



CORPORATE SOCIAL RESPONSIBILITY REPORT 2004

H&M

Stockholm 15 April 2005

Dear Reader,

2004 has been a very exciting year for us in terms of developments within the field of social responsibility in our supply chain. We have engaged in an internal evaluation of our progress after more than 12,000 audits during the last seven years. The result of the evaluation was a shift in our strategy. Monitoring has led to substantial improvements and is still important but we find that we have to focus more on finding sustainable solutions together with our suppliers. We have realized that we have to start asking the question “why” things are wrong rather than just observing “what” is wrong. Only when we can address the root cause will it be possible to achieve sustainable change. We have come to the conclusion that many problems stem from poor management practices at our suppliers’ factories, but we also need to analyse our own practices as well as external factors. And we need to apply more of a bottom up approach and listen more to the workers than we have done so far.

During 2005 a new computer application will be developed that will allow us to register data from audits in a way that enables us to more easily quantify progress in the social area. However, since our monitoring focus is rapidly shifting from “policing” to constructive interaction with suppliers to achieve sustainable improvements, the result of our work may not always be measurable in figures. As our CSR work develops we still have to find ways to report progress in a way that makes sense to our stakeholders. Within this process, a continued dialogue with our stakeholders about our reporting will be invaluable.

In last year’s report I expressed regrets about the quality of our reporting of carbon dioxide emission figures in 2002. I would certainly not have expected to be forced to do the same this year. We seem to have ended up in a quagmire of calculation errors, questionable calculation methods and mistakes in the reporting from external sources. We are now confident that the quality and accuracy of this year’s data is up to the mark. This is particularly important since we have now formulated a five-year target for reduction of CO₂ emissions with 2004 set as the base year.

Although our CSR report for 2003 has been very well received, we are aware that we can still improve our reporting in many ways. In order to make our CSR report for 2004 even more relevant to our stakeholders, we last year invited four representatives of NGOs, trade unions, ethical investors and the Swedish Ministry for Foreign Affairs to comment on our report. You can read about their feedback in this year’s report.

The reporting process continues to be an important part of our CSR team’s internal process of continuous improvement. At the same time we hope that it will give you, our readers, a better understanding of H&M’s philosophy and ambitions in the field of corporate responsibility. As usual we appreciate your feedback!



Ingrid Schullström
CSR Manager

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H&M

OUR BUSINESS

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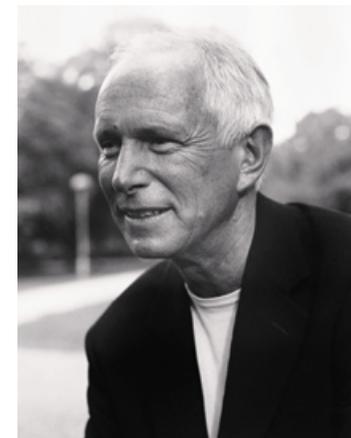
STATEMENT FROM OUR MANAGING DIRECTOR

As an international corporation, H&M has a social responsibility. It is important for us to maintain good relations with the world around us and to take responsibility for how people and the environment are affected by our activities. That is why we must listen to our customers, our staff and other stakeholders in society in order to understand the expectations that they have of us as a corporation.

During the year we reorganised our buying department, dividing it into two parts: buying and production. Thanks to this division, one section of our buying organisation is now able to focus entirely on our production offices and contacts with H&M's approximately 700 independent suppliers. This makes it much easier for the buying department to cooperate with our CSR department, which coordinates our efforts in the social and environmental areas. Since we are aware that H&M's own actions can affect how well our suppliers are able to live up to our requirements, this is an important development. We are now focusing more on long-term business relationships with our suppliers in which both the quality of the garments and the suppliers' ability to comply with the requirements laid down in H&M's Code of Conduct are essential factors for our continued cooperation.

On the environmental side, this year we have formulated a measurable target for reducing carbon dioxide emissions from the company's operations. Our objective is to reduce emissions by ten per cent in five years in relation to turnover.

It is important for H&M to have a presence in the production countries so that our own staff can check that the working conditions in the production units are acceptable and that child labour is not being used. However, we should not forget either that producing our merchandise creates many job opportunities. I think we should take pride in the fact that more than 600,000 people worldwide are employed in factories that produce goods for H&M. A further 45,000 people are now employed within H&M's own operations. Job creation is also a social responsibility.



A handwritten signature in black ink, appearing to read 'R. Eriksen', written in a cursive style.

Rolf Eriksen

CSR VISION AND STRATEGY

CSR Vision

To uphold human rights, contribute to sustainable development and thereby earn trust from our stakeholders.

CSR Strategy

H&M's business strategy is to continue to grow whilst maintaining good profitability. H&M believes that long-term profitability and good relations with the world around depend on us taking responsibility for how people and the environment are affected by our activities.

The following quote from our environmental policy sums up H&M's general strategy on corporate social responsibility very well:

“Continuous improvements are significant for all H&M activities. This includes our environmental and social efforts, which are conducted within the framework of our business operations. H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price. Our quality concept is based on ensuring that our customers are satisfied with our products and H&M as a company. To this end, we are committed to acting responsibly in our community. We will also cooperate with our suppliers to improve the social and environmental standards in the factories that manufacture H&M clothing, thereby contributing to sustainable development in these areas.” ■

CSR AS DEFINED BY H&M

H&M has chosen to define CSR as “a concept whereby companies integrate social and environmental concern in their business operations and in their interaction with their stakeholders on a voluntary basis in order to meet or exceed the ethical, legal, commercial and public expectations that society has of business”.

MAIN RESPONSIBILITY ASPECTS

H&M has identified a number of responsibility aspects in the area of CSR. These aspects are what we consider the most pressing aspects within our industry, especially with regard to our supply chain.

Social aspects

H&M does not own or operate any factories. We work together with approximately 700 suppliers¹, who in turn use subcontractors². About 2,000 production units³ around the world manufacture our goods. More than half of these production units are located in countries where it is probable that local labour law, and universally accepted human rights and labour standards are not always observed.

Our risk assessments as well as several years of experience in monitoring garment factories has shown that the main aspects are violations of laws concerning working hours and wages. Other pressing issues, although less common, are child labour, forced overtime, physical and verbal abuse, sexual harassment and unacceptable punishments. Unclear employment conditions, lack of employment contracts, misuse of trainee status and exploitation of migrant workers are other examples of violations that occasionally occur.

In our Code of Conduct, we make it clear that we do not accept any of the above mentioned violations. Nonetheless, we do see potential for improvement, and believe that it is important that we as a buyer work together with our suppliers in order to achieve progress.

¹ In this report, the term 'supplier' denotes a prime contractor which supplies products to H&M, and which consequently has a direct business relationship with H&M. Our suppliers may have factories of their own, or subcontract all or parts of production.

² An individual or company hired by a prime contractor (supplier) to perform a specific task as part of the overall project. Thus, a subcontractor does not have a direct business relationship with H&M.

³ In this report, the term 'production unit' refers to factories that produce garments for H&M, both suppliers' and subcontractors' factories.

Environmental aspects

The most substantial environmental effects occur in the dyeing and processing of fibres and fabrics. Examples of aspects in garment production are energy consumption, water pollution, and chemical handling. H&M's Code of Conduct includes environmental requirements.

Transportation of H&M goods accounts for approximately 46 per cent of total carbon dioxide emissions caused by H&M operations. It is therefore vital for H&M, in cooperation with our transport service providers, to aim for more environment-friendly transport.

At the end of 2004, H&M operated 1,068 shops and 15 distribution centres. Our operations result in waste from packaging, hangers, decorative materials, disposable materials etc. It is our ambition to reduce waste and re-use and recycle waste material whenever possible.

Health and safety aspects

All our suppliers have signed an agreement to abide by established chemical restrictions. In this way, we contribute to the reduction of environmental harm during the manufacture of our goods as well as during the burning and recycling of worn out clothing. Due to continuously increased awareness about the negative effects of various substances, our chemical restrictions are regularly updated. Our restrictions concern chemicals used in the production of H&M clothing and cosmetics.

Anyone who uses, works with, or in any other way comes into contact with our products must feel confident that there is no risk of being exposed to hazardous chemicals, sharp objects or easily flammable fabrics, for example. There are extra safety requirements for baby and children's products. ■

OUR PRODUCTS

H&M offers fashion and quality at the best price through a wide and varied range of fashion, divided into different concepts. The range covers everything from updated classics and basics to clothes that reflect the very latest international trends. It also includes underwear, sportswear, accessories and cosmetics. The largest department is women's wear, followed by children's wear, teenage fashion and men's wear. The majority of our stores are full-range stores, but H&M also has concept stores offering garments for women, men, teenagers or children only, and stores that sell only cosmetics, lingerie and accessories.

H&M has been selling cosmetics since 1975. Today, the range consists of make-up, body care and hair care products as well as accessories for women, men and teenagers.

Since 1980, H&M has offered its customers an alternative and convenient way to shop by mail order through H&M Rowells.

In 1998 it became possible to shop at H&M on the internet. Internet shopping is available to customers in Sweden, Denmark, Finland and Norway. We see the internet as one of several distribution channels, but we anticipate that the bulk of our sales will continue to be made in our shops. ■

NET TURNOVER BY COUNTRY

	2003/04	2002/03
Sweden	4,717	4,495
Norway	3,326	3,215
Denmark	2,183	2,015
UK	4,909	4,355
Switzerland	3,387	3,261
Germany	15,258	14,201
Netherlands	3,310	3,073
Belgium	1,819	1,676
Austria	3,485	3,414
Luxembourg	254	242
Finland	1,270	1,090
France	3,709	3,207
USA	3,231	2,680
Spain	1,685	1,036
Poland	384	72
Czech Republic	164	61
Portugal	189	99
Italy	197	46
Canada	168	-
Slovenia	50	-
Total	53,695	48,238

H&M IN BRIEF

- H&M was established in Sweden in 1947.
- Today H&M sells clothes and cosmetics in over 1,000 shops in 20 countries. We plan to open 144-155 new shops and plan to close 12 shops in 2005.
- The business concept is "Fashion and quality at the best price".
- H&M sells over 600 million items a year and new goods are delivered to our shops every day.
- In Scandinavia H&M Rowells sells fashion by mail order.
- In Sweden, Denmark, Norway and Finland H&M sells fashion via the internet.
- H&M does not have any factories of its own, but instead works with around 700 suppliers. About 60 percent of the production takes place in Asia, and the rest mainly in Europe.
- H&M has 22 production offices: ten in Europe, ten in Asia and one each in Central America and Africa. The group has more than 45,000 employees.
- The turnover in 2004 was 62,986 SEK million including VAT.

OUR PURCHASING PROCESS

Suppliers

We do not own any factories. Instead, we work with around 700 suppliers. Approximately 60 per cent of the production takes place in Asia, and the rest mainly in Europe. We make an effort to cooperate only with suppliers who meet a number of requirements relating for instance to capacity, quality, lead times and compliance with our Code of Conduct. H&M endeavours to bring about long-term relationships with suppliers. Continuous cooperation with our suppliers helps us to ensure that our requirements are met.

Production offices

In order to be able to follow up production, H&M has 22 production offices: ten in Europe (e.g. Italy, Turkey), ten in Asia (e.g. China, Bangladesh) and one each in Central America and Africa. The production offices employ approximately 700 people. The role of the production offices is to serve as links between the buying office in Stockholm, Sweden and the suppliers. Our production office staff places orders, oversees production, and follows up on H&M's requirements including Code of Conduct compliance and quality.

Distribution

Every stage in the transport chain, starting with the forwarder, is controlled by H&M which acts as importer and retailer. Once the garments are ready for shipment, they are distributed to H&M's shops via distribution centres. Most sales countries have a distribution centre where the garments are checked and sent on to the shops. Having few links and as few stops as possible in the distribution chain makes the supply of goods efficient. H&M sells more than 600 million garments and accessories annually.

Multi-Fibre Agreement

During 2004 discussions were held in many international forums about the potentially negative effects for some production markets of the phase out of the Multi-Fibre Agreement (MFA). Fears were raised that countries previously benefiting from the system, such as Bangladesh and Sri Lanka, would lose market share to China and India. H&M has been following the discussions closely and has evaluated the potential effects for our own business. Although it is too early to estimate the long-term effects of the abolition of quotas, H&M does not anticipate drastic short-term changes to our buying patterns. China has already imposed an export tax on certain garment categories. H&M will not be able to fully evaluate the effect of the MFA phase out until it is clear what potential measures might be taken by the US and the EU in order to limit imports from China. ■

OUR EMPLOYEES

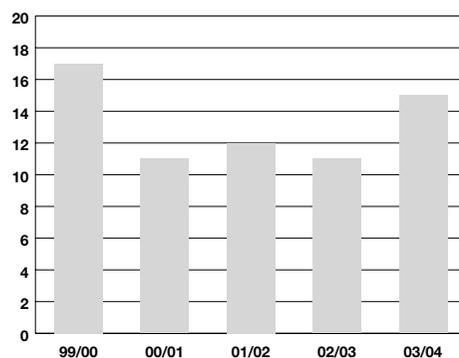
At the end of the year, H&M had more than 45,000 employees. The average number of employees was 31,701 (converted into full-time positions), 20 per cent of whom were male. Net employment creation 2003/2004 was 15 per cent (net increase: 3,946 employees).

The spirit of H&M creates commitment

H&M’s strong corporate culture – the spirit of H&M – has existed ever since the days of H&M’s founder, Erling Persson. This strong culture is of great value and is a contributory factor to H&M’s success over the years.

The spirit of H&M is based on a number of values that describe in simple terms how we want to work. These are in turn based on our business concept – fashion and quality at the best price. The fundamental values behind the spirit of H&M include common sense and own initiative.

YEARLY NET EMPLOYMENT CREATION



AVERAGE NUMBER OF EMPLOYEES

	03/04		02/03	
	Total	Male %	Total	Male %
Sweden	3,731	19	3,709	20
Norway	1,509	11	1,420	9
Denmark	1,021	5	954	5
UK	3,095	23	2,794	23
Switzerland	1,222	9	1,134	10
Germany	7,936	20	7,199	19
Netherlands	1,840	19	1,772	18
Belgium	1,132	16	1,051	16
Austria	1,679	13	1,613	13
Luxembourg	122	32	120	32
Finland	591	13	527	11
France	2,112	26	1,865	30
USA	2,812	33	2,255	30
Spain	1,293	21	975	21
Poland	390	29	88	20
Czech Republic	109	6	38	11
Portugal	152	27	125	26
Italy	158	16	106	25
Canada	125	21	8	50
Slovenia	14	13	–	–
Other countries	658	37	656	37
Total	31,701	20	28,409	20

Within H&M we provide room for people to make their own decisions and take responsibility, and employees get regular feedback on their performance. It is an important part of H&M's culture that responsibility is delegated to the shops. Great commitment is essential and employees are expected to take their own initiative within certain given confines. Creativity and job satisfaction increase when there is a good working environment.

Our employees' commitment makes a major contribution to H&M's success. We believe in individuals' abilities and encourage our employees to develop further. Respect for the individual is a fundamental value at H&M. This applies to everything from fair pay, reasonable working hours and freedom of association to the opportunity to grow and develop with the company.

Agreement with UNI

On January 14 2004, H&M signed an agreement with the international trade union network UNI¹. This agreement declares in writing that both parties consider the ILO² Declaration on Fundamental Principles and Rights at Work³ to be the cornerstone for their cooperation. It also makes H&M's corporate policy on, among other areas, freedom of association and the right to collective bargaining at H&M's workplaces clear to parties both within and outside the company. It is of the utmost importance to ensure the observance of these principles.

The US Case

H&M's core values apply to all H&M employees. The USA is no exception. H&M is a rapidly expanding company, and having good relations with employees and the organisations that represent them, are prerequisites for this expansion. This is the reason why H&M offers its American workers better-than-average wages and working conditions.

