



H&M

**CONSCIOUS
ACTIONS**

SUSTAINABILITY REPORT 2015

Conscious Actions Sustainability Report 2015

INTRODUCTION

Interview with our CEO.....	3
About H&M Conscious.....	6
Key performance.....	7
Top news.....	8
The impacts along our value chain.....	9
How we work with sustainability.....	11
Joint forces for solutions.....	12

OUR COMMITMENTS

Provide fashion for conscious customers.....	13
Choose and reward responsible partners.....	27
Be ethical.....	57
Be climate smart.....	75
Reduce, reuse, recycle.....	86
Use natural resources responsibly.....	96
Strengthen communities.....	111

INFORMATION

Auditor review statement.....	123
How we report.....	125
Get in touch.....	130



Interview with our CEO

How sustainable is H&M?

I am really proud of what H&M has achieved and the positive impact we are making. We are leading the way today within several sustainability areas and I want us to continue to raise the bar. This is why I am so happy to see that sustainability is on the minds of so many people at H&M – every day and in all departments. When I hear colleagues discussing sustainability over coffee, I honestly feel we have come a long way. But it is a very complex issue and we are certainly not at the end yet – there is more to do, for us and the entire industry.

What does sustainability mean to you?

Just as when my grandfather founded H&M in 1947, we are a company with a long-term view and strong values. Our sustainability commitment is deeply rooted in our culture. We are well aware of what a gift it is to grow up and live in a democratic state that respects the environment and human rights, and it is in this spirit that we also want to operate globally – today and tomorrow. I believe that the future success of any company, including H&M, depends, amongst other things,



on efficient and long-term sustainability work. We are genuinely interested in how healthy H&M will be for future generations.

What do you think about buying clothes from countries such as Bangladesh and Cambodia?

Buying products made in developing countries is the most effective way to

lift people out of poverty and give them opportunities for a decent life. I would say it is extremely important that developing countries have access to international markets – how else can they make progress? For many countries, the textile industry is the first step on this path. H&M indirectly creates employment for over a million people, not least women, in the countries that manufacture our products. According to the World Bank, the textile industry is an important contributor to poverty reduction. But obviously, we cannot just lean back and be content with the fact that many jobs are being created. With our size and global presence, we are working to ensure that these jobs are good jobs and that the way we do business makes places better. So the question for us is not *whether* we should be present in developing countries, but *how* we do it. With that said, I want customers to feel proud of wearing clothes made in countries such as Bangladesh and Cambodia, but also to make sustainability demands on the companies they shop from.

What kind of results have you achieved within your Fair Living Wage strategy?

Wages are a very complex issue. This is why we seek guidance from wage experts such as global trade unions, the ILO and the Fair Wage Network. They believe our role as a brand and buyer is not to set the level of wages. Rather, wages should be negotiated between the parties on the labour market. We share this view. It would be devastating if foreign companies such as H&M determined wage levels in any countries.

In addition, the fact that we share suppliers with many other companies – both high-end and high street brands – makes collaboration even more important to be able to deal with this challenge. It is a shared responsibility.

We believe that everyone working in the textile industry, no matter what brand they are producing for, should earn a fair living wage. For H&M, this is indisputable and the reason why we have developed a global fair living wage strategy that I am really proud of.

As collaboration is crucial, our strategy involves not only buyers such as H&M, but also suppliers, textile workers and national governments. We also collaborate with trade unions and NGOs, making it possible to contribute to change throughout the industry. And I am happy to say that our work within wages is showing progress. For example, we signed a global framework agreement with the global trade union IndustriALL and the Swedish trade union IF Metall to further push development forward. We share the belief that a well-functioning dialogue between the parties on the labour

Interview with our CEO

market and the strengthening of workers' rights to collective bargaining are necessary for lasting improvements for workers in the textile industry.

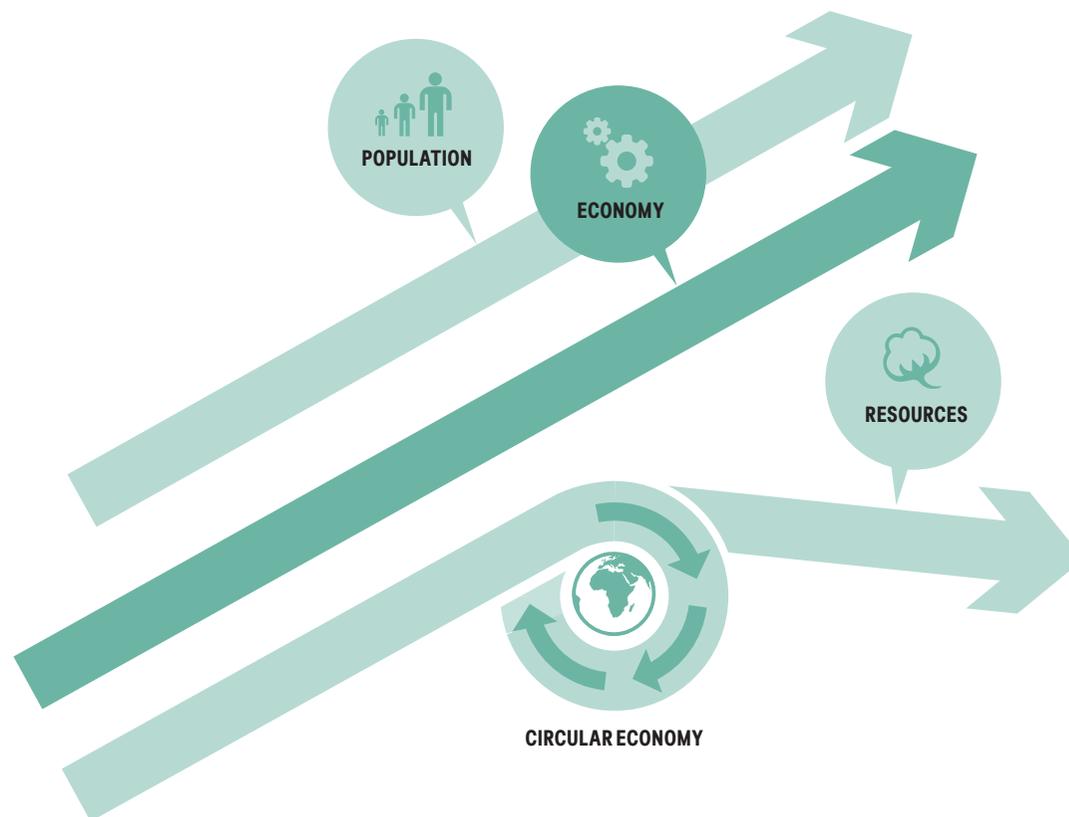
All in all, we want to contribute to a well-functioning process that enables a fair living wage in every way we can. An important part of our fair living wage strategy is the Fair Wage Method, which has been developed by the independent Fair Wage Network. It focuses on establishing good pay structures as well as strengthening the ability for workers to regularly negotiate wages fairly.

What is your view on consumption?

Consumption is necessary for jobs generating taxes that pay for schools, hospitals and infrastructure, but also for developing countries to become part of international trade and thereby lift themselves out of poverty. If people stopped consuming, society would be affected negatively. H&M wants to continue growing, but we are committed to growing responsibly. Our growth must always be balanced by sustainable practices.

Like other industries today, the fashion industry, however, is too dependent on natural resources and we need to change the way fashion is made. This is why we are so committed to our mission to reuse garments and close the loop on textiles. By collecting old clothes and turning them into new updated styles instead of letting them go to waste and by investing in new innovation and technology, we are taking important steps towards a circular economy. To further speed up this development, the H&M Foundation has initiated the Global Change Award, an innovation challenge to find great new ideas that help close the loop on textiles.

We are currently in the process of setting new goals that will take our sustainability work to the next level, across various key sustainability topics: circularity, climate, transparency, equality and fair jobs, for example. We do this in dialogue with our stakeholders, experts, scientists and many others. We follow a science-based approach aimed at setting new standards for the fashion industry.



Interview with our CEO

What are the main sustainability challenges for H&M and the fashion industry as a whole?

It is all about closing the loop by reusing textile fibres, suppliers paying their employees a fair living wage and the ambition to increase transparency so customers can make informed choices. We have taken several important steps towards a more transparent fashion industry. First, we have invested significant resources in developing our suppliers and building strong long-term relationships based on mutual trust and transparency. Second, we were amongst the first fashion companies to publish our supplier list to which, as the first fashion company, we have now added the second-tier suppliers. Third, this year's reporting on our work related to human rights has been carried out in accordance with the UN Guiding Principles Reporting Framework. We are also committed to transparent reporting on our sustainability performance. One goal is to develop a consumer labelling system that allows customers to compare products' sustainability performance, including between different brands.



This work is done in collaboration within the Sustainable Apparel Coalition, SAC. This will make it possible for customers to influence companies to a much greater extent than today. The more informed customers become, the more pressure they will put on companies to act sustainably. I have high hopes for this collaboration.

You can only drive real change if you have a collaborative mindset, no matter if it is collaboration about consumer labelling or something else. You cannot do it on your own; it is as simple as that. This is why we want to cooperate within the industry as well as across industry borders. This is why we treasure our dialogue with innovators and experts that help us develop new ideas. This is why we are so proud of our ongoing cooperation with stakeholders such as the ILO, local and global trade unions, the UN Global Compact, NGOs, the WWF and Solidaridad. All of this makes it possible for us to set new even more ambitious sustainability goals that will be released in 2016 and that we hope will lead the way to a sustainable fashion future.

Karl-Johan Persson, CEO,
H & M Hennes & Mauritz AB,
Stockholm, April 2016

About H&M Conscious

At H&M, we love to bring fashion to the world in an exciting and conscious way. With all of our brands, we offer fashion at outstanding value – but not at any price. We are a value-driven and customer focused company and we want to help our customers explore their personal style. We celebrate differences and diversity, both outside and within of our own walls.

We care for others and how we affect the world around us. To make people wear our products with pride we have to be conscious in all of our actions.

These are the origins of H&M Conscious. With seven commitments at heart, H&M Conscious is the name for everything we do for a sustainable fashion future. It's a mission built on passion, long-term thinking and teamwork. Everything we do needs to be economically, socially and environmentally sustainable. All highly interconnected. All important for our future growth.

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

Sustainable fashion choices should be available, attractive and affordable – which is our starting point with H&M Conscious. We want to use our scale to bring about systemic change to the industry and across the lifecycle of our products. Together with our colleagues, customers, stakeholders, business partners and peers, we have the opportunity to bring about serious change – all the way from improving the livelihood of a cotton farmer to lowering the impacts from washing and drying our clothes. Ultimately, we want to make fashion sustainable and sustainability fashionable.

Every year, hundreds of Conscious Actions – big and small, short- and long-term – are carried out to put our commitments into practice. We are excited and proud of the Conscious Actions we have taken and what we have achieved in this mission so far. However, we do know that there is still a long way to go, not only for us, but for the entire fashion industry.

This is our 14th sustainability report and it outlines the progress of some of our most important Conscious Actions.

It has been prepared in accordance with the GRI G4 guidelines (core) as well as the UN Guiding Principles Reporting Framework. Please see page 126 for further details on how we report. We hope that you will find the reading interesting.

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

“We want to use our size and scale to lead the change towards fully circular and truly sustainable fashion.”

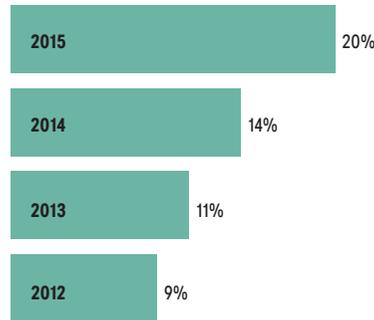
Anna Gedda, Head of Sustainability

Key performance 2015



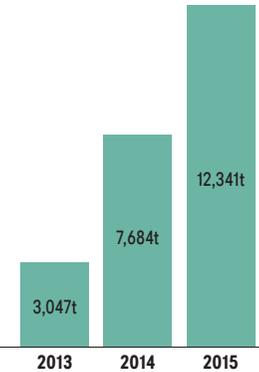
Some **1.3** million pieces were made with closed loop material. That's over 300% more compared with 2014.

SHARE OF SUSTAINABLY SOURCED MATERIALS



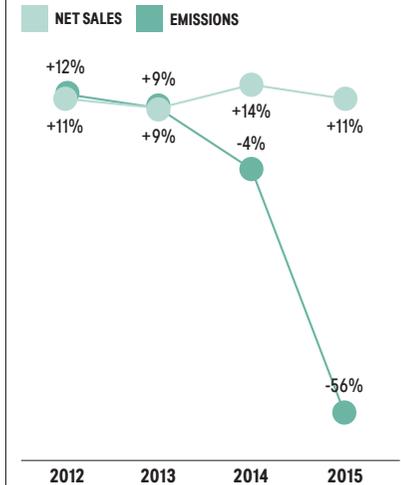
Included are all materials classified as conscious materials, such as certified organic or recycled fabrics, as well as Better Cotton.

TONNES OF GARMENTS COLLECTED IN H&M STORES

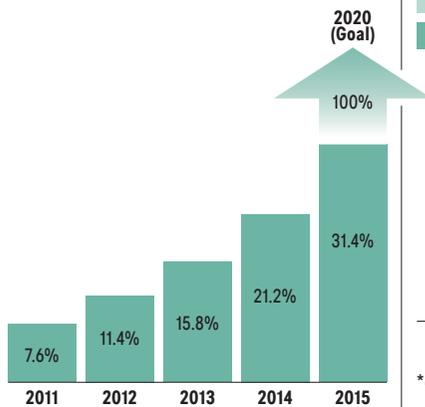


Since 2013, more than **22,000** tonnes of garments have been collected in our stores. That's as much fabric as in about **100 million** t-shirts.

CHANGE IN TOTAL CO₂e EMISSIONS TO PREVIOUS YEAR IN % (SCOPE 1+2) VS. GROWTH IN SALES (IN LOCAL CURRENCIES)

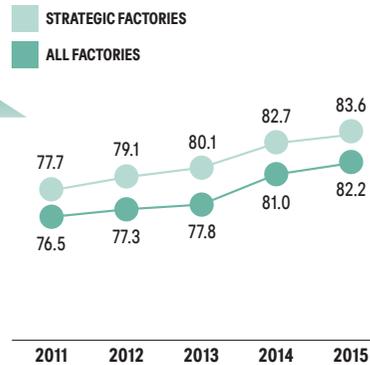


SUSTAINABLE COTTON* IN % OF TOTAL COTTON USE



*Certified organic cotton, Better Cotton (BCI) or recycled cotton.

PROGRESS IN FACTORY SUSTAINABILITY PERFORMANCE (IN ICOC* SCORES)



*Code of Conduct Index.

Data collected during the period 1 Dec 2014 to 31 May 2015 according to our previous Full Audit Programme (FAP).

We significantly increased our use of renewable electricity in our own operations to now represent **78%** (2014: 27%) of our total electricity use globally.



Top news 2015

All of our orders placed for products made with **down** are now from **certified** sources and will hit stores in autumn/winter 2016.



We implemented a new stronger partnership approach, **SIPP**, to **assess the sustainability performance** of our suppliers and **support** them even better.

We entered into a **partnership** with **Ellen MacArthur Foundation** to further develop towards a circular business model.

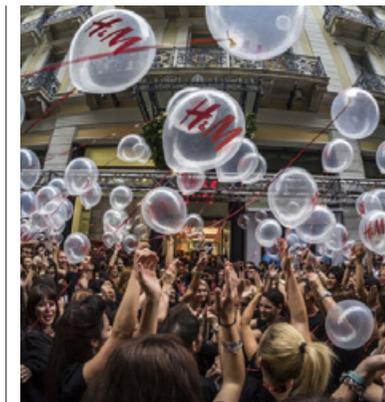
We donated nearly **5 million** garments to charitable causes.

We signed a **global framework agreement** with **IndustriALL** and the Swedish union **IF Metall** to promote **sustainable industrial relations and collective bargaining** in our supplier chain globally.

All of our **denim products** are now scored by Jeanologia's **Environmental Impact Measurement tool**.



Some **76%** of our colleagues are **women**. And so are **72%** of our **managers**.



More than **16,000 new jobs** were created in our group in **2015**.

We are **one of the biggest users** of **recycled polyester** in the world.

The impacts along our value chain

Check out where in the world the different stages of our value chain take place on an interactive world map [here](#).

We have stores and suppliers all around the world. Undoubtedly, we have an impact on the communities and the environment around us. Embracing positive impacts along our value chain, and working hard to reduce negative ones, is the core of H&M Conscious.

It is usually easier to control what happens in our own operations, but often this is not where the most critical impacts take place. Teaming up with others is therefore key to make the difference that matters the most.

**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 the Lifecycle Assessment methodology have been applied. The remaining 5% climate impacts result from packaging. The water footprint is based on the Water Footprint Network's methodology and includes green, blue and grey water footprint. Deviation from 100% due to rounding effects.
**For more information about our social impact, see p. 128 and the description of our salient human rights issues.*



DESIGN			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
High	0%	0%	Low

Our challenge: Sustainability starts at the drawing board. We need to create sustainable fashion without compromising on style, design, quality or price. Not only minimising what ends up on the cutting floor, but also knowing how our choice of materials and looks impact the environment and the people around us.



RAW MATERIALS			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
Medium	12%	87%	High

Our challenge: Processing raw materials such as cotton is a part of the value chain that is often associated with concerns for working conditions and intense water and chemical use. By making the right choices at this stage, we can reduce such impacts significantly. Ultimately, we achieve a closed loop in which old garments can be recycled into new ones.



FABRIC AND YARN PRODUCTION			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
Medium	36%	6%	High

Our challenge: 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 the Natural Resources Defense Council (NRDC) to help mills improve their performance. We have started to integrate the fabric and yarn mills that are involved in making about 50% of our products into our supplier audit system, aiming for 60% by 2016.

The impacts along our value chain



GARMENT PRODUCTION			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
Medium	6%	1%	High

Our challenge: Together with our suppliers we have made great improvements in developing high social and environmental standards. Achieving fair living wages, reducing overtime and ensuring workplace safety are key focus areas for the industry. To address these issues, we use our influence on our business partners to promote human rights. We don't only monitor factory compliance but also train our suppliers and their workers. We want to encourage industrial relations and social dialogue and consequently collaborate with organisations such as the International Labour Organisation (ILO), the Fair Wage Network and the Ethical Trading Initiative (ETI).



TRANSPORT			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
Medium	6%	0%	Low

Our challenge: 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 even further. And as an important customer to the transport companies we work with, we can set standards to influence their environmental consciousness.



SALES			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
High	10%	0%	High

Our challenge: We have over 3,900 stores across 61 markets. As we grow, enter new markets and employ new people, we need to make sure that we live up to our values across the organisation and ensure an inspiring and healthy working environment for our colleagues. Our customers rightfully expect high quality products and shopping experiences. As part of that, we ensure the data privacy of our customers and our colleagues, and advertise in a responsible way.



USE			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT**
Low	26%	8%	Medium

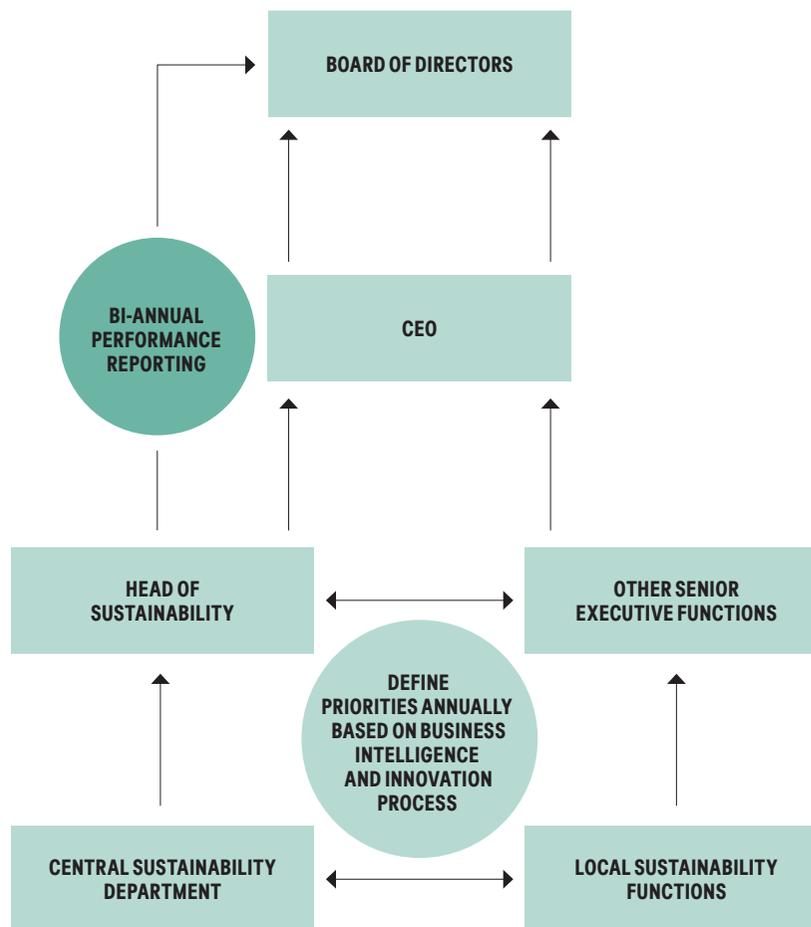
Our challenge: Caring for our clothes at home represents about 26% of all of the greenhouse gas emissions in a garment's life. Our challenge is to create affordable fashion that our customers will love from season to season and that is easy to care for with the lowest possible impact. We need to inspire our customers to be more conscious in the way they care for their clothes, for example as regards washing and drying, and make it easy and effortless to recycle any garment that might no longer be wanted.

How we work with sustainability

Our Head of Sustainability, Anna Gedda, reports directly to our CEO and holds the responsibility for the implementation of our sustainability strategy together with the executive management team. We have a total of around 200 colleagues who work with sustainability as their core task.

At our head office, our sustainability department consists of more than 20 people responsible for developing strategic directives, reviewing progress, and supporting and advising all relevant departments on the development and implementation of prioritised Conscious Actions based on continued stakeholder engagement, business intelligence and innovation research. We do this in an annual process in which our sustainability department presents priorities, new trends and recommended goals and actions to each department that has a critical impact on the matter. With this support,

We have around 200 colleagues who work with sustainability as their core task.



each department is in turn responsible for developing and carrying out their Conscious Actions to fulfil our seven commitments. Besides these department specific goals, country managers are measured against our 4C scorecard (Cash, Customers, Colleagues, Conscious), which gives all four areas equal importance.

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.

About 130 people from our sustainability teams operate from 21 locally-based production offices around the world. They work directly with our suppliers to support them in complying with our Sustainability Commitment (previously our Code of Conduct) and help to make our supply chain more sustainable. About 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

We believe that the way to innovation goes through diversity and a multitude of voices. Stakeholder insights help us prioritise the Conscious Actions we take and invest our resources in the best possible way. Throughout the year, we hold regular open dialogues with our different stakeholders,* which are essential to us in our sustainability work.

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.

Tackling the major challenges in the textile industry – that affect everyone along our value chain – is not something we can do on our own. We therefore seek to join forces with our stakeholders such as our peers, suppliers, NGOs and others to strive together for a more sustainable fashion industry. Such collaborations can also help increase the level of influence we have and promote systemic change. At present, 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), the Fair

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



Wage Network (FWN), Better Work and the Roadmap to Zero Discharge of Hazardous Chemicals.

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

AWARDS AND RECOGNITIONS

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

2015 and 2016 World's Most Ethical Companies

Dow Jones Sustainability Europe Index

Dow Jones Sustainability World Index

FTSE4Good

Global 100 Most Sustainable Corporations 2015

Green Power Leadership Awards

Green Ranking Global Top 100

PETA's Libby Award as Most Animal-Friendly Clothing Company

RobecoSAM's sustainability award for Industry Mover in the retailing industry

Sustainable Brand Index 2015

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

— COMMITMENT ONE —

Provide fashion for conscious customers



Fashion is a great way to express your personality and it is a source of fun and inspiration. We always offer a wide and varied range of inspiring collections, from the latest trends to sustainable classics that can be worn season after season. We believe in a better fashion future – one where fashion both looks good and does good.

By making conscious choices all the way from the cotton field to the point when you may no longer want a beloved piece, we can make a big difference to our planet. It starts with the design and the importance of creating products in innovative and more sustainable ways without compromising on looks, quality or comfort. But we don't want to stop there. We want to inspire our customers to wash at lower temperatures and make it as easy as possible to recycle the clothes that are no longer wanted or needed.

Performance overview

This dress is sold in 165 H&M stores as well as online for **EUR 149/GBP 119.99**.

It is part of our **Conscious Exclusive Collection**, a modern and fashionable collection made from sustainably sourced materials to be worn for **special events** and occasions as well as for **everyday dressing up**.



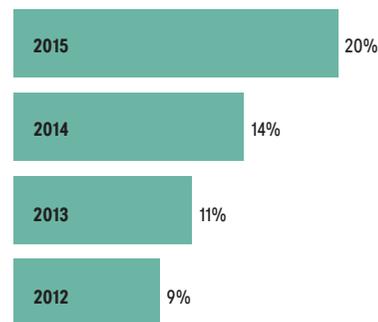
It is made from **72% Tencel®**, an **innovative fabric** made from sustainably-grown wood fibre.

The dress is **embellished** with glass beads made of **50% recycled glass**.

At clevercare.info you can **find inspiration** on how to care for it with **less environmental impact** so you can wear it and love it year after year.

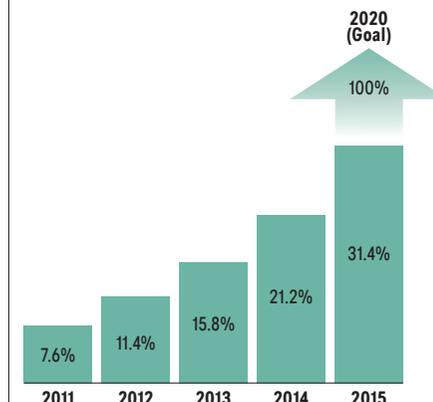
Key performance 2015

SHARE OF SUSTAINABLY SOURCED MATERIALS



Included are all materials classified as sustainably sourced materials, such as certified organic or recycled fabrics, as well as Better Cotton (BCI).

SUSTAINABLE COTTON* IN % OF TOTAL COTTON USE



**Certified organic cotton, Better Cotton (BCI) or recycled cotton.*

Organic, recycled and Better Cotton now represent **31%** of our total cotton use. Our goal is **100% by 2020**.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - CONSCIOUS PRODUCTS AND MATERIALS					
1.1	INCREASE OUR USE OF SUSTAINABLY SOURCED MATERIALS	YEAR-TO-YEAR			
1.2	ONLY USE COTTON FROM SUSTAINABLE SOURCES	2020			
1.3	REPLACE SOLVENT-BASED GLUES IN PRODUCTION OF FOOTWEAR AND OTHER ACCESSORIES	2020			
1.4	NEW - PLACE FIRST VOLUME ORDERS FOR SHOES MADE WITH VEGAN, WATER-BASED PU	2016			
1.5	NEW - ONLY USE MAN-MADE CELLULOSIC FIBRES THAT DO NOT CONTRIBUTE TO DEFORESTATION OF ANCIENT OR ENDANGERED FORESTS	2017			
FOCUS - ANIMAL WELFARE					
1.6	ONLY USE WOOL FROM CERTIFIED SOURCES	2018			
1.7	ONLY USE DOWN FROM CERTIFIED SOURCES	2016			
FOCUS - INSPIRE OUR CUSTOMERS AND COLLEAGUES					
1.8	ENSURE THAT ALL OF OUR OWN H&M STORES PROVIDE GARMENT COLLECTING SERVICES*	YEAR-TO-YEAR			
1.9	HELP SET INDUSTRY STANDARD FOR MEASURING PRODUCT SUSTAINABILITY	2020			
1.10	ROLL OUT SUSTAINABILITY TRAINING PROGRAMME FOR ALL OF OUR COLLEAGUES	2015			
1.11	INVOLVE OUR CUSTOMERS AND COLLEAGUES IN OUR SUSTAINABILITY WORK	YEAR-TO-YEAR			

*For franchise markets at least one store per market. For new non-franchise stores, garment collecting systems must be implemented max. six months after opening.

Focus: Conscious products and materials

Looking good
should do good too.

Our mission

We want to help our customers express their personal style. We know that our customers increasingly care for the story around a garment and what matters is no longer only looking great. We want to make conscious choices easy and desirable – throughout the entire life of a garment.

Little by little, these choices will help reduce the impacts that fashion has on the planet. By lifting innovation to scale, we work to turn those impacts from negative to positive ones. Together with our customers and partners we want to contribute to a fashion world where personal style and sustainability are no longer contradictory, but rather go hand in hand.



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 labelled with our Conscious hang tag. These are made of at least 50% independently certified materials such as organic or recycled fabrics* or other innovative more sustainable fabrics such as Tencel®.**

Since 2014, we have expanded the scope of the Conscious hang tag to also include products that are made using the most innovative technology to reduce environmental impact in the continued production. For example, since 2015, all of our denim production is covered by a tool developed by the sustainable denim experts at Jeanologia. This helps us measure, set targets and reduce energy and water use for our wash processes. A benchmark for our denim washes is planned to be in place in 2016.

With our annual Conscious Exclusive collection, we want to show that sustainable fashion is ready for the red carpet. With our permanent range

of Conscious products, these innovations become part of the standard offer across the board, all year long.

>jeanologia.com

**Except recycled cotton fabric that comes from used clothes. To ensure high quality, currently only about 20% of recycled input material can be blended into the material composition of a garment, a challenge that we are working on as part of our goal to close the textile loop (p. 89).*

***At H&M, we have labelled two types of lyocell as more sustainable; Tencel® made from FSC™-certified eucalyptus and Monocel® made from FSC™-certified bamboo.*

Focus: Conscious products and materials

We are one of the world's biggest users of organic cotton.

Our Conscious Actions

1.1 Increase our use of sustainably sourced materials

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

We use a wide range of organic and recycled fabrics as well as other innovative and sustainably sourced materials like Tencel® and recycled polyester. These are in our [conscious materials list](#). This list is based on third-party sources such as the environmental benchmark for fibres created by the organisation MADE-BY, and we are always on the lookout for new materials.

A product consisting of at least 50% of the materials from our conscious materials list (20% for recycled cotton) is labelled with our Conscious hang tag.* Together with Better Cotton, these materials now represent 20% (2014: 14%, 2013: 11%) of the material

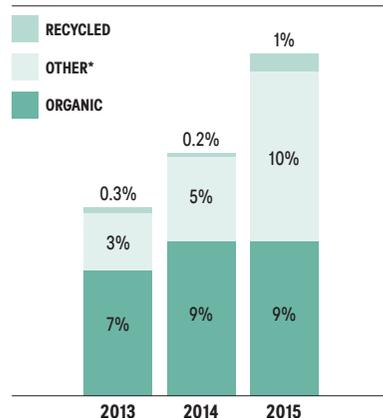
**Products made with Better Cotton are not labelled with our Conscious hang tag as Better Cotton is currently not intended to be a product-labelling scheme.*

****"Others" include mainly so-called Better Cotton grown under the system of the Better Cotton Initiative (BCI).*

use in our products (9% organic materials, 1% recycled materials and 10% others**). Our goal is to increase this ratio each year. In doing so, we make more environmentally friendly choices available to a larger group of people, help lift these materials to scale and create demand for further innovation.

>bettercotton.org
>made-by.org

SHARE OF SUSTAINABLY SOURCED MATERIALS



*Including Better Cotton (BCI).



Focus: Conscious products and materials

Cotton is the raw material we use the most. Our aim is for all cotton in our range to come from sustainable sources by 2020.

Our Conscious Actions

1.2 Only use cotton from sustainable sources

TIMELINE	STATUS
2020	ON TRACK

Cotton is the material we use the most and we are one of the biggest users in the world of certified organic cotton according to the Textile Exchange's latest Organic Cotton Market Report. Cotton is a natural, renewable fibre that offers many advantages, but also comes with a number of concerns. For example, the amount of conventional cotton needed for an average t-shirt requires about 11 bathtubs of water to grow. Also, about 16% of all insecticides and pesticides in the world are used in cotton production.* This not only impacts people and the environment, it also results in higher costs.

Organic cotton, Better Cotton and recycled cotton reduce these impacts significantly. Organic cotton is grown without chemical pesticides and fertilizers, and contains no genetically modified organisms (GMOs).

*Source: Pesticide Action Network.

Also Better Cotton is grown with less water and chemicals, within the Better Cotton Initiative (BCI). Recycled cotton comes from old garments and textile leftovers, which are grinded into fibre, spun into new yarns and weaved into new fabrics. Additionally, organic and Better Cotton help millions of farmers and their communities to improve their standard of living. The Better Cotton Initiative trains farmers to use less input of costly fertilisers or insecticides and pesticides resulting in both improved profitability and reduced environmental impact.

During 2015, we further increased our use of recycled and Better Cotton and together with organic cotton, these three sources now represent 31% of our total cotton use (2014: 21%, 2013: 16%). By 2020 our goal is to solely use these kinds of sustainable cotton. All organic cotton used in our production is certified by independent certification bodies such as the Control Union or IMO. We are continuing to invest in organic cotton and, as a founding member of the Organic Cotton Accelerator (OCA), are actively involved in further strengthening the

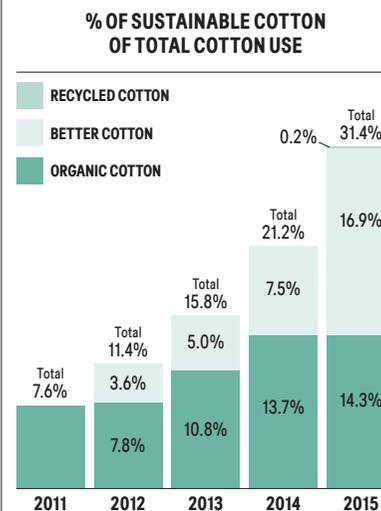
supply, demand, and the integration of organic cotton.

However, organic cotton currently still represents less than 1% of global production and it is not a viable option for all farmers. In addition to this, the Better Cotton Initiative provides a complementary solution that can more easily be adopted by more cotton farmers and that is a key cornerstone in achieving our goal to use cotton only from sustainable sources by 2020, and to transform the cotton industry. We expect recycled cotton to also play an increasingly important role in the years to come, while further technical innovation will be needed to increase recycling possibilities and improve the recycled fibre quality.

Moving towards our goal also means moving towards full traceability of cotton by 2020. Today we have banned cotton from Uzbekistan, a country that repeatedly has been connected to forced labour and child labour in its cotton industry. Since 2016, we have expanded this ban to cover Turkmenistan as well for similar

reasons, as well as to cotton from Syria because of ongoing conflict in the country. Full traceability of cotton will help us in further ensuring the adherence to this ban in our value chain.

- >textileexchange.org
- >organiccottonaccelerator.org
- >controlunion.org
- >imo.ch
- >bettercotton.org



Please find an independent assurance statement related to GRI G4-EN1 here (p. 123).



Focus: Conscious products and materials

Our Conscious Actions



1.3 Replace solvent-based glues in production of footwear and other accessories

TIMELINE	STATUS
2020	MORE TO DO

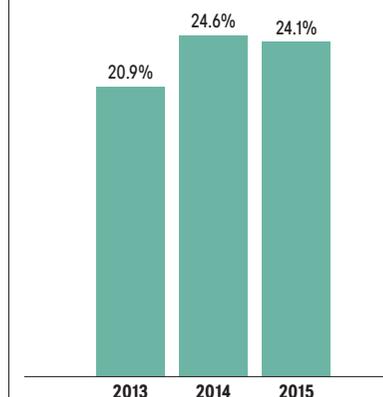
Solvent-based glues are often used in footwear and accessory production and the VOCs (volatile organic compounds) that they contain can be harmful to factory workers if not handled with sufficient protection. Water-based glues can provide a better alternative. That's why our goal used to be producing all of our shoes, the biggest product group concerned, with these alternatives. However, we learned that even factories using water-based glues for most parts of a shoe may still use solvents for other parts to ensure quality. In addition, water-based glue may still contain solvents, even though these amounts are much lower than for purely solvent-based glues. Consequently, we changed our goal from using water-based glues only to what actually makes a difference for the workers: replacing solvents with better alternatives throughout the entire process.

All in all, we want to contribute to a lower level of VOCs in our supplier factories. We are continuing our work to make as many of our products as possible with better alternatives. The share of our shoes mainly made with water-based glues during 2015 was 24.1% and we are working with our suppliers to ensure that when using water-based glues they choose the best available options to ensure the lowest possible levels of VOCs.

We are also looking for, and testing, other VOCs reducing options such as thermo glues. In 2015, we successfully conducted a trial to replace solvent-based and water-based glue in shoes with thermo glue. The result was promising and as the next step we will carry out a further detailed study to understand the limitations before starting the actual replacement with thermo glue in our supply chain.

Shoes made with water-based glues require fewer safety precautions for workers.

SHARE OF SHOES MADE WITH MAINLY WATER-BASED GLUES*



Water-based glue > 50% of total glue.

Focus: Conscious products and materials

In 2016, we plan to make the first volume orders for shoes made with water-based “vegan leather.”

Our Conscious Actions

NEW 1.4 Place first volume orders for shoes made with vegan, water-based PU

TIMELINE	STATUS
2016	ON TRACK

Polyurethane (PU) is a material often referred to as “vegan leather” as it contains no animal products. Its downside is that it usually contains solvents requiring workers to wear protective gear and raises environmental concerns. Water-based alternatives would allow fewer precautions. However, in the past, these alternatives have not provided sufficient quality or durability. This is why we have been working for the past few years with several partners to find the required innovation. During 2015 we continued our work and placed two test orders for various kinds of products.

Our goal is to scale up the use of water-based PU materials during 2016 and place the first volume orders. This will guide us in setting future goals and milestones towards a full phase-out of solvent-based PU.

