factories engaged in
energy efficiency
programmes



another 110 undergoing planning or implementation. Based on this, we have developed data baselines and we will evaluate the factories' performance against these through 2013.

> hm.com/climate

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 of our goods. These represent about 4 percent of the climate impact from a product's lifecycle.

In 2010, we started working with business partners to set up Supplier Energy Efficiency Programmes (SEEP) in a number of our production countries. The programmes include workshops and tools, or connect supplier factories to energy service companies to identify potential efficiency gains and provide support for developing action plans to take advantage of these.

By the end of 2012, 44 factories had completed a programme with



Just the way H&M educated factories to be more systematic and transparent in production processes, it is now making factories more aware of their environmental impact and how to reduce it. ”

Ravi Kumar, CEO, Indian Designs Exports Pvt. Ltd.

COMMITMENT FIVE

Reduce, reuse, recycle



Making the most of the resources we use and avoiding waste is central to our business idea. Avoiding unnecessary material use and applying smart methods to reuse and recycle helps reduce waste. But it also helps to decrease the need for virgin resources. Both mean fewer environmental impacts – and it can save money, too.

Manufacturing waste, transport and product packaging, shopping bags, shop fittings and waste from building new stores are all sources of waste generated across our value chain. Our vision is to send zero waste from our operations to landfill. But we do not want to stop there. We want to inspire and help our customers and business partners to reduce the waste that they generate.

Reduce, reuse, recycle

Performance overview

HIGHLIGHTS FROM 2012

– We now offer our customers in all our markets the opportunity to leave old clothes, from any brand, at selected H&M stores – a first for a fashion company. With the help of our partner I:Collect, these will be reused and recycled. Nothing goes to the landfill. In the long run we want to close the loop on textile fibres and upcycle these into new clothes.

– 92% of the waste handled in our distributions centres was recycled.

We want to make it easy for our customers not to let fashion go to waste. That is why we are now offering the possibility to leave unwanted clothes at H&M.””

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

PROGRESS REPORT

COMMITMENT FIVE		STATUS		
<i>Reduce, reuse, recycle</i>		STATUS		
CONSCIOUS ACTION		STARTED	MORE TO DO	ON TRACK/ACHIEVED
5.1	Close the loop on textile fibres			
5.2	Encourage customers to reuse or recycle bags			
5.3	Further promote the innovation and use of recycled fabrics			
5.4	Recycle at least 95 percent of waste handled in our distribution centres			

Our use of recycled polyester is equivalent to 7.9 million PET bottles

95% of the waste handled in our distribution centres targeted to be recycled by the end of 2013

Reduce, reuse, recycle

Stakeholder Voice

**ALLANNA MACASPURN,
CEO, MADE-BY**

What are the biggest challenges for sustainable fashion from your perspective?

One of the biggest challenges certainly is how to credibly tackle the environmental impact of fashion, including the textile waste going to landfills. Fast fashion is not going away, so we need to look at creating it in a more responsible way with minimal components, sustainable fabrics and processes. These products also need to be designed and produced in such a way that they can be easily pulled apart and recycled into new yarns and components. All of this is difficult to achieve right now within a time-frame and budget that is acceptable to conventional fashion businesses.

Where do you see H&M's strengths?

I see two key strengths: Sustainability is embedded into the business and naturally the size of H&M,

which gives it the leverage needed to motivate suppliers to improve their practices.

What actions you would like to see H&M take in the future?

I would like to see more solutions for the end of life of clothes – from the design process to the customer.



I would like to see more solutions to the end of life of clothes.”

Allanna MacAspurn, CEO, MADE-BY



Reduce, reuse, recycle

CONSCIOUS ACTION 5.1

Close the loop on textile fibres



Too many textiles end up in landfill. According to the Environmental Protection Agency (EPA), 5 percent of the waste in US landfills is textiles and 95 percent could be recycled.

Extracting virgin resources at one end and wasting them on the other one does not make business sense and doubles the stress on our environment. This is why after a successful pilot in Switzerland, we are now the first fashion company in the world to offer our customers the opportunity to bring unwanted clothes – from any brand and in any condition - to H&M stores in all our 48 markets in order to give them a new life. This way we want to provide our customers with an easy solution not to let fashion go to waste, rewarding them with discounts as thanks. All collected clothes are reused or



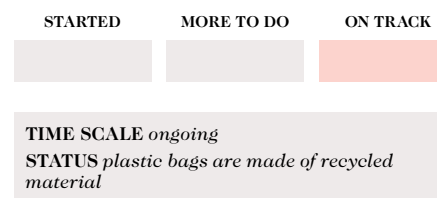
recycled, at the moment for example as second hand clothes or recycled into your next cleaning cloth or the insulation material for your car or house. Nothing goes to the landfill. This saves natural resources and reduces waste. But we are aiming for more: In the long run, we want to create new clothes out of the collected garments and close the loop on textile fibres.

Today, one of the challenges is that often the yarn made of recycled textiles is not strong enough to make new quality garments. But we believe that by creating demand for technical innovation, even this challenge can be tackled. Additionally, we invest all surplus generated by selling collected textiles to their new users into this kind of textile recycling innovation, as well as social projects, through our Conscious Foundation.

- > hm.com/longlivefashion
- > ico-spirit.com
- > hm.charitystar.com

CONSCIOUS ACTION 5.2

Encourage customers to reuse or recycle bags



The most commonly used standard bag in our stores is made of recycled plastic. As our studies showed, this is the best choice from a lifecycle perspective. Recycled plastic bags require much less energy and water in production, and they also use less space in transport than for example paper bags. We do, however, also use paper bags in some markets where it is required. The paper originates from well-managed forests certified by FSC. All our bags are recyclable.