On April 12 2004 it was publicly announced that 53 per cent of the employees at H&M's US distribution centre had voted to join and be represented by the trade union UNITE HERE⁴ (formerly known as UNITE). This means that all employees at this place of work are now represented by UNITE HERE in on-going negotiations.

In order to reach a satisfactory agreement concerning whether other H&M workplaces in the USA should be organised, discussions have been held with the international organisation UNI, the central US trade union AFL-CIO⁵, and representatives from the unions UFCW⁶ and UNITE HERE. The process to decide if a union has a majority at an H&M workplace, and thereby is entitled to represent the employees of that workplace in negotiations with H&M, should be in line with American practice. Furthermore, it should be carried out in a manner that protects the integrity of our employees, and makes it possible for every worker to make an independent decision. This is the basic guideline for H&M's proposal to those American unions that seek to organise our employees in the USA. ■

¹ Union Network International (www.union-network.org)

² The International Labour Organization (ILO) is the UN specialized agency which seeks the promotion of social justice and internationally recognized human and labour rights. The ILO formulates international labour standards in the form of conventions and recommendations setting minimum standards of basic labour rights: freedom of association, the right to organize, collective bargaining, abolition of forced labour, equality of opportunity and treatment, and other standards regulating conditions across all work related issues. (www.ilo.org)

³ Find out more about the Declaration on Fundamental Principles and Rights at Work at the ILO's website; www.ilo.org/public/english/standards/index.htm.

⁴ Union of Needletrades, Textiles and Industrial Employees and Hotel Employees and Restaurant Employees International Union (www.unitehere.org)

⁵ The American Federation of Labor and Congress of Industrial Organizations (www.aflcio.org)

⁶ United Food and Commercial Workers (www.ufcw.org)

GOVERNANCE STRUCTURE

Board fees

Board fees for the year as approved by the Annual General Meeting amounted to SEK 3,900,000 (3,900,000), of which SEK 2,700,000 (2,700,000) was paid to the Chairman of the Board. No Board fees were paid to Board members who are also employees of the company. The Board consists of nine ordinary members and four deputy members. Five of the members are female and eight male; five out of thirteen are employed within the company.

Managing director's terms of employment

Remuneration to the Managing Director in the form of salary and benefits amounted to SEK 8,368,000, which included a bonus of SEK 1,500,000 (previous year SEK 8,358,000 including a bonus of SEK 1,500,000). Pension expenses for the Managing Director during the year were SEK 6,319,000 (previous year SEK 23,290,000), of which SEK 2,641,000 comprises pension commitments entered as liabilities. The Managing Director may retire at the age of 62 and receive a pension of 65% of regular salary until ordinary pension age.

From the age of 65 the Managing Director will receive a lifelong old-age pension of 50% of the regular salary effective at the time. The Managing Director is entitled to 12 months' notice. In the event that the company should cancel his contract of employment the Managing Director will receive an extra year's salary as severance pay, in addition to the 12 months' notice. There are no other agreements regarding severance pay in the Group. The Managing Director's terms of employment are decided by the Board.

Terms of employment for other Group senior executives

Remuneration to other members of the Group management in the form of salary and benefits amounted to SEK 23,835,000 (19,215,000), which included bonuses of SEK 2,000,000 (SEK 1,500,000). Pension expenses for other members of the Group management during the year were SEK 4,653,000 (previous year SEK 4,195,000).

Other Group management comprises ten people, three of whom are female. In addition to the Managing Director, the management team includes those responsible for the following functions: finance, buying, production, expansion, investor relations, accounts, marketing, human resources, communications, and corporate social responsibility.

There are rulings in respect of supplements to retirement pensions beyond the usual plan which cover certain senior employees. The retirement age for these varies between 60 and 62 years. The cost of these payments has been covered by separate insurance policies.

In addition, a bonus amounting to SEK 6.1 m (6.0) was paid to 13 country managers. The terms of employment for other members of the group management are decided by the Managing Director and the Chairman of the Board.

Bonus system

The Managing Director, country managers and certain senior executives are included in a bonus system. The size of the bonus is based on 0.2% of the increase in the ordinary dividend decided by the Annual General Meeting, which is then adjusted to take account of the result in their respective areas of the business. The maximum bonus per person and year has been set at SEK 500,000.

In the case of the managing director the bonus is 0.6% of the ordinary dividend increase, up to a maximum of SEK 1,500,000.

The bonus paid after tax must be invested in its entirety in shares in the company, which must be held for a minimum of five years.

Specific related party disclosures

The H&M Group already leases the following shop premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö and Amagertorv 23 in Copenhagen. Shop premises in the following properties have been added during the year: Drottninggatan 56 and Sergelgatan 11 in Stockholm. Rent is paid at market rates and amounted to a total of SEK 42 m for the financial year. Previous year SEK 31 m. ■

SECURITY AT H&M

Our security policy guides our security work. Attention is centred on:

- Fire prevention and evacuation
- Loss prevention
- Crime prevention

Security organisation

Generally, the manager for each H&M unit is responsible for security issues. At the managers' service, there is a corporate organisation to facilitate and govern the security work in the Group. The head of security reports to the Managing Director. The corporate organisation also has security managers for information and information technology, as well as internal audit.

SECURITY POLICY

H&M must be a place where both staff and customers can feel safe. Every employee of the company must, in their daily work and personal behaviour, strive to create a working climate that avoids the risk of fire, criminal behaviour and damage to both customers and staff - without in any way limiting space for spontaneity and creativity in daily activities together or hindering sales in the company's shops.

A properly functioning security system, where everything is ordered and well organised, creates a safer place in which to work; it reduces the company's costs for damage and loss and contributes to increased profitability and comfort.

The person responsible for security is always the manager for each respective H&M unit. It is possible to delegate part of this responsibility, but the ultimate responsibility always lies with the manager. It is the business of every employee to take part in security work and to contribute to safety at H&M.

In addition, the following H&M units have security managers:

- Buying department and production offices
- Sales offices and shops
- H&M Rowells
- IT department

Every shop manager must, in collaboration with the country's security manager, analyse the risks of crime against the shop and train the staff accordingly. We report all types of internal and external crime to the police. Any employee who has been found guilty of committing a crime against the company will be dismissed.

Combating bribery

H&M does not give or take any form of bribes. We dissociate ourselves from all types of corruption. This applies to every individual employed by H&M, regardless of business area or position. Our Code of Ethics defines what is considered to be corrupt behaviour. The 700 or so employees in our production offices sign this document when they are hired.

In addition, our suppliers have signed to confirm that:

- they have fully understood H&M's Code of Ethics,
- the requirements in H&M's Code of Ethics are not in any way contradictory to national law,
- they undertake to comply with H&M's Code of Ethics, and take responsibility for informing all their subcontractors about the content of the Code of Ethics, and to make sure the subcontractors also comply accordingly.

Our suppliers are also requested to inform the production office manager immediately if there is any suggestion of corruption when dealing with H&M staff.

Security managers at the production offices conduct internal reviews of the Code of Ethics procedure to make sure that it has been implemented correctly. If an employee is found accepting bribes of any kind, the matter will be reported to the police for investigation. If a supplier does not comply with our company policy on this matter, we will be forced to discontinue all business connections with this supplier.

During 2004 we have had a few breaches of our Code of Ethics. Not all cases are closed and hence the consequences of these breaches are still pending.

Information and IT security

Our Information Security Policy and Guidelines guide all security work on information and IT. These instructions cover:

- Organisation and responsibility
- Asset classification and control
- Document and information management
- Physical security
- Communication and operations management
- Access control
- Systems development and maintenance
- Routines for incident management
- Business continuity planning

The intention is for H&M's security work to be harmonised with the SS-ISO/IEC-17799 standard for information security management. All our work must at least meet legal requirements.

INTERNET POLICY

Rapid access to correct information is important if we are all to do our jobs in the best way possible. The Internet is a source of information that can be used to supplement and rationalise this knowledge gathering. The Internet is intended for the gathering of information and knowledge for business purposes. Employees must be aware that it is an external medium in which - as in all other external situations - he or she is representing the company. Employees who wish to have access to information on the Internet from their PC in order to carry out their work undertake to abide by the following Internet policy.

- Websites that supply pornographic, racist, or other unethical or unlawful information must not be visited from H&M's computers. Storage of such information on H&M's computers is absolutely prohibited and may result in dismissal.
- The user shall always be responsible for observing the necessary security measures, copyright rules and licensing procedures for software, sound and images when downloading via the Internet.
- The employee does not object to the company checking the Internet addresses to which he/she has been connected.

Policy on information and IT security

The levels of the security procedures depend on the possible damage that could be inflicted on H&M's businesses.

Responsibility and support

Security is a line responsibility that extends from the operation manager all the way down to the co-worker. The information security manager coordinates and monitors the security work and revises the security level - he/she is the business support within the information security area.

Risk analysis

Damage prevention and damage-limiting measures shall be preceded by a risk analysis and the cost must be in proportion to the identified risks.

Consequences of disregarding laws, regulations, and internal rules

Employees who do not follow laws and regulations may be dismissed. Employees who do not follow the internal rules may be given a warning and in serious cases may be dismissed. We report all types of crime to the police.

Privacy policy

We have a privacy policy on our web site www.hm.com. Our privacy policy is based on PUL, which is a Swedish law that regulates personal data handling. PUL is based on the EU Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The provision concerning cookies is based on the law on electronic communication. Our privacy policy can be found at <http://www.hm.com/uk/extralevel/specials/privacy.jsp>. ■

LISTENING TO OUR STAKEHOLDERS

During 2004, H&M met with various stakeholders at conferences and other meetings. Among others we had fruitful discussions with:

- international, European and national trade unions such as ITGLWF¹, UNI², ETUF:TCL³, Industrifacket⁴, and Handelsanställdas förbund⁵. We also held meetings with local trade unions in several production countries, among them Turkey and Bangladesh.
- representatives from various NGOs such as Clean Clothes Campaign (www.cleanclothes.org), Greenpeace (www.greenpeace.org), Amnesty International (www.amnesty.org), Oxfam (www.oxfam.org), WWF (www.wwf.org), UNICEF (www.unicef.org), as well as a number of Swedish NGOs. We have also held a dialogue with local NGOs and UN agencies in many countries where our garments are produced, such as Bulgaria, Cambodia, Bangladesh and India.
- governmental representatives from the Swedish Ministry for Foreign Affairs, and the EU Commission. We also held talks with representatives of local governments in countries such as Bangladesh and China.

¹ The International Textile, Garment and Leather Workers' Federation (www.itglwf.org)

² Union Network International (www.union-network.org)

³ European Trade Union Federation of Textiles, Clothing and Leather

⁴ Industrial Workers' Union (www.industrifacket.se)

⁵ Union of Commercial Employees (www.handels.se)

In December 2004, H&M met with four stakeholders with various perspectives in order to receive structured feedback on our CSR reporting.

- Fair Trade Center is a Swedish non-profit organisation that works for fair international trade. (www.fairtradecenter.se)
- Banco is one of Sweden's leading ethical fund managers. (www.banco.se)
- Industrifacket (Industrial Workers' Union) represents Swedish workers from various industrial businesses, including textile workers. (www.industrifacket.se)
- Globalt Ansvar (Swedish Partnership for Global Responsibility) is the Swedish government's effort to persuade Swedish companies to become ambassadors for human rights, acceptable economic and social conditions and a good environment. (www.ud.se/ga)

We conducted individual meetings where the stakeholders could express their opinions on our 2003 CSR report. After this meeting, each stakeholder was asked to give a written statement on the report. Global Responsibility and Banco decided that they did not wish to put their opinion in writing. The following texts are extracts from The Industrial Workers' Union's and Fair Trade Center's written statements. The complete statements can be found in the annex.

Fair Trade Center

“We welcome H&M’s ambition to publish the social and environmental costs of the production in a yearly CSR report. It is essential that companies disclose this to make it possible for consumers, investors and decision-makers to make ethically balanced choices and decisions. The report covers most areas relevant to a garment company like H&M. The most important area left out relates to environmental effects and working conditions in the production of textile fibres, such as cotton.

H&M’s code of conduct states that ‘We have to make sure that nobody whose work contributes to our success is deprived of his or her human rights, or suffers mental or bodily harm.’ This is not the reality of H&M’s production today, and unfortunately this is not made clear in the report. The report does not describe the conditions under which H&M’s products are produced. From the report it is impossible to see to what extent H&M’s code of conduct is followed. H&M holds much of this information already, and it should be presented.”

Henrik Lindholm
Project leader
Fair Trade Center

Industrifacket (Industrial Workers’ Union)

“As we review H&M’s work with CSR issues, we see a company that sets high standards and takes social issues seriously. It is our understanding that the company wants the products sold in its shops to be manufactured under decent working conditions and without a negative impact on the environment. This is expressed in the fact that the company stands behind the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises and the UN Global Compact.

Despite this, we, as a trade union with considerable international contacts, conclude that it is not enough. More needs to be done to ensure that everyone concerned is at least able to enjoy the conditions that the company’s policy prescribes.

We are convinced that the most important measure for better compliance with the company’s social policy is to make sure that the ILO Convention No. 87 (on the freedom of association) and No. 98 (on the right to bargain collectively) are observed.” ■

Mats Svensson
International Secretary
Industrifacket (Industrial Workers’ Union)

REPORT PROFILE

The GRI guidelines

The Sustainability Reporting Guidelines by GRI have been a source of guidance for this report. The GRI framework is still under development and so is CSR reporting at H&M.

Additional information

Additional economic, social and environmental information can be obtained from:

- Our website www.hm.com/csr
- Annual Report 2004
- The brochure “Our responsibility” that can be downloaded from www.hm.com/csr
- Our Code of Conduct that can be found at <http://seit26.hm.com/codeofconduct>
- CSR Report 2003 and CSR Report 2002
- Our list of restricted chemicals is found under a drop down menu at www.hm.com/csr
- CSR department

Independent verification

H&M’s CSR report is an integral part of H&M’s CSR work. The reporting process helps us to highlight the areas that we need to focus on within our organisation, and helps us set and follow up targets. This is a time-consuming process, parallel to a constant development and improvement of tools, methods, IT support, staff capacity, projects, and interaction with partners and other stakeholders. We are in no doubt that external verification of the report would add transparency and make the report more trustworthy. However, we combine the report with an open attitude to various stakeholders who contact us with follow-up questions or ask for ‘a look behind the scenes’. We do not exclude the possibility of having the report verified in the future; we clearly see a general development in that direction. However, at the moment we prefer to focus on improving our CSR performance and prioritising the internal benefits of the report rather than spending time and other resources on an external verification process. ■

REPORT SCOPE

Contacts for the CSR report:

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Karolina Dubowicz: karolina.dubowicz@hm.com

Reporting period:

Financial data: 01-12-2003–30-11-2004
Other data: 01-01-2004–31-12-2004,
unless stated otherwise.

Previous reports:

CSR Report 2002 and CSR Report 2003
(available at www.hm.com/csr).

Significant changes:

During the year, 136 shops were opened: 34 in Germany, 13 in Spain, 12 in the UK, eleven in France, nine each in Poland and the USA, six each in Norway, the Netherlands and Canada, five in the Czech Republic, four each in Sweden and Belgium, three each in Austria and Finland, two stores each in Denmark, Switzerland, Portugal, Italy and Slovenia, and one in Luxembourg. 13 shops were closed. The total number of H&M shops thereby amounted to 1,068 (945) as of 30 November 2004. During the year H&M opened shops in two new markets: Canada and Slovenia. The reception was very good in both markets.

