

CSR REPORTING

THIS YEAR'S CSR REPORTING

Here we report on the most important events of 2006 within the area of the corporate social responsibility. This year's report is shorter than last year's. Our policy documents and working methods are unchanged and are described in the 2005 CSR Report.

Next year H&M's CSR work will be reported in accordance with the Global Reporting Initiative's (GRI)

updated guidelines for sustainability reporting. The GRI has also developed special reporting guidelines for companies in the apparel and footwear industries. H&M was involved in this process and will apply these guidelines in addition to its CSR Report for 2007.

H&M'S REQUIREMENTS

CODE OF CONDUCT

H&M does not own or run any factories. Instead our products are produced by approximately 700 suppliers, primarily in Asia and Europe. Some of these suppliers are in developing countries where the textile industry represents a significant proportion of export revenues. The production of H&M's goods contributes to the employment of many people in a number of countries.

Taking responsibility for how these people and the environment are impacted by our activities is essential if H&M is to be able to grow while maintaining profitability.

Code of Conduct leads the way

We are aware of the risk of workers' rights being infringed and environmental legislation not always being complied with in the manufacture of our goods. As a buyer, however, we can help work towards improving conditions. This work is based on our Code of Conduct, which is based on the ILO conventions and the UN Convention on the Rights of the Child and includes the following requirements:

- compliance with local labour law
- statutory pay and working hours
- the right to organise and bargain collectively
- a ban on child labour
- a ban on discrimination
- a ban on forced labour
- health and safety in the workplace
- compliance with local environmental legislation

During the year H&M also developed its health and safety requirements, particularly in connection with sandblasting.

Agreement reached with P&G

In earlier CSR reports, H&M has stated that a number of suppliers of cosmetics that are sold under brands other than H&M's own have not signed our Code of Conduct.

During 2006, H&M came to an agreement with one of these suppliers, Procter & Gamble (P&G). The agreement entails that P&G declares where the merchandise that is sold in H&M's stores is produced and gives us the right to monitor the production. This means that we can assess P&G in the same way as is the case with our other suppliers.

However, P&G still has not signed H&M's Code of Conduct. Instead, they refer to their own. Procter & Gamble's "Sustainability Guidelines for Supplier Relations" are available at www.pg.com.

ENVIRONMENTAL REQUIREMENTS

Environmental requirements of production

H&M's Code of Conduct states that its suppliers must comply with all relevant environmental legislation. In practice, the requirements cover the handling of chemicals, waste management and waste-water treatment.

H&M requires factories that carry out wet processes such as washing and dyeing to treat their waste-water. With effect from this year we are also setting requirements of the quality of water discharged by applying guidelines developed by seven companies within Business for Social Responsibility (BSR), which include

H&M. Should the legislation in a production country be stricter, then naturally the law takes precedence.

In a first step the requirements relating to water quality will apply to suppliers with their own washing facilities. In the future, subcontractors' washing facilities and suppliers that dye fabrics themselves will also be covered.

Read more about the BSR guidelines at www.bsr.org/ waterquality. When our suppliers sign H&M's Code of Conduct they also undertake to apply our chemical restrictions. You can read more about our chemicals restrictions in our 2005 CSR Report.

MONITORING THE SUPPLY CHAIN

OUR METHOD IN BRIEF

All the factories involved in producing H&M's products are covered by our Code of Conduct. It applies both to our suppliers and to any subcontractors that they may use. Our system for follow-up of production conditions, the Full Audit Programme (FAP), has the same scope. Suppliers of materials used by H&M's suppliers – such as fabrics and buttons – are not covered by the monitoring programme, however.

When H&M begins collaborating with a new supplier or when an existing supplier engages a new subcontractor an extensive FAP audit is carried out. The aim is to obtain as accurate a picture as possible of conditions at the factory. The audit usually includes over 300 questions and each audit takes two to six working days to complete.