We encourage reusing and recycling our bags by printing ‘Please re-use or recycle’ messages on them.

Additionally, with the introduction of H&M’s new garment collecting system, we ask customers to bring their old clothes in bags, which will then be recycled too.

100%
of H&M standard plastic bags are made of recycled material



Reduce, reuse, recycle

CONSCIOUS ACTION 5.3

Further promote the innovation and use of recycled fabrics



TIME SCALE ongoing
STATUS recycled polyester equivalent to 7.9 million PET bottles used

We use a range of recycled materials, such as recycled wool and polyester, to make clothes. The recycled polyester is often made of PET plastic bottles. In 2012, the equivalent of about 7.9 million bottles was used. 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 showing that great design and recycled fabrics are a perfect match.

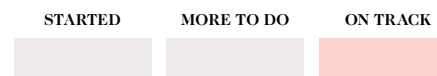
> hm.com/recycling

7.9
 million PET bottles
are equivalent to our use of recycled polyester



CONSCIOUS ACTION 5.4

Recycle at least 95 percent of waste handled in our distribution centres



TIME SCALE 2013
STATUS 92 percent of waste handled in our distribution centres recycled

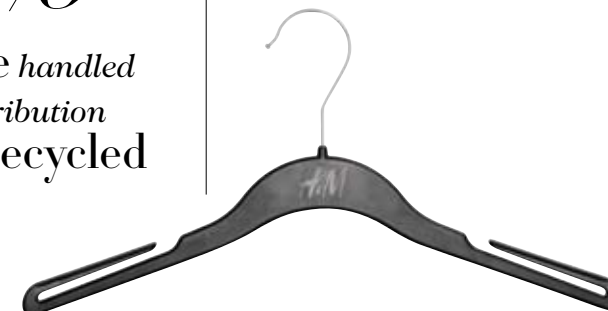
The majority of our own waste is generated either by or sent to our distribution centres, where it is handled in accordance with our long-term goal of sending zero waste to landfill. This is also in line with our ambition to close the loop on all our waste.

In 2012, 92 percent of the waste handled in our distribution centres was recycled. Our target for 2013 is a recycling rate of 95 percent.

We are also working to find good waste management solutions for all of our stores and offices. A challenge is the variety of different standards and practices on recycling, depending on the location. However, we will have particular focus on store waste in 2013. This includes continuing to find the best possible waste management routines for our construction waste.

> hm.com/recycling

92%
of the waste handled in our distribution centres was recycled



COMMITMENT SIX

Use natural resources responsibly



To operate as a sustainable business, we are committed to conserving water, soil, air and species. We also try to inspire our customers, business partners and other stakeholders to help them use natural resources responsibly. From the water needed to grow cotton, to the electricity used to light our stores we depend on natural resources throughout our value chain to do business.

Competition for increasingly scarce resources tends to mean rising costs. Using resources efficiently only makes business sense and will increasingly be seen as a source of competitive advantage in our industry and beyond. But more than that, we need to ensure to share these resources fairly with all users and consider the needs of both present and future generations.

Use natural resources responsibly

Performance overview

HIGHLIGHTS FROM 2012

– We signed a unique three-year water stewardship partnership with WWF that aims to be a game-changer for our industry and beyond.

– We banned perfluorinated compounds (PFCs) from all our products from 2013.

– We continued our work towards zero discharge of hazardous chemicals and are happy to see that now several other fashion brands have joined the Roadmap to Zero.

– Our use of organic cotton and Better Cotton means over 140,000 kg fewer pesticides being used in 2012 alone.

– All the paper we use to print the H&M catalogue bears the EU flower eco-label. Additionally, we have now set a target to use only paper that is made from FSC-certified forests.

PROGRESS REPORT

COMMITMENT SIX		STATUS		
Use natural resources responsibly		STARTED	MORE TO DO	ON TRACK/ACHIEVED
CONSCIOUS ACTION				
6.1	Join forces with WWF for game-changing water stewardship strategy			
6.2	Reduce water use in our stores, offices and distribution centres			
6.3	Reduce impacts on natural resources by making conscious material choices			
6.4	Promote water savings in garment production			
6.5	Ensure compliance with BSR wastewater standards in supplier factories			
6.6	Join forces for better water management in Bangladesh			
6.7	Help to lead our industry towards zero discharge of hazardous chemicals			
6.8	Ban PFCs from all products			
6.9	Continue to constantly review and update our chemical restrictions			
6.10	Replace solvent-based polyurethane (PU) with water-based alternatives			
6.11	Make the H&M catalogue out of sustainable paper			

100% of the paper used in the H&M catalogue is EU flower certified

450 million litres of water saved in production of denim and other water-intense products

100% of cosmetic products made without animal testing

More than 3 million litres of rainwater harvested in our distribution centres and stores

Use natural resources responsibly

Stakeholder Voice

JANET MENSINK, INTERNATIONAL PROGRAM COORDINATOR SUSTAINABLE FASHION, SOLIDARIDAD NETWORK

What are the biggest environmental challenges in supplier factories from your perspective?

The negative environmental aspects of wet processing (washing, dyeing, finishing) are relatively new on the sustainability agenda. Nevertheless, they have serious impact as can be seen very clearly in countries like Bangladesh and China. The impact includes overuse of water and energy and applications of hazardous chemicals which are sometimes discharged to surface water without treatments.

H&M was one of the first brands to recognise the environmental impacts of wet processes.”

Janet Mensink, International Program Coordinator Sustainable Fashion, Solidaridad Network

How does H&M compare in tackling these?