During the year the buying department was divided in two, one section focusing on production and the other on the product range, partly in order to meet future requirements but also in order to focus more clearly on customer groups and range composition. ■

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CORPORATE MEMBERSHIPS

CSR initiatives

- H&M participates in the United Nations' Global Compact. (www.unglobalcompact.org)
- H&M supports the OECD's Guidelines for Multinational Enterprises. (www.oecd.org)
- H&M supports the Swedish Partnership for Global Responsibility. (www.ud.se/ga)

Memberships

- Amnesty Business Group's Business Forum in Sweden (www2.amnesty.se/amnestybusinessgroup.nsf/krav2)
- Business for Social Responsibility (BSR) (www.bsr.org)
- Confederation of Swedish Enterprise (www.svensktnaringsliv.se)
- Organic Exchange (www.organicexchange.org)
- Swedish Association of Environmental Managers (NMC) (www.nmc.a.se)
- Swedish Federation of Trade (www.svenskhandel.se)
- Textile importers' Association in Sweden (www.textileimporters.se)

SUBSCRIPTIONS

Magazines

- Ethical Corporation Magazine (www.ethicalcorp.com)
- Dagens Miljö (<http://dagensmiljo.idg.se>)
- MiljöRapporten (www.miljorapporten.se)

Newsletters

- Baker & McKenzie Global Employment Law Alert (www.bakernet.com)
- CSRwire Weekly Alert – E-newsletter from SRI World Group, Inc. (www.csrwire.com)
- .DJSI – E-newsletter and updates from Dow Jones Sustainability Index (www.sustainability-index.com)
- ENDS – E-newsletter from Environment Daily (www.ends.co.uk)
- E-newsletter from Covalence (www.covalence.ch)
- E-newsletter from Social Accountability International (SAI) (www.cepaa.org)
- E-newsletter from Svenska Naturskyddsföreningen (SNF) (www.snf.se)
- E-newsletter from Transparency International (www.transparency.org)
- Greenbuzz – E-newsletter from Greenbiz.com (www.greenbiz.com)
- Newsmonitor – E-newsletter from Business for Social Responsibility (BSR) (www.bsr.org)
- News updates from Global Reporting Initiative (GRI) (www.globalreporting.org)
- SRI News Alert – E-newsletter from SRI World Group, Inc. (www.sriworld.com)



H&M

OUR SOCIAL RESPONSIBILITY

To make this section more accessible, we have divided it into two main parts. Code of Conduct Activities describes this year's social performance and activities, including the Full Audit Programme (FAP), our new method for Code of Conduct monitoring. Code of Conduct Management explains the challenges that we face in different countries of production, as well as our working methods.

CODE OF CONDUCT ACTIVITIES

Introduction to our Code of Conduct work

H&M is a value-driven company that strives to conduct its business in a responsible manner. We want to live up to the expectations of our customers, employees and other stakeholders. The following quote from our Code of Conduct shows how we translate our values into a broadened responsibility for our supply chain.

“H&M, as a strongly expanding multinational company, feels that it is increasingly important for us to take responsibility for all our actions, in Europe as well as in the rest of the world. Most importantly, we have a responsibility towards all the thousands of people taking part in the production of our garments. We have to make sure that nobody whose work contributes to our success is deprived of his or her human rights, or suffers mental or bodily harm.”

PRODUCTION

H&M does not own or operate any factories. We buy our garments and other goods from approximately 700 independent suppliers, primarily in Asia and in Europe.

SUPPLIERS have direct business relationships with H&M. Our suppliers may have factories of their own, or subcontract parts or all of their production.

SUBCONTRACTORS are individuals or companies hired by suppliers to perform a specific task. Subcontractors thus do not have direct business relationships with H&M.

PRODUCTION UNITS are factories that produce garments for H&M, and include both suppliers' and subcontractors' factories.

¹ Find out more about the Convention of the Rights of the Child at UNICEF's website; <http://www.unicef.org/crc/crc.htm>.

² Find out more about the Declaration on Fundamental Principles and Rights at Work at the ILO's website; www.ilo.org/public/english/standards/index.htm.

The Convention on the Rights of the Child¹ and the ILO's Declaration on Fundamental Principles and Rights at Work² form the basis for this Code of Conduct. In 1997, we published our Code of Conduct and in 1998, we made our first inspections. Since then, we have made more than 12,000 inspections.

We continuously improve our monitoring programme and develop new tools and methods for implementation of the Code at our suppliers' factories.

- H&M's Code of Conduct is found at <http://seit26.hm.com/codeofconduct>.

Cooperation on a long-term basis

H&M wishes to work with its suppliers on a long-term basis in order to achieve a sustainable business relation that can benefit both parties. By focusing on a limited number of key suppliers we gain better control over quality and working conditions. The number of suppliers we work with is now around 700.

We are sometimes asked why we do not immediately terminate our cooperation with suppliers who do not comply with our Code of Conduct. Obviously, that would be a simple solution for us, but H&M also feels a responsibility towards the people working in the factories. If H&M were to leave a factory due to poor management, the ones that would primarily be affected are the workers. The basis for sound cooperation is trust. Until proven otherwise, we have confidence in our suppliers and their subcontractors. However, we must not be naïve. For example, if we only make pre-announced inspections, fire safety and cleanliness etc. could be temporarily taken care of.

Our monitoring work involves a strong element of awareness raising and education to make our suppliers understand the importance and the advantages of complying with our code.

Dealing with violations

When we do encounter serious violations, a strong statement must be made. If the factory management is repeatedly faking documents or if a supplier has subcontracted production to a production site without informing H&M or otherwise refuses to cooperate, ultimately we are forced to cease the cooperation. When this does happen, we make an effort to terminate the business in a responsible manner in order to avoid sudden adverse affects for the workers.

Improved conditions

The improvements since the start of our monitoring programme have been substantial. The standard of fire safety and the working environment have been radically improved. In many cases, and according to the results of our evaluations, the working hours have come down and all workers now receive at least the legal minimum wage and frequently more. More and more factories also pay correct overtime rates. The right to paid annual leave, sick leave and maternity leave has been radically improved. In countries with a social security system, a majority of the workers are now covered.

The work towards a truly sustainable supply chain, where human rights and workers' rights are fully respected and there is minimum adverse impact on the environment, is hard and will take a long time. Improvements are difficult to measure in quantitative terms and the main focus of our work is still on describing our processes.

The Full Audit Programme: A new platform for our Code of Conduct monitoring

During the year we have worked on developing a new platform for our future Code of Conduct work, called The Full Audit Programme (FAP). The new platform is the result of six years experience in Code of Conduct monitoring. In order to indicate the use of a different monitoring approach, we have changed our terminology slightly;

what were previously termed inspections are now audits, and our inspectors are now called auditors.

Until now, our work has primarily been focused on establishing a set of rules for our suppliers' conduct and ensuring that they abide by these rules. We have focused on what is wrong rather than why things are wrong. By asking why, we will be able to guide our suppliers on how to achieve sustainable improvements in their organisation through effective policies, routines, control systems, target-setting, and follow-up systems (i.e. effective management systems).

The new way of working will make it possible to detect compliance issues at an earlier stage. Another feature of FAP is the possibility to select the most important suppliers in order to put heavier emphasis on them in the advisory and follow-up phases when implementing effective management systems. Furthermore, FAP has a risk management function where our production countries are divided into different risk categories based on past performance on human rights and workers' rights. The most significant part of the FAP is the extended form of issues and questions being looked at, together with an increased depth in verification, primarily through worker interviews, but also through our document sampling technique. Worker interviews will be an integral part of FAP auditing.

In December 2004 we held a workshop for all our Code of Conduct auditors in order to establish the new FAP platform and discuss how we can support our suppliers further. During 2005 we will educate all auditors on the new working methods, and the aim is to have FAP fully implemented by the end of 2005.

In the short term, our improved working method is likely to result in an increase in detected violations. However, in the long term we will be able to work more effectively with our suppliers towards sustained compliance. It is our ambition to make it clearer for our suppliers that Code of Conduct performance is an important part of the

Supplier Evaluation Process and that there is a clear link between volume of business and improved working conditions.

We want to increase the awareness among our suppliers that improvements in accordance with our Code of Conduct and their cooperation with us represent an investment in the future. We believe that our suppliers benefit from Code of Conduct-related improvements such as a decrease in overtime and better working conditions. Such improvements may result in lower staff turnover, increased productivity, higher quality, and possibly new business opportunities. This is a long-term commitment, in which constructive dialogue with the factory managers is crucial.

The auditors' work gets more complex by the day. Sometimes, factory managers seem to go to great lengths to hide the actual facts from us. Faked time cards, faked salary records, subcontractors being used without our knowledge or approval, and workers being instructed on what answers to give in an interview are examples of what our auditors must be constantly vigilant against. This type of action from the suppliers' side is a sign that we have not been able to convey the message that fair working conditions and a healthy working environment are good for business. We believe that our increased focus on good management practice rather than "a policing approach" will highlight the business benefits of improved practices for those suppliers.

Some of our stakeholders have clearly indicated that they require more quantitative accounts of our work on improving working conditions at our suppliers' factories. We respect this view, but cannot currently show quantitative results. There are two main reasons for this. One is the lack of IT support for data collection. This will be developed during 2005. The more important reason is the new and improved monitoring techniques (FAP) that will be introduced during 2005. It is our hope that we will be more effective in identifying violations with our new working methods. As the FAP audits will

MONITORING FACTORIES IN 2004

FACTORIES

In 2004, about 700 suppliers and 2,000 production units were registered. Together, these production units had a workforce of around 600,000 people. It should be noted that these workers also manufacture garments for buyers other than H&M.

AUDITS

The number of audits was 2,715 (2,578). One third of all audits in Asia and in Europe were unannounced. Approximately 70 per cent of our auditors work in Asia.

AUDITS AT POTENTIAL NEW PRODUCTION UNITS

During the year, our auditors graded 16 potential production units (19 'rejected' for H&M production in spite of the fact that they were commercially interesting for H&M. These units were graded 'rejected' at both the first audit and the follow-up audit and were subsequently not approved for H&M production.

REJECTED PRODUCTION UNITS

At the end of 2004, 143 production units (164) remained rejected from H&M production due to various Code of Conduct violations. These production units could be approved for H&M production if the required improvements were to be made.

PERMANENTLY REJECTED

We permanently ceased business with 9 suppliers (10). Reasons for permanently rejecting a supplier could be repeated use of undeclared units, repeated child labour or repeated use of fake documentation.

■ Read more about our Code of Conduct grading scale on page 50.

WORKSHOPS

20 workshops were organised for our suppliers and their subcontractors to educate them on how to comply with labour law and H&M's Code of Conduct. The majority of all workshops were organised by H&M, but we also invited our suppliers and their subcontractors to workshops organised by other organisations. Around 380 factory managers and supervisors attended.

be more comprehensive, the yearly number of audits will also be reduced. A fair comparison between the results in 2004 and 2005 would therefore not be possible. We estimate that we will be ready to report more performance figures by 2007 at the earliest, when FAP has been fully implemented for one year, and 2006 can be used as the base year.

Investigating options on independent verification

As we have previously reported, we are investigating options for independent verification of our internal monitoring system. Our main focus during the year has been on developing and improving our internal monitoring system, but discussions have also been held with both the Fair Labor Association (www.fairlabor.org) and the Fair Wear Foundation (www.fairwear.nl). However, by the end of 2004, no decision had yet been taken to join either initiative. Independent verification is mainly interesting for us as a way to demonstrate to our stakeholders how our internal monitoring system functions. It could also serve as quality assurance internally.

Code of Conduct and cosmetic suppliers

In Sweden and Norway, H&M sells brands of cosmetics and hygiene articles other than H&M's own. Of course H&M's Code of Conduct also applies to those suppliers. However, after years of negotiation with these suppliers, a few still refuse to sign a commitment to comply with the Code. The Swedish Cosmetic, Toiletry & Detergent Association and the Norwegian Association of Cosmetics, Toiletries and Fragrance Suppliers have also advised their members not to sign H&M's Code of Conduct.

In order not to mislead our customers H&M has decided to publish the names of those suppliers and brands that have not signed H&M's Code of Conduct in order to make it possible for our customers to make an informed choice. The suppliers/brands that have not signed and are not willing to continue discussions are: Procter & Gamble (Wella, Head & Shoulders, Max Factor, Olay, and Always) and The Gillette Company (Gillette razor products).

Suppliers willing to discuss but who, because of their parent company's policies or for other reasons, still have not signed H&M's Code of Conduct are Lever Fabergé (Rexona, Lux, Dove, Sunsilk), Beiersdorf (Nivea, Labello), Henkel Norden (Poly Blonde, Gliss), and Colgate-Palmolive (Colgate and Palmolive). SCA Mölnlycke (Libresse, o.b.) in Norway has signed; however, the Swedish branch has not.

Many international brands are sold through national agents in Sweden and Norway. In those cases the local agent may be willing to sign but is not allowed to do so by the brands it sells. This is most common with Procter & Gamble's brands and such agents are Lepsoe and Marwel Hauge in Norway and Scandinavian Cosmetics in Sweden.

H&M has no indication of or reason to believe that the above companies and brands are violating our Code of Conduct, but we do not have the permission from those companies to verify this through audits. We therefore have to refer the full responsibility for any violation of H&M's Code of Conduct to the suppliers of the above mentioned brands.

Special focus on maternity leave in Bangladesh

During 2004, H&M has started a project focusing on maternity leave in Bangladesh. A majority of the garment workers in Bangladesh are women of child-bearing age. Based on our regular factory inspections, we have had reason to believe that not all women get the maternity benefits to which they are legally entitled. We have therefore carried out research among all our suppliers in Bangladesh on their maternity leave policy and on what percentage of the women have been on maternity leave during the last year. We also included research on whether or not there is a day-care centre in the factory and if there are trained carers in those centres. We also consulted local NGOs specialising in women's issues to learn more about female factory workers' views on motherhood and awareness of their rights to maternity leave.

We found great differences between different factories. As few as 0.1 per cent and up to 8.4 per cent of the women in various factories were utilising their right to maternity leave. On average, 2.3 per cent of the women were on maternity leave in one year. 53 per cent of the factories had day-care centres and 56 per cent of those have trained carers.

The main reason for the differences seems to be awareness among the women about their rights, and the factory managements' lack of knowledge about the subject. We are now finalising our analysis of the research results, and in 2005 we are planning workshops for suppliers with low prevalence of women utilising their rights to maternity leave. There are several examples of good practice from other factories that we can build on. In cooperation with a local NGO we have also developed a video and information leaflets about maternity leave which have been used for a general education programme for garment workers. These materials will also be used for education of factory managers.

FREEDOM OF ASSOCIATION IN BANGLADESHI EPZS

Freedom of association has previously not been granted in Bangladesh Export Processing Zones (EPZ). In 2004 steps were taken in the right direction when new legislation (the EPZ Trade Union & Industrial Relations Bill 2004) increased workers' right to organise. There are still reservations in the new legislation, but from November 2006 workers will have a limited right to organise in non-political trade unions. From February 2005 all factories in the EPZ are required to have Workers' Representation and Welfare Committees (WRWC) that have been democratically elected. H&M has previously not approved any new suppliers in the EPZ as trade unions were not allowed. But given that the new legislation has been passed we are again accepting new suppliers in the EPZ as long as they have a functioning WRWC in accordance with the new legislation.

Projects and dialogues with trade unions

One of the ILO's core conventions (no. 87) guarantees all workers freedom of association. This is therefore also an important requirement in H&M's Code of Conduct. The inspection methods used so far have not been sufficiently effective in verifying whether workers at factories supplying H&M enjoy this right. During the year we have sought dialogue and cooperation with trade unions both on an international and local level, to learn more about the situation in various countries and to establish valuable contacts. Examples include meetings with local trade unions in Turkey and Bangladesh, visits to our head office in Stockholm by unions from Cambodia and Bangladesh and a project in Bulgaria described in more detail below. During the meetings, H&M has gained a better understanding of the difficulties many unions frequently face while trying to organise workers in garment factories. This has built up confidence, and we have now started to get indications from local unions when our suppliers are not respecting the workers' right to freedom of

association. During the year we have had such cases in Thailand, Bangladesh and Turkey, for example, where workers have been laid off in connection with union activities. In those and other cases H&M has intervened and demanded that the workers should be reinstated at their previous jobs. Whether or not that has succeeded has depended a lot on H&M's importance as a buyer at the factory, successful cooperation with other buyers as well as the workers' actual interest in going back to work for the factory. In cases where workers have decided not to go back for various reasons, we have focused our efforts on making sure that workers are compensated according to the local law. In some cases we have actively tried to find other employment for such workers.

