



H&M

**CONSCIOUS
ACTIONS**

—
**Sustainability
Report 2013**

Conscious Actions Sustainability Report 2013

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CEO interview

2013 was another successful year for H&M and we continued to make significant progress in our Conscious Actions. Read in this interview with our CEO Karl-Johan Persson about the role H&M is playing in creating a more sustainable fashion future and how this will contribute to an even stronger customer offering at H&M.



Looking back at 2013, what made you proud?

We opened the first stores in the southern hemisphere and there are more new markets to come all over the world. Each opening again reminds me of the vast number of people we reach wherever we operate. With such impact, of course, comes great responsibility.

We want to make sure we make places better than they were without us. This is especially the case for some of our production countries. It certainly makes me proud to know that we actively contribute to their development and to improving the livelihood of many people – not only in 2013, but hopefully for many more years to come.

Looking ahead, how do you envision the future for H&M and the fashion industry in general?

Of course I hope that H&M will continue to grow and contribute to jobs and development around the world. But to continue growing, we need to consider our planet's boundaries. I believe that the way fashion is made and consumed will change.

I hope that we will be able to produce fashion in a closed loop, using less of our planet's resources and reducing waste instead. For the resources that we will still need, we must share them fairly between today's and future generations. That means, for example, that already today we are setting the direction so that we play our part in ensuring that there will be enough clean water for everyone.

I also hope that all garment workers around the world will earn a fair living wage, which in turn will contribute to stable production markets and a more mature garment industry.

And I believe that customers will increasingly demand products that not only look good and are affordable, but that are also made sustainably. Transparency and informed product choices will be some of the key words.

What is H&M doing to pave the way for this future?

For example, we now collect clothes that are no longer wanted from our customers in all of our markets. In early 2014, we launched the first products made with recycled fibres from such collected clothes.

We are continuing to invest in our customer offering – with sustainability being an important added value. As part of this, we have been working to promote wage increases and regular wage revisions for garment workers for many years. Now we have taken this to another level and launched our Fair Living Wage roadmap, marking an important contribution towards fair living wages in the textile industry. I hope that this will inspire other companies to do the same.

What could have worked better?

We always want to improve in everything we do. We are certainly not perfect. For example, we always strive to create advertising campaigns that convey a positive and healthy look. I think we always need to keep working to ensure that we deliver this in all our campaigns. There are of course many other challenges that we continue to tackle in our own business, our supply chain or in our entire industry.

What are these challenges?

For example, further innovation is needed to make quality garments entirely out of recycled fabrics from →

CEO interview

collected garments. Too much overtime remains a common issue in many supplier factories. There's much more to do – especially when it comes to issues with systemic root causes in our industry and the countries that we operate in.

And we all still have the pictures of the terrible accident in the Rana Plaza building in Bangladesh in our heads. At H&M, we did not have any production in the building. For many years, we do not allow for production in any multiple party buildings, but our entire industry has a responsibility to ensure that nothing like this will ever happen again.

What do you think is needed to create a sustainable fashion industry?

Collaboration. As a big player, we need to be a good example and can achieve a lot. But lasting and systemic change cannot be made by one company alone. While working together with others may take more time, it shows greater impact. Political processes, in particular, can be slow and complex, but they are needed to achieve systemic change and competition-neutral playing fields. We hope that

by taking the lead in some key areas, we can speed up processes. One such case is actively engaging governments to support higher wages for garment workers and freedom of association.

But we are also part of many global and local platforms and initiatives – for example Better Work, the UN Global Compact, the Better Cotton Initiative and the Sustainable Apparel Coalition.

The latter now brings together more than a third of the world market for apparel with NGOs, academia and many others. Together we have developed a joint standard for how to measure and benchmark the sustainability of apparel and footwear products which is a major milestone towards greater sustainability in our entire industry. Beyond this, the idea is to translate this into consumer labeling that would allow also consumers to benchmark products, even across brands – an aim that I fully support.

Can fashion look good and be affordable and sustainable at the same time?

It can. And I think this is necessary for sustainable fashion to reach scale

in the marketplace. Our Conscious Collections already set a good example. And we are continuing working to make more sustainable fashion affordable and attractive to many people, every day and piece by piece. Creating a closed loop for textiles in which unwanted clothes can be recycled into new ones will not only minimize textile waste, but also significantly reduce the need for virgin resources and the impacts fashion has on our planet.

In turn, the price of a garment does not say much about where, how and by whom it has been produced. Affordable and expensive products can be made by the same workers for the same wage. The question is how hard a brand works to improve conditions and what impact this has on people's lives and their communities – no matter what price the customers pay.

What opportunities do you see for H&M?

We take a long-term view on our business and investing in our sustainability means investing in

our future. Our customers are showing great interest in sustainability and it's growing. As we constantly work to strengthen our customer offering, adding sustainability value to our products and brands is an important contribution to this goal. It also helps position us as an attractive employer for the talent we need. Obviously, minimizing resource use can help us cut costs – but more than that, we can see clear business benefits beyond this from our sustainability work. For example, greater stability in our production markets results in more reliable deliveries and smoother production. Not at least, we have the opportunity to contribute to the development of the communities around us and better lives of millions of people.

We take a long-term view on our business and investing in our sustainability means investing in our future.

About H&M Conscious

Making more sustainable fashion choices available, affordable and attractive to as many people as possible. This is our starting point. We want our colleagues to be proud of where they work and our customers to feel good about the fashion they buy. We can clearly see a growing interest in more sustainable fashion. This opens opportunities to further strengthen our customer offering by adding sustainability value to our products. In doing so, we are excited to take on the challenge of making fashion sustainable and sustainability fashionable.

Our planet is facing scarcity issues on many fronts and still too many people live in poverty. Clean water, climate change, textile waste and wages and overtime in supplier factories are some of the key challenges in our industry.

We want to use our scale to bring about systemic change to our industry and across our entire value chain. Together with our colleagues, customers, stakeholders, business partners and peers, we have the opportunity to bring about massive change – all the



way from improving the livelihood of a cotton farmer to lowering the impacts from washing and drying our clothes.

For us, sustainability is a word of action. A mission that is built on

passion, long-term thinking and teamwork. Everything we do needs to be economically, socially and environmentally sustainable. All highly interconnected. All equally important for our future growth.

This is why we have created H&M Conscious. With seven commitments at its heart, Conscious is the name for everything we do for a more sustainable fashion future. Hundreds of Conscious Actions – big and small, short- and long-term – are dedicated to putting these commitments into practice. Our Conscious Collection, for example, is one of them. But there are many more.

This is our 12th sustainability report. We are excited and proud of the Conscious Actions we have taken and what we have achieved in this mission so far. But we also know that together with our entire industry, there is more to do. This report outlines our progress of some of our most important Conscious Actions. It has been prepared in accordance with the *GRI G4 guidelines (core)*. Please see page 85 for further details on how we report.

We hope that you will find the reading interesting and helpful and appreciate your feedback to hendrik.alpen@hm.com.

Key performance 2013

3,555,687

garments donated to charitable causes.

Organic leather, vegetable-tanned and from cows bred for organic meat production at Swedish farms, is the latest addition to our range of conscious materials.



Clevercare label launched, providing guidance for conscious garment care.

We used **recycled polyester** equivalent to **9.5 million** PET bottles.

14%

less electricity used per H&M (brand) store sqm since 2007. Our goal is -20% by 2020.

15.8%

of our cotton now comes from more sustainable sources (2012: 11.4%). The goal is **100%**, by 2020 at the latest.



894,975 workers in Bangladesh and India educated about their rights since 2008.

Fair Living Wage Roadmap launched.

Supplier sustainability performance increased to 77.8 out of 100 ICoC scores (2012: 77.3, 2011: 76.5).

Accord on Fire and Building Safety in Bangladesh signed.

50%

of our board members are **women**.

340

million fewer litres of water used in denim production.

3,047 tonnes of no longer wanted garments collected. That's as much textile fabric as in about 15 million T-shirts.

First **closed-loop** products launched, made with **20%** recycled material from collected garments.

The impacts and challenges along our value chain

H&M Conscious addresses impacts, opportunities and challenges where they occur along our entire value chain. For those that are most closely related to our own operations, we have the ability to directly influence the impacts we have. For others, we make a difference, for example, by choosing conscious raw materials or like-minded partners and by collaborating with others.

Climate and water impacts are based on the estimated H&M value chain footprint from our total use of cotton, organic cotton, polyester and viscose in 2011/2012. For the footprint analysis, primary and secondary data has been used and the principles of LCA-methodology has been applied. The remaining 5% climate impacts result from packaging. The water footprint is based on WFN's methodology and includes green, blue and grey water footprint. Deviation from 100% due to rounding effects.



DESIGN

| Influence | Climate impact | Water impact |
|-------------|----------------|--------------|
| HIGH | 0% | 0% |

Sustainability starts at the drawing board. We need to create fashion without compromising design, quality, price or sustainability. Knowing how our choices of materials and looks impact the environment and people right from the start is the name of the game – just as minimising what ends up on the cutting floor.



RAW MATERIALS

| Influence | Climate impact | Water impact |
|------------|----------------|--------------|
| LOW | 12% | 87% |

Working conditions and intense water and chemical use are concerns associated with processing raw materials (e.g. cotton). By making the right choices we can significantly reduce these impacts. We need to use raw materials as efficiently as possible and we are working towards a closed loop. Through our active involvement with the Better Cotton Initiative (BCI), Textile Exchange and UNICEF we support further improvements.



FABRIC PRODUCTION

| Influence | Climate impact | Water impact |
|------------|----------------|--------------|
| LOW | 36% | 6% |

From making yarn to final fabrics, there are concerns regarding water, chemicals and working conditions as well as greenhouse gas emissions. Generally speaking, we do not have direct business relationships with mills but we work with organisations such as Solidaridad and NRDC to help mills improve their performance. And we have already started to integrate fabric and yarn mills that are involved in making about 20% of our products into our supplier audit system, aiming for 50% by 2015.

The impacts and challenges along our value chain



GARMENT PRODUCTION

| Influence | Climate impact | Water impact |
|---------------|----------------|--------------|
| MEDIUM | 6% | 1% |

Ensuring high social and environmental standards with all of our 872 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 train our suppliers and their workers, promote social dialogue and collaborate with organisations such as Better Work, the Fair Labor Association (FLA) and the Fair Wage Network.



TRANSPORT

| Influence | Climate impact | Water impact |
|---------------|----------------|--------------|
| MEDIUM | 6% | 0% |

Transport represents approximately 6% of the greenhouse gas emissions in a garment's lifecycle. By choosing the right modes of transport, we can reduce this impact further. And, as a big customer, we also use our influence to promote environmental consciousness at the transport companies we work with.



SALES

| Influence | Climate impact | Water impact |
|-------------|----------------|--------------|
| HIGH | 10% | 0% |

70% of our direct energy consumption occurs in our over 3,100 stores across 53 countries. So we need to work as efficiently as possible and increasingly source renewable energy. As we grow, enter new markets and employ new colleagues we need to make sure that we live up to our values throughout.



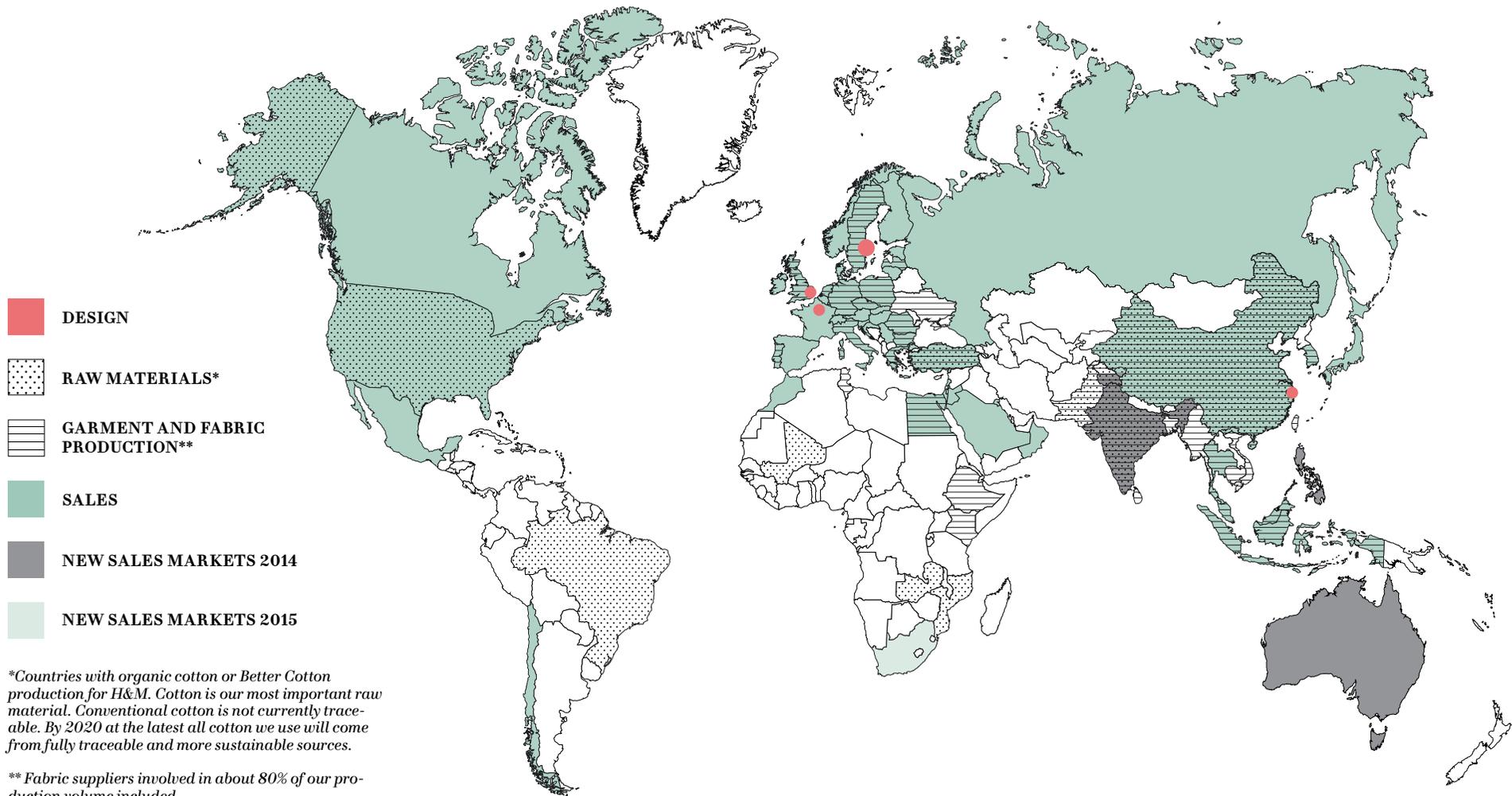
USE

| Influence | Climate impact | Water impact |
|------------|----------------|--------------|
| LOW | 26% | 8% |

The way our customers do their washing represents about 26% of all the greenhouse gas emissions in a garment's life. Our challenge is to create affordable fashion that our customers will love from season to season and that is easy to care for in a low-impact way. And we need to inspire our customers towards conscious garment care and make it easy for them to not let fashion end up in landfills.

The impacts and challenges along our value chain

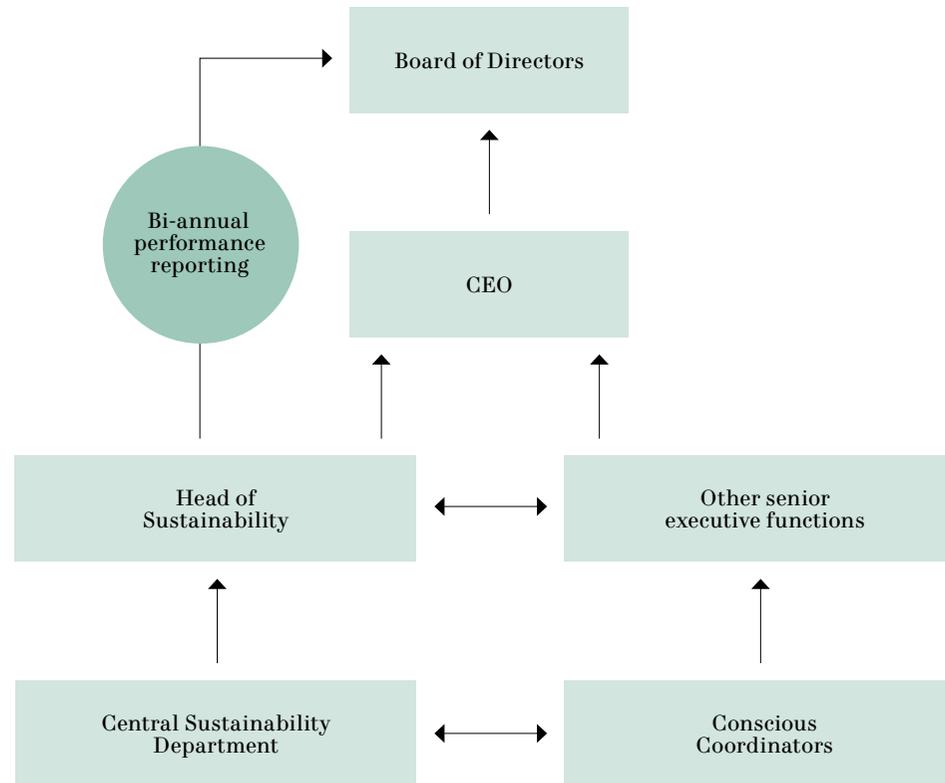
H&M around the world



How we are organised

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. At our head office, our sustainability team consists of more than 20 people responsible for developing global targets, reviewing progress, and encouraging and advising all relevant departments on the development and implementation of prioritised Conscious Actions. With this support, in turn each department is responsible for developing and carrying out their Conscious Actions to fulfill our seven commitments.

Twice a year, our CEO, CFO and Head of Sustainability review the progress made. With the same frequency, our Head of Sustainability reports performance against key sustainability indicators to our Board of Directors. Major sustainability issues influencing more than one department and conflicting interests are discussed in a decision-making forum called the Green Room with the involvement of our CEO. Over



We have around 170 colleagues who work with sustainability as a core task.

100 people from our sustainability team operate from 19 locally-based 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. 50 “Conscious Coordinators” work in our different departments and country offices supporting the implementation of our global sustainability strategy in their organisations.

Joint forces for solutions

Diversity and a multitude of voices lead to innovation. Stakeholder insights help us prioritise the Conscious Actions we take and the resources we invest. This is why a constant and open dialogue with our stakeholders is so important to us.

Throughout the year, we hold regular dialogues with our different stakeholders.* We do this on a day-to-day basis, through regular roundtables on a global and local level, focused stakeholder reviews and strategy consultations, dedicated surveys, media analyses and participation in several multi-stakeholder initiatives, as part of our strategic business intelligence, and through our wage advisory board.

But more than that, we seek to join forces with our stakeholders such as our peers, suppliers, NGOs and many others 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.

Such collaboration can also help to increase the level of influence we have

and promote systemic change. To this end, we are involved in a number of local and global industry 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 Road-

map to Zero Discharge of Hazardous Chemicals, to mention just a few. Read what some of our stakeholders say about this report [here](#) (p. 90).

>hm.com/memberships

>hm.com/stakeholderdialogue

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



ACKNOWLEDGEMENTS

Here are some of the indices, rankings and awards that assessed and recognised our sustainability performance during the year.

- Dow Jones Sustainability Index
- FTSE4Good
- Member of Ethibel EXCELLENCE Investments Register
- World’s Most Ethical Companies
- Global 100 List
- Interbrand Global Green Brands
- CDP’s Global 500 Climate Performance Leadership Index
- How does it stack up? 3rd place sustainability reporting
- Rank a Brand – Most sustainable fashion retailer in the Netherlands

>hm.com/whatotherssay

— COMMITMENT ONE —

Provide fashion for conscious customers



Fashion is a great way to express your personality and a source of fun and inspiration. That said, it takes a lot of resources from planet earth to produce and also to care for our clothes. Making conscious choices can reduce these impacts significantly – without compromising aesthetics, quality or comfort.

We see it as part of our job to make similar conscious choices desirable and accessible to as many people as possible. This also allows us to create added value in our customer offering – one that our customers are increasingly looking for.

We also want to make it easy for our customers to make the right choices when washing their buys at home. Or to drop off well-loved but no longer wanted clothes from any brand at an H&M (brand) store so we can give them a new life. By banding together, we can create a more sustainable fashion future.

Conscious fashion, however, is not just about our customers' choices. We keep working hard to make all of our

products more sustainable, piece by piece, all the way from the cotton farm up. Because, quite simply, it's the right thing to do.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|---|--|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – CONSCIOUS PRODUCTS & MATERIALS | | | | | |
| Conscious action 1.1 | Increase our use of more sustainable materials | year-to-year | | | |
| Conscious action 1.2 | Use only more sustainable cotton | 2020 | | | |
| Conscious action 1.3 | Introduce the first closed-loop products* | 2014 | | | |
| Conscious action 1.4 | Increase our use of certified leather | year-to-year | | | |
| Conscious action 1.5 | Permanently ban the use of angora wool | 2013 | | | |
| Conscious action 1.6 | Use only water-based glues for making our shoes | 2020 | | | |
| Conscious action 1.7 | Replace solvent-based polyurethane (PU) with water-based alternatives | 2014 | | | |
| Conscious action 1.8 | Expand our criteria for "Conscious" labelled products to include environmentally-preferable production processes | 2014 | | | |
| FOCUS – INSPIRE CUSTOMERS | | | | | |
| Conscious action 1.9 | Introduce conscious wash and care instructions* | 2014 | | | |
| Conscious action 1.10 | Help set industry standard for measuring product sustainability | ongoing | | | |
| Conscious action 1.11 | Roll out new sustainability training programme for all of our colleagues | 2015 | | | |
| Conscious action 1.12 | Involve our customers and colleagues in our community work | year-to-year | | | |

*Completed before publication of this report in spring 2014.

Performance overview

Highlights 2013

15.8%

of our cotton now comes from more sustainable sources (2012: 11.4%). Our goal is 100% by 2020 at the latest.

Clevercare label launched, providing guidance for conscious garment care.

11%

of the materials we used to make our clothes were organic, recycled or other innovative, more sustainable fabrics.

New sustainability training programme introduced.