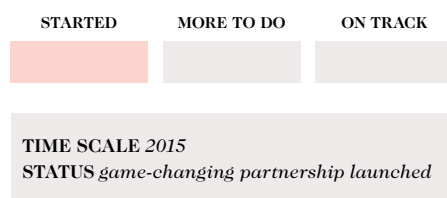
H&M was one of the first brands to recognise this issue and develop pilot projects with its key suppliers. These projects cover training and support in factories to save water and energy and find alternatives for hazardous chemicals. The positive results of these projects made H&M decide to invest in scaling up in countries like Bangladesh and China and this way further clean up its supply chain.



Use natural resources responsibly

CONSCIOUS ACTION 6.1

Join forces with WWF for game-changing water stewardship strategy



According to UNEP, by 2025, two-thirds of the world's population will live in water-stressed areas. At the same time, water is an important resource in clothing production. About one-third of the factories that apply wet processes in the manufacturing of our clothes are located in areas that are forecast to be affected by extreme water scarcity by 2025. That's why for more than 10 years, we have worked actively to reduce negative water impact in different parts of the value chain.

Now, together with WWF, we are taking this to a whole different level. In a three-year partnership, we will work towards implementing a holistic water stewardship strategy that aims to be a game-changer for our industry and beyond.

During 2011 and 2012, we performed a comprehensive evaluation of H&M's existing efforts and challenges in connection to water with the WWF, identifying opportunities where we can have the biggest positive impact. This formed the base of our new water strategy, which includes over 30 water-connected activities along the entire textile value chain.

Starting already at the drawing-table stage, our designers and buyers will receive training on water impact of raw material production, as well as wet processes for different styles, to promote more sustainable choices. WWF and H&M will work in collaboration with public

policy makers, NGOs, water institutions and companies to support the better management of particular river basins in China and Bangladesh, improve our internal water efficiency, minimise our suppliers' impact on water, train all our colleagues on water issues and inspire customers to use water responsibly. We will also support the WWF conservation projects for water in the Yangtze river basin in China.

This is the first global water partnership of its kind. We hope that it will inspire others to follow.

> hm.com/water
> wwf.org

This partnership marks an evolution in the corporate approach to water. We hope other companies will be inspired to take the same approach.”

Jim Leape, Director General, WWF International



Use natural resources responsibly

CONSCIOUS ACTION 6.2

Reduce water use in our stores, offices and distribution centres

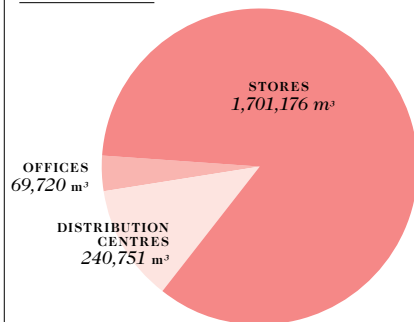


Our direct operations have only minimal impact on water from a value chain perspective. This small impact notwithstanding, we want to set standards on best practice and reduce water use as much as possible. We apply water-saving techniques wherever we can and have guidelines and requirements in place for example, low-flow taps. Our distribution centres in Hamburg, Ghlin and Madrid as well as a first store in the UK have rainwater-harvesting facilities in place. All together, we have harvested about 3 million litres of rainwater.

> hm.com/water

16,694
bathtubs of rainwater have been harvested and reused

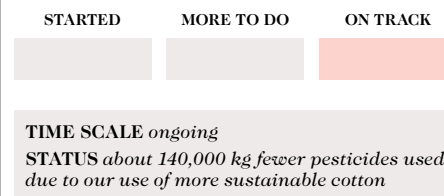
WATER USE



Extrapolations based on water use measured in 167 stores (6%), 3 of our biggest distribution centres and our Head Office.

CONSCIOUS ACTION 6.3

Reduce impact on natural resources by making conscious material choices



Conventional cotton and other natural fibres draw nutrients from the soil and may require a great deal of water, chemical pesticides and fertilisers. Conventional synthetic fibres are usually derived from fossil fuel that has limited availability.

Investing in more sustainable alternatives over conventional fibres reduces multiple impacts on the environment and may help reduce or secure costs in the mid- and long-term. It also helps us secure the availability of the raw materials needed for our future growth in a sustainable way.

> hm.com/consciousmaterials
> hm.com/climate

Almost
78
million bathtubs of water saved through our use of Better Cotton in 2012 alone



About 140,000 kg of pesticides fewer used due to our use of more sustainable cotton

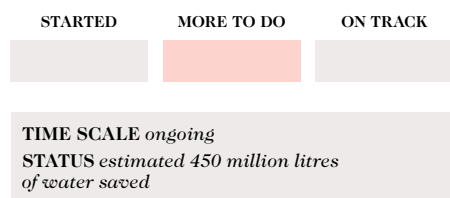
Use natural resources responsibly



450 million litres of water saved in production of denim and other water-intense products

CONSCIOUS ACTION 6.4

Promote water savings in garment production



We monitor water efficiency at supplier factories, focusing on those located in water-scarce areas as defined by the WWF Water Risk Filter tool. We measure the use of water per kg of products made. While it can at times be a challenge to motivate suppliers to save in countries where water is very inexpensive (e.g. Bangladesh), we complement the monitoring with dedicated projects to drive water savings in denim production and through our Cleaner Production programme.