Bringing stakeholders together in Bulgaria

The apparel industry is important for Bulgaria, and the challenge for the future will be to maintain and increase the industry's competitiveness in the global market. An effort to build the Bulgarian apparel industry as a leader in CSR has brought together several stakeholders in a project focusing on dialogue and capacity building.

In a unique project during 2004, four international brands, the European Trade Union Confederation of Textile, one local NGO, two Bulgarian trade unions, ten suppliers (represented by mainly Greek owners, managers and workers), the Bulgarian Ministry of Labour and the General Labour Inspectorate came together to learn about CSR. The project was mainly financed by the EU Commission. This was probably the first time factory owners in Bulgaria had sat side by side with workers, brands and trade unions in a common workshop. From their various perspectives they came together to share their views about the advantages of social dialogue and CSR for the future of the Bulgarian garment industry.

After the initial workshop in January 2004, almost 100 workers have participated in direct training, and have then disseminated the learning to more than 500 workers in the ten participating factories. The methodology used has been "improvement circles" where workers have come together and discussed various CSR-related subjects, leading to suggested improvements in the factories. The training also extended to several supervisors from each factory in order to create channels for internal dialogue.

The first goal of the project was to encourage constructive dialogue between the local stakeholders leading to increased cooperation. The second was to increase the awareness among management and workers about local, national and international laws and standards, with a focus on workers' rights and their impact on business operations. At the closing workshop in November there was no doubt that both these objectives had been met, at least in the shorter term. The most enthusiastic group were factory workers who now felt more like a part of the success or failure of the company with greater understanding both of their responsibilities and rights. However as the project only lasted less than a year, it is still too early to evaluate any long-term effects. It is unclear whether the local stakeholders feel sufficient ownership to continue the process that has been started. As a learning exercise the project has in any case already been a success, as there are plenty of positive experiences to build on for future projects.

Education of garment workers in Bangladesh

One of H&M's CSR objectives is to increase the awareness among garment workers about their rights. During 2004, we have taken some initiatives in this direction. The project in Bulgaria described above is an example. Another is a project with a local women's rights-NGO in Bangladesh. Together with this organisation we have developed an education programme for, primarily female, workers focusing on labour rights, women's rights, maternity leave and gender issues. Educational material (four leaflets and a video) have been developed, and the first groups of workers have been educated in three factories supplying to H&M. Each group of 20-25 workers educated at a time, are provided with four to five sets of leaflets each that they can then use to educate co-workers, thereby spreading the knowledge to their peers. The leaflets cover areas like working hours, wages, leave, occupational health and safety, and maternity benefits. It is our ambition to educate around 20 per cent of the workers in each factory with direct education.

The staff resources of the local NGO are limited, but we hope to be able to cover three to four factories per year with this education, reaching about 400 workers directly, and 2,000 indirectly. The project started in August 2004 and by the end of the year we had reached 96 workers in three factories directly, and 400-500 indirectly. Additional groups in two of these factories will be trained in 2005, and depending on the capacity of the NGO we hope to expand the training to two to four additional factories in 2005.

One challenge has been that one of the initial two factories dropped out after the first two days of training. No follow-up training was performed in this factory. Instead the factory has undertaken to arrange similar training for the workers in cooperation with the ILO. H&M has asked to be closely involved as an observer to ensure the quality of the training. At the same time, another participating factory has been so enthusiastic about the training that they have asked H&M to arrange training in their other factory. ■

COMMUNITY INVOLVEMENT AND CHARITY

H&M and UNICEF work together

During 2004, H&M signed a three-year cooperation agreement with the world's largest children's rights organisation, UNICEF (www.unicef.org). Since H&M is a multinational corporation with shops in 20 countries, we chose a global organisation that is well known and respected in both our sales and production countries. The partnership involves a donation from H&M totalling USD 500,000 per year for three years towards two of UNICEF's top priority projects; Girls' Education, and Maintaining HIV Prevention among Youth in Cambodia.

The Girls' Education project aims at raising the level of education for girls in developing countries. Education is the first step towards equality between men and women, and can help girls and women around the world to improve their living conditions. Supporting the development of girls and women is relevant to H&M, not least because the majority of the company's customers and staff are women.

The Maintaining HIV Prevention Among Youth in Cambodia project will provide the local community with information on how to protect themselves from HIV and AIDS. A call centre will be set up, and teachers will receive information in order to be able to educate their students. The project directly addresses workers in ten factories contracted by H&M.

Charity initiatives

Every year our sales organisations are engaged in various charity projects. Here are some examples from 2004.

- H&M Great Britain and H&M Norway have supported the Pink Ribbon breast cancer awareness campaign. H&M had pink ribbons in all UK shops for customers and staff to wear. Customers donated GBP 1 or more for each ribbon.
- H&M France supports the Secours populaire, a French non-profit organisation that aids children and disadvantaged families.
- H&M USA donated USD 10,000 as part of a USD 25,000 one year commitment to Childhood, USA, the US chapter of the World Childhood Foundation. The contribution will be used to support a home for pregnant teens in New York City.

H&M donates clothes

H&M continues to donate clothes to victims of war and natural catastrophes and other people in need. H&M's efforts at improving quality have resulted in a number of orders being held back from sale in recent years. Clothes that do not meet H&M's quality standards are not passed on to the shops. We have signed an agreement with a reputable aid organisation in each sales country and large quantities of new clothes have been sent to those in need through these organisations in recent years. Some of the organisations that we work with are UNHCR, Oxfam, Caritas, Deutsche Malteser, Red Cross, and Terre des hommes. Naturally, we never give away clothes that do not pass our safety or chemical requirements. Such garments are destroyed. ■

PRODUCT RESPONSIBILITY

Our quality work

Quality is an integral part of H&M's business concept. Our ambition is to make sure that all customers always are both safe and satisfied regarding the quality of all our goods. Our customers' expectations lead our work.

To fulfil this ambition, our quality work is controlled through our production offices and their local quality organisation that consists of laboratory technicians and quality inspectors. There are laboratories that work according to H&M standardised working methods in most production offices. The quality department at the Stockholm buying office supports the production offices in quality related issues. To ensure the quality of all products at the production stage, there are more than 100 quality controllers employed in the production offices. They regularly visit factories in order to control and correct any quality problems in the course of production. In most cases, our quality controllers also carry out a final inspection before the goods are shipped. H&M uses the AQL 2.5¹ system to decide whether the quality level is acceptable for shipment.

¹ Acceptable quality level refers to the maximum percentage of defectives (in this case 2.5 per cent) that, for the purpose of sampling inspection, can be considered satisfactory as a process average.

OUR QUALITY DEPARTMENT IS ORGANISED WITHIN THE FOLLOWING SECTIONS:

QUALITY STANDARDS AND TESTING

This section focuses on developing and implementing requirements for our physical and chemical tests in accordance with the safety requirements of the sales country with the strictest regulations.

TECHNICAL

This section centres its attention on issues related to fit, sizes, and technical making of garments. H&M participates in a body measurement study and a size project that will lead to a common size system in Europe.

PRODUCT CONTROL

This section is concerned with issues such as consumer product safety and children's safety. Much attention is also centred on the implementation of a guideline for production and quality control with our suppliers.

Controlling quality

H&M requires that each factory has a quality control system. The so called GPQ system (Guidelines for Production and Quality Control), is coordinated with the system H&M's quality controllers use when monitoring production. The main purpose is to detect and correct any quality problems as early as possible in the production process. The goods are controlled at several stages during production including the packing stage.

HOW GARMENTS ARE QUALITY CONTROLLED

In order to ensure that garments are of high quality, H&M quality controllers visit suppliers during production.

START-UP MEETING

We meet the supplier prior to production to examine the garment in order to identify any technical difficulties that might occur.

INSPECTION

Our controllers carry out inspections as early as possible during production in order to avoid mistakes. These inspections include checking measurements. The controllers have a size chart to help them and the suppliers must have a sample against which they can compare their products to make sure that they are exactly what H&M has ordered. The quality controllers can carry out several different inspections during production.

FINAL INSPECTION

During the final inspection, the controllers check to see if the garments have been well sewn, well pressed, and are produced according to the approved sample and other requirements. They also check price tags, labels, and sizes.

Samples of every product in H&M's collections undergo a number of quality and safety tests. Each year, hundreds of thousands of tests are carried out, mainly at our production office and sales country laboratories, but also at external laboratories. Garments are washed and measured to check that they do not shrink or twist, and to check their colourfastness and dry rubbing. In addition, we test salt and chlorine bleaching, pilling and seam strength. Durability tests are carried out on details such as zippers and press-buttons. Flammability tests are performed to check that the garments are not flammable. Random quality control takes place at our distribution centres before the garments are distributed to the shops.

Children's safety

Children's clothes must meet particularly high safety requirements. It is our constant goal to design and manufacture baby and children's wear with safety in mind. H&M always follows the safety requirements of the sales country with the strictest regulations.

At every production office there is a person responsible for children's safety. The majority of our designers, buyers, and production office staff have received training on children's safety. New employees are trained as well. All baby and children's wear suppliers are required to sign H&M's Safety Requirements for Baby and Children's wear. In so doing, they undertake to follow our requirements and policies on e.g. button and accessory testing machines, broken needles, and needle detection machines. Each supplier must also have a person that has been educated and updated on children's safety by H&M staff.

Furthermore, at the request of SIS¹, H&M participates in the work to establish safety standards for baby and children's garments. This work is organized by CEN².

- H&M designs baby and children's wear with safety in mind. For instance, we pay attention to hoods and drawstrings in order to avoid situations where the construction of the garment increases the risk of entrapment or suffocation. All sewn on buttons, press buttons, ribbons, etc. are tested according to EN 71-1³ and BS 7907:1997⁴.
- H&M tries to avoid too many details and decorations on baby and children's garments to prevent them from being a safety risk.
- Before baby and children's garments are packed and exported, they are run through a needle detector, which detects any small fragments of metal.

H&M reserves the right to cancel an order or, if it has already been delivered, return the goods if any of the conditions in H&M's safety requirements for children's and baby wear are not met.

Chemical restrictions

Out of concern for the health of our customers, as well as for the environment and the working conditions in the factories where our products are made, H&M has established chemical restrictions for textile, leather, plastic and metal products. These are chemicals that are, or could potentially be, harmful for health and environment. Particular consideration is given to substances that could cause skin irritation or allergies or that may be carcinogenic.

The precautionary principle guides our work with chemical restrictions. Thus, the restrictions include both chemicals restricted by law, and chemicals that we have chosen to include for precautionary reasons. As an important part of H&M's long-term work against allergies, we participate in projects aimed at establishing reliable standards for testing allergenic substances.

We require that all suppliers comply with our chemical restrictions. To this end, all our suppliers must sign the Chemical Restrictions Compliance Commitment and/or Restrictions for Cosmetic and Hygiene Products. We support our suppliers with information on how to implement and comply with our chemical restrictions. Our suppliers also receive information on how to locate and resolve problems if they infringe our restrictions. In this way we contribute to reducing the environmental impact in the production process, as well as in the incineration and recycling of worn-out clothing.

We perform tests in order to check that banned chemicals are not present in the garments. Nickel, AZO dyes, disperse dyes, formaldehyde, and phthalates are examples of substances that are routinely tested. Approximately 20,000 chemical related tests were performed during 2004. In addition, jewellery and metal details are tested for nickel release. Tests are made on products where the risk of detecting breaches to our chemical restrictions is higher. This means that products that are made of particular materials, or that are manufactured by suppliers with poor track records are selected for testing. For example, products with certain colours are more likely to contain banned AZO dyes, which are prohibited by H&M. Our chemical restrictions are continuously updated, with new substances being added on a regular basis. The chemicals currently included in our chemical restrictions can be found under a drop down menu at www.hm.com/csr.

¹ Swedish Standards Institute
(www.sis.se)

² European Committee for Standardization
(www.cenorm.be)

³ European standard for testing the safety of toys

⁴ British standard concerning design and manufacture of children's clothing

REACH – PROPOSAL FOR A NEW CHEMICAL LEGISLATION WITHIN THE EU

Chemicals are used in the manufacturing processes for almost every product, and as ingredients in the articles themselves. However, the information on what harm these chemicals do to our health and the environment is insufficient. Companies that are dependent on chemicals for their products are presently unable to obtain or demand the information they need. Still, they cannot afford not to have such information. To tackle this deficiency, a new set of EU legislation is taking shape. The existing patchwork of different chemicals laws will be replaced by one single piece of legislation for the registration, evaluation, and authorisation of chemicals (REACH).

H&M strives to gain the long-term confidence of customers, employees and other interest groups by avoiding hazardous substances. We have already phased out brominated flame retardants, organotin compounds, phthalates and PVC from our clothing lines in favour of substitutes.

REACH will lead to internationally harmonised and authorised criteria for Substances of Very High Concern (SVHC). This will obviously assist us in selecting substances for substitution, very much the same way as our chemical restriction list process. H&M has adopted the precautionary principle, and that means we have to be proactive and solve the problems upstream. The most cost-effective and the only adequate control measure should be substitution – not to continue to use hazardous chemicals.

A strong REACH will benefit H&M's business by minimising our business risks and by reducing our costs for ensuring that all products we offer our customers are free from substances that are, or could potentially be, harmful for health and environment.

In order to stay ahead, a close cooperation and dialogue with relevant authorities is also crucial. Our cooperation and sharing of information with the US Consumer Product Safety Commission (CPSC), the National Chemicals Inspectorate in Sweden, the Swedish Consumer Agency, and other similar organisations have helped us become a leader in the field.

Our product policies

- H&M only sells fur and leather from sheep, pigs, goats and cattle that have been bred for meat production, not just for the sake of the skin. No other fur or leather is permitted in products sold by H&M.
- H&M's children's clothing must be comfortable and practical. We do not make children's clothes that may be perceived as provocative.
- H&M has decided not to use camouflage patterns on garments.
- Prints on tops and other garments must not be offensive, racist, sexist, political or religious.
- For products made of tropical wood H&M requires a certificate from FSC¹.
- H&M's suppliers must guarantee that material used for H&M's products does not contain endangered species in any form.
- Since autumn 2002, in accordance with American legislation, all garments are labelled with country of origin information.

¹ Forest Stewardship Council (FSC) is a non-profit organisation devoted to encouraging the responsible management of the world's forests. (www.fsc.org)

FOLLOWING LEGISLATION THROUGH ECO-TRACK

Our concerns about the impact of certain substances on the environment and on human health require us to keep abreast of the stringent legislation that exists in many of our sales countries. ECO-TRACK provides valuable and up-to-date information on relevant legislation – existing and forthcoming – that may affect our products.

www.eco-track.com

Animal testing

H&M does not allow animal testing on cosmetic and hygiene products, either during production or on the finished products. All the ingredients used in H&M's products are approved in accordance with the high requirements set by the authorities and H&M. Products are always assessed for their safety and quality.

H&M has had a policy on animal testing since the mid-1990s. This policy forms part of H&M's restrictions for cosmetic and hygiene products. All suppliers of H&M's own cosmetic and hygiene products undertake to abide by these restrictions. Finally, suppliers have a duty to inform their subcontractors of H&M's restrictions, and ensure that they abide by them.