Organic leather, vegetable-tanned and from cows bred for organic meat production at Swedish farms, is the latest addition to our range of conscious materials.



21%

of our shoes are now made with water-based glues. Our goal is to reach 100% by 2020.

49% of our leather shoes are made with certified leather (2012: 27%).

From the life of blazer #0214443

This blazer is sold for EUR 129 /USD 149.

It is made of 83% organic cotton and 17% hemp.



No chemical pesticides or fertilisers were used.

You can wear it and love it for many years, but if you don't want it anymore you can leave it at any H&M store and we will give it a new life.

Focus: Conscious products and materials

Our mission

We want to make the better choice easy and attractive. Piece by piece, this reduces the impact that fashion has on the planet. We want to help lift innovations to scale and together with our customers and our industry create a more sustainable fashion future.

Our strategy

We are constantly on the lookout for innovative materials and processes that can make our products more sustainable. Products with the highest sustainability credentials are labeled with our *Conscious* label. This means that these products are made of at least 50% independently-certified more sustainable materials such as organic or recycled fabrics.*

Our goal is to increase the share of such fabrics in our total material use every year. With the Conscious Exclusive collection, we show that more sustainable fashion is ready for the red carpet. Our coordinated Conscious Collections make this idea accessible to many customers and introduce innovations on a large scale. With our permanent Conscious range throughout all of our departments, we lift such innovations to become part of the standard offer across the board, all year long.

**Exception is made for recycled cotton fabric that comes from worn clothes. To ensure product quality at high standards, currently only about 20% of recycled input material can be used – a challenge that we are working on as part of our goal to close the textile loop.*



Focus: Conscious products and materials



11%
of the materials we used were **more sustainable**

Our Conscious Actions

1.1 Increase our use of more sustainable materials

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

For several years now, we have been one of the world's biggest users of certified organic cotton. But we also use a wide range of other organic or recycled fabrics, as well as innovative materials like Tencel®. These represent 11% of our products' total material use (7.3% organic materials, 0.3% recycled materials and 3.4% others), up from 9.1% in 2012. Our goal is to increase this share each year. These materials are gathered in our conscious materials list. A product consisting of at least 50% of materials from this list (20% for post-consumer recycled cotton) qualifies to be labelled with our "Conscious" hang tag.* The list is based on third-party sources such as the environmental benchmark for fibres created by the organisation MADE-BY, and we regularly introduce new materials. This year, for example, we launched the first products made with organic leather and organic silk. By constantly reviewing the list and driving

demand for sustainable materials, we help lift them to scale and encourage further innovation.

>hm.com/consciousmaterials



*Products made with Better Cotton are not labelled with our "Conscious" hang tag as Better Cotton is currently not intended to be a product labelling scheme.

1.2 Use only more sustainable cotton

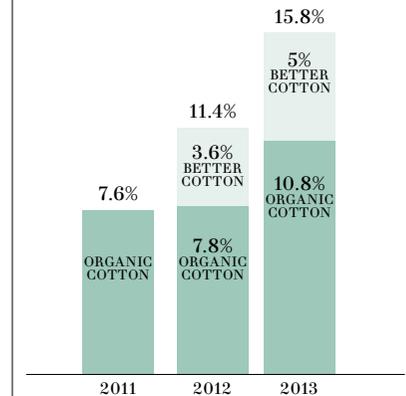
| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2020 | | | |

Of the different materials we use, cotton is the one we use the most. It is a natural, renewable fibre that offers many advantages, but also a number of concerns. For example, the conventional cotton required to make an average T-shirt needs about 11 bathtubs of water to grow. About 10% of all pesticides in the world are used in cotton production.* Organic cotton, Better Cotton and recycled cotton reduce these impacts significantly. This is why all of our cotton is to come from these sources by 2020 at the latest. Doing so also helps farmers and their communities improve their standard of living. We have doubled our share of more sustainable cotton in the last two years and are on target with 15.8% (2012: 11.4%) of our cotton being certified organic (10.8%), Better Cotton (5.0%) or recycled (0.01%).

>hm.com/cotton

*Source: [Pesticide Action Network](#)

% OF MORE SUSTAINABLE COTTON OF OUR TOTAL COTTON USE



Please find an independent assurance statement related to GRI G4 EN1 [here](#) (p. 88).

Focus: Conscious products and materials



21%
of our shoes
are now
made with
water-based
glues

Our Conscious Actions

1.3 Introduce the first closed-loop products

| DEADLINE | MORE TO DO | ON TRACK | DONE* |
|----------|------------|----------|-------|
| 2014 | | | |

Last year, we introduced our global garment collecting programme (s. 5.1, p. 62). The short-term goal is to keep fashion from ending up in landfills and to save natural resources. Ultimately we want to create a closed loop for textiles in which no longer wanted clothes can be recycled into new treasures. We have now taken the next step in this mission and created the first products made with 20% recycled cotton derived from collected clothes. At the moment, higher amounts of recycled cotton are not possible without diminishing the quality of the new garment. A challenge that we are working on to overcome.

>hm.com/longlivefashion

*Completed before publication of this report in spring 2014.

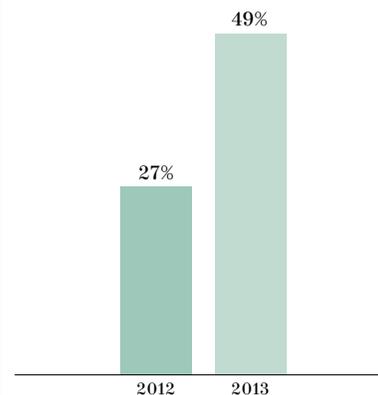
1.4 Increase our use of certified leather

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Leather products can require intense chemical treatment that can harm the environment and workers. This is why we joined the Leather Working Group (LWG) in 2009. 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 is either certified organic or comes from LWG-certified tanneries. In 2013, 49% (2012: 27%) of the leather shoes in our stores were made of such leather. Our goal is to increase this share every year and thereby help to strengthen the currently limited market for certified leather. Additionally, our product policy commits us to amongst other things only using leather that comes as a by-product of meat production.

>leatherworkinggroup.com

% OF LEATHER SHOES MADE WITH CERTIFIED LEATHER



1.5 Permanently ban the use of angora wool

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

During 2013, we learned about unacceptable treatment of angora rabbits at Chinese angora farms. Fur had been ripped from living animals, a practice that is strictly forbidden through our product policy. While we could verify that the angora farm in question did not supply any H&M suppliers, we decided to permanently ban the use of angora, as responsible angora farming proved difficult to guarantee.

>hm.com/policies

1.6 Use only water-based glues for making our shoes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2020 | | | |

Solvent-based glues are often used in shoe production, but they can be harmful to workers in factories if not handled with sufficient protection. This is why for 2012, our goal was to produce 7 million pairs of shoes with safer alternative water-based glues instead. We exceeded that goal and therefore in 2013 we decided to make all of our shoes with water based glues only by 2020 at the latest. With a continued increase in volumes, this now goes for 21% of our shoes and with that we are well on our way towards this goal.

Focus: Conscious products and materials

Our Conscious Actions

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

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Handling solvent-based polyurethane (PU) requires workers to wear sufficient protective gear. We set out to gradually use water-based PU instead, which can be handled with less precaution. However, after several trials, we had to conclude that the currently-available options could not deliver sufficient results and the required quality. While we still aim to make all applicable products with water-based PU in the long-run, our goal for 2014 is to develop two new products made with such materials to further improve its quality and scalability.

1.8 Expand our criteria for “Conscious” labelled products to include environmentally-preferable production processes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Currently, our "Conscious" product label is limited to products made with more sustainable materials. This is a major driver for innovating and increasing the demand for these materials, often lifting them to scale. But we go beyond just the material choice to make our products more sustainable – for example by applying techniques also in the continued production process that reduce the use of water, energy or chemicals. This is why we are currently working to expand the criteria for our "Conscious" label to include the top edge of environmentally-preferable production processes and make these more transparent for our customers.



Focus: Involve our customers and colleagues

Our mission

We work on many fronts to make our products more sustainable. And we can extend this to an even bigger impact when we team up with our customers. For example, 26% of the climate impacts of a garment occur when we wash and care for our clothes at home. So we not only need to inspire and enable our customers to make conscious choices when shopping for fashion. We also need to help them to care for their clothes so that they can have the longest possible longevity and less impact on climate and water.

Our strategy

We started with our Conscious Collection, introducing the concept of sustainability in fashion to a wide range of customers and making it accessible and desirable for many people. Over the past few years, we have gradually involved our customers in more and more of our Conscious Actions such as our All for Children campaign and other community projects. Collecting unwanted clothes from our customers has taken us another step further. Moving forward, we will continue our work to make informed sustainable choices even easier and more transparent and increasingly raise awareness amongst our customers and colleagues.



Focus: Involve our customers and colleagues



With our All for Children collection we will help UNICEF to reach out to more than **1.7 million** children in India and Bangladesh

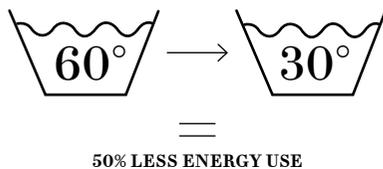
Our Conscious Actions

1.9 Introduce conscious wash and care instructions

| DEADLINE | MORE TO DO | ON TRACK | DONE* |
|----------|------------|----------|-------|
| 2014 | | | |

Did you know that reducing the washing temperature from 60 to 30 degrees can save 50% of energy use? If not, you are certainly not alone. This is why we started discussions with Ginetex, the owner of the current global standard care labelling system, already in 2011. Our aim was to develop a common standard care label that encourages consumers to care for their clothes in a more conscious way. The Clevercare label is now available to all apparel brands globally. By spring 2014 all of our products should carry it.

>clevercare.info



*Completed before publication of this report in spring 2014.

1.10 Help set industry standard for measuring product sustainability

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| ongoing | | | |

Together with several of our peers, academia, NGOs and many others, we are working together in the Sustainable Apparel Coalition (SAC) to build a common approach for measuring the sustainability performance of apparel and footwear products through what is known as the Higg Index. This is a major driver in improving the sustainability performance of our entire industry. Ultimately, taking this another step further, the idea is to translate this index into a product labelling system, allowing customers to benchmark products across brands. While creating a meaningful and widely acknowledged labelling takes some time, we appreciate that the SAC is taking the first steps to turn this goal into reality. We fully support this ambition and contribute through our active participation in the SAC.

>apparelcoalition.org

1.11 Roll out new sustainability training programme for all of our colleagues

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

We want everyone at H&M to feel proud of where they work and we want to help our colleagues to develop the knowledge and confidence they need to deliver the best possible customer service. This is why in 2012, we started developing a broader sustainability training ladder including extensive training for all of our colleagues and additional role-specific training courses for our buyers and designers, for example. The system has been implemented in most of our markets and we plan to cover all markets (excl. franchise) by 2015. Our next step will be to follow up and ensure that all of our colleagues actually receive the right training and increase their awareness.

1.12 Involve our customers and colleagues in our community work

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

For the past few years, we have teamed up with our customers to support our community work. Through dedicated collections and campaigns we raise funds and awareness of important causes. For example, our All for Children collections have supported UNICEF's

work for children's rights in India and Bangladesh. During our 2013 holiday campaign, for every EUR 10/ USD 10 sale in gift cards, the H&M Conscious Foundation provided one family in Bangladesh with access to clean water. This way we were able raise money to support about 193,000* people through WaterAid. In 2013, the H&M Conscious Foundation also asked H&M customers and colleagues to vote on which causes the foundation should support in the future. The response was amazing with more than 100,000 votes.



— COMMITMENT TWO —

Choose and reward responsible partners



Garment production is often the first step in the industrial development of emerging markets and has a major impact on these communities. Today, some of the world's biggest garment producers and also key sourcing markets for us are China, Bangladesh, India, Cambodia and Turkey. It is a labour-intense industry that creates millions of jobs and substantial economic growth.

The 1,946 factories in which our 872 suppliers make our products employ close to 1.6 million people alone. 65% of them are women who often have become important income providers for their families. At the same time, human rights standards and environmental awareness are less developed in many of these countries.

While major improvements over the years are evident, too-long working hours and a lack of functioning industrial relations are remaining common issues in many markets. Wages and workplace safety are key concerns, particularly in Bangladesh and Cambodia.

In a globalised world, it is not a question for a company like ours whether to be present in emerging markets. It's a matter of how we do it. We want to make sure that our presence results in better livelihood for garment workers and positive development for their communities.

Respect for people and the environment is part of our values and we rely on stable sourcing markets with

skilled workers for our future growth. We want to use our influence to promote better working conditions and environmental consciousness throughout our value chain. This includes that we believe that all workers in the textile industry should earn a fair living wage in decent working hours and that we actively contribute to achieving this. We stand behind the right to freedom of association and work systematically to strengthen industrial relations and collective bargaining. We use our influence on various levels – from working with the individual factories to promoting systemic change in entire countries. Working together with several different stakeholders and partners is the key to lasting change.

As part of this, we commit to choose and reward responsible partners who share our values and who are willing to work transparently with us to improve their social and environmental performance. We look for long-term partnerships with them and engage in strategic partnerships with the best ones.

We set high standards for our suppliers and regularly monitor how well they live up to them. Likewise, in order for our partners to deliver their very best, we need to be a good partner ourselves. We provide training and support. And we reward good sustainability performance with better business. As a result, our 162 strategic partners make around 60% of our products.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|--|---|--------------------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – SUPPLY CHAIN MANAGEMENT | | | | | |
| Conscious action 2.1 | Update our strategy for sustainable purchasing practices | 2015 | | | |
| Conscious action 2.2 | Reward good sustainability performance with better business | year-to-year | | | |
| Conscious action 2.3 | Ensure that 100% of new supplier factories in risk countries are screened and audited before placing orders | year-to-year | | | |
| Conscious action 2.4 | Audit our suppliers' factories on their sustainability performance and related management systems | At least every two years | | | |
| Conscious action 2.5 | Go beyond monitoring and enable our suppliers through capacity building | year-to-year | | | |
| Conscious action 2.6 | Develop and implement an updated method for assessing our suppliers' sustainability performance | 2015 | | | |
| Conscious action 2.7 | Integrate 2nd tier suppliers involved in at least 50% of our production volume into our audit programme | 2015 | | | |
| Conscious action 2.8 | Extend our public supplier factory list to cover all of our 1st tier supplier factories* | 2014 | | | |
| FOCUS – IMPROVED SUPPLIER PERFORMANCE | | | | | |
| Conscious action 2.9 | Further increase the sustainability performance at all supplier factories | year-to-year | | | |
| Conscious action 2.10 | Ensure that 100% of our supplier factories in Bangladesh undergo additional inspections as per the Accord on Fire and Building Safety in Bangladesh and provide their workers with additional safety training | 2014 | | | |
| Conscious action 2.11 | Start training programme together with the Ethical Trading Initiative (ETI) to promote an end to Sumangali schemes in Indian fabric mills | 2014 | | | |
| Conscious action 2.12 | Reinforce our ban on Uzbek cotton | 2013 | | | |
| FOCUS – FAIR LIVING WAGE | | | | | |
| Conscious action 2.13 | Develop our purchasing practices further to support our suppliers in paying a fair living wage and reducing overtime | 2015 | | | |
| Conscious action 2.14 | Set up model factories and implement the Fair Wage method | 2014 | | | |
| Conscious action 2.15 | Establish improved pay structures for paying fair living wages at all strategic suppliers | 2018 | | | |
| Conscious action 2.16 | Set advocacy plan to strategically engage governments on wage issues | 2014 | | | |
| Conscious action 2.17 | Define needs and update strategy for extended skill development programme for garment workers | 2014 | | | |
| Conscious action 2.18 | Update our Code of Conduct | 2014 | | | |
| FOCUS – INDUSTRIAL RELATIONS | | | | | |
| Conscious action 2.19 | Launch joint project with the Swedish union IF Metall and SIDA to strengthen industrial relations in Cambodia | 2013 | | | |
| Conscious action 2.20 | Expand social dialogue project in Bangladesh to reach all suppliers | 2014/2018 | | | |
| Conscious action 2.21 | Provide workers and middle managers in supplier factories with training about their rights | year-to-year | | | |

*Completed before publication of this report in spring 2014.

Performance overview

Highlights 2013

Fair Living Wage Roadmap launched, enabling suppliers to pay higher wages to their workers.

894,975

workers in Bangladesh and India have been educated about their rights since 2008.

Supplier sustainability performance increased to 77.8 out of 100 ICoC scores (2012: 77.3, 2011: 76.5).

Accord on Fire and Building Safety in Bangladesh signed.



3,121 audits conducted, together with 11,549 worker interviews.

305,195

workers and middle managers in our Bangladeshi supplier factories have received additional fire and safety training since 2011.

From the life of dress #0206798

Made in Phnom Penh, Cambodia, at the Gladpeer Garment Factory Ltd.

5,216 people work in this factory, 88% of them are women.

Their average income is about 15% higher than the applicable minimum wage and almost twice the wage of a primary school teacher.

Workers in this factory are represented by independent trade unions.



The factory belongs to one of our 162 strategic partners and we have worked with them for more than 10 years.

We audited the factory 3 times during the year and found comparably good sustainability performance.*

Major improvements have been made in recent years particularly in health & safety and workers' basic rights. One major challenge that remains is to reduce overtime.

*(82 out of 100 in our ICoC-index).

Focus: Supply chain management

Our mission

We have high expectations of our suppliers in terms of quality, prices, lead times and sustainability. That said, creating a sustainable supply chain starts with us. We have experienced great improvements and over the years, we have developed advanced systems for managing our supply chain and supporting its sustainability performance. And we work to improve it further every day. For example, to make sure that we choose the right partners from the start and that we know exactly where and under what conditions production takes place. Throughout a partnership, we need to enable, promote and reward constant improvement. We are aware of the limitations and challenges in standard audit procedures, and faked records or undeclared subcontracting do, unfortunately, occur in our industry. We do not accept any such practices and work systematically to prevent this.

Our strategy

2,100 colleagues in our 19 locally-based production offices maintain close relations with our suppliers. We focus on building strong, long-term relationships characterised by trust and transparency. We are clearly committed to working together with our suppliers on improvements rather than terminating relationships. Our local teams support their performance in various areas throughout a partnership. Regular audits through our comprehensive Full Audit Programme are one part of this. Additional independent monitoring helps verify and improve our audit systems. But monitoring alone is not enough, which is why our strategy includes a wide range of additional elements such as supplier management system analyses that aim to address systematic causes of non-compliance. We also provide or facilitate training, technical assistance and even joint investments. Our strong presence gives us the opportunity to understand each market and factory on an in-depth level and to integrate what we learn from them and other local stakeholders in our business decisions. We measure our suppliers' sustainability performance



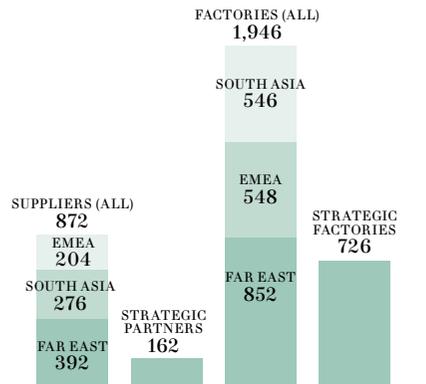
Focus: Supply chain management

162
strategic partners
make around 60%
of our products

through our Index Code of Conduct (ICoC). Each factory and supplier is rated with an ICoC score (max. score: 100). These scores are clearly communicated. The ICoC is also a key integrated working tool in our purchasing processes which allows us to systematically reward suppliers for good sustainability performance with better business. Only suppliers with the highest scores can become our strategic partners.

To enter such strategic partnerships, we need to be a good partner ourselves. This includes making sure that our purchasing practices enable our suppliers to live up to our demands and deliver their very best to us, our customers, their workers and their communities. Ultimately, this supports greater stability and reliability in our sourcing.

NO. OF SUPPLIERS AND FACTORIES BY REGION (1ST TIER) 2013



One supplier can own or subcontract to one or more factories. Strategic partners are our preferred suppliers. During the year, we have widened the scope for defining strategic factories and this now includes all factories that are owned or subcontracted by our strategic partners.



A more sustainable supply chain means greater stability and reliability in our sourcing.

Helena Helmersson, Head of Sustainability

Focus: Supply chain management



91%
of our suppliers
say they are
satisfied with
business relations
with H&M

Our Conscious Actions

2.1 Update our strategy for sustainable purchasing practices

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2016 | | | |

We need to ensure that our purchasing practices enable our suppliers to live up to our demands, for example, by providing reasonable lead times, fair pricing, timely payments and transparent communication. From close dialogue with our suppliers as well as anonymous surveys, we know that they see us as a good business partner and appreciate our purchasing practices. But as we tackle complex challenges in our industry such as [fair living wages](#) and overtime, we will update our current purchasing practices (see 2.13, p. 34).

>hm.com/responsiblepurchasing

2.2 Reward good sustainability performance with better business

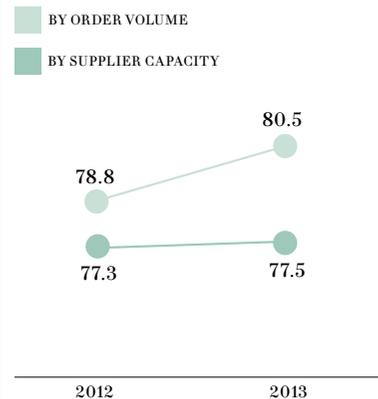
| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

In order to sustain and incentivise good sustainability performance, we reward our suppliers with what they appreciate most – long-term business relations and growth opportunities. To measure how well we perform against this ambition, we compare the ICoC scores of our supplier factories weighed by their order volume with scores weighted against the available capacity in our entire factory base. The data confirms that we place more and bigger orders with better performing factories before others. Our aim is to maintain this year-to-year. This is why we integrated ICoC scores in our overall supplier grading already some years ago, meaning that only those suppliers who demonstrate the best sustainability performance can become strategic partners. 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 872 suppliers, currently 162 strategic partners (19%) make around 60% of our products. On average, we work with each supplier since more than five years.