During the audit the auditors carry out a visual inspection of the plant, go through employment contracts, time sheets, payroll reports and other documentation and talk to factory employees and management. After each audit

the results are discussed with the supplier. The supplier is then given a certain period in which to draw up a plan for remedying any shortcomings. This action plan generally includes both short-term and long-term aims and provides a starting point for the improvement work. H&M's auditors will follow up the implementation of the measures. Depending on circumstances, it may be around two years before the next FAP audit is due, which will then form the starting point for a new cycle of improvements.

In 2006 we focused on developing methods for follow-up visits. We held workshops in Vilnius, Bangkok and Phnom Penh at which H&M's auditors met up to exchange experiences and discuss possible improvements.

You can read more about our priority areas, the FAP and the assessment of existing and potential suppliers in our 2005 CSR Report.

GUIDELINES FOR MONITORING OF HOMEWORKING

In some countries homeworkers may be used for parts of production. This is usually needlework carried out by women, where for various reasons employment in a factory is not an alternative.

Homeworking is not always regulated by labour laws and there may be no formal contract of employment. Moreover, homeworking often takes place in remote locations in villages far from the factories. These circumstances mean that we have to adapt our methods of workplace control.

In 2006 we updated and standardised our tools for follow-up of homeworking in order to improve follow-up and contribute to better conditions for those making H&M products at home. Our follow-up of homeworking focuses on workers having written contracts and reasonable pay (at least the statutory minimum wage), the right to organise and bargain collectively, and ensuring that no child labour is used. The updated tools will be tested and assessed in 2007.

ABOUT THIS YEAR'S AUDITS

In 2006 we made a total of 1,474 visits to our suppliers with a view to assessing compliance with H&M's Code of Conduct. 937 of these visits were made in Asia and 537 in Europe and in other markets from which we buy. 19.5 per cent of the visits in Asia and 33.8 per cent of the visits in Europe and in other markets were unannounced.

1,032 of the 1,474 visits were FAP audits. In Asia a total of 639 FAP audits were carried out, 407 of these at existing factories. The equivalent figures for Europe and other markets were 393 and 174.

442 of the year's 1,474 visits were follow-up visits to factories that had already undergone an FAP audit. 298

of the follow-up visits were made in Asia and 144 in Europe and other markets.

In 2006, 341 out of 451 potential new factories met H&M's minimum requirements at the first FAP audit and were thus approved for the production of H&M goods. New factories are given around six months to improve their compliance with the Code of Conduct. Of the total 110 non-approved factories, 51 were given a second chance in conjunction with a follow-up visit. 42 of these were then approved for the production of H&M goods.

More information on the grading of our suppliers can be found in our 2005 CSR Report.

FAP audits and follow-up visits in 2006

	Existing factories			Potential new factories				TOTAL	
	FAP	Follow-up	Total	FAP		Follow-up			
				Fail	Pass	Fail	Pass		
Asia	407	281	688	57	175	4	13	249	937
Europe, other	174	110	284	53	166	5	29	253	537
TOTAL	581	391	972	110	341	9	42	502	1,474

In 2006 all the audits were carried out within the framework of our new FAP follow-up system, which involves fewer but more thorough audits. At present an audit may take up to six working days and a follow-up visit one working day. It was therefore expected that the

number of visits to the factories of our suppliers and their subcontractors would be lower than in previous years. In 2006 a total of 1,474 visits were made, consisting of 1,032 FAP audits and 442 follow-up visits.

Audits and follow-up visits 2003-2006

	2006	2005	2004	2003
Number of audits, existing factories	581	1,997	2,120	1,909
Number of audits, potential new factories	451	673	595	669
Number of follow-up visits, existing and potential new factories	442	0	0	0
TOTAL	1,474	2,670	2,715	2,578

RESULTS OF THIS YEAR'S AUDITS

What do the figures mean?

The table below shows the results of the 894 FAP audits that had been completed by the end of the year. An audit is deemed complete when the factory has submitted an action plan and the audit has been recorded by the CSR department at H&M's head office. Thus 138 of the year's total 1,032 FAP audits are not included in the statistics reported here. 533 of the audits reported were carried out in Asia and 361 in Europe and in other markets from which we buy.

The statistics state the proportion of FAP audits in Asia and in Europe and other buying markets respectively in which deviations from local labour law and from H&M's Code of Conduct were found. The various sections of the table correspond to the questions in our audit form and the areas of our Code of Conduct.