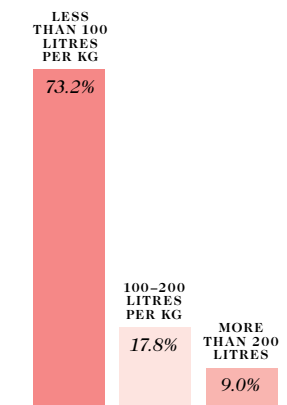
Producing denim can be particularly water-intense to achieve the desired looks. We found that better processes can save about 30 percent of the water used. So in 2009, to reduce this impact, we set up a project with suppliers in Bangladesh, China and later also Pakistan.

As part of this, we looked into how these water-management improvements could also help our suppliers save water when making other water-intense products. Today, about 50 percent of all our denim is made using these techniques and we are working hard to apply these to more and more suppliers and product types. In 2012 alone, this reduced water usage by estimated 450 million litres compared to conventional production processes.

> hm.com/water

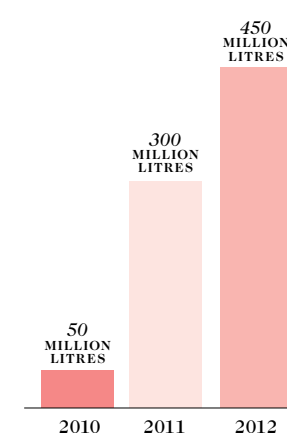


SUPPLIER WATER EFFICIENCY LITRES USED PER KG OF CLOTHING



Based on data submitted by 577 out of 618 applicable factories with in-house wastewater treatment.

LITRES OF WATER SAVED IN PRODUCTION OF WATER-INTENSE STYLES



Extrapolation based on average savings and order volumes.

Better production processes can save up to 30% of the water used. ”

Use natural resources responsibly

CONSCIOUS ACTION 6.5

Ensure compliance with BSR wastewater standards in supplier factories

STARTED	MORE TO DO	ON TRACK

TIME SCALE *ongoing*
STATUS *compliance improved on all indicators*

Since 2006, factories with wet processes such as dyeing or washing, have been required to treat their wastewater. Wastewater quality in our supply chain has to meet quality levels defined by Business for Social Responsibility (BSR) Water Group, 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 wastewater such as total suspended solids (TSS), biological oxygen demand (BOD) and chemical oxygen demand (COD). The graph shows the ratio of supplier factories in the lowest threshold for each of these indicators measured against the BSR standard. The more factories there are in the lowest threshold, the better the result.

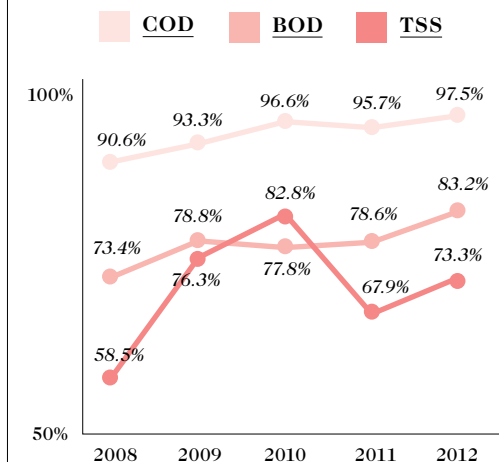


The data show an increased proportion of factories in the best threshold for all three measures, whilst the number of reporting factories has decreased. We will continue to monitor this development with relevant suppliers and, wherever needed, request dedicated action plans to improve performance. As part of the process to implement

our new water strategy, in 2013 we plan to focus on strategic suppliers in high-risk regions (identified through WWF Water Risk Filter) to further increase compliance and develop best practice examples and related tools to achieve full compliance.

> hm.com/water

% OF SUPPLIERS IN BEST THRESHOLD ON WASTEWATER QUALITY AGAINST BSR STANDARDS



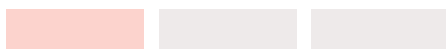
Based on data submitted by 343 supplier factories.

Use natural resources responsibly

CONSCIOUS ACTION 6.6

Join forces for better water management in Bangladesh

STARTED MORE TO DO ON TRACK



TIME SCALE *from 2012 onwards*
STATUS *new program launched targeting 500 factories*

Water efficiency and the quality of discharged wastewater are key challenges for the long-term viability and growth of the textile sector in general. This is especially relevant for Bangladesh, a country frequently threatened by floods while facing a growing scarcity of drinking water.

As part of our holistic water stewardship strategy, we have now broadened the scope of the work previously part of our Cleaner Production Programme in Bangladesh. Once again, we are joining forces with our previous project partner, Solidaridad, in addition to a number of other brands and IFC (World Bank Group) in a programme called Bangladesh Water PaCT (Partnership for Clean Textiles). This programme will have a broader reach targeting 500 factories with aligned methods and

targets through the Bangladeshi textile sector. At the same time, the scope has been broadened in terms of its ambition and has now taken the challenge of zero discharge of hazardous chemicals into account.

The overarching objective is to reduce environmental and related social impact that results from prevailing practices in textile wet processing, particularly excessive ground water extraction and surface water pollution, whilst including energy and chemical use. Programme results will improve the environmental impact of the textile sector in Bangladesh and strengthen its long-term competitiveness.

Working in partnership with buyers, solution providers, financial institutions, donors, the government and other key stakeholders, the program will support textile factories and concentrated selected geographic clusters in order to reduce their water footprints.

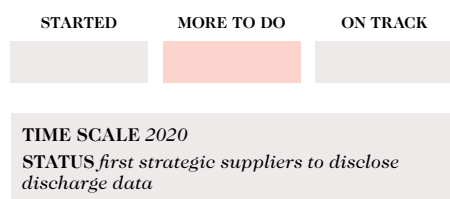
> hm.com/water
> ifc.org



Use natural resources responsibly

CONSCIOUS ACTION 6.7

Help to lead our industry towards zero discharge of hazardous chemicals



Since 1995, we have been working to reduce the use of hazardous chemicals. As a leading actor with a well-reputed chemicals management approach, we have the scale and ability to go beyond just ensuring that our own products are safe.