>hm.com/supplierrelations

ICOC WEIGHED



2.3 Ensure that 100% of new supplier factories in risk countries are screened and audited before placing orders

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

As part of our sourcing strategy, we only place orders with suppliers and in factories that sign our Code of Conduct. Before placing any orders, we conduct an initial screening. If they pass, our auditors conduct an in-depth head audit to assess if the factory lives up to our minimum

requirements and shows good potential to further improve their sustainability performance. Only after our auditors' approval can orders be placed (exceptions are made only to factories located in low-risk EU markets). This is the case whether a factory is owned directly by one of our suppliers or is subcontracted. In 2013, 96% of all our supplier factories were audited before an order was placed. The remaining 4% were located in low risk markets. During the year, we audited 534 potential new supplier factories and of these 20% were not approved.

>hm.com/monitoring



Focus: Supply chain management

82%
of our supplier
factories were audited
during the year

Our Conscious Actions

2.4 Audit our suppliers' factories on their sustainability performance and related management systems

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------------------|------------|----------|------|
| at least every two years | | | |

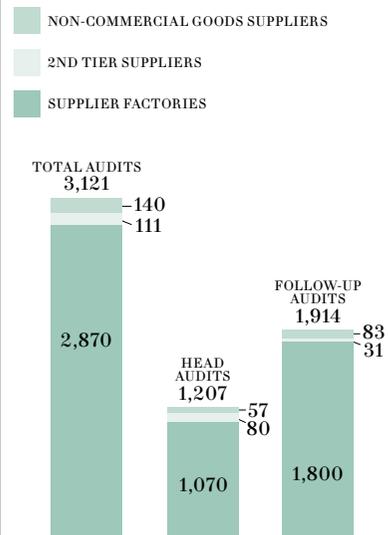
Our Full Audit Programme consists of more than **200 questions** and includes a visual inspection of the factory, management interviews, document checks and interviews with workers. 73% of our head audits were unannounced (2012: 66%). Our Full Audit Programme covers all of our 1st tier supplier factories, no matter if they are directly owned or subcontracted by our suppliers, and increasingly also suppliers of non-commercial goods and 2nd tier suppliers such as fabric or yarn mills. All in all, we performed a total of 3,121 audits during 2013.

As a minimum, each 1st tier factory is audited every two years with up to three follow-up audits conducted in between. 82% were audited at least once during 2013 only. The audit frequency varies largely depending on risks in the market and individual

factory performance. In 2013, each active 1st tier factory was audited 1.3 times on average.

hm.com/monitoring

NO. OF AUDITS 2013



FLA VERIFICATIONS: 3

In previous years the number of audits was reported based on factories registered as active by the end of the year. This year, the number of audits includes all audits that we conducted during the year regardless of factory status by the end of the year.

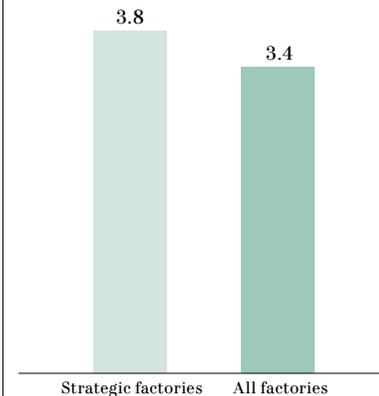
2.5 Go beyond monitoring and enable our suppliers through capacity building

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Monitoring our suppliers is important, but not enough to create lasting change. This is why we are investing substantial resources to help them improve their management systems and facilitate training for workers and management in order to strengthen their in-house sustainability capacities. Our focus is on our strategic partners where we have stronger influence and bigger impact. During 2013, we conducted 1,929 management system analyses. Together with about 2,194 other activities (such as training sessions and workshops) and our audits, each factory was subject to an average of 3.4 (strategic factories 3.8) activities aiming to improve their sustainability.

hm.com/beyondmonitoring

AVERAGE NO. OF SUSTAINABILITY ACTIVITIES (STRATEGIC VS. ALL FACTORIES)



2.6 Develop and implement an updated method for assessing our suppliers' sustainability performance

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

With over 15 years of experience in supplier monitoring, we have developed in-depth knowledge on how to assess the sustainability performance of our supply chain. Now it's time to take it to the next level. In order to prepare to extend the scope of our assessments deeper into our value chain and in response to increasing maturity amongst many suppliers, we are developing an updated method that aligns our Full Audit Programme with its several complements. This will further advance our data management and risk assessments, strengthen supplier ownership and prepare us for the integration of new tools such as the **HIGG Index**.

Focus: Supply chain management

We are now auditing 2nd tier suppliers involved in making about 20% of our products

Our Conscious Actions

2.7 Integrate 2nd tier suppliers involved in at least 50% of our production volume into our audit programme

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

As we aim to take a holistic, value-chain approach, we are progressing quickly with extending our knowledge and influence over 2nd tier suppliers such as fabric and yarn mills. Our Lifecycle Assessments show that fabric production represents major environmental impacts. For example, 36% of the climate impact in a garment's lifecycle occur at this stage of our value chain. For several years, we have worked for example through our mill development programme to help mills reduce these impacts. During 2013, we started to request information about the fabric and yarn source for each order placed. In this way we have so far been able to map the mills involved in about 80% of our production volume and are now integrating these into our audit programme and also into our supplier relationship management strategy. Our aim is to cover

mills involved in at least 50% of our production volume by 2015. We have already started auditing mills using our Limited Audit Programme and have covered those involved in about 20% of our production volume so far.

2.8 Expand our public supplier factory list to cover 100% of 1st tier supplier factories

| DEADLINE | MORE TO DO | ON TRACK | DONE* |
|----------|------------|----------|-------|
| 2014 | | | |

Transparency is key to our supply chain management. We also believe that a transparent supply chain can be a catalyst for positive change. And it's a good way to incentivise our suppliers for the progress they make during our partnership. Last year, we published our supplier factory list, representing about 95% of our production volume. Now we are taking this even further by expanding the list to include all of our 1st tier supplier factories – covering 100% of our production volume, now including even those factories with whom we have just started working. We hope that this will continue to promote transparency in our industry.

>hm.com/supplierlist

*Completed in 2014 before the release of this report.



Focus: Improved supplier performance

Our mission

Ultimately, our supply chain management should help our suppliers to further improve their performance and create a positive impact for the livelihood of their about 1.6 million workers and their communities. We have seen great improvements over the years in many areas. Child labour, for example, has been almost entirely eradicated from the export garment industry. But only few suppliers fully comply with our Code of Conduct. Major challenges remaining concern health and safety, excessive overtime, wages, freedom of association and industrial relations. Other specific local challenges in some of our key sourcing markets include so-called Sumangali schemes, a form of forced labour mainly present in Indian fabric mills, fire and building safety particularly in Bangladesh and workers' health and social dialogue in Cambodia. All of these require holistic solutions – from the factory level to systemic change in the concerned societies and our entire industry. While our supply chain management systems can support improvements, we need to continue to collaborate closely with our suppliers, governments, industry peers, NGOs, unions and many parties to jointly achieve lasting change.

Our strategy

Supported by strong and constantly evolving supply chain management systems, we work to strengthen our suppliers' ownership of their sustainability performance. We focus on strategic factories where we have the strongest impact. By being a good partner ourselves, setting out clear demands and providing training and support where needed, we want to enable our suppliers to take this ownership and improve their performance. Through regular monitoring, we measure how well they do, communicate the results, set recommendations and provide additional support where needed. By rewarding well-performing suppliers with better business, we deliver an extra business case for sustainability. With the disclosure of our supplier list, we aim to further strengthen the sustainability ownership of our suppliers' performance and incentivise further improvements. Likewise, we also encourage our suppliers to report on their social and environmental impacts publicly and get involved with their stakeholders directly.



Focus: Improved supplier performance

305,195

workers and middle managers
in our Bangladeshi supplier factories
have received additional fire
and safety training since 2011

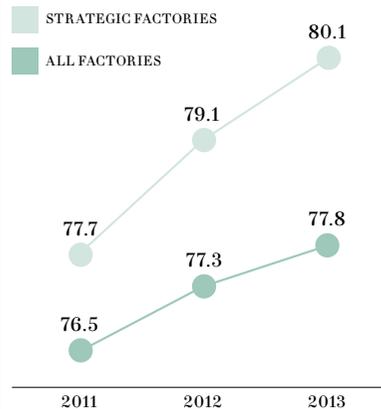
Our Conscious Actions

2.9 Further increase the sustainability performance at all supplier factories

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

We measure each supplier factory's sustainability performance through our ICoC index. Our aim is to increase the average ICoC index across our entire supplier factory base year-to-year. This is despite the fact that we constantly improve our auditing methods and increase demands. Also, adding new factories normally has a negative effect on the total average, as factories usually improve their scores during their partnership with us. We achieved this goal in 2013 with ICoC scores increasing to 77.8 (max. score: 100, 2012: 77.3, 2011: 76.5). You can find a detailed breakdown of our supplier factories' compliance with all of the over 200 items from our Full Audit Programme questionnaire [here](#).

PROGRESS IN FACTORY SUSTAINABILITY PERFORMANCE (IN ICoC SCORES)



Data now covers all active and approved supplier factories by the end of FY 2013 (not only comparable factories as in previous year). You can find a detailed breakdown of compliance with all items from our audit protocol at hm.com/suppliercomplianceindetail. Please find an independent assurance statement related to GRI AF14 [here](#) (p. 88).

2.10 Ensure that 100% of our supplier factories in Bangladesh undergo additional inspections as per the Accord on Fire and Building Safety in Bangladesh and provide their workers with additional safety training

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

The collapse of the Rana Plaza building in Dhaka that left more than 1,100 people dead was the worst industrial accident in the history of Bangladesh and probably the entire garment industry. While we had never had any production in the building, this disaster underlines the importance of the work we already started several years ago to improve fire- and building safety in the country. In 2009, we introduced requirements not to source from any factories located in buildings that are shared between several parties, so that the factory can have full control of building safety. In 2011, we introduced a training programme to increase fire-safety awareness amongst suppliers and their employees using short films.

So far, 305,195 workers and middle managers in our Bangladeshi supplier factories have been trained. There is currently an ongoing dialogue to discuss integrating such training into the Accord to achieve a wider spread throughout the entire country. Following a study we commissioned in 2011 to identify root causes of fire safety risks in Bangladesh, all of our suppliers were requested to assess the electrical installations in their factories and we recommended a set of hands-on actions to the authorities in Bangladesh.

H&M was the first company to sign the Accord on Fire and Building Safety in its updated version initiated by IndustriALL and UNI Global Union. By the end of the year, over 100 brands had signed. This means we are, amongst other things, committed to ensuring that all of our supplier factories in Bangladesh undergo additional independent fire and building safety inspections by the end of 2014. In early 2014, the Accord representatives agreed with the Bangladeshi government and the Alliance for Bangladesh Worker Safety on a joint standard for conducting these inspections. We believe that the Accord is a

complementary and pragmatic step towards lasting change by aligning a broad coalition of brands with other key players such as the Bangladeshi Government, industry associations and trade unions, as well as an important contribution to continued positive change in Bangladesh.

>about.hm.com
>bangladeshaccord.org

Focus: Improved supplier performance

Our Conscious Actions

2.11 Start training programme together with the Ethical Trading Initiative (ETI) to promote an end to Sumangali schemes in Indian fabric mills

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Sumangali schemes are a form of forced labour where young women are sent from their villages to work particularly in spinning mills in India. In return for their labour, the women and their families are promised a dowry at the end of a three-year contract. We view Sumangali schemes as an absolutely unacceptable form of forced labour. The challenge is that such schemes occur mainly in spinning mills where we normally do not have direct contractual influence. This is why, in 2012, we decided to join a three-year, multi-stakeholder project run by the Ethical Trading Initiative (ETI). As part of this collaboration, ETI has now started a training programme in collaboration with Business for Social Responsibility's (BSR) HER-project that initially aims to improve worker-management dialogue start-

ing in five mills in 2014 and extending to 15 mills by 2015.

- >ethicaltrade.org
- >HERproject.org

We are committed to not knowingly source cotton from Uzbekistan.

2.12 Reinforce our ban on Uzbek cotton

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

In 2011, together with about 60 other brands and NGOs, we signed a pledge facilitated by the Responsible Sourcing Network (RSN) committing us to not knowingly source cotton from Uzbekistan due to continued forced child labour in its cotton industry. Following this, in early 2013 we reinforced our ban on Uzbek cotton by requiring all suppliers to sign a mandatory commitment to neither directly or indirectly source any such cotton as a requirement to remain our supplier. During 2013, we also began to apply this commitment to some of the first fabric mills that we started to include in our audit programme, which increases the impact upstream our value chain.

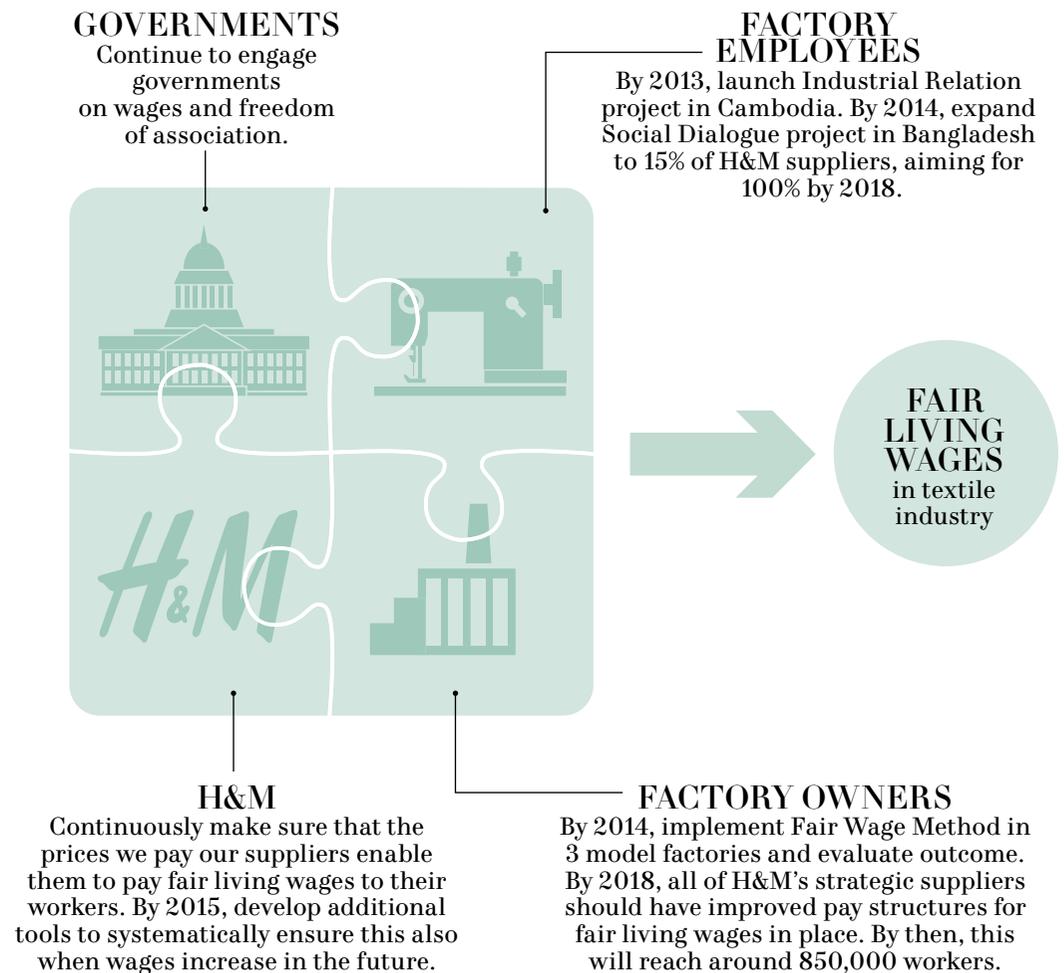


Focus: Fair living wages

Our mission

There is no question that every garment worker should earn enough to live on. In order to ensure this throughout our industry and in all of our sourcing markets, further systemic change is needed. The challenges along the way are diverse and complex. In many markets, workers have limited possibilities to negotiate wages collectively. We think that such negotiations are the best way to define wages. Where, for example, legal minimum wages or the systems to define them are not yet sufficient, we need to find ways in the meantime to ensure that individual factories can pay fair living wages to their workers without putting their business and jobs at risk. Factories often work for many different brands. In a situation where only one or a few of the brands request fair living wages, it still needs to be ensured that the wage of a factory worker does not depend on his or her employer's customers. Income equality also needs to be seen in relation to other sectors – for example, we need to consider the consequences that might arise for a community where garment workers start to earn more than teachers. And of course

increasing wages in the garment sector should contribute to a natural growth in the community without risking the competitiveness of entire countries. The challenges are complex but the aim is clear: A fair living wage in the textile industry.



Focus: Fair living wages

Our strategy

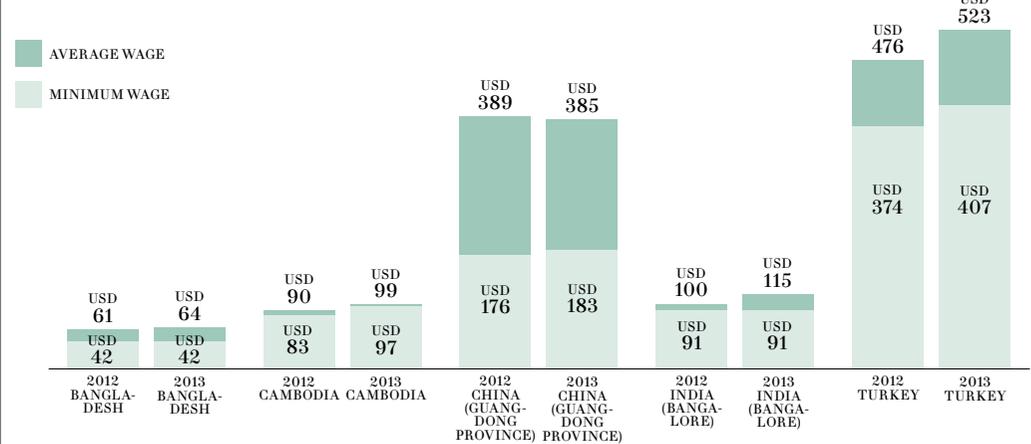
We developed our Fair Living Wage roadmap based on the Fair Wage Network’s methodology and in close consultation with a variety of stakeholders in our wage advisory board. A fair living wage, at the very least covering workers’ basic needs, should be enabled through our purchasing practices, and based on a skilled workforce that has their wages annually reviewed and negotiated on the factory level or broader level, involving democratically-elected trade unions or worker representatives. To achieve this, we need to work on several ends. We need to ensure that our purchasing practices support our suppliers in implementing fair living wages. We will work with our suppliers to deliver best practice examples and gradually scale these up. We are focusing on our strategic suppliers to start and our goal is that all of them should have improved pay structures for fair living wages in place by 2018 at the latest (in existing as well as potential future sourcing markets). We help to strengthen worker involvement and their right to collective bargaining. We also continue to engage governments and other concerned

stakeholders to promote systemic change across the concerned communities and our entire industry. With this holistic approach covering H&M, factory owners, factory employees and governments, we are taking the wage issue to the next level within the fashion industry.

>hm.com/fairlivingwage



MONTHLY AVERAGE WAGES VS. APPLICABLE MINIMUM WAGES 2012/2013



Data based on audit results from randomly selected factories in each country/region. Basic wages applicable for machine operators (usually the largest group of employees), excl. overtime. In China, piece-rate systems often apply, hence wage data for China is not fully comparable. Figures are converted to USD using comparable exchange rates.

H&M’s initiative to create a wage policy for suppliers in their production countries is an important step to resolve one of the major problems in the textile and clothing industry, how to find models for decisions on fair living wages and stable conditions in the labour market.

Bengt Johansson, CSR ambassador at the Swedish Ministry for Foreign Affairs

Focus: Fair living wages

Our Conscious Actions

2.13 Develop our purchasing practices to further support our suppliers in paying a fair living wage and reducing overtime

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2015 | | | |

We will continue to take our responsibility in making sure that the prices we pay our suppliers enable them to pay fair living wages to their workers. This remains the case also where wages increase in the future and we will further develop our tools to secure this systematically. Additionally, we will continue to improve our purchasing planning tools to reduce production peaks and thereby help our suppliers to better plan their capacity and reduce overtime. This alone will not be enough to ensure fair living wages, but it will give our suppliers additional confidence in implementing the Fair Wage method (s. 2.15).

2.14 Set up model factories and implement the Fair Wage method

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2014 | | | |

We will pilot the implementation of the Fair Wage method in three model factories. These are carefully selected strategic partners with whom we work very closely to set best practice examples for our industry. The aim is to showcase that leadership in sustainability, including paying a fair living wage, can go well together with best business performance. From there, we will then work to gradually scale up the implementation, focusing first on our strategic suppliers. Two of these model factories are located in Bangladesh, and one is in Cambodia.

2.15 Establish improved pay structures for fair living wages at all strategic suppliers

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2018 | | | |

In 2011, we joined the Fair Wage Network and as part of this, the Fair Labour Association (FLA) conducted independent assessments of pay structures in about 200 of our supplier factories. After implementing the Fair Wage method in selected model factories (s. 2.14), our goal is for all of our strategic supplier factories to have improved pay structures for fair living wages in place by 2018 at the latest. This affects around 850,000 textile workers. Such pay structures build on implementing the Fair Wage method. Developed by the Fair Wage Network, this defines twelve dimensions of wages that need to be in place to make a fair living wage. This includes, for example, that wages need to cover workers' basic needs and should be negotiated in a fair process and that the workers need to be paid according to their skills.

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



Focus: Fair living wages

Our Conscious Actions

2.16 Set advocacy plan to strategically engage governments on wage issues

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Systemic change cannot be achieved by one company alone. The aim must be for all garment workers in the industry – not just in our supplier factories – to earn a fair living wage. In order to ensure income equality and competition-neutral playing fields, the concerned governments need to strengthen the required legal frameworks such as regular wage revisions and functioning industrial relations. In recent years we have been in contact with the Bangladeshi Government and requested increases in minimum wages and systematic minimum wage revisions. In 2013, our CEO met with the Cambodian Prime Minister to discuss the importance of annual wage revisions and industrial relations. Our aim is to continue this engagement and further develop it as an integral part of our fair living wage strategy.



Regular minimum wage revisions are crucial for developing a mature garment industry.