It is not possible to draw conclusions concerning developments by comparing this year's statistics with the figures from 2005. This is firstly because 2006 is the first year in which each audit was performed within the framework of the Full Audit Programme and secondly because FAP audits are generally carried out every other year, which means that the majority of the factories that underwent an FAP audit in 2006 were not visited for this purpose in 2005. In addition, our suppliers do not remain entirely constant from year to year, which means that it is not possible to make an entirely fair comparison over time. Despite the shortcomings of the statistics, they provide a general picture of conditions at the factories assessed in 2006 and serve as a starting point for directing future efforts.

FAP statistics for the year

The FAP statistics for the year show that the most common deviations from H&M's Code of Conduct are to be found within the following areas:

Asia

- Grievance system (58.9%)
- Overtime working within the limits set by law (56.5%)
- Worker – management communication system (46.3%)
- Contract of employment in accordance with H&M's requirements (43.9%)
- Safety data sheets for chemical products (43.9%)

Europe and other buying markets

- Worker – management communication system (67.9%)
- Grievance system (62.9%)
- Waste disposal (60.9%)
- Contract of employment in accordance with H&M's requirements (59.8%)
- Safety data sheets for chemical products (57.6%)

A number of areas are considered to be underreported. This applies in particular to information concerning water treatment, due to the fact that the list includes both factories that are covered by the water treatment requirement and factories that are not. This means that the reported proportion of factories at which deviations were found is lower than is actually the case. In addition, it is assumed that there are deviations at more factories than our audits were able to demonstrate within the following areas:

- Overtime compensation
- Freedom of association
- Sick leave, parental leave and annual leave
- Conditions for young workers
- Abusive treatment

Code of Conduct element	Europe and other markets (361 FAP audits) Audited factories with		Asia (533 FAP audits) Audited factories with deviations		TOTAL (894 FAP audits) Audited factories with deviations	
Child labour and young workers						
All workers have reached statutory working age	8	2,2%	19	3,6%	27	3,0%
Working conditions for young workers as set out in law	188	52,1%	42	7,9%	230	25,7%
Workers' rights						
All workers have a contract of employment in accordance with H&M's requirements	216	59,8%	234	43,9%	450	50,3%
Regular working hours within the limits set by law	94	26,0%	30	5,6%	124	13,9%
Overtime working within the limits set by law	195	54,0%	301	56,5%	496	55,5%
All workers receive at least the statutory minimum wage	71	19,7%	67	12,6%	138	15,4%
Overtime is paid at the statutory rate	153	42,4%	93	17,4%	246	27,5%
Correct wages are paid regularly and punctually	66	18,3%	122	22,9%	188	21,0%
Sick leave is given and compensated correctly	35	9,7%	144	27,0%	179	20,0%
Annual leave is given and compensated correctly	71	19,7%	123	23,1%	194	21,7%
Other leave is given and compensated correctly	36	10,0%	97	18,2%	133	14,9%
Social insurance is paid out	106	29,4%	60	11,3%	166	18,6%
Parental leave is given and compensated at the statutory rate	8	2,2%	56	10,5%	64	7,2%
Employment guaranteed during and after pregnancy	1	0,3%	13	2,4%	14	1,6%
Day nursery as set out in law	12	3,3%	93	17,4%	105	11,7%
Right to form or join any organisation and to bargain collectively	2	0,6%	108	20,3%	110	12,3%
Grievance system	227	62,9%	314	58,9%	541	60,5%
Worker-management communication system	245	67,9%	247	46,3%	492	55,0%
No discrimination	1	0,3%	6	1,1%	7	0,8%
Migrant workers have work permit and/or residence permit and equal working conditions	4	1,1%	8	1,5%	12	1,3%
All labour is voluntary	11	3,0%	41	7,7%	52	5,8%
No verbal abuse	8	2,2%	60	11,3%	68	7,6%
No physical abuse or sexual harassment	0	0,0%	3	0,6%	3	0,3%
Health and safety in the workplace						
All safety requirements are met	198	54,8%	154	28,9%	352	39,4%
Appropriate first aid equipment is available and first aid training is given	208	57,6%	161	30,2%	369	41,3%
Access to medical care	30	8,3%	50	9,4%	80	8,9%
Fire drills and fire fighting drills are carried out	194	53,7%	108	20,3%	302	33,8%
Dangerous machinery is protected and personal protective equipment is provided	181	50,1%	183	34,3%	364	40,7%
Drinking water is available	50	13,9%	48	9,0%	98	11,0%
Canteen available (if prescribed by law)	30	8,3%	49	9,2%	79	8,8%
Safe buildings	0	0,0%	4	0,8%	4	0,4%
Working environment						
Clean factory/workplace	23	6,4%	45	8,4%	68	7,6%
Suitable temperature for working	36	10,0%	36	6,8%	72	8,1%
Good air quality and ventilation	61	16,9%	76	14,3%	137	15,3%
Adequate lighting for the work	4	1,1%	7	1,3%	11	1,2%
Toilets (adequate number, clean, unrestricted access)	67	18,6%	153	28,7%	220	24,6%
Environmental issues						
Compliance with local environmental legislation	6	1,7%	12	2,3%	18	2,0%
All required environmental permits held	72	19,9%	66	12,4%	138	15,4%
Chemical products are correctly labelled	118	32,7%	190	35,6%	308	34,5%
Training given in chemicals handling	172	47,6%	183	34,3%	355	39,7%
Safety data sheets for chemical products are available and implemented	208	57,6%	234	43,9%	442	49,4%
Waste-water and sludge treatment meet requirements	16	4,4%	66	12,4%	82	9,2%
Hazardous waste disposed of lawfully	220	60,9%	176	33,0%	396	44,3%