We try to encourage change within our entire industry – a huge challenge, but one that we take very seriously. That is why in 2011 we teamed up with five other leading brands to develop a joint roadmap. We have also initiated a set of complementary individual actions. We have made good progress with both the joint roadmap as well as our H&M-specific action plan. The defined actions are well in line with our existing sustainability program and build on an extensive record of experiences and achievements.

Accordingly, we can already report on progress against several of these actions points. Several more brands have joined the group since the launch with currently 10 brands on board.

Detailed benchmark studies will continue and results will be published on a dedicated website together with quarterly progress reports.

In line with our action plan, we have added further transparency to our publicly-available chemical restriction list. We are currently working with the Institute of Public and Environmental Affairs (IPE), an independent organisation in China, together with other brands and suppliers on the matter of discharge data disclosure. Acknowledging the ‘Right To Know’ principle, we encouraged and supported 11 strategic factories in China to publicly disclose discharge data through dedicated tools on IPE’s website.

Additionally, we have conducted extensive benchmark studies including in-depth chemical audits with

all our strategic suppliers in China, India, Bangladesh and Cambodia.

We have continued to strengthen our existing chemical auditing as well as our work together with the group to develop a joint chemical audit tool, working to set a standard and achieve alignment within the industry.

Parallel to further advancing our leading chemical management, we are integrating the concerned chemical groups in our supplier training and dialogue.

And as already announced independently from our commitment to zero discharge, we have issued a full ban on PFCs for all our products and have made further progress in the replacement of solvent-based polyurethane with water-based alternatives.

- > hm.com/zerodischarge
- > roadmaptozero.com
- > ipe.org.cn
- > greenpeace.org/detox

Our first suppliers started to disclose their discharge data. ”

Use natural resources responsibly

CONSCIOUS ACTION 6.8

Ban PFCs from all products



TIME SCALE 2013
STATUS ban valid from 2013 onwards

Perfluorinated compounds (PFCs) are commonly used to make water-repellent products such as raincoats. Unfortunately, they are persistent and bio-accumulative, meaning that if discharged into the environment they remain for a long time. Once released into the environment, they can harm the reproduction of organisms.

For many years we have been working to replace PFCs with better alternatives.

In 2010, after five years of hard work sourcing and testing alternatives, we introduced our first products made with a treatment called 'Bionic finish' which proved to be a good PFC-free alternative. Since then, we have continued to work closely with our suppliers to find additional alterna-

tives helping us to bring PFC-free innovations to scale.

From 1 January 2013, PFCs were banned from all our products globally. This means that all orders placed from 1 January or later have been produced without PFCs.

The current alternatives fulfil our demands for water repellent products and have satisfactory environmental and health properties. They can be used on all present fabric qualities in our range.

> hm.com



CONSCIOUS ACTION 6.9

Continue to constantly review and update our chemical restrictions



TIME SCALE ongoing
STATUS updated restriction list published

We restrict hazardous chemicals through our restrictions list, which all suppliers are contractually bound to comply with. Our Chemical Restrictions list has been continually updated since 1995, most recently in 2012. It now contains more than 360 restricted substances. Our restrictions are some of the most stringent in the industry and often go well beyond legislative demands.

As stated in our Sustainability Policy, we apply the Precautionary Principle. This means that we are proactive in restricting chemicals, even if there is still scientific uncertainty about whether they are harmful. 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 2012, we published an updated restriction list now also disclosing restriction levels for all non-textile products, for example, cosmetics.

> hm.com/chemicals



29,813
third-party product
chemical tests
performed by H&M alone

Use natural resources responsibly

CONSCIOUS ACTION 6.10

Replace solvent-based polyurethane (PU) with water-based alternatives



Handling solvent-based chemicals can be harmful to workers, so we aim to phase out their use in the production of our products wherever technically feasible. In cooperation 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. In 2012, we launched the first products made with water-based PU and we will continue to work to find solutions that can meet our requirements to scale this up.



CONSCIOUS ACTION 6.11

Make the H&M catalogue out of sustainable paper



We sell clothes and accessories through mail order catalogues and online sales in eight different markets. For several years, our catalogues have been printed on paper that bears the EU flower eco-label, which stands for environmentally conscious production processes and limited water impact. In the coming year, we want to ensure that the paper we use is made from FSC certified forests.



COMMITMENT SEVEN

Strengthen communities



We are a part of many communities around the world. The way we do business, our values and our growth have an impact on their development and affect more than one million jobs globally. As such, 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 social and environmental issues that are important to our business.

We want to invest in long-term collaborations that deliver lasting results. We contribute to these projects financially, with our time and in-kind donations. In addition, we engage our customers in some of our community projects through cause-related products and additional in-store donations. We also provide support in cases of major disasters and regularly donate clothes to those in need.

Our community investment projects support improvements along our value chain, with special focus on employment, education and health, particularly for women and youth, as well as water.

All in all, we want to give back and create shared value. With our size, we have the opportunity and the responsibility to drive positive change for people and the environment across our entire operations. Through strategic investments we can create win-win situations for us as a company and for our society as a whole.

That is why in 2012, together with the H&M Conscious Foundation, we provided a total of SEK 42 million (appr. USD 6.3/EUR 5 million) for our community projects and emergency relief. Our customers provided additional SEK 5.3 million (appr. USD 800,000/EUR 600,000) through in-store giving.