2.17 Define needs and update strategy for extended skill development programme for garment workers

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Skills training is key for workers to increase their wages – and it is also essential for a developing garment industry and ultimately, also our future growth. During 2014 we will evaluate and define the need for skill development market by market and based on this analysis, update our strategy and develop the necessary programmes. In 2013, we already introduced a vocational training programme in Bangladesh together with SIDA and the International Labor Organisation (ILO). This programme aims to train 5,000 students by 2016 and to ensure that they start their careers at a wage level that reflects their skills.

2.18 Update our Code of Conduct

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

During 2014, we will launch an updated Code of Conduct to amongst other things more clearly reflect our mission towards a fair living wage.

hm.com/codeofconduct

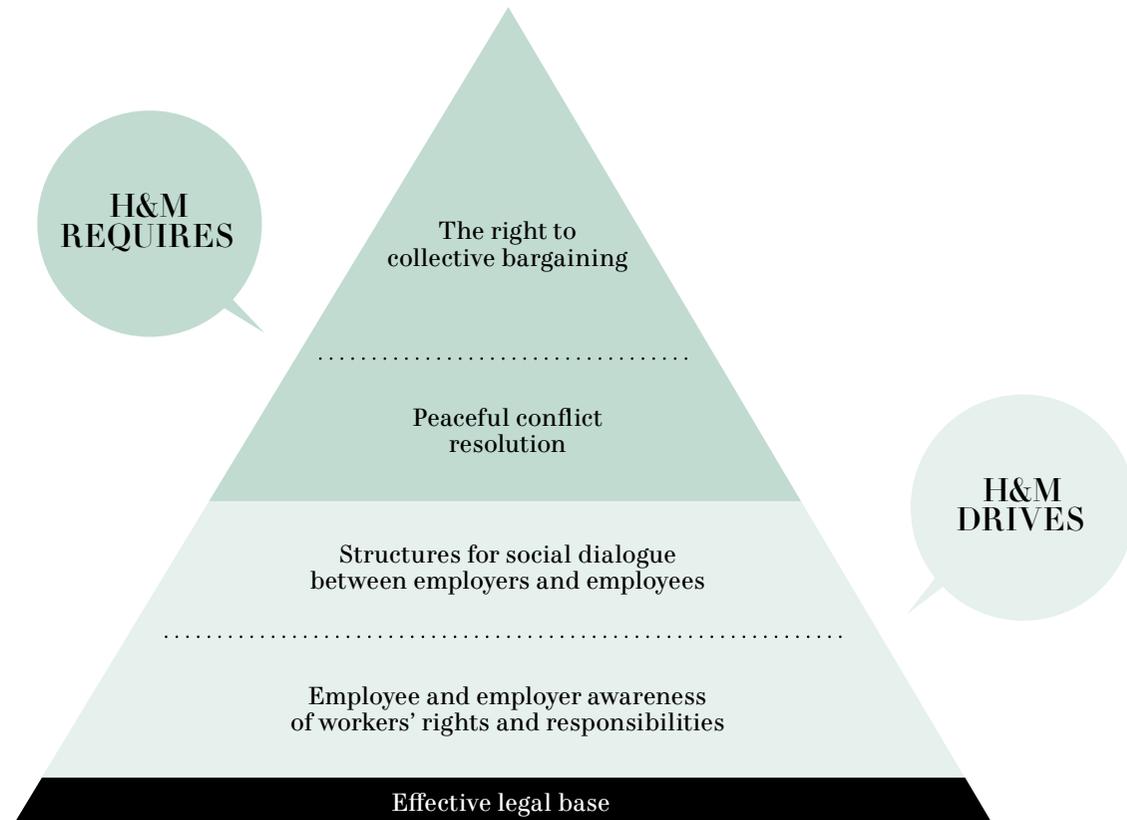
Focus: Industrial relations

Our mission

We believe that functioning industrial relations and collective bargaining are key to achieving fair living wages and good working conditions in our supply chain, but also to creating stable sourcing markets and sustainable economic growth in these countries. Our Code of Conduct requires that all of our suppliers respect the right to freedom of association. However, many markets lack sufficient systems. For example, in China and Vietnam, freedom of association is restricted by law, whereas in Cambodia, union representation is common but negotiations often result in conflicts that sometimes even end in violence. While we are realistic about the fact that there is a long way to go until fair and functioning industrial relations processes are in place throughout, this is the ultimate aim.

Our strategy

To achieve this, we are addressing the issue with our supplier factories as well as on a political and industry level. Through our Code of Conduct, we are requiring the right to freedom of association. In 2011, we made a major shift in the way we assess compliance with this requirement in our audit programme. 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 or a collective bargaining agreement are now rewarded with higher ICoC scores. Where unionisation is restricted by law or where systems are insufficient, we have started to empower workers with awareness about their rights at work and to help our suppliers establish functioning and democratically-elected workplace representation. The aim is that these will gradually develop into increasingly mature collective-bargaining systems. Beyond the factory level, we work with governments and other partners such as unions to promote the required legal frameworks and help to mature the concept of solution-oriented negotiations amongst both employers and unions.



Focus: Industrial relations

894,975
workers have been
educated about their
rights since 2008

Our Conscious Actions

2.19 Launch joint project with Swedish union IF Metall and SIDA to strengthen industrial relations in Cambodia

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2013 | | | |

Unlike many other emerging markets, Cambodia has a long history of collective bargaining and trade union representation. The vast majority of our supplier factories in the country has trade unions in place. However, negotiations in the sector are often confrontational, resulting in major conflicts and even violence. Together with the Swedish trade union IF Metall and the Swedish International Cooperation Development Agency Sida we have now started a unique project that will run through 2014 to 2016. The aim is to increase the number of collective bargaining agreements by educating trade unions as well as employers on the importance of solution-oriented, fair negotiations. We hope that the project can help to support greater stability in the market.

2.20 Expand social dialogue project in Bangladesh to reach all suppliers

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2018 | | | |

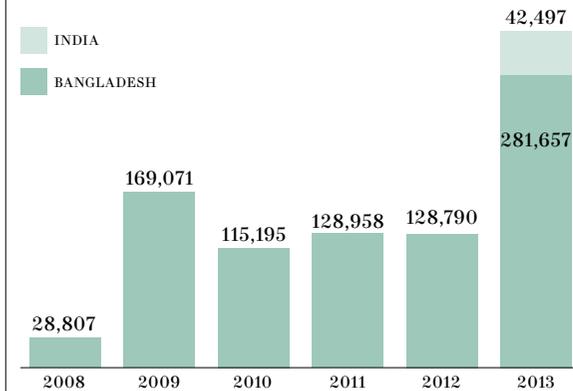
In 2011, we launched a social dialogue project in Bangladesh. We selected five factories to set best practice examples on democratic workplace representation. Since then, we have provided the management and workers with comprehensive training through external experts which finally led to the free election of workplace committees, that are in an active dialogue with management. We now aim to expand this project and cover 15% of our Bangladeshi suppliers by 2014, and 100% by 2018.

2.21 Provide workers and middle managers in supplier factories with training about their rights

| DEADLINE | MORE TODO | ON TRACK | DONE |
|--------------|-----------|----------|------|
| year-to-year | | | |

In 2008, we teamed up with suppliers and local NGOs in Bangladesh to develop a series of short films and training packages in order to increase awareness of workers' rights. In 2013, we expanded this programme to India. 894,975 workers and middle managers have been trained since the start of the project in 2008. We plan to scale up these programmes further.

NO. OF WORKERS AND MIDDLE MANAGERS EDUCATED ABOUT THEIR RIGHTS PER YEAR



— COMMITMENT THREE —

Be ethical



Being ethical is about doing the right thing. This means respecting human rights, taking a clear stand against corruption and embracing diversity and inclusion. We interact with millions of people across various countries and cultures. In any of these relations, as a minimum, we need to comply with applicable laws. But much more than that, whether you are a customer, colleague, business partner or any other stakeholder, we believe that mutual respect, integrity, transparency and honesty are essential to our business. Our commitment to be ethical throughout our operations is firmly rooted in our corporate values.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|---------------------------------------|---|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – ANTI-CORRUPTION | | | | | |
| Conscious action 3.1 | Detect violations of our Code of Ethics | year-to-year | | | |
| Conscious action 3.2 | Ensure that all of our concerned colleagues have signed our Code of Ethics and received dedicated training | year-to-year | | | |
| Conscious action 3.3 | Ensure that all of our commercial goods suppliers have signed our Code of Ethics | year-to-year | | | |
| Conscious action 3.4 | Update and implement additional training for managers | 2014 | | | |
| FOCUS – EMPLOYER OF CHOICE | | | | | |
| Conscious action 3.5 | Set baseline for target to increase employee satisfaction | 2014 | | | |
| Conscious action 3.6 | Ensure good workplace relations and dialogue with our colleagues and their representatives | year-to-year | | | |
| Conscious action 3.7 | Reach all of our colleagues with our learning management system “GROW” | 2014 | | | |
| FOCUS – HUMAN RIGHTS | | | | | |
| Conscious action 3.8 | Ensure compliance with our discrimination and equality and harassment policies | year-to-year | | | |
| Conscious action 3.9 | Assess human rights risks and impacts before entering new market (production and sales) | year-to-year | | | |
| Conscious action 3.10 | Promote increased awareness and respect for human rights and equality by partnering with Civil Rights Defenders | 2016 | | | |
| FOCUS – DIVERSITY AND EQUALITY | | | | | |
| Conscious action 3.11 | Ensure compliance with our diversity policy | year-to-year | | | |
| Conscious action 3.12 | Complete “The Battle of the Numbers” project | 2013 | | | |
| FOCUS – RESPONSIBLE MARKETING | | | | | |
| Conscious action 3.13 | Ensure compliance with our advertising policy | year-to-year | | | |
| Conscious action 3.14 | Ensure compliance with our privacy policies | year-to-year | | | |

Performance overview

Highlights 2013

50%
of our board members
are women.

UN Guiding Principles
on Business and
Human Rights
adopted.

56%
of our colleagues globally covered
by collective bargaining
agreements.

A total of **243,486 hours**
of training registered in our learning
management system GROW.



We teamed up with Civil Rights
Defenders to support **human rights**
and **equality** globally.

From the life of shirt #0222419

This shirt has been
sold at H&M stores
in **53 countries**.

Wherever our
products are sold
or made, we apply
zero tolerance
to corruption.

More than
116,000 people
at H&M work to bring
this shirt and other
fashion to you.

We see their
diversity
of any kind as
a strong asset.

For example,
73% of our
managers are
women.



Focus: *Anti-corruption*

Our mission

We have a zero tolerance policy on corruption. Mutual trust and transparency are important and expected in all of our relationships, including those with our colleagues and business partners. Corruption is a challenge in most of our production countries and also in many sales markets. This is why we take a proactive approach. We want to prevent any issues through training and by creating a strong awareness amongst both our colleagues and suppliers.

Our strategy

We make it a rule to act with integrity at all times. Based on the most stringent regulations regarding corruption, our Code of Ethics outlines our commitment to compliance with all rules and regulations in each country where we operate and to not accept or facilitate any form of corruption. In early 2013, we became a Corporate Supporter Member of Transparency International Sweden. We conduct regular risk assessments for all of our business units and for our suppliers. Based on these, the Code applies to all of our suppliers and colleagues who are in regular contact with any external business partners. We have made it mandatory for all of these to sign the code, together with dedicated training. We have internal audit systems and a whistleblowing procedure in place whereby potential breaches can be reported confidentially, and we follow up on reported incidents thoroughly. We focus on achieving the greatest possible transparency in all of our business relations to thereby detect any non-compliance.

>hm.com/anticorruption



Focus: Anti-corruption

Our Conscious Actions

3.1 Detect violations of our Code of Ethics

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Rather than aiming for zero cases on paper, our goal is to achieve full transparency and detect the cases where our Code of Ethics has been violated. In 2013, we investigated 36 incidents of potential non-compliance. Twelve of these led to terminations and six to formal written warnings (all concerning employees). Most cases concerned theft, request for money or favours and conflict of interest.

Please find an independent assurance statement related to GRI G4 SO5 [here](#) (p. 88).

3.2 Ensure that all of our concerned colleagues have signed our Code of Ethics and received dedicated training

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our target is to ensure that all of our colleagues who are in regular contact with external business partners sign the Code of Ethics and receive dedicated training. By 2013, 100% of them had signed the Code. The training rate increased to 60% (2012: 47%). While this is a great step forward, we have not yet fully reached our goal. We will keep working towards further increasing the training rate during the coming year. As part of this effort, our focus will be on ensuring that the training is given to all concerned colleagues and as we grow and employ new people, provide them with this training within the first four months of employment. This is why we have incorporated information about our anti-corruption programme as a part of our mandatory induction training for all of our colleagues.

3.3. Ensure that all of our commercial goods suppliers have signed our Code of Ethics

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

All of our suppliers must sign our Code of Ethics. Based on our risk assessments, we focus on our commercial good suppliers to additionally provide them with training. In 2013, 100% of our commercial goods suppliers had signed our Code and received the training. We have had a Code of Ethics since 2003. In 2012, we updated our supplier Code of Ethics to clearly state that any kind of bribery or facilitation money as part of the price of goods or services goes against our principles and will result in a review or termination of our business relationship. This way, we want to contribute to sustainable development and positive value building in countries of particular concern, for example Bangladesh, Cambodia, Russia and China.

3.4 Update and implement additional training for managers

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Our managers on different levels play a key role in our anti-corruption work. They are role models for others and ultimately responsible for implementing our routines. We equip them with the tools needed to take this responsibility in the best possible way through additional training. In 2014, we will focus on this training even more to deepen the understanding of our anti-corruption work.

We take a clear stand against any form of corruption, including facilitation payments.

Focus: Employer of choice

Our mission

Our goal is to be the employer of choice for both our current 116,000 colleagues as well as for the talent that we need to attract in the future. Working at H&M means working in an inspiring, fast-paced, exciting and ever-changing environment with numerous career opportunities. Our goal is to grow by 10–15% new stores each year. As part of this, we will need to attract thousands of new talents over the coming years. And we need to retain and develop the talent we already have. Being a good employer is particularly important in countries where laws and regulations fall short of our own standards and requirements. We need to ensure that our corporate values are lived throughout our operations, all around the world.

Our strategy

We recruit from within the company wherever possible and provide systematic training and regular performance reviews for all of our colleagues. Wherever we operate, we follow the same strong corporate values. We believe in people and encourage new ideas and initiatives. We keep hierarchies low, provide a wide range of benefits and promote teamwork. Through our Incentive Program, all of our colleagues benefit from the company's success on equal terms, regardless of their position. We promote diversity and strive to have good relations with all of our colleagues and the employee associations and trade unions that represent them. We survey the satisfaction of our colleagues anonymously and have made this a key measurement for all of our business units.

>hm.com/career



Focus: Employer of choice

Our Conscious Actions

3.5 Set baseline for target to increase employee satisfaction

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

In 2013, we launched an extensive satisfaction survey amongst all of our colleagues. There was an 80% response rate. We are currently evaluating the results and plan to regularly repeat this survey in the future. We also plan to set a target on employee satisfaction using survey data as a baseline and have already integrated this measurement in our central 4C (Cash, Customers, Colleagues, Conscious) scorecard with which all of our business units are measured.

3.6 Ensure good workplace relations and dialogue with our colleagues and their representatives

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our Global Framework Agreement with UNI Global Union states that both H&M and our employees have a joint responsibility to comply with the International Labour Organization’s (ILO) Declaration on Fundamental Principles and Rights at Work. This includes our commitment to freedom of association and collective bargaining across all of our operations. Currently, 56% of our colleagues are covered by collective bargaining agreements. Employees are also represented at the board level. Besides various engagements on local level, our global Employee Relations Manager holds regular meetings with representatives of the European Works Council (EWC) that comprises employee representatives from some of our most important sales countries including Germany, UK, France and Sweden.

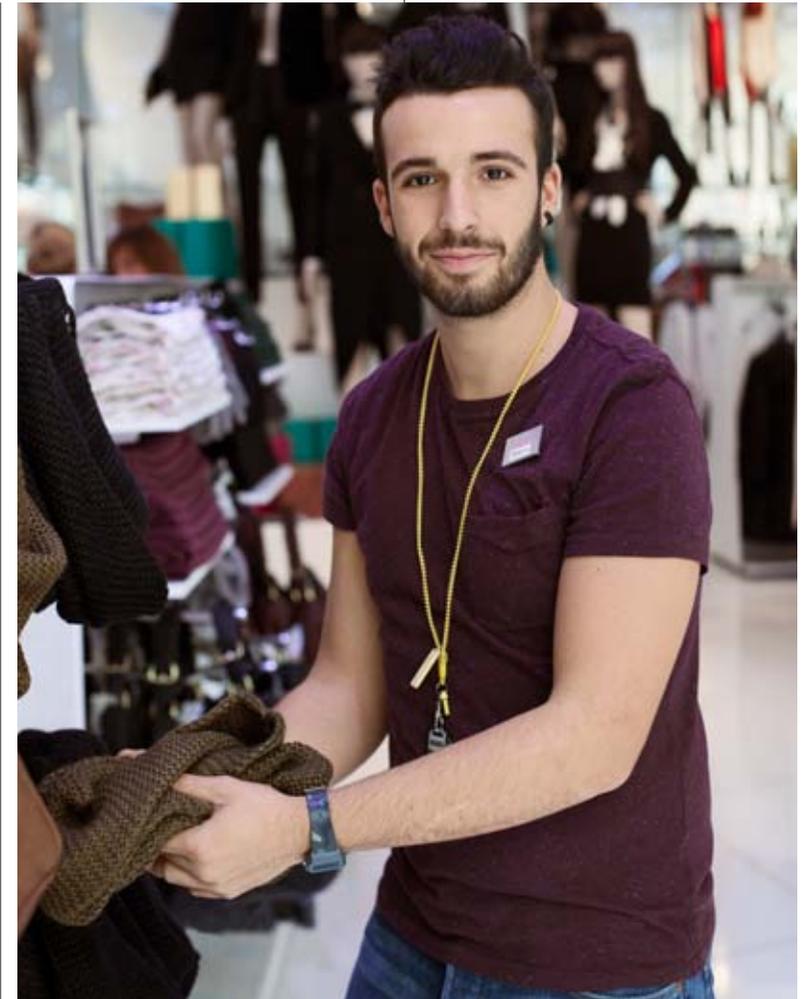
> hm.com/fairpartner
 > uniglobalunion.org

3.7 Reach 100% of our colleagues with our learning management system “GROW”

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

In 2012, we started implementing our global learning management system GROW. The system allows all of our colleagues to manage their training, access additional optional e-learning or classroom courses and test their knowledge. Sustainability training is one of our mandatory training courses for all colleagues. Additional modules cater to role-specific needs. So far, 65% of our colleagues are actively using the system and our goal is to reach 100% by 2014.

> hm.com/training



Focus: Human rights

Our mission

We have operations or suppliers in countries where human rights are at risk. Respecting human rights has always been vital to us as an employer, business partner and corporate citizen. Consequently, we have developed a Group-wide human rights policy based on the UN Guiding Principles on Business and Human Rights. We need to ensure that we have the right systems in place to secure its implementation and compliance throughout. We also seek to use our influence to support human rights in the communities around us.

Our strategy

We prioritise our own operations and commercial goods suppliers. Specifically, our focus is on three most significant impacts: labour conditions, women's rights and the right to water. We work to integrate human rights into all relevant business decisions and have therefore established dedicated due diligence tools. We provide training for concerned colleagues and suppliers. Specific policies guide our efforts for different stakeholder groups, such as our Code of Conduct, our discrimination and equality policy (s. 3.8, p. 46), our advertising policy (s. 3.13, p. 50) or our privacy policies (s. 3.14, p. 60). We have dedicated complaint procedures and audit systems in place. In addition, we promote respect for human rights wherever possible through a set of other engagements such as public policy, stakeholder dialogues and partnerships.



Focus: Human rights

Our Conscious Actions

3.8 Ensure compliance with our discrimination and equality and harassment policies

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

All of our stores, offices and warehouses regularly undergo audits in which we check compliance with our policies and routines. This includes our discrimination and equality policy, as well as our harassment policy. For 2013, we identified a global compliance level of 100%. Our goal is to maintain this level while we constantly improve our audit routines to detect any non-compliance.

3.9 Assess human rights risks and impacts before entering new market (production and sales)

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our human rights policy commits us to conducting human rights risk and impact assessments before entering new production or sales markets. We have applied this to all production markets that we newly sourced from in 2013 (Ethiopia, Kenya, Myanmar) and to future sales markets. We have also conducted such assessments on some of our most important existing production markets (Bangladesh, Turkey) and plan to expand these efforts in 2014 and beyond.



3.10 Promote increased awareness and respect for human rights and equality by partnering with Civil Rights Defenders

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2016 | | | |

In early 2014, we teamed up with Civil Rights Defenders to extend our support for human rights and equality. During the next three years we will donate SEK 4 million to support their work for human rights and equality globally. In early 2014, we also launched a bracelet in all H&M stores globally (excl. franchise) with 100% of its sales price (EUR 1.95) being donated to this new partner.

>civilrightsdefenders.org



Focus: Diversity & equality

Our mission

We see team diversity and inclusion as assets to the company at all levels. The majority of our customers are women and the same goes for our colleagues. This should also be well reflected in our management. We need to ensure that we live our values throughout our more than 3,100 stores, offices and warehouses in all of our markets. We need to promote our colleagues all the way to appointing members to our board regardless of gender, age, ethnicity, sexual orientation, religious beliefs, disability and more wherever we operate and ensure equality at all times.

Our strategy

Diversity and equality are part of our values. So, promoting our corporate values is key also to achieving this. Additionally, we have a group-wide diversity policy in place, as well as a discrimination and equality and a harassment policy (s. 3.8, p. 46). We check how well our stores, offices and warehouses live up to them through regular audits and we have clearly communicated complaint procedures in place. Our aim is to achieve full compliance with these policies. Additionally, we work to promote diversity and equality beyond our operations and strive to show diverse models and looks in our advertising.