NEW 1.5 Only use man-made cellulosic fibres that do not contribute to deforestation of ancient or endangered forests

TIMELINE	STATUS
2017	ON TRACK

Producing man-made cellulosic fibres such as viscose requires pulp, which usually comes from trees. Annually, an estimated 120 million trees* are cut down for fabric production, with the growth of viscose production projected to double by 2025. In the worst cases, these trees come from ancient or endangered forests, and from the habitat of endangered species. We do not want any endangered or ancient forests cut down to make any of the fabrics that we use. That’s why we teamed up with the NGO Canopy and a number of other leading brands to ensure that the man-made cellulosic fibres we use for making our products do not contribute to such deforestation.

To achieve this, we introduced a policy in 2014 to avoid sourcing fabrics from

*Source: Canopy.

ancient and endangered forests. As well as to promote the use of fabrics that come from Forest Stewardship Council (FSC) certified plantations, or FSC certified forestry found outside all ancient and endangered forests that don’t come from illegal logging or endangered species habitat. We will require full traceability on our man-made cellulosic fabrics by 2017, and we will also encourage the development of alternate fibre sources for man-made cellulosic fabrics such as recycled textile fibres. We are also requiring our man-made cellulosic fibre suppliers to undertake a third party verification process that verifies that they are not sourcing from ancient and endangered forests.

During 2015, in order to reach our goal by 2017, we have together with other brands and Canopy engaged our suppliers to set their own policies to avoid sourcing fabrics from ancient and endangered forests.

>H&M’s material ethics policy
>ic.fsc.org
>canopyplanet.org



We aim for full traceability of our man-made cellulosic fabrics by 2017.

Focus: Animal welfare

Our mission

Animal welfare is important to us and we are committed to making positive contributions throughout our value chain. Animals must be treated with respect at all times. For many years, we have banned the use of real fur, exotic skins as well as any materials deriving from endangered species and since 2013, this also includes the use of angora wool. We do not perform animal tests on our beauty products and we have strict requirements in place for any other materials of animal origin such as wool, leather or down. Our aim is to not only set high standards for ourselves, but for the entire industry. This is why we have joined forces with organisations such as the Humane Society International (HSI) and the Textile Exchange. Together, we are working to make the treatment of animals a priority in the fashion industry – across farms that supply animal origin fabrics and not the least to achieve a global ban on animal testing for beauty products.

>hsi.org
>textileexchange.org



Our strategy

During 2015, we manifested these beliefs in a new collaboration with HSI, one of the world's largest nonprofit organisations for animal welfare. Together, we are working to further improve animal welfare standards not only in H&M's value chain, but in the entire fashion industry. This comes in addition to our existing [Animal Welfare policy](#) that sets out strict requirements for all material with animal origin such as fur, wool and leather. To go further from here, we have to overcome new challenges. Such as the fact that material that are derived from animals are often delivered by small farms that are often located several tiers upstream in our value chain. This limits transparency and makes it harder for us to monitor and influence conditions.

Therefore, we have set the ambitious goal for all animal materials to be fully traceable all the way down

to farms that are certified for good animal husbandry. We started with down in 2015 and from the 2016 autumn/winter season we expect all down in our stores to come from certified sources. We are aiming for the same target for wool by 2018 at the latest. In parallel, we are working with partners such as the Textile Exchange to develop certification standards to ensure good animal husbandry on the ground and to help lift this kind of requirement beyond our value chain into the entire fashion industry.

>hm.com/policies

“It is exciting to partner with a company that shares our passion for animal protection. Working with H&M to end animal testing for cosmetics, and improve the lives of animals on farms will set a high standard for others to follow. It will show that it not only makes good ethical sense to treat animals with kindness and compassion, but it makes good business sense too.”

Humane Society International's CEO Andrew Rowan

Focus: Animal welfare

All orders placed for products made with down now come from certified sources.

Our Conscious Actions

1.6 Only use wool from certified sources

TIMELINE	STATUS
2018	ON TRACK

Wool is an important fibre known for its high-quality attributes, and securing the highest standards of animal welfare is crucial. Many years ago, we were one of the first companies to ban the use of mulesing, a cruel practice originally introduced to protect sheep from worm infestations. At the moment, however, there is no global standard or certification for responsible wool production. To change this, in early 2014 we initiated a Responsible Wool Standard together with the NGO Textile Exchange, the certification body Control Union and a number of other brands and stakeholders. The aim is to launch a certifiable global standard during the first half of 2016. The focus is on animal welfare.

Our goal is that products ordered in 2017 and onwards will use certified wool only. This means that our first products of this kind are expected

to hit stores during 2018. With this, we also aim to achieve full traceability for wool and all other sorts of animal hair such as cashmere, mohair and alpaca. We also require that all farms, as a minimum, fulfil the conditions listed in our Farm Requirements for Animal Welfare document, a set of requirements based on the Five Freedom Framework.

>responsiblewool.org
>hm.com/animal

Our first products using certified wool only will hit stores in 2018.



1.7 Only use down from certified sources

TIMELINE	STATUS
2016	ON TRACK

Plucking down from living birds is unacceptable. That is why we want to make sure that none of the down used for making our products comes from farms that perform any such practices. We set the goal for 2016 onwards to use only down from farms that are certified according to the Textile Exchange's Responsible Down Standard. Already by the end of 2015 all orders that we placed for products made with down met this requirement. These products will hit our stores during autumn/winter season 2016.

Through this initiative, we gain full traceability of the origin of down and are able to ensure that these farms comply with strict animal welfare standards – all verified through third-party certification.

>responsibledown.org
>hm.com/animal

Focus: *Animal welfare*

Interview with Andrew Rowan, President and CEO, Humane Society International

What are the biggest animal welfare issues in the fashion industry?

Continually improving wool, leather and down standards while innovating non-animal alternatives is key to the fashion industry's long-term success.

How do you think these should be tackled?

Farm-level traceability would ensure enforcement of standards, while meaningful contributions to technological advancements help drive more substantive progress.

You collaborate with businesses in the fashion industry. What benefits do you see from such collaboration and where would you draw the line to not work with a certain company?

Collaboration identifies leaders and sets the industry's tone. Without open dialogue and a willingness to improve, companies are left behind.

How do you see H&M's performance with regards to animal welfare?

H&M is an animal welfare leader and, if it continues adapting to consumers' values, will be so for years to come.

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

We hope to continue working with H&M to show that doing good can be an important part of doing well.



Focus: Inspire our customers and colleagues

Our mission

We are constantly looking for ways to make our products more sustainable and we want to make sustainable fashion accessible and desirable. Teaming up with our customers helps us make an even bigger impact. Did you know that washing and drying represents 26% of a garment's climate impact according to our calculations? Not only do we need to inspire our customers to make conscious wardrobe choices, we also need to help them care for their clothes so they last as long as possible, have less impact on our climate and water, and are easy to recycle.

Our strategy

We started introducing the concept of sustainability in fashion to a wide range of customers already in the 90s. First out was our Nature Calling Collection with organic cotton in 1993. In 2002, we launched the Water Collection, followed by Fashion against Aids and the Conscious Exclusive Collection to mention a few.

Over the past few years we have gradually involved our customers in more and more of our Conscious Actions, such as our in-store garment collecting programme. This service collects unwanted clothes for reuse and recycling and has taken us another step further to close the loop on textile fibres. Thereto, we have made it easy for our customers to find conscious fashion in our stores – all of our Conscious garments have the green hang tag.

We are committed to transparent reporting on our sustainability performance and will continue to make informed, sustainable choices even easier and more attractive to raise awareness amongst our customers and colleagues.

ENABLE INFORMED CONSCIOUS CHOICES
We want to make conscious choices easy and fun throughout the life of a garment



Focus: Inspire our customers and colleagues

We are one of the biggest fashion companies in the world to offer garment collecting in stores globally.

Our Conscious Actions

1.8 Ensure that all of our own H&M stores provide garment collecting services

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

In 2013, we built what is probably the world's biggest garment collecting system, offering millions of customers easy solutions to not let fashion go to waste. By the end of 2015, almost all H&M stores around the globe offered this service. The only exceptions are made for new stores and franchise markets. Our rule is that garment collecting services need to be up and running six months after the opening of a new store at the latest. For franchise markets, our current rule is that at least one store per market must offer recycling options to customers.

1.9 Help set industry standard for measuring product sustainability

TIMELINE	STATUS
2020	ON TRACK

Together with several of our peers, academia, NGOs and many others in the Sustainable Apparel Coalition (SAC), we are building a common tool for measuring the sustainability performance of apparel and footwear through the Higg Index (s. 2.2). This is a major driver in improving the sustainability performance of our entire industry. Ultimately, the idea is to translate this index into a product labelling system, allowing customers to benchmark products across brands. Currently, we are working together with SAC to create a roadmap for taking the Higg Index public. Creating meaningful and widely acknowledged labelling takes some time, and we appreciate that the SAC is taking the first steps to turn this goal into a reality.

>apparelcoalition.org



Focus: Inspire our customers and colleagues

Our Conscious Actions

1.10 Roll out sustainability training programme for all of our colleagues

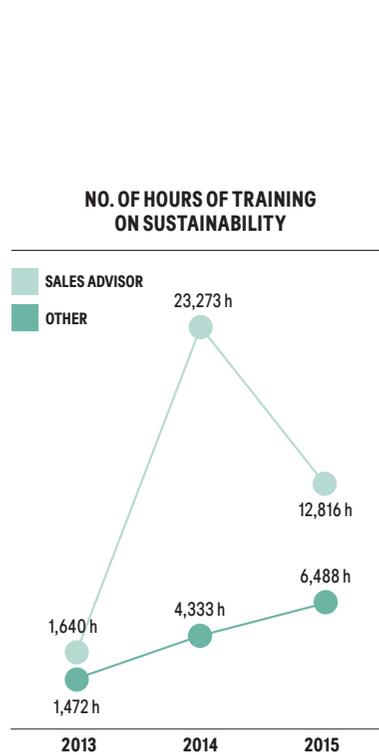
TIMELINE	STATUS
2015	MORE TO DO

We want all of our colleagues to feel proud of where they work and be able to deliver the best possible service to our customers also in terms of sustainability. In 2012, we started developing a broader sustainability training ladder including extensive training for all of our colleagues and additional role-specific courses for our buyers and designers. Areas covered in the training are for example our [Sustainability Commitment](#) and human rights, sustainably sourced materials and water. The training system has been implemented in most of our markets, excluding franchises and a roll-out in Germany that is planned for 2016.

By 2015, 35% of our colleagues around the world had undergone training. However, reaching all of our Sales Advisors poses a challenge. We have made the training a mandatory

We develop new goals and KPIs to better measure the impact of our sustainability training course.

element of our induction for new colleagues, but reaching those who are already working for us on the shop floor in different shifts and with limited access to computers in their daily work is not always easy. So, we are diverting our efforts to help all our colleagues with the necessary understanding of sustainability through additional means such as specific campaign training courses and internal communication channels. Moving forward, we will focus our work on developing new goals and KPIs that will measure the impact on our colleagues better.



1.11 Involve our customers and colleagues in our sustainability work

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

We regularly team up with our customers to support communities around the world. Through collections and campaigns and together with our partners we are raising both money and awareness for important causes. During the holiday season 2015, we engaged our customers with the H&M Foundation for the third year in a row. For every gift card sold at H&M stores around the world during this period, the H&M Foundation matched 5% of the purchased amount (approximately SEK 45 million/EUR 4.9 million) with a donation to UNICEF, the United Nations Children's Fund. This way, H&M customers will help children in Myanmar to access better education.* The program started in February 2016 and aims to benefit at least 480,000 children until it ends in December 2018.

Further, already in 2014, the H&M

Foundation launched the Dream Fund, inviting colleagues at H&M to come up with sustainability ideas that have the potential to lead to inspiration and engagement amongst colleagues and that are in line with the H&M values. The first two winning ideas were chosen in spring 2015, helping in an inspiring way to motivate colleagues to reduce paper use and raise their understanding of H&M's sustainability work.

>unicef.org

**The program includes children in formal schooling, children living in camps for internally displaced people and children who will be reached through non-formal education initiatives. UNICEF will work on multiple levels to influence changes in policy, in education management and in schools and communities. Children, parents, teachers, headmasters and policymakers will be involved in creating better schools for children.*

— COMMITMENT TWO —

Choose and reward responsible partners



For many countries, the garment production is a development escalator that shows communities the way out of poverty. It creates millions of jobs, in particular for women, who often are important income providers for their families. China, Bangladesh, India, Cambodia and Turkey are some of the world's biggest garment producers of today, and all are key sourcing markets for us. Since we don't own any factories we work with some 820 independent suppliers in close long-term partnerships. Our products are made in about 1,900 factories, which employ about 1.6 million people. Around 60% of them are women. At the same time, human rights and environmental standards can be at risk across our value chain.

We have seen great improvements over the years in many areas. Child labour, for example, is very rare today in the textile industry. However, systemic challenges such as long working hours and a lack of functioning industrial relations remain common issues in many markets. Wages and workplace safety are key concerns, particularly in Bangladesh and Cambodia.

We use our influence to promote better working conditions, ensure that human rights are respected and reduce environmental impacts throughout our value chain – from working with individual factories to pushing for systemic change in countries and in the textile industry. This includes working for fair living wages and decent working hours for all garment workers. We stand

behind the right to freedom of association and work systematically to strengthen industrial relations and collective bargaining.

Working together with several different stakeholders and partners is the key to lasting change. We choose and reward responsible partners who share our values and are willing to work transparently with us to improve their social and environmental performance. We look for long-term partnerships with our suppliers and engage in strategic partnerships with the most progressive ones. We set high standards for our suppliers and check how well they live up to them. But much more than that, we work together to go beyond minimum standards and to truly integrate sustainability into the management systems of our partners. We provide training, conduct management system analysis, help develop measurements and data systems so our suppliers can identify and tackle their impacts, and we reward good performance systematically with long-term business commitment and growth opportunities, by us defined as better business.

Performance overview

Our Conscious Actions

This is **Shakuntala**. She is 54 years old and works at the Radnik factory in India, one of the factories where our **Conscious Exclusive Collection** was made.



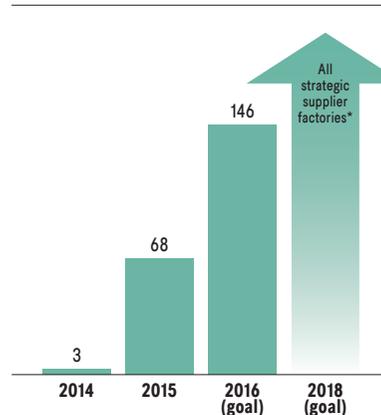
She started her profession in handwork **38** years ago. Today, she is **Quality Manager for Handwork & Worker Guidance**.

“I like the **atmosphere** at my workplace and enjoy seeing the **creativity and innovation in the clothes I make**. That’s also why I’ve been in the business for so long.”

The factories where our suppliers make our products employ about **1.6 million** people. About **60%** of them are women, often important **income providers** for their families.

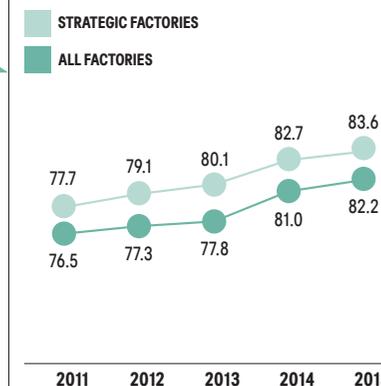
Key performance 2015

NO. OF STRATEGIC SUPPLIER FACTORIES* WITH IMPROVED PAY STRUCTURES IMPLEMENTED



*Manufacturing factories.

PROGRESS IN FACTORY SUSTAINABILITY PERFORMANCE (IN ICOC* SCORES)



*Code of Conduct Index.

Data collected during the period 1 Dec 2014 to 31 May 2015 according to our previous Full Audit Programme (FAP).

We integrated second-tier supplier factories involved in making at least 50% of our products into our sustainability assessments.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - SUPPLY CHAIN MANAGEMENT					
2.1	NEW - TRANSFORM OUR CODE OF CONDUCT INTO A SUSTAINABILITY COMMITMENT	2015			
2.2	ASSESS EACH OF OUR SUPPLIER FACTORIES ON THEIR SUSTAINABILITY PERFORMANCE	YEAR-TO-YEAR			
2.3	REWARD GOOD SUSTAINABILITY PERFORMANCE WITH BETTER BUSINESS	YEAR-TO-YEAR			
2.4	ENSURE THAT ALL NEW SUPPLIER FACTORIES ARE SCREENED AND AUDITED BEFORE FIRST ORDER PLACEMENT	YEAR-TO-YEAR			
2.5	HELP PREVENT CAUSES OF NON-COMPLIANCE THROUGH MANAGEMENT SYSTEM ANALYSIS AND CAPACITY BUILDING	YEAR-TO-YEAR			
2.6	UPDATE OUR STRATEGY FOR SUSTAINABLE PURCHASING PRACTICES TO ENSURE FAIR BUSINESS PARTNERSHIPS WITH OUR SUPPLIERS	2016			
2.7	FOLLOW UP ON INITIAL INSPECTIONS AS PER THE BANGLADESH ACCORD ON FIRE AND BUILDING SAFETY, ENSURE REMEDIATION AND ENROLL NEW FACTORIES IN THE ACCORD INSPECTION PROGRAMME	ONGOING			
2.8	IMPLEMENT TRAINING AGAINST FORCED LABOUR TOGETHER WITH ETHICAL TRADING INITIATIVE (ETI) AT INDIAN SPINNING MILLS	2017			
2.9	INTEGRATE SECOND-TIER SUPPLIER FACTORIES INVOLVED IN MAKING AT LEAST 50% OF OUR PRODUCTS INTO OUR SUSTAINABILITY ASSESSMENTS	2015			
2.10	UPDATE OUR PUBLIC SUPPLIER FACTORY LIST TO INCLUDE THE FIRST SECOND-TIER FACTORIES	YEAR-TO-YEAR			*
2.11	DEVELOP UPDATED STRATEGY TO PROMOTE HIGH ENVIRONMENTAL, SOCIAL AND ANIMAL WELFARE STANDARDS IN LEATHER PRODUCTION	2015			
2.12	FURTHER INCREASE SUSTAINABILITY PERFORMANCE AT ALL SUPPLIER FACTORIES	YEAR-TO-YEAR			
FOCUS - FAIR LIVING WAGES					
2.13	CONTINUE TO DEVELOP OUR PURCHASING PRACTICES TO FURTHER SUPPORT OUR SUPPLIERS IN PAYING A FAIR LIVING WAGE AND REDUCING OVERTIME	YEAR-TO-YEAR			
2.14	PILOT THE FAIR WAGE METHOD IN SELECTED ROLE MODEL FACTORIES	2016			
2.15	IMPLEMENT FAIR WAGE METHOD TO COVER ALL STRATEGIC SUPPLIER FACTORIES	2018			
2.16	ADVOCATE STRONGER WAGE LEGISLATION IN PRIORITY COUNTRIES	YEAR-TO-YEAR			
2.17	NEW - HELP ALIGN INDUSTRY APPROACH TOWARDS FAIR LIVING WAGES AND FORM A COLLABORATION PLATFORM WITH OTHER BRANDS AND THE GLOBAL UNION INDUSTRIALL	2015			
2.18	CONTINUE STRATEGIC PARTNERSHIP WITH THE INTERNATIONAL LABOUR ORGANISATION (ILO)	YEAR-TO-YEAR			
2.19	PROVIDE WORKERS AT H&M SUPPLIER FACTORIES WITH ACCESS TO SKILLS DEVELOPMENT PROGRAMMES	2017			
FOCUS - INDUSTRIAL RELATIONS					
2.20	NEW - ENTER GLOBAL FRAMEWORK AGREEMENT WITH GLOBAL UNION INDUSTRIALL AND TOGETHER PROMOTE INDUSTRIAL RELATIONS GLOBALLY	2015			
2.21	ENSURE DEMOCRATICALLY-ELECTED WORKPLACE REPRESENTATION AT ALL OF OUR STRATEGIC SUPPLIER FACTORIES	2018			
2.22	EXPAND SOCIAL DIALOGUE PROJECT IN BANGLADESH TO REACH ALL SUPPLIER FACTORIES	2018			
2.23	SUPPORT AN INCREASED NUMBER OF COLLECTIVE BARGAINING AGREEMENTS AND IMPROVE THE INDUSTRIAL RELATION PROCESS IN CAMBODIA TOGETHER WITH THE ILO/IF METALL AND SIDA	2016			
2.24	ENGAGE ALL STRATEGIC SUPPLIERS IN CHINA IN SOCIAL DIALOGUE PROJECT	2018			
2.25	NEW - ENGAGE ALL STRATEGIC SUPPLIERS IN INDIA IN SOCIAL DIALOGUE PROJECT	2018			
2.26	PROVIDE WORKERS AND MIDDLE MANAGERS IN SUPPLIER FACTORIES IN INDIA AND BANGLADESH WITH TRAINING ABOUT THEIR RIGHTS	YEAR-TO-YEAR			

*Done prior to publication of this report in early 2016.

Focus: Supply chain management

We work with long-term suppliers and invest significant resources in strong sustainability efforts throughout our supply chain.

Our mission

We have high expectations on our suppliers in terms of quality, price, lead times and sustainability. That said, creating a sustainable supply chain starts with us. We need to choose the right suppliers from the start and know exactly where and under what conditions production takes place. Throughout our supplier partnerships, we must enable, promote and reward good performance – way beyond securing minimum requirements through standard audits. We want to be a good partner to our suppliers and jointly push the boundaries. We want to achieve lasting, systemic change within the factories and the communities around them.

To achieve this, there are many challenges that need to be solved. Workers' health and safety, fire and building safety, excessive overtime, wages, freedom of association, industrial relations, use of energy, water and chemicals to mention a few. Other specific local challenges in some of our key sourcing markets include so-called Sumangali schemes (a form of forced labour mainly present at Indian spinning mills), land rights in Ethiopia and Myanmar, or issues with fixed-term working

contracts in Cambodia. These challenges require holistic solutions, all the way from factory level to systemic change in the industry and entire societies.

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 other parties to jointly achieve lasting change. In doing so, we believe we can help create win-win situations. We can improve the lives of workers and the economic and social development in their communities, and promote maturity and productivity in the textile industry. We can also create better business for suppliers in terms of long-term business commitment and growth opportunities, greater stability and reliability in our sourcing markets and sustainable growth for H&M.



Focus: Supply chain management

About 1.6 million people work in our supplier factories and 60% of them are women.

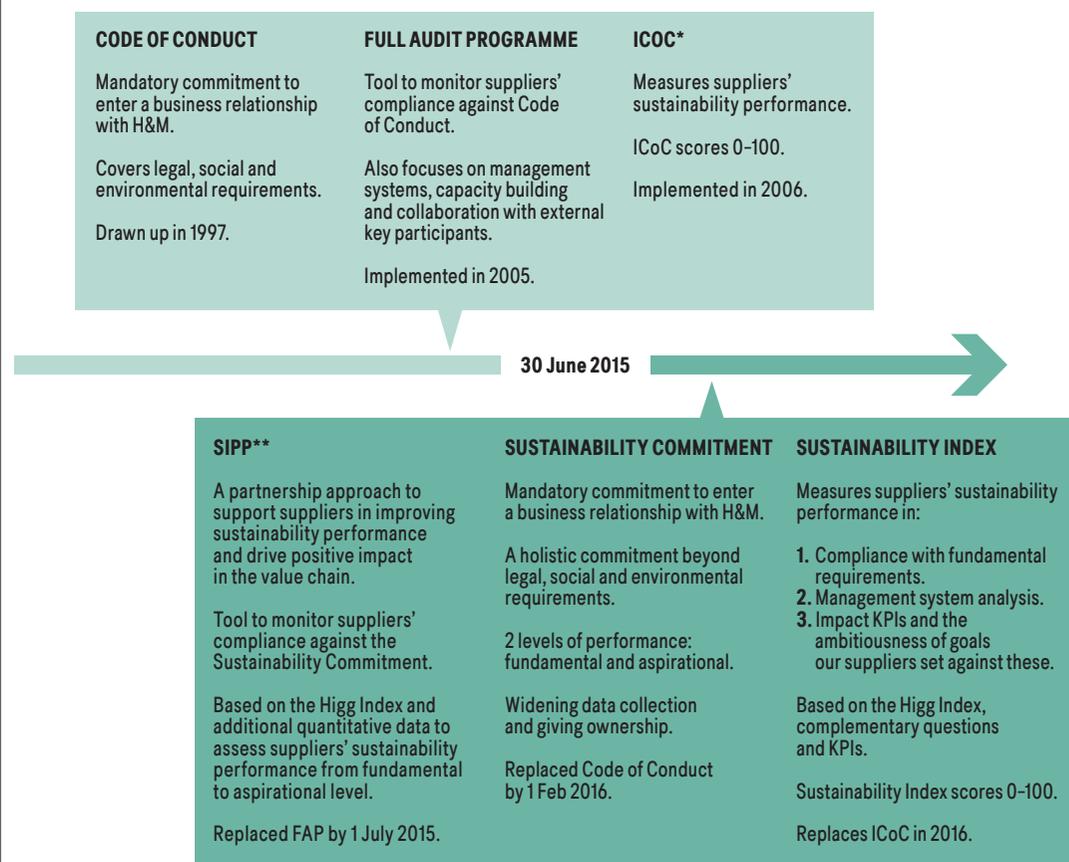
Our strategy

Our over 2,600 colleagues in 21 production offices around the world maintain close relations with our suppliers. We are committed to working together with our suppliers on improvements. We focus on building strong, long-term relations characterised by trust and transparency and we systematically reward good performance with better business in terms of long-term business commitment and growth opportunities. We offer strategic partnerships to our best suppliers, providing mutual benefits such as joint capacity planning up to five years ahead.

By being a good partner ourselves, setting clear demands and providing training and support as much as possible, we want to enable our suppliers to take ownership and improve their performance. This includes making sure that our purchasing practices and assessment procedures enable and encourage our suppliers not only to meet our demands, but better integrate sustainability into their businesses and deliver their very best to us, our customers, their workers, their communities and their owners.

As a significant step in this effort, we are building upon our previous Code of Conduct to adopt a holistic Sustainability Commitment. Besides fundamental requirements on, for example, compliance with legal requirements and the ILO core conventions, our new Sustainability Commitment outlines aspirational goals for suppliers to integrate into their businesses. Correspondingly, we are moving away from standard compliance auditing to a partnership approach that encourages transparency and enables us to capture performance beyond compliance level and measure real impact.

Over the last two years, we have developed a new programme for how to assess the sustainability performance of our suppliers and support them even better. We call this even stronger partnership approach SIPP (Sustainable Impact Partnership Programme). With SIPP we want to drive supplier ownership, reward the extra mile, measure performance beyond compliance, and reflect that sustainability drives business performance.



*Code of Conduct Index.
 **Sustainable Impact Partnership Programme.

Focus: Supply chain management

We measure our suppliers' sustainability performance through our current Code of Index (ICoC). During 2016, ICoC will be replaced with a new Sustainability Index, reflecting the broader scope of assessment in SIPP. It combines the compliance against fundamental requirements with results from management system analysis and the performance against impact KPIs, as well as the ambitiousness of goals that our suppliers set against these. Based on their results, each factory is given a Sustainability Index score (0–100) which is clearly communicated and will be integrated in our purchasing routines. This way, we reward good sustainability performance with better business (s. 2.3).

**Our supplier list displays all of our active suppliers available for quotation; however it is important to emphasise that not all of these suppliers are necessarily producing orders for H&M at present. Excluded are only factories that are currently undergoing a phase-out period according to our responsible phase-out standards. During this period, products can still be made in these factories to avoid loss of jobs, while the relationship is terminated either for sustainability or other business reasons. Not included are homeworkers who can perform specific tasks in compliance with our homeworkers' guidelines.*

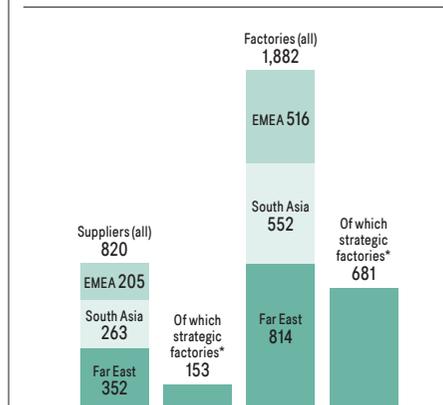
Strong and long-term relations with suppliers allow us to publish our [supplier factory list](#)*. Our experience shows that this step incentivises our suppliers for increasingly taking ownership over their sustainability work as it, at the same time, recognises the progress they make. We also encourage our suppliers to report on their social and environmental impacts publicly and get involved with their local stakeholders directly.

The workers' own view is undoubtedly central in this matter. Through our Full Audit Programme (FAP), we systematically conduct worker interviews and have completed a number of anonymous worker surveys. Going forward, we will conduct worker surveys systematically and complement them with worker interviews conducted both randomly and when needed. We are providing our contact information to workers during factory visits so they can report complaints directly to us at any time. Our close collaboration with representatives for the local trade unions is also an important channel. They receive business cards with contact information to distribute

to workers as well and this is followed-up by our local teams in the country, often in consultation with IndustriALL.

All notifications, regardless if they are reported anonymously or not, are being registered and become subjects for an investigation. It is our local sustainability teams that are responsible for looking into each case. We have production offices in all the countries where our products are being produced. We believe being present locally is a prerequisite to be able to have a close and well-functioning collaboration with local networks of trade unions. Prominent grievances raised by workers' representatives during 2015 concerned issues related to freedom of association and discriminatory practices.

NO OF SUPPLIERS AND FACTORIES BY REGION (1ST TIER) 2015



*Including both manufacturing and processing factories.

One supplier can own or use (subcontract) one or more factories. Strategic partners are our preferred suppliers. Strategic factories are manufacturing or processing factories that are owned or used by our strategic partners. We regard owned and subcontracted factories the same way and treat them according to the same terms through our supply chain management strategy.

Focus: Supply chain management

Our Conscious Actions

NEW 2.1 Transform our Code of Conduct into a Sustainability Commitment

TIMELINE	STATUS
2015	DONE

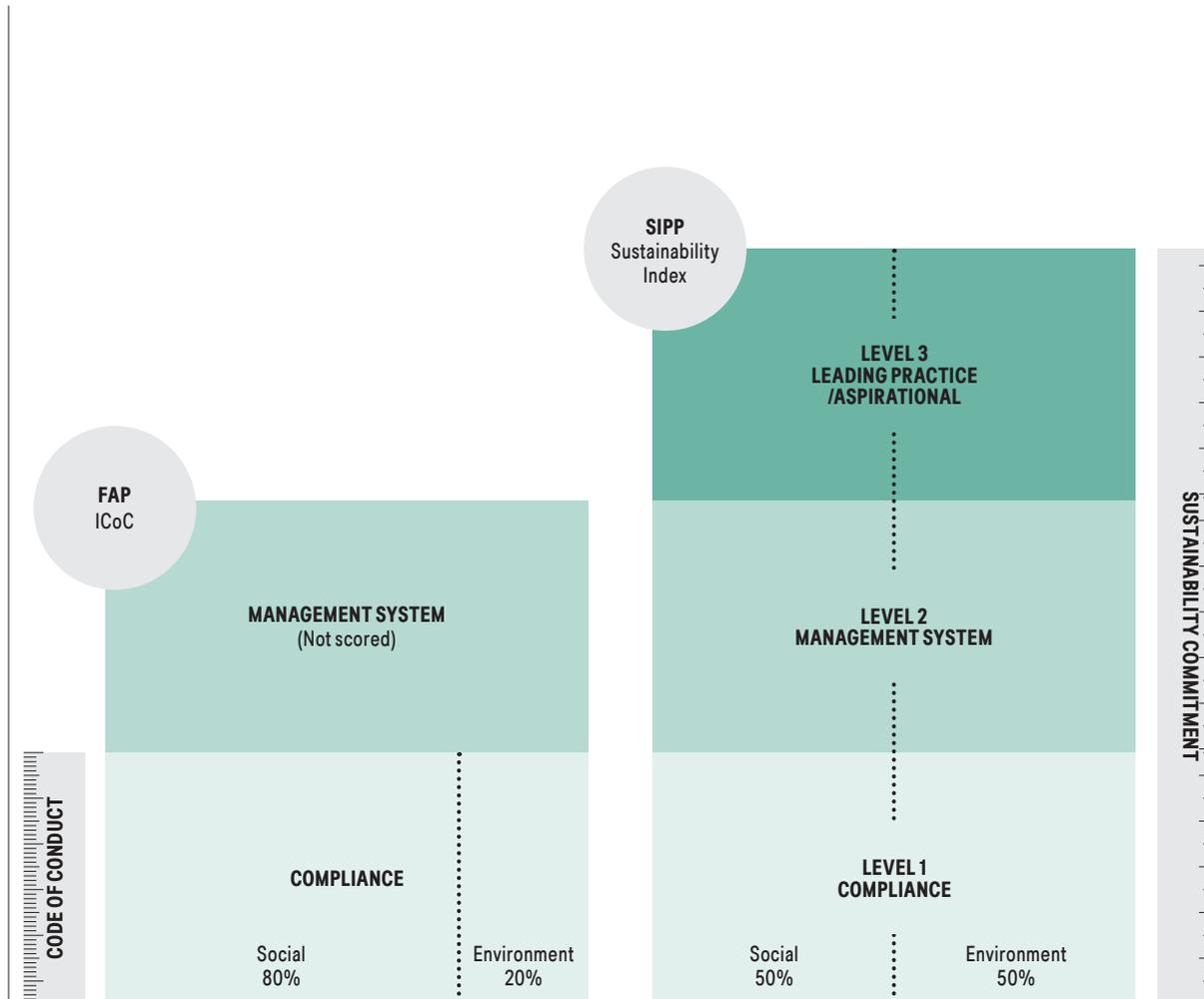
To further improve the way we work, we have transformed our Code of Conduct from a compliance based approach to a Sustainability Commitment that, besides fundamental requirements, adds expectations and guidance for our suppliers to go beyond laws and international conventions into more aspirational ones. For example, in addition to setting requirements for wastewater treatment and water quality, the new commitment now takes a stewardship approach and covers water withdrawal and its impact on local communities and the environment. This encourages suppliers to develop their own strategies for tackling water challenges as well as providing incentives to shift impacts from negative to positive.

The new Sustainability Commitment also clearly stresses our ambition in

regards to fair living wages by stating that “a fair living wage should always be enough to meet the basic needs of employees and their families, and provide some discretionary income.” Good performance with regard to these additional elements will be integrated into our new Sustainability Index which is part of our supplier performance reviews and is closely linked to how much business we direct to a certain supplier (s. 2.3).

After gathering vital input from a variety of stakeholders, including suppliers, NGOs and multi-stakeholder initiatives, we rolled out the Sustainability Commitment to our suppliers in the beginning of 2016. This remains a mandatory commitment to enter a business relationship with H&M.

> apparelcoalition.org



Focus: Supply chain management

Our Conscious Actions

2.2 Assess each of our supplier factories on their sustainability performance

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

During 2015, we started the implementation of our new supplier sustainability assessment programme SIPP (Sustainable Impact Partnership Programme). With this, we assess all our suppliers' factories on a three levelled approach:

Level 1: Compliance with fundamental requirements (such as legal requirements, the ILO core conventions and other requirements similar to our previous Code of Conduct).

Level 2: Existence and quality of management systems and setting of own sustainability performance goals. Management systems help to sustain compliance and establish a fundamental ground for leading practices and reaching aspirational goals.

Level 3: Setting of and performance against aspirational targets based

on defined KPIs such as energy reduction or community impacts.

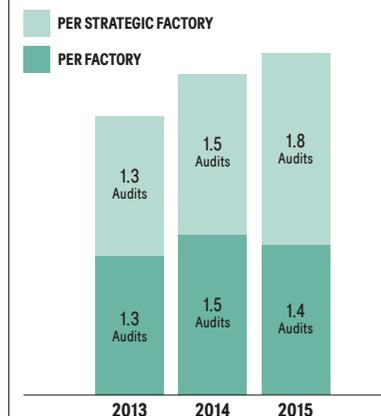
We combine our suppliers' performance against these three levels in our new Sustainability Index, which during 2016 will fully replace our current Code of Conduct Index (ICoC).

This new assessment method is based on the Higg Index, and some complementary questions and KPIs developed by H&M. The Higg Index is a holistic measurement standard with the aim of creating alignment, greater transparency and better sustainability performance across the apparel and footwear industry. It is developed by a broad range of brands (including us), suppliers, NGOs, academia and many more through the Sustainable Apparel Coalition (SAC).

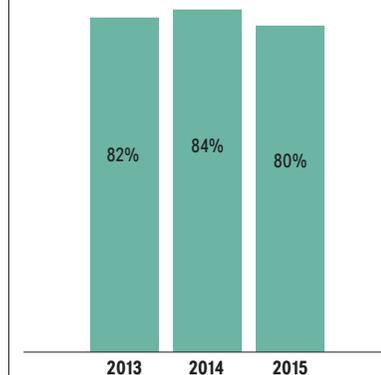
We are one of the first companies adopting this tool on large scale throughout our supply chain. When widely used by different brands, this will ultimately allow the benchmarking of sustainability performance between factories and in turn save them time, by providing the same



AVERAGE NO. OF AUDITS PER FACTORY



% OF SUPPLIER FACTORIES AUDITED DURING THE YEAR (1ST TIER)



Focus: Supply chain management

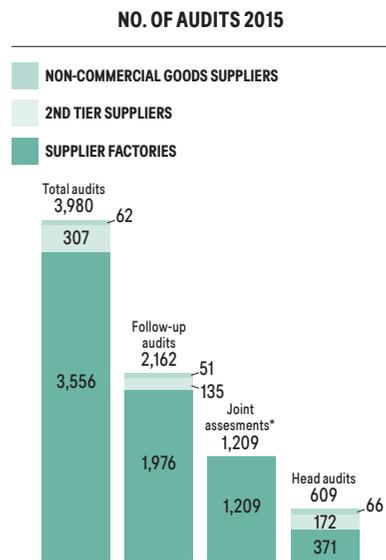
Our Conscious Actions

information as a base to their different clients' assessments, instead of undergoing multiple audits.