Recall management

In spite of well organised quality work, occasionally garments that do not live up to our standards reach our shops. In such cases, our recall management system ensures fast and professional recall of a particular item. Recalled items are listed on www.hm.com/csr. ■

COMMUNICATIONS AND MARKETING

All H&M's communication aims at building the H&M brand in the long term. The way in which we communicate with the world around influences our credibility. Both internal and external communication must therefore be characterised by an open attitude with clear messages, objectivity, accessibility and awareness.

H&M communicates and conveys the brand via a number of different channels. The main forum for communication is via our shops. Our methods of communicating include advertising in magazines, on television, billboards, and the internet. Our advertisements are largely identical in all our markets, but the media mix is adapted to local needs and conditions. Commercial images are a matter of taste, and it is extremely difficult to satisfy different preferences. Through customer surveys in all our markets, we know that the vast majority of our customers appreciate our marketing and that it creates positive brand values.

H&M's fashion models

Fashion changes continuously and our campaigns strive to follow the different trends. This means that different campaigns require the use of different fashion models. However, when trends move towards unhealthiness, we actively choose not to follow them in our communication.

Our models are chosen in cooperation with internationally recognised agencies. The models portrayed in our advertisements should be healthy and wholesome. H&M actively chooses not to work with models who are too young or too thin, or models suffering from eating disorders or drug or alcohol abuse. Representatives from H&M are always present at commercial photo shoots to ensure that H&M's demands are met.

H&M'S ADVERTISING POLICY

H&M communicates its business concept – fashion and quality at the best price – through various advertising campaigns each year throughout Europe and North America. The campaigns are designed to be clear and simple and aim to inform our customers of what is new at H&M and to show who we are and what we stand for. We show the latest fashion and the price of the goods.

Advertising is produced centrally in Sweden by H&M's marketing department in cooperation with various creative professionals. The advertisements are largely identical in all H&M's markets, but the media mix is adapted to local requirements and conditions.

Our marketing has a major impact. It is therefore essential for us to convey a positive and healthy image. H&M's advertising images do not aim to communicate a specific ideal. We use different characters and a mix of different looks and styles to advertise our various concepts for women, men, teenagers, and children.

The people we show in our advertising must be healthy and wholesome. H&M deliberately distances itself from drug and alcohol abuse. The models are chosen in cooperation between internationally recognised agencies and our own representatives. The reason why we use professional models is that they are used to being in front of the camera and can give a true impression of our clothes. By working with professional models, photographers and stylists we can communicate our fashion and quality in a clear and inspirational way.

We have special guidelines for the advertising of our children's concepts. Our target group is parents, not children. This means that we place advertisements in media that is not aimed directly at children. As far as children who take part in our campaigns are concerned, we are satisfied that they take part of their own free will. Whenever children are involved in a photo shoot there is always a representative of H&M present to ensure professionalism and the safety of the children. We market clothes for both boys and girls of different ages. By using children from different cultures we highlight the diversity of society.

**STATEMENT FROM NÄRINGSLIVETS ETISKA RÅD MOT
KÖNSDISKRIMINERANDE REKLAM, ERK (ETHICS COUNCIL
AGAINST SEX DISCRIMINATION IN ADVERTISING)**

One of the basic principles of the International Chamber of Commerce (ICC) International Code of Advertising Practice is that commercial communication should be designed with an appropriate sense of social responsibility. According to Article 4, item 1 of the Code, advertisements should not condone any form of discrimination, including that based on sex.

The Ethics Council has expressed an opinion on a number of occasions in the past about H&M's undergarment campaigns. In 101-110/93 among others, the Council stated the following: "Naturally, H&M must have the right to present the undergarments sold in its shops on live models. What the Council must consider is where to draw the line between presenting the undergarments in a sensual manner and using the model wearing the undergarments as a sexual eye-catcher in a way that can be perceived as insulting to women. When scrutinising H&M's outdoor campaign, it is important to take into consideration the fact that different age groups are affected in different ways by these types of images and that images on large billboards outdoors have a far greater impact than, for example, pictures in a newspaper. Also, advertising reflects a society's values."

The Council found that the campaign in question could not be considered as discriminating on the basis of sex.

As in other similar cases, the Council recognized that it is important for advertisers who offer undergarments and other similar products for sale to have considerable freedom to present the clothes on living models in advertisements. The campaign that is currently in question is, however, different from past campaigns in that it would seem that the images have been dramatically cut for the

purpose of focusing exclusively on a very small part of the woman's body, namely her bottom and the bikini bottom she is wearing. With this type of focus, which is further reinforced because the size of the image makes it even more striking, the woman's body, or part of the body, is reduced to an object. The image is thereby objectified more than would otherwise be the case, and more than has been the case in past H&M undergarment campaigns. The Council therefore finds in an overall assessment that the objectification is so pronounced that the advertisement goes beyond what is considered justified to market the product and exceeds the necessary freedom for marketing undergarments/bathing suits. Accordingly, in the Council's opinion, the outdoor campaign in question is insulting to women in general. It is therefore in violation of the ICC International Code of Advertising Practice.

H&M's response

Hennes & Mauritz has issued a statement which briefly puts forward the following: "The purpose of our campaigns is to present our latest fashions. The images used in the ad campaign should illustrate current trends and inform our customers about our range in an inspiring way. Our intention is not to present an ideal, but rather to find models that can represent our trends. The bathing suit campaign is one of several that we have presented during the year. The theme for this year's bathing suit campaign was "the joy of the beach" and it was photographed using Brazilian models. We do not find it unnatural to show a picture of just a bikini bottom. We want our campaigns to touch people, not upset them."

Handling feedback

H&M welcomes constructive feedback. The feedback that we receive from customers and other stakeholders is generally very positive. However, we do get negative comments and, occasionally, H&M's campaigns are reported to ethics councils.

In 2004, H&M used wall drapings to advertise a bikini bottom. This particular advertisement was part of our bathing suit campaign that was communicated through a broad range of media channels in our sales countries. The image was cut, and showed the bikini and the model's hands from behind. The wall draping that was placed on a building in Stockholm was reported to the Ethics Council against Sex Discrimination in Advertising in Sweden. No advertisement used in the 2004 bathing suit campaign was reported in any H&M sales country other than Sweden.

We have learned from the criticism that ERK has put forward. We realize that aspects other than just the creative content of an image matter. More precisely, we will make sure we consider factors such as format, placing and context to a greater extent than we have up to now. ■

SOCIAL TARGETS 2004 – FULFILMENTS

The social targets described here are the ones that are specific to the CSR department at a corporate level. Each production office has targets and activities relevant to their own market. We have chosen to leave these out due to their very specific nature.

OBJECTIVE	ACTIVITIES & TARGETS	TIMEFRAME	RESPONSIBLE	FULFILMENT
Full Code of Conduct Compliance	Revised supplier evaluation form – To finalise the evaluation form, introduce it to inspectors, and finally start to use it during 2005.	December 31 2004	CSR department	The supplier evaluation form has been finalised, and introduced to inspectors. The form will be put into use spring 2005.
	New working methods – With the help of revised evaluation form, to introduce a new way of doing more thorough and in-depth inspections. The aim is to detect severe violations among our suppliers at an earlier stage than we do today. We will update new guidelines, new supplier motivation methods, statistical package etc. Implementation will begin in 2005.	December 31 2004	CSR department	The new working methods have been introduced to all auditors, as well as to key persons at the Swedish buying office. The guidelines have not yet been finalised.
	Develop and integrate Code of Conduct supporting functions in a new IT system. Implementation is planned to take place in 2005.	December 31 2004	Tobias Fischer, Magnus Ljungberg, Ingrid Schullström	Technical requirements have been specified, and the alternatives have been evaluated. Development, training, and implementation will take place during 2005.
	Implementation and anchoring – To have a systematic way of anchoring, implementing and following up projects.	August 31 2004	Magnus Ljungberg	Project postponed. Working methods will be based upon lessons learned from the FAP project.
	Worker interviews – The know-how on conducting worker interviews has increased. Therefore worker interviews will become established as an integral part of the compliance and inspection procedures to verify management statements or document control.	December 31 2004	CSR department	During 2004, the number of worker interviews increased from 40 to 143. All auditors have been educated on, and have performed worker interviews. The target for 2005 is to further integrate worker interviews in all audit and verification
	Inspectors' tool kit – Improving existing supplier educational material.	Spring 2004	CSR department	Project postponed.

SOCIAL TARGETS 2005

The social targets described here are the ones that are specific to the CSR department at a corporate level. Each production office has targets and activities relevant to their own market. We have chosen to leave these out due to their very specific nature. ■

OBJECTIVE	ACTIVITIES & TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE
Code of Conduct compliance maintained through effective management systems.	Full Audit Programme (FAP) – Our target is to introduce a new method of performing more thorough audits at production units.	Spring 2005	Tobias Fischer, Ingrid Schullström	Read more about FAP on page 25.
	FAP – Introduce a new audit form to be used when inspecting production units. All auditors will receive training, and the form will be put into use during 2005.	Spring 2005	Lars-Åke Bergqvist, Maritha Lorentzon, Ingrid Schullström	Read more about FAP on page 25.
	FAP – Finalise and test the new IT system.	2005	Tobias Fischer, Ann-Charlotte Dahl	Read more about FAP on page 25.
Full Code of Conduct compliance by all suppliers and their subcontractors	FAP – Integrate worker interviews in all audit and verification procedures.	Spring 2005	Tobias Fischer	Worker interviews are to be an integrated part of FAP.
	Reduce overtime – Collect information on best practice regarding overtime reduction, and investigate how much overtime production units in each market have. This data will form the basis of future efforts to reduce overtime.	2005	Lars-Åke Bergqvist, Maritha Lorentzon	
	Education of suppliers – Examine the need for education in each market, and locate potential partners, i.e. NGOs, public authorities etc.	2005	Tobias Fischer, Magnus Mattsson	

CODE OF CONDUCT MANAGEMENT

Objectives for the Code of Conduct work

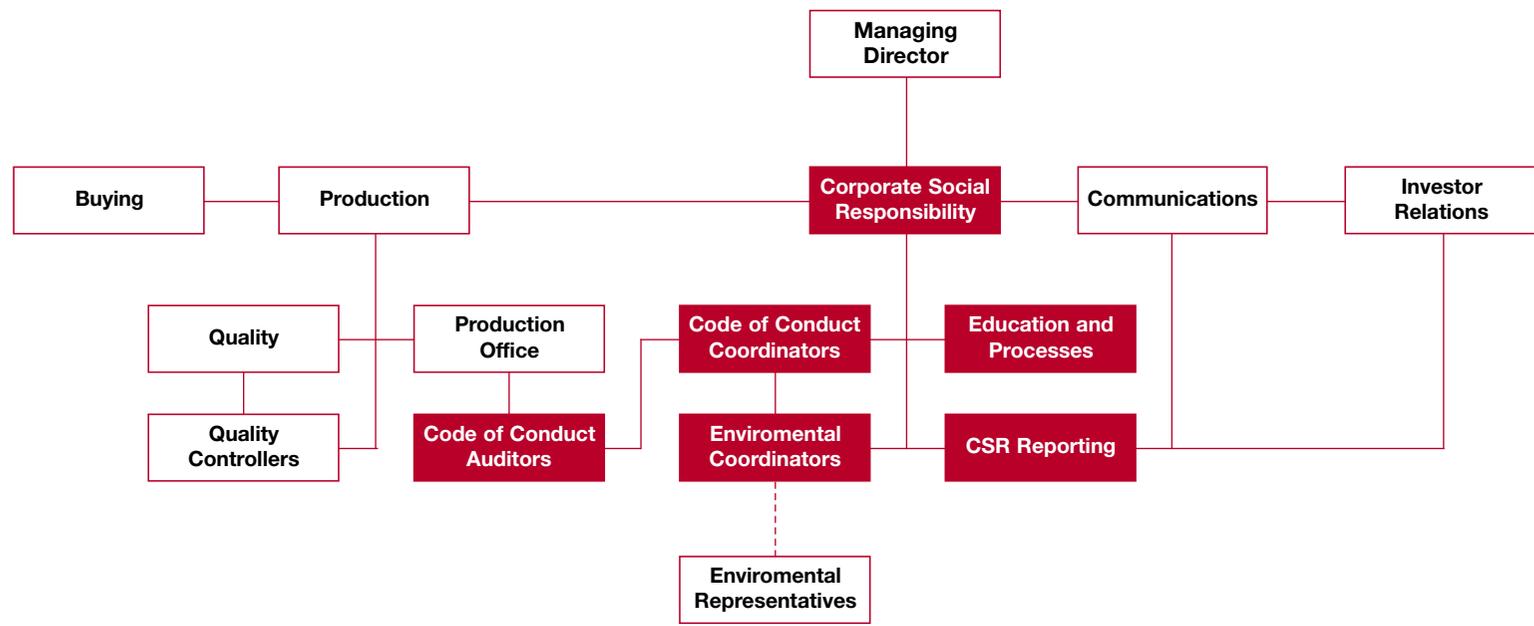
When setting our yearly targets, we make sure that they lead to the long-term objectives described below. Each objective expresses an ideal condition that guides our efforts.

CODE OF CONDUCT OBJECTIVES

- **Full Code of Conduct Compliance by all suppliers and their subcontractors.**
- **Code of Conduct completely integrated with our business operations.**
The importance of Code of Conduct issues should be reflected in everyday decisions as well as in strategic decisions.
- **Factory workers empowered to claim their rights.**
The factory workers should be informed about labour laws and human rights according to national and international legislation. Their efforts in improving their working conditions should be supported.
- **Code of Conduct compliance maintained through effective management systems.**
Tools and procedures should be developed in cooperation with the supplier.
- **Knowledge among our stakeholders about our corporate social responsibility efforts.**
The information or education given should be adapted to the various stakeholder groups.

CSR organisation

H&M has more than 30 Code of Conduct auditors that audit our suppliers’ operations. The auditors work at H&M’s production offices, where we also have more than 100 quality controllers who report any infringements of the Code of Conduct that they find. Audit results are reported to the local H&M office as well as to the CSR department in Stockholm. The CSR department is a corporate level department. Its manager reports directly to the managing director.



ADDRESSING COMPLIANCE ISSUES

In discussions with our stakeholders we have noticed an interest in understanding the reality that we face in different countries of production. This section is aimed at providing our readers with some insight into the dilemmas that we are struggling with. It is to be noted that the following text is not a fully comprehensive account. Rather, it gives some examples of the complexity of the issues covered by our Code of Conduct, and the challenges that we deal with.

Legal Requirements

The Code states:

Our general rule is that all our suppliers must, in all their activities, follow the national laws in the countries where they are operating. Should any of the following requirements by H&M be in violation of the national law in any country or territory, the law should always be followed. In such a case, the supplier must always inform H&M immediately upon receiving this Code. It is however important to understand that H&M's requirements may not be limited to the requirements of the national law.

Auditing dilemma

In some countries it is extremely difficult to understand what is prescribed by law. The reason for this is often regional and local deviances from national regulations. It can be due to differences in interpretation or implementation. It is difficult to audit compliance with a law that is subject to interpretation, and that is not effectively enforced by local authorities. In some cases the laws are also obsolete, and do not always apply to the garment industry.

Addressing the issue

We have consulted local governments and local legal experts in many countries for guidance on how to interpret various laws. We still struggle for example with calculation of overtime compensation for workers being paid by piece, in countries where the law does not specify how this compensation should be calculated.

Child labour

The Code states:

- We base our policy on child labour on the UN Convention on The Rights of the Child, article 32.1.
- We recognise the rights of every child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.
- We define, in this context, the work "child" as a person younger than 15 years of age or, as an exception, 14 years in countries covered by article 2.4 in the ILO convention No. 138.
- We are concerned about the situation of children in many parts of the world. We acknowledge the fact that child labour does exist and cannot be eradicated with rules or inspections, as long as the children's social situation is not improved. We want to actively work with factories and with NGOs in third world countries, to try to improve the situation for the children affected by our ban on child labour.