>[hm.com/diversity](https://www.hm.com/diversity)



Focus: Diversity & equality

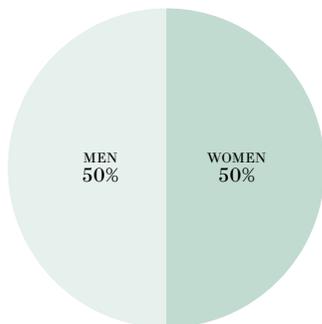
Our Conscious Actions

3.11 Ensure compliance with our diversity policy

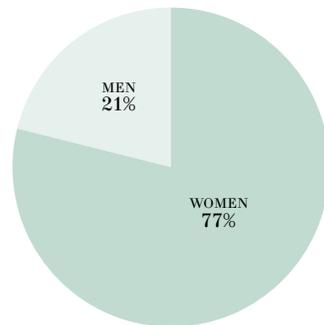
| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Through our internal audits, we have determined that 100% of our entities have applied and implemented our [global diversity policy](#). 77% of our colleagues are women, so it is integral to our operations that leadership reflects that. Consequently, 73% of our managers and 50% of our board members are women, too.

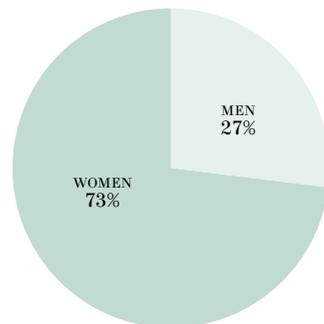
RATIO OF WOMEN/MEN ON BOARD OF DIRECTORS



RATIO OF WOMEN/MEN AMONGST ALL COLLEAGUES



RATIO OF WOMEN/MEN IN MANAGEMENT POSITIONS



77% of our colleagues are women, so it is integral to our operations that leadership reflects that.

3.12 Complete “The Battle of the Numbers” project

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

To further promote diversity in and beyond our own operations, we took part in an initiative called “The Battle of the Numbers.” Together with nine other leading multinational companies in Sweden, we analysed and identified ways to increase the number of female leaders in the business community. While gender equality is already very strong within H&M, we identified a need to further promote diversity beyond the gender perspective.

battleofthenumbers.se

Focus: Responsible marketing

Our mission

Our advertising campaigns are one of the many ways we communicate our business idea. Our advertising has a broad impact in our 53 markets. We work with some of the world's best photographers, models and style icons, aiming to inspire a wide and diverse target group. In doing so, balancing individual and cultural perceptions and customer demands requires sensitivity and tact. We need to ensure a diverse and healthy look while producing high-fashion images and messages that support current trends and our customer offering in an inspiring way. Also, we need to ensure that any data we gather for marketing or any other purposes is treated with highest possible integrity and privacy.

Our strategy

All of our campaigns are produced centrally at our head office in Stockholm in collaboration with some of the world's most recognised creatives and models. For many years, we have had an advertising policy in place, committing us, amongst other things, to consider the impact of our advertising around the world and to choose models and images that convey a positive message. We regularly conduct customer surveys to measure the feedback from our campaigns and are happy to see that they are generally well appreciated. But as we always seek for constant improvement, we strive to consider any feedback that we receive right from the start of any campaign that we create.

[>hm.com/responsiblemarketing](https://hm.com/responsiblemarketing)



Focus: Responsible marketing

Our Conscious Actions

3.13 Ensure compliance with our advertising policy

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

When planning our campaigns, we value and strive to take on board all the vital input from our customers and other stakeholders right from the start. We received a lot of positive feedback on campaigns for the H&M+ collection in particular a swimwear campaign featuring well-known plus-size model Jennie Runk. However, we also received some criticism concerning models shown in the H&M brand’s online shop section and catalogue for this collection. Although the chosen models wear a size 44 and up, some of our customers made us aware of that the images did not show this clearly enough. We reacted to this feedback immediately and removed the concerned images from the H&M online shop.

3.14 Ensure compliance with our privacy policies

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our privacy policies commit us to protecting the privacy of any customer or employee or applicant data. All customer data used in connection to our online shops is held centrally and subject to strict Swedish data privacy laws. Any complaints that might arise are handled by the responsible departments, for example our customer service centers, where applicable in collaboration with our head office data privacy team to resolve these immediately and in the best possible way. As data privacy cannot be taken serious enough, we are continuously working to improve our systems and processes.



— COMMITMENT FOUR —

Be climate smart



Climate change is an issue that binds all of us. With the global population expected to exceed 10 billion by 2065,* the need for energy will continue to increase. At the same time the world is on a path to an increase in the global average temperature by more than 2°C above pre-industrial levels, which is expected to make climate change effects long-term and extreme.**

Like many others, we have a keen interest and a responsibility to play our part in reducing climate impacts. So, we try to be as energy savvy as possible – which also allows us to reduce costs, of course. For the energy use we cannot avoid, we are ultimately striving to use renewable energy only.

The biggest climate impact along our value chain occurs outside of our operations. This is why we work upstream with suppliers, fabric mills and transport providers alike to help them cut their climate impacts. This holistic value chain approach also includes enabling and inspiring our customers towards conscious care of

their clothes, for example, by switching to lower washing temperatures.

*Source: *UN, Dept. of Economic and Social Affairs*

***www.ipcc.ch*

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|--|--|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – EMISSIONS FROM OUR OWN OPERATIONS | | | | | |
| Conscious action 4.1 | Reduce our operations' total greenhouse gas emissions | 2015 | | | |
| Conscious action 4.2 | Reduce electricity use in H&M (brand) stores by 20% per square metre | 2020 | | | |
| Conscious action 4.3 | Increase our use of renewable electricity | ongoing | | | |
| FOCUS – EMISSIONS ALONG OUR VALUE CHAIN | | | | | |
| Conscious action 4.4 | Ensure that 100% of transport service providers are either SmartWay partners (North America), WayAhead registered (Europe and Asia) or participating in the Clean Shipping Project | year-to-year | | | |
| Conscious action 4.5 | Engage our strategic suppliers in our Supplier Energy Efficiency Programme | 2013 | | | |

Performance overview

Highlights 2013

14%
reduction in electricity use
per H&M (brand) store sqm
since 2007.

18%
of the electricity
we used came from
renewables.

Our own solar
photovoltaic panels generated
enough energy to supply
145 European households
for an entire year.



147
factories (representing 39% of our
production volume) were engaged
in energy efficiency
programmes.

From the life of T-shirt #0141569

This T-shirt has been
made with **50%
organic cotton.**

That means
**19% fewer
greenhouse gas
emissions** than using
conventional cotton only.

Before hitting your
shopping bag, **2.1 kg of
greenhouse gas emis-
sions** have been produced.



About **26%** of its life's
**greenhouse
gas emissions**
occur when it's
**washed or
tumble-
dried**
at home.

You can wash it at up
to 60 degrees, **but
choosing 30**
instead will save you
money and requires
50% less energy.

Focus: Emissions from our own operations

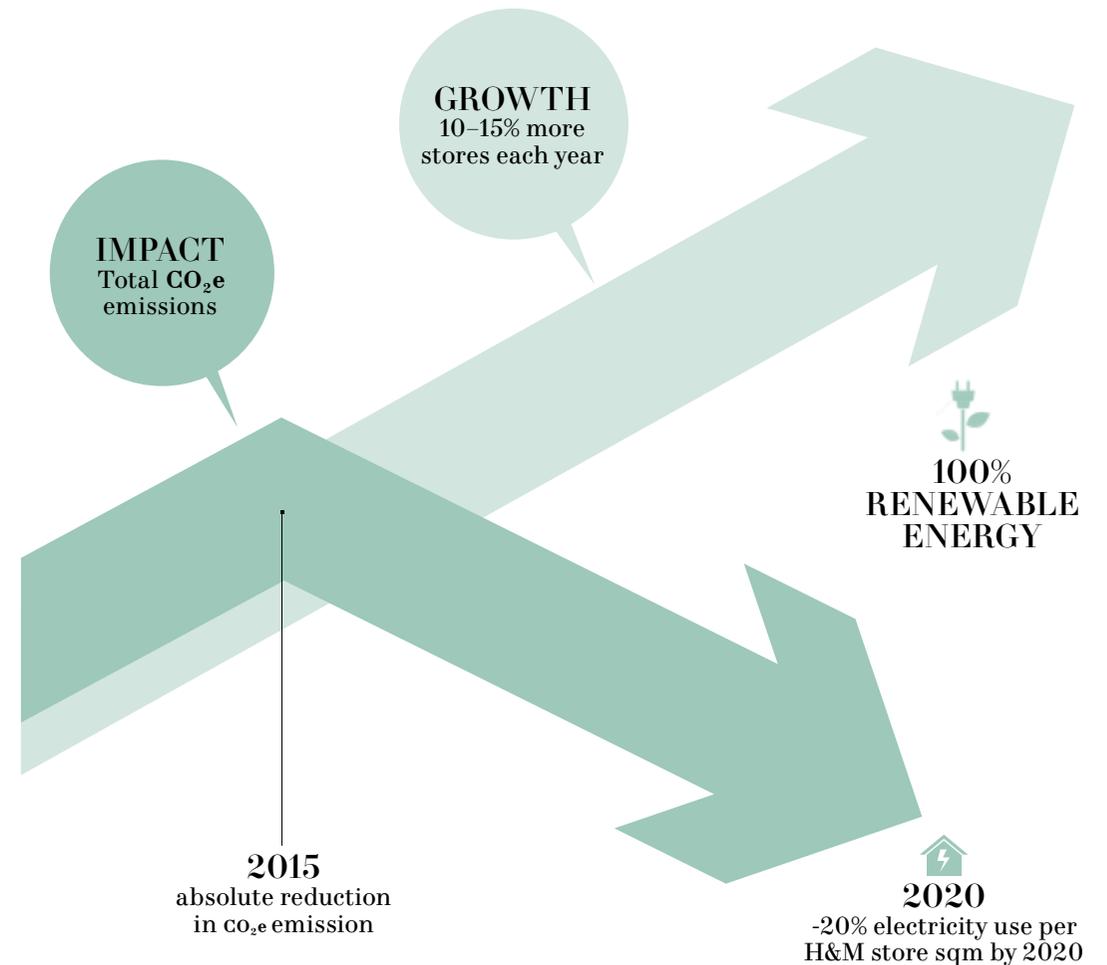
Our mission

Retail is a relatively low-carbon business, but consequences from climate change may affect our business, supply chain, customers and colleagues. This is why we want to set a good example and play our part in reducing greenhouse gas emissions wherever possible. In turn, this can also help us save money. For the past three years, our target has been to reduce our greenhouse gas emissions by 5% relative to sales each year. In 2012, we hit that mark once again. Now it's time to step it up: We aim to reduce our total emissions by 2015 – despite opening 10 to 15% more stores each year.

Our strategy

Our strategy is to achieve these reductions through structural and lasting change in our operations. Electricity use in our stores represents over 70% of our operations' greenhouse gas emissions. So this target pushes us to be even more energy efficient in our stores and to increase our use of renewable electricity to ultimately 100%.

hm.com/climate



Focus: Emissions from our own operations

18%
of the electricity
we used came from
renewables

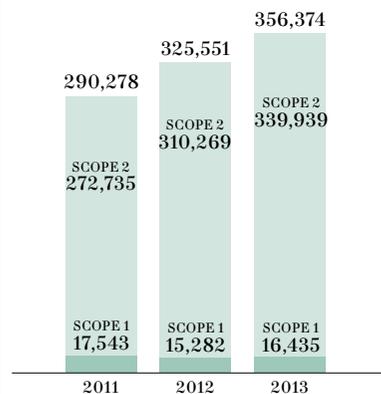
Our Conscious Actions

4.1 Reduce our operations' total greenhouse gas emissions

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2015 | | | |

Our goal is to grow by 10–15% new stores every year – without causing any additional climate impacts. We want to reduce our operations' total greenhouse gas emissions by 2015 at the latest. In 2013, our emissions (scope 1 and 2) increased by 9%, in line with our growth.* To achieve our goal, we will continue to focus on improving energy efficiency in stores and the use of renewables.

TOTAL CO₂e EMISSIONS IN TONNES (SCOPE 1+2) – INCL. RENEWABLES



Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on residual grid mix emission factors where available. Figures based on grid average emission factors (comparable to emission figures published in our 2012 report) were for 2013: scope 1: 16,435t, scope 2: 365,336t. For further details and data, please see our CDP Climate Change Investor Response 2013. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF₆). Please find an independent assurance statement related to GRI G4 EN15 and EN16 [here](#) (p. 88).

*Increase in turnover in local currencies.

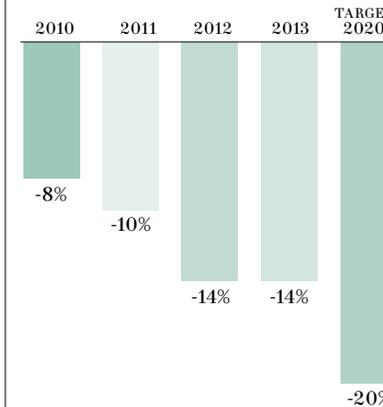
4.2 Reduce electricity use in H&M (brand) stores by 20% per sqm

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2020 | | | |

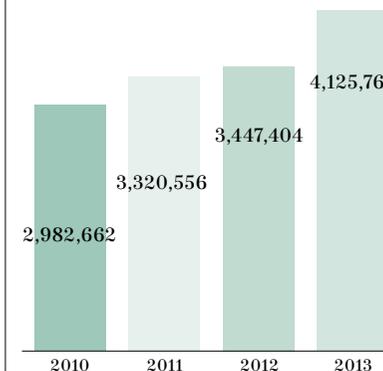
The electricity use in our stores accounts for over 70% of our operations' GHG emissions. So increasing the energy efficiency of our stores is key to meeting our emissions target. It also helps us reduce costs. Our target is to reduce electricity use per square metre in H&M (brand) stores by 20%, as compared to a 2007 baseline, by 2020. With 14% reduction achieved by 2013, we are still on track against this target. To move towards a 20% reduction, we will continue to focus on reducing electricity in newly-built and rebuilt stores, as well as existing ones. As part of this initiative, by 2013, we equipped more than 65% of our stores with electricity metres for better on-site control and energy management.

* As a result of improvements made in our data systems, the 2012 result was adjusted from 15% to 14% and the 2011 result from 11% to 10%. Please find an independent assurance statement related to GRI G4 EN5 and EN6 [here](#) (p. 88).
** Please find an independent assurance statement related to GRI G4 EN3 [here](#) (p. 88).

ENERGY USE REDUCTION PER H&M (BRAND) STORE SQM*



ENERGY USE IN GJ (SCOPE 1+2)**



4.3 Increase our use of renewable electricity

| DEADLINE | MORE TODO | ON TRACK | DONE |
|----------|-----------|----------|------|
| 2015 | | | |

Using electricity from renewable sources is another key to reducing our absolute emissions. In 2013, 18% of our electricity came from renewables (2012: 18%, 2011: 15%). The emissions savings from this is equivalent to the yearly energy use of around 50,000 households. Additionally, our own photovoltaic solar panels generated approximately 784,200 kWh of electricity.

Our ambition is to ultimately reach 100% renewable electricity. In some of our key markets such as the UK and the Netherlands, we have already reached 100% today. In other markets, this is more challenging at the moment as legislation that would allow credible accounting (i.e. that would exclude any double-counting) of the use of renewable electricity is not yet in place.

Focus: Emissions along our value chain



26%
of greenhouse gas emissions in a garment's life occur in the user phase

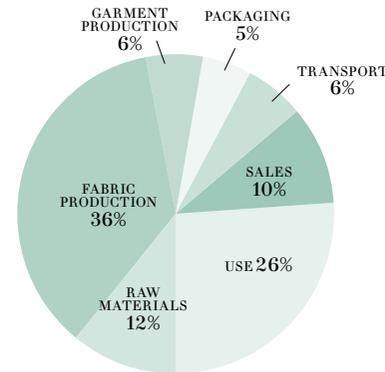
Our mission

While reducing operational greenhouse gas emissions is an essential goal for us, we know that the biggest climate impacts along our value chain happen outside of our operations. For example, 12% occur when raw materials for our products are grown or made, and 36% result from fabric production. The challenge here is that we normally do not have any direct business relations at these stages of our value chain and cannot place demands as we can with our direct contract suppliers. Another 26% of the impacts occur when customers wash and care for their clothes. So, we strive to contribute to lowering climate impacts across all these stages of our value chain.

Our strategy

For several years, we have been working with our transport providers to help them reduce their climate impacts. We have extended this approach to our manufacturing suppliers in a mix of contractual demands and offering incentives through our Supplier Energy Efficiency Programme. In order to reach other stages of our value chain, we need to choose a different approach. We are progressing quickly in extending our influence over fabric mills by gradually mapping them and including them into our supplier auditing programme. In terms of raw materials, we can in turn make a major difference already in the design phase by choosing the right materials. And we are working to inspire our customers to, for example, wash their clothes at lower temperatures.

CO₂e IMPACTS ALONG OUR VALUE CHAIN



Climate and impacts are estimated H&M value chain footprints from Lifecycle Assessments (LCAs) conducted on behalf of H&M and are based on our total use of cotton, organic cotton, polyester and viscose in 2011/2012. Deviation from 100% due to rounding effects.



Focus: Emissions along our value chain

147

factories (39% of our production volume) were engaged in energy efficiency programmes

Our Conscious Actions

4.4 Ensure that 100% of transport service providers are either SmartWay partners (North America), WayAhead registered (Europe and Asia) or participating in the Clean Shipping Project

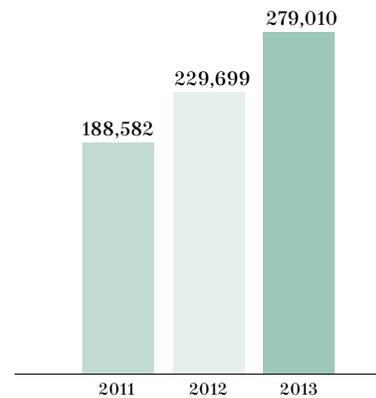
| DEADLINE | MORE TODO | ON TRACK | DONE |
|--------------|-----------|----------|------|
| year-to-year | | | |

We have added to our minimum requirements for road transport partners that they must all be SmartWay partners (North America) or WayAhead registered (Europe and Asia). We require sea freight partners to register their environmental performance in the Clean Shipping Index for evaluation. In 2013, we found that this was not the case for all of our transport partners. As a result, we will follow up with those concerned to ensure that they live up to our standards as soon as possible. We will also review our verification systems to ensure compliance in the future.

Our challenge is that, as our business grows, our transportation needs will increase further and we have to meet these needs while at the same time using fewer natural resources and limiting our climate impacts. As we do not own any transport facilities, choosing low-emissions transport options like via sea or rail wherever possible is especially important in keeping down both emissions and costs. We work to avoid air freight wherever possible and in 2013, around 90% of the shipped volumes were transported from the production country to our warehouses via sea or rail. We aim to use air freight only in exceptional cases, for example in case of unforeseen production delays. Unfortunately, this was the case during 2013, leading to a marked increase in emissions from air freight.

>hm.com/transport

TOTAL CO₂e EMISSIONS IN TONNES (SCOPE 3)



Reported scope 3 emissions include goods transport and distribution, and business travel.

ENERGY USE
IN GJ (SCOPE 3)
3,714,264

Please find an independent assurance statement related to GRI G4 EN17 [here](#) (p. 88).

4.5 Engage our strategic suppliers in our Supplier Energy Efficiency Programme

| DEADLINE | MORE TODO | ON TRACK | DONE |
|--------------|-----------|----------|------|
| year-to-year | | | |

Our garment-manufacturing supplier factories represent about 6% of the climate impact from a product's lifecycle. In 2010, we set up our Supplier Energy Efficiency Programme (SEEP). The aim was to engage as many of our strategic suppliers as possible in the programme and help them improve their energy efficiency. 147 supplier factories (representing 39% of our purchasing volume) have since been involved in the programme. On average, they improved the energy efficiency per piece produced by 4% each year during the last three years. We are currently evaluating further lessons learned and data from this programme to develop a holistic climate strategy for our value chain.



— COMMITMENT FIVE —

Reduce, reuse, recycle



Packaging, hangers and shopping bags are all part of the retail business. That said, efficient material use and applying smart methods to reuse and recycle helps reduce waste. It also helps to decrease the need for virgin resources. Both mean fewer environmental impacts – and both can save money, too.

So, we strive to reduce, reuse and recycle across our operations. But the really big question is: What happens to clothes when consumers no longer want them? In many countries there are great systems to, for example, give unwanted clothes to charities. But still, too many clothes end up in landfill. In the UK alone, according to a study conducted by WRAP, some 31% of all textiles end up in the bin. According to the Environmental Protection Agency (EPA), 5% of US landfills consist of textiles. 95% of these could be reused or recycled. So we need to change something about that virgin resources are extracted at one end and wasting on the other. This opens up great opportunities. A new source of materials for making low-impact clothes, for example. Or to reduce the waste on

our planet. And to minimise the need for land, water, chemicals and more to make virgin raw materials. This is why we are aiming for nothing less than creating a closed loop for textile fibres and to find ways for turning unwanted clothes into new fashion.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|---|---|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – CLOSE THE LOOP ON TEXTILE FIBRES | | | | | |
| Conscious action 5.1 | Offer garment collecting systems in all H&M (brand) stores | 2013 | | | |
| Conscious action 5.2 | Increase the amount of collected garments, set baseline and target moving forward | 2014 | | | |
| Conscious action 5.3 | Introduce the first closed-loop products* | 2014 | | | |
| Conscious action 5.4 | Join the Circular Economy 100 platform | 2013 | | | |
| FOCUS – WASTE | | | | | |
| Conscious action 5.5 | Recycle at least 95% of the waste handled at our warehouses | 2013 | | | |
| Conscious action 5.6 | Increase the share of stores that recycle the main types of store waste | 2014 | | | |
| Conscious action 5.7 | Avoid waste by using recycled input materials to make new clothes | year-to-year | | | |
| Conscious action 5.8 | Ensure that all H&M (brand) standard plastic consumer bags are made of 100% recycled input material | year-to-year | | | |

*Completed before publication of this report in spring 2014.

Performance overview

Highlights 2013

3,047 tonnes

of no longer wanted garments collected. That's as much textile fabric as in about 15 million T-shirts.

First closed-loop products launched.

The amount of recycled polyester we used is equivalent to 9.5 million PET bottles.

We joined the Circular Economy 100 platform.



92% of the waste handled at our warehouses was recycled. (2012: 92%)

From the life of denim #0205342

This denim is made with **20% recycled cotton** and **28% recycled polyester**.

Its recycled polyester used to be **3.1 PET bottles**.

The recycled cotton is generated from **no longer wanted clothes**.

This way, it helped keep fashion from ending up in landfill.

To make it out of recycled material only, more **technological innovation** is needed to ensure highest quality demands.