The ambition with SIPP is the desire to change from a one-way compliance communication to a two-way dialogue about business improvement. The SIPP process begins with an on-site verification of minimum requirements. This is then followed by supplier self-assessment focussed on management systems and in addition monthly data so we can track performance and KPIs over time. Self-assessment is then validated, both desktop and on-site, conducted regularly by our sustainability team (s. 2.4).

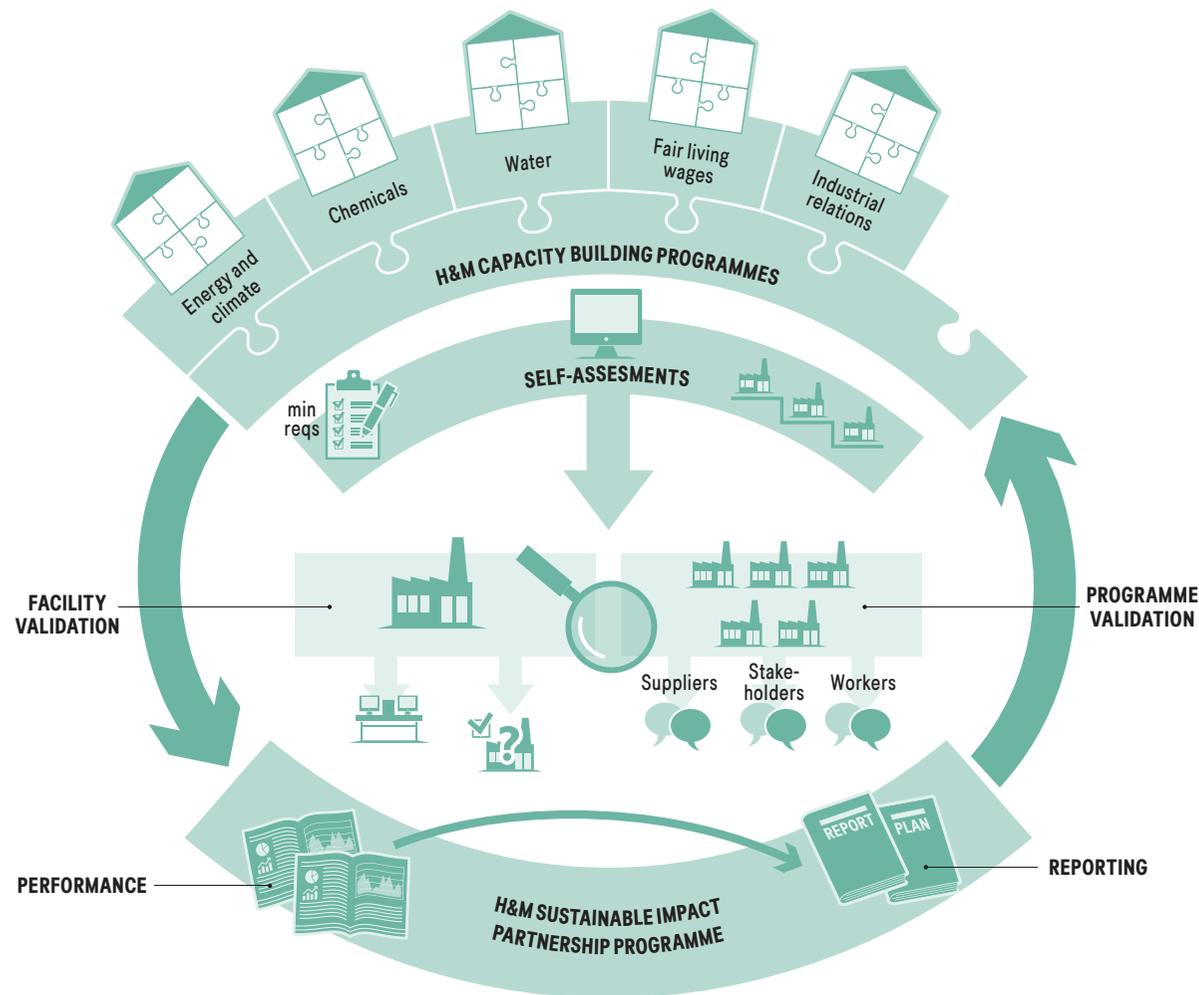
With the greater insight to the data, we can focus our efforts within our capacity building programs. These programs represent all the supplier improvement activities within our roadmaps, such as water, climate and energy, fair living wages, industrial relations and chemical management. The results on these programs help measure the impacts in our supply chain.

Validation of the programme itself is built into SIPP, through systematic involvement of stakeholders. For example, input from suppliers how to achieve progress is critical to partnership, likewise we need the workers' voice in the conversation on how the industry is developing from a worker perspective. Worker surveys



3rd party verifications (conducted by FLA): 14.

*Joint assessments conducted during 1 June 2015 to 30 Nov 2015, within our new sustainability assessment programme SIPP.



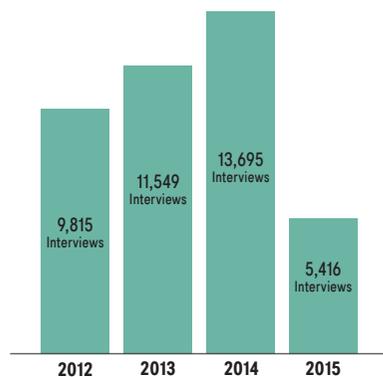
Focus: Supply chain management

Our Conscious Actions

will be conducted systematically and complemented by random individual interviews. In addition, we will have dialogue with other stakeholders such as NGOs, policy-makers, or government agencies, to both monitor and support progress of the program on the ground.

We conducted our first SIPP assessments during the second half of 2015. This covered all of our first-tier supplier factories and in 2016, we will

NO. OF WORKER INTERVIEWS CONDUCTED



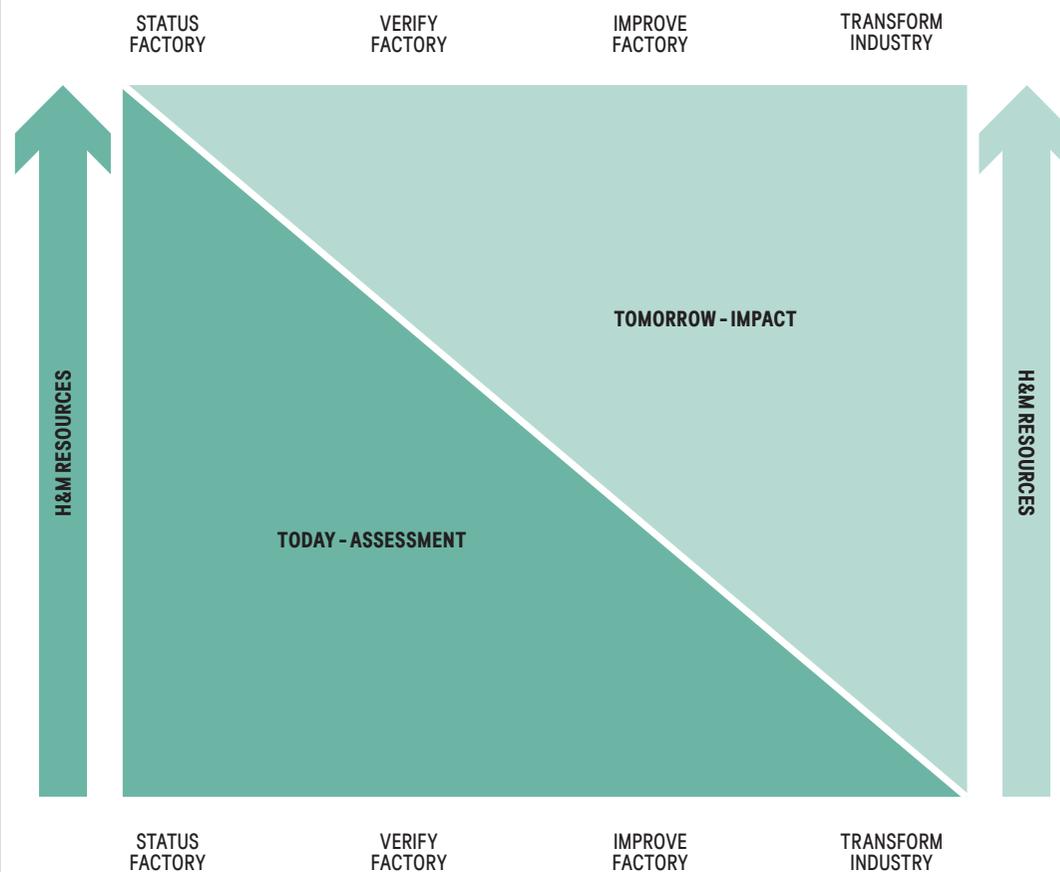
Due to the transition to SIPP on 1 July 2015, data regarding no. of worker interviews conducted covers the period 1 Dec 2014 to 31 May 2015.

also include processing factories and nominated second-tier factories, such as fabric and yarn mills, and suppliers of non-commercial goods, such as advertising materials. The transition from our previous Full Audit Programme (FAP) will affect the comparability of audit figures and assessment results for 2015 and most likely also in our 2016 reporting.

In 2015, we assessed 80% of our supplier factories at least once in 3,556 audits according to our previous Full Audit Programme* (371 Head Audits and 1,976 Follow-Up Audits) and 1,209 Assessments** following our new SIPP method. On average, each active first-tier factory was assessed 1.4 times (2014: 1.5). To learn more about the auditing results, visit our web page and the [supplier compliance levels in detail](#).

> apparelcoalition.org/the-higg-index

*Audits according to previous Full Audit Programme (FAP) were conducted during 1 Dec 2014 to 31 May 2015. Thereafter our new programme SIPP was introduced.
 **In order to move from auditing to self-assessment, we conducted joint assessments at all our supplier factories to educate and secure the content and understanding of the assessments. Joint Assessment will be used continuously for all new business partners to train and educate towards self-assessment.



Focus: Supply chain management

Our 153 strategic suppliers make approximately 60% of all of our products.

Our Conscious Actions

2.3 Reward good sustainability performance with better business

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

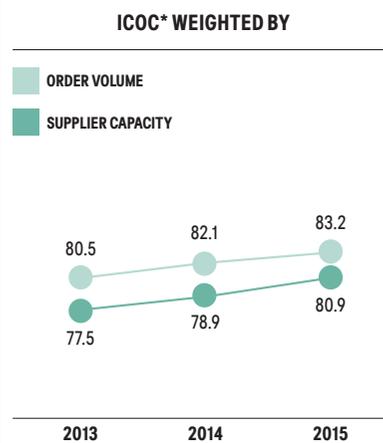
In order to maintain and incentivise good sustainability performance, we reward our suppliers with what they appreciate most: better business in terms of long-term business commitment and growth opportunities. To measure if we place more and bigger orders with better performing factories before others, we look at the Sustainability Index score* of each factory and weigh it against the order volumes they have received from us. We then compare with the Sustainability Index scores weighed by the available capacity in our entire factory base. The data of 2015 indicates a continued positive development, and we aim to maintain this year-to-year.

**Our new Sustainability Index is gradually replacing our current Code of Conduct Index (ICoC) with a broader scope. By the end of the transition period (approx. end of 2016), each factory will have a Sustainability Index score (0–100).*

We already integrated ICoC scores in our supplier grading a few years ago. Only those suppliers who demonstrate the best sustainability performance can become strategic partners. This type of partnership is win-win, for instance by securing stable business through long-term capacity planning up to five years ahead. Out of 820 suppliers, 153 are preferred suppliers (also called strategic partners) and make approximately 60% of our products.

In turn, the close integration of sustainability performance into our purchasing routines also allows us to reduce orders in the case where a supplier shows unwillingness to work with us on improvements. We are clearly committed to working together on improvements rather than terminating relationships. However, if a supplier repeatedly does not comply with our minimum requirements, we will, for example, reduce order volumes as a warning. As a last resort, we terminate our business relationship. In any such case, if it is for sustainability or any other business reason, we follow our

responsible phase-out standards. This allows the concerned supplier a certain transition period to find new clients in order to avoid job loss.



*Code of Conduct Index.



2.4 Ensure that all new supplier factories are screened and audited before first order placement

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

Before placing any orders, all suppliers must sign our Sustainability Commitment (which replaced our Code of Conduct on 1 Feb 2016) and undergo an initial self-assessment. If they pass, sustainability experts in our production offices conduct a thorough on-site verification to assess if the factory lives up to our minimum requirements and shows good potential to further improve their sustainability performance. Only then orders can be placed. This is the case whether a factory is owned directly by one of our suppliers or if it is subcontracted. By 2015, 97% of our supplier factories were assessed and verified before an order was placed (2014: 96%). The remaining 3% were low risk factories, for example in terms of product type as well as their geographic locations in countries such as Sweden and Portugal.

Focus: Supply chain management

Our purchasing practices should make it possible to fulfil our business idea and give long-term benefits to workers, suppliers, customers and the environment.

Our Conscious Actions

2.5 Help prevent causes of non-compliance through management system analysis and capacity building

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

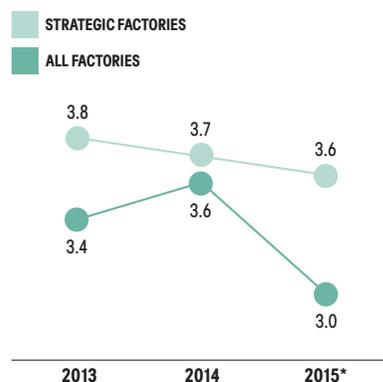
We believe that effective management systems are a prerequisite for a strong sustainability performance. This is why we are now investing even more resources into helping our suppliers improve their management systems and train workers and management in order to strengthen their in-house capacities. This includes various areas, from recruitment systems that help prevent discrimination to effective grievance management and workplace safety. With the shift from our previous Code of Conduct Index (ICoC) to our new Sustainability Index, we are integrating scores for the effectiveness of each factory's management systems closely into our purchasing routines (s. 2.6).

In 2015, we conducted 1,921 management system analyses (2014: 2,055). Together with about 1,565 other

activities (such as training sessions and workshops) and our factory audits and assessments, each factory was subject to an average of 3.0 (strategic factories 3.6) activities aiming to support them in further improving their sustainability performance.*

>hm.com/beyondmonitoring

AVERAGE NO. OF SUSTAINABILITY ACTIVITIES



*The decrease in 2015 is explained by our focused work of developing a new assessment method, the Sustainable Impact Partnership Programme (SIPP).

2.6 Update our strategy for sustainable purchasing practices to ensure fair business partnerships with our suppliers

TIMELINE	STATUS
2016	ON TRACK

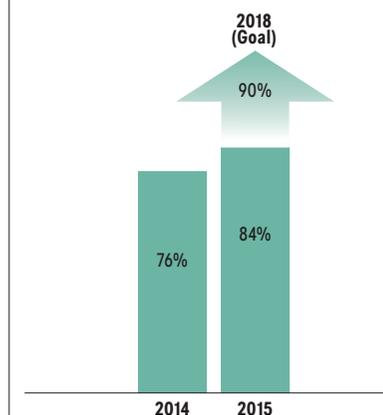
One important step in the work towards fair living wages is making sure that buyers, such as H&M, have purchasing practices that support suppliers in implementing fair living wages. At H&M, we are further improving our purchasing practices founded on our relationships with suppliers, enabling and incentivising the business environment in a way that facilitates suppliers taking ownership of future investments in the workforce, i.e. skills development, sustainability performance as well as direct wage improvement areas. Our purchasing practices should make it possible to fulfil our business idea and give long-term benefits to workers, suppliers, customers and the environment.

With a yearly global supplier survey

and meetings with all of our vendors, we can learn what we need to improve. One important aspect is their perception of us as fair business partner. Since 2014, suppliers' perception of H&M as a fair business partner has increased from 76.2% to 84.2% (2015).

We also know that the buying and sourcing pattern is far from standardised and still contains challenges that are too complex for a single actor to solve. Therefore, we are actively engaged with other brands through the industry platform ACT (s. 2.17). Here, different brands discuss and collaborate to find common ground and synergies to overcome some of the challenges in a globalised supply chain.

% OF SUPPLIERS THAT SEE H&M AS A FAIR BUSINESS PARTNER



Focus: Supply chain management

We're fully committed to ensuring the timely implementation of all Corrective Action Plans at all of our supplier factories.

Our Conscious Actions

2.7 Follow up on initial inspections as per the Bangladesh Accord on Fire and Building Safety, ensure remediation and enroll new factories in the Accord Inspection Programme

TIMELINE	STATUS
ONGOING	MORE TO DO

We see the Bangladesh Accord on Fire and Building Safety as a valuable complement to our existing sustainability programme and an important contribution to the ongoing substantial transformation of the textile industry in Bangladesh. Many important improvements have been achieved, but more needs to be done by all actors involved to implement the requirements of the Accord and to help promote the maturity of the entire industry.

Today, some 200 brands have signed the Accord and it now covers about 1,600 of the around 5,000 garment factories in Bangladesh. The Accord performs independent factory inspections for three different key areas:

fire risks, electrical installations and structural conditions of the building.

The Accord currently lists 265 factories* that are, or have been part, of H&M's supply chain. Accordingly, all of them have undergone these inspections and any potential new supplier factories are being integrated into the inspection and, where needed, remediation procedures implemented. The remaining factories listed in our supplier list but not yet listed by the Accord are either new supplier factories pending inspection or facilities not covered by the Accord (mainly processing units). Also, factories inspected by the Alliance for Bangladesh Worker Safety are not listed by the Accord but included in our supplier list, which explains the discrepancy between the two lists.

All of our supplier factories have been approved for operation by the Accord. However, as for most factories covered by the Accord, our supplier factories

**The Accord only covers the factories of garment manufacturers. This explains the discrepancy when compared to our public supplier list.*

also require further improvements, such as the replacement of sliding doors with new fire exit doors. Such needs for improvement are described in Corrective Action Plans (CAPs) issued by the Accord. These are publicly available on the Accord website for each factory.

At the time of reporting, even though overall progress is moving favourably,** many of our suppliers are facing delays, particularly for structural improvements. Delays are less frequent for improvements on electrical installations and fire risks. While financial support is confirmed to be secured wherever needed, reasons for delays can vary and are often due to limited availability of required technical equipment or a shortage of qualified engineering consultancies and contractors.

***By 20 Nov 2015, the Accord reported 57% of identified issues in H&M supply chain as corrected (59% for initial findings and 48% for issues identified on follow-up visits). No H&M supplier factories were categorised as "CAP not implemented," have any pending needs for immediate actions (priority 1) according to the Accord or are listed for business termination by the Accord. For the current status, please check the Accord website.*



We are fully committed to ensuring the timely implementation of all Corrective Action Plans at all of our supplier factories moving forward and will continue to follow up on this closely, providing support wherever it is needed.

- > bangladeshaccord.org
- > bangladeshworkersafety.org
- > National Tripartite Plan of Action on Fire Safety

Focus: Supply chain management

Interview with Rachel Wilshaw, Ethical Trade Manager, Oxfam GB

Myanmar has attracted international attention over the past few years for slowly opening up to democratisation processes and many have called for businesses such as the fashion industry to support this development by directing orders to the country. How do you see this development?

With recent developments, Myanmar has the potential to provide an environment in which poverty and inequality can be tackled. Labour laws have been updated and a minimum wage introduced. Oxfam works to open up democratic space for people to voice their concerns to local government, push for better policies and increase government accountability.

Besides the prospects of development – what are the main challenges in Myanmar?

Oxfam's 2015 report, *Made in Myanmar: entrenched poverty or decent jobs for garment workers?* documented serious issues for women workers, from punishingly long working hours to poverty wages and harsh treatment. Worryingly, fire safety was a concern, despite the collapse of Rana Plaza in neighbouring Bangladesh.

Do you think that fashion companies should stay away from Myanmar?

In Oxfam's view, responsible private sector investment has a pivotal role in helping people break free of poverty and inequality, but evidence from our report suggests that investment in Myanmar's garment sector does not seem to have this effect at

the moment. H&M could and should play a leading role in changing this.

From your perspective, what should those companies that are sourcing from Myanmar do to contribute to positive development for workers and the country?

Companies, together with government, must take responsibility for ensuring that decent work becomes the norm, not the exception. This means both effective supply chain management and making clear H&M's expectations of the roles played by government and by independent trade unions.

How do you see H&M's performance in this regard?

Oxfam welcomed the 'living wage roadmap' in 2013 because it showed an understanding of the roles of governments and elected workers' representatives as well as suppliers. H&M is also relatively transparent and showed leadership in Myanmar. However, the pace and scale of change have been disappointingly slow.

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

We would like to see H&M bring into its sourcing strategy the quality of governance in sourcing countries, including how close the minimum wage is to a living wage, selecting suppliers whose purpose and values make them likely to drive change and ensuring H&M's business practices enable this.

Focus: Supply chain management

Our Conscious Actions

2.8 Implement training against forced labour together with Ethical Trading Initiative (ETI) at Indian spinning mills

TIMELINE	STATUS
2017	ON TRACK

In 2013, H&M joined the Ethical Trading Initiative (ETI) programme to address exploitative labour practices in Tamil Nadu's garment and textile sector, in particular those associated with the Sumangali scheme. This three-year programme aims to catalyse positive change within the industry through activities that empower young female workers, strengthen industrial relations, build community awareness and support legislative reform. This will have a direct positive impact on 45,000 young women, and thousands more will benefit indirectly.

Initially H&M had one mill connected to the program, but due to business reasons we stopped working with them during 2015. However, we remain in this important programme. So far, eight spinning

mills and five manufacturing units are enrolled in the program where some have finished phase 1, "Health education" or have just started during latter half of 2015. At the beginning of 2016, a new round of invitations went out to our mill partners to join the program, and we strongly promoted participation. The second phase of the program will address workers' rights.

Meanwhile, the community outreach programme has reached approximately 150,000 people through the help of eight NGOs. These activities have focused on awareness of workers' rights, but also on supporting affected workers.

>ethicaltrade.org

2.9 Integrate second-tier supplier factories involved in making at least 50% of our products into our sustainability assessments

TIMELINE	STATUS
2015	DONE

Taking a holistic approach to our value chain, we are extending our knowledge and influence over second-tier supplier factories such as fabric and yarn mills. Our Lifecycle Assessments show that fabric production represents major environmental impacts, for instance, 36% of the climate impact of a garment's lifecycle occurs at this stage. Since several years back, we have been working continuously on a development program to help mills reduce these impacts.

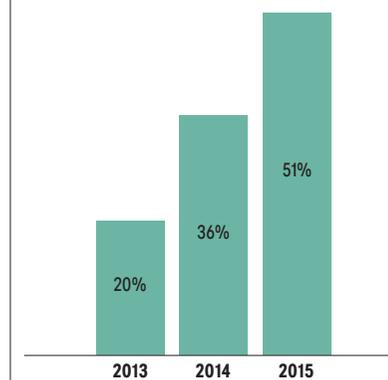
In 2013, we started to request information about the fabric and yarn source for each order placed. Now we are working to integrate more and more of the fabric and yarn/spinning mills in our value chain into our sustainability assessments and also



into our supplier relationship management strategy, just as our first-tier supplier factories.

Our goal for 2015 was to cover the mills involved in making at least 50% of our products. We achieved this goal (2015: 51%, 2014: 35%, 2013: 20%) and are now aiming for 60% by 2016. Most of these mills had never been exposed to any demands or compliance standards from brands, so some of our challenges involve education and developing a mutual understanding. In turn, this provides a great opportunity for improvement and for competitive advantages.

% OF PRODUCTS MADE WITH FABRIC/YARN FROM AUDITED FABRIC/YARN MILLS



Focus: Supply chain management

We are the first major fashion brand to communicate the names and locations of the most important mills providing our suppliers with fabrics and yarns.

Our Conscious Actions

2.10 Update our public supplier factory list to include the first second-tier factories

TIMELINE	STATUS
YEAR-TO-YEAR	DONE*

Transparency is key to our supply chain management and can be a catalyst for positive change. It is also a good way to incentivise our suppliers for the progress they make during our partnership. We were one of the first fashion brands to publish our supplier factory list, covering close to 100%** of our production volume, and even factories that are subcontracted by our suppliers for specific tasks such as washing, embroidery or printing.

In 2015, we expanded the scope of the list further and as the first major fashion brand we now communicate the names and locations of the most important mills that provide our suppliers with fabrics and yarns. In line with our progress in integrating such second-tier factories into our assessment systems, we are expanding this list even further to also include fabric

and yarn mills involved in making about 60% of our products in 2016. We hope that this will continue to promote transparency and drive further positive change in our industry.

>hm.com/supplierlist

**Done prior to publication of this report in early 2016.*

***Our supplier list displays all of our active suppliers available for quotation; however, it is important to emphasise that not all of these suppliers are necessarily producing orders for H&M at present. Excluded are only factories that are currently undergoing a phase-out period according to our responsible phase-out standards. During this period, products can still be made in these factories to avoid job losses, while the relationship is terminated either for sustainability or other business reasons. Not included are homeworkers who can perform specific tasks in compliance with our homeworkers' guidelines.*

2.11 Develop updated strategy to promote high environmental, social and animal welfare standards in leather production

TIMELINE	STATUS
2015	MORE TO DO

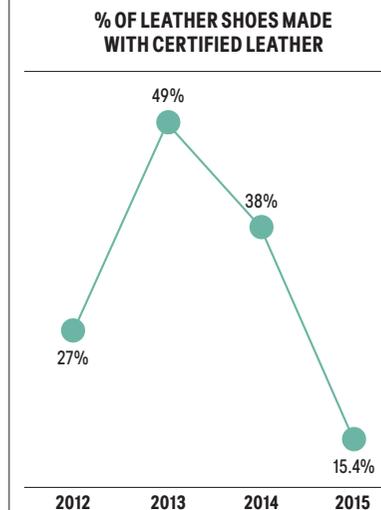
Leather products can require intense chemical treatment that can affect both the environment and workers. Therefore we joined the Leather Working Group (LWG) in 2009. Tanneries must comply with high environmental standards before being graded by the group. This is why our goal has been to gradually increase the use of leather that is either graded by the LWG or certified organic. However, these currently do not cover all critical issues in leather production, such as key labour, health and safety and animal welfare aspects.

In 2015, we decided to focus our efforts on reworking our strategy for leather products and also take these aspects into account to secure the best possible outcome. Therefore, we are not actively sourcing leather from LWG suppliers, which explains

the decrease in certified leather shoes from 38% in 2014 to 15% in 2015.

We continue our work to promote the use of the certifications. As part of this we are focused on adding social criteria as well as animal welfare standards. We are also further developing related tools such as a closer integration of leather tanneries into our assessment and supply chain management systems as well as improved material traceability. During 2015, all the strategic tanneries in India and China were audited by our teams on their environmental and social conditions. During 2016, we will extend this to Europe as well. The roll-out of the updated strategy is planned to take place in 2016 or early 2017.

>leatherworkinggroup.com



The figure of 2014 has been corrected due to improved calculations.

Focus: Supply chain management

Our Conscious Actions



2.12 Further increase sustainability performance at all supplier factories

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Ultimately, our supply chain management should help our suppliers to improve their performance and create a positive impact for the livelihood of their about 1.6 million workers and their communities. Up until mid-2015, we measured each supplier factory’s sustainability performance through our Code of Conduct Index (ICoC). ICoC scores from 1 Dec 2014 to 31 May 2015 continued to increase to 82.2 (max. score: 100, 2014: 81.0, 2013: 77.8), which shows continued positive development amongst our supplier factories.

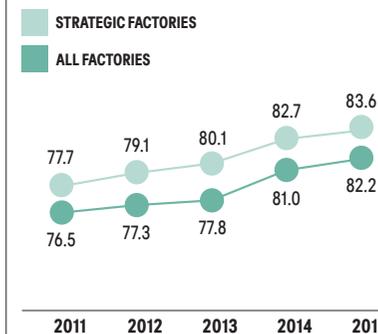
During 2015, we started to replace this rather compliance focused index with our new Sustainability Index, which takes a far broader view of the sustainability impacts and performance of our suppliers (s. 2.2). Our Sustainability Index is based on the Higg Index, developed by the

Sustainable Apparel Coalition (SAC). We hope that the Higg Index will allow alignment on how to assess supplier sustainability performance and ultimately create full transparency and benchmarking opportunities for all stakeholders concerned.

Moving from one index to a new one will, however, require a transition period during which our supplier factories will undergo assessments based on our new assessment programme SIPP (s. 2.2). We expect the transition to continue throughout 2017. We are looking forward to sharing this and further supplier impact data in our 2016 report.

You can find a detailed breakdown of our supplier factories’ compliance with all of the over 200 items from our previous Full Audit Programme questionnaire [here](#).

PROGRESS IN FACTORY SUSTAINABILITY PERFORMANCE (IN ICoC* SCORES)



*Code of Conduct Index.

Data collected during the period 1 Dec 2014 to 31 May 2015 according to our previous Full Audit Programme (FAP).

Please find an independent assurance statement related to GRI AF14 on p 123.

Focus: Fair living wages

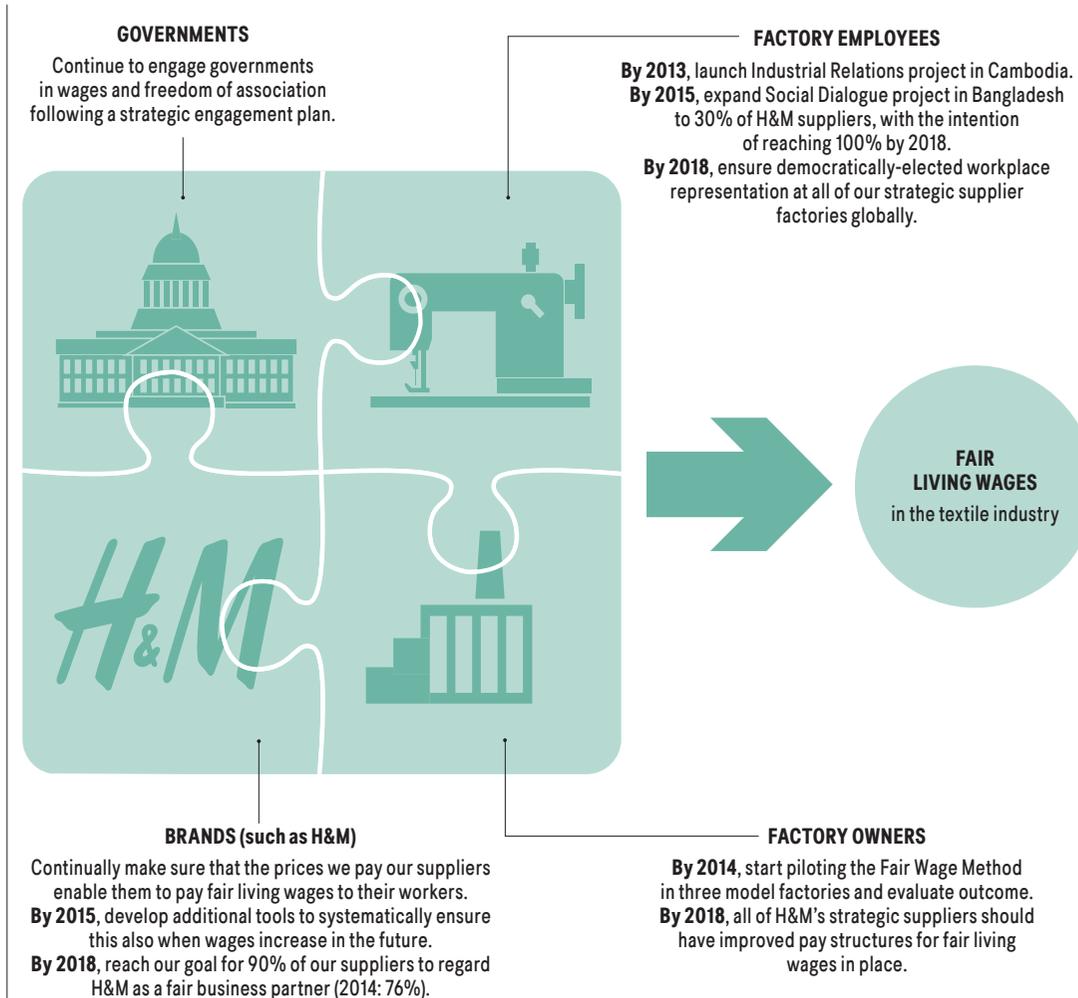
Our goal is clear:
a fair living wage across
the textile industry.

Our mission

Every garment worker should earn enough to make a decent living. This is something we want to ensure across the industry and in all of our sourcing markets, but the challenges along the way are complex. We believe that collective bargaining is the best way to define wages, but in many markets, workers have very limited possibilities to negotiate wages collectively. Where, for example, legal minimum wages or the systems to define them are not yet sufficient, we need to find solutions that, in the meantime, can ensure that individual factories can pay fair living wages to their workers without putting their business and jobs at risk.

One challenge is that factories often work for many different brands. In a situation where only one or a few brands request fair living wages, it is still necessary to ensure that the wages of the factory workers are not dependent on their employer's customers. Income equality also needs to be seen in relation to other sectors and the impact on labour markets and employment. It is also important that governments feel confident that buyers will stay when fair living wages are implemented.

The challenges are complex but the aim is clear: a fair living wage across the textile industry.



Focus: Fair living wages

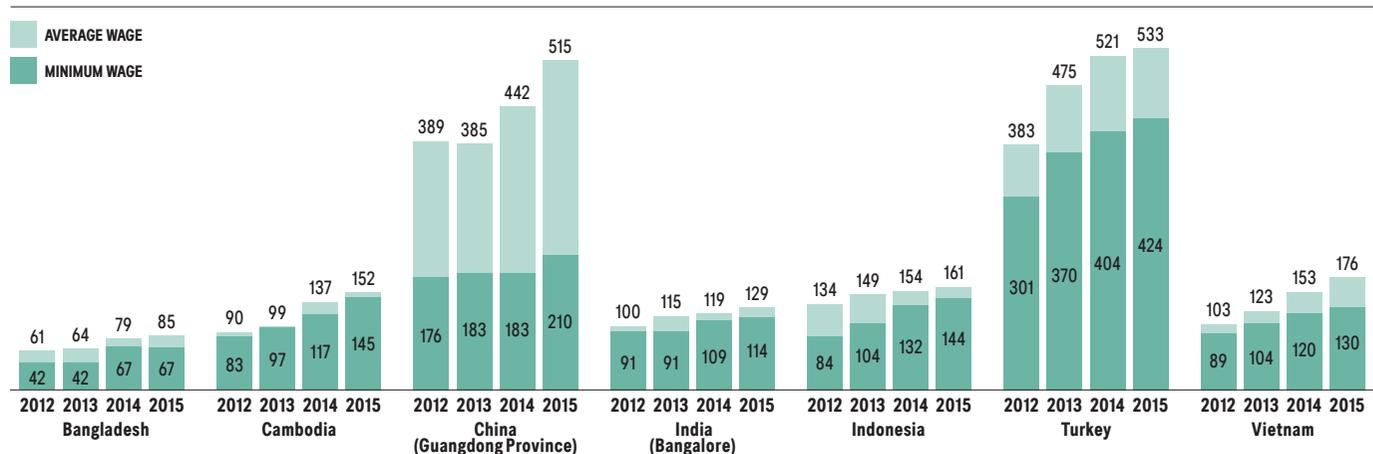
Our strategy

We developed our Fair Living Wage roadmap in close consultation with a variety of stakeholders and our Wage Advisory Board consisting of NGOs, unions and other experts in this field. Based on this, a fair living wage should at the very least cover workers' basic needs and a discretionary income. It should be enabled through our purchasing practices and based on a skilled workforce with wage reviews on an annual basis. It should also be negotiated on at least the factory level, involving trade unions or at least democratically-elected worker representatives. In order to achieve this, we need to work at several ends.

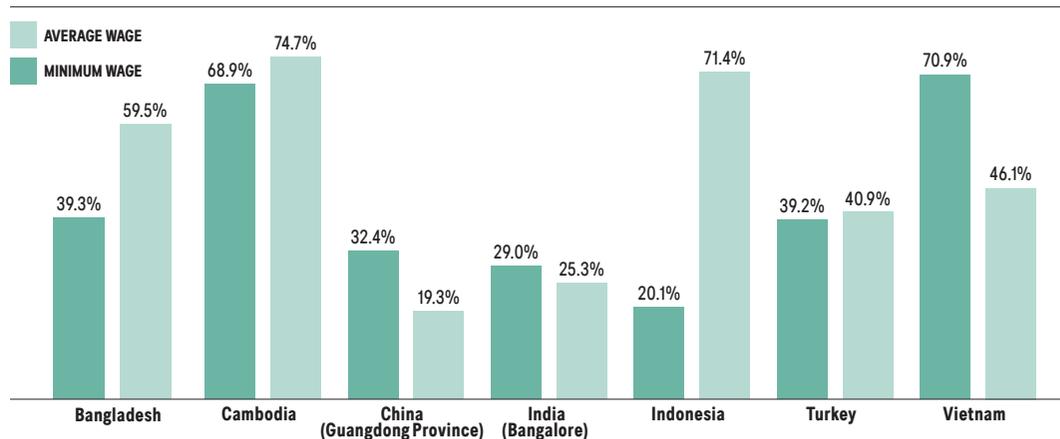
Our focus is on catalysing systemic change, both in our supplier factories as well as in the concerned markets as a whole. We are working to lay the ground for long-term, sustainable wage development, beyond individual factories. While this will require more time, we are convinced that this is the right way forward.

As part of that, we need to ensure that our purchasing practices support our suppliers in implementing fair living wages. And we need to work with our suppliers to implement the required pay structures and systems. These are defined through the Fair Wage Method, developed by the independent Fair Wage Network. To achieve this, we are working with our suppliers to deliver best practice examples and gradually scale them up. We are focusing on our strategic suppliers to start with. Our goal is for all of them

MONTHLY AVERAGE WAGES AT H&M SUPPLIER FACTORIES VS. APPLICABLE MINIMUM WAGES IN SELECTED COUNTRIES IN USD*



AVERAGE WAGE INCREASES AT H&M SUPPLIER FACTORIES AND APPLICABLE MINIMUM WAGES IN % FROM 2012 TO 2015*



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

Focus: Fair living wages

to implement improved pay structures such as the Fair Wage Method by 2018 at the latest.