Auditing dilemma

Child labour is very uncommon in export garment manufacturing; only a handful cases are detected yearly. However, child labour can sometimes be difficult to detect since neither the child nor the factory manager want to be exposed. Child labour can normally only be found through unannounced visits. In most countries a person is allowed to work at the age of 15 (16 in China). To visually decide the exact age of a teenager can be difficult. In some countries ID-cards are not available. In such cases we need other age certificates or a physician's statement. Moreover, children can become scared when their age is questioned. They might panic and disappear or be immediately dismissed by the management. This is why auditors make sure they immediately note down the name and contact information of the child and its parents so that H&M can always trace the child for follow-up action.

Addressing the issue

As we absolutely do not accept child labour we are always looking out for the slightest sign of anyone being too young to work. Does anyone look young? Does anyone seem frightened? Is anyone hiding? Is there a workstation that looks as if someone just left it in a hurry? During document review we go over age certificates and check dates of birth. However, we still need to ensure that checking the age becomes a standard routine when recruiting new workers. Security guards are instructed not to let anyone inside who is under legal working age. We do not even allow children to go to factories in order to visit their parents since we cannot feel confident they do not work.

Nevertheless, if a child is found working at one of our suppliers' factories we make an arrangement with the child's family to find the best solution for the child. In most cases this means some type of education.

A family can become dependent on a child's income. H&M demands that the supplier, which has violated the law and H&M's Code, pays both for school and maintained salary until the child reaches legal working age. H&M stays in contact with the supplier, the family, and the school to make sure that the child continues his or her education. If there is no follow-up, the child may leave school and take up another job, seeking to earn double income.

If a supplier continues to use child workers, we see no other option but to permanently terminate business with that supplier.

Worker's basic rights***The Code states:***

- We do not accept the use of bonded workers, prisoners or illegal workers in the production of goods for H&M.
- If foreign workers are employed on a contract basis, they should never be required to remain employed for any period of time against their own will. All commissions and other fees to the recruitment agency in connection with their employment should be covered by the employer.
- Under no circumstances do we accept that our suppliers or their subcontractors use corporal punishment or other forms of mental or physical disciplinary actions, or engage in sexual harassment.
- All workers should be free to join associations of their own choosing, and they should have the right to bargain collectively. We do not accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organise or join an association.

Auditing dilemma

The problem with violations of workers' human rights is that they are difficult to detect using ordinary monitoring methods. Frequently, the evidence is ambiguous. For instance in the case of forced labour, workers' passports may be kept by the supplier with the argument that the documents are protected from theft. Another example is a supplier giving a worker an advance payment which could be seen as a generous gesture. But the worker cannot leave until he has worked long enough to pay back the debt which can again be considered forced or bonded labour. Violations that would never happen when one of our auditors is present, such as verbal abuse, corporal punishment or sexual harassment are obviously also very difficult to detect.

To decide whether workers have full freedom to organise is also impossible to determine during factory audits. In some production countries, there are indications that only a very small share of the workforce is organised in trade unions. There are several possible reasons for this. In some countries, industrial relations do not function properly. The number of players is substantial; at times some twenty or thirty trade unions may seek to recruit members in the same industry sector. Further, employers may not accept trade unions and try to prevent workers from organising. Finally, in some countries workers may not know what a trade union is or how it works, and subsequently they do not demand to join one.

In these cases, the only way of detecting violations is to interview workers. However even this method has its limitations. For fear of punishment workers may not always trust our auditors and do not dare to tell the truth. Particularly in cases of violation of freedom of association, we tend to receive information from trade unions rather than directly from the factory workers. But we also see an increasing number of human rights violations being reported directly to our auditors by factory workers.

VIOLATION OF FREEDOM OF ASSOCIATION IN BANGLADESH

We frequently get questions about how H&M can uphold the demand for freedom of association in our Code of Conduct. The best way to demonstrate this would be a real example of how we act when a violation is reported to us.

On December 14 2004 we got a call to our office in Dhaka from a Bangladeshi trade union, informing us about one of our suppliers where around 30 workers had been dismissed after an incident in the factory. We immediately started to investigate the case through meetings with workers, management and the union. After some research we came to the conclusion that the allegations were true. After consultations with international NGOs and trade unions we shared our findings with other buyers in that factory in question. We also initiated a meeting with the factory management and the garment exporters' association in Bangladesh informing them about the violation and asking for assistance.

To our satisfaction the joint action by buyers and local and international stakeholders led to a constructive dialogue between the local union and the factory management. On February 24, 2005 an agreement was made, granting the workers an offer of reemployment. The local union confirmed to us that they were satisfied with the agreement and encouraged us to resume business with the factory.

Addressing the issue

Any violation against the ILO's Core Conventions is considered to be such a severe violation that the production unit in question is graded 'rejected' for H&M production until the problems have been solved. Normally these issues cannot be solved by simply pointing out to management that a violation has been detected. In many cases, top or middle management is involved in these practices, or approves of them in one way or another. The solution must therefore involve education and influencing attitudes. Frequently, a joint action from several buying companies is necessary to put pressure on the management to take the issue seriously. A few suspected cases of dismissal of union members have occurred during the year in Bangladesh, Indonesia and Turkey. If our investigations show that workers have been dismissed due to union activity it is a clear violation of our demand for freedom of association and in those cases we have asked that the dismissed workers should be reinstated. H&M has in every such case actively been involved in discussions between unions, suppliers and other stakeholders to reach an acceptable solution.

Wages and working hours***The Code states:***

- Wages should be paid regularly, on time and be fair in respect of work performance. The legal minimum wages should be a minimum, but not a recommended, level.
- Weekly working time must not exceed the legal limit, and overtime work should always be voluntary and properly compensated.
- The workers should be granted their stipulated annual leave and sick leave without any form of repercussions.

Auditing dilemma

In order to check wages and working hours we examine various documents in the factories. Double record-keeping (pay slips, salary records, time cards, log books etc.) is a common violation. The intent is to mislead auditors and/or local authorities. The main reason for faking documents is to hide illegal overtime, and avoid paying correct compensation. By comparing production records, time cards, salary records, pay slips, and other documents, our auditors often detect double record-keeping. The records can also be validated through worker interviews.

Addressing the issue

In some cases, we have had to advise our suppliers to introduce meaningful reporting systems. For example, we have made suggestions on how payroll reporting could be organised, with columns for hours worked, overtime hours, and for any bonuses or deductions, so that it would be clear how the final pay is calculated. Only once the reporting systems had been introduced we were able to effectively check that the factory workers were getting the wages to which they were entitled.

Due to rigorous checking of documents such as salary records, time cards, and payslips we can be quite sure that all workers receive at least the legal minimum wage based on regular working hours. We can also verify whether overtime work is compensated fully. Excessive overtime and failure to pay correct overtime compensation are still fairly common violations detected during factory audits. Improved planning, increased productivity, better human resource management, improved quality insurance, better dialogue between workers and management are all measures that can reduce violations regarding working hours and wages. H&M has run several projects aimed at addressing these problems. The overtime project in China described in last year's report is one such project.

Safety

The Code states:

- We require from our suppliers that the workers' safety should be a priority at all times. No hazardous equipment or unsafe buildings are accepted.

Auditing dilemma

Many production units have, as a result of our work, installed fire exits, fire alarms, fire extinguishers etc. However, the procedures to maintain good safety levels are lacking. Personal protective equipment required by us is usually available, but frequently it is not used since the workers have not been sufficiently educated about the purpose of the protection. Occasionally factories share buildings with other companies. It can then be difficult to maintain overall safety in the building.

Addressing the issue

Our focus is gradually changing from merely pointing out safety issues to involving our suppliers in discussions about policies and routines. There must be dedicated staff appointed with responsibility for safety standards in the factories. As in many other areas, education is a key to sustained improvements. For example, there is little point asking for fire extinguishers to be installed if none of the workers understand what they are and how to operate them. Another example is that many machines are delivered with safety devices that mechanics, ignorant of the consequences, permanently remove because they hinder maintenance.

Factory conditions

The Code states:

- It is important for the workers' well-being, and for the quality of the garments, that the factory environment is clean and free from pollution of different kinds.
- The temperature in the factory should be tolerable as a working environment, and the ventilation should be adequate. Heaters or fans should be provided when needed.
- The lighting in each workplace should be sufficient for the work performed, at all times of day.
- Sanitary facilities should be clean, and the workers should have access without unreasonable restrictions. The number of facilities should be adequate for the number of workers in the factory. Sanitary facilities should be available on each floor, and preferably separated for men and women.

Auditing dilemma

It is difficult to develop universal criteria for what is acceptable and what is not in terms of working environment. We have seen examples where other buyers have requested that suppliers provide tables and chairs in the canteen in countries where people normally sit on the floor, or install air-conditioning even though many workers do not appreciate it. Good knowledge of local conditions is essential in order not to waste the factories' resources on improvements that do not necessarily benefit workers. What may be considered far too hot in one country is acceptable or even desirable in another. Common sense has to be used and one has to be sensitive to cultural differences.

Another common problem in this area is the lack of policies and procedures to maintain improvements already achieved. We can however note during worker interviews that complaints about the working environment are fairly uncommon.

The most serious violation related to factory conditions is when workers are not allowed to use the bathrooms as frequently as they want to, in order not to interrupt the production. This can cause serious health problems for the workers and is not allowed. It can be difficult to detect such violations other than through worker interviews.

Addressing the issue

Compared to most other issues, factory conditions in terms of working environment and cleanliness are fairly easy to address. We rarely find cases where factories do not make improvements in lighting, temperature, cleanliness and so on when requested. Many factories have a doctor or nurse available during working hours who can treat minor injuries and common discomforts such as headaches or upset stomachs. However, the challenge lies in upholding cleaning and maintenance routines. This is an ongoing process, not least when we start buying from a new supplier.

Environment

The Code states:

- Our suppliers must comply with all applicable environmental laws and regulations in the country of operation.
- According to the H&M Chemical Restrictions, we do not allow use of solvents or other hazardous chemicals in the production of our garments. All suppliers must sign the H&M Chemical Restriction Commitment, confirming that no prohibited chemical substances will be used in the production.

Auditing dilemma

Awareness about environmental hazards is generally low in many countries where H&M's garments are produced. Legislation is also weak in many areas and governmental environmental programmes and services are often lacking. Even though we are able to identify various types of hazardous waste generated in the factory, the country or region may lack the facilities to handle waste in an appropriate way. This leads to complications in terms of what corrective actions we can actually demand. We also demand that material safety data sheets for all chemicals handled in the factory should be available, but frequently these cannot be obtained from local dealers and do not exist in local languages. Chemical containers are often inadequately labelled and it is hard to check the exact content.

Addressing the issue

By asking questions about required permits and by physically inspecting factory premises, H&M can identify potential violations of the local environmental laws. We focus mainly on chemicals, emissions to water and air, and hazardous waste. When local law is vague or suitable facilities for waste disposal do not exist we do what we can in that particular situation. This means that although we may not be able to find a perfect solution, we try to make some improvements. At the very least, we give our suppliers advice to help them limit environmental risks. We can also make sure that chemicals are handled and stored in a way that is safe for the workers, and avoid spillages and leaks that can cause pollution or health hazards. We also check that necessary personal protective equipment is available, although it is hard to monitor whether it is always used.

Code of Conduct inspection procedures

In order to reach our Code of Conduct objectives, and consequently gain trust from our stakeholders, we need systems and procedures that are efficient and credible. Below, we give an account of how inspections have been performed. With the introduction of the full audit programme in 2005, the way we do audits (inspections) will change. Read more about the full audit programme on page 25.

Auditors' tools

- Supplier evaluation form and guidelines – The supplier evaluation form is the basis of every inspection. It contains more than 100 questions that correlate to our Code of Conduct. The inspector uses the guidelines for support.
- Overtime audit form and guidelines – A template for conducting overtime audits. The guidelines support the inspector when making overtime audits. Advice is given on where overtime is most frequently discovered, how many workers should be sampled, how to cross-check information etc.
- Child labour guidelines – To help the inspector to handle suspected child labour situations. Measures taken aim at securing the child's best interest.
- Violation guideline – To guide the inspector when severe violations occur.
- Rating system guideline – The guideline outlines what requirements that need to be fulfilled to earn a certain grade.
- Worker interview guideline – Provides support on how to conduct interviews with factory workers. The enclosed questionnaire covers issues such as fire safety, working hours, wages, working environment, freedom of association, discrimination, child labour, and forced labour. The guidelines also give information on how to file reports and take action.

Prior to auditing

- Compliance commitment – The supplier is required to sign a Code of Conduct compliance commitment contract before the first inspection. This commitment covers the supplier's own production unit as well as any subcontractors' units.

The audit

- Management interview – The management is interviewed about issues such as relevant management practices, salaries, working hours and freedom of association.
- Document review – Documentation to verify working hours, wages and overtime compensation is checked. Staff records and age certificates are checked.
- Factory inspection – The factory is inspected to evaluate working conditions, safety and environmental aspects.
- Closing meeting – The inspection results are discussed with the supplier, as well as a realistic timeframe for improvements. The supplier is asked to sign a corrective action plan.
- Worker interviews – We complement the information that we obtain through worker interviews.

Depending on the situation, inspections may contain additional items:

- Pre-inspection questionnaire – In rare cases, we request the supplier to fill in a pre-inspection self-assessment questionnaire. This happens when an inspection cannot be made immediately due to geographical distance, for instance.
- Inspection of residential area – The residential facilities are inspected for cleanliness and safety according to an audit form.

Compliance mechanisms – our grading system

We cooperate with our suppliers in order to improve the conditions in the factories they own or subcontract to. The purpose of our grading system is to find a tolerable level where we can start to work with the production units. It is primarily when we place orders that we have the chance to be truly influential. Finally, one must bear in mind that our suppliers and their production units differ substantially in regard to, for instance, size, company culture and ownership. The grading system is regularly modified in order to put further pressure on the production units.

OUR GRADING SYSTEM

The grading scale consists of five levels:

SATISFACTORY – A production unit graded ‘satisfactory’ fulfils all ‘insufficient’ requirements. In addition, the unit complies with all other Code of Conduct requirements, e.g. environmental aspects.

INSUFFICIENT – A production unit graded ‘insufficient’ fulfils all ‘temporary’ requirements. In addition, our requirements in regard to safety, and housing and factory conditions are met. Overtime is always voluntary, and compensation is paid. Workers receive the sick leave that they are entitled to.

TEMPORARY – A production unit graded ‘temporary’ meets our requirements regarding worker’s basic rights, basic safety and basic housing conditions. A production unit that has been graded ‘temporary’ has six months to make the improvements necessary to earn an ‘insufficient’ grade.

REJECTED – A supplier or production unit is graded ‘rejected’ if workers are denied any of their basic rights, if factory premises are unsafe, if the supplier has not signed our Code of Conduct, if H&M is denied access to the factory premises, or if management refuses to cooperate in other ways. A production unit that has been graded ‘rejected’ can do business with H&M only if it makes major improvements in accordance with our Code of Conduct.

PERMANENTLY REJECTED – Repeated employment of child labour, repeated use of faked documents, and repeated use of undeclared units are severe violations that cause H&M to permanently terminate business with a supplier. A supplier graded ‘permanently rejected’ can never again do business with H&M.

If a supplier's production unit is graded rejected or permanently rejected, our purchase order system prevents our buyers from placing an order with that particular supplier.

Training our auditors

The expectations on the performance of our Code of Conduct auditors are high. Hence, we need to facilitate the basic conditions for every auditor to meet these expectations.

In order to secure the audit quality, and the continuous improvements towards Code of Conduct compliance among our suppliers, it is of the utmost importance to give newly employed auditors a thorough introduction to both H&M and to the audit profession. Finally, we need to continue to educate and challenge our auditors.