INDEPENDENT MONITORING

At H&M we work to bring about continual improvement. That also applies to our methods of monitoring how well our suppliers are complying with our Code of Conduct. Consequently, in 2006 H&M became a member of the Fair Labor Association (FLA).

This means that FLA carries out independent audits of our suppliers' factories in China and also reviews

H&M's systems for follow-up of the Code of Conduct. The results will be published during 2007 on the FLA website, www.fairlabor.org.

The cooperation with FLA is an important quality assurance, but is also a way for H&M to show its stakeholders how effective its own follow-up is.

TOWARDS SUSTAINABLE IMPROVEMENTS

INVESTIGATING THE CAUSES OF OVERTIME

The overtime issue is among the most pressing challenges faced by the garment industry. H&M's long-term aim is for the working hours at our suppliers' factories to be within the limits set by law. In the short-term we are trying to gain greater insight into the causes of overtime working in order to be able to deal with the problem jointly with our suppliers. During the year a study of overtime was carried out at six of our suppliers' factories.

The study showed that the suppliers could gain much by improving efficiency and control of production – by introducing better production planning, for example. It is

a matter of taking preventive measures and making realistic assessments of what suppliers are capable of as producers. Similarly, H&M has to improve at assessing how reasonable its suppliers' capacity calculations are and must not place larger or more complex orders than the factories are able to handle. We should also avoid making late changes to the garments.

Clearly there is reason to investigate further the link between the actions of H&M and its suppliers and the amount of overtime worked, using a larger group of factories than those in the study carried out.

TRAINING EFFORTS

Training for factory workers

To increase awareness of rights among factory workers and their supervisors H&M has continued its cooperation with the Bangladeshi organisation Karmojibi Nari (KN). During the year KN trained human resource officers at the four factories covered by the project. These human resource officers in turn trained around 5,000 workers. The training took between one and a half and two hours.

In 2007, in cooperation with another international clothing company and the South Asia Enterprise Development Facility (SEDF), H&M will organise training in communications and rights for middle managers at a number of factories. It is hoped that matters such as pay, working hours and discrimination will thereby be addressed. The aim is to strengthen the factories' own capacity by training human resource officers and other personnel who will then pass on what they have learned to other employees. In addition, local organisations will be trained to help the suppliers to organise this type of training themselves.