To assess the progress made, we are asking the workers themselves in regular surveys conducted by third parties such as the Fair Wage Network. In parallel, we are closely following the development of minimum wages, average wages as well as real wages for each market. But to achieve lasting changes, we also need to look beyond individual factory walls. We believe that ultimately all of the people working in the textile industry should be able to influence their wages and working conditions in regular and fair negotiations with their employers.

We share the view of the global union IndustriALL that industry bargaining is key to achieve fair living wages. That is one of the reasons we joined forces with them and a number of other brands in a new collaboration called ACT (Action, Collaboration, Transformation). ACT aims to improve wages by bringing together key actors to promote collective bargaining and the continued development of responsible purchasing



practices (s. 2.13). ACT members have signed a Memorandum of Understanding with IndustriALL, and together we set a common agenda for how to reach a Fair Living Wage.

This goes well in line with our Fair Living Wage roadmap and our dedicated industrial relations strategy, aiming to assist both workers and employers developing the required structures and knowledge and actively support the right to collective bargaining (p. 51).

We are also continuing to involve governments and other stakeholders to promote systemic change across communities and the textile industry. As an important part of this, we are committed to markets where fair living wages are implemented while we are also supporting markets in remaining competitive. We are also prepared to reflect increasing costs resulting from wage increases in our sourcing prices where this is needed. With this holistic approach covering brands like H&M, factory owners, factory employees and governments, we are taking a lead in promoting fair living wages for garment workers – not only in our supply chain, but across the entire industry.

- >hm.com/fairlivingwage
- >fair-wage.com/
- >industrialall-union.org

Focus: Fair living wages

Our Conscious Actions

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

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

Ensuring that our purchasing practices and the prices we pay our suppliers enable them to pay fair living wages to their workers is a central element of our Fair Living Wage strategy. We are committed to reflect wage increases in our pricing where this is needed and we are constantly developing our tools to secure this systematically. As suppliers usually work for multiple brands, it is very important to harmonise the understanding of and approaches to improving purchasing practices with other brands.

This is why we have joined forces with a number of other brands and the global union IndustriALL in the industry platform ACT (s. 2.17). Additionally, and in close collaboration with our suppliers, we are

constantly improving our purchasing planning tools to reduce production peaks and thereby help our suppliers to better plan their capacity and reduce overtime.

This results in transparency between us and suppliers regarding the major costing blocks of each order. Currently, we are working on refining this so we more accurately can understand the labour costs associated with each order. This will support us in making sure that any wage increases are properly reflected in the prices we pay our suppliers. As wages cannot be regarded without also addressing the industry-wide issue of overtime hours, we are also further optimising our planning routines to help suppliers achieve more stable capacity utilisation and (staff) planning security (s. 2.16).

2.14 Pilot the Fair Wage Method in selected role model factories

TIMELINE	STATUS
2016	ON TRACK

In 2013, we started the process of testing the Fair Wage Method in three model factories, one in Cambodia and two in Bangladesh. Together with these factories, we want to set best practice examples for the industry and show that leadership in sustainability, including paying a fair living wage, can go well together with best business performance. As part of this, we guaranteed these factories 100% capacity usage for us for five years to avoid any business risks for them.

In 2015, we did a second year evaluation of the role model factory in Cambodia. When we started the project, the factory was a quite typical one for the Cambodian textile industry; with needs to improve pay structures, social dialogue and overtime hours. However, there is also a strong will to improve the way they run business.



To understand their progress, we went through large amounts of data, talked to the management and the Fair Wage Network conducted an anonymous detailed survey amongst the workers, a so-called fair wage assessment. One of the main drivers for this has been the implementation of wage grids that transparently link wage levels and skills. At the same time, overtime continued to decrease without resulting in less take-home pay for the workers. Productivity continued to improve and the factory also showed an improved economic performance and growth, which

ultimately has resulted in an additional 250 jobs since implementing the Fair Wage Method.

The other two model factories in Bangladesh started to implement the Fair Wage Method in mid-2014 and the first year follow-up assessment took place in the third quarter of 2015. Even though implementation of new wage grids and pay structures was not complete at that stage, we could still see clear and positive development.

>fair-wage.com

Focus: Fair living wages

We are committed to markets where fair living wages are implemented while we also support markets in remaining competitive.

Our Conscious Actions

2.15 Implement Fair Wage Method to cover all strategic supplier factories

TIMELINE	STATUS
2018	ON TRACK

We have now taken a big first step in lifting the Fair Wage Method to scale, building on the promising outcomes and what we have learned from the Fair Wage method in our three role model factories (s. 2.14). During 2015, 68 of our strategic supplier factories in China, Bangladesh and Cambodia enrolled in the Fair Wage Method and by the end of 2016, we expect to see the first results.

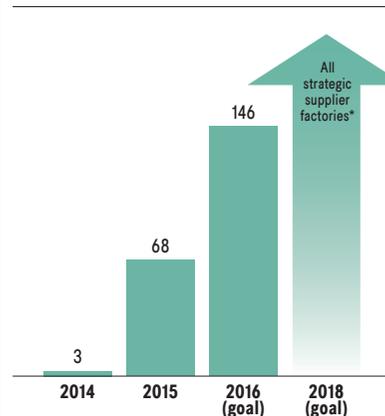
For 2016, we will continue scaling up by adding 78 more factories in Indonesia, India and Turkey. Our goal is to reach all of our strategic supplier factories by 2018 at the latest.

The Fair Wage Method defines 12 dimensions of wages that need to be in place in order to make a fair living wage. For example, this includes ensuring that wages cover workers' basic needs and a discretionary

income, reflect their skills and are negotiated in a fair process involving the workers and their representatives. It has been developed by the independent Fair Wage Network under the leadership of Daniel Vaughan-Whitehead, professor at Sciences Po in Paris and Manager of Wages and Incomes Policy at the International Labour Organisation (ILO). We teamed up with the Fair Wage Network in 2011. As part of this, the Fair Labour Association (FLA) conducts independent annual worker surveys and fair wage assessments in all supplier factories that implement the fair wage method to assess the progress and the workers' perception of their wages.

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

NO. OF STRATEGIC SUPPLIER FACTORIES* WITH IMPROVED PAY STRUCTURES IMPLEMENTED



*Manufacturing factories.

2.16 Advocate stronger wage legislation in priority countries

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

Systemic change cannot be achieved by one company alone. The ambition 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 governments concerned need to strengthen their legal frameworks such as regular wage revisions and functioning industrial relations. This is why we, from the beginning of the development of our Fair Living Wage roadmap, have also taken the importance of involving governments in the process into account and sent a clear signal to them: we are committed to markets where fair living wages are implemented while we also support markets in remaining competitive.

To expand these efforts strategically, we are following annual engagement plans for four priority countries:

Bangladesh, Cambodia, Myanmar and Ethiopia. These countries have been chosen due to great potential and needs for government actions on wage issues. We are engaging with the concerned governments on various levels both directly and indirectly through partners such as the ILO and multi-stakeholder initiatives. The aim is to support stronger minimum wage legislation, for example, in the form of annual minimum wage revisions, and to strengthen the legal framework and reinforce the right to freedom of association.

Focus: Fair living wages

Our Conscious Actions

NEW 2.17 Help align industry approach towards fair living wages and form a collaboration platform with other brands and the global union IndustriALL

TIMELINE	STATUS
2015	DONE

As a single brand, we are willingly on the cutting edge – but we cannot do the job alone. Besides governments and international organisations such as the ILO and trade unions, other brands play a vital role too. To create a critical mass in the textile industry and help governments and suppliers feel secure that increasing minimum wages will not necessarily result in a loss of competitiveness for their economies, several brands need to pull in the same direction.

Over the last two years, together with more than ten other brands, we have aligned our shared visions that all workers in the industry should earn fair living wages. We have recognised the need for even more industry collaboration to make this a reality

“We are working in a way that we have never been able to before, with brands that want to make a difference.”

Jenny Holdercroft, Policy Director, IndustriALL

in a joint set of what we called the Enabling Principles.

During 2015, we moved this forward into a formal collaboration together with the global union IndustriALL called ACT (Action, Collaboration, Transformation). The purpose is to make concrete progress towards fair living wages in garment-producing countries. This requires a responsible, competitive textile industry that invests in its workforce. ACT brands are working together with IndustriALL on a shared vision and strategy to improve wages in the textile industry through industry-level collective bargaining supported by world class manufacturing standards and

responsible buying practices. In September 2015, ACT members and IndustriALL met with key stakeholders, including suppliers, trade union representatives, governments, GMAC and the ILO, to discuss the initiative, and explore whether and how it could be applicable to Cambodia.

industriall-union.org/industry-bargaining-for-living-wages



Focus: Fair living wages

Our Conscious Actions

2.18 Continue strategic partnership with the International Labour Organisation (ILO)

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

To achieve global change, we need strong partners. That's why in 2014, we entered into a unique partnership with the ILO to promote sustainable supply chains in the textile industry on a global, national and enterprise level.

During 2015, our collaboration around the ILO Decent Work agenda has resulted in joint projects for Ethiopia and Myanmar, which are planned to be launched during 2016. The projects are expected to create regular dialogue forums, bringing governments and representative organisations of business, workers and suppliers together in order to collectively tackle common and urgent problems in the sector.



2.19 Provide workers at H&M supplier factories with access to skills development programmes

TIMELINE	STATUS
2017	ON TRACK

Skills development is key for workers to increase their wages. It is also essential for a developing textile industry and ultimately, for our future growth. The challenge is that often skills are not sufficiently reflected in workers' wages. A highly-skilled worker may still be employed in a low-income job category. For those workers, this means few incentives to further improve their skills and a source of frustration and less development of the industry. Another challenge is that workers who may want to advance do not have access to skills certification, or they do not know about it or how to gain access to it.

Our goal is that all workers at H&M supplier factories should have access to relevant skills development programmes – and have employment and a wage that reflect their skills. As part

of this, we teamed up with the ILO and the Swedish International Development Cooperation Agency (Sida) in Bangladesh already in 2013. In a joint centre of excellence, we aim to train 5,000 factory employees until the end of 2016. So far, 1,180 students have been trained. The training and skills development are showing promising results with an emerging structure of uniform skills certifications, a growing number of Enterprise Based Trainings (EBT) and a steadily growing qualified number of workers. This ensures a stable growth of skilled workers.

>ilo.org
>sida.se

Focus: Industrial relations

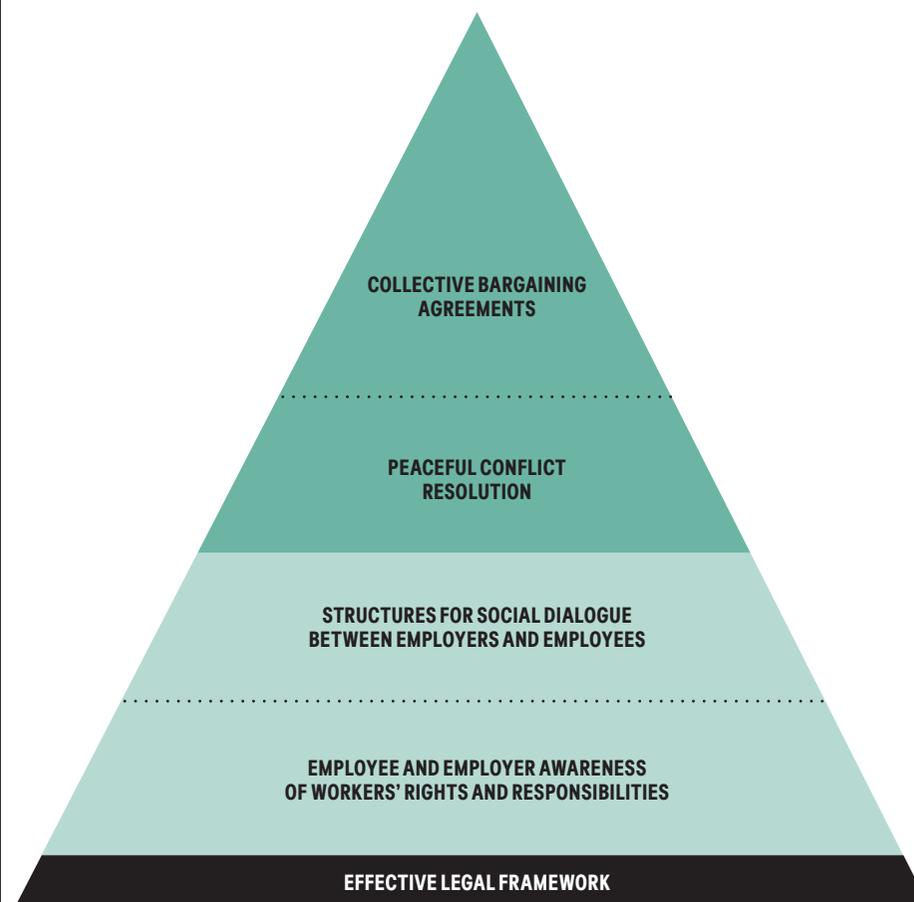
Our mission

We believe that functioning industrial relations and collective bargaining are the ultimate keys to achieving fair living wages and good working conditions in our supply chain. They also help to create stable sourcing markets and sustainable economic growth in these countries. Our [Sustainability Commitment](#) (previously 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. 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

In order to achieve fair and functioning industrial relations, we are addressing the issue directly with our supplier factories as well as on the industry and government levels. Freedom of association is a clear requirement in our [Sustainability Commitment](#). 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 (s. 2.3).

Where unionisation is restricted by law or where systems are insufficient, we work 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 develop into 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 develop the concept of solution-oriented negotiations amongst both employers and worker representatives.



Focus: Industrial relations

Our Conscious Actions

NEW 2.20 Enter global framework agreement with global union IndustriALL and together promote industrial relations globally

TIMELINE	STATUS
2015	DONE

During 2015, we signed a unique global framework agreement with the global union IndustriALL and the Swedish union IF Metall. We are joining forces to promote sustainable industrial relations and collective bargaining globally and improving the dialogue between employers and employees at H&M supplier factories. We all share the belief that collaboration and a well-functioning social dialogue are necessary for lasting improvements for the textile workers in all areas of working conditions. That includes fair living wages as well as to create a stable and growing textile industry in our sourcing markets. Development in this direction is positive for all parties – textile buyers, suppliers, factory employees, trade unions and governments. However, it is a complex issue.

Many of the countries where we operate have little experience of positive dialogue with the parties in the labour market. That’s why, as part of this agreement, together we are helping suppliers and local trade unions to solve conflicts peacefully, and primarily on the factory level where they arise. To support this, we are setting up national monitoring committees with two representatives from IndustriALL and H&M respectively. Our initial focus will be on Cambodia, Bangladesh, Myanmar, Turkey and Indonesia.

>industriall-union.org
>ifmetall.se



“Well-functioning industrial relations including collective bargaining are keys to achieving fair living wages and improved working conditions in our supply chain. We believe that the collaboration with IndustriALL and IF Metall will contribute to our already ongoing work within this field as well as help to create stable sourcing markets.”

Karl-Johan Persson, CEO of H&M

Focus: Industrial relations

CASE STUDY: The positive effects when stakeholders act together – example from Myanmar

Myanmar is currently going through a rapid political and economical transformation. The transition from military rule has resulted in economic sanctions being lifted and an influx of foreign investments providing new business opportunities. In Myanmar, there is a great desire and ambition to compete on the global market and to create a “Made in Myanmar” brand that communicates responsible and sustainable business to the industry and consumers. However, there is often a lack of awareness about what that really means, and a lack of knowledge and skills available to achieve lasting change.

Even when the awareness, intention and tools are present, practical implementation can still be a challenge. One good example is the setting of the minimum wage levels. This past summer was full of heated discussions around lunch tables and in meeting rooms, between employers, trade unions and the government. What is a reasonable daily wage? Should there be different regions with different levels? How does this impact social security, working time and all of the other related topics?

Adding to the pressure was the international attention paid to Myanmar, and the impending deadline of the national elections held in November in 2015. The dialogue was not easy, but it was inclusive and transparent, with many opportunities for consultation. The Myanmar government invited trade unions, employers and other civil society stakeholders for multiple consultations before deciding on the minimum wage. International brands, H&M included, weighed in on the process as well and submitted a joint statement supporting the consultation process and advocated for an early decision on a fair level of minimum wage.

When the new wage level was adopted and announced by the government in September 2015, there were, and still are, challenges in implementing it. We have seen confusion and conflict at H&M supplier factories about how to comply with the law and how to communicate the change to workers. Just like working to prevent labour violation, a policy or law on paper is not enough. Moreover, it is crucial that everyone involved, understands

the “what” and the “why” and the consequences in terms of business costs and workers’ compensation. As well as actions needed to be taken, for example, providing further clarification on interpretation of policies and the law, and investing in skills development to improve competitiveness of the industry.

At one of our supplier factories, starting at the end of September, there was a series of disputes between workers and management. The two main issues were communication of the new minimum wage levels and what this means for workers in terms of compensation, and the set-up of a union in the factory. Workers wanted clarity around their compensation, and there were reports that the factory management was discouraging workers to register the union. A series of misunderstandings and a lack of communication built up until the workers finally went on strike.

The workers and the management were not able to come to an agreement or a mutual understanding of events on either point. Near the end of October, H&M’s production office in Myanmar

engaged with the management of the factory and the involved national trade union federation to understand their concerns and bring both parties to the negotiating table. This process was also supported and witnessed by representatives of IndustriALL. After extensive negotiations, facilitated by H&M and IndustriALL, both parties signed an agreement resulting in resolution of the conflict. This agreement is now being implemented.

>Agreement with H&M proves instrumental in resolving conflicts

Focus: Industrial relations

Our Conscious Actions

2.21 Ensure democratically-elected workplace representation at all of our strategic supplier factories

TIMELINE	STATUS
2018	ON TRACK

Functioning industrial relations and collective bargaining are essential factors in achieving fair living wages and good working conditions. Workers must be free to form or join a trade union and be able to bargain collectively in areas such as wages. 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 all around the world, we want to set an example for the industry. Our goal is for all of our strategic supplier factories to have democratically-elected and functional workplace representation in place by 2018 at the latest.

Given widely varying pre-conditions from market to market, we are applying locally-adapted approaches to achieve this. This means that where functional union and collective

bargaining systems exist, we are continuing to help strengthen them (for example in Cambodia). Where this is not the case, we will work with our strategic suppliers to develop factory-based worker representation that is democratically-elected. As part of this, we have set up dedicated local

projects (s. 2.23, 2.24, 2.24 and 2.25). By developing a new supplier assessment method (s. 2.4), we are currently also strengthening our data collection so that we can track performance against these goals also in regard to democratically-elected workplace representation.



2.22 Expand social dialogue project in Bangladesh to reach all supplier factories

TIMELINE	STATUS
2018	ON TRACK

In 2011, we launched a social dialogue project in Bangladesh. The aim is to help supplier factories in establishing democratically-elected workplace committees and to improve the dialogue between management and factory employees. Since then, we have collaborated with external experts to train the management and workers which finally led to the free election of workplace committees that are in an active dialogue with the management.

More than 40% of the factories producing for H&M in Bangladesh are until now covered by the project. The trainings take place at our training centre in Dhaka and are all about improving the dialogue and relationship between workers and management. Both workers and management learn about workplace rights and responsibilities, as well

as bring up and solve problems through standardised procedure.

About 77 factories have performed worker representatives election, where 973 elected workers represent more than 150,000 workers in Worker Participatory Committees. Our goal is to reach 100% of the supplier factories by 2018 at the latest.

Focus: Industrial relations

Our Conscious Actions

2.23 Support an increased number of collective bargaining agreements and improve the industrial relation process in Cambodia together with the ILO/IF Metall and Sida

TIMELINE	STATUS
2016	ON TRACK

Unlike many other countries in the region, Cambodia has a history of trade union representation. The vast majority of our supplier factories in the country have trade unions in place. However, negotiations in the sector are often confrontational, resulting in major conflicts. Currently, 14%* (2014: 18%) of our supplier factories in Cambodia have collective bargaining agreements in place.

Together with the ILO, the Swedish trade union IF Metall and the Swedish International Development Cooperation Agency (Sida), we started a unique project in 2014 that will run through 2016. The aim of the project

**Data based on audits according to Full Audit Program (FAP). Decrease from last year due to changes in supplier base.*

is to increase the number of collective bargaining agreements, create best practice examples for fair and solution oriented negotiations and ultimately contribute to greater stability in the market. To achieve this, we are working jointly to improve negotiations and conflict resolution skills amongst both employers and unions and working with government institutions to help them establish frameworks that support this.

During 2015, six new Cambodian supplier factories participated in a total of 36 training sessions covering

areas such as social dialogue and collective bargaining, workplace cooperation, gender equality, labour law and dispute resolution, as well as effective communication and negotiation skills. A total of 922 union representatives and staff members participated. They represent approximately 17,000 workers.

>ilo.org
>ifmetall.se
>sida.se

“There are fewer conflicts between the management and workers because the knowledge and understanding of labour law, freedom of association and rights to organise has increased.”

Jian Li Ling (Head of J&V International Cambodia)

“Cooperation between management and unions has improved and most of the time we can work together.”

Chim Kosal (Deputy union leader, Coalition of Cambodia Apparel Worker Democratic Union, C.CAWDU)



Focus: Industrial relations

Our Conscious Actions

2.24 Engage all strategic suppliers in China in social dialogue project

TIMELINE	STATUS
2018	ON TRACK

In China, freedom of association is restricted by law. At the same time, the Chinese garment sector increasingly faces challenges such as labour shortages and turnover issues as well as labour conflicts. Recent development in Chinese legislation reflects a strong need for better employee relations and provides great opportunities for the development of democratically-elected worker committees. That's why, building on our experiences in Bangladesh (s. 2.22), we launched a social dialogue project to support our Fair Living Wage strategy in China in 2014 as well.

The aim is to promote awareness of workers' rights and responsibilities, two-way communication between management and workers, peaceful conflict resolution and collective consultation in Chinese factories. The management, HR staff, sustainability

staff, supervisors and worker representatives will take part in a series of training courses and assessments that will give them the skills and knowledge needed to have a constructive dialogue about issues that are important to workers.

We started in autumn 2014 with two strategic suppliers and since 2015, seven suppliers with a total of 8,200 workers are participating. The project trainers have initially been trained by the Swedish trade union IF Metall and we can already see some promising results. Six of these factories have performed worker representative elections. They have looked into their existing or new grievance policies, as well as how to collect, classify and respond to issues. Most importantly, the dialogue between management and employees has started in all factories in the project. The topics begin with roles and responsibilities, the aim is to also include wage-related topics in the future. We plan to scale up the project rapidly to include all of our strategic suppliers in China by 2018.

NEW 2.25 Engage all strategic suppliers in India in social dialogue project

TIMELINE	STATUS
2018	ON TRACK

The social dialogue project in India was launched in July 2015 with the objective of developing democratically-elected functional worker committees that enable workers to negotiate for rights and benefits in the workplace. The project started in collaboration with external experts to train management and workers in industrial relations.

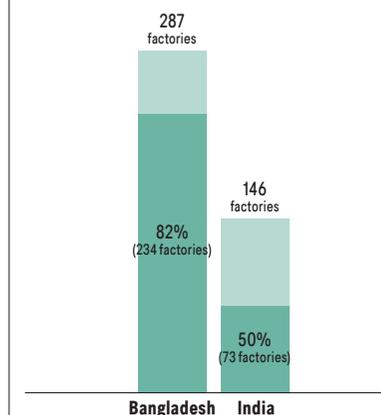
As a first step, a film-based training module was developed for factory employees, explaining the importance of workplace committees, election procedures and structures. Currently 6,800 factory employees from nine production units have undergone training. Our goal is to have democratically-elected functional committees for all of our strategic supplier production units in India by 2018.

2.26 Provide workers and middle managers in supplier factories in India and Bangladesh with training about their rights

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

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. During 2015, 234 factories out of 287 (82%) were trained in Bangladesh. In India, the number of factories was 73 out of 146 (50%).

NO. OF FACTORIES EDUCATING ABOUT WORKERS' RIGHTS



— COMMITMENT THREE —

Be ethical



Being ethical is about doing the right thing. Respecting laws and regulations wherever we operate, paying taxes accordingly and taking a clear stance against corruption. Beyond that, it also means respecting human rights and embracing diversity and inclusion. We celebrate differences both outside and within our own walls. We interact with millions of people across various countries and cultures. 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

Our Conscious Actions

There are no rules in fashion but one – recycle your clothes.

That was the core message in our diverse and inclusive 2015 campaign video “Close the Loop.”

We celebrate differences and diversity – both outside and within our own walls.

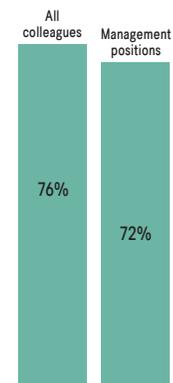


The film features **69** individuals of different, cultural backgrounds and lifestyles in locations all over the world.

We work with some of the world’s best photographers, models and style icons, aiming to inspire a **wide and diverse target group.**

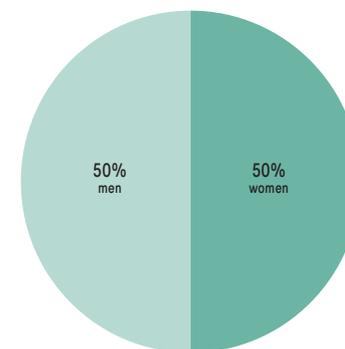
Key performance 2015

SHARE OF FEMALES AMONGST ALL* COLLEAGUES VS. MANAGEMENT POSITIONS



*Average number of employees.

BOARD OF DIRECTORS GENDER SPLIT 2015



We are one of the first companies in the world to report our work on human rights according to the UN Guiding Principles Reporting Framework.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - ANTI-CORRUPTION					
3.1	DETECT VIOLATIONS OF OUR CODE OF ETHICS	YEAR-TO-YEAR			
3.2	ENSURE THAT ALL OF OUR COLLEAGUES CONCERNED HAVE SIGNED OUR CODE OF ETHICS AND RECEIVED DEDICATED TRAINING	YEAR-TO-YEAR			
3.3	ENSURE THAT ALL OF OUR BUSINESS PARTNERS HAVE SIGNED AND ARE AWARE OF OUR CODE OF ETHICS	YEAR-TO-YEAR			
FOCUS - EMPLOYER OF CHOICE					
3.4	INCREASE EMPLOYEE SATISFACTION IN EACH MARKET	YEAR-TO-YEAR			
3.5	SET UP A GLOBAL GRIEVANCE MECHANISM	2015			
3.6	REACH ALL OF OUR COLLEAGUES WITH OUR LEARNING MANAGEMENT SYSTEM "GROW"	2016			
3.7	ENSURE GOOD WORKPLACE RELATIONS AND DIALOGUE WITH OUR COLLEAGUES AND THEIR REPRESENTATIVES	YEAR-TO-YEAR			
3.8	DEVELOPED A GLOBAL POLICY ON HIV/AIDS IN COLLABORATION WITH ILOAIDS AND SWHAP	2015			
3.9	INCREASE LEVEL OF COMPLIANCE WITH ALL SAFETY STANDARDS TO 90% IN ALL STORES GLOBALLY	2015			
FOCUS - HUMAN RIGHTS MANAGEMENT					
3.10	ASSESS HUMAN RIGHTS RISKS AND IMPACTS BEFORE ENTERING ANY NEW MARKET (PRODUCTION AND SALES)	YEAR-TO-YEAR			
3.11	ROLL OUT IN-DEPTH HUMAN RIGHTS TRAINING FOR KEY FUNCTIONS	2015			
3.12	PROMOTE INCREASED AWARENESS AND RESPECT FOR HUMAN RIGHTS AND EQUALITY BY PARTNERING WITH CIVIL RIGHTS DEFENDERS	2016			
3.13	ENSURE COMPLIANCE WITH OUR PRIVACY POLICY	YEAR-TO-YEAR			
FOCUS - DIVERSITY AND EQUALITY					
3.14	ENSURE COMPLIANCE WITH OUR ANTI-DISCRIMINATION, EQUALITY AND HARASSMENT POLICIES	YEAR-TO-YEAR			
3.15	UPDATE OUR DIVERSITY POLICY AND ENSURE COMPLIANCE	2015			
FOCUS - RESPONSIBLE MARKETING					
3.16	ENSURE COMPLIANCE WITH OUR ADVERTISING POLICY	YEAR-TO-YEAR			

Focus: Anti-corruption

Our mission

Corruption is a challenge in many of the markets where we operate. We apply a zero tolerance policy and take a proactive approach in preventing corruption. Furthermore, mutual trust and transparency are essential to the way we want to do business and are expected in all of our relationships, including those with our colleagues and business partners.

With our Code of Ethics as our backbone, building awareness, providing education and maintaining a no-gift policy and zero tolerance policy are effective tools in preventing corruption.



Our strategy

We make a point of acting with integrity at all times. In early 2013, we underlined this commitment by becoming a corporate member of Transparency International Sweden.

We have a strong anti-corruption programme in place. Our focus is on preventing corruption through a set of different tools. Our Code of Ethics builds the foundation and outlines clear requirements. It is based on our corporate business values and often goes beyond some of the strictest regulations and legislation. It ranges from our commitment to legal compliance in the countries in which we operate to not accepting or facilitating any form of corruption and a clear no-gift policy.

We conduct regular corruption risk assessments. The Code of Ethics applies to all of our business partners* and colleagues working in our offices around the world** as well as our store management. We have made it mandatory for all business partners and concerned colleagues to sign our Code and we provide dedicated training. We have internal audit systems and a whistleblowing procedure in place

whereby potential breaches can be reported confidentially, anonymously and without any risk of reprisal. We follow up on reported incidents thoroughly. In all of our business relations, our focus is on achieving the greatest possible transparency, helping us to further prevent corruption from occurring and to detect any non-compliance.

hm.com/policies

**Including product suppliers as well as any other business partners.*

***Including our Board of Directors, managers at all levels, colleagues in all different positions as well as in-house consultants and temporary employees, country offices, regional offices, production offices and logistics offices.*

Focus: Anti-corruption

At H&M we have a clear no-gift policy.

Our Conscious Actions

3.1 Detect violations of our Code of Ethics

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Rather than aiming at zero cases on paper, our goal is to actually find the cases where our Code of Ethics has been violated. In 2015, we investigated 33 incidents of potential non-compliance (2014: 30, 2013: 36). These investigations led to actions in 25 cases* (2014: 18, 2013: 18); of which 17 terminations and eight warnings including both colleagues and business partners. Investigations were conducted based on direct reports from our business partners and employees who made use of our open-door policy, complaint procedure and whistleblowing instruments (p. 60). Most of the cases concerned corruption, requests for money and personal favours as well as conflict of interest and theft. There has been no public legal case regarding corruption brought against the company and /or any of our employees during 2015.

>hm.com/anticorruption

*Please find an independent assurance statement related to GRI G4 SO5 here (p. 123).

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

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

All colleagues working in our offices around the world,* as well as store management, are required to sign our Code of Ethics, receive relevant training and comply with it. To maintain this systematically, we have made the signing of our Code of Ethics a routine element when entering new employment contracts globally.

Signing the Code of Ethics is no guarantee that individuals are fully aware of its content and meaning, or more importantly, that they feel confident complying with it. Education and training are therefore most certainly needed. We have made this a mandatory element of our training for all concerned colleagues and the

**Including Board of Directors, managers at all levels, colleagues in different positions as well as in-house consultants and temporary employees, country offices, regional offices, production offices and logistics offices.*

education rates for markets identified as high risk have continued to increase to 85% in 2015 (2014: 83%, 2013: 60%) and to 74% across all markets, despite the speed of our continued growth.

We have intensified our training programmes for managers. They are role models for their teams, colleagues and business partners and ultimately responsible for implementing our values and routines. We equip them with the necessary tools to take this responsibility through an additional tailor-made corruption risk assessment workshop. We started with priority sourcing in markets such as China and Bangladesh as well as our head office functions in 2014 and continued with sales markets in 2015.

In 2015, we also developed a new training programme. Since February

2016, all colleagues signing our Code of Ethics should undergo this mandatory e-learning course within the first month of their employment. However, the training is also mandatory for those colleagues that for whatever reason have not participated in a Code of Ethics workshop yet or did so a long time ago. The purpose is to provide deeper knowledge about the Code, how to relate to it in daily work and as a support so colleagues know how to act when representing H&M in a business context. In addition, in April 2016, a new dilemma workshop was conducted discussing the Code of Ethics' what, why and how it will be implemented throughout the H&M Group. It targets our colleagues who are part of the purchasing process, are doing business on behalf of H&M, or in any form have influence on business decisions.

3.3 Ensure that all of our business partners have signed and are aware of our Code of Ethics

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

We have had our Code of Ethics in place since 2003 and all of our business partners are required to sign it. In 2012, we updated our Code to clearly state that any kind of bribery including facilitation payments will always be addressed and may result in the termination of our business relationship. To date, 100% of our commercial goods suppliers, our biggest group of business partners, have signed our Code and received dedicated training. By not accepting any kind of corruption or bribery, we want to contribute to positive value building in all of our markets. In particular, we are focusing on high-risk countries such as Cambodia, Bangladesh and Russia. High-risk countries are identified through our assessments and, for example, Transparency International's Global Corruption Perception Index.

100% of our commercial goods suppliers have signed our Code of Ethics and received dedicated training.

Focus: Employer of choice

Our mission

Working at H&M means working in an inspiring, fast-paced, exciting and ever-changing environment with numerous career opportunities. We want to be the employer of choice, both for our current 148,000 colleagues and for future talents as we continue to grow rapidly. Our expansion target is to increase the number of stores by 10–15% per year. This involves attracting thousands of new future colleagues over the coming years. And we need to retain and develop the talents we already have.

Our company is built on solid foundations. Our business concept “Fashion and quality at the best price in a sustainable way” is as clear as our values, which are based on fundamental respect for each individual and include a firm belief in our people. Other values that are lived throughout our organisation are teamwork, simplicity, entrepreneurial spirit, cost consciousness, straightforwardness and openness, as well as striving for constant improvements.

Being a good employer is particularly important in countries where laws and regulations fall short of our own standards and requirements. Wherever we operate, we need to ensure that our corporate values pervade our organisation. When we do business “the H&M way” we do so ethically, honestly and responsibly. We continually encourage our suppliers and other business partners to do the same.

Our strategy

We recruit from within the company wherever possible and provide training and regular performance reviews for all of our colleagues. Wherever we operate, we follow the same strong corporate values and ethical standards. We believe in people and encourage new ideas and initiatives. We keep hierarchies low, provide a wide range of benefits adjusted to local needs and contexts and promote teamwork. Through the H&M Incentive Program (HIP), all of our colleagues benefit from the company’s success on equal terms, regardless of their position, after staying with us for at least five years.

We promote diversity and strive to have good relations with all of our colleagues and the employee associations and trade unions that represent them. This also includes ensuring a healthy working environment and good work-life balance. We survey job satisfaction anonymously and have made this a key measurement for all of our business units.

>hm.com/career



Focus: Employer of choice

Our Conscious Actions

3.4 Increase employee satisfaction in each market

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

Being an attractive employer is very important to us. Since 2012, we have surveyed our colleagues across our sales markets anonymously to get feedback on how they feel about working at H&M. Overall, satisfaction has been good, but it also varies from market to market. As each market is unique, we tailor solutions to explore and share examples of best practice. All markets have set individual goals to increase employee satisfaction. We have made these goals one of the key measurements for each market and integrated them in our global performance review tool, our 4C scorecard (Cash, Customers, Colleagues and Conscious). On top of that, we have included up to three key performance indicators for each of these categories which are reviewed annually by our CEO with each market.

We want to remain being an equal opportunities employer and the

employee satisfaction surveys help us analyse and identify areas for improvements. Going forward, we plan to conduct these surveys on an annual basis. The Great Place to Work Institute will help us follow up on our continued performance.



3.5 Set up a global grievance mechanism

TIMELINE	STATUS
2015	DONE

Straightforwardness is one of our corporate values. We have an open-door policy and encourage a frank and respectful dialogue. We genuinely want to know how things are going. For many years, we have had a global complaint policy in place that provides guidance and protection for anyone who, in good faith, lodges a complaint. So far, any complaints that have been registered have been followed up market by market.

To gain better knowledge of the extent and content of such complaints and to share best practice amongst our markets, we set up a global grievance mechanism in 2015. It is accessible for anyone working at H&M and follows a neutral solving process. The first data evaluation will take place at the end of 2016.

3.6 Reach all of our colleagues with our learning management system "GROW"

TIMELINE	STATUS
2016	ON TRACK

We have implemented our global learning management system GROW in almost all of our markets. Today, 80% of our colleagues are covered by the system and with the expected roll-out in the US and Germany in 2016, nearly all of our colleagues will be included during the year.

GROW allows our colleagues to manage their training, get access to additional optional e-learning and classroom courses and test their knowledge. Sustainability training is one of our mandatory training courses for all colleagues (s. 1.10). Additional modules cater to role-specific needs.

>hm.com/fairpartner

Focus: Employer of choice

Our Conscious Actions



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

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

As our Global Framework Agreement with UNI Global Union clearly states, we as a company and our colleagues are jointly responsible for complying with the International Labour Organisation'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. Employees are also represented on the board level. Besides various engagements on the 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 largest sales countries including Germany, France and Sweden.

With our continued global growth, we sometimes face very specific challenges

and in some cases less mature labour regulations and systems for workplace relations. In China, for example, unionisation is restricted by law. This is gradually reducing the ratio of colleagues who are covered by collective bargaining agreements, mainly because we have an increasing number of colleagues in markets where these do not sufficiently exist.