H&M's introduction plan for auditors covers topics that should be communicated in writing, orally, or through practical training. Some examples are:

- Company values
- H&M's Code of Conduct
- The ILO Core Conventions
- The role of the auditor
- Relevant labour law
- H&M's latest CSR report
- Audit forms and guidelines

The introduction is carried out by a senior auditor or by the Stockholm based Code of Conduct coordinators.

Normally, H&M organises workshops for the auditors and other key employees in the production offices. These workshops are further education for our auditors. Their primary purpose is best practice exchange. Supply chain topics such as worker interviews, overtime, network building, piece-rate systems, migrant workers, work methodology and statistics are addressed. In 2004, one workshop was organised in China. All auditors attended.

BSR Labour Standards Working Group

One of the important success factors commonly identified within the field of CSR is cooperation between companies within the garment industry. H&M participates in several formal and informal groups of garment brands and retailers working for a common goal of improving labour standards. One example of a formal group is the Labour Standards Working Group within BSR¹.

Educating our supply chain

Education and awareness is crucial in order to improve conditions in the factories. Bad conditions are often a result of insufficient knowledge among factory management on all levels. To this end, H&M organises workshops on topics such as safety, local legislation, labour rights and human rights. The target groups are managers of our suppliers and their subcontractors. ■

¹ Business for Social Responsibility (www.bsr.org)



H&M

OUR ENVIRONMENTAL RESPONSIBILITY

This section is divided into two main parts. The first part gives an account of projects in the environmental area and environmental performance. The second part describes our policies and organisation.

ENVIRONMENTAL ACTIVITIES AND PERFORMANCE

This section describes our environmental performance in terms of projects and tangible results. We describe three projects, and report on carbon dioxide emissions and recycled cardboard. The reasons for omitting other environmental aspects are explained.

Cleaner production programme for fabric mills

In the last few years H&M has run a pilot project, Supplier Environmental Motivation Strategy (SEMS), with four suppliers with the purpose of evaluating the possibilities of reducing the environmental impact of fabric production, particularly fabric dyeing and other processes that can lead to water pollution. These direct suppliers were vertical companies, which means that they have more production steps than garment manufacturing within their own operations. Normally these are production stages taking place earlier in the supply chain, meaning that H&M then has no direct business relationship with the dyeing mills.

After evaluating the result of the SEMS project we came to the conclusion that the best approach is “cleaner production”, which is a preventive approach. The focus is on improving the processes in order to minimise pollution. We believe that the saving of energy, water and chemicals can result in a financial incentive for the mills to participate without the commercial pressure from a direct buyer.

During 2004, work on development of technical measures and management measures for cleaner production has been initiated in cooperation with a consultant and the Wuppertal Institute in Germany. The technical measures are descriptions of suggested process changes and the management measures are the required changes to the organisation, for example a responsible team, and introduction of measuring routines. The local partner in India is the National Cleaner Production Centre. The main focus is reduced consumption of energy, water and chemicals, with focus on resource saving but also reduced emissions. Six fabric mills in India, supply-

ing some of H&M's major garment suppliers, have been selected for the initial trial of the cleaner production programme. A workshop to introduce the programme to the mills in India has been planned for early 2005.

EU Flower

H&M has applied for a licence to use the EU Flower, the official eco label of the European Union (www.eco-label.com). We plan to mark parts of H&M's baby basic collection (approximately 250,000 pieces) with the EU Flower during 2005. H&M customers will recognize these cotton garments by a flower label on the packages and care labels.

The EU Flower stands for restriction of hazardous substances and reduced water pollution in the whole production chain, from the cotton wool to the finished product. In addition, the label's quality criteria represent the garments' ability to keep their shape and colour.

All products in the H&M collection will as usual be covered by H&M's own chemical restrictions in order to minimise or exclude the use of substances that may be harmful to the health and/or to the environment.

Organic cotton

We are aware of the negative environmental impact of conventional cotton farming. Therefore, H&M has started to include five per cent organic cotton in certain baby and children's garments from Turkey. Initially this was a trial, including a process to get our suppliers' spinners certified for the spinning of blended yarn with a five per cent organic cotton content.

In the first year 400,000 pieces of children's garments were shipped from Turkey containing a total of five tonnes of organically grown cotton. These garments do not carry any special label.

For 2005 we are planning to increase the volumes and also to start trials in India. Our target for 2005 is to use at least 20 tonnes of organic cotton in our products. Although we are aware that only a very small fraction of the total cotton used for H&M's products is organic, our aim is to contribute to an increased global demand for organic cotton. Since the conversion from conventional cotton farming to certified organic cotton farming takes three years, increase in global production can only happen gradually. It is H&M's intention to continue to increase the volumes of organic cotton used in our products from year to year. We are also planning to source garments containing five per cent organic cotton from additional markets in the future and the first such delivery was made from India in December 2004. At present, we do not aim for products containing 100 per cent organic cotton since it would not fit H&M's profile and price structure.

Carbon dioxide target

H&M's activities produce emissions of carbon dioxide and other greenhouse gases. A large part of our emissions comes from transport and electricity, both related to fossil fuels. As a response, H&M is developing strategies to reduce greenhouse gas emissions.

We have decided to target our most relevant greenhouse gas, carbon dioxide (CO₂). We have previously measured and reported on our CO₂ emissions. Now, we are taking a step further by developing a target for reduction of CO₂ emissions from H&M's activities. The target is to reduce the emissions by a total of 10 per cent (on comparable figures) between 2005 and 2009. On average we must therefore reduce the CO₂ emissions by two per cent annually. The emissions are measured on a yearly basis in tonnes, and are related to annual turnover. In order to be able to track progress, the base year has been set to 2004.

The CSR department will work with the departments concerned in order to develop strategies for how the established group target can be met.

Carbon dioxide data

The following elements are included in the carbon dioxide data:

- Purchased electricity in the entire company, where H&M purchases direct from the supplier
- Purchased heat for distribution centres, where H&M purchases direct from the supplier
- Purchased fuels for heating of distribution centres, where H&M purchases direct from the supplier
- Purchased transport of goods (road, sea, rail)
- Purchased transport of goods (air, sea/air)
- Purchased transport of personnel
- Purchased fuels for vehicles owned by H&M

The shops where H&M purchases electricity direct from the supplier account for 85 per cent of annual turnover. For the remaining 15 per cent of the shops, the cost of electricity is included in shop leases.

Details about data acquisition can be found in the annexes.

Carbon dioxide performance

The list and table below show carbon dioxide emissions caused by H&M operations. The bulleted list states carbon dioxide emissions 2000–2004. The table displays emissions in tonnes for 2003 and 2004. Each source’s share of total emissions is shown. The change

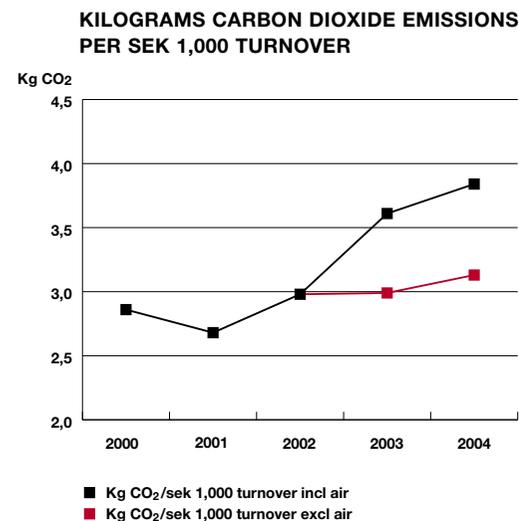
in emissions between 2003 and 2004 is presented as well. Please note that the 2003 figures have been adjusted for the calculation error described in the annex. Hence, the table shows that purchased electricity produced 100,394 and not 76,384 tonnes of carbon dioxide in 2003.

- 2000: 102,494 tonnes (excluding air and sea/air transport)
- 2001: 124,611 tonnes (excluding air and sea/air transport)
- 2002: 158,690 tonnes (134,437 stated in CSR Report 2003, excluding air and sea/air transport)
- 2003: 204,040 tonnes (180,031 stated in CSR Report 2003)
- 2004: 241,583 tonnes (new base year)

SOURCE	CO ₂ IN TONNES 2004		CO ₂ IN TONNES 2003		CHANGE
Purchased heat for distribution centres	7,588	3.1%	8,273	4.1%	-8.3%
Purchased fuels for heating of distribution centres	2,900	1.2%	2,480	1.2%	16.9%
Purchased electricity (entire company)	111,019	46.0%	100,394	49.2%	10.6%
Purchased transports (road, sea, rail)	63,834	26.4%	46,666	22.9%	36.8%
Purchased transports (air, sea/air)	44,349	18.4%	35,218	17.3%	25.9%
Purchased transports of personnel	9,953	4.1%	8,988	4.4%	10.7%
Purchased fuels for vehicles owned by H&M	1,940	0.8%	2,021	1.0%	-4.0%
	241,583	100.0%	204,040	100.0%	+18.4%

Below, we have related carbon dioxide emissions to annual turnover. Please note that our data did not include air transport prior to 2003. Therefore, one graph displays CO₂ emissions excluding air and sea/air transport. In this way, the data for 2000–2004 becomes comparable. The other graph displays CO₂ emissions including air and sea/air transport (2003 and 2004). Both graphs have been adjusted for the mentioned calculation error (data for 2002 and 2003).

Finally, the fact that we sell more goods at lower prices affects the CO₂/turnover quota, and should therefore be taken into consideration.



Conclusions

The actual increase of carbon dioxide emissions is from 204,040 tonnes in 2003 to 241,583 tonnes in 2004, i.e. 18.4 per cent. This increase is almost on a level with the increase in sold volumes (16 per cent).

One factor that helps to explain this year's higher CO₂ figures is that we have not used old data to the same extent as last year. For example, we have new data on energy consumption in the USA. Due to the substantial growth in the US market, these figures are now considerably higher. Another contributory cause is that Belgium has reported a power generation mix that produces more carbon dioxide emissions.

There are several reasons for the increase in emissions produced by transport of goods. For instance, there has been an increase in purchased volumes. Another explanation is that the data for 2004 is more comprehensive. For example, combined modes of transport (e.g. sea/air) were not included until now. Yet another explanation is that this year's data has been collected and processed with greater precision. We have had to evaluate and correct data that we obtained from some of our transport service providers. Also, a courier company has stated significantly higher CO₂ figures for 2004 (1,280 tonnes, cf. 54 tonnes for 2003). As the amount spent on courier services in 2004 was about the same as in 2003, we have come to the conclusion that the 2003 figures could not have been accurate. This difference has had a noticeable effect on the total carbon dioxide emission figures.

Direct energy use

Energy use is continuously on the agenda, not least from a cost perspective. In addition, there is a clear link between cutting energy use and reducing carbon dioxide emissions. The below table shows H&M's direct energy use in gig joules.

SOURCE	GIG JOULES
Heat for distribution centres	86,198
Fuels for heating of distribution centres	29,967
Fuels for vehicles owned by H&M	26,260
Electricity (entire company)	1,302,087
	1,444,512

Waste management

Solid waste is a significant aspect in our stores and at our distribution centres. Waste handling in our shops differs depending on sales country. In Norway, for example, the vast majority of the shops use the waste handling system of the shopping centre or landlord. In the USA, on the other hand, more than half of the shops have a separate contract with a waste handling company. In Germany, over half of the waste is sent back to H&M's warehouse. Due to this complexity, it is difficult to measure, compare and report on how different types of waste are handled.

However, we are able to present figures on recycled cardboard, as it is mainly collected at our distribution centres. In spite of a 16 per cent increase in total volumes, and frequent use of cardboard boxes rather than hanging garment transportation, the increase in cardboard collected and recycled at our distribution centres was only 13 per cent.

YEAR	CARDBOARD IN TONNES	CHANGE
2002	12,342	
2003	13,502	9%
2004	15,207	13%

Omitted environmental aspects

H&M sells garments and accessories to the consumer market. Consequently, it is not feasible to monitor and measure emissions generated by use and disposal of our products. Further, it is not possible to measure the emissions caused in our supply chain. The sewing and assembling of garments alone employs approximately 2,000 production units. It is not possible to collect and report reliable figures from these production units.

Emissions to water and use of water are significant aspects in the production and use of garments. For shops, offices, and warehouses, water is used purely for sanitary needs. Due to the complexity of collecting and aggregating data, we have decided not to measure emissions to water and use of water throughout the production and use of our products.

Nitrogen oxide (NOx) and sulphur oxide (SOx) emissions are mostly related to transport. Evaluating features like engine type and fuel type is at this point too complex. Nevertheless, we strive to reduce the emissions by setting minimum requirements for our transport service providers' engine and fuel types. ■

ENVIRONMENTAL TARGETS 2004 – FULFILMENTS

OBJECTIVES	ACTIVITIES & TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE	FULFILMENT
Environmental awareness	Key group education.	December 31 2004	Ingrid Schullström	Key employees at the logistics department and our distribution centres involved in purchasing of transport solutions.	Done within time frame.
	Environmental information developed that should be communicated to all H&M shops.	May 31 2004	Henrik Lampa	Information on the use of electricity in the stores will be distributed on a national level.	The information has not been distributed as the intended information channel (a general information binder) was cancelled. The information will be distributed through other channels in the future.
Respect for nature	Requirements for paint purchased in the sales countries to be equal to the centrally bought paint.	March 31 2004	Lena Hedin	Paint is bought in the sales countries for the window display.	Done within time frame.
	Formulate a strategy to decrease the release of CO ₂ from our business and related activities.	December 31 2004	Ingrid Schullström	Measured in tonnes carbon dioxide emissions per SEK 1,000 turnover.	Done within time frame.
	H&M must receive an eco-declaration before the purchase of 75 per cent of all IT products. The IT products with an eco-declaration must meet H&M's minimum environmental requirements for IT products.	December 31 2004	Stefan Andersson	The target will be met if we can make sure through reviews of filled out eco-declarations for purchase of shop IT products and back-office products that no product is classified 'not accepted'. This includes purchases within H&M's general agreement and local purchases over SEK 10,000 outside the general agreement.	81.2 per cent of the products purchased during 2004 had an eco-declaration. However, we have not received statistics from all sales countries. Thus, we do not have accounts of some locally purchased products, but these purchases only make up a small proportion of all purchases.

OBJECTIVES	ACTIVITIES & TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE	FULFILMENT
Sustainable resource use	Start installing water saving appliances in back areas in shops when building and rebuilding.	December 31 2004	Building project managers in the sales countries	The target will be met if the routine is included in the routine for building or rebuilding of shops in each sales country. This applies to shops where the decision is H&M's.	The routine has been implemented in all sales countries.
	Make sure in the building and rebuilding process that source sorting and waste handling areas are sufficient either in store or provided by landlord.	December 31 2004	Building project managers in the sales countries	This is fulfilled if this is included in the routine for building or rebuilding of stores in each country.	Implemented where applicable.
Clean supply chain	Start to include organic cotton in the fabric of baby garments.	October 30 2004	Ingrid Schullström, Hulya Sevindik	Test will be initiated in Turkey.	Done within time frame; read more on page 54.
	Initiate cooperation with the biggest fabric suppliers in our major markets in order to improve their environmental performance.	December 31 2004	Elisabeth Hall Khokar	Our primary aim is to evaluate the possibility of influencing suppliers' environmental efforts and performance. This is the first step of several.	A tool has been developed that will be used on selected fabric mills initially in India. Cooperation has started with these mills.
Green transports	Develop future new requirements for road to be communicated to our service providers.	March 31 2004	Henrik Lampa		Done within time frame. The new requirements concern engine type and eco-drive education.
	Include air cargo into our CO ₂ calculations.	March 31 2004	Magnus Ljungberg		Done within time frame.
	Follow up on the environmental requirements on road, on a random sample basis.	July 31 2004	Henrik Lampa		Done within time frame. We have focused the random sample on checking vehicle age at the distribution centres.