We are working to overcome this challenge and our goal is to create a **closed loop** for textile fibres.



Focus: Close the loop on textile fibres

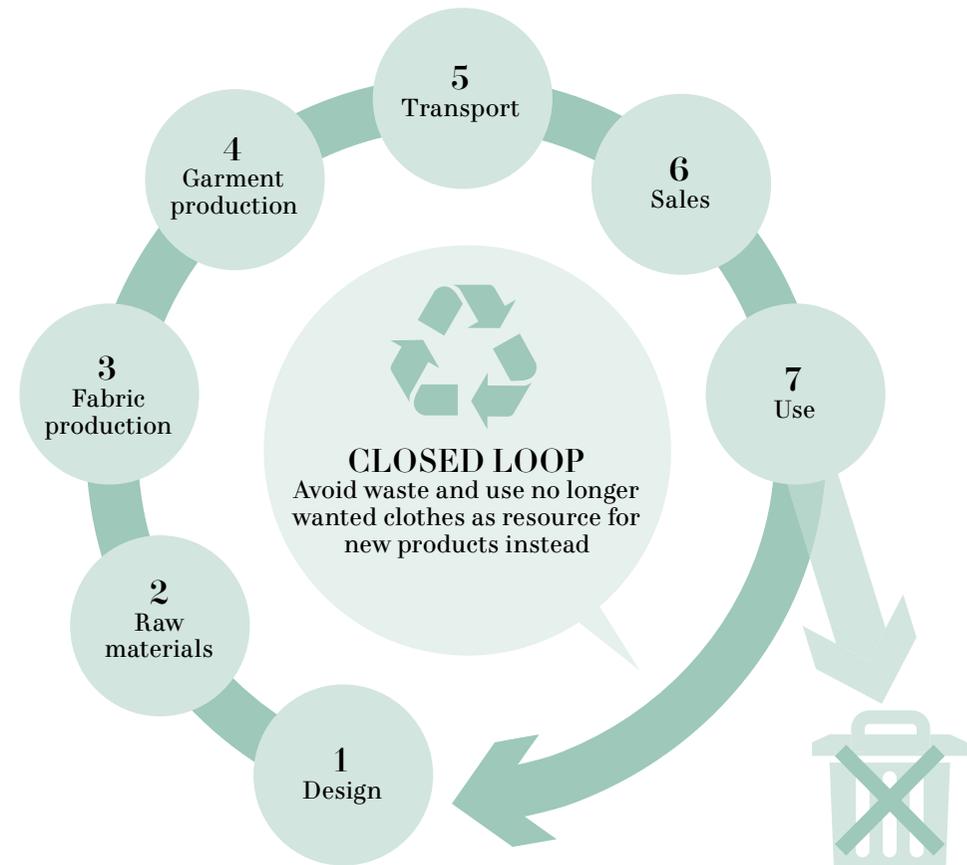
Our mission

We have set the goal to close the loop for textile fibres and turn unwanted clothes into new creations. In the short term, this will help keep fashion from ending up in landfills. In the long run, this can change the way fashion is made and massively reduce the need for extracting virgin resources from our planet. It will also give us direct access to environmentally-conscious resources for our designs. To ensure that this happens, we need to make it easy and attractive for our customers to drop off any clothes they no longer want or need at H&M. Another challenge is that the yarn made from recycled natural fibres is currently not strong enough to make high-quality fabrics without being blended with virgin material. So, we need to help finding innovations to overcome this challenge and also find new ways to recycle other kinds of materials, too.

Our strategy

We teamed up with one of the world leaders in textile recycling, I:Co, to collect unwanted clothes – from any brand and in any condition from H&M customers in all of our markets. We provide an easy solution not to let fashion go to waste, rewarding customers with discounts as thanks. All collected clothes are then reused or recycled. At the moment, for example, as second hand clothes or recycled into your next cleaning cloth, but also the first new yarn to make new clothes. Nothing goes to the landfill. We work with suppliers and other stakeholders to increasingly recycle collected garments that are not suitable for reuse, and use these fibres in making new products. Currently we can blend in about 20% of such fibres without any loss of quality or longevity. To increase this share and enable large scale production, we are creating demand for and investing directly in the required technical innovation.

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



Focus: Close the loop on textile fibres

Our Conscious Actions

5.1 Offer garment collecting systems in all H&M (brand) stores

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

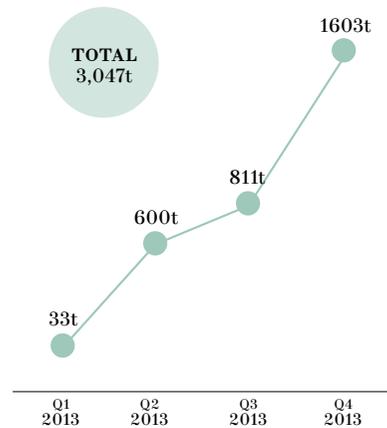
Since the launch of our garment collecting initiative in spring 2013, our aim was to scale this service up to cover all H&M (brand) stores globally. And so we did! Our customers can now drop off any clothes they no longer want or need at close to 100% of H&M (brand) stores worldwide. For franchise markets, our current rule is to have at least one store per market included. Moving forward, our focus will be on implementing garment recycling systems in all new markets within six months of opening.

5.2 Increase the amount of collected garments, set baseline and target moving forward

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Our aim is to increase the volume of garments that we collect. During 2013, the numbers have continuously increased over the year and reached 3,047 tonnes by year-end. That's as much textile fabric as in about 15 million T-shirts. We will now use this data as a baseline to set a target to guide our ambitions for the coming years.

TONNES OF GARMENTS COLLECTED



Please find an independent assurance statement [here](#) (p. 88).

5.3 Introduce the first closed-loop products

| DEADLINE | MORE TO DO | ON TRACK | DONE* |
|----------|------------|----------|-------|
| 2014 | | | |

We have now taken the next step in our mission to create a closed loop and have made the first products with at least 20% recycled material from collected garments. These five denim products reached H&M (brand) stores worldwide in early 2014. We are planning to increase the use of recycled material from collected garments even more and support the research needed to make this happen.



*Completed before publication of this report in spring 2014.

5.4 Join the Circular Economy 100 platform

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

The Circular Economy 100 is a global platform initiated by the Ellen McArthur Foundation that brings together leading companies, emerging innovators and many more to accelerate the transition to a circular economy. In 2013, we joined this platform as one of about 40 companies collaborating on innovation in this area. It aims to develop system-level solutions addressing resource scarcity, which is in line with our aim to close the loop on textile fibres.

>ellenmacarthurfoundation.org

Focus: Waste

Our mission

Like any other organisation, we produce waste, for example, cardboard, paper and plastic, in our stores, offices and warehouses. We want to avoid creating waste wherever possible. This helps save money and natural resources. For waste that cannot be avoided, we need to make sure to reuse and recycle as much as possible. But we also have a great opportunity to help reduce waste impacts way beyond our operations, for example, by using waste as a resource for new, high-quality products. And by making it easy for our customers to reduce and recycle waste on their end.

Our strategy

We aim to send as little waste to landfills as possible. We are focusing on our warehouses where most of our operational waste is handled. Additionally, we are extending this work by implementing recycling systems in all of our stores. And we use cut remnants and post-consumer waste to make new shopping bags or new clothes. Through our garment collecting initiative, we provide easy solutions for our customers to not let any fashion go to the landfill and instead give it a new life (s. 5.1, p. 62).

hm.com/waste



Focus: Waste



We used recycled polyester equivalent to **9.5 million** PET bottles

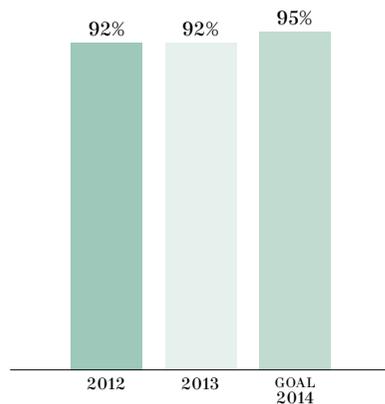
Our Conscious Actions

5.5 Recycle at least 95% of the waste handled at our warehouses

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

The majority of all the waste that we generate is handled in our warehouses. In 2013, this was around 35,000 tonnes. Our goal for 2013 was to recycle 95% of this waste. We achieved 92% (2012: 92%). So, we will keep on working to achieve the remaining three percentage points to meet our target in 2014.

% OF WASTE THAT WAS RECYCLED



5.6 Increase the share of stores that recycle the main types of store waste

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

While much of the waste generated in our stores is sent to our warehouses and recycled, we want to make sure that the remaining waste is also handled in the best possible way. Pre-conditions for this can vary largely from store to store – for example, depending on existing recycling systems in the community or building or the available space. While these can pose serious challenges locally, over the last year we have implemented recycling systems in more stores. We focus on the most important waste types, namely cardboard, plastic and paper. So far, 56%* of our stores are onboard, and all of our markets have now set individual goals to increase this share during 2014.

* Extrapolation based on data available for 90% of our stores during 2013

5.7 Avoid waste by using recycled input materials to make new clothes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

We use a range of recycled materials, such as recycled cotton, wool and polyester, to make our products. Currently 0.3% of the materials we used in 2013 were recycled. While this percentage may sound low, the impact is still considerable. For example, the amount of recycled polyester we used this year is equivalent to 9.5 million PET bottles (2012: 7.9 million).

5.8 Ensure that all H&M (brand) standard plastic consumer bags are made of 100% recycled input material

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our most commonly-used standard bags in H&M (brand) stores are made of recycled plastic. These make up the largest number of bags that we produce within the H&M Group by far. As our studies have shown, recycled plastic is the best

choice from a lifecycle perspective. These bags require much less energy, chemicals and water to produce and take up less space in transport than, for example, paper bags. We do, however, also use paper bags in some markets where it is required, for certain campaigns and for our brands COS and & Other stories. The paper originates from well-managed forests certified by the FSC. All of our bags are recyclable and we encourage reusing and recycling them.

hm.com/carrierbags



— COMMITMENT SIX —

Use natural resources responsibly



Our planet is facing scarcity issues on many fronts. By 2030, the world will need 50% more food, 45% more energy and 30% more water, according to the UN. Water in particular plays an important role throughout the life of a garment, from growing cotton to making fabrics and finally washing clothes at home. Using resources efficiently makes business sense and will increasingly provide opportunities for competitive advantage. This is why to operate as a sustainable business, we are committed to conserving water, soil, air and species. But more than that, we need to ensure that resources are shared fairly and consider the needs of both present and future generations.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|------------------------------------|--|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – WATER STEWARDSHIP | | | | | |
| Conscious action 6.1 | Install water-efficient equipment in all stores, warehouses and offices | 2020 | | | |
| Conscious action 6.2 | Ensure appropriate wastewater treatment for all supplier factories with wet processes | 2014 | | | |
| Conscious action 6.3 | Further reduce water use in washing processes for denim and other water-intense product types | year-to-year | | | |
| Conscious action 6.4 | Implement improved water management at all supplier factories with wet processes | 2015 | | | |
| Conscious action 6.5 | Develop dedicated water engagement plans for the Yangtze (China) and Brahmaputra (Bangladesh) river basins | 2014 | | | |
| Conscious action 6.6 | Develop method to extend measuring and reporting on water impact reductions in raw material and fabric production | 2015 | | | |
| Conscious action 6.7 | Raise awareness on water impact | 2014 | | | |
| FOCUS – CHEMICAL MANAGEMENT | | | | | |
| Conscious action 6.8 | Maintain the high standards of our chemical restrictions list by reviewing it annually | year-to-year | | | |
| Conscious action 6.9 | Introduce positive lists | 2013 | | | |
| Conscious action 6.10 | Help to lead our industry towards zero discharge of hazardous chemicals | 2020 | | | |
| Conscious action 6.11 | Achieve that all of our strategic suppliers in the global south with applicable processes report their discharge data on 11 priority chemical groups preferably via the IPE platform | 2013 | | | |

Performance overview

Highlights 2013

340
million fewer litres
of water used in
denim production.

30,000
tests conducted to ensure that
our products are safe
to wear and don't cause harm
to the environment.

2,300 hours
of training for our colleagues
on water impact as part
of our collaboration with WWF.



3,591,000
litres of rainwater harvested.

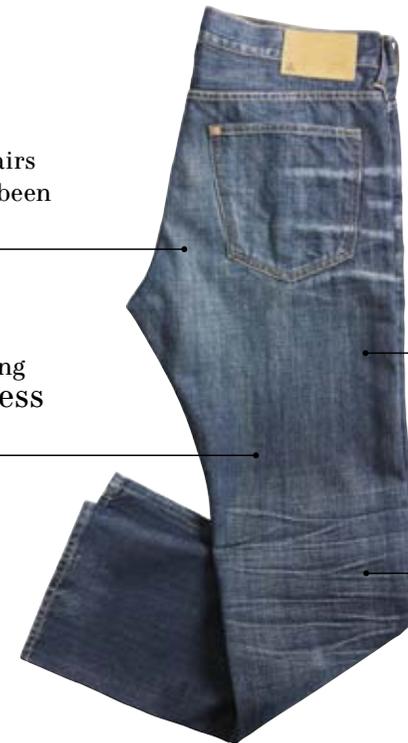
From the life of denim #0143891

Over 1 million pairs
of this denim have been
sold since 2012.

Today it's made using
innovative waterless
technology.*

With this and other
improvements in
production, water use is
65% lower than before.

This means that almost
31 million fewer litres
of water have been used.



*ozone bleaching

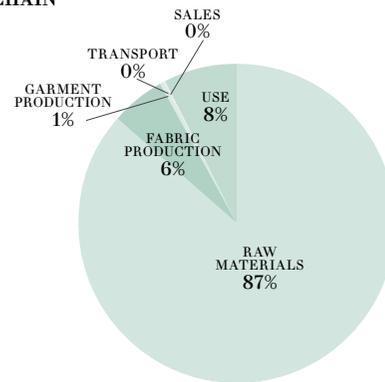
Focus: Water stewardship

Our mission

Growing cotton, dyeing fabrics, creating washed-out denim looks and not least washing our clothes at home all require a lot of water. At the same time, about 40% of the world's population lives in river basins that experience extreme water scarcity during at least one month of the year, according to WWF. About two-thirds of the factories that make clothes for H&M using wet processes are located in such areas. From our lifecycle assessments, we know that raw material production has the biggest water impacts in our value chain. Almost 87% of the water use of an average product falls in the raw materials stage, mainly due to the high water-intensity of growing cotton. Fabric production is usually where water pollution is most likely to occur. However, our influence over these stages is lower as we do not normally have direct contractual relations with cotton farmers. We must ensure that these resources are managed responsibly so that the needs of all their users can be met. And we need to continue to create the best products for our customers, with less impact on water resources. This is why we

teamed up with WWF, aiming for nothing less than to set new standards for water stewardship in the fashion industry.

WATER FOOTPRINT ACROSS OUR VALUE CHAIN



Estimated H&M value chain water footprint from our total use of cotton, organic cotton, polyester and viscose in 2011/2012. For the footprint analysis, primary and secondary data has been used and the principles of LCA-methodology has been applied. The footprint is based on WFN's methodology and includes green, blue and grey water footprint. Deviation from 100% due to rounding effects.



© MICHEL GUNTHER / WWF-CANON

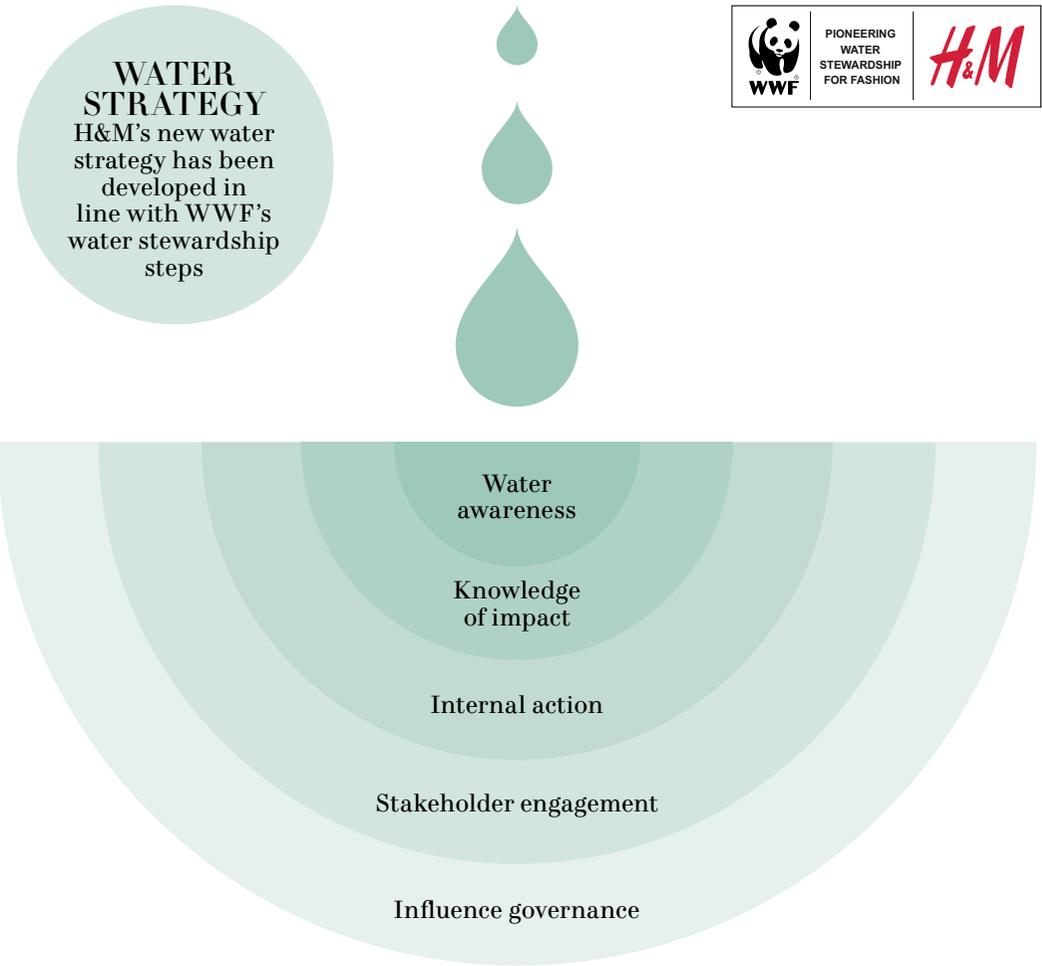
Focus: Water stewardship

Our strategy

Together with WWF we have developed a ground-breaking, holistic strategy for water stewardship using the WWF Water Risk Filter and bringing together WWF’s expertise in this area with the knowledge base we have built up over the past ten years. In a unique partnership, the first of its kind in the fashion industry, we are working together to implement this strategy along our entire value chain by 2015 at the latest. This includes increasing awareness amongst our colleagues, suppliers and customers, analyzing our water impacts in detail and continuously implementing the required actions to reduce these impacts. We are targeting supplier factories with in-house wet processes and particularly those located in water-stressed areas to improve their water management. We are focusing on the river basins of Yangtze (China) and Brahmaputra (Bangladesh), where many of our suppliers are located. Here, we are engaging stakeholders and decision-makers to achieve further change way beyond the factory walls. We are also continuing to assess our material choices for their water impacts. Cotton is our most

important raw material. So our goal is to use only cotton from more sustainable sources by 2020 at the latest (s. 1.1, p. 16), meaning significantly lower water use.

>hm.com/water
>wwf.panda.org



Focus: Water stewardship

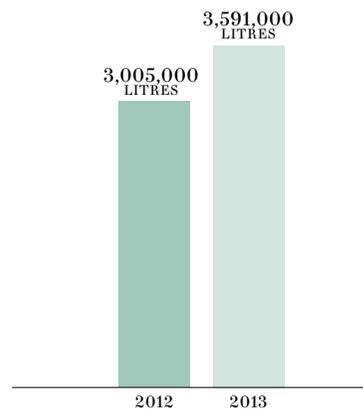
Our Conscious Actions

6.1 Install water-efficient equipment in all stores, warehouses and offices

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2020 | | | |

Our direct operations have only a 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. This is why our goal is to install water-efficient equipment such as low-flow taps in all of our stores, warehouses and offices by 2020 at the latest. By 2013, 19% of our facilities had been equipped with these. Our goal is 100% by 2020. Our warehouses in Hamburg, Ghlin and Madrid as well as a number of stores in the UK have additional rainwater harvesting facilities in place. Together, they harvested about 3.6 million litres of rainwater.

LITRES OF RAINWATER HARVESTED IN OWN FACILITIES



6.2 Ensure appropriate wastewater treatment for all supplier factories with wet processes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

We request all supplier factories with wet processes (approx. 500) such as dyeing or washing to have appropriate wastewater treatment in place – either by having their own treatment plants or by using shared municipal treatment plants. For those factories with their own treatment plants we go beyond legal requirements and check the wastewater against quality levels defined by the Business for Social Responsibility (BSR) Water Group. During the year, we worked with WWF to develop new routines, for example, for data verification and testing through external laboratories. With these improved routines we have seen improvements on total suspended solids (TSS) and stable figures for biological oxygen demand (BOD), but a decline mainly for chemical oxygen demand (COD). This is largely due to our decision to include factories that have not reported on

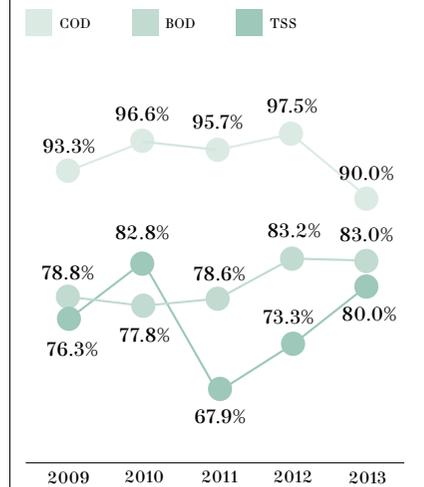
time as non-compliant in this disclosure. The analysis of the data also showed that the quality varies widely from factory to factory and country to country. Aiming to ensure that all applicable factories will have appropriate systems in place, we will put high attention on individual factory action plans and apply strengthened business consequences for repeated failure to comply. In parallel, we will increase our alignment with other brands in shared factories and work to influence decision-makers in improving the legal requirements.