>hm.com/fairpartner
>uniglobalunion.org

3.8 Develop a global policy on HIV/AIDS in collaboration with ILOAIDS and SWHAP

TIMELINE	STATUS
2015	DONE

During 2015, we opened our first stores in South Africa. This is our first presence in Sub-Saharan Africa and a step into a new market that presents great opportunities, for us as well as the community. It also raises new challenges. About 18% of the South African population between the ages of 15 and 49 live with HIV,* one of the highest rates in the world. For this reason, we teamed up with the ILOAIDS, the UN's lead agency for HIV/AIDS policies and programmes in the world of work, and SWHAP, the Swedish Workplace HIV/AIDS Programme, to discuss how we as an employer can ensure the best possible working environment and support for colleagues who are HIV positive.

*Source: cia-gov.

Besides a global policy, we developed a prevention programme that will be applied in regions with higher HIV/AIDS prevalence. The programme includes preventive activities as well as access to treatment and care for employees.

>iloaids.org
>swhap.org

Focus: Employer of choice

Our Conscious Actions



3.9 Increase level of compliance with all safety standards to 90% in all stores globally

TIMELINE	STATUS
2015	MORE TO DO

We want to guarantee an inspiring and safe environment for our colleagues and customers. We have clear safety requirements and guidelines in place that all stores must follow. We monitor compliance through regular store audits and routinely update our audit form. In 2015, we conducted over 4,500 audits and found a compliance rate of 86% (2014: 84%) with our safety requirements. While this is a positive tendency, it means that we have not yet reached our target of 90% compliance and we will continue working towards this during 2016.

One of the most common challenges for our stores is to provide new colleagues with safety training on their first working day. Another challenge is that some of our stores perform only one instead of the required two evacuation drills per year. In order

to address any such non-compliance, after each audit we create action plans to tackle any non-compliance systematically. We provide different kinds of safety training ranging from mandatory emergency evacuation practice to more role-specific training and run an annual internal safety week to further strengthen awareness of the high importance of workplace safety. The theme of our Global Safety Week 2015 was “Constant improvement,” which was a great opportunity to improve our safety awareness in our stores, distribution centres and offices around the world.

Focus: Human rights management

Our mission

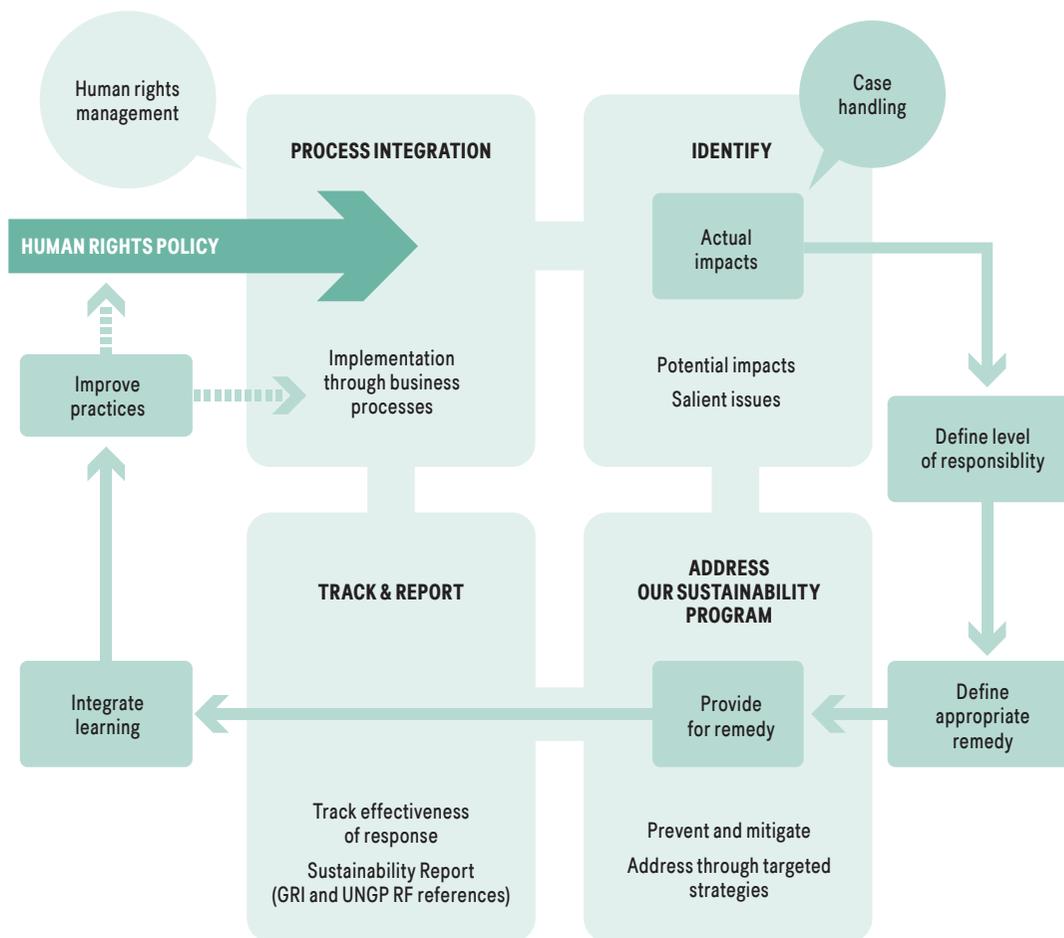
We believe that respecting human rights should be a fundamental part of any successful business. We have operations and suppliers in countries where human rights breaches may occur. The human rights impacts of our business can take many forms – from our customers’ data integrity to fundamental human rights along our value chain. As a result, we recognise our responsibility to provide for remedy when an adverse human rights impact is connected to our activities. We want to use our influence beyond our formal and legal responsibilities to respect human rights, be a force for positive change in the communities we touch and have a positive impact on people’s lives.

Our strategy

Our stand for human rights is manifested in our Human rights policy, which is based on the UN Guiding Principles on Business and Human Rights. It defines our responsibility to respect human rights by remediating actual impacts on people and to prevent potential impacts throughout our value chain.

To have a comprehensive understanding of these impacts and identify how to most effectively address them, we regularly assess the human rights impacts and risks of our business. We take global as well as local perspectives into account. We do this, for example, before entering a new market (s. 3.10).

Globally, there are many challenges related to respect for human rights. For this reason, it is important for us to determine which human right who are the most salient. That is, which human rights are at risk of the most severe negative impacts within our operations and our value chain. We also look at how likely it is for an impact to occur and we integrate input from internal and external stakeholders into our assessment.



Focus: Human rights management

Based on this method, and in line with the [UNGP Reporting Framework](#), we have identified ten salient human rights issues for our business. These are: Fair Living Wage, Health and Safety, Forced Labour, Discrimination and Harassment, Child Labour, Freedom of Association and Collective Bargaining, Social Security, Land Rights, Working Hours and Access to Water. For further information on our salient human rights issues, how they were defined, where they constitute a prominent risk as well as how we address them, see pages 128–129.

We have specific social policies that guide our work on human rights, such as our [Sustainability Commitment](#), our diversity policy (s. 3.15), our advertising policy (s. 3.16) and our privacy policies (s. 3.13). Grievance mechanisms (s. 3.5) and assessment systems (s. 2.4) are in place to ensure the effectiveness of our policy implementation. We conduct regular surveys amongst our colleagues (s. 3.4), suppliers and their workers (s. 2.2) and our customers, which include their perception of H&M's sustainability programs.



In addition, we encourage respect for human rights through a set of other engagements such as public policy (see for example s. 2.7, 2.20, 4.6 and 5.1), stakeholder dialogues (pages 126–127) and partnerships.

As human rights concern all parts of our business, tools to assess and manage our impacts are continuously and increasingly integrated across our organisation and are therefore a vital part of all of our seven commitments.

- >hm.com/policies
- >hm.com/memberships
- >ungpreporting.org
- >hm.com/stakeholderdialogue

Focus: Human rights management

Interview with Prof. John Ruggie, former UN Special Representative for Business and Human Rights, author of the UN Guiding Principles on Business and Human Rights

Why is it important for businesses to address human rights questions?

Negative human rights impacts are, simply put, the most severe economic, social or environmental impacts a company can have on people. No business today can expect to be sustainable if it is not addressing these issues, both in its own operations and in its value chain.

In your experience, what are the biggest human rights impacts for a company like H&M?

For companies like H&M, with a complex supply chain including manufacturing, labour rights will be a necessary and important focus. This is particularly the case wherever low-skilled workers are involved, where legal minimum wages are excessively low or absent, where there are high proportions of migrant workers and workers on short-term contracts or where the labour supply is outsourced. These are all situations that can make workers particularly vulnerable to abuse. Where this is the case, the right to freedom of association becomes particularly critical since it is an enabling right for so many others, giving workers a much needed voice. Companies also need to look beyond

labour rights to issues such as the rights to access to clean water and sanitation and to privacy. Land-related human rights are an increasingly important issue for many other companies. It's important to look carefully across the range of internationally-recognised human rights to be sure there are no blind spots or false assumptions as to where the most severe impacts might lie.

What are the most common challenges for companies when addressing human rights impacts?

It is often the case that companies cannot achieve the necessary results alone. To fully understand human rights impacts, be alert to risks and identify optimal responses to them, they will often need to engage actively with those people who are at risk and their representatives, as well as talking to experts with deep knowledge of the issues and the contexts where they arise. Many human rights impacts are systemic, such as child labour or forced labour, or their underlying causes are systemic, such as building safety in Bangladesh or the lack of freedom of association in various jurisdictions. These all require a much more open culture within and

between companies that fosters dialogue and collaboration.

How do you see the area of business and human rights progress in the years to come?

Companies that embrace the need to engage, collaborate and innovate for solutions to these challenges will see increasing rewards as regulators, investors, financiers, business partners and consumers place increasing emphasis on companies' human rights performance.

Moreover, business has a critical role to play in achieving the Sustainable Development Goals. This role must be founded on respect for human rights and not on philanthropy or social investment, much as they too are needed. Sustainable development depends not just on generous business, but first and foremost on responsible business. Those companies that understand this will themselves be more sustainable.

Why should companies report according to the UNGP Reporting Framework?

The UN Guiding Principles talk about the need for companies to know and show that they are respecting human rights in practice. There are various ways to show – to communicate – what a company is doing to meet its responsibility to respect human rights. An essential one for many companies is their formal reporting. Indeed, we see a rapid growth in regulations demanding improved human rights reporting, as well as ever more vocal demands from investors and other

stakeholders. The UN Guiding Principles Reporting Framework equips companies to meet these expectations.

What added value does this framework have compared to existing ones on business and human rights?

The UNGP Reporting Framework is the only comprehensive framework for reporting on human rights in line with the UN Guiding Principles. It enables companies to supplement GRI reporting with more complete human rights information.

One of the framework's most important features is that it is not about reporting for the sake of reporting. It is not about indicators or data taken out of the context in which they need to be understood. It offers a set of smart questions – questions to which companies need to have answers to be sure they are understanding and managing risks to human rights. In short, they help you 'do the doing' of respect for human rights. Then it's a simple step to show what you are doing as well.

> ungpreporting.org
> hm.com/gri

Focus: Human rights management

Top management has received in-depth training on human rights and responsibility. We will continue the roll-out in the organisation in 2016.

Our Conscious Actions

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

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Our human rights policy commits us to conducting human rights risk and impact assessments before entering new production or sales markets. This goes for all production markets that we have added since 2013 (Ethiopia, Kenya, Myanmar). We have extended these assessments to also include existing production markets defined as high risk. In addition, we have assessed all new sales markets* that have opened since 2014 and that are planned to be opened in 2016. This includes conducted risk assessments for all new sales markets opened in 2015 (Taiwan, Peru, Macau, India and South Africa).

In such assessments, we carefully analyse, for example, the human rights situation in a market and ultimately, if our presence is likely to make a positive difference for the

people in this community.

Risk assessments do not only help us to identify risks and impacts that are particular to the local context, but they also allow us to become involved and learn from local stakeholders at an early stage in the assessment process. They also help us find opportunities for continuous improvements in our work. For example, when entering the South African market, we quickly identified the need to address the issue of the high prevalence of HIV/AIDS. Together with partners such as ILOAIDS, we took this local learning further and formed a new global policy that guides us in how to address HIV/AIDS issues amongst our colleagues around the world (s. 3.8).

**Australia is defined as a low risk market, and therefore a less comprehensive assessment conducted.*

3.11 Roll out in-depth human rights training for key functions

TIMELINE	STATUS
2015	ON TRACK

In 2014, together with the independent nonprofit organisation Shift, we developed an in-depth training programme on human rights and responsibility with its basis in the UN Guiding Principles on Business and Human Rights. In 2015, the training was conducted for top management in both our sales offices and our production offices as well as key roles in functions such as Sustainability, HR and Legal. Through a practical approach, the training aims to provide insight into actual and potential human rights impacts and equip our colleagues with hands-on knowledge and tools to assist in the implementation of our human rights policy. In 2016, we will continue the roll-out of the training and customise it further to provide relevance to specific business functions and roles.

>shiftproject.org

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

TIMELINE	STATUS
2016	ON TRACK

In 2014 we entered into a partnership with Civil Rights Defenders. We are contributing with SEK 4 million over a period of three years to support their work for human rights globally. One example of projects supported in 2015 is the Civil Rights Defenders' Natalia Project, which aims to protect human rights defenders at risk.

>civilrightsdefenders.org

3.13 Ensure compliance with our privacy policy

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

We have privacy policies in place committing us to ensuring that the privacy of all data concerning our customers, employees and job applicants. All customer data used in connection with our online shops is held centrally and subject to strict Swedish data-privacy laws. Any complaints are handled by the responsible departments, for example, our customer service centres. Where needed, we have a head office data privacy team that helps resolve issues. As data privacy cannot be taken seriously enough, we continuously work to improve our systems and processes.

Focus: Diversity and equality

Our mission

We see diversity and inclusiveness as major assets to the company. The majority of our customers and colleagues are women. This should be and is well reflected in our management. We need to ensure that we live our values in our around 3,900 stores as well as in our offices and warehouses in all of our markets.

We promote everyone 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 essential parts of our company culture, and we celebrate differences both outside and within our own walls. To make sure they pervade the organisation, we have integrated them into our shared values. In addition, we have a global diversity policy (s. 3.15) in place, as well as an anti-discrimination and equality and harassment policy (s. 3.14). We check how well our stores, offices and warehouses comply with these policies through regular assessments and we have clearly communicated local and global grievance procedures in place.

Our aim is to achieve full compliance with these policies. Outside of our own walls, we want to take responsibility for the messages in our advertising, and always strive to promote diverse looks and equality.



Focus: Diversity and equality

Our Conscious Actions

3.14 Ensure compliance with our anti-discrimination, equality and harassment policies

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

All of our stores, offices and warehouses* report on compliance with our policies and routines annually. This includes our anti-discrimination and equality policy, as well as our harassment policy. Our goal is to maintain a high level while improving our audit routines to detect any non-compliance. The global grievance mechanism (s. 3.5) is one valuable tool in this important work, but we are also preparing to set up a firm audit process that we expect to have in place in 2017.

*Franchise operations not included.

3.15 Update our diversity policy and ensure compliance

TIMELINE	STATUS
2015	MORE TO DO

Diversity is a natural part of our culture, just as openness and tolerance. About 76% of our colleagues are female and it's integral to our operations that leadership reflects that. Some 72% of our managers and 50% of our board members are women. However, to ensure that we live up to these ambitions especially when entering new markets, we have had a global diversity policy in place for many years. Through our internal audits, we have found that the vast majority of our stores, offices and warehouses have implemented it. To make the policy even stronger, we are updating it and will roll it out during 2016. We also plan to further strengthen our tools to follow up on the implementation through the new global grievance mechanism (s. 3.5), a remedy process in case of any breach of our social policy standards (s. 3.5).

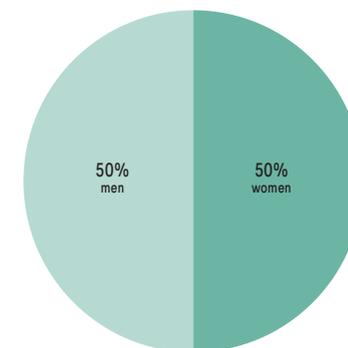


SHARE OF FEMALES AMONGST ALL* COLLEAGUES VS. MANAGEMENT POSITIONS



*Average number of employees.

BOARD OF DIRECTORS GENDER SPLIT 2015



Focus: Diversity and equality

Case study: Promoting female leadership at DBL Group, Bangladesh



DBL Group is one of our most important suppliers and also one of the biggest garment producers in Bangladesh. They show strong sustainability performance and are one of few suppliers publishing their own [sustainability report](#). However, their share of female workers has been below the country average of around 80% and all of the 164 sewing line supervisors have been men. While working to recruit more women in general, they also initiated a training programme to help female workers progress into leadership positions.

Over a period of two months, they provided 24 training lessons on topics such as leadership, counselling and other skills to female factory workers. After this training programme, now 26 sewing line supervisor positions are filled by women. One of them is Khadiza Begum, who conducted the training in 2015. She used to work as Junior Sewing Operator before, one of the most junior positions in a factory with a monthly income of some BDT 8,100 (USD 100/EUR 93). With this promotion, she now earns almost 50% more and has responsibility for 30 people

on her team. “As a female supervisor I am able to address issues of female workers within the sewing lines that previously were not addressed by males supervisors. Female issues are best understood by a female,” she says.

DBL is continuing the training programme to create more leadership opportunities for women and further improve gender equality: “Our vision is to be the most attractive employer for the female workers in the textile industry of Bangladesh,” says Mohammed Zahidullah, Head of Sustainability at DBL.

>dbl-group.com

Focus: Responsible marketing

Our mission

Our advertising campaigns are one of the many ways we communicate our business idea. They have a broad impact in our 61 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 the highest possible integrity and privacy.

Our strategy

All of our campaigns are created centrally at our in-house marketing department at the head office in Stockholm. For many years, we have had an advertising policy in place that entails taking responsibility for the impact of our advertising around the world and choosing models and images that convey a positive message. This is very important to us, and we are aware that we, as a major market player, have a responsibility. We want all of our marketing to show our fashion in an inspiring way, and include a wide range of models. Consequently, we collaborate closely with the modelling agencies we work with. During the past year we met all the big agencies to clarify our guidelines and advertising policy – meetings we believe were well received.

Our advertising policy, our campaigns, and the way we work are things we constantly discuss internally and with the creatives we work with. Last year, we developed guidelines clarifying how we work with the finishing of images and how we continuously manage and review our images. However, there are no objective answers to what is a healthy look. This needs to be an



ongoing discussion in our daily work, and we also welcome a discussion within our whole industry.

We regularly conduct customer surveys to measure the feedback from our campaigns and are happy to see that they are generally well appreciated.

And we always aim for constant improvement and strive to consider any feedback that we receive right from the start of any campaign we create.

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

Focus: Responsible marketing

Our Conscious Actions

3.16 Ensure compliance with our advertising policy

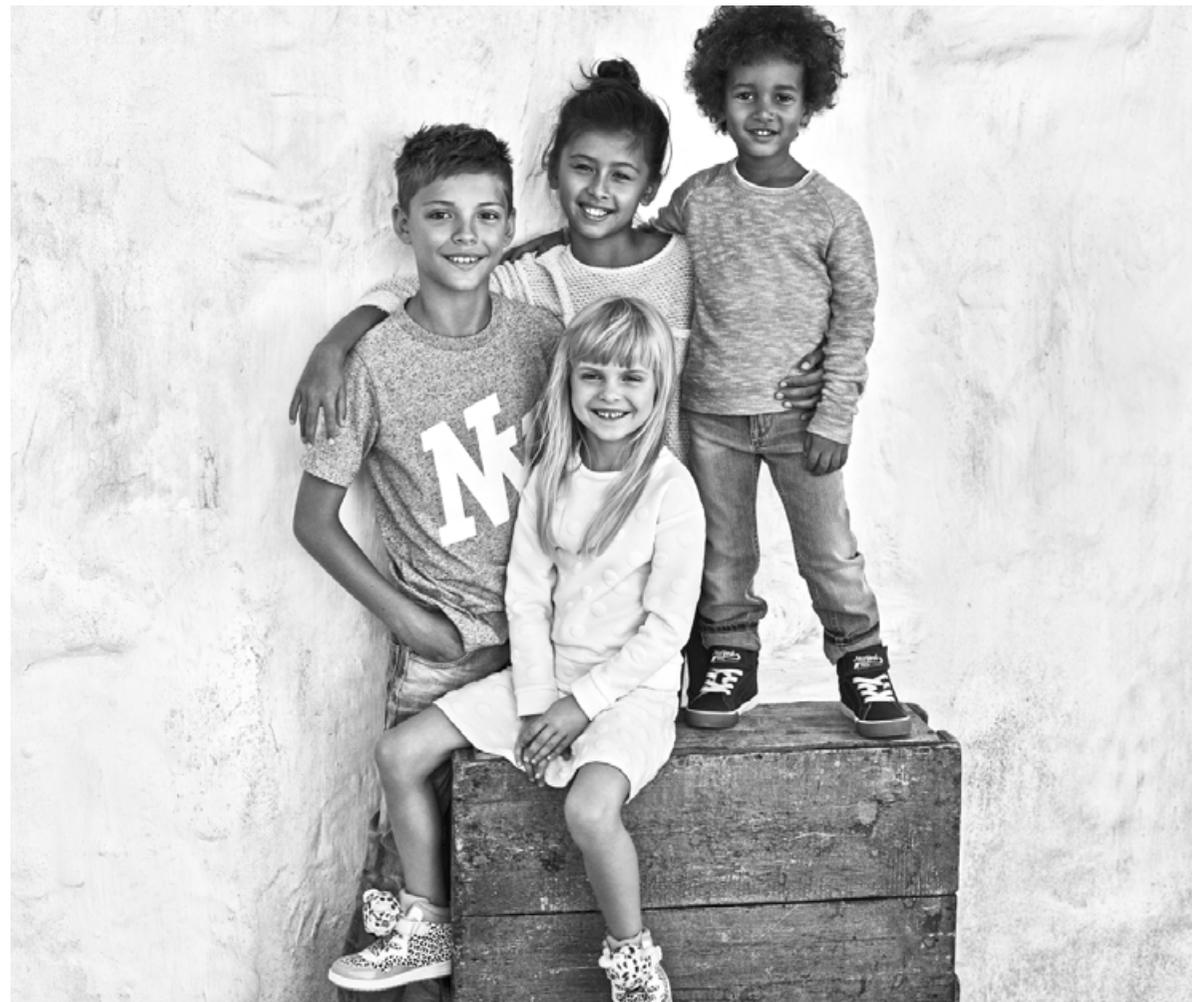
TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

Our advertising has a broad impact on many people in our 61 sales markets. In all marketing we do, our advertising policy commits us to featuring models with different looks, styles and cultural backgrounds. This is done throughout all of our marketing channels and through digital media.

Of course, we want our advertising to inspire as many people as possible and we include a wide and diverse target group. The challenge we face is to balance individual and cultural perceptions, customer demands, diversity of models, looks and attitudes and at the same time produce high-fashion images and messages that support current trends and our customer offering in an inspiring way – without conveying any specific ideal or encouraging a certain choice of lifestyle. We try to take all of these aspects into consideration right from

the start when we plan our campaigns and constantly improve our internal routines and systems to ensure this. For example, we follow multi-tier check systems for each image and produce an even larger variety of images at each shoot. Accordingly, during 2015 we received a lot of positive feedback on our campaigns, particularly on the [video](#) that promotes the reuse and recycling of clothes.

>hm.com/responsiblemarketing



— COMMITMENT FOUR —

Be climate smart



Scientists are convinced that if global temperatures will increase by more than 2°C by 2050, compared to pre-industrial levels, the most serious consequences of climate change will be irreversible.* This is a threat to all of us and there is just no other way than to act now.

One important achievement of the 2015 Paris Climate Conference, COP21, was the establishment of a global focus to drive change to ensure a sustainable climate that contributes to continued growth, better welfare for more people, functional ecosystems and a safe environment. This affects us all in a positive way. H&M supported the COP21 process prior to the meetings as well as participated in the meetings in Paris in December 2015.

At H&M we have worked to reduce our climate impact for a long time and we are continually increasing our focus. We will keep supporting innovation in technology enabling more environmentally friendly materials and processes. We will also continue to work for 100% renewable electricity in our own operations wherever there are credible

renewable energy certificates which meet our evaluation criteria for quality and impact.** We are committed to set science-based targets to push our value chain into more sustainable operations.

With the increased global focus on the climate, we are happy to see initiatives like the Earth Statement and Fossil Free Sweden, both of which we support. We see this momentum as an opportunity for us, and everyone else – politicians, industry colleagues and civil society – to make a change here and now. Together with our partners, we are raising our voices to call on governments for strong climate commitments and effective legislation. It is fundamental that we do not let this moment pass, but instead see it as a possible step into a new economy for companies and nations.

>earthstatement.org

>government.se

*Source www.ipcc.ch.

**Our criteria includes the stimulation of demand for new renewable energy capacity through solutions which are commercially viable. H&M purchases REC certificates in North America and GO certificates in Europe where available. We continuously monitor the rapidly evolving options for the rest of the world and are currently investigating newly emerging schemes such as I-REC in Asia-Pacific and Latin America, to effectively expand our renewable energy commitment to relevant markets.

Performance overview

This sweatshirt is made with **100% organic cotton**.

Organic cotton has **46% less carbon impact** than conventional cotton.

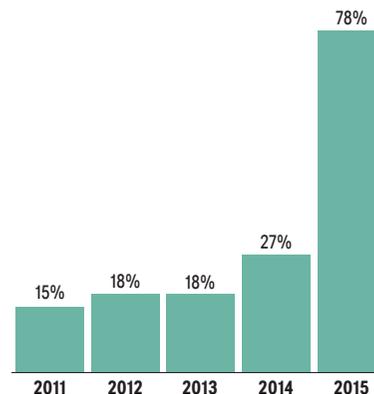


About **26%** of the carbon emissions in its life occur when it's **washed and cared for at home**.

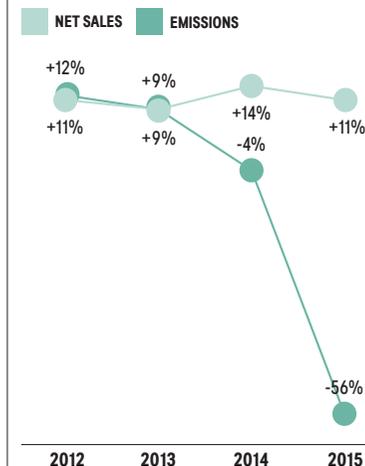
Washing at **30°C** instead of **60°C** will cut energy use in half and save you money, too.

Key performance 2015

% OF RENEWABLES IN OUR OWN TOTAL ELECTRICITY USE



CHANGE IN TOTAL CO₂e EMISSIONS TO PREVIOUS YEAR IN % (SCOPE 1+2) VS. GROWTH IN SALES (IN LOCAL CURRENCIES)



In 2015, we reduced our total emissions further by **56%** compared with 2014.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - EMISSIONS FROM OUR OWN OPERATIONS					
4.1	ONLY USE RENEWABLE ELECTRICITY*	2015			
4.2	REDUCE OUR OPERATIONS' TOTAL GREENHOUSE GAS EMISSIONS	2015			
4.3	REDUCE ELECTRICITY USE IN H&M (BRAND) STORES BY 20% PER SQM, COMPARED WITH 2007 BASELINE	2020			
FOCUS - EMISSIONS ALONG OUR VALUE CHAIN					
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			
4.5	DEVELOP A METHOD TO REPORT ON VALUE-CHAIN GREENHOUSE GAS EMISSION REDUCTIONS	2015			
4.6	ALIGN WITH BEST PRACTICE IN RESPONSIBLE CORPORATE ENGAGEMENT IN CLIMATE POLICY	2016			

*In all the markets where H&M's criteria for renewable electricity are considered met.

Focus: Emissions from our own operations

Interview with Marco Lambertini, Global General Director, WWF International

Are you satisfied with the climate agreement reached in Paris?

The Paris agreement on climate change was historic and a truly unprecedented demonstration of global political will to take action on climate change. It sent the necessary signals to markets and investors that there is determination to exit a fossil fuel-based economy. But an agreement and action are two different things. The test for Paris will be in 2020 when we review the implementation of the agreement.

Now the pace of this transition is key. Success or failure depends on whether we can move at the speed and scale needed to contain climate change within the boundary of 1.5°C that science tells us we should absolutely not exceed. Through the abolition of fossil fuel subsidies and export credits that fund coal plants, the creation of carbon tax and the redirection of private and public investment towards renewable energy, we will massively accelerate the transition. We must build on the formidable momentum generated in Paris in 2015 and unite the public and private sectors to embrace and accelerate the much-needed transition to an ecologically-sustainable development model.

And we have already seen important actions: China's ban on new coal mines and the closure of more than a thousand existing coal mines, increased investments in renewable energy, and new mega solar projects in Morocco, Rwanda, UK, China and Japan are all evidence that the transition is underway.

What do you think companies like H&M should do to help put this agreement into practice?

We know that the days when environmental destruction was an acceptable cost of progress are over. But more than doing no harm, companies are embracing sustainable practices – often above and beyond what is required by regulation – to make them more competitive and more attractive to employees and customers. Perhaps even more importantly, a climate- and ecologically-friendly strategy is key to reducing risk and ensuring long-term business sustainability. With their ability to innovate and take action at scale, companies like H&M have the potential to make profound contributions to mitigating climate change by becoming more energy efficient and transitioning to renewable energy. They also need to green their supply chain to avoid harm to freshwater sources, forests and biodiversity while supporting equality and social development.

Are private businesses setting out to be ahead of governments on the climate agenda?

A number of proactive companies have

taken impressive climate action over the past years. Such companies play an important role in setting positive examples that can dispel myths about the cost of switching to low-carbon, renewable energy sources.

However, there is still much more to be done to bring companies on board, incentivised and supported by clear regulations that offer firm guidance and a level playing field for businesses around the world.

Where do you see the biggest challenges ahead for H&M in tackling climate change?

Fashion is a complicated business involving long and varied supply chains of production, raw materials, textile manufacturing and clothing construction. The social dimensions are equally complex. A big challenge for H&M is that the majority of carbon emissions occurs indirectly in the value chain and thus outside of H&M's direct control. This is clearly where efforts have to be directed. As the second largest player in its sector, H&M has strong connections with its supply chain and its customers. The transformational role of H&M

is massive and could drive the whole sector.

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

I would like to see H&M continue and accelerate its commitment to ecological sustainability and social equity. WWF applauds H&M's dedication to sustainability, including the strong focus on circular fashion and the recent signing up for "science-based targets" on climate change. As next steps, we encourage H&M to set ambitious and inspiring targets to reduce direct and indirect greenhouse gas emissions, develop a roadmap to achieve those targets and lead the whole sector toward them. For a truly sustainable future where people live in harmony with nature, we need to change the way we produce and consume and find solutions that generate prosperity, equality and a healthy environment. Our own prosperity, economy and well-being, as well as the future of the wonderful diversity of life on our planet, are inextricably linked and depend on healthy and functioning natural systems. Here, we believe H&M can play a leading role in making sustainability an enduring fashion.

Focus: Emissions from our own operations

Our mission

The consequences of climate change will affect us as everyone else on our planet, including our suppliers, colleagues and customers. We want to do everything we can to reduce climate impacts from our stores, offices and warehouses. Even though retail is a relatively low-carbon business, we want to set a leading example. We are committed to using only renewable electricity, thereby reducing our emissions to a minimum below what science tells us is needed for keeping global warming well below the expected 2°C increase by 2050. And not least, further increasing our energy efficiency helps us reduce costs.

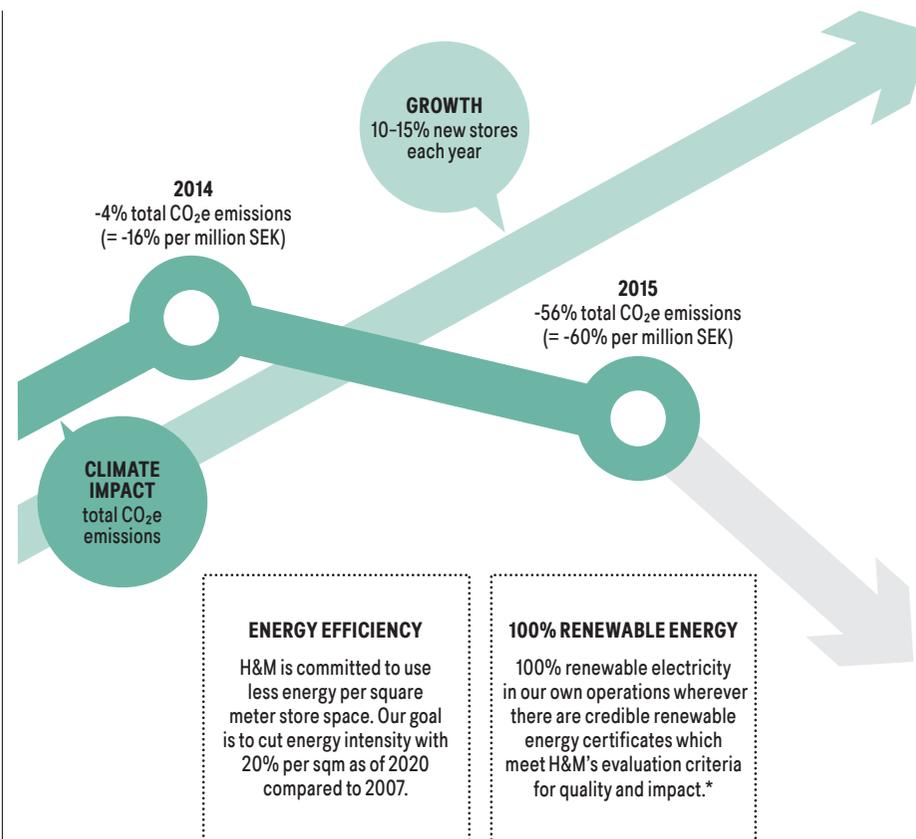
Our strategy

We aim to use only renewable energy throughout our operations in all of our stores, offices and warehouses. We want to be as energy smart as possible. In 2015, 78% of all of the electricity used in our stores, offices and warehouses came from renewable sources. This means that we are only using renewable electricity wherever there are credible renewable energy certificates which meet H&M's evaluation criteria for quality and impact.*

We are part of the RE100, a collaborative, global initiative of influential businesses committed to 100% renewable electricity and working to significantly increase corporate demand for renewable energy. Beyond our own commitment to use 100% renewables, we are also motivating key players in our value chain as well as through responsible policy engagement work.

Through our use of renewable electricity, we are reducing our greenhouse gas emissions to a level well below what we need to keep global warming under 2°C. Still, the best electricity is the electricity that is never used, so we are continuing our work to increase energy efficiency in our stores with a target of reducing electricity use by 20% per store sqm by 2020, compared with 2007.

>there100.org



*Our criteria includes the stimulation of demand for new renewable energy capacity through solutions which are commercially viable. H&M purchases REC certificates in North America and GO certificates in Europe where available. We continuously monitor the rapidly evolving options for the rest of the world and are currently investigating newly emerging schemes such as I-REC in Asia-Pacific and Latin America, to effectively expand our renewable energy commitment to relevant markets.

Focus: Emissions from our own operations

78%
of the electricity that
we used in 2015 came from
renewable sources.

Our Conscious Actions

4.1 Only use renewable electricity*

TIMELINE	STATUS
2015	DONE

In 2015, we decided that we will only be sourcing 100% renewable electricity in our own operations wherever there are credible renewable energy certificates which meet H&M's evaluation criteria for quality and impact. Our criteria includes the stimulation of demand for new renewable energy capacity through solutions which are commercially viable. During the year, we have significantly increased our use of renewable electricity to now represent 78% of our total electricity use globally (2014: 27%, 2013: 18%).

We purchase REC certificates in North America and GO certificates in Europe where available. We continuously monitor the rapidly evolving options for the rest of the world and are currently investigating newly emerging schemes such

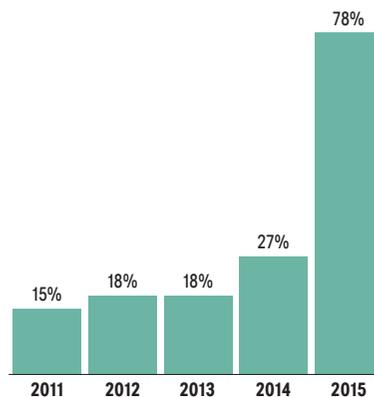
**In all the markets where H&M's criteria for renewable electricity are considered met.*

as I-REC in Asia-Pacific and Latin America, to effectively expand our renewable energy commitment to relevant markets.

Together with partners such as the RE100 and the WWF, we hope to help make renewable electricity more readily available. Besides this, we are also expanding production of renewable electricity through windmills and solar panels on warehouses as well as IT data centres. In fact, our IT data centres are amongst the world's greenest. With efficient cooling and IT operations, the net consumption per server has been reduced by over 75% in three years. In addition, in one of our IT parks the heat generated from the server cooling system is actually used to heat apartments, decreasing the demand for energy in the building and supporting a circular energy system.

>there100.org
>wwf.panda.org

% OF RENEWABLES IN OUR TOTAL ELECTRICITY USE



Please find an independent assurance statement related to GRI AF21 on p. 123.



Focus: Emissions from our own operations

In 2015, we reduced our total emissions further by 56% compared with 2014.

Our Conscious Actions



4.2 Reduce our operations' total greenhouse gas emissions

TIMELINE	STATUS
2015	DONE

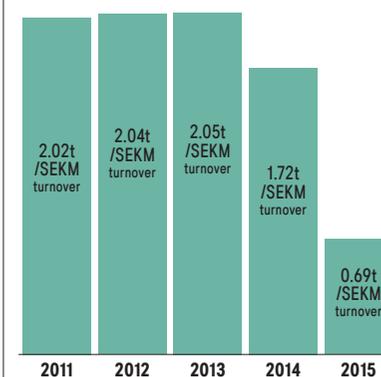
Originally, our goal was to reduce our total emissions by 2015 while growing the number of stores by 10–15% annually. We achieved this already in 2014. In 2015, we reduced our total emissions further by 56% compared with 2014, which equals a reduction of 60% per million SEK in sales (incl. VAT). The main reason for this is our heavily increased use of renewable electricity. Moving towards 100% renewable electricity,* climate impacts from our operations will become minimal and below science-based recommendations for how to keep the average global temperature increase well below 2°C increase.