ENVIRONMENTAL TARGETS 2005 AND ONWARDS

OBJECTIVES	ACTIVITIES & TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE
Environmental awareness	Key group education.	January 31 2005	Eva Skytt	Package designers will be educated in 2005.
	Develop environmental education programme aimed at our suppliers.	December 31 2005	Henrik Lampa	The programme will include waste water treatment, chemical handling, and waste management.
Respect for nature	Reduction of CO ₂ emissions from H&M direct and indirect sources by 10 per cent.	December 31 2009	Eva Skytt, Ingrid Schullström	Read more on page 54.
Sustainable resource use	Chemical ban list and phase out list is to be used in shop and distribution centre build and rebuild projects.	December 31 2005	Project managers in the sales countries	
	Updated version of H&M's chemical restrictions (applies to H&M products).	June 30 2005	Elin Robling	The restricted substances list is to be updated to contain additional chemical substances.
Healthy products	Include 20 tonnes of organic cotton in our products.	October 31 2005	Ingrid Schullström	Read more on page 54.
Clean supply chain	Start to sell EU Flower labelled baby garments.	December 31 2005	Eva Skytt	The use of the EU Flower label will be evaluated during the year.
	Cleaner production programme for fabric mills.	December 31 2005	Ingrid Schullström	Initially, our aim is to research the pilot fabric mills in order to identify areas where improvements can be made.
Green transports	Include traffic safety questions (regarding e.g. drug and alcohol policies) in our environmental declaration for road transports.	December 31 2005	Eva Skytt	The update of the environmental declaration will be done during 2005. The declarations will be distributed to our transport service providers early 2006.

ENVIRONMENTAL MANAGEMENT

Main aspects

Our environmental coordinator and CSR manager have conducted an environmental impact assessment, and identified the following environmental aspects.

The most substantial environmental effects occur in the dyeing and processing of fibres and fabrics. Examples of aspects in the garment production are energy consumption, water pollution and chemical handling. H&M's Code of Conduct includes environmental requirements.

Transport of H&M goods accounts for approximately 46 per cent of total carbon dioxide emissions caused by H&M operations. Therefore, it is vital for us and our transport service providers to try to use more environment friendly transport.

At the end of 2004, H&M operated 1,068 shops and 15 distribution centres. Our operations generate waste from packaging, hangers, decorative materials, disposable materials etc. It is our ambition to reduce waste, and re-use and recycle waste material when possible.

ENVIRONMENTAL OBJECTIVES

Promotion of environmental awareness among employees, suppliers and customers.

Respect for nature:

Caution in decision-making out of respect for nature.

Sustainable resource use:

Resource conservation, recycling, and reduction of waste.

Healthy products:

Products that are safe to use and harmless to the environment during use and disposal.

Clean supply chain:

Sustainable production and production methods throughout the supply chain.

Green transports:

Clean and efficient transports with limited influence on the climate.

OUR ENVIRONMENTAL POLICY

Continuous improvements are significant for all H&M activities. This includes our environmental effort, which is conducted within the framework of our business operations. H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price. Our quality concept is based on ensuring that our customers are satisfied with our products and H&M as a company.

To this end, we are committed to acting responsibly in our community. We shall also cooperate with our suppliers to improve the social and environmental standards in the factories that manufacture H&M clothing, thereby contributing to sustainable development in these areas. To achieve this goal, H&M has adopted the following principles.

We shall ...

- always consider the health and safety of our employees. By adopting the precautionary principle, we will continuously update our restrictions against the use of environmentally and health hazardous chemicals in the production of our garments and other products.
- continuously update ourselves on environmental news and legislation. We will not be content to follow existing environmental legislation, but will in certain areas do more than the law requires.
- conduct our business in a manner that utilises natural resources as efficiently as possible.
- develop new and continuously improve existing environmental requirements concerning the purchase of products and services.
- train, inform and motivate our employees to participation and responsibility, thereby making environmental work an integrated part of H&M daily routines.
- specify for our suppliers our position regarding behaviour towards the environment and human rights and follow up to ensure that our suppliers improve their operations according to these requirements.

Our environmental organisation

Our CSR manager is part of H&M's management team and reports to the Managing Director. H&M's environmental coordinators are part of the CSR department, and manage all environmental activities. The following corporate functions have environmental representatives; advertising, building, IT, logistics, travel, and H&M Rowells. The representatives' prime function is to be the communicative link with the CSR department. All major production offices and sales offices also have environmental representatives. There are 31 environmental representatives in total.

Environmental information to employees

Our environmental information is communicated through a number of different channels. Colleagues who make decisions with high impact on the environment receive more in-depth education. For other employees we mainly focus on awareness building. We use the communication channels listed below.

- H&M's internet site (www.hm.com/csr) – The CSR report can be downloaded here. Hence, this is where the most comprehensive information is found.
- H&M Wallpaper is our news billboard. It is found on walls near lunchrooms and other social areas in the entire company.
- H&M's intranet – All H&M offices have access to the intranet.
- Education at the buying office (optional) – This education takes place approximately twice a year.
- Key group education - During 2004, the logistics department and all distribution centre managers received environmental training.

Environmental requirements for transport service providers

Generally, H&M cooperates with one transport service provider per country of production and means of transport.

Since 2001, our transport service providers are evaluated on a variety of environmental issues in order to improve their environmental performance.

From January 1, 2003 the following minimum requirements apply to road transport service providers:

- Road transport for H&M must be carried out with vehicles meeting the requirements of Euro 1 or US 91.
- All vehicles purchased must meet the requirements of Euro 2 or US 94.
- Diesel with maximum sulphur content of 350 ppm (0.035%).
- Instructions to drivers on what fuel type to use.
- At least 25 per cent of all drivers must have received theoretical and practical training on fuel-efficient driving, i.e. eco-driving.
- Company policy banning idling in excess of one minute.

Forthcoming minimum requirements:

- Road transport for H&M must be carried out with vehicles meeting the requirements of Euro 2 or US 94 (as of January 2006).
- All vehicles purchased must meet the requirements of Euro 3 or US 98 (as of January 2005).
- At least 50 per cent of all drivers must have received theoretical and practical training on fuel-efficient driving, i.e. eco-driving (as of January 2005).

During 2004, we made random checks of engine type and vehicle age at our distribution centres in Hamburg, Germany. By doing this, we were able to determine if our transport service providers at least met the requirements of Euro 0. We identified only one service provider that did not comply with these requirements.

Environmental requirements for other business partners

H&M sets minimum environmental standards when purchasing shop equipment. Apart from legal requirements we also apply a number of H&M specific environmental requirements. The following materials, metals and chemicals should generally be avoided in the production process or the product itself:

- **Materials:** Polyvinyl chloride (PVC), halogen-based plastic materials, paper-based materials processed with chlorine or chlorine derivatives, and tropical wood (unless FSC¹ labelled).
- **Metals:** Lead, chrome (especially Cr6+), cadmium, mercury.
- **Chemicals:** Bisphenol A, brominated or chlorinated flame-retardants, e.g. polybrominated biphenyls (PBB), polybrominated diphenyl ether (PBDE), octabromodiphenyl (octaBDE), tetraethylene pentamine (TEPA), tris(2-carboxyethyl) phosphine hydrochloride (TCEP), bis(2,3dibromopropyl) phosphate, chloroparaffins, chlorinated or aromatic organic solvents, ozone depleting compounds, nonylphenoethoxylates (NPE), and formaldehyde.

¹ Forest Stewardship Council (FSC) is a non-profit organisation devoted to encouraging the responsible management of the world's forests. (www.fsc.org)

H&M sets minimum environmental standards for IT product purchases

H&M uses the eco-declaration developed by Svenska IT-företagens organisation (IT-företagen; Organisation of Swedish IT Companies). The Nemko Group, a Norwegian firm that offers testing, inspection and certification services, randomly examines the information that IT companies submit.

Every year, 25 per cent of all companies that participate in the eco-declaration cooperation are chosen for examination. Declarations for one product from each company are assessed. If a company is found consciously declaring false information, IT-företagen will expel that member. Our various suppliers of IT equipment have to send in one eco-declaration for every product they offer. We evaluate all answers to find an acceptable level. Any product that does not meet legal requirements is automatically rejected. H&M's requirements are based on our sales countries' legislation and our own standard.

Certification

H&M's environmental management system is not ISO-certified. We believe that the construction of ISO is not compatible with our methods of working. Nevertheless, we consider it important to have a systematic approach to our environmental work. It is our ambition to make environmental considerations an integral part of our everyday decisions and operations. ■

H&M
ANNEXES

LISTENING TO OUR STAKEHOLDERS

Fair Trade Center

“During 2004 Fair Trade Center was invited by H&M to comment on its CSR report for 2003. This is a comment on the information presented by H&M in their CSR report and is not a statement on the actual performance of H&M.

We welcome H&M’s ambition to publish the social and environmental costs of the production in a yearly CSR report. It is essential that companies disclose this to make it possible for consumers, investors and decision-makers to make ethically balanced choices and decisions. The report covers most areas relevant to a garment company like H&M. The most important area left out relates to environmental effects and working conditions in the production of textile fibres, such as cotton.

H&M’s code of conduct states that ‘We have to make sure that nobody whose work contributes to our success is deprived of his or her human rights, or suffers mental or bodily harm.’ This is not the reality of H&M’s production today, and unfortunately this is not made clear in the report. The report does not describe the conditions under which H&M’s products are produced. From the report it is impossible to see to what extent H&M’s code of conduct is followed. H&M holds much of this information already, and it should be presented.

This lack of quantitative information on working conditions makes it hard for the reader to follow the development of H&M’s work. The reader will not be able to know if H&M is indeed improving, or if conditions are actually deteriorating.

The need for proper payment (i.e. a living wage) is directly linked to many of H&M’s problems such as inhumane working hours. H&M does admit that minimum wages are too low in several countries of production, among them Bangladesh. But nothing is said about what proportion of the garments are produced by what H&M itself admits are underpaid workers. Fair Trade Center urges H&M to revise its code to live up to the standard of UN Declaration of Human Rights, which prescribes the right to a living wage.

The management system for dealing with environmental and social issues is outlined in a comprehensive way. The report makes clear that the monitoring system of working conditions relies on a top-down approach, but makes no mention of if and how the workers are involved in securing that their rights are respected.

Lastly, the CSR report lacks information on whether and how H&M has changed purchasing practices to make it easier for suppliers to follow the code. H&M should describe whether cost-sharing, extended production lead times or other measures have been taken.

If H&M would take these remarks into consideration when doing their future CSR reports, we think it could become an important tool in creating lasting social and environmental improvements in the production of garments.”

Henrik Lindholm
Project leader
Fair Trade Center

Industrifacket (Industrial Workers' Union)

“As we review H&M’s work with CSR issues, we see a company that sets high standards and takes social issues seriously. It is our understanding that the company wants the products sold in its shops to be manufactured under decent working conditions and without a negative impact on the environment. This is expressed in the fact that the company stands behind the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises and the UN Global Compact.

Despite this, we, as a trade union with considerable international contacts, conclude that it is not enough. More needs to be done to ensure that everyone concerned is at least able to enjoy the conditions that the company’s policy prescribes.

We are convinced that the most important measure for better compliance with the company’s social policy is to make sure that the ILO Convention No. 87 (on the freedom of association) and No. 98 (on the right to bargain collectively) are observed.

What we require is for H&M, in cooperation with free democratic trade union, to guarantee that its own employees as well as people employed in the supply chain are educated and informed about their rights, and that their right of association is not violated.

Free democratic trade unions with the capacity to negotiate are fundamental in ensuring reasonable wage levels and working conditions in the labour market. Parties that enter into agreements with each other are also best placed to ensure that the parties comply with the agreement. No supervisory organisations in the world can replace the supervision that constantly present parties can

guarantee. H&M has signed a global agreement with UNI covering the company’s own employees. H&M’s CSR work would improve considerably if the company were to sign an agreement that covered the entire production and sales chain. The agreement should contain clearly defined rules regarding implementation, follow-up and supervision, and furthermore, it should be signed both by UNI and ITGLWF.

The CSR report needs a better and more clearly-defined account of H&M’s CSR policy. This is particularly important since the CSR year-end statement should be evaluated in the context of the company’s policy. The report should also be more reader-friendly and accessible.

As H&M is supporting the OECD Guidelines for Multinational Enterprises and the UN Global Compact, the company’s Code of Conduct should be updated so that the different documents are in line with each other. In order to avoid any doubt about the fact that H&M is fully committed to the interpretation and application of the ILO Core Conventions, each convention should be listed and related with numbers to the applicable part of the Code of Conduct.

The report could well be split up into a descriptive section with policy and facts, and a section that gives an account of the previous year’s CSR work. The latter section should contain statistics on suppliers etc. with information about numbers, grading etc. inspections, problem areas, complaints and how they were handled, education, etc. The report would be improved by being structured as a clear account of the results and conditions in all areas referred to in the company’s social policy.

At the end of the report there is a description of a number of social projects supported by H&M. These are certainly sound and worthy projects, but until all of the employees covered by H&M's social policy are able to enjoy basic union and human rights in their working life, all strength and energy should be put into this area. Finally, it is unacceptable that the CSR report is currently only available in English. The report should be accessible to everyone concerned, i.e. it should be translated into the languages used wherever H&M has sales activities or where the company's suppliers are located. In order to reach a wider audience, the annual CSR report could be summarised into a simplified version." ■

Mats Svensson
International Secretary
Industrifacket (Industrial Workers' Union)

CARBON DIOXIDE EMISSIONS – DATA ACQUISITION

Previously, we have had a problem obtaining fully reliable data. To some extent, the problem still exists. Our electricity suppliers have provided us with records of electricity consumption in kilowatt-hours (kWh) and conversion factors¹. As mentioned above, these consumption records are for 85 per cent of all H&M shops. Our road, sea, and rail transport service providers have given us data about H&M's part of their carbon dioxide emissions. Our air transport providers have given us information on routes and the weight of the goods transported on our behalf. Based on this information and the calculation template NTMCalc from the Network for Transport and the Environment (www.ntm.a.se), we have been able to estimate carbon dioxide emissions caused by our air transport.

Spain and Portugal's power generation mixes² were not known to us. Therefore, we have made assumptions. However, Spain and Portugal's energy consumption represents a mere two per cent of total energy consumption. Thus, the data is 98 per cent accurate.

This year, we have used old data for rail transport in the USA, and road and rail transport for H&M Rowells in Sweden. This data accounts for one per cent, which means that the figures are 99 per cent correct.

Finally, we need to point out that this year's increased carbon dioxide figures in part stem from a considerable calculation error from 2002 and 2003. Mistakenly, the wrong conversion factor was used for Germany's data. More precisely, coal-fired power (820 g CO₂/kWh) was mixed up with combined power and heat (360 g CO₂/kWh). Given that Germany is H&M's largest market, this error caused a substantial difference. In reality purchased electricity in 2003 produced 100,394 tons carbon dioxide, not 76,384, as was stated in our previous CSR report. This means that the increase in carbon dioxide emissions between 2003 and 2004 is in fact 18.4 per cent. ■

¹ Conversion factors can be used in order to convert energy consumed in kWh to kilos of carbon dioxide.

² The proportion of electricity distributed by a power provider that is generated from available sources such as coal, natural gas, petroleum, nuclear, hydropower, wind, or geothermal.

GRI CONTENT INDEX

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services.

The table below identifies the location of each element of the GRI Report Content, by section and indicator. The purpose is to allow the reader to locate a specific piece of reported information listed in the Guidelines; and to allow the reader to understand the degree to which we have covered the content in the GRI Guidelines.

GRI Content index

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