>bsr.org



Based on data submitted by 454 supplier factories with wet processes.

% OF SUPPLIER FACTORIES IN FULL COMPLIANCE WITH OUR WASTEWATER QUALITY REQUIREMENTS



Focus: Water stewardship



340
million fewer
litres of water
used in denim
production

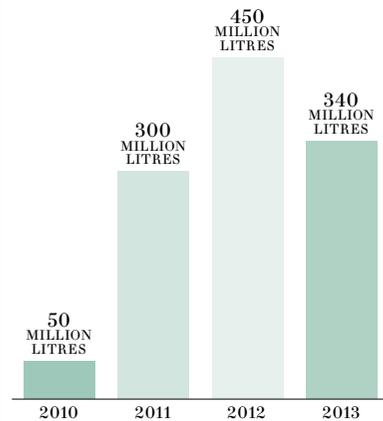
Our Conscious Actions

6.3 Further reduce water use in washing processes for denim and other water-intensive product types

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Producing denim can be particularly water-intensive to achieve the desired looks. We found that better processes can reduce water use by 30%. Today, 58% of our denim suppliers use such techniques (2012: 50%) and we are working hard to apply these to increasingly more suppliers and product types. In 2013 alone, this reduced water usage by an estimated 340 million litres compared to conventional production processes and the previous year.

REDUCTIONS OF WATER USE IN DENIM PRODUCTION COMPARED TO CONVENTIONAL TECHNIQUES AND PREVIOUS YEAR

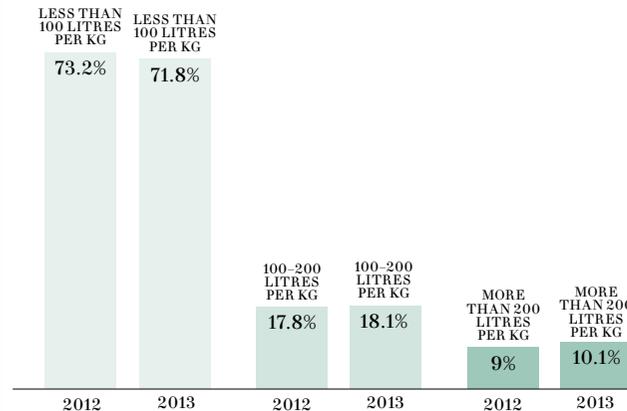


Extrapolation based on average savings and order volumes.

H&M's commitment and dedication to becoming an industry leader within water is truly inspiring.

Daniel Robertsson, Corporate Relations, WWF Sweden

LITRES USED PER KG OF CLOTHING (MANUFACTURING SUPPLIER WATER EFFICIENCY)



Based on data submitted by 450 supplier factories.



Focus: Water stewardship

Our Conscious Actions

6.4 Implement improved water management at all supplier factories with wet processes

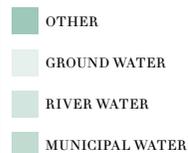
| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

The impact our supplier factories have on their local water resources depends on how much water they withdraw from different sources and the quality and amount of wastewater they produce. We work to go beyond just compliance with wastewater treatment requirements and to reduce the water impact of all of our supplier factories with wet processes from a holistic perspective. Our goal is for all of these approx. 500 factories to have improved water management systems in place by 2015. This includes, for example, improved measurement tools for their water use. Based on this, we aim for these factories to set annual targets for reduced water use and increased water recycling rates. To start, we are focusing on factories located in water-scarce areas and in the Brahmaputra and Yangtze river deltas, which are the two single most significant water

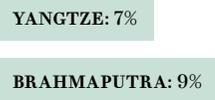
sources for our supplier factories with wet processes. To support them in this work, we provide them with training (s. 6.7, p. 73) and are currently integrating additional water management criteria into our supplier performance assessments. This way, we can help suppliers to

identify priorities for improvements – and we can provide them with incentives for good performance, for example through better business. Moving forward, we aim to set baselines and targets founded on the data and knowledge we gain this way.

WATER WITHDRAWAL BY SOURCE IN SUPPLIER FACTORIES LOCATED AROUND YANGTZE, CHINA AND BRAHMAPUTRA, BANGLADESH



% OF USED WATER RECYCLED IN BRAHMAPUTRA AND YANGTZE REGIONS



*Grade 4 and above on WWF basin related risk indicator "Scarcity is most scarce month".

6.5 Develop dedicated water engagement plans for the Yangtze (China) and Brahmaputra (Bangladesh) river basins

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

The Yangtze and Brahmaputra river basins are the two single most significant water sources for our supplier factories with wet processes. This is why we are paying special attention to these river basins and are currently together with WWF developing dedicated plans on how to extend the impact of our efforts

by collaborating with local stakeholders such as local authorities, communities and the private sector. As part of this, we will support a conservation project led by WWF to protect the endangered Yangtze finless porpoise. Only about 1,000 individuals of this species are left. The project aims to secure their habitat in the Tian-e-Zhou lake in the Yangtze river delta. To achieve this, the project will amongst other things focus on training cotton farmers in the region in more sustainable farming practices to reduce water pollution. It will also work with the provincial government to advocate for setting up new natural reserves.



© BRENT STIRTON / GETTY IMAGES / WWF-UK

Focus: Water stewardship

2,300
hours of training
on water impact
for our colleagues

Our Conscious Actions

6.6 Develop method to extend measuring and reporting on water impact reductions in raw material and fabric production

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

Today, we can already reduce water impacts by making better material choices. For example, Better Cotton needs about 20% less water to grow than conventional cotton. But more needs to be done to assess different materials for their water impacts and strategically integrate this in our material selection. To support this, one of the activities in our partnership with WWF is to liaise with the organisation MADE-BY to better include water impacts in their sustainable fibre benchmark to help us and other companies make better material choices also in regards to water. Through several different initiatives and programmes, for example in collaboration with the Dutch NGO Solidaridad, we are working with fabric producers to reduce their environmental impact, particularly on water. To extend these successful

efforts to a larger scale we are currently integrating fabric mills into our supplier assessment tools (s. 2.6, p. 27) and are developing dedicated measurements to drive and report on improvements made in this sector. Our goal is to cover all strategic fabric and yarn mills involved in at least 50% of our production volume by 2015.

>solidaridad.org
>made-by.org



6.7 Raise awareness on water impact

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

Did you know that it takes about 8,500 litres of water to grow the cotton needed to make one pair of jeans? The growing scarcity of clean drinking water is not yet as well known to a broad audience as, for example, climate change. Neither is how important water is to make fashion and the opportunities our industry has to make a significant contribution to tackling such water challenges. We want to raise the awareness of this issue amongst all of our colleagues, suppliers and customers of this issue. Therefore, we have developed different training packages for our colleagues. All of them should have basic knowledge about this matter as part of our new mandatory sustainability training (s. 1.11, p. 20). We provide additional focused water training for colleagues in specific key roles, such as our production offices. In 2013, we provided an estimated 2,300 hours of this type of training.

During 2014, we plan to roll out a training programme for all of our supplier factories with wet processes on water challenges and responsible water use, including guidance for setting goals to reduce water use and increase water recycling. From spring 2014, all of our garments will carry the Clevercare label, aiming to inspire our customers to conscious garment care (s. 1.9, p. 20). We have also made water messages part of two customer campaigns during the year and integrated additional messages in the in-store communication at all H&M (brand) stores.

Focus: Chemical management

Our mission

Chemicals are often needed, for example, to dye garments. Most of them are harmless to humans and the environment. But safety cannot be taken serious enough – for our customers, our colleagues, the workers who make our products or the environment. This is why we need to make sure that our products do not contain any harmful substances. But we also go beyond the product perspective and take responsibility for the environment around the factories that make them. This is why we are working to achieve zero discharge of hazardous chemicals across our value chain by 2020 at the latest.

Our strategy

We have strict chemical restrictions (Restricted Substance List, RSL) in place and perform regular tests, mainly in third-party laboratories based on risk assessments that are conducted for each product order. But our focus is on preventing the use of any restricted substances at our suppliers and increasingly already at their fabric suppliers. Our suppliers receive intensive training on our chemical restrictions and on chemical management, with additional focus on factories with chemical-intense processes, such as dyeing or printing. We conduct specific chemical audits in which we for example check the so-called Safety Data Sheet (SDS) and the safe storage of the chemicals used in a factory. Additionally, we work with several stakeholders to further advance chemical management and transparency and even actively promote stricter legislation.

>hm.com/chemicals



Focus: Chemical management

Our Conscious Actions

6.8 Maintain the high standards of our chemical restrictions list by reviewing it annually

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

All of our suppliers are contractually bound to comply with our chemical restrictions list. Our restrictions are some of the most stringent in the industry and we follow the precautionary principle. This means that we restrict substances also if they are not legislated or if there are scientific uncertainties. To ensure this, we review and update our list at least annually. In 2013, for example, we added a full ban on perfluorinated compounds (PFCs) for all of our products. During the year, we conducted about 30,000 tests to ensure compliance with our chemical restrictions.

6.9 Introduce positive lists

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

Besides restricting harmful chemicals, we have also started to use so-called positive lists. This means that instead of only excluding certain substances, we provide our suppliers with lists of chemical products that comply with our restrictions list. This makes it easier for them to choose the right products and increases compliance. We released our first positive lists (for three different chemical producers) in 2013 and plan to continue this work by bringing more chemical producers on board. As part of this work, we have also published a list of currently seven approved and environmentally-preferable alternatives to PFCs.

6.10 Help to lead our industry towards zero discharge of hazardous chemicals

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2020 | | | |

In 2011, we teamed up with five other leading brands to develop a joint roadmap to help lead our industry to achieve zero discharge of hazardous chemicals. Building on an extensive record of experience and achievements in chemical management, we have since made good progress with both the joint roadmap as well as our complementary individual action plan. Several more brands have joined the group since the launch. During 2013, for example, we extended detailed chemical usage and discharge studies, dedicated training and audits to cover all of our strategic suppliers with wet processes in China, India, Bangladesh and Cambodia.

>hm.com/zerodischarge
>roadmaptozero.com

6.11 Achieve that all of our strategic suppliers in the global south with wet processes report their discharge data on 11 priority chemical groups preferably via the IPE platform

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2013 | | | |

We value transparency. As part of our work towards zero discharge of hazardous chemicals we have therefore engaged our strategic suppliers that have chemically intensive processes, so that 34 suppliers in Bangladesh, China, India, Cambodia and Indone-

sia now disclose discharge data from their in-house treatment plants on 11 priority chemical groups via the IPE (Institute of Public & Environmental Affairs) or similar public platform. To provide all of them with the best possible solutions for such disclosure, we will continue to work on developing disclosure mechanisms and support the development of additional disclosure platforms through a partnership programme together with Solidaridad and the International Finance Corporation (IFC). A report published by IPE in December 2013 ranked H&M amongst the top performing brands in terms of environmental supply chain management.

>ipe.org.cn

H&M is matching its commitment with fashion-forward action.

Greenpeace Detox Catwalk

— COMMITMENT SEVEN —

Strengthen communities



The way we do business, our values and our growth have an impact on millions of people around the world. From the places where our over 3,100 stores are located all the way along our value chain. We want to contribute to these communities and make sure they benefit from having us there. We work throughout our value chain to drive lasting change. Through strategic investments and together with our community partners we can extend these efforts and achieve a wider impact. In doing this, we want to create win-win situations and shared value for us as a company, our customers and local communities. Through, for example, cause-related collections or additional in-store donations, we involve our customers and colleagues in our work to strengthen communities. Additionally, the H&M Conscious Foundation works to reach beyond H&M's value chain and to make a difference for people and communities on a global scale.

Performance overview

| PROGRESS REPORT | | DEADLINE | STATUS | | |
|---|---|--------------|------------|----------|------|
| | | | MORE TO DO | ON TRACK | DONE |
| FOCUS – INVESTMENTS IN SHARED VALUE ALONG OUR VALUE CHAIN | | | | | |
| Conscious action 7.1 | Create and contribute to employment opportunities | year-to-year | | | |
| Conscious action 7.2 | Empower over 1.7 million children through education, health and child protection through the All for Children project | 2018 | | | |
| Conscious action 7.3 | Help train 1 million cotton farmers to grow cotton with less impact on the environment and with improved livelihood | 2015 | | | |
| Conscious action 7.4 | Provide at least 500,000 people with access to safe water in countries where our products are made | 2016 | | | |
| Conscious action 7.5 | Develop and roll out a new community development strategy | 2014 | | | |
| FOCUS – COMMUNITY SUPPORT | | | | | |
| Conscious action 7.6 | Provide emergency relief in cases of humanitarian catastrophes | as required | | | |
| Conscious action 7.7 | Donate garments to support people in need | continuously | | | |
| FOCUS – MAKING A DIFFERENCE BEYOND OUR VALUE CHAIN – THE H&M CONSCIOUS FOUNDATION* | | | | | |
| Conscious action 7.8 | Enable 73,600 children to benefit from early childhood development programmes | 2017 | | | |
| Conscious action 7.9 | Provide 250,000 students with access to clean water and toilets in schools and educate them in hygiene practices | 2017 | | | |
| Conscious action 7.10 | Provide 100,000 women in poor communities worldwide with skills training and/or seed capital to start up or expand their own business | 2017 | | | |

*These Conscious Actions are implemented by the H&M Conscious Foundation which as an independent non-profit organisation complements H&M's sustainability work with strategic philanthropic programs.

Performance overview

Highlights 2013

SEK 500 million (approx. EUR 56 million/USD 78 million) additional funding to the H&M Conscious Foundation from the Stefan Persson family.

12,000

additional jobs created (net).

193,000 people gained access to safe drinking water through the sales of H&M gift cards.

300,000

cotton farmers trained in growing cotton with less environmental impact and with better livelihood for their communities since 2010.

3,555,687 garments donated to charitable causes.



Since the start of our collaboration, H&M and WaterAid have provided

230,000

people with access to clean water.

From the life of kids' shoes #0189155

This ballerina shoe was sold for EUR 14.95/ USD 17.95.

25% of its sales price supported UNICEF's work to improve access to education, health and child protection in India and Bangladesh.



This way, it has contributed to empowering more than 1 million children since 2009.

Focus: Investments in shared value along our value chain

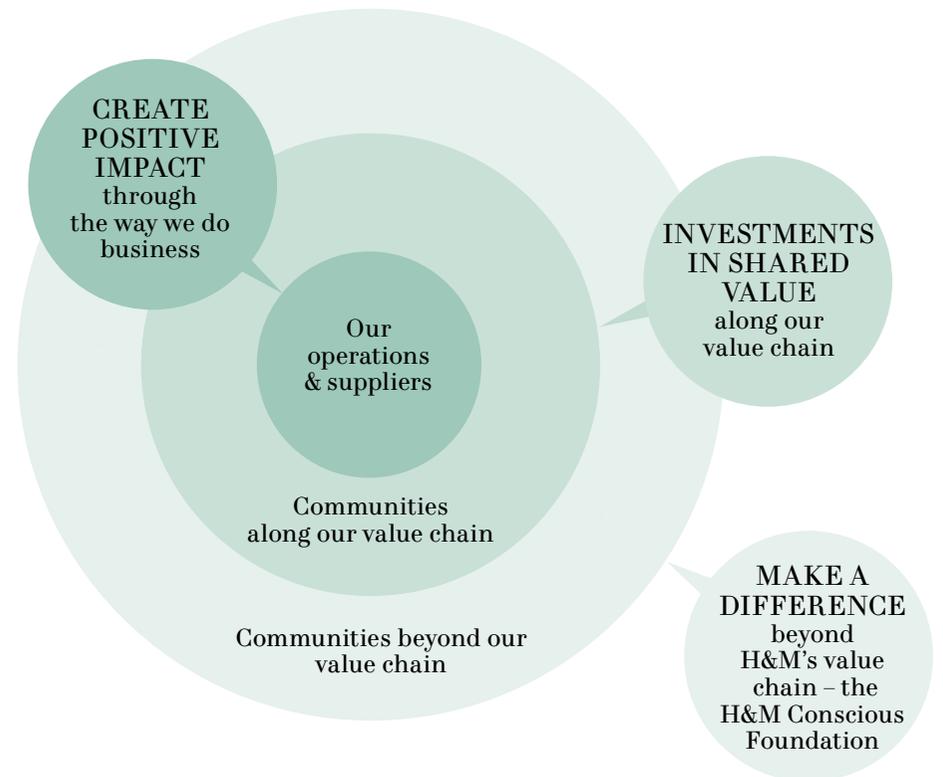
Our mission

Prosperous and stable markets where human rights are respected, better-skilled people and a healthy environment benefit our business. In order to secure the long-term profitability and growth of H&M, we need to ensure that the communities that contribute to our success benefit from our presence. To achieve this, we need to make sure that the way we do business contributes to their development and extend these impacts by making strategic investments that create shared value. This way, we make a difference to the livelihood of millions of people, to human rights and to the environment throughout our operations and along our value chain.

Our strategy

We work across our operations, with our suppliers and more and more also with their suppliers to create jobs and better livelihoods for people, particularly women, to promote human rights and to protect our environment. These are integral elements of the way we do business. Where we do not have business relations and our influence is weaker, we team up with our community partners to drive development. We invest in initiatives and long-term collaborations that create shared value and help us extend positive impacts we create through our business. Complementing these efforts, the H&M Conscious Foundation, as an independent non-profit foundation, contributes to positive long-term change for people and communities beyond H&M's value chain.

>hm.com/communities
>hm.com/consciousfoundation



TOTAL COMMUNITY INVESTMENTS/DONATIONS

| | 2011 | 2012 | 2013 |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| H&M | USD 5,221,503 EUR 3,915,758 | USD 6,125,000 EUR 4,501,330 | USD 4,613,075 EUR 3,390,195 |
| H&M CONSCIOUS FOUNDATION | USD 817,558 EUR 612,715 | USD 107,567 EUR 79,052 | USD 1,436,443 EUR 1,055,657 |
| CUSTOMERS | USD 1,209,160 EUR 906,197 | USD 589,455 EUR 433,197 | USD 1,514,345 EUR 1,112,908 |

Focus: Investments in shared value along our value chain

43,000
additional jobs
created (net) in the last
five years

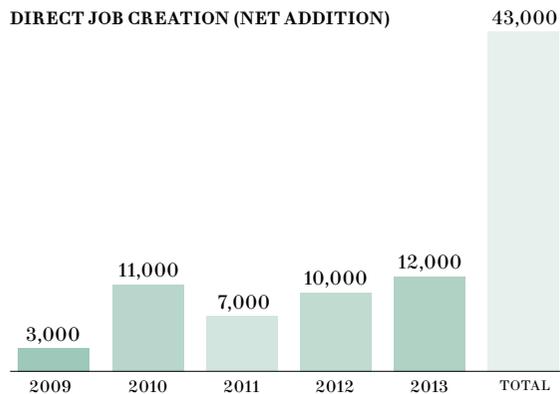
Our Conscious Actions

7.1 Create and contribute to employment opportunities

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|--------------|------------|----------|------|
| year-to-year | | | |

Our aim is to increase the number of our stores by 10 to 15% each year. During 2013, we created more than 12,000 additional jobs (net). Over the last five years, our growth has entailed a net creation of more than 43,000 jobs globally. Additionally, our business contributes to job opportunities for around 1.6 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.



Rounded figures, net addition to total number of employees.

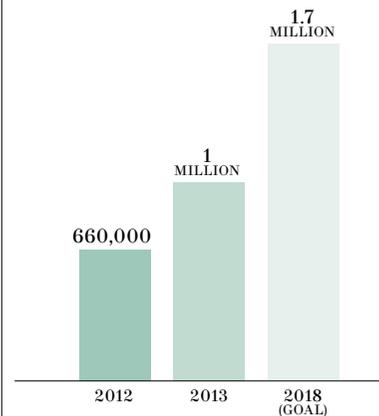
7.2 Empower over 1.7 million children through education, health and child protection through the All for Children project

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2018 | | | |

The right to education is a universally-recognised human right and a prerequisite for sustainable development and prosperity. All for Children is a unique collaboration between H&M and UNICEF through which we support UNICEF's work in India and Bangladesh to protect this and other rights of some of the poorest children in the world. Our goal is to empower 1.7 million children through pre-school and primary education, health and child protection structures by 2018 at the latest. By 2013, we had already achieved this for over 1 million children.



NO. OF CHILDREN EMPOWERED



Focus: Investments in shared value along our value chain

300,000

cotton farmers have been trained in growing cotton with less environmental impact and with better livelihood for their communities since 2010

Our Conscious Actions

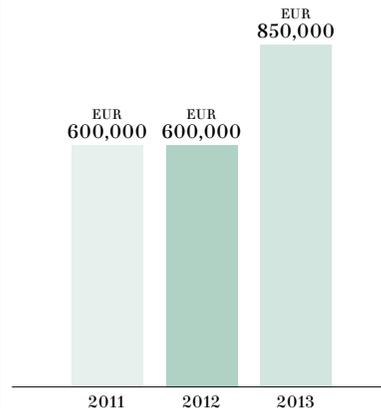
7.3 Help train 1 million cotton farmers to grow cotton with less impact on the environment and with improved livelihood

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2015 | | | |

We are an active member of the Better Cotton Initiative (BCI). Using increasingly more Better Cotton to make our products is an essential part of our efforts to use only more sustainable cotton by 2020. To secure the supply we need, we invest in training farmers to produce Better Cotton. 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. Since 2010, about 300,000 farmers have been trained. The goal is to train one million farmers by 2015.

>bettercotton.org

AMOUNT INVESTED DIRECTLY BY H&M INTO BCI FARMER TRAINING PER YEAR



7.4 Provide at least 500,000 people with access to safe water in countries where our products are made

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2016 | | | |

768 million people in the world do not have access to clean water.* We want to play our part in tackling this challenge especially in the countries where our products are made. Since the start of our partnership in 2002, our partner WaterAid has provided about 230,000 people with access to clean water. In 2013, we raised additional funding for them through

the sale of selected products in our swimwear range. Additionally, the H&M Conscious Foundation helped WaterAid to provide one family with access to clean water for each EUR 10 (USD 10, GBP 10 etc.) sold in H&M (brand) gift cards during the holiday season. Just this will enable WaterAid to provide another 193,000 people with access to clean water. With these actions, we are well on track to achieve our target.

*Source: [WHO/UNICEF Progress on sanitation and drinking-water 2013 update.](#)

Since the start of our collaboration, H&M and WaterAid have provided 230,000 people with access to clean water.