Development seminar for suppliers

Since we started our systematic follow-up work nearly ten years ago, conditions in our suppliers' factories have improved considerably. Our FAP audits show, however, that much remains to be done. Considerable improvements in both working conditions and productivity are required if the producers are to be successful and competitive in the longer term.

To drive forward these developments at our suppliers, during 2006 H&M held a seminar in Bangladesh on workers' rights and the link with productivity and competitiveness. This was attended by nearly 300 representatives of H&M's suppliers in the country. In addition to these and H&M's own staff, a number of experts from trade and industry, academia and non-governmental organisations also took part. Topics discussed included how the suppliers can go about creating a more open atmosphere and giving their employees opportunity to put forward viewpoints and bring grievances. The overall message was that the factories must give priority to their employees and improve the efficiency of the business in order to be competitive in the long-term.

JOINT INITIATIVES

The challenges faced in the production countries are complex and their causes can be found at many levels. This means that H&M must join forces with other parties in order to counter the difficulties facing the garment industry.

Better Factories Cambodia

H&M has been supporting the Better Factories Cambodia (BFC) programme since 2005. This initiative, which is run by the International Labour Organization (ILO), aims to improve working conditions for those employed in Cambodia's garment factories. Its work includes training and independent monitoring.

The controls carried out by BFC do not replace H&M's own monitoring, but BFC's assessments do provide verification of the results of our audits. Moreover, the information provided by BFC facilitates H&M's initial selection when looking to cooperate with new producers in Cambodia. Read more about Better Factories Cambodia at www.betterfactories.org.

MFA Forum Bangladesh

H&M also participates in the MFA Forum Bangladesh. The textile industry in Bangladesh faces a number of challenges that we believe should be dealt with at national and industry level rather than at company level. Consequently, a number of players have come together to improve working conditions and productivity in the Bangladeshi garment industry. In addition to around ten buyers, other participants include representatives of the Bangladeshi government, the local industry organisations BGMEA and BKMEA, the World Bank, the global trade union organisation ITGLWF and a number of other organisations. Read more about the MFA Forum at www.mfa-forum.net.

COOPERATION WITH UNICEF

H&M has been in partnership with UNICEF since 2004. So far we have contributed to a global programme promoting education for girls and a programme for the prevention of HIV/AIDS in Cambodia. In 2007 UNICEF

will carry out a study commissioned by H&M. The study, which aims to chart the social consequences of cotton growing, will form a basis for future initiatives in this area. Read more about H&M's cooperation with UNICEF [here](#).

ENVIRONMENTAL ISSUES

FOCUS ON COTTON

H&M wants to actively contribute to reducing the environmental impact of cotton growing. Our strategy is made up of two parts: promoting organic cotton growing by contributing to increased demand, and improving conventional cotton growing.

Continued focus on organic cotton

Our intention is to gradually use more organically grown cotton, i.e. cotton grown without the use of chemical pesticides and synthetic fertilisers. We also want to contribute to increased demand, thereby providing an incentive for more growers to concentrate on organic production. We are doing this by mixing in more organic cotton in certain garments. These garments are not specially labelled.

In 2006 we used nearly 30 tonnes of organic cotton. The goal for 2007 is to mix at least 100 tonnes of organic cotton into parts of our range. In addition, H&M will

launch collections in 100 per cent organic cotton, and as a result we expect to use around 600 tonnes of organic cotton in total.

H&M is also a member of the organisation Organic Exchange, the task of which is to promote organic cotton growing. Read more at www.organicexchange.org.

Improving conventional cotton production

Almost all cotton is still grown by conventional methods. In parallel with our efforts in respect of organic cotton, therefore, we are also working to improve conventional cotton growing through the Better Cotton Initiative (BCI). The aim of the BCI is to measurably reduce the negative social and environmental effects of conventional cotton growing. This cooperation was initiated by the Worldwide Fund for Nature (WWF), among others, in 2004. Read more at www.bettercotton.org.