Strengthen communities

Performance overview

HIGHLIGHTS FROM 2012

– Our continued growth created 7,402 additional jobs around the world (net, full-time equivalent). Additionally, our business contributes to job opportunities for more than 1.3 million people employed by our suppliers.

– We extended our existing All for Children program with UNICEF to now also include Bangladesh. With a volume of almost USD 8 million, this marks our biggest single community investment to date.

– About SEK 42 million (approx. USD 6.3 million/EUR 5 million) invested in communities and their support by H&M and the H&M Conscious Foundation.

– Additionally, more than SEK 5.3 million (approx. USD 800,000/EUR 600,000) was raised amongst our customers through in-store donations.

More than 6 million people along our value chain have been helped to better health conditions

PROGRESS REPORT

COMMITMENT SEVEN		STATUS		
<i>Strengthen communities</i>		STARTED	MORE TO DO	ON TRACK/ACHIEVED
CONSCIOUS ACTION				
7.1	Continue to create and contribute to employment opportunities			
7.2	Engage our customers in our work to strengthen communities			
7.3	Empower through education			
7.4	Extend our All for Children project in collaboration with UNICEF to Bangladesh			
7.5	Improve health conditions of people along our value chain			
7.6	Invest in better livelihood for cotton farmers			
7.7	Donate garments to support people in need			
7.8	Provide emergency relief for Syrian refugees			

More than 430,000 people along our value chain have been empowered by education

Around 150,000 cotton farmers trained in better farming techniques through the Better Cotton Initiative

More than 3.2 million garments donated to charitable causes

Strengthen communities

Stakeholder Voice

PASCALE VILLENEUVE, REPRESENTATIVE, UNICEF BANGLADESH

Why is education so important?

Quality education is a basic human right. Besides, education benefits both the individual who receives it and the society as a whole. But for many children in Bangladesh this right has not yet become a reality. Children living in urban slums are amongst the worst off. In slums there is three times more child labour, only one in five children is enrolled in secondary school and the rates of school dropout and repetition are very high even compared to rural areas.

What difference does your collaboration with H&M make in countries like Bangladesh?

Bangladesh has achieved commendable progress in early childhood care and development by introducing day care centres, early learning centres and preschools. However, there are children who are either out of school or in school, but at risk of dropping out.

UNICEF's partnership with H&M will help to strengthen the quality of early learning, pre-primary, basic primary education, basic life skills and social protection services. In the years to come, this will contribute to overall poverty reduction and help improve the livelihood of vulnerable families.

In the years to come, UNICEF's partnership with H&M will contribute to overall poverty reduction and help improve the livelihood of vulnerable families. ”

Pascale Villeneuve, Representative,
UNICEF Bangladesh



Strengthen communities

CONSCIOUS ACTION 7.1

Continue to create and contribute to employment opportunities

1,349,955
people employed
by our suppliers

STARTED MORE TO DO ON TRACK

TIME SCALE *ongoing*
STATUS *7,402 additional jobs created (full-time equivalent)*

We are a growing company. Our aim is to increase our number of stores by 10 to 15 percent each year. In 2012 alone, we created more than 7,402 new full-time equivalent jobs net.

Over the last five years, our growth has entailed a net creation of more than 25,000 full-time equivalent jobs globally. Additionally, our business contributes to job opportunities for more than 1.3 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.

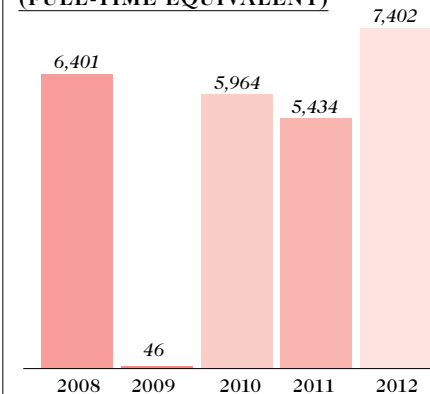


25,247
Total
job creation (net)
2008–2012

7,402
full-time equivalent
jobs created (net)
in 2012



JOB CREATION (NET) 2008–2012
(FULL-TIME EQUIVALENT)



Strengthen communities

CONSCIOUS ACTION 7.2

Engage our customers in our work to strengthen communities

About USD
800,000
 in direct donations
 generated amongst our
 customers in stores



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.

It is important for us to enable our customers to engage in our community projects and offer them the opportunity to be a part of the solution. It is also important for us to be transparent and make our customers aware of the issues that are important to us. We engage our customers in supporting community projects and help raise awareness of the issues they address.

In recent years, we have developed a set of recurring collections called 'Fashion Against Aids', 'H&M for Water' and 'All for Children.'

Thank you so much to H&M and their customers for being part of the solution to help poor communities. ”

Marcus Missen,
 Director of Fundraising, WaterAid

25 percent of the net sales from these collections are invested in related projects. In 2012, these projects helped us raise over SEK 24 million (USD 3.6 million/EUR 2.8 million). We also encourage our customers to get involved through direct donations made in our stores, for example during the holiday period or in the case of major catastrophes. In 2012, our customers donated about SEK 5.3 million (approximately USD 800,000/EUR 600,000).

> hm.com/communities



More than 1 million people have been reached through our All for Children programme together with UNICEF since 2009

Strengthen communities

CONSCIOUS ACTION 7.3 *Empower through education*



TIME SCALE *ongoing*
STATUS *more than 430,000 people reached*

The right to education is a universally recognised human right and a prerequisite for sustainable development and prosperity. Our community investments are largely in aid of education and employment with a particular focus on women and youth along our value chain.