We will continue to focus on keeping our emissions as minimal as possible by further increasing our use of renewable electricity, promoting

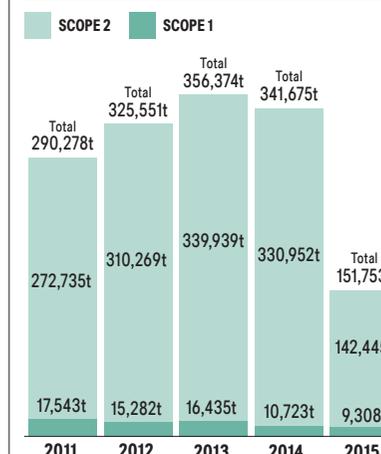
**In all the markets where H&M's criteria for renewable electricity are considered met (s. 4.1).*

the availability of renewable electricity in markets where H&M's criteria for renewable electricity are not considered met, and by further improving the electricity efficiency in H&M (brand) stores. Moreover, we will focus our efforts on promoting reduced climate impacts along our value chain.

CARBON EMISSIONS PER MILLION SEK SALES INCL VAT (CONSTANT EXCHANGE RATE)



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, 2013 and 2014 reports) were for 2015: scope 1: 9,308t, scope 2: 497,830t. 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). An independent assurance statement related to GRI G4 EN15 and EN16 is included here (p. 123).*

Focus: Emissions from our own operations

Our Conscious Actions

4.3 Reduce electricity use in H&M (brand) stores by 20% per sqm, compared with 2007 baseline

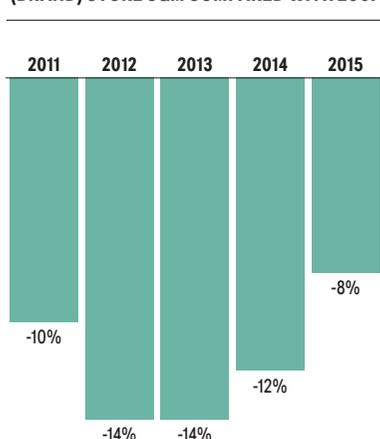
TIMELINE	STATUS
2020	MORE TO DO

While we are excited about lighting our stores with electricity from renewable sources, we are also keenly aware that the best electricity is the one that is never used. That's why we keep working to increase the energy efficiency of all our stores – it helps us to save energy and reduce costs. Our target is to reduce electricity use per square metre in H&M (brand) stores by 20%, as compared with 2007 baseline, by 2020.

In 2014 we saw a minor slowdown compared to the 14% improvement we achieved by 2013, a drop that continued in 2015. Compared with the 2007 baseline, our reduction jumped back to 8%. Our target remains and we strongly believe that it will be achieved as planned by 2020.

We are reviewing necessary actions to achieve our goal, for instance the design of our stores, the use of lighting and electronics, and how we strategically can increase our electricity efficiency.

ELECTRICITY USE REDUCTION PER H&M (BRAND) STORE SQM COMPARED WITH 2007



ENERGY USE IN GIGAJOULES	2011	2012	2013	2014	2015
Building diesel	20,469	5,215	403	3,586	716
District heating	81,475	61,894	67,901	68,208	44,953
Electricity	3,006,870	3,195,689	3,402,762	3,804,291	4,399,990
Building natural gas, oil, and others	211,752	184,606	252,124	155,937	161,959
TOTAL	3,320,566	3,447,404	3,723,190	4,032,022	4,607,618

Please find an independent assurance statement related to GRI G4 EN3 and EN5 on p. 123.



Focus: Emissions along our value chain

26%
of the carbon emissions
in a garment's lifecycle occur
in the user phase.

Our mission

Looking at the lifecycle of our products, only about 10% of the climate impacts happen in our own operations. The remaining 90% result from transport (6%), raw material production (12%), fabric production (36%) packaging (5%), garment manufacturing (6%) and when our customers wash and care for their clothes (26%). So, while we are reducing our own emissions to a minimum, we want to look beyond our walls and inspire others to be climate smart. We want to use our scale to adopt a science-based approach moving our whole value chain to a more climate orientated operation to ensure we support limiting global warming to well below a 2°C increase compared with pre-industrial levels. We also work to inspire our customers to care for their clothes in a conscious way and we take a stand for strong public policies.

Our strategy

In 2015, we started the implementation of our new supplier sustainability assessment programme SIPP (Sustainable Impact Partnership Programme). This means a major shift, particularly for our climate work in the value chain. The new programme creates the base for suppliers to measure and manage their own climate impact and at the same time it helps us to shift resources to provide our suppliers with more effective support (s. 2.2).

As part of this, we are gathering climate impact data from our first- and second-tier suppliers and integrating it into reward systems for good sustainability performance. We encourage our suppliers to set their own reduction targets and support them in reaching these through capacity building, for example, through a set of different cleaner production programmes that we run together with partners such as NRDC and Solidaridad.

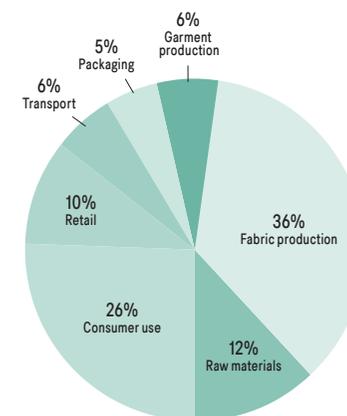
In terms of raw materials, we can make a major difference already in the design phase by choosing the right materials, for example, by using sustainably sourced cotton instead of conventional cotton (s. 1.2), but also by using raw materials that do not contribute to deforestation (s. 1.5).

And finally, we want to inspire our customers to wash their clothes at lower temperatures (s. 6.6). This may seem like the final step in the garment's lifecycle, but it could also just be the beginning. We encourage

everyone to bring unwanted garments to our stores for reuse and recycling. (s. 5.2). From a climate perspective, extending the life of textile fibres as long as possible is the best option. To underline our commitment to climate leadership, we are in the process of becoming a member of the WWF Climate Savers. This partnership will not only lift our commitment to promoting climate consciousness throughout our own operations and our value chain, but also show that we are taking a stand for a strong climate policy.

- >nrdc.org
- >solidaridadnetwork.org
- >climatesavers.org

**% BREAKDOWN OF CLIMATE IMPACTS
ACROSS THE VALUE CHAIN**



Climate 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

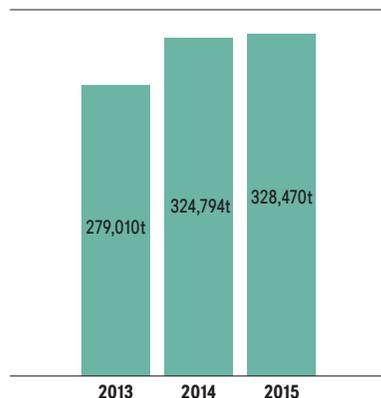
Our Conscious Actions

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

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

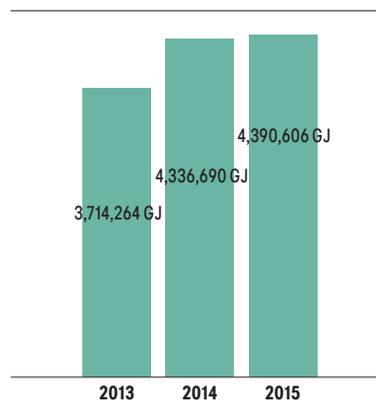
Transport is an important component in our work to reduce CO₂e emissions. This is why it is important to us that all of our transport providers are covered by applicable environmental initiatives. We have followed up to ensure that all partners live up to our standards and we reviewed our verification systems to ensure compliance in the future. All of our road transport providers must be SmartWay partners (North America) or registered with WayAhead (Europe and Asia). Similarly, our sea freight partners need to register their environmental performance in the Clean Shipping Index for evaluation.

CO₂e EMISSIONS IN TONNES



Please find an independent assurance statement related to GRI G4 EN17, on p. 123. Reported scope 3 emissions include energy use, goods transport and distribution, and business travel. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI G4 EN15 and EN16 is included here (p. 123).

ENERGY USE IN GIGAJOULES



4.5 Develop a method to report on value-chain greenhouse gas emission reductions

TIMELINE	STATUS
2015	MORE TO DO

For many years, we have been working to reduce climate impacts in different phases of the value chain. For example, choosing organic cotton means 46% less climate impact as compared to conventional cotton. By involving our suppliers in cleaner production programmes including the Better Mills Initiative and PaCT, we contribute to improved energy efficiency, which again has led to reductions in greenhouse gas emissions. We are currently applying what we have learned from our various value chain initiatives to develop a reporting method. The method will include data from our use of more sustainable materials, our garment collecting initiative as well as both first- and second-tier suppliers to measure and report our emissions reductions in our value chain.

In our partnership with the WWF and World Resources Institute (WRI),

we are collaborating to set a path to support positive climate actions. We are committed to science-based target setting across our value chain and during 2016 we plan to have science-based targets for our value chain greenhouse gas emission reductions in place. These will be in line with climate science to support limiting the global warming to well below a 2°C increase compared with pre-industrial levels and the joint initiative Science Based Target, of which we are also a member.

- >textiles-solidaridad.org
- >textilepact.net
- >climatesavers.org
- >wri.org
- >sciencebasedtargets.org

Focus: Emissions along our value chain

Our Conscious Actions

4.6 Align with best practice in responsible corporate engagement in climate policy

TIMELINE	STATUS
2016	ON TRACK

We believe in taking a strong stance on the issue of climate change. We want to be at the forefront of the important movement within sustainability: responsible corporate engagement in climate policy. In 2014, we committed to the guidelines developed by the CDP, the UN Global Compact, Ceres, the Climate Group, the WWF and the World Resources Institute in the “Guide for Responsible Corporate Engagement in Climate Policy.”

Prior to the 2015 UN Climate Conference COP21 in Paris, we signed the Earth Statement committing ourselves to an ambitious climate agenda and demanding this from world leaders as well. We will follow a programme to demonstrate best practice in policy engagement. We are also a member of Fossil Free Sweden, a governmental initiative taking

on the challenge to make Sweden become one of the world’s first-fossil-free welfare countries. These actions include setting up internal audits of all activities that we take part in that influence climate policy, ensuring consistency and communicating on progress.

- > cdp.net
- > unglobalcompact.org
- > ceres.org
- > theclimategroup.org
- > wwf.panda.org
- > wri.org
- > earthstatement.org
- > government.se



— COMMITMENT FIVE —

Reduce, reuse, recycle



We strive to reduce, reuse and recycle wherever we can – packaging, hangers and shopping bags, to name a few examples. However, the biggest concern is the actual clothes and textiles, and what happens when consumers no longer want or need their garments. Today, far too much fashion goes out with the household waste and ends up in landfills.

According to a study conducted by WRAP, around one-third of clothing in the UK goes to landfill, while the U.S. Environmental Protection Agency (EPA) estimates that textile waste occupies nearly 5% of all landfill space in the US. About 95% of this could be reused or recycled. This is why we need to change something about the fact that resources are extracted on one end and wasted on the other. This opens up great opportunities. A new source for making new garments with low-impact materials, for example, while reducing waste and minimising the need for land, water, chemicals and more to make virgin raw materials.

>wrap.org.uk

>epa.gov

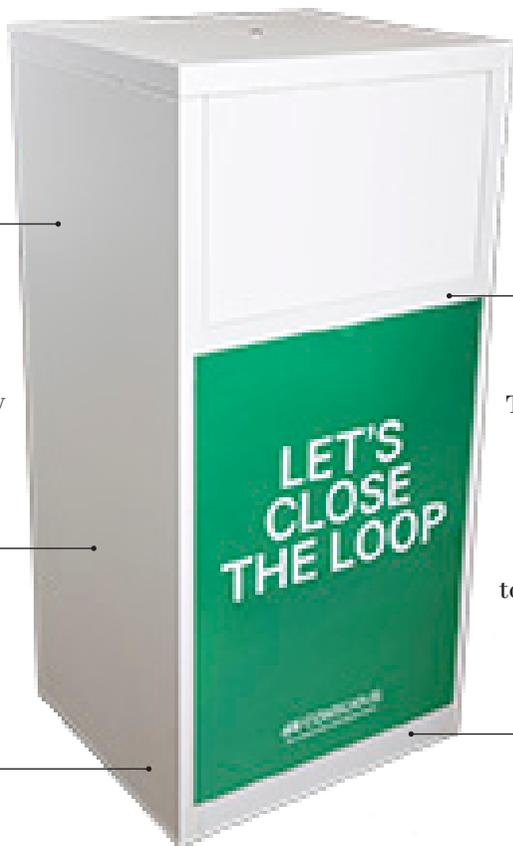
Performance overview

Our Conscious Actions

You can find boxes like this near the checkout at almost every H&M store around the world.*

This is where you drop off your old clothes to give them a new life. We happily accept clothes in any condition and from any brand.

From here, collected garments are sorted and reused or recycled. Nothing goes to waste.



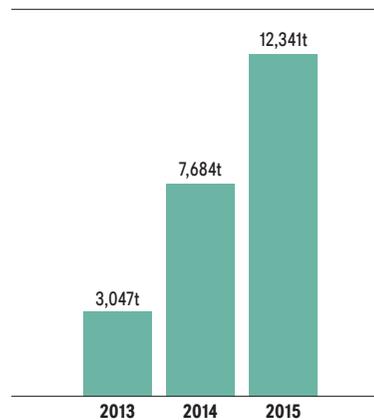
We have already made some 1.3 million pieces using 20% recycled cotton from our garment-collecting initiative.

To increase this share, without compromising quality, more technological innovation is needed. We are positive to overcome these challenges and invest in promising initiatives and projects.

*For franchise markets at least one store per market. For new non-franchise stores, garment collecting systems must be implemented max. six months after opening.

Key performance 2015

TONNES OF GARMENTS COLLECTED IN OUR STORES



We are one of the biggest users of recycled polyester in the world.

We entered into a partnership with Ellen MacArthur Foundation to further develop towards a circular business model.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - CLOSE THE LOOP ON TEXTILE FIBRES					
5.1	NEW – ENTER STRATEGIC PARTNERSHIP WITH ELLEN MACARTHUR FOUNDATION	2015			
5.2	INCREASE THE NUMBER OF COLLECTED GARMENTS	YEAR-TO-YEAR			
5.3	MAKE 300% MORE GARMENTS OUT OF RECYCLED FABRIC FROM COLLECTED GARMENTS	2015			
5.4	USE RECYCLED POLYESTER EQUIVALENT TO AT LEAST 60 MILLION PET BOTTLES	2015			
5.5	INVEST IN CLOSED-LOOP INNOVATION	YEAR-TO-YEAR			
FOCUS - WASTE					
5.6	RECYCLE AT LEAST 95% OF WASTE HANDLED IN OUR WAREHOUSES	2015			
5.7	INCREASE THE SHARE OF H&M STORES THAT RECYCLE THE MAIN TYPES OF STORE WASTE	2015			

Focus: Close the loop on textile fibres

Our mission

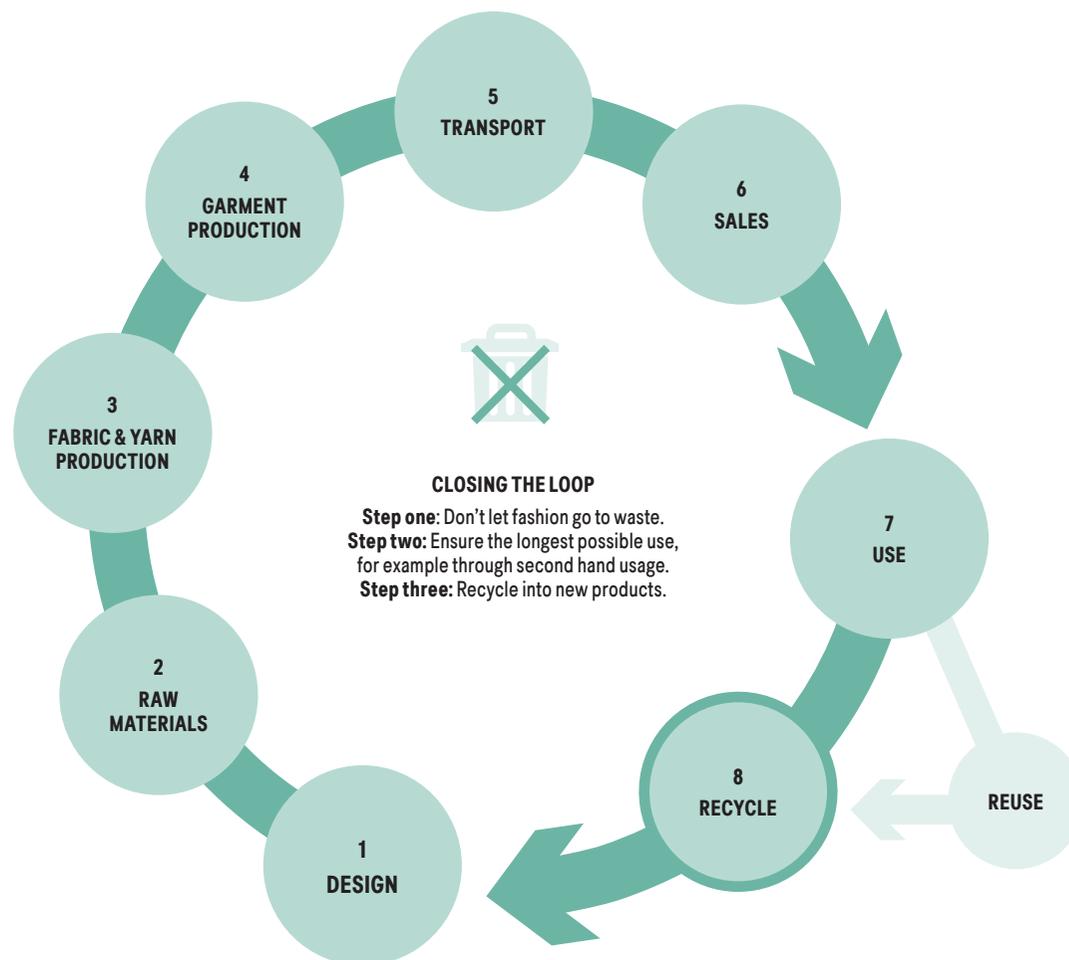
We want to move towards a 100% circular business model. This means nothing less than completely turning around how our industry has been operating for decades – moving away from a linear production model to one that uses once-created products as the resource for new desirable fashion. In the short term, this will help keep textiles from ending up in landfills. In the long run, this can change the way fashion is made and used 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 make sure that this happens, we need to make it easy and attractive for our customers to drop off any clothes and home textiles they no longer want or need at our stores. But there are many challenges to overcome. We do not have all solutions on hand today, but we are convinced that going circular is the future. What we can do at present, is set the path and lead the way forwards.

Our strategy

The fashion industry is using more resources than the planet allows. As demand increases, so will waste, pollution and carbon emissions while resources will become increasingly scarce. Moving towards a circular model will be key for our future success and growth. This is why we are currently working to update our sustainability strategy. As a first part of this, we have set the vision of becoming 100% circular, including only using recycled or other sustainably sourced materials and taking a circular approach in how products are made and used. The strategy is being formed in dialogue with the strongest partners, thinkers and leaders, including Ellen MacArthur Foundation.

Our first step towards closing the loop took place in 2013, when we started to offer our customers an easy option to not let fashion go to waste and began collecting unwanted garments and home textiles of a critical mass. Together with our partner I:CO, we offer this service in almost all H&M (brand) stores globally and in an increasing number of stores of our brands & Other Stories, Weekday and



Focus: Close the loop on textile fibres

Monki. This way we can help reduce the number of garments that end up in landfills and fuel the demand for textile recycling capacity.

We follow the waste hierarchy for both the garment collecting programme and our products. In the first place, we seek to extend the life of a garment. This means striving for long product durability and facilitating secondary use, for example second hand sales. In November 2015, we invested in Sellpy, a Swedish startup company offering an on-demand service that helps people to sell clothes and items that are no longer being used through an online sales service. Sellpy has introduced an innovative sustainable retail concept and new exciting ways to shop in line with our own business concept: fashion and quality at the best price in a sustainable way.

When a garment is no longer used, recycling is the best option – ultimately into products of the same or higher value. We are increasing the share of such materials in our products. While technology still limits this kind of recycling on a large scale, we are cre-

ating demand for further innovation and investing in exciting innovation ideas. Additionally, through the Global Change Award, the H&M Foundation has created one of the world’s largest competitions to protect the earth’s natural resources by investing in close the loop innovation, providing grants of one million euro annually (s. 7.9).

- >ellenmacarthurfoundation.org
- >ico-spirit.com
- >sellpy.se



Focus: Close the loop on textile fibres

Interview with Dame Ellen MacArthur, Founder of the Ellen MacArthur Foundation

In short, what does circular economy mean?

The circular economy is essentially a different economic model that keeps products, components and the materials within them at their highest value and utility at all times. It can best be described by comparing our current linear ‘take-make-dispose’ economy, which essentially requires cheap energy and materials, with one that by design uses materials and energy in a much more efficient and effective way.

What are the key steps for a fashion company to become circular?

Look at where products, i.e. garments, can be valorised at a higher level. This can be approached in several ways in the fashion industry. Possibilities range from the simple recovery of garments, and therefore the creation of a flow of textile fibres back into the garment production system and/or the wider economy, to providing fashion as a service. The latter approach would incentivise higher quality garments designed to be ‘serviceable’ and ultimately disassembled into their constituent materials.

What are the opportunities that come with it?

The opportunity is to recover some of the USD 71 billion worth of textiles lost from the global economy each year. In the case of new business models, for example, providing products as a service instead of following the traditional sales model has been shown to have the potential to both be more profitable for producers and reduce costs to users. Overall, there is a chance to play a part in an economy that is regenerative and restorative and therefore unlocks more value.

Where do you see the biggest challenges?

The key challenge is to move away from the practices conceived in a linear economy: fashion industry business models, infrastructure and garment design are optimised for clothing having virtually become a fast moving consumer goods. Overcoming this linear lock-in will require new innovation and changes in business practices that create reverse flows of materials and valorise clothing at a higher level.



From your perspective, where do you see H&M on the way to circularity?

H&M has embraced circular economy with its CEO Karl-Johan Persson himself endorsing the model at H&M. This is a pretty good start when it comes to accelerating H&M’s adoption of circular practices at scale. H&M has also put in place several initiatives that demonstrate a commercial commitment to a circular economy and provide a solid base for a wider transformation. They

include the in-store clothing collecting scheme and H&M’s increasing number of products containing up to 20% recycled cotton. It will be interesting to see the future impact of this momentum from a revenue and scale perspective.

What would you like to see from H&M moving forward?

I would like to see H&M build on its experience with circular models and explore additional opportunities, in particular by rethinking the design of its products, experimenting with innovative business models and extending circular economy thinking to its wider operations.

The whole industry’s supply chains will be instrumental in the success of these innovations. We would be very interested in seeing H&M adopt a leadership role in the industry’s transformation. This could take the form of exploring collaboration opportunities, new business models and innovative incentive structures that would encourage a shift in the industry away from a focus on volumes and throughput to a more systemic perspective.

Focus: Close the loop on textile fibres

Since the start in 2013, we have collected over 22,000 tonnes of old garments for reuse and recycling – that’s as much fabric as in more than 100 million t-shirts.

Our Conscious Actions

NEW 5.1 Enter strategic partnership with Ellen MacArthur Foundation

TIMELINE	STATUS
2015	DONE

To further develop our strategy and fuel collaboration across industries to make a closed loop happen, we entered a partnership with the Ellen MacArthur Foundation in 2015. Established in 2010 by Dame Ellen MacArthur, a British sailor and world record holder for the fastest solo circumnavigation of the globe, to accelerate the transition to the

circular economy, the organisation has emerged as a global thought leader for the circular economy. We are one of so far seven Global Partners jointly developing the circular agenda further and promoting and sharing innovation.

>ellenmacarthurfoundation.org

“Operating in a key sector of the global economy, H&M’s vision for applying circular models represents a significant opportunity to scale up the transition.”

Dame Ellen MacArthur

5.2 Increase the number of collected garments

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Our customers can drop off any clothes and home textiles they no longer want or need at almost all* H&M (brand) stores around the globe – in what is probably the world’s biggest retail garment collecting system. Since we launched our garment collecting initiative in 2013, we have gathered more than 22,000 tonnes of garments to give them a new life. In 2015 alone, we collected 12,341 tonnes, which is equivalent to more than 61 million t-shirts. All items are taken care of. Nothing goes to waste. Currently most of the fibres are reused, for example, as second hand clothes, or recycled into your next cleaning cloths or into the first new yarn to make new clothes.

**For franchise markets, our minimum requirement is to include at least one store per country and for newly entered markets, the system should be up and running six months after the first store opening at the latest.*

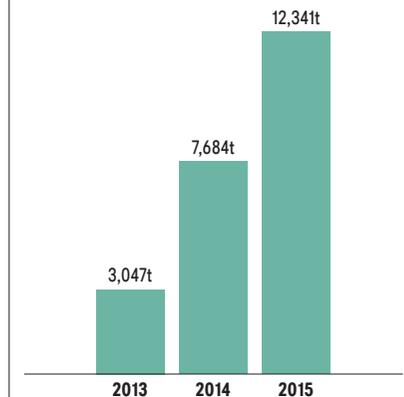
Using your clothes for as long as you can is, of course, the best option. Once garments become unusable, recycling them into new yarn for making new products is what will create a closed loop. The recycled yarn is blended with virgin yarn and to date, with current mechanical recycling technology, one single product can contain up to 20% recycled post-consumer fibres without any loss of quality or longevity. To increase this share and enable large-scale production, we are creating demand and investing directly in the required technical innovation (s. 5.5).

We are also raising awareness amongst our customers to not let fashion go to waste. In 2015, we launched an inspirational viral [video](#) reaching over 10 million people globally and sending the message “There are no rules in fashion but one: recycle your clothes.”

In parallel, we could see in customer surveys that the awareness of our garment collecting programme increased significantly amongst H&M customers. Along with our

customers, we can make a change – and make it smooth and easy to never let fashion go to waste.

TONNES OF GARMENTS COLLECTED IN H&M STORES



Please find an independent assurance statement related to GRI G4 EN1 on p. 123.

Focus: Close the loop on textile fibres

In 2015, some **1.3 million pieces** were made with closed loop material. That's over **300%** more compared with 2014.

Our Conscious Actions

5.3 Make 300% more garments out of recycled fabric from collected garments

TIMELINE	STATUS
2015	DONE

It is an important step to keep textiles from ending up in landfills. But we want to do more. We want to turn unwanted clothes and home textiles into an innovative resource for new, fresh quality pieces. In short: we want to create a closed loop for fashion. In early 2014, we took the first big steps in this mission and made the first products with at least 20% recycled material from collected garments. With today's mechanical technology, it is mainly possible to recycle natural fibres such as cotton and wool. Cotton is an important fibre for H&M and since 2014, we have launched increasingly more products containing up to 20% recycled cotton across our entire range.

There are a number of challenges on the way to increasing these figures even further, for example import barriers for used clothes

in major production markets such as Turkey and China. There are also technological challenges that currently do not allow for more than 20% of recycled cotton without loss of quality, which is something we try to overcome by investing in technology (s. 5.5).

For 2015, our target was to increase the number of items made with at least 20% recycled fabric from collected garments by more than 300% compared with 2014. And we did it, resulting in 1.3 million garments in total. Still, this is just a first step to what we want to achieve: a closed loop for fashion.

5.4 Use recycled polyester equivalent to at least 60 million PET bottles

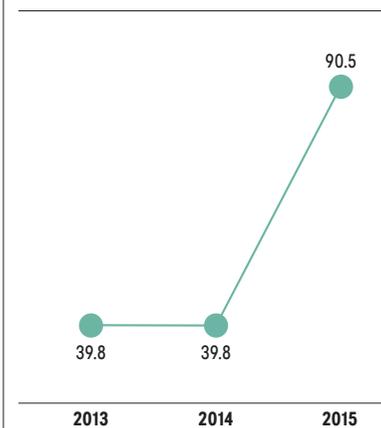
TIMELINE	STATUS
2015	DONE

We use a range of recycled materials in our collections, such as recycled cotton, wool and polyester. Using recycled materials in general matters and takes us one step further to our vision of becoming 100% circular and renewable. Recycled materials in particular have two major benefits – they reduce the need for extracting virgin resources and less waste ends up in landfills.

Recycled polyester is one important material. It doesn't need any of our world's limited oil resources; instead it is usually made from PET bottles that may otherwise have ended up in landfills. In 2015, we exceeded our goal of using recycled polyester equivalent to at least 60 million PET bottles. In fact, we used recycled polyester equivalent to more than 90 million PET bottles (2014: 40 million, 2013: 40 million). Even though this

is a considerable amount, recycled material still has a lot more potential and currently represents only around 1% of our total material use, a figure that we expect to increase as we move closer to a closed loop for textiles in the coming years. So drop your PET bottles at your nearest recycling depot and you may see them again as a beautiful dress or as superlight and functional sportswear.

NO. OF PET BOTTLES EQUIVALENT TO RECYCLED POLYESTER USE IN MILLION BOTTLES



5.5 Invest in closed-loop innovation

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

There are certainly challenges on the road towards a closed loop for textiles. For example, the fact that we currently cannot make products with more than 20% recycled cotton from collected garments without a loss in quality and durability. By creating demand for solutions and actively working with innovators and scientists, however, we are positive that we can overcome these challenges. We are currently involved in a number of different promising initiatives and projects. For example, together with Kering, we have entered into a partnership with the UK-based innovation company Worn Again, which is developing technologies for textile-to-textile recycling.

>wornagain.info

Focus: Waste

Our mission

Like any other organisation, we generate waste such as cardboard, paper and plastic. This is something we want to avoid wherever possible in our stores, offices and warehouses. It helps save both money and natural resources. For waste that cannot be avoided, we need to make sure we reuse and recycle as much as possible. The advantage is that 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 easier for our customers to reduce and recycle waste at their end.



Our strategy

Our aim is to send as little waste to landfills as possible. We follow the European waste hierarchy. We are focusing on our warehouses where most of our operational waste is handled. We are currently implementing waste recycling systems in our stores. We are also using cut remnants and post-consumer waste to make shopping bags and new clothes. Through our garment collecting initiative, we give our customers convenient means to dispose of used clothes and give them a new life (s. 5.2) rather than throwing them in the garbage.

>hm.com/waste
>ec.europa.se/waste/framework

Focus: Waste

94% of the waste handled in our warehouses is being recycled.

Our Conscious Actions

5.6 Recycle at least 95% of waste handled in our warehouses

TIMELINE	STATUS
2015	MORE TO DO

The majority of the waste that we generate is handled in our warehouses. In 2015, this was around 50,000 tonnes* (2014: 46,000t,* 2013: 35,000t) and consisted mainly of cardboard (65%), paper (10%) and plastic (7%). Our goal is to recycle 95% of this waste. In 2015, we almost achieved our target by reaching 94% (2014: 91%, 2013: 92%). We will continue to work towards recycling at least 95%.

**In last year's sustainability report 32,000 tonnes was reported for 2014. Due to improved data collection methods we have corrected that figure to 46,000 tonnes.*

5.7 Increase the share of H&M stores that recycle the main types of store waste

TIMELINE	STATUS
2015	DONE

While much of the waste generated in our stores is sent to our warehouses and recycled from there, we want to make sure that the remaining waste is also handled in the best possible way. We are focusing on our largest brand's stores, H&M, and the most common types of waste, namely cardboard, plastic and paper. Much depends on existing recycling systems in the community or the building where we rent space, for example. While these can pose serious challenges locally, over the last year we further increased the share of stores that have recycling systems for these types of waste in place to 61%* (2014: 58%, 2013: 47%). Our aim is to further increase this share and ultimately reach 100%.

**Extrapolation based on data available for 95% (2014: 93%) of H&M (brand) stores.*



— COMMITMENT SIX —

Use natural resources responsibly



Our planet is facing scarcity issues on many fronts. According to the UN, the world will need 50% more food, 45% more energy and 30% more water by 2030. In the textile industry, water plays a particularly critical role, from growing cotton to washing our clothes at home. So using resources efficiently makes long-term business sense and will increasingly provide opportunities for competitive advantage. To operate as a sustainable business, we are committed to conserving water, soil, air and species. More than that, we want to help ensure that resources are being shared in a fair way and that we consider the needs of both present and future generations.

>un.org

Performance overview

Our Conscious Actions

This pair of jeans is a classic denim piece and is sold in H&M stores around the world.

Producing denim requires significant amounts of water. However, this denim is made with the lowest possible environmental impact compared with traditional production methods.

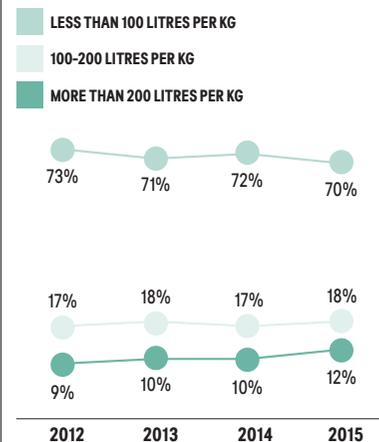


This is thanks to the environmentally-friendly denim expert consultancy Jeanologia and their methods to measure and reduce the negative effect of treatment processes on our planet.

The result is a greener production process without any compromise on style.

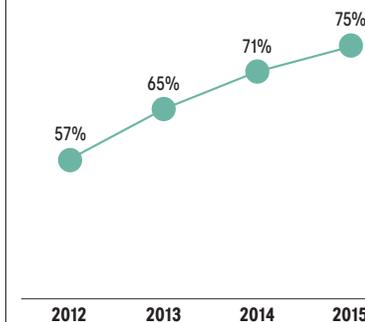
Key performance 2015

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



Based on data from supplier factories with wet processes.

% OF SUPPLIER FACTORIES IN FULL COMPLIANCE WITH WASTEWATER QUALITY REQUIREMENTS (BSR)



Included are all supplier factories with wet processes and their own wastewater treatment plants. Excluded are factories using shared treatment plants.

All of our denim orders are now scored by Jeanologia's Environmental Impact Measurement tool.

Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - WATER STEWARDSHIP					
6.1	ENSURE APPROPRIATE WASTEWATER TREATMENT FOR ALL SUPPLIER FACTORIES WITH WET PROCESSES	2015			
6.2	NEW - LAUNCH A NEW METHOD TO ASSESS SUPPLIER WATER IMPACTS AND HELP TO FURTHER REDUCE THESE AT ALL SUPPLIER FACTORIES WITH WET PROCESSES	2016			
6.3	REDUCE WATER USE IN TREATMENT PROCESSES OF DENIM AND OTHER WATER-INTENSE PRODUCT TYPES	YEAR-TO-YEAR			
6.4	EXTEND WATER IMPACT REDUCTIONS IN RAW MATERIAL AND FABRIC PRODUCTION	YEAR-TO-YEAR			
6.5	INSTALL WATER-EFFICIENT EQUIPMENT ACROSS OUR OWN OPERATIONS	2020			
6.6	RAISE AWARENESS ON WATER ISSUES AMONGST CUSTOMERS, COLLEAGUES AND SUPPLIERS	YEAR-TO-YEAR			
6.7	NEW - IMPLEMENT WATER ENGAGEMENT PLANS FOR THE YANGTZE (CHINA) AND BRAHMAPUTRA (BANGLADESH) RIVER BASINS	2015			
FOCUS - CHEMICAL MANAGEMENT					
6.8	HELP TO LEAD OUR INDUSTRY TOWARDS ZERO DISCHARGE OF HAZARDOUS CHEMICALS	2020			
6.9	DEVELOP A NEW METHOD TO ENSURE DATA DISCLOSURE FOR ALL STRATEGIC SUPPLIERS	2016			
6.10	DEVELOP IMPROVED CHEMICAL MANAGEMENT PRACTICES FOR OUR SUPPLIERS	2017			

Focus: Water stewardship

Our mission

Water is essential for society and access to clean water is increasingly identified as one of the most important issues at a global level. The World Economic Forum identifies global water crises as the top threat worldwide to business and society. Growing cotton, dyeing fabrics, creating washed-out looks and not least washing our clothes at home all have an impact on water resources. Operating in a water-intense industry, we have a keen interest and responsibility to not only reduce water impacts across our value chain, but also to help the communities along our value chain to ensure that clean water is available to everyone.

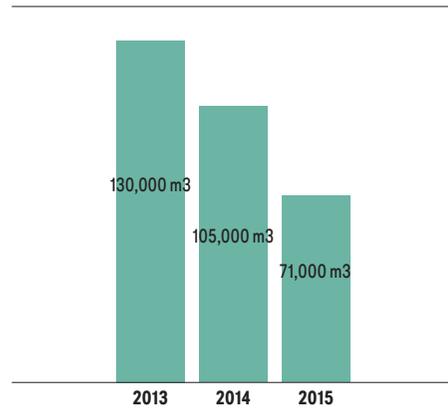
We have worked for over a decade on water issues and built up a water strategy with the aim to be a leader in water stewardship. We are working for responsible management of the water resources on which our supply chain depends and through this helping others get access to clean water.

What's most important is what we, together with our peers, do to ensure that water is used responsibly throughout the value chain. In line with our

commitment to use natural resources responsibly, we have teamed up with a number of organisations such as the WWF, Solidaridad and the Swedish Textile Water Initiative (STWI) to set new standards in the fashion industry.

>World Economic Forum's "Global Risks 2015"

AVERAGE YEARLY WATER WITHDRAWAL PER FACTORY IN WATER STRESSED AREAS (H&M PRODUCTION)



Focus: Water stewardship

Our strategy

Responsible water management is vital for the future of communities, the environment, biodiversity and our business success. This has led us to team up with the WWF and together we have developed a holistic strategy for water stewardship targeting four key themes: improving the use of water, building water awareness, collective action, and measuring water impact and risk. This collaboration ran over three years and was the first of its kind in the fashion industry and worked to engage suppliers, buyers, as well as decision makers. In March 2016, we partnered with the WWF again, in a five years partnership. The focus is still on water stewardship, but also including climate action and a strategic dialogue related to H&M and the textile industry's broader sustainability challenges.