7.5 Develop and roll out a new community development strategy

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2014 | | | |

As we seek to constantly improve the way we work, we are currently in the process of creating an updated community development strategy. The aim is to integrate community development even more strategically into our business decisions through local investments that create shared value. We plan to roll out the strategy from 2014 onwards.

Focus: Community support

More than
3,555,687
 garments donated to
 charitable causes

Our mission

In the case of an emergency, quick action is needed to ease the situation for the victims. Naturally, we see it as part of our responsibility to contribute whatever is required the most – clothes or money for example. Additionally, as a fashion company, we want to donate appropriate clothes to those in need wherever possible and at any time.

Our strategy

We immediately discuss with community partners to determine just what support is needed and how we can contribute to it. Throughout the year, we donate as many clothes as possible to our aid partners.

Our Conscious Actions

7.6 Provide emergency relief in cases of humanitarian catastrophes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|-------------|------------|----------|------|
| as required | | | |

In 2013, India was affected by heavy flooding, forcing more than 150,000 people to flee from their homes. In response, the H&M Conscious Foundation donated USD 100,000 to Save the Children India's relief efforts, enabling them to provide hygiene kits, water purification tablets, food baskets and warm blankets for 5,000 families in the worst affected villages. The foundation donated another USD 100,000 to the Red Cross for their initial rescue work after the devastating typhoon Haiyan that hit the Philippines in November. H&M China donated USD 100,000 to UNICEF's efforts to help thousands of children affected by the powerful earthquake in southwestern Sichuan Province in China in April this year. Donations made by our local organisations and in-store collections for different causes in various markets throughout the year all together totalled an additional USD 1.5 million.

7.7 Donate garments to support people in need

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|-------------|------------|----------|------|
| as required | | | |

Each year, we donate 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 2013, we donated more than 3.5 million garments globally to aid organisations.

Focus: Making a difference beyond H&M's value chain – the H&M Conscious Foundation

Mission

The mission of the H&M Conscious Foundation is to reach beyond H&M's value chain and contribute to positive long-term change for people and communities.

Strategy

As an independent non-profit organisation, the H&M Conscious Foundation complements H&M's sustainability work with strategic philanthropic programmes. Thanks to a donation from the Stefan Persson family of SEK 500 million (EUR 56 million/USD 76 million) in 2013, it is possible for the H&M Conscious Foundation to create major impact. Following a public vote in 2013, the Foundation focuses on three causes: Education, Clean Water and Strengthening Women. For all three areas, the H&M Conscious Foundation partnered with three world-renowned organisations in early 2014. These programmes are large in scale and aim to be transformative by addressing structural barriers and promote new policy within each area. The three flagship programmes will in total receive 180 million SEK to drive change through from 2014 to 2017. Additionally, the H&M Conscious Foundation initiates local programmes with other organisations related to the three selected issues in countries where H&M operates.

>hm.com/consciousfoundation



© WATERAID/ANNA KARI

Focus: Making a difference beyond H&M’s value chain – the H&M Conscious Foundation

Conscious Actions

7.8 Enable 73,600 children to benefit from early childhood development programmes

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2017 | | | |

The brain’s ability to develop is strongest before the age of eight. Especially early childhood care and education are important to lay the foundation for such development – for the individual child as well as for the entire community. However, approximately one-third of the children under the age of five in developing countries are not achieving their development potential. Early childhood care is not commonly prioritised by government agencies or donors. To help tackle this global challenge, the H&M Conscious Foundation teamed up with UNICEF to invest in children’s early education and development. This flagship programme aims to reach out to 73,600 children who will benefit from early childhood development programs by 2017. Additionally, the aim is to lift the topic on the global agenda by supporting three governments in integrating early childhood

development in their development agendas and national budgets as well as by creating the first ever Global Report on Early Childhood Development, providing the necessary data to base policies on and measure their success.

>unicef.org

Children, who receive early childhood care and education, are more likely to learn, stay in school and graduate from school

Helena Thybell, Global Manager H&M Conscious Foundation

7.9 Provide 250,000 students with access to clean water and toilets in schools and educate them in hygiene practices

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2017 | | | |

Imagine if you didn’t have access to a toilet or clean water. This is the reality for over 50% of the students in low-income countries in their schools. This lack contributes to diseases, with negative impacts on education, but also has wider implications on gender equality, development and economic growth in these communities. This is why the H&M Conscious Foundation partnered with WaterAid to provide 250,000 students with access to clean water and toilets in schools and educate them in hygiene practices. Beyond this, the programme will advocate, influence and support policymakers on national and regional level and lobby for the Post2015 framework and the UN Sustainable Development Goals to include a goal on water and sanitation, with one of the targets being for all schools globally to provide safe water, sanitation and hygiene.

>wateraid.org

7.10 Provide 100,000 women in poor communities worldwide with skills training and/or seed capital to start up or expand their own business

| DEADLINE | MORE TO DO | ON TRACK | DONE |
|----------|------------|----------|------|
| 2017 | | | |

The majority of the world’s poor are women and girls. Women work two-thirds of the world’s working hours, yet they earn a mere 10% of the global income and own just 1% of the property. Women often have less access to education, financial resources and services and even limited rights to own and inherit property. In turn, studies show that when women experience equal rights, this benefits the

whole society. In partnership with the international humanitarian and development organisation CARE, the H&M Conscious Foundation therefore is committed to strengthening women in developing countries. One of the goals is to provide 100,000 women in poor communities worldwide with business skills training and/or seed capital to start-up or expand their business. Beyond that, the programme aims to break down myths and beliefs about what women can and cannot do through organizing dedicated, regional campaigns with inspiring role models and by advocating policy changes needed to ensure more women can reach their full potential and exercise their rights.

>care.org



© AUSTIN PETRELIUS/CARE

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 (also called H&M in this report), 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 2012 to 30 November 2013, unless stated otherwise (for a full list of entities, please see our Annual Report 2013). Unless stated, franchise operations are not included.

The report was reviewed by the highest executive management and external assurance has been performed for selected indicators as well as in regards to materiality and stakeholder engagement. Additional stakeholder

reviews have been performed and commentary statements are included in this report.

We aim to tackle impacts wherever they occur in our value chain, and this is reflected in our reporting wherever possible.

Additional information is provided at hm.com/conscious as well as in our financial and corporate governance reporting. Our most recent report was published in March 2013.

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 as well as expert functions. All data is based on the best possible systems that are currently available to us and where applicable aligned with recognised standards. However, this

needs to be seen in the light of continued improvements of data systems, methodologies and scientific uncertainties. While our GHG emissions accounting and reporting is aligned with the GHG Protocol and the emission factors we use are from publicly available sources such as the International Energy Agency (IEA), GHG emission data is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emissions factors and resulting effects on measurements and estimations.

Unless otherwise specified, all data concerning suppliers and supplier factories includes all suppliers and factories that were active and approved for production during the reporting period. Factories included in our scope are 1st tier manufacturing or processing (i.e. washing or dyeing), factories that are owned or subcontracted by our suppliers as well as (where stated) selected 2nd tier suppliers and suppliers for non-commercial goods (such as store interior suppliers).

Monetary amounts are reported in SEK. Where provided in other currencies, these are conversions as approximate figures based on the conversion rate on 30 November 2013, unless stated otherwise.

Global Reporting Initiative (GRI)

This report is prepared in accordance with the GRI G4 Sustainability Reporting Guidelines (Core). We have additionally included material indicators from

the pilot of the Apparel and Footwear Sector Supplement. You can find the detailed GRI index at hm.com/gri.

Process for identifying the most material aspects and their boundaries

The process for defining the report content and the aspect boundaries have been based on the following main steps:

Identification: Mapping aspects and creating a gross list

We have identified a gross list of aspects through an analysis of external standards such as the GRI G4 Aspect list, legislation, investor and NGO questionnaires, peer reviews, business intelligence, lifecycle assessment results, stakeholder dialogue and stakeholder reports as well as media coverage.

The gross list has been checked against GRI's Sustainability Context and Stakeholder Inclusiveness tests.

Prioritisation: Scoring and prioritising aspects

To prioritise the most material

How we report

aspects from this gross list, we scored the different aspects in regards to their influence on stakeholder assessment and decisions and their significance of economic, environmental and social impacts. Both categories were broken down into a number of different categories such as frequency raised by key stakeholders (weighted x3), frequency featured in media (weighted x1) and frequency raised in key sustainability benchmarks, rankings and indices (weighted x1) (to determine the influence on stakeholder assessment and decisions) as well as social and environmental impacts (weighted x1) and importance to business strategy (weighted x2) (to determine the significance of economic, environmental and social impacts). Scores have been given by at least two internal experts per category as well as based on lifecycle assessment (LCA) data and existing strategy documents. This way, about 60 aspects could be identified as material. For the sake of user friendliness, these were thematically clustered into 25 focus areas and gathered in a materiality matrix (p. 87).

The impact scoring as well as the boundary descriptions were checked against GRI's reasonability tests.

Validation of materiality matrix with key stakeholders

To validate the matrix, we selected at least one representative from each of our key stakeholder groups (including: customers, colleagues, communities,

suppliers and their employees, industry peers, NGOs, IGOs, policymakers and investors). 11 stakeholder representatives were asked to provide feedback on this materiality matrix. These organisations were chosen based on their know-how, their ability to make professional and critical judgements, and the coverage of aspects potentially material. Their comments were gathered systematically and are incorporated in the materiality matrix published in this report.

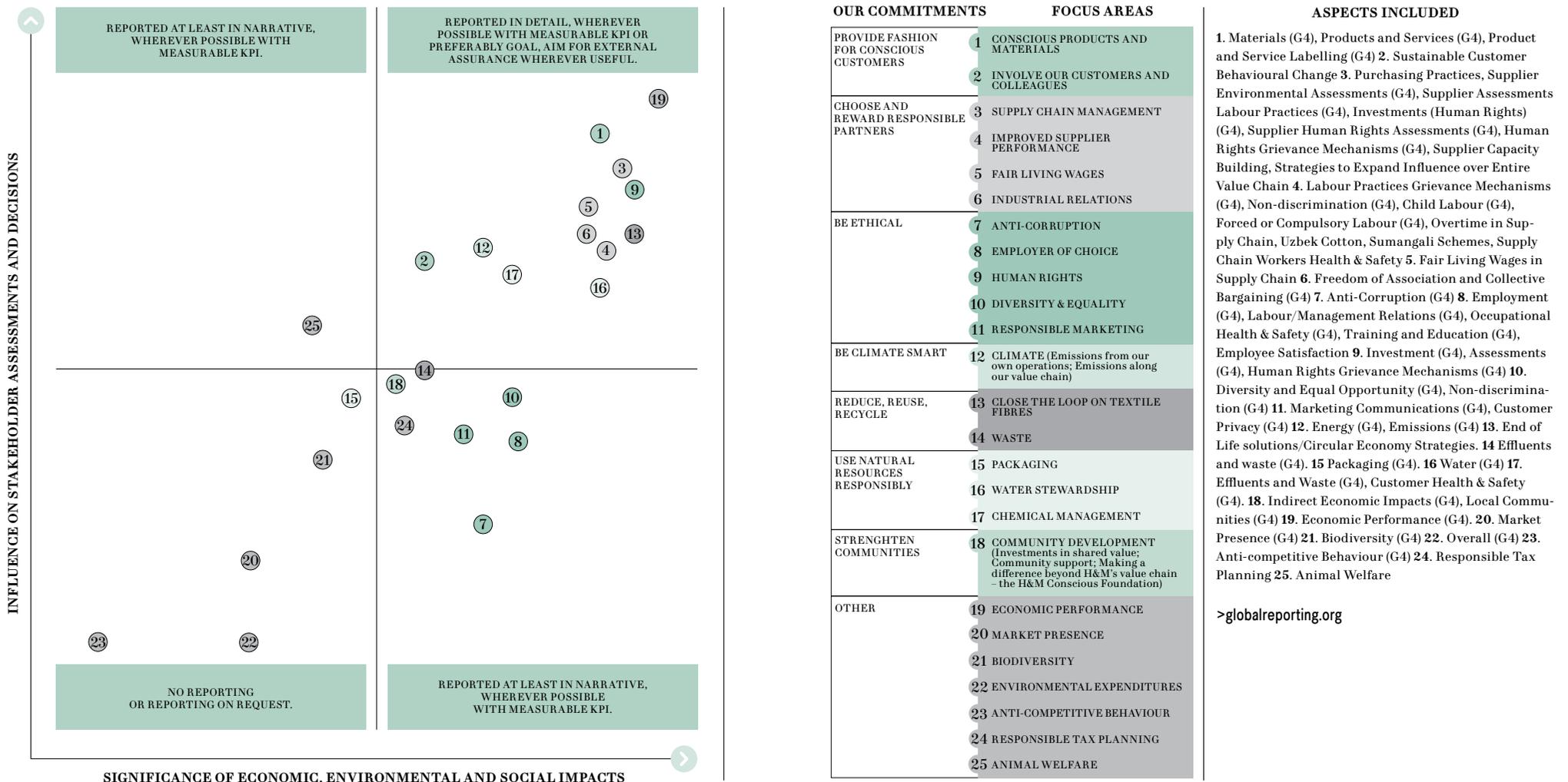
The feedback from our external stakeholder representatives at large confirmed this materiality analysis. No aspect was considered missing, but based on their feedback we moved the positioning of four aspects in the matrix.

Throughout this process we have used the principles of defining report content in order to secure a robust process.



How we report

Materiality matrix



Auditor's review 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 Conscious Actions Sustainability Report 2013 with regards to the following indicators referred to in the GRI index that can be found in the 'GRI index 2013':

- Identified material aspects and boundaries (G4-17 – G4-23), p. 85–87
- Stakeholder engagement (G4-24 – G4-27), p. 11
- Energy: Energy consumption within the organization (G4-EN3), p. 55
- Energy intensity (G4-EN5), p. 55
- Reduction of energy consumption (G4-EN6), p. 55
- Emissions: Direct greenhouse gas emissions (scope 1), (G4-EN15), p. 55
- Energy indirect greenhouse gas emissions (scope 2), (G4-EN16), p. 55,
- Other indirect greenhouse gas emissions (scope 3), (G4-EN17), p. 57
- Materials: Materials used by weight or volume (G4-EN1), p. 16
- Tons of garments collected for reuse and recycling, p. 62
- Supply Chain: Incidents of non-

compliance with Code of Conduct (AF14), p. 30

- Anti-corruption: Confirmed incidents of corruption and actions taken (G4-SO5), p. 42

H & M's Conscious Actions Sustainability Report 2013 covers the period 1 December 2012–30 November 2013.

Management's responsibility

The Management of H & M is responsible for ongoing activities and for preparing and presenting the H & M Conscious Actions 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 G4. As discussed in the section "How we report", p. 85 in the H & M Conscious Actions Sustainability Report, greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

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 H & M Conscious Actions 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 H & M Conscious Actions 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 H & M Conscious Actions Sustainability Report, 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 H & M Conscious Actions Sustainability Report. The presented information in the H & M Conscious Actions 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, G4, in all material respects. A →

Auditor's review report

limited review engagement consists of making inquiries, primary of persons responsible for the preparation of the H & M Conscious Actions 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.

We have performed, among others, the following procedures:

- interviews with the responsible management, at group level in order to assess if the qualitative and quantitative information stated in the H & M Conscious Actions 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 H & M Conscious Actions 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 H & M Conscious Actions Sustainability Report has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, 10 April 2014
Ernst & Young AB

Åsa Lundvall
Authorized Public Accountant
Charlotte Söderlund
Authorized Public Accountant



Stakeholder review statements

What our stakeholders say about this report

Before publishing this report, we shared it with some of our key stakeholders and asked them what they think about it. Here is what they said.

NIELS OSKAM, *Founder, Rank a Brand*

H&M manages to report a broad range of sustainability issues every year with significant information. Such a level of transparency is not just about opening up, it can only come with true milestones: ambitious plans, continuous progress and performance that are relevant to the worldwide scale of operations.

H&M delivers each year again. For example, the use of 'environmentally preferred' raw materials passed the 10% milestone last year. Almost half of H&M's leather shoes are made with certified leather. The public list of supplier factories now covers 100% of production. Deeper down the production chain, H&M included already 20% of the suppliers to suppliers into its labour conditions monitoring program. And H&M is the first fashion

retailer to clearly address the issue of living wages for the garment workers, which is a big promise for the fashion industry and hopefully reality for garment workers in the next few years.

H&M is the clear front runner amongst the fashion retailers that are active on the Dutch and German markets. The steady movement of H&M towards fair and sustainable fashion deserves all the support from customers.

YLVA HANNESTAD, *Director, Responsible Investments & Identity, Nordea Bank AB*

Given H&M's strong brand and large operational footprint the company is required to address and manage several sustainability concerns. Key aspects include labour practices in its supply chain and the environmental impact of its products throughout the whole lifecycle. H&M has a well-developed supply chain management system, which – beyond auditing and monitoring – also addresses developing suppliers and rewarding responsible suppliers. By taking this additional step, H&M strives to create lasting

change throughout its supply chain. H&M is also one of few companies that demonstrate a high level of production traceability by publishing its supplier factory list. A key achievement in 2013 is the Fair Wage Living strategy, which aims to implement well-functioning pay structures at its suppliers. If successful, this will enable workers to cover their basic needs without working overtime, which subsequently will lead to more stable production and higher productivity. A key challenge for the company to address is the short lifespan of clothing products in general, which makes the industry inherently unsustainable. H&M is working on several initiatives to address this and this year the company launched its first closed-loop products made from recycled materials collected in H&M stores, enabling the company to decrease the use of virgin resources in its production. This is an important initiative given rising raw material costs and an expanding global middle class, which puts increasing pressure on the environment. Furthermore, H&M along with its industry needs to further raise awareness amongst consumers, enabling them to make informed decisions when buying, using and disposing of clothing products.

JANET MENSINK, *International Program Coordinator Sustainable Cotton & Textiles, Solidaridad Network*

First of all we want to compliment H&M on another step to create more transparency in its sustainabil-

ity policy and most of all its achievements. In line with the past editions, it sets the example for the industry. The back up by the strong commitment on sustainability from the top can be read from the CEO's introduction words. The clear vision as presented in the 7 commitments is very strong. Considering the fact that H&M sources from 1,900 factories reaching 1,6 million people of which 65% women, the potential to change is immense.

Encouraging to notice is our shared analysis and approach on increasing the sustainability of the sector:

- The urgency to address sustainability now more than ever and work on this in a holistic way
- The context of expected future scarcity of resources (water, energy, raw materials)
- The need for a collaborative approach with suppliers, stakeholders and peers
- The approach to link purchase practices in the supply chain performance and go beyond monitoring suppliers but instead provide support through capacity building

We see the Fair Living Wage Roadmap, the waste garment collecting and recycling initiative and the introduc- →

Stakeholder review statements

What our stakeholders say about this report

tion of organic leather as highlights in innovation in 2013. The achievements in sustainable cotton (15.8% compared to 11.4% last year) can be considered impressive. The sustainability performance score at supplier level is more or less within the same range for the past few years. We hope to see an equal increase ratio on this indicator next year. Implementation of tools like the Higg index and alignment of the capacity building programmes on mill and factory level should contribute to reaching that goal.

The structure of the report is consistent with a clear link between policy, targets, implementation and achievements. The overview of impact and challenges along the value chain (page 7-8) is very strong and a powerful tool for strategy and communication. In this tool however, we think the social impact should be added too (next to water and climate).

The analyses are thorough, providing good insight in the performance. We think the achievements on some indicators (for example on water savings and waste garments) could be made more meaningful if relative numbers were also provided. In future

editions we would like to learn more about the challenges also, for instance in Bangladesh and Cambodia which obviously are there. This may help to understand the complicated issues better and contribute to a dialogue on solutions with stakeholders.

Lastly, H&M took a brave step last year to provide transparency on its supplier base. Many brands and retailers are still not ready for this. H&M however has announced to increase the transparency level from 95% to 100% this year. We would encourage H&M to share its experiences with peers as again it would serve as an inspiration to others!

DANIEL ROBERTSSON and LENA THAM, *Corporate Relations & Market Transformation, WWF*

WWF welcomes the opportunity to comment on H&M's sustainability report. We will focus on issues within our field of expertise but this should not be interpreted that we think social issues are less important, it is rather our firm belief that social and environmental issues are intrinsically interlinked with equal importance for

sustainable development. CEO Karl-Johan Persson's statement on the necessity of considering H&M's ecological footprint and the imperative to stay within the boundaries of one planet is an important message. Sustainability is increasingly a pre-competitive issue and will require innovations, not only in materials and production but equally important in the customer offer. New platforms but also enhanced collaboration within existing networks is crucial and part of what is called for to be an industry leader. WWF and H&M are jointly implementing H&M's Water Stewardship Strategy, which contains concrete objectives. Progress in delivering on this ambitious strategy is good. It inspires other fashion brands to take action and to join collective actions in the textile production regions. The reporting on water issues is relevant, transparent and summarises activities well. H&M's statement that progress on more sustainable cotton is on track is reassuring as ambitions and efforts are commendable. New pilots and initiatives such as "closed loop products" and "garment collection systems" are inspiring and promising. As a next step we suggest H&M to consider developing and communicating targets and time-bound plans for other important materials including indirect materials e.g. packaging and in-store. H&M has a comprehensive model for working with the supply chain and rewarding good sustainable business performance. Updating the method of assessing suppliers' sustainability performance to an even more extensive version is commendable. We

encourage H&M to work together with other brands to increase scale and to assure that shared suppliers face coherent sets of requirements. H&M has taken a big and important step in the new absolute reduction approach on CO₂ instead of setting intensity targets. As a next step we recommend H&M to set quantified and absolute reduction target for post 2015. H&M should also more thoroughly describe all scope 3 emissions in their value chain, with measured data as far as possible, and emission reduction activities. Targets and actions along with the ultimate goal of 100% renewable energy should be concretised in a time-bound plan including baseline data. From an environmental perspective H&M has in many areas made considerable efforts and progress including both internal actions as well as beyond factory lines. To be able to give more justice to H&M's progress we would in future reports welcome a more comprehensive summary based on clear targets, year-to-year progress and industry comparability. WWF looks forward to following H&M's future endeavours at the forefront of sustainable development in their sector.

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 the time
to learn about
H&M CONSCIOUS