Access to education allows us to extend our efforts to improve working conditions and the lives of people along our value chain as well as support their personal development and their communities. Our current initiatives include our All for Children projects in Bangladesh and India and our Bangladesh Development Plan. During 2012, these projects empowered more than 430,000 people with better education.

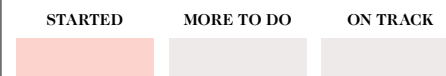
> hm.com/communities

More than
430,000
people along our
value chain have been
empowered by
education

42 million
(approx. USD 6.3 million)
invested in
communities and
their support by H&M and
the H&M Conscious
Foundation

CONSCIOUS ACTION 7.4

Extend our All for Children project in collaboration with UNICEF to Bangladesh



TIME SCALE *2017*
STATUS *new project launched*

Bangladesh is one of our major sourcing markets. It is also one of the poorest countries in the world, with 60 million children living below the international poverty line. Our presence in the country contributes to economic growth and we have a number of initiatives to further improve the development and the lives of people such as our Bangladesh Development Plan.

Taking this another step further, we have now extended our existing All for Children collaboration with UNICEF to include Bangladesh. The programme will run from 2012 to 2017 to support children and their families in poor areas around the capital, Dhaka. The projects are reaching out to more than 1 million people with a focus on about 40,000 children in order to support them



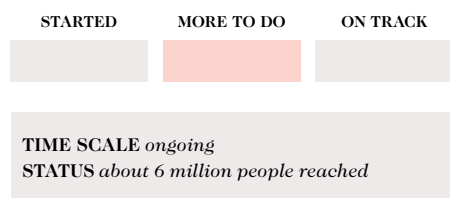
in proceeding to a higher education. With an investment of almost USD 8 million, this move also marks our biggest single community investment to date.

> hm.com/allforchildren

Strengthen communities

CONSCIOUS ACTION 7.5

Improve health conditions of people along our value chain



Health is a human right and crucial for the sustainable development of communities all over the world. We want to contribute and support health projects allowing us to extend our efforts to benefit people's lives and their working conditions.

Initiatives such as our Bangladesh Development Plan, H&M for Water, Fashion Against Aids, All for Children and a number of projects supported by the H&M Conscious Foundation reached more than 6 million people during 2012 to improve their health conditions.

> hm.com/communities



About **6 million** people along our value chain have been helped to **better health conditions**

H&M has continued to be a very strong supporter of WaterAid and continues to generously donate to our projects in Bangladesh, India and Pakistan. Without this essential funding we would not be able to help poor communities to begin their journey to poverty alleviation.”

Marcus Missen,
Director of Fundraising, WaterAid

Strengthen communities

CONSCIOUS ACTION 7.6

Invest in better livelihood for cotton farmers

Around
150,000
cotton farmers were trained
in better farming techniques
through the Better Cotton Initiative



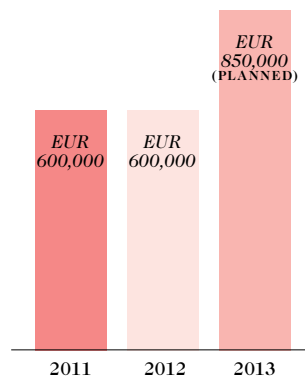
We have directly invested EUR 600,000 in these training projects each year in 2010 and 2011. A further EUR 850,000 is committed for 2013. This helps us increase the production of Better Cotton in line with our demands for the 2012 and 2013 production seasons.

We are a leading member of the Better Cotton Initiative (BCI). Better Cotton is an essential part of our efforts to use only more sustainable cotton by 2020.

- > hm.com/communities
- > bettercotton.org

Besides the environmental benefits of a shift from conventional cotton to Better Cotton, this change can also improve the lives of hundreds of thousands of farmers.

AMOUNT INVESTED
DIRECTLY BY H&M INTO BCI
FARMER TRAINING



Through BCI's implementation partners, WWF and Solidaridad, farmers receive the know-how and tools to produce more with less input, reducing their impact on the environment while also increasing their profitability and the welfare of the local communities.

About 150,000 farmers received dedicated training during 2012.



Growing Better Cotton, I now enjoy higher profits and better health in a better environment. It's now time that all farmers, from my village, my state and my country enjoy the same benefits.”

Kare Yadhareddy, cotton farmer from Andhra Pradesh, India

Strengthen communities

CONSCIOUS ACTION 7.7

Donate garments to support people in need



TIME SCALE ongoing
STATUS more than 3.2 million garments donated to charitable causes

Each year, H&M donates large quantities of clothes to aid organisations in the 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 2012, we donated more than 3.2 million garments globally to aid organisations.

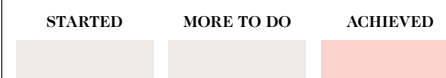
> hm.com/communities

More than
3.2
 million garments
 donated to
 charitable causes



CONSCIOUS ACTION 7.8

Provide emergency relief for Syrian refugees



TIME SCALE 2012
STATUS USD 100,000 donated

Hundreds of thousands of refugees from Syria are currently living in refugee camps, including an estimated 68,000 children in Turkey alone. Most of them live in provisional tents. With temperatures dropping close to zero degrees Celsius in many of their locations, our partner UNICEF alerted us about the urgent need for items such as blankets, insulation material and warm clothing. Emergency situations like this require quick action and we decided to immediately donate USD 100,000 to UNICEF Turkey. With this amount, UNICEF can provide about 2,700 children with warm winter clothing.