We are also taking the next step in the way we assess our suppliers' sustainability performance (s. 2.2) and we are further strengthening these measurements and helping our suppliers to better know their footprints and develop strategies to reduce them.

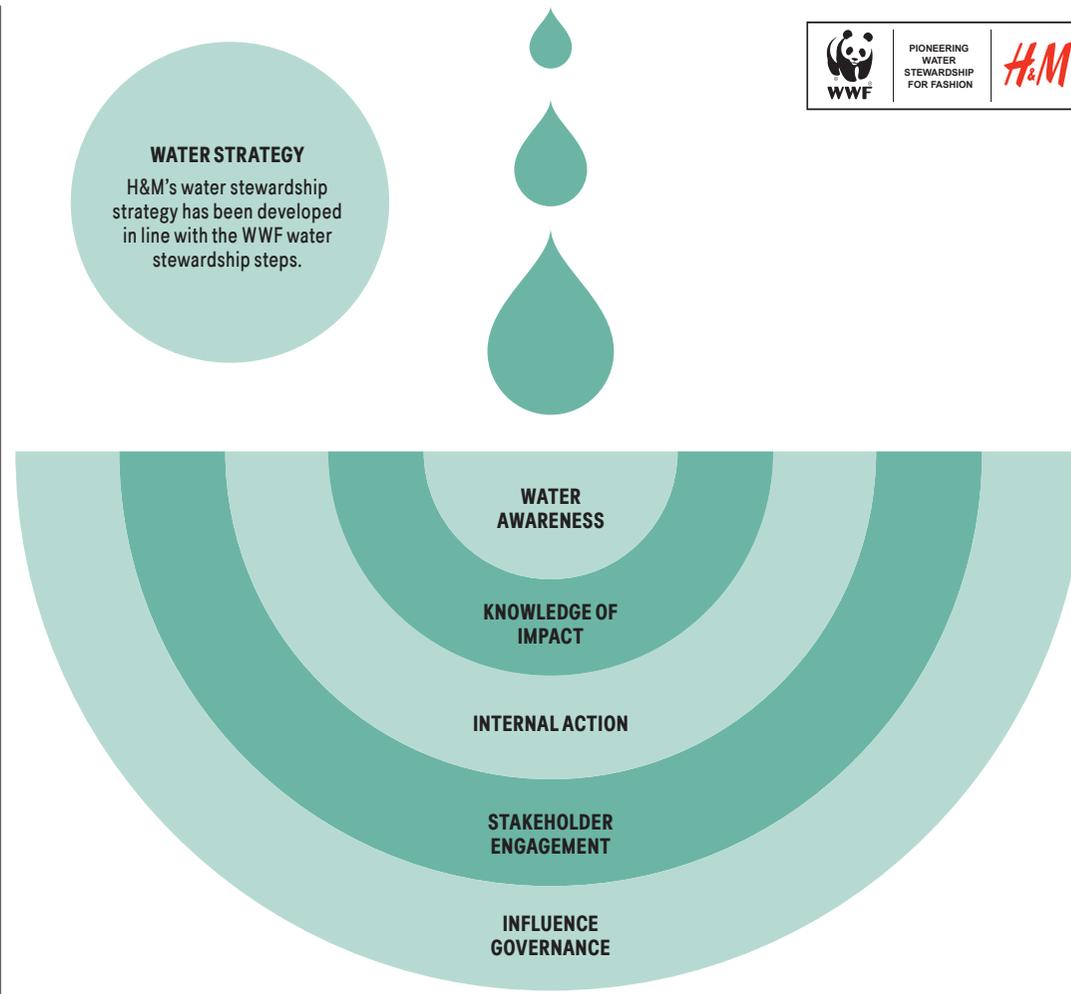
Our lifecycle assessments show that

the most significant water footprint in our value chain occurs in raw material production (87%). It is mainly because cotton production is highly water intense and our goal is to use cotton solely from sustainable sources by 2020 at the latest (s. 1.2). This is also why we are working with clothing recycling in order to decrease our dependence on virgin materials.

The second biggest water footprint is in customer use and we have worked with Clevercare to help customers make washing decisions that are more energy- and water-friendly.

The third biggest water footprint is from washing and dyeing processes in fabric production and garment finishing, for example to achieve the desired look of denims. We are working together with a variety of organisations and initiatives to address capacity building in factories, e.g. STWI, PaCT, NRDC, Solidaridad and the WWF.

- >hm.com/water
- >wwf.panda.org
- >clevercare.info
- >stwi.se
- >textilepact.net
- >nrdc.org
- >solidaridadnetwork.org



Focus: Water stewardship

Interview with Ma Jun, Director of the Institute for Public & Environmental Affairs (IPE), Beijing



What are the major impacts of textile production on water resources?

Textile production is extremely water and chemical intensive, so it takes a major toll on the environment in water-scarce regions and when pollutants are discharged on a massive scale.

How do you think fashion companies like H&M should address these impacts?

Fashion companies need to focus their efforts where environmental impacts are greatest and support suppliers in implementing effective solutions for emissions reduction.

How do you see H&M's performance in this regard?

H&M has actively pushed for its suppliers to publicly address environmental compliance issues, but could lead the collaborative efforts to mend the loopholes on centralised wastewater treatment.

What would you like to see from H&M in the next years?

H&M could work together with stakeholders in emerging countries like China to implement disruptive solutions for sustainable apparel manufacturing.

> ipe.org.cn

Focus: Water stewardship

Factories with treatment plants need to comply with strict wastewater quality standards that we regularly monitor.

Our Conscious Actions

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

TIMELINE	STATUS
2015	MORE TO DO

All of our approximately 500 supplier factories (including any subcontracted factories) with wet processes are required to treat their wastewater, either by having their own effluent treatment plant (ETP) or by using shared treatment plants as for example provided by the municipality. Factories with their own treatment plants need to comply with strict wastewater quality standards and we regularly monitor these.

We apply the Business for Social Responsibility (BSR) Water Group's quality definitions, which in many locations go well beyond the legal requirements. In 2015, we started making compliance with this as minimum requirement for our supplier factories. Currently, the compliance rate is 75% (2014: 71%). This means that before entering a partnership

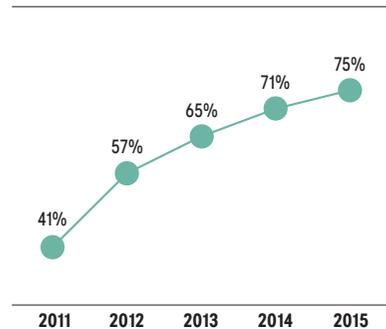
with H&M, the factory needs to meet the requirements and has to comply with them during the entire partnership. If a factory, for some reason, does not meet these standards at some point, this could result in a termination of our business relationship.

At the same time, we are continuing to increase our alignment with other brands in shared factories and work with authorities to improve legal requirements where needed. A specific example is Bangladesh. The country

is facing significant water challenges since its regulatory framework requires further improvements and wastewater treatment is still not common. Still, we require that all supplier factories as well as subcontracted factories have proper ETPs in place.

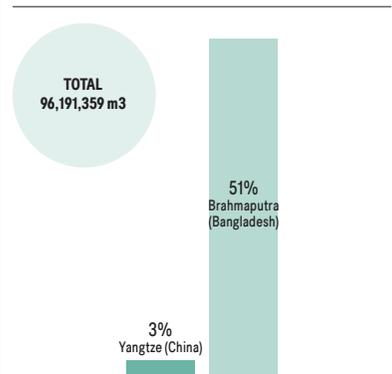
>bsr.org

% OF SUPPLIER FACTORIES IN FULL COMPLIANCE WITH WASTEWATER QUALITY REQUIREMENTS (BSR)



Included are all supplier factories with wet processes and their own wastewater treatment plants. Excluded are factories using shared treatment plants.

SHARE OF TOTAL WATER DISCHARGE BY DESTINATION 2015



Focus: Water stewardship

Today, all of our denim orders are scored by Jeanologia's Environmental Impact Measurement tool.

Our Conscious Actions

NEW 6.2 Launch a new method to assess supplier water impacts and help to further reduce these at all supplier factories with wet processes

TIMELINE	STATUS
2016	ON TRACK

We want to go beyond ensuring compliance with minimum requirements. In 2015, we therefore developed a new way of assessing our suppliers' sustainability performance (s. 2.2) that considers more than just compliance and instead focuses on actual impacts. This helps suppliers to better understand and – where needed with our support – develop their own strategies to tackle these impacts.

As part of this, we have developed a broad set of additional measurements and amongst other things, we have incorporated what we have learned through our partnership with the WWF. For example, we are now requesting that all applicable supplier factories gather and report data on their total water usage (and where it

has been withdrawn from) as well as water recycling rates. And of course, we are continuing to monitor wastewater quality as well as input sources for potential pollution (s. 6.1). More importantly, we are encouraging suppliers to set their own targets and strategies to reduce their impacts.

We are supporting them in improving their related management systems with training and we are rewarding good performance with better business. We are focusing specifically on suppliers in water stressed and polluted areas in the deltas of Brahmaputra (Bangladesh) and Yangtze (China), which are the two single most significant water sources for our wet-process suppliers.

We are currently transitioning towards this new assessment method and gathering the first data. We plan to report the first data in the 2016 report and are currently working together with several of our stakeholders to set new impact reduction targets. Already this year, we could see that all of our roughly 500 applicable supplier factories had installed water usage measurement tools.

6.3 Reduce water use in treatment processes of denim and other water-intense product types

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Producing denim requires significant amounts of water. In order to reduce water impacts, we focus on innovative production methods without compromising our customers' demands. Since 2014, such low-impact production methods are part of our conscious consumer labelling for products with the highest sustainability standards.

To define the products with the lowest impacts, we use a tool developed by

Jeanologia, a Spanish consultancy and experts on sustainable denim washes. Their Environmental Impact Measurement tool (EIM) helps to rate the treatment process impacts, for example, with regard to water use, energy use and chemical management. The ratings are divided into three categories – green, yellow and red. To be labelled with our Conscious Label, a denim needs to meet the requirements of the green category. This guarantees that a maximum of 35 litres of water per garment is used during washing. Currently, about 50% of our denim products fall into the green category.

Beyond these Conscious labelled and best performing products, during the year, we have expanded the use

of Jeanologia's analysis to all of our denim production, providing us and our suppliers with a helpful tool to assess and reduce water use.

By 2015, about half of all our denim products had reached the highest “green” level, meaning that a maximum of 35 litres of water per garment had been used during the treatment processes.

Focus: Water stewardship

To continue the work towards sustainable production we are participating in projects in Ethiopia, Turkey, India, Bangladesh and China.

Our Conscious Actions

6.4 Extend water impact reductions in raw material and fabric production

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

Producing raw materials and making fabrics can have significant water impacts. That's why we want to make the best possible fabric choices and help cotton farmers and fabric mills in particular to reduce their water impacts. And of course make water conscious fabric choices right from the start when designing our products. One way to do this is to choose recycled materials. In 2014, we launched our first closed-loop denim collection using at least 20% recycled cotton from collected clothes. We estimate that each of these denim pieces uses up to 1,000 fewer litres of water compared to using only conventional virgin cotton.

During 2015, we also took important further steps by including fabric mills involved in making about 50% of our products (2014: 35%) in our supplier assessment systems (s. 2.9).

This means that these mills are now gradually being covered by water impact assessments, measuring and reporting data for example on their water usage and recycling rates – and are encouraged to set their own targets and strategies to reduce these.

Additionally, we have continued our work through a set of programmes that aim to help fabric producers in particular to improve their environmental footprints such as the Partnership for Cleaner Textiles (PaCT) in Bangladesh and the Better Mill Initiative in China, together with Solidaridad. Together with Solidaridad and the Natural Resources Defense Council (NRDC), we aim to improve the production efficiency of more than 30 printing and dyeing mills in China over a three-year period. So far, the results show that participating mills have increased profits due to reductions in energy, water usage and saved time and materials. When it comes to raw materials, it is mainly through the Better Cotton Initiative (BCI) that we are helping cotton farmers grow cotton with less water impacts (s. 7.2). We will continue to extend

these efforts and improve our tools for measuring impacts and reduction opportunities.

We are also working with the Swedish Textile Water Initiative (STWI). Collectively, the Swedish brands that make up this network alongside the Stockholm International Water Institute (SIWI) have developed guidelines for sustainable water use in textile and leather manufacturing. In 2015, we began participating in STWI projects in Ethiopia, Turkey and India with the support of the Swedish International Development Cooperation Agency (Sida). The programme focuses on achieving measurable results at the factory level, addressing resource efficiency and building the capacity for workers and managers to continue working towards sustainable production.

- >textilepact.net
- >textiles-solidaridad.org
- >solidaridadnetwork.org
- >nrdc.org
- >bettercotton.org
- >stwi.se
- >siwi.se
- >sida.se



Focus: Water stewardship

We aim to have water-efficient equipment in all of our stores, warehouses and offices by 2020 at the latest.

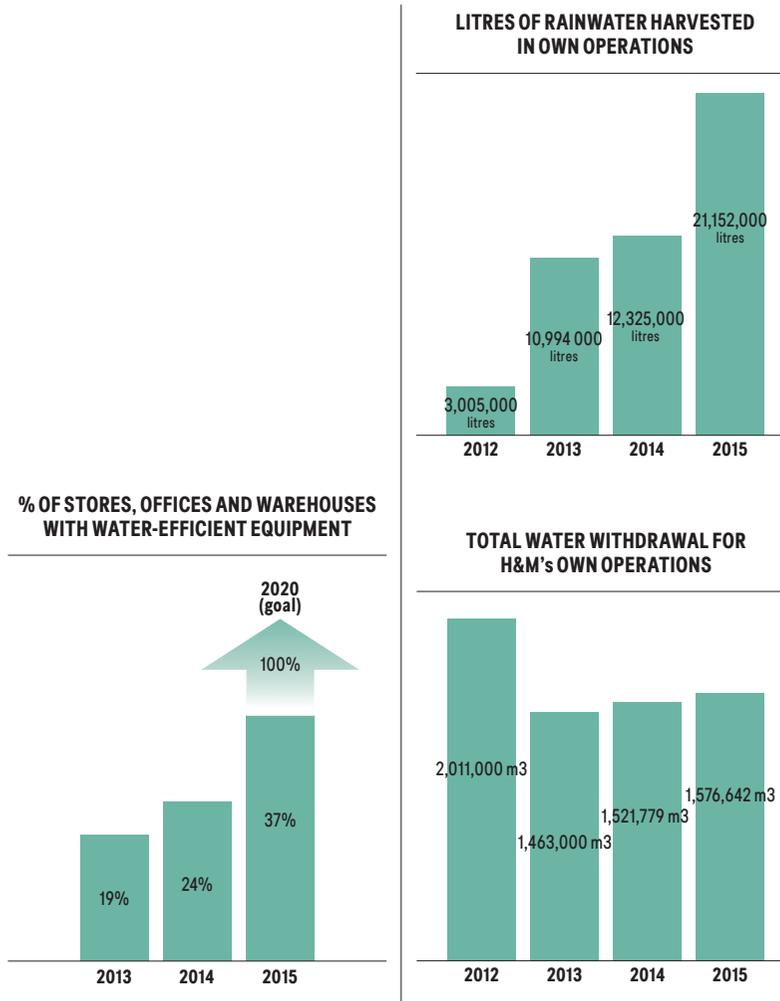
Our Conscious Actions



6.5 Install water-efficient equipment across our own operations

TIMELINE	STATUS
2020	ON TRACK

Looking at our entire value chain, our stores, warehouses and offices have a rather small water impact. Still, we want to act as a good example by reducing our water use as much as possible. And of course this also helps us reduce costs in the long run. So by 2020 at the latest, we aim to have water-efficient equipment such as low-flow taps in all of our stores, warehouses and offices. By 2015, 37% of our facilities had water-efficient equipment in place (2014: 24%, 2013: 19%). Our warehouses in Hamburg, Ghlin, Poznań and Madrid as well as a number of stores in the UK have additional rainwater harvesting facilities in place. In total, our facilities harvested roughly 21.2 million litres of rainwater in 2015 (2014: 12.3 million).



Focus: Water stewardship

53%
of our second-tier
factories have been trained
in water issues.

Our Conscious Actions

6.6 Raise awareness on water issues amongst customers, colleagues and suppliers

TIMELINE	STATUS
YEAR-TO-YEAR	ON TRACK

We have found that general awareness about water issues is rather low compared to, for example, climate change. Since water is a significant resource when making fashion, we want to emphasise the importance of water together with our efforts to tackle the world's growing water challenges. Through different initiatives, we hope to raise awareness amongst our colleagues, suppliers and customers. Specifically, we have rolled out mandatory e-learning sessions for employees that highlight water issues and solutions. So far, more than 52,000 colleagues (35%) have taken our introductory e-learning and almost 13,500 have taken our more advanced learning programme. We also have specific water and technical training courses for our colleagues in our production countries. 80% of these have been trained. We continue to deliver technical training

among our technical staff and new suppliers to secure their awareness and knowledge on water management.

This year, we launched strategic water training for all our managers. The aim of this training was not just to raise the management's awareness of water scarcity, but also to help in future decision-making processes and an even closer integration of water risks and opportunities in our sourcing strategy.

In 2014, we trained our first-tier factories in three different areas: general water awareness, our water requirements, technical water testing and technical training on ETP functionality. The focus for 2015 was on training our second-tier factories and up to now, 53% of them have undergone the training.

We constantly strive to inform our customers about the importance of water in textile production. With the Clevercare label, we are focusing on water and energy reduction after garments leave our stores. The label

encourages customers to take care of their garments in more conscious ways and since 2014, all of our garments have the Clevercare label included in their washing instructions.

>clevercare.info



Focus: Water stewardship

Our Conscious Actions

NEW 6.7 Implement water engagement plans for the Yangtze (China) and Brahmaputra (Bangladesh) river basins

TIMELINE	STATUS
2015	DONE

The Yangtze and Brahmaputra river basins are the two most important water sources for our supplier factories with wet processes. This means we are especially focused on industry engagement reaching beyond the factory lines of individual companies in order to drive holistic improvements. Together with the WWF, we have developed and rolled out dedicated water stewardship methodology. In China, we have developed a detailed method for engagement with the industry, policymakers, China National Textile & Apparel Council (CNTAC), other brands, local NGOs and communities. We are currently running a pilot project and our ultimate goal is to implement our method across several industrial parks in the Yangtze to strengthen analysis of shared water risks and water planning. We also support

the WWF’s conservation project to sustain the Yangtze finless porpoise and contribute to positive developments for the river ecosystems.

In Bangladesh, together with the WWF we have conducted (1) a gap analysis on water management legislation investigating challenges in national water governance and (2) an economic risk analysis of how current business practices and water impacts affect long-term growth and production in the country. The purpose has been to form a powerful foundation for better water management in Bangladesh. Both reports were launched in early 2016 with the 2030 Water Resources Group.

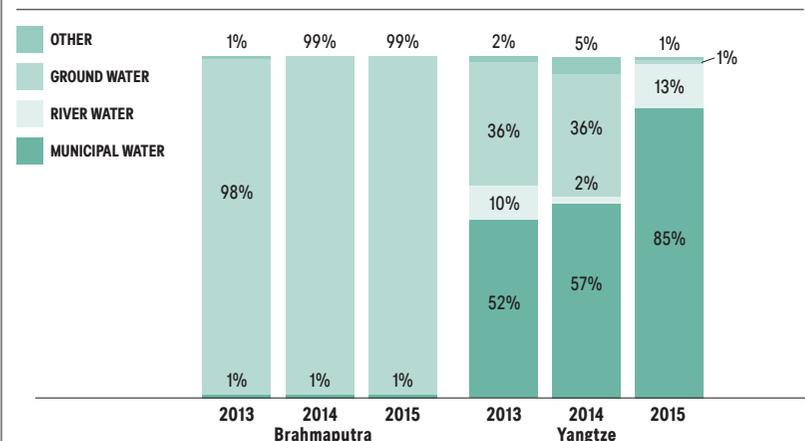
The governance report found that both water infrastructure investment and sustainable water management clearly rely on good water governance, and that there are major opportunities to strengthen water governance. This includes ensuring that regulations are properly monitored and enforced with purposeful penalties, that water-related government bodies have clear mandates, resources

and reporting mechanisms, and that businesses, farmers and community members are fully included in decision-making on water.

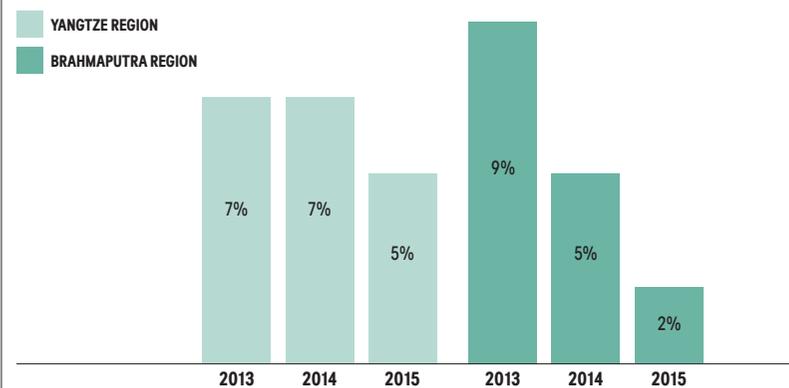
Key findings from the economic report show that the gap between water policy and implementation in Bangladesh is likely to affect the country’s GDP, living standards, food security and textile export growth by 2030. The report suggests that taking decisive action on water governance could create major savings in health expenses and cost reductions for irrigation pumping by farmers. It would also prevent textile production sites from running out of usable water in major industrial areas.

>ctei.cn
>wwf.panda.org
>230wrg.org

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



% OF USED WATER THAT IS RECYCLED



Focus: Chemical management

Our mission

Chemicals are essential in many things that we use in our everyday lives, as well as in the manufacturing of clothes. It's our task to uphold the strictest standards for handling chemicals and eradicate any hazardous chemicals going into our supply chain. We want to guarantee that our products are free from any harmful substances. Looking beyond the products, it is equally important to ensure safe working conditions for the people making our products and to protect the environment.

Our strategy

We follow the precautionary principle to avoid any harmful chemicals going into our supply chain. This means that we ban substances even if they are not legislated or if there is any indication of scientific uncertainties. Our main focus is on preventing restricted substance use at our first-tier and material suppliers. The chemical inventory list is one of our new minimum requirements to secure a strengthened supplier chemical management system. It helps us increase control of the chemicals that are used by our suppliers when making our products. This way, we can avoid the use and discharge of hazardous substances and control the chemicals that are used for dyeing, printing and washing processes.

We continually review and update our chemical restrictions including our Manufacturing Restricted Substances List (MRSL) and Restricted Substance List (RSL). Based on risk assessments for each individual product order, we perform regular tests – most of them in third-party laboratories. Additionally, we conduct specific chemical audits, for example, by checking what is referred to as the Safety Data Sheet (SDS).

We have ongoing training in our chemical restrictions and management, with additional focus on factories with chemical-intense processes such as dyeing and printing. In 2015, we partnered with SGS to deliver hazardous substances control (HSC) training. This training introduces key chemical management



concepts and some basic tools in order to assist factories in controlling their chemical input in their processing, which is different from ordinary chemical training available in the market.

We have integrated our work towards Zero Discharge of Hazardous Chemicals (ZDHC) into our new chemical management strategy. Furthermore,

we have enhanced our stakeholder engagement by including other industries and governments to further advance chemical management and transparency and also actively promote stricter legislation.

- >hm.com/chemical-restrictions
- >sgs.com
- >roadmaptozero.com

Focus: Chemical management

We are implementing a new methodology, E Cube, to prevent intentional use of hazardous chemicals in the manufacturing process.

Our Conscious Actions

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

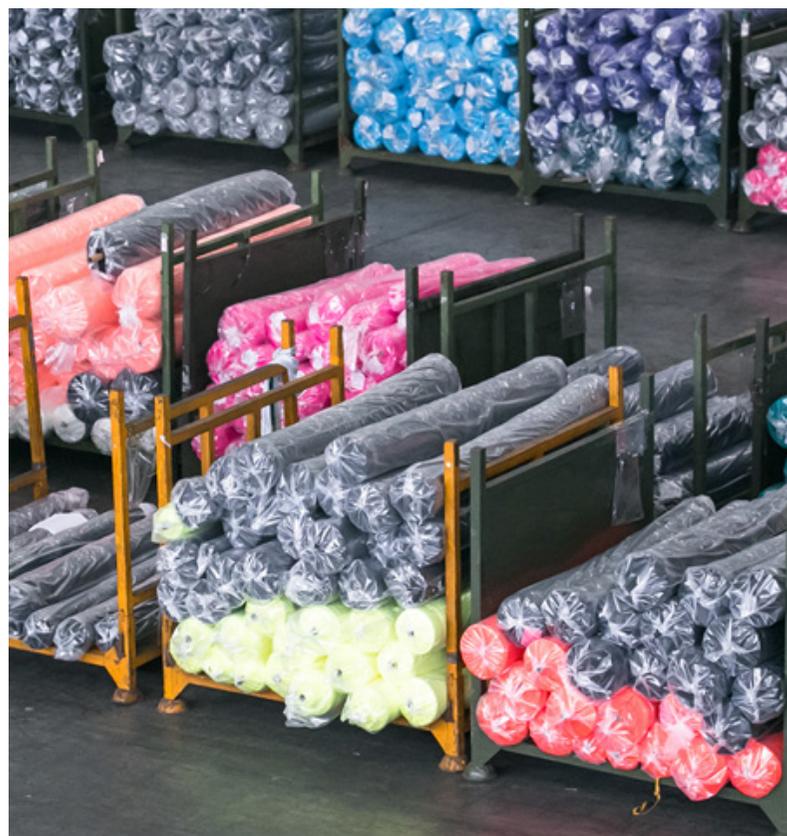
TIMELINE	STATUS
2020	ON TRACK

H&M is detox-committed and we are an active part of the ZDHC group. We are working actively to implement the joint roadmap with milestones to secure a cleaner environment with increased accountability and lead our industry to zero discharge of hazardous chemicals by 2020. This involves working on a methodology to find safer alternatives and research list prioritisation.

Together with other committed ZDHC brands we are engaging with stakeholders such as governments, textile industry associations, NGOs, third-party labs and the chemical industry to raise awareness of industry standards and work collaboratively for change. It is vital to engage with key supply chain actors, the chemical industry and associations in Asia to drive best industry standard adoption, research for alternatives and

promote the best available chemicals.

- >hm.com/towardszerodischarge
- >roadmaptozero.com
- >apparelcoalition.org



6.9 Develop a new method to ensure data disclosure for all strategic suppliers

TIMELINE	STATUS
2016	ON TRACK

So far, we have been using the Institute of Public and Environment Affairs (IPE) for data disclosure for roughly 60 strategic suppliers in Bangladesh, China, India, Cambodia and Indonesia. Now, we have started to develop additional solutions to provide all suppliers with the best possible disclosure mechanism. Through extensive research we have found that the Pollution Release Transfer Register (PRTR) is an effective method to prevent intentional use of hazardous chemicals in the manufacturing process.

Inspired by the PRTR methodology, we are currently working on implementing a similar method together with Bureau Veritas, a global leader in Testing, Inspection and Certification (TIC). The methodology is called E Cube and will provide three key chemical management indices to help

predict supplier performance.

The indices include (1) Transparency index (2) Greener chemical index and (3) Discharge performance index. This method is validated by Hong Kong University.

- >ipe.org.cn
- >prtr.net
- >burueuveritas.se

Focus: Chemical management

Our chemical restrictions are among the strictest in the industry. In 2015, we conducted nearly 41,000 tests.

Our Conscious Actions

6.10 Develop improved chemical management practices for our suppliers

TIMELINE	STATUS
2017	ON TRACK

Our products are tested against chemical restrictions that are amongst the strictest in the industry and here we follow the precautionary principle. In 2015, we conducted nearly 41,000 tests to ensure compliance with our chemical restrictions. We review our restriction lists at least once a year.

We are also increasingly focusing on the actual chemical input in the production processes. In 2013, we introduced our positive lists to help our suppliers choose the chemical products that comply with our restrictions. We started with positive lists from three chemical producers and this year we have a total of ten producers. We will keep increasing the number of positive lists to help the industry move towards better substitutions. We also ensure awareness of the Manufacturing Restricted Substances List (MRSL) requirements

and in 2015, we extended MRSL training to also include our second-tier suppliers.

Our new chemical management strategy, Best Chemical Management Practice (BCMP), aims to drive better purchasing practices to control the chemical input and ensure traceability in the production cycle. This includes a new systematic method to monitor the chemicals that are used and discharged in production units. This way, we can phase out hazardous chemicals and find substitutes for them.

During 2015, we ran pilot projects at 15 strategic suppliers to review their chemical management systems according to the notion of Plan-Do-Check-Act. From the results, we have identified strengths and areas for improvement at these factories. In general, most of the factories have developed a good chemical policy and monitoring system, but more efforts need to be made in operation routines and self-assessment areas. Our aim is to have the method in place by 2017.

[>hm.com/chemical-restrictions](http://hm.com/chemical-restrictions)



— COMMITMENT SEVEN —

Strengthen communities



As a continuously growing organisation across the globe, our values and the way we work affect many people. With this in mind, we believe it is crucial to contribute positively to the communities along our value chain. It is important to us that we drive lasting change and that these communities benefit from having us there.

Our strategic investments and partnerships help us to extend these impacts. We want to create shared value for us as a company, our customers and local communities. In addition, we believe it is vital to both communicate with and engage our customers and colleagues on community issues. We do so, for instance, through specially designed collections, additional in-store campaigns and garment donations.

To reach beyond our value chain, the H&M Foundation, an independent, nonprofit, global foundation invests in people, communities and innovation to drive positive change.

Performance overview

Actions

Rajitha, 31, grew up in the Mullaitivu district in north eastern Sri Lanka, which is considered one of the country's poorest districts.

She was just 10 years old when she decided that someday, she would become a manager.

Today, she is running a handloom business in the Mullaitivu district.

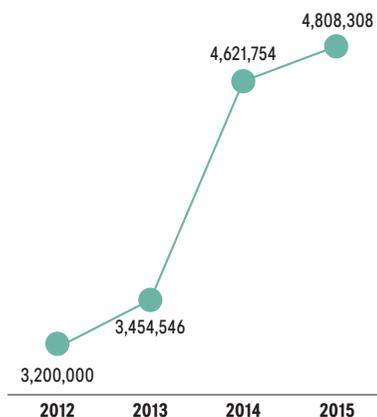


Still, Rajitha and women like her are held back by difficulties in accessing markets and capital.

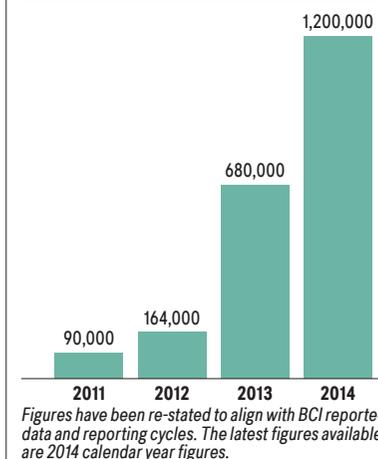
The H&M Foundation has teamed up with CARE, a global poverty-fighting organisation, to start a project called WEAVE to enhance these women's opportunities in the handloom industry and link them to sustainable markets.

Key performance 2015

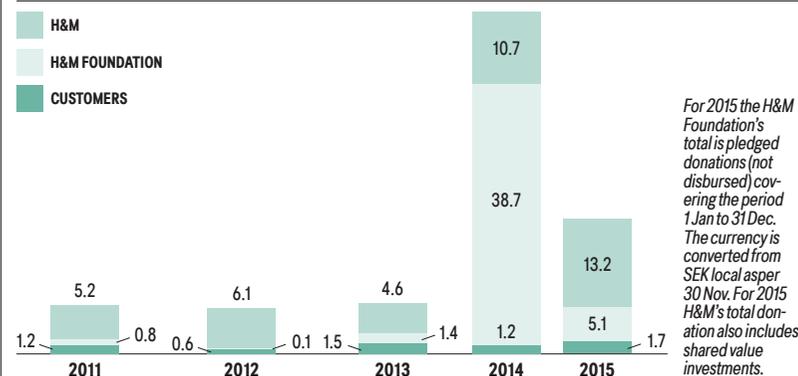
NO. OF GARMENTS DONATED TO AID ORGANISATIONS



NO. OF COTTON FARMERS TRAINED AND ACCREDITED FOR BETTER COTTON INITIATIVE (ACCUMULATED)



TOTAL COMMUNITY INVESTMENTS/DONATIONS (IN MILLION USD)



Performance overview

PROGRESS OVERVIEW		TIMELINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS - INVESTMENTS IN SHARED VALUE ALONG OUR VALUE CHAIN					
7.1	CREATE AND CONTRIBUTE TO MORE AND BETTER EMPLOYMENT OPPORTUNITIES	YEAR-TO-YEAR			
7.2	HELP TRAIN 1 MILLION COTTON FARMERS TO GROW COTTON WITH LESS IMPACT ON THE ENVIRONMENT AND IMPROVE LIVELIHOOD	2015			
7.3	PROVIDE AT LEAST 500,000 PEOPLE WITH ACCESS TO SAFE WATER IN COUNTRIES WHERE OUR PRODUCTS ARE MADE	2016			
7.4	IMPLEMENT THE NEW COMMUNITY DEVELOPMENT STRATEGY	2016			
FOCUS - MAKING A DIFFERENCE BEYOND H&M'S VALUE CHAIN - THE H&M FOUNDATION					
7.5	ENABLE 73,600 CHILDREN TO BENEFIT FROM EARLY CHILDHOOD DEVELOPMENT PROGRAMMES	2017			
7.6	PROVIDE 250,000 STUDENTS WITH ACCESS TO CLEAN WATER AND TOILETS IN SCHOOLS AND EDUCATE THEM IN HYGIENE PRACTICES	2017			
7.7	PROVIDE 100,000 WOMEN IN POOR COMMUNITIES WORLDWIDE WITH SKILLS TRAINING AND/OR SEED CAPITAL TO START UP OR EXPAND THEIR OWN BUSINESS	2017			
7.8	PROVIDE EMERGENCY RELIEF AND DONATIONS	AS REQUIRED			
7.9	NEW - LAUNCH THE GLOBAL CHANGE AWARD FOR BOLD IDEAS THAT CREATE CHANGE	2015			*

*Done prior to the publication of this report in early 2016.

Focus: Investments in shared value along our value chain

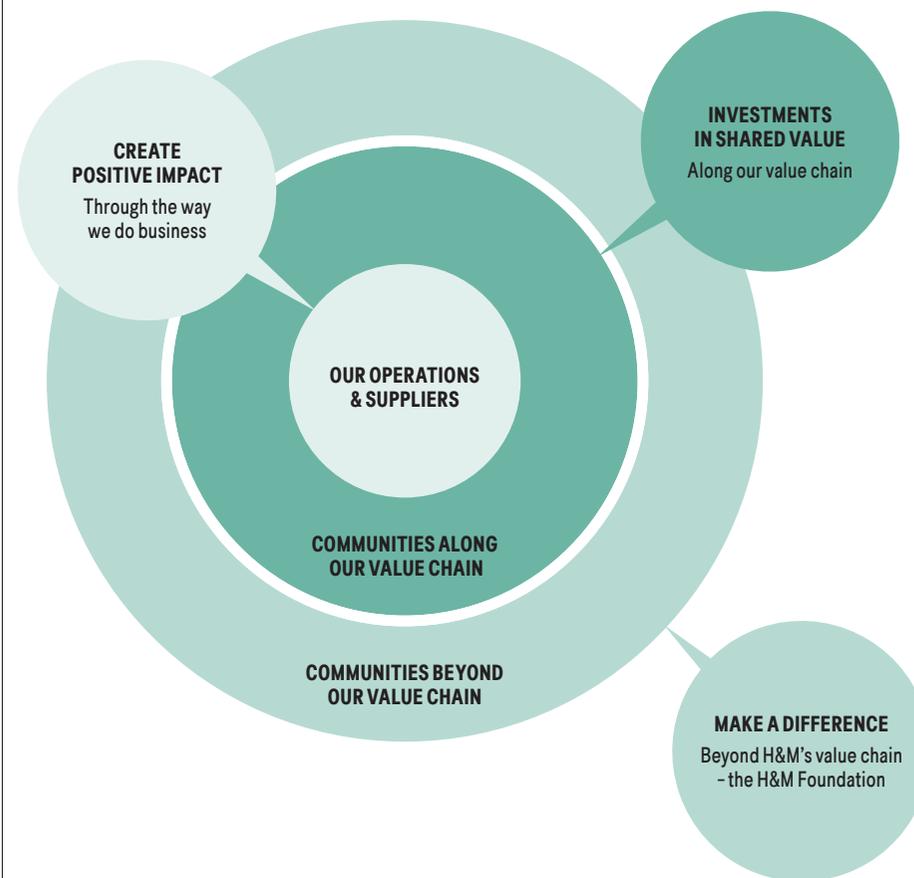
Our mission

Healthy ecosystems and prosperous and stable markets where human rights are respected are crucial to long-term business success. People should have fair chances to develop their skills without facing any discrimination and should be given the opportunity to make a dignified living. In order to secure our profitability and growth in the future, we want to make sure that the communities around us benefit from our presence wherever we operate. The way we do business must contribute to their development and create shared value. Through additional investments and collaborations we enhance this value. This way, we want to make a lasting difference to the livelihood of millions of people, their human rights and the environment around them wherever we operate and across our value chain.