> hm.com/communities
 > unicef.org

USD
100,000
 donated to UNICEF to support
 refugees from Syria

How we report

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

H&M's Conscious Actions Sustainability Report, which is produced annually, covers material sustainability strategies, activities and performance for the global Group operations of H & M Hennes & Mauritz AB, including all its brands (H&M, COS, Weekday, Monki, Cheap Monday, & Other Stories) as well as its wholly or partially-owned subsidiaries globally during our financial year from 1 December 2011 to 30 November 2012, unless stated otherwise. Unless stated, franchise operations are not included. Due to significant interest from many of our stakeholders, we also include material data on our first-tier and second-tier suppliers (generated by H & M Hennes & Mauritz AB through audits or submitted by third parties).

Additional information is provided at hm.com/conscious as well as in our

financial and corporate governance reporting. Our most recent previous report was published in April 2012.

We are signatories to the UN Global Compact, and our annual Sustainability Report also serves 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 otherwise specified, all data concerning suppliers and supplier factories includes all suppliers and factories that were approved for production during the reporting period. Factories included in our scope are first-tier manufacturing or processing (i.e. washing or dyeing), factories that are owned or subcontracted by our suppliers as well as (where stated) selected second-tier suppliers and suppliers for non-commercial goods (such as store interior suppliers).

Please note that currency conversions from SEK to other currencies are approximate figures based on the conversion rate on 30 November 2012. Exact figures are provided in SEK only.

PROCESS FOR DEFINING SUSTAINABILITY REPORT CONTENT

The materiality of this report has been defined by a yearly process where we collect information from a multitude of sources, covering a broad range of our diverse stakeholders. For example, we conduct regular systematic stakeholder dialogues and engage with stakeholders on a day-to-day basis. We perform regular media analysis as well as customer and employee surveys. Our dedicated Business Intelligence Group gathers related information and together with our sustainability experts and concerned key functions identifies and sets the priorities for our sustainability work. This process translates into our Conscious Actions. Included in this report are those Conscious Actions that, based on above processes, have been

identified as most material to our broad range of stakeholders.

In preparing this report we aimed to balance carefully between their different needs. This includes detailed performance data and strategy descriptions, while we aim to make information accessible for a wider audience including interested customers and colleagues.

A variety of stakeholder comments has been included in this report. These were collected during autumn 2012.

GLOBAL REPORTING INITIATIVE (GRI)

We use the GRI G3.1 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 have not yet been finalised. H&M's disclosure level against the GRI G3.1 framework is B (self-declared). You can find the detailed GRI index at hm.com/gri.

Auditor's Review Report on specified information in H & M Hennes & Mauritz AB's Sustainability Report

TO THE MANAGEMENT OF H & M HENNES & MAURITZ AB

We have been engaged by the management of H & M Hennes & Mauritz AB (H & M) to perform a limited review on the information in H&M's Sustainability Report 2012 with regard to the following indicators referred to in the GRI index that can be found in the GRI index 2012:

- Supply Chain: Incidents of non-compliance with Code of Conduct, p. 32-33 (AF14)
- Materials: Materials used by weight or volume, p. 19, (EN1, limited to use of cotton)
- Energy: Direct energy consumption by primary source, p. 61 (EN3)
- Energy: Total direct and indirect greenhouse gas emissions by weight p. 60 (EN16)

H & M's Sustainability Report 2012 covers the period 1 December 2011 to 30 November 2012.

MANAGEMENT'S RESPONSIBILITY

The Management of H&M is responsible for ongoing activities and for preparing and presenting the Sustainability Report in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Guidelines 3.1 (G3).

AUDITOR'S RESPONSIBILITY

Our responsibility is to carry out a limited review engagement and, based on our work performed, to express an independent conclusion on the above specified indicators in the Sustainability Report. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, nor assume responsibility to anyone else, except to H & M for our work, for the limited assurance report, or for the conclusion that we have reached. We have conducted the limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance

Engagements Other than Audits or Reviews of Historical Financial Information.' The ISAE 3000 standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters have come to our attention that would cause us to believe that the above specified information in the Sustainability Report has not been prepared, in all material respects, in accordance with the reporting criteria.

A limited review is provided only on the information disclosed in the Conscious Actions Sustainability Report 2012, not on information linked to and disclosed on other web pages. We have not been engaged to provide assurance on amounts or other disclosures relating to the prior reporting periods presented in the Sustainability Report. The information in the Sustainability Report is subject to inherent limitations applying to data accuracy and completeness, which are to be taken into account when reading our review report. The pre-

sented information in the Sustainability Report is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by H&M. This independent review report should not be used on its own as a basis for interpreting H&M's performance in relation to its principles of corporate responsibility.

Our review procedures are designed to obtain limited assurance on whether the above specified indicators are presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.1 (G3) in all material respects. A limited review engagement consists of making inquiries, primary of persons responsible for the preparation of the Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. →

Auditor's Review Report on specified information in H & M Hennes & Mauritz AB's Sustainability Report

We have performed, amongst other things, the following procedures:

- interviews with the responsible management, at Group level in order to assess if the qualitative and quantitative information stated in the Sustainability Report regarding the above specified indicators is complete, accurate and sufficient,
- shared internal and external documents in order to assess if the information shared in the Sustainability Report is complete, accurate and sufficient,
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information,
- an evaluation of the model used to calculate CO2 emissions,
- analytical procedures regarding the above-specified indicators.

CONCLUSION

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information regarding the above specified indicators in the Sustainability Report has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, 13 March 2013
Ernst & Young AB

Erik Åström
Authorized Public Accountant

Charlotte Söderlund
Authorized Public Accountant



Get in touch

MORE INFORMATION

To find out more about H&M Conscious and our policies and strategies, read case studies, watch videos and much more, please visit: hm.com/conscious.

CONTACT

We appreciate your feedback. Please send your questions or comments regarding this report to hendrik.alpen@hm.com.

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