Our strategy

In 2015, the Sustainable Development Goals were adopted by the UN. With 17 ambitious goals, these lead the way for states as well as companies like us for the next 15 years. We have actively contributed to the development of the goals along with thousands of other actors. But maybe even more importantly, we want to make sure that we contribute to the implementation of these through the way we do business. Therefore, we work across our operations with our suppliers and increasingly with their suppliers and across our entire value chain to not only create jobs in particular for women, but even more so to ensure that these jobs create a better livelihood for people and the communities they live in. We use our influence to promote human rights, education and training, for example, providing workers at our supplier factories with access to skills development programmes (s. 2.19) as well as raising environmental consciousness. To further extend these impacts, we invest in strategic initiatives and long-term collaborations with partners such as WaterAid, UNICEF and the Better Cotton Initiative (BCI) that help us extend the positive impacts we create through our business.

>sustainabledevelopment.un.org



Focus: Investments in shared value along our value chain

61,000 new jobs have been created in our stores, offices and warehouses in the last five years.

Our Conscious Actions

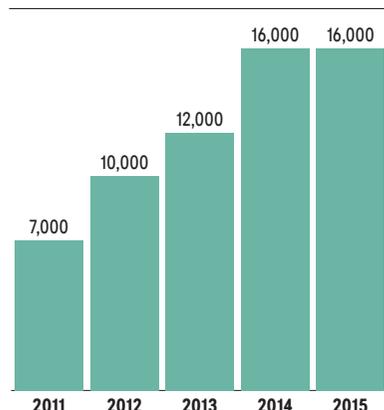
7.1 Create and contribute to more and better employment opportunities

TIMELINE	STATUS
YEAR-TO-YEAR	DONE

We are a growing business and with our growth, new job opportunities follow. In 2015, we created more than 16,000 new jobs (net) within the H&M Group. In total, we have created 61,000 jobs (net) globally in the past five years. At the end of 2015, the number of H&M employees amounted to more than 148,000 (2014: 132,000).

Additionally, our business contributes to job opportunities for around 1.6 million people employed by our suppliers, of whom 60% are women. We are confident that we can keep creating further employment opportunities both in our own operations and throughout our value chain.

JOB CREATION (NET) IN OUR STORES, OFFICES AND WAREHOUSES*



*Total number of new employees within the H&M Group.

7.2 Help train 1 million cotton farmers to grow cotton with less impact on the environment and improve livelihoods

TIMELINE	STATUS
2015	DONE

Through our membership with the Better Cotton Initiative (BCI), we help train cotton farmers to grow cotton in a way that is measurably better for the environment, farming communities and the economies of cotton-producing areas. We are a founding member and have been a major contributor to BCI since its establishment in 2009. So far, we have invested a total of more than 4 million euro, making us the biggest financial contributor. BCI plays an important role in reaching our goal to only use cotton from sustainable sources by

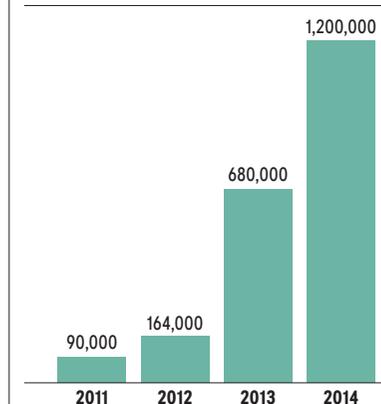
2020 at the latest (s. 1.2).

Training cotton farmers helps us secure the supply that we need as our use of Better Cotton is constantly increasing. The WWF and Solidaridad are two of BCI's implementation partners, ensuring farmers receive both the necessary training and know-how. Since 2010, more than 1.2 million farmers have been trained and licensed as BCI farmers, which exceeded BCI's goal of 1 million farmers. The next goal is to train 5 million farmers and produce 30% of global cotton production by 2020.

>bettercotton.org

Since 2010, more than 1.2 million cotton farmers have been accredited by the Better Cotton Initiative.

NO. OF COTTON FARMERS TRAINED AND ACCREDITED FOR BETTER COTTON INITIATIVE (ACCUMULATED)



Figures have been re-stated to align with BCI reported data and reporting cycles. The latest figures available are 2014 calendar year figures.

Focus: Investments in shared value along our value chain

Together with partners such as WaterAid, we have helped more than 530,000 people in Bangladesh, India, Pakistan and Ethiopia gain access to safe water.

Our Conscious Actions

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

TIMELINE	STATUS
2016	DONE

Over 650 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. Globally, H&M and the H&M Foundation have set a goal to provide at least 500,000 people with access to safe water by 2016. Together with partners such as WaterAid, we have now reached this goal a year earlier than planned and have provided more than 530,000 people in Bangladesh, India, Pakistan and Ethiopia with clean water since 2002.

Another example illustrating our work with water issues is a local initiative in India. From workers interviews we know that many of the employees at our supplier factories live in areas without access to adequate water, sanitation and hygiene

services and practice. To address this problem, we teamed up with WaterAid to demonstrate and train about the importance of clean water and hygiene (WASH). The project runs over three years and includes 14 supplier factories and 15 schools where children of garment workers study, and will offer improved infrastructure in the wider communities in which the workers live. So far, we have reached over 12,000 workers with training and 3,000 students with improved water and toilet facilities. Over 2,000 households in the communities are now also practicing sustainable solid waste management thanks to the project.

*Source wateraid.org.



7.4 Implement the new community development strategy

TIMELINE	STATUS
2016	ON TRACK

The roll-out of our new community development strategy in 2014 was a significant step to further strengthen our community work and our business decisions locally. The strategy allows us to focus more on strategic, long-term projects and initiatives with expected returns for both our business and the local communities where we operate, in what are known as shared value investments. These are defined as business cases that address a challenge for us to reach key business goals in the market by working on the community level with partners. In 2015, 77% of all of our investments and donations were shared value investments. A few examples are the Better Cotton Initiative (s. 7.2), WaterAid (s. 7.3) and the skills development programmes for workers at our supplier factories (s. 2.19).

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

Mission

The H&M Foundation drives positive long-lasting change by investing in people and communities beyond H&M's value chain. As an independent, nonprofit, global foundation financed by H&M's founder and major shareholder family, it complements H&M's sustainability work.

PLEGGED DONATIONS 2015* (IN SEK)	
Three global programmes ¹⁾	0
Local projects ²⁾	15,865,000
Emergency relief ³⁾	6,804,773
Global giving Holiday Campaign ⁴⁾	20,000,000
Dream fund ⁵⁾	1,390,481
TOTAL**	44,060,254

¹⁾ Mentioned on pages 117, 119 (s. 7.5, 7.6) and 120 (s. 7.7). Donations pledged in 2014.

²⁾ Mentioned on page 117.

³⁾ Mentioned on pages 117 and 121 (s. 7.8).

⁴⁾ Mentioned on page 117.

⁵⁾ Mentioned on page 26 (s. 1.11).

*Referring to the full calendar year of 2015.

**Of which SEK 115,723,698 has been disbursed during 2015. The disbursed amount exceeds the sum of total pledged donations due to annual payments related to programmes initiated in earlier years.

Strategy

The H&M Foundation is funded by the Stefan Persson family, the founders and main owners of H&M. Thanks to their donations – a total of SEK 900 million (USD 130 million/EUR 102 million) since 2013 – it is possible for the H&M Foundation to drive positive change on a global scale. The H&M Foundation works with three focus areas: Education, Clean Water and Strengthening Women. These focus areas were chosen by H&M customers and employees through a global online vote in 2013.

Through its three global programmes, the H&M Foundation works together with UNICEF, WaterAid and CARE to drive transformative change by addressing structural barriers and promote new policy within each focus area. The three programmes receive a total of SEK 60 million (USD 27.9 million/EUR 20.4 million) each within a three-year period (1 February 2014 to 31 January 2017).

Besides the global programmes, the H&M Foundation supports local projects in countries where H&M operates with the aim of achieving positive and direct impact on people's everyday lives.



The H&M Foundation works with a range of partner organisations with specific local knowledge to address issues within the three focus areas. During 2015, local projects were initiated in India, Bangladesh, Sweden and Ethiopia. In addition, the H&M Foundation is able to quickly provide emergency relief support in the case of any sudden natural disasters in a country where H&M operates. The foundation initiates discussions with community partners to determine if and what sup-

port is needed in order to swiftly alleviate the suffering of the affected people.

Additionally, through the Global Change Award, the H&M Foundation has created one of the world's largest competitions to protect the earth's natural resources by investing in close the loop innovation, providing grants of one million euro annually.

hm.com/hmfoundation

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

Interview with Alek Wek, supermodel and official ambassador of the H&M Foundation

What does fashion mean to you?

Fashion draws inspiration from all over the place and therefore it's natural that it should celebrate all cultures and colours. I've always been told that beauty isn't the clothes or makeup you wear; that those are only things that can enhance the natural beauty of a woman. Which is within.

Out of all the causes you work for, which one do you keep closest to your heart?

I've always advocated the importance of education, especially for girls. If you educate a girl, you educate a family, a community and a society. My father told me that you can lose everything, but you can never lose your knowledge.

What do you do with clothes and items that you're not wearing anymore?

I have a lot of nieces and sisters who I hand down clothes and items to. I try to clean out my wardrobe every spring and winter, and that makes me realise I don't wear a lot of the clothes I have and I have quite a lot because of the nature of my work. There are centres and local stores where I leave the clothes my relatives don't want.

I also go to the Salvation Army and leave clothes. One man's trash truly is another man's treasure!

A lot of us want to make a difference and work for positive change in the world. What contribution can everybody make?

Educate yourself! Go online and look for information and you can find something that can fit your schedule and curiosity.



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

Approximately one-third of the children under the age of five in developing countries are not achieving their development potential.

Actions

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

TIMELINE	STATUS
2017	ON TRACK

The brain's ability to develop is strongest before the age of eight. Early childhood care and education are especially important to lay the foundation for this 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.

Funding of early childhood development is not commonly prioritised by government agencies or donors. To help tackle this global challenge, the H&M Foundation teamed up with UNICEF to invest in children's early education and development. This flagship programme aims to reach 73,600 children who will benefit from early childhood development programmes 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. In 2015, UNICEF continued the implementation process of the planned activities initiating collaborations with governments, encouraging them to invest in early childhood development. Since 2014, more than 45,000 children have benefitted from the H&M Foundation's funded activities in terms of early childhood care and education – giving them a good start in life.

>unicef.org

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

TIMELINE	STATUS
2017	ON TRACK

Imagine if you didn't have access to a toilet or clean water. This is the reality for over 50% of the students in developing countries in their schools. This lack contributes to disease and has negative impacts on education, but it also has wider implications on gender equality, development and economic growth in these communities. This is why the H&M Foundation has partnered with WaterAid to provide 250,000 students with access to clean water and toilets in schools and to hygiene education.



In 2015, WaterAid continued the implementation process of the programme and worked closely with governments to prioritise clean water and sanitation as part of school policies. So far, almost 100,000 schoolchildren have received access to clean water, adequate toilets and hygiene education in their schools. Beyond this, the programme has aimed to influence the post-2015 framework and the UN

Sustainable Development Goals to include a goal on water and sanitation as well as targets to provide safe water, sanitation and hygiene for all schools globally. Thanks to successful campaigning by WaterAid together with other actors, water and sanitation were included in Goal 6 in the new UN Sustainable Development Goals adopted in September 2015. Furthermore, WaterAid continues to advocate that access to clean drinking water, sanitation and hand-washing facilities in schools should be an indicator measuring the progress on Goal 4, which guarantees inclusive and equitable quality education for all.

>wateraid.org
>sustainabledevelopment.un.org

50% of the students in developing countries lack access to a toilet or clean water in their schools.

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

Actions

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

TIMELINE	STATUS
2017	ON TRACK

60% of the world's working poor are women. Globally, women spend at least twice as much time as men doing unpaid domestic work, and their total work hours are longer than men's in all regions of the world. Women have less access to education, financial services and resources, technical and vocational skills training as well as limited rights to own and inherit property. Women often face more barriers, both cultural and structural, than men in most aspects of life.

In partnership with the international humanitarian and development organisation CARE, the H&M Foundation is committed to empowering 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 by 2017. Studies show that societies as a whole benefit when countries practice gender equality. Beyond that, the programme aims to break down myths and beliefs about women's abilities through regional campaigns with inspiring role models. Furthermore, by advocating policy changes, more women can reach their full potential and exercise their rights.

In 2015, CARE continued the implementation process of the programme. So far almost 75,000 women from poor communities have been supported in their entrepreneurship and strengthened economically. CARE has been working closely with governments to establish the conditions needed for lasting change. Governments can create favourable conditions for women entrepreneurs and CARE helps establish a constructive dialogue between the two. For example, in Peru and in Jordan, CARE brings together local government officials and entrepreneurs to discuss needs for better infrastructure and tax conditions. On basis of these

on-the-ground initiatives, evidence is gathered for a global report advocating global policy change on women's rights.

>care.org



Societies as a whole benefit when countries practice gender equality. So far, almost 75,000 women from poor communities have been supported in their entrepreneurship and strengthened economically through the H&M Foundation and CARE's partnership.

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

Actions

7.8 Provide emergency relief and donations

TIMELINE	STATUS
AS REQUIRED	DONE

In 2015, Nepal suffered a devastating earthquake affecting more than 8 million people all together, including 3.2 million children. In response, the H&M Foundation donated USD 100,000 to Save the Children's relief efforts. The donation enabled Save the Children to provide hygiene kits, blankets, tents, nutrition and child-friendly spaces.

Additionally, the H&M Foundation made the decision to donate USD 500,000 to support the organisation UNHCR in their emergency relief work related to the Mediterranean refugee crisis, offering refugees food, medical care and shelter as well as migration services. The H&M Foundation also made a follow-up donation of another USD 100,000 to the Rana Plaza Donors Trust Fund (after an initial donation of USD 100,000 in 2014) in order to support the victims of the Rana Plaza disaster and their

In 2015, the H&M Foundation donated to Save the Children's relief efforts in Nepal, to UNHCR's work with the Mediterranean refugee crisis and to the Rana Plaza Donors Trust Fund in Bangladesh.

families in Bangladesh. The H&M Foundation made this donation based on humanitarian grounds, even though H&M never had any business relations with any factories in Rana Plaza.

At the end of 2015, the H&M Foundation made a donation of USD 100,000 to Save the Children towards emergency relief efforts in Ethiopia where the current drought is forecast to be the worst in 30 years. The support will be directed towards food and nutrition, clean water, sanitation and hygiene as well as basic education for children in affected areas.

In addition to the H&M Foundation's emergency relief, H&M's customers and staff donated about USD 680,000 through in-store campaigns to causes such as UNICEF's relief to refugees from Syria and the Nepal earthquake.

Additionally, each year, H&M donates large quantities of clothes to organisations and charities in the countries where H&M operates. To support these efforts there is an explicit garment donation policy at H&M stating that all unsold, safe-to-use products should be donated to charity or, if possible, recycled into something new. In 2015, H&M donated more than 4.8 million items of garments globally.



© Tom Caleberghie/Save the children

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

Actions

NEW 7.9 Launch the Global Change Award for bold ideas that create change

TIMELINE	STATUS
2015	DONE*

Creating a closed loop for fashion will require a lot more innovation and bold ideas that haven't even been born yet. The Global Change Award is an innovation competition by the H&M Foundation that was launched in August 2015. It takes on one of the biggest challenges facing today's fashion industry – how to create fashion for a growing population while reducing its impact on the environment. By catalysing green, ground-breaking ideas, the aim of the competition is to protect the planet by closing the loop for fashion.

The first award ceremony took place in February 2016 where five winning ideas received grants totaling one million euro. The winners were selected out of more than 2,700 entries from 112 countries by an

*Completed during 2016 before publication of this report.

expert jury. Additionally, the global public was invited to distribute the grant through an online vote. Neither the Foundation nor H&M will take any equity or intellectual property rights in these innovations.

In addition to the grants, the winners will also be provided with a one-year innovation accelerator, a collaboration with Accenture and the Royal Institute of Technology in Stockholm (KTH). They will also receive coaching, exclusive fashion industry access and opportunities to build networks and try out the ideas within the fashion value chain.

>globalchangeaward.com

Five ideas to close the loop for fashion

- 100% citrus: create new textile out of citrus juice production by-products.
- The polyester digester: use microbes to recycle waste polyester textiles.
- Growing fibre under water: utilise algae to make renewable textiles.
- Making waste-cotton new: convert waste cotton into new textiles.
- An online market for textile leftovers: a marketplace for industrial upcycling of spill in production.

“The question for fashion is no longer “What is the new black?” but rather, ‘What innovative ideas can close the loop?’”

Rebecca Earley, Professor in Sustainable Textile and Fashion Design at University of the Arts London

Global Change Award jury

Mr. Ma Jun Director, Institute of Public and Environmental Affairs, China

Dr. Michael Braungart Academic Chair “Cradle to Cradle for Innovation and Quality” at Erasmus University Rotterdam; Professor at Leuphana University Lüneburg; Scientific Director of EPEA Hamburg

Prof. Rebecca Earley Professor in Sustainable Textile and Fashion Design at University of the Arts London and Director of its Textile Futures Research Centre (TFRC)

Ms. Eva Kruse CEO, Danish Fashion Institute; CEO, Copenhagen Fashion Week

Prof. Johan Rockström Director of the Stockholm Resilience Centre (SRC) and Professor in Environmental Science with emphasis on water resources and global sustainability at Stockholm University

Mr. Ellis Rubinstein President and CEO, The New York Academy of Sciences

Ms. Franca Sozzani Editor in Chief of Vogue Italia

Ms. Amber Valletta Supermodel, Actress and Entrepreneur.

Auditor review statement

To H & M Hennes & Mauritz AB

We have been engaged by the management of H & M Hennes & Mauritz AB (H&M) to perform a limited assurance engagement on the information in H&M's Conscious Actions Sustainability Report 2015 with regard to the following indicators referred to in the GRI index that can be found in the 'GRI index 2015':

Identified material aspects and boundaries (G4-17 to G4-23), pages 126–127. Stakeholder engagement (G4-24 to G4-27), pages 12 and 126.

Energy: Energy consumption within the organisation (G4-EN3), p. 82. Energy intensity (G4-EN5), p. 82. Percentage of renewable energy (AF21), p. 80.

Emissions: Direct greenhouse gas emissions (scope 1), (G4-EN15), p. 81. Energy indirect greenhouse gas emissions (scope 2), (G4-EN16), p. 81. Other indirect greenhouse gas emissions (scope 3), (G4-EN17), p. 84.

Materials: Materials used by weight or volume (G4-EN1), p. 18.

Tonnes of garments collected for reuse and recycling, p. 92.

Supply Chain: Incidents of non-compliance with Code of Conduct (AF14), p. 43.

Anti-corruption: Confirmed incidents of corruption and actions taken (G4-SO5), p. 61.

H&M's Conscious Actions Sustainability Report 2015 covers the period 1 December 2014 to 30 November 2015.

Management's responsibility

The management of H&M is responsible 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) G4 guidelines.

As discussed in the section "How we report," p. 125 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 express a conclusion on the above specified indicators in the H&M Conscious Actions Sustainability Report based on the limited assurance procedures we have performed. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, or 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 conducted our 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 assurance engagement 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. 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 limited assurance 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.

Auditor review statement

A limited assurance 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 procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the management as described above. We consider these criteria suitable for the preparation of the sustainability report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

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, April 13, 2016
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Charlotte Söderlund
Authorised Public Accountant

How we report

We are committed to transparent reporting on 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, goals and performance for the global Group operations of H & M Hennes & Mauritz AB (also called H&M in this report), including all of 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 2014 to 30 November 2015, unless stated otherwise (for a full list of entities, please see our [Annual Report 2015](#)). We aim to tackle impacts wherever they occur in our value chain, and this is reflected in our reporting wherever possible. Information limited in scope to only one of these brands or any other limitations or deviations in scope are clearly stated in the respective section of this report. 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 (clearly marked and where applicable as well as in regard to materiality and stakeholder engagement). Additional stakeholder comments and interviews have been included throughout this report.

All data is collected by our sustainability team from the relevant functions within our organisation and from external parties such as suppliers and implementing partners. It is always reviewed by our internal controlling team in addition to relevant experts in our sustainability team as well as expert functions following a two-tier quality control principle. Any extrapolations or estimations are clearly indicated. The same goes for any changes in data methodologies or scope that may have an effect on data comparability.

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 in data systems and methodologies, as well as scientific uncertainties. For example, while our

GHG emissions accounting and reporting is aligned with the GHG Protocol, the emission factors we use are from publicly available sources such as the International Energy Agency (IEA), the Network for Transport Measures (NTM), Reliable disclosure system for Europe (RE-DISS) and supplier specified emission factors. GHG emission data is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emission factors and resulting effects on measurements and estimations. The reported energy usage is based on invoiced data, data from real-time electricity meters and data as reported by transport providers. Conversion between fuel usage and energy content has been carried out using energy values specified by the supplier or by using tabled values provided by national bodies.

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 first-tier manufacturing or processing (i.e. washing and dyeing), factories

that are owned or subcontracted by our suppliers as well as (where stated) selected second-tier suppliers and suppliers for non-commercial goods (such as store interior suppliers).

Monetary amounts are reported mainly in the currency of transaction (usually SEK). Additional currency values are conversions as approximate figures based on the conversion rate on 30 November 2015, unless stated otherwise.

Additional information is provided at hm.com/conscious as well as in our financial and corporate governance reporting. Our most recent sustainability report was published in April 2014.

We are signatories to the UN Global Compact and our annual Conscious Actions Sustainability Report also serves as our Communication on Progress (COP) for the UN Global Compact as well as the CEO Water Mandate.

Global Reporting Initiative (GRI)

This report is prepared in accordance with the GRI G4 Sustainability Reporting Guidelines (core). We have also included material indicators from the pilot of the Apparel and Footwear Sector Supplement. The detailed GRI Index can be found at hm.com/gri.

UN Guiding Principles Reporting Framework

We are one of the first companies in the world to

How we report

report on our human rights in line with the [UN Guiding Principles Reporting Framework](#), the first comprehensive guidelines for companies to report on human rights issues in line with its responsibility to respect human rights set out in the [UN Guiding Principles on Business and Human Rights](#). The detailed references to the UN Guiding Principles Reporting Framework can be found at hm.com/gri.

Below, we set out our general approach to assessing the materiality for our business of a range of sustainability issues and how we supplement this in the area of human rights with the process to identify our salient human rights issues based on an understanding of risk to people.

Process for identifying the most material aspects and their boundaries

In 2015, we reviewed the material aspects identified and published with our Conscious Actions Sustainability Report 2014. The process for defining the report content and the aspect boundaries in our 2015 Report has been based on the following main steps:

Identification: Mapping aspects and creating a gross list

During 2013, we 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, life-cycle assessment results, stakeholder dialogues 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 aspects from this gross list, we scored the different aspects with regard to their influence on stakeholder assessment and decisions and their significance for 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 were 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 automatically clustered into 25 focus areas and gathered in a materiality matrix (p. 127). 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). Eleven 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

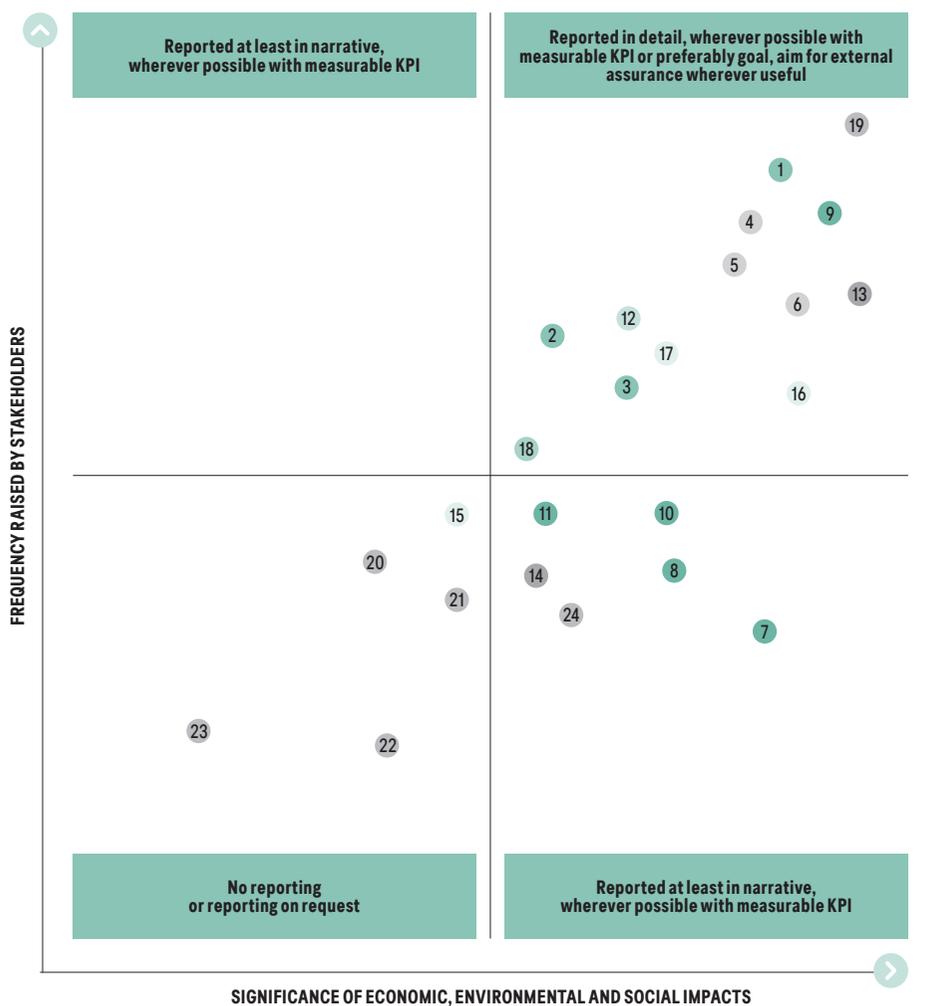
analysis. No aspect was considered missing, but based on their feedback, we moved the positioning of four aspects in the matrix. Throughout this process, we used the principles of defining report content in order to secure a robust process.

Review of materiality matrix in 2015

In 2015, we reviewed the outcomes of this process based on stakeholder feedback gathered with the release of our 2014 report as well as stakeholder engagement processes throughout the year and feedback from internal stakeholders. We found that our materiality matrix was still widely valid but performed a few minor adjustments to the scaling of some focus areas. We also updated our materiality assessment taking the [UN Guiding Principles on Business and Human Rights](#) and a new assessment of our salient human rights issues, as well as the new [UN Sustainable Development Goals](#) into account. Following this, we added a number of different aspects to our focus areas, namely land rights, access to clean water and harassment.

How we report

Materiality matrix



OUR COMMITMENTS	FOCUS AREAS	ASPECTS INCLUDED
Provide fashion for conscious customers	1 Conscious products and materials 2 Involve our customers and colleagues 3 Animal welfare	1. Materials (G4), Products and Services (G4), Product and Service Labelling (G4) 2. Sustainable customer behavioural change 3. Animal Welfare 4. Purchasing Practices, Supplier Environmental Assessments (G4), Supplier Assessments Labour Practices (G4), Investments (Human Rights) (G4, UNGPRF), Supplier Human Rights Assessments (G4, UNGPRF), Human Rights Grievance Mechanisms (G4, UNGPRF), Supplier Capacity Building, Labour Practices Grievance Mechanisms (G4), Non-discrimination (G4, UNGPRF), Harassment (UNGPRF), Child Labour (G4, UNGPRF), Forced or Compulsory Labour (G4, UNGPRF), Overtime in Supply Chain (G4, UNGPRF), Supply Chain Workers' Health & Safety (UNGPRF), Supply Chain Fire and Building Safety (UNGPRF), Land rights (UNGPRF) 5. Fair living wages in supply chain (UNGPRF) 6. Freedom of Association and Collective Bargaining (G4, UNGPRF) 7. Anti-Corruption (G4), Public Policy (G4), Compliance (G4) 8. Employment (G4), Labour/Management Relations (G4), Occupational Health & Safety (G4, UNGPRF), Training and Education (G4), Employee Satisfaction 9. Investment (G4, UNGPRF), Assessments (G4, UNGPRF), Human Rights Grievance Mechanisms (G4, UNGPRF) 10. Diversity and Equal Opportunity (G4), Non-discrimination (G4, UNGPRF) 11. Marketing Communications (G4), Customer Privacy (G4), Compliance (G4) 12. Energy (G4), Emissions (G4) 13. End of Life Solutions/Circular Economy Strategies 14. Effluents and waste (G4) 15. Packaging (G4) 16. Water (G4) 17. Effluents and Waste (G4), Customer Health & Safety (G4) 18. Indirect Economic Impacts (G4), Local Communities (G4), Access to clean water (UNGPRF) 19. Economic performance (G4) 20. Market presence (G4) 21. Biodiversity (G4) 22. Overall (G4) 23. Anti-competitive behaviour (G4) 24. Responsible tax planning.
Choose and reward responsible partners	4 Supply chain management 5 Fair living wages 6 Industrial relations	
Be ethical	7 Anti-corruption 8 Employer of choice 9 Other human rights 10 Diversity & equality 11 Responsible marketing	
Be climate smart	12 Climate (Emissions from our own operations; Emissions along our value chain)	
Reduce, reuse, recycle	13 Close the loop on textile fibres 14 Waste	
Use natural resources responsibly	15 Packaging 16 Water stewardship 17 Chemical management	
Strengthen communities	18 Community development (Investments in shared value; Community support; Making a difference beyond our value chain)	
Other	19 Economic performance 20 Market presence 21 Biodiversity 22 Environmental expenditures 23 Anti-competitive behaviour 24 Responsible tax planning	

>globalreporting.org

How we report

WHAT ARE THE SALIENT ISSUES?	ACTUAL & POTENTIAL IMPACTS ON PEOPLE THROUGHOUT VALUE CHAIN
FAIR LIVING WAGE	
A wage level that covers workers and their families' basic needs and provides some discretionary income.	Mainly in the production markets. We take a collaborative approach to improve wages in the textile industry through our Fair Living Wage roadmap (commitment 2, Focus: Fair living wages).
HEALTH & SAFETY	
Working conditions that ensure the well-being and safety of workers and employees.	Upholding a safe and healthy working environment in supplying factories as well as in our own organisation. We engage in the Accord (commitment 2, Focus: s. 2.7), our work related to chemicals (commitment 6, Focus: Chemical management) and upholding our own safety standards (commitment 3, s. 3.9).
FORCED LABOUR	
All work or services that are exacted from any person under the threat of penalty and the said person has not offered himself/herself voluntarily (ILO Convention 29).	Potential risk upstream and downstream the value chain. Upstream, for example the risk of forced labour situations related to materials and processes for products and labour conditions in the value chain (commitment 1, Focus: Conscious products and materials, s. 1.2 and commitment 2, Focus: Supply chain management, s. 2.8). Downstream, potential risk for example via recruitment agencies.
DISCRIMINATION AND HARASSMENT	
Unfair or humiliating treatment on the grounds of gender, sexual orientation, race, color, age, pregnancy, marital status, religion, political opinion, nationality, ethnic origin, caste, disease or disability and harassment (humiliating or corporal punishment or being subject to physical, sexual, psychological or verbal harassment or abuse) in the workplace.	Ensuring the absence of discrimination and harassment in supplier factories as well as in our own organisation. For example the implementation of our social policies - New global policy on HIV/AIDS and global grievance mechanism (commitment 3, Focus: Employer of choice).
CHILD LABOUR	
Work that deprives children of their childhood, their potential and their dignity, and that is harmful to their physical and mental development (UN CRC, CRBP, ILO Conventions).	Potential risk upstream and downstream the value chain. Upstream, for example the risk of child labour related to raw materials - Better Cotton Initiative (commitment 7, Focus: Investments in shared value in our value chain, s. 7.2).
FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING	
A person's right to join, and/or form, organisations of his/her own choosing and to bargain collectively (ILO Convention 87, 98, 135, 154).	Production and retail markets. We take a collaborative approach to achieve well-functioning industrial relations through a global framework agreement with IndustriALL, global partnership with the ILO and collaboration with Sida (commitment 2, Focus: Industrial relations). We also have a global framework agreement with UNI Global Union (commitment 3, Focus: Employer of choice, s. 3.7).
SOCIAL SECURITY	
Everyone's right to an adequate standard of living for the health and well-being of oneself and of one's family, including food, clothing, housing, medical care and essential social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other reasons such as lack of livelihood in circumstances beyond one's control (Universal Declaration of Human Rights Article 25).	Mainly an obligation belonging to the responsibility of the state as defined by the UN Guiding Principles, but relevant especially in production markets where lack of legal frameworks or institutional capacity sufficiently addressing this issue is common. We take an advocacy approach, for example, in Bangladesh - the Accord (commitment 2, Focus: Supply chain management, s. 2.7) as well as addressing it through our Sustainability Commitment (commitment 2, Focus: Supply chain management s. 2.1).
LAND RIGHTS	
Land ownership disputes. Land grabbing and/or forced/illegal displacement of people.	Potential risk to people upstream the value chain possibly related to the production of raw materials used in products, which potentially could influence communities. Important aspect in our human rights risk assessments in new and existing markets (commitment 2, Focus: Supply chain management and commitment 3, Focus: Human rights management, s. 3.11).
WORKING HOURS	
Working hours that comply with national law, the ILO conventions or collective agreement, whichever affords the greater protection of the worker. Connected to the workers' right to health and family life.	Production and retail markets. High prevalence of overtime in the textile industry. Monitored through our supplier assessment program and linked to, and addressed through, our supply chain management strategy and our Fair Living Wage roadmap (commitment 2, Focus: Supply chain management).
ACCESS TO WATER	
Safe and adequate water supply that is accessible and affordable for personal and domestic use.	Communities in both production and retail markets. Addressed through our work with water in our water strategy (commitment 6, Focus: Water stewardship).

Process of defining our salient human rights issues

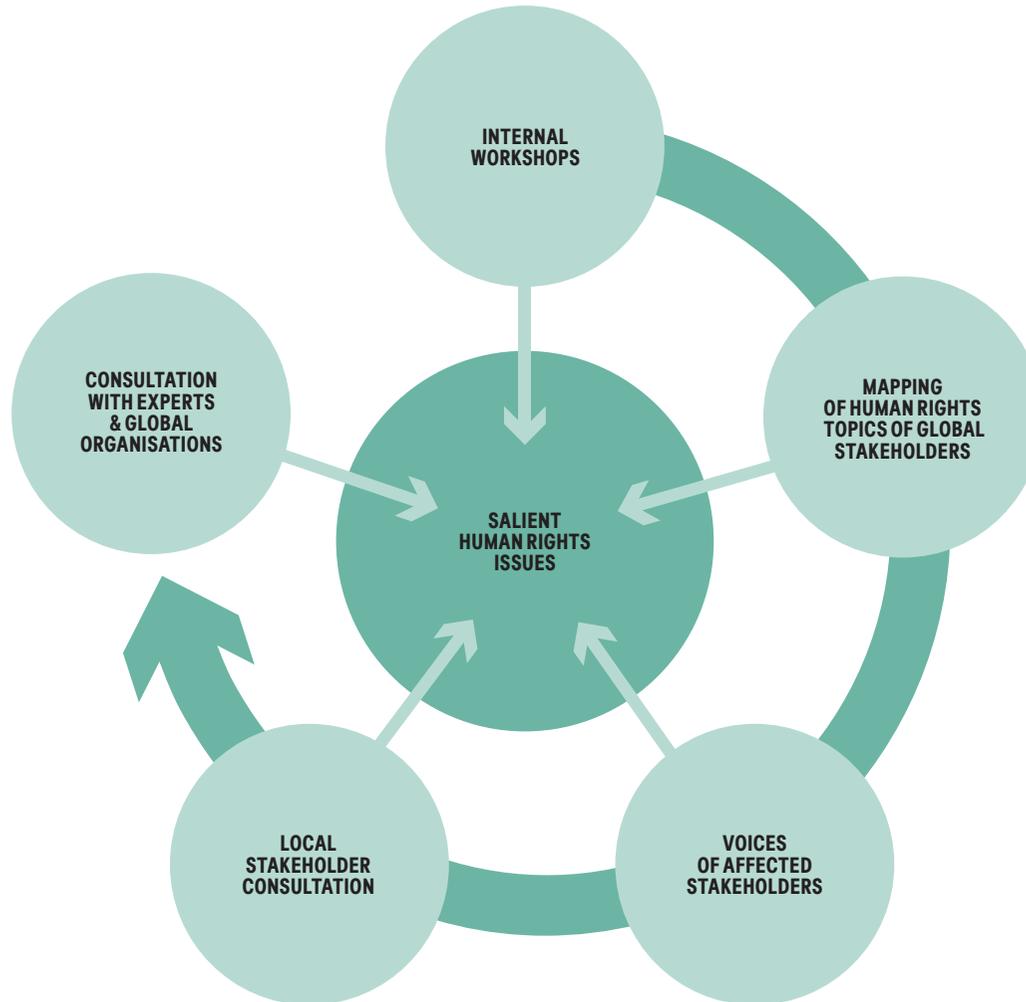
An important part of reporting our human rights work in line with the [UN Guiding Principles Reporting Framework](#), is to determine the salient* human rights issues associated with our business activities and business relationships. This thorough process took place during 2015. The starting point was to define who we impact through our business activities throughout our value chain, especially recognising those who have greater challenges in fulfilling their human rights, such as migrant workers, children and in some places women. The result of this mapping included both potential and actual human rights impacts. Amongst these we identified those which were salient by applying the criteria severity of the potential impact and the likelihood that this impact will occur.

Our sustainability program continues to aim to address all our potential human rights impacts, including both salient and others. Consultations regarding the method and input to the identified salient human rights issues were conducted both internally and externally with close to one hundred people. Internally consultations were undertaken through workshops and dialogues on all levels of the company and across functions. Externally, consultations were held with experts, organisations, academia and local stakeholders.

*The human rights at risk of the most severe negative impacts through the company's operations and value chain.

How we report

The consultations and input received from our stakeholder engagement enabled us to determine our salient human rights and honed the content. The input from our stakeholder consultations have been taken forward for next year's review of our salient human rights work. Salient human rights are addressed as part of our ongoing sustainability program, but the process itself and the input from stakeholders will inform and further sharpen our strategies going forward.



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 sustainability.hm.com.

Contact

We appreciate your feedback. Please send your questions or comments regarding this report to kristina.grewin@hm.com or micaela.kokko@hm.com.