CLEANER FABRIC PRODUCTION

Bleaching, dyeing and washing fabrics require large quantities of water, energy and chemicals. This makes fabric production one of the textile processes with the greatest impact on the environment. Since H&M does not generally deal directly with fabric suppliers, our opportunities to impose requirements on them are very limited. To contribute to cleaner fabric production we instead try to encourage the fabric dyehouses to take environmental considerations into account in their activities. We do this by pointing out the environmental gains and the cost savings brought about by more efficient use of resources. This approach is known as 'cleaner production'. Together with BECO and the Wuppertal Institute, H&M has produced a tool covering around forty measures that the dyehouses can choose from. The process involves H&M's

auditors visiting the various facilities to assess the potential for improvement and to demonstrate possible action that can be taken. The dyehouses then draw up action plans stating which changes they have decided to implement. H&M follows up their progress every other month over a one-year period.

So far we have reached out to 23 dyehouses in India, China and Bangladesh. Since 2006 we have also been working with our vertically integrated suppliers, i.e. manufacturers of finished garments that also dye their own cloth. H&M takes a long-term view of the programme and the idea is that it will form a permanent part of our environmental work in the supply chain. You can read more about H&M's 'cleaner production' programme in our 2005 CSR Report.

EXPANSION OF ECO-LABELLING

Since 2005 H&M has been licensed to use the Flower, the European Union's official eco-label. The Flower represents restrictions on harmful substances and reduced water pollution throughout the production chain, from the raw cotton to the finished product. In addition, the label's quality criteria indicate the garment's ability to keep its fit and colour. The garments can be recognised

by the flower label on the packaging and care instructions. In 2006 about 190,000 Flower-labelled baby garments were sold in our stores – a marked increase on the 75,000 garments sold in the previous year. Since these garments are appreciated by our customers, in 2007 we plan to expand eco-labelling to more garments and to label more parts of the baby range.

CARBON DIOXIDE EMISSIONS 2006

Energy use in buildings

Carbon dioxide emissions from the energy used in our stores, warehouses and offices were reduced by one per cent in absolute terms in 2006. Viewed in relation to the company's growth (+11%), the reduction is twelve per cent. This development is explained in part by reduced heating requirements in H&M's warehouse buildings as a result of the relatively mild weather, particularly in Germany and Belgium.

Three sales countries – Germany, the UK and the USA – account for nearly half (47%) of H&M's electricity consumption and two thirds (67%) of the company's electricity-related carbon dioxide emissions. Germany alone accounts for 27 per cent of H&M's electricity consumption and 42 per cent of electricity-related carbon dioxide emissions. Our aim for 2007 is to reduce emissions caused by electricity consumption in our German stores by buying electricity from renewable sources.

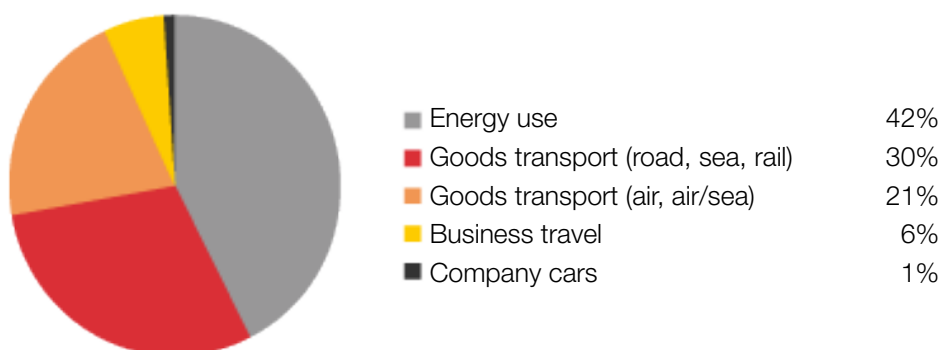
Transport of goods and people

Carbon dioxide emissions caused by the transport of goods were reduced by nearly one per cent in total, from 154,280 to 153,108 tonnes. Emissions from transport by road, sea and rail have increased by nine per cent, which is in line with H&M's increase in sales, while emissions from air and air/sea freight have been reduced by twelve per cent in absolute terms. During the year we worked actively to restrict air transport. Examples of this included the use of more combined transport (sea/air) rather than purely air transport compared with 2005, which consequently resulted in reduced emissions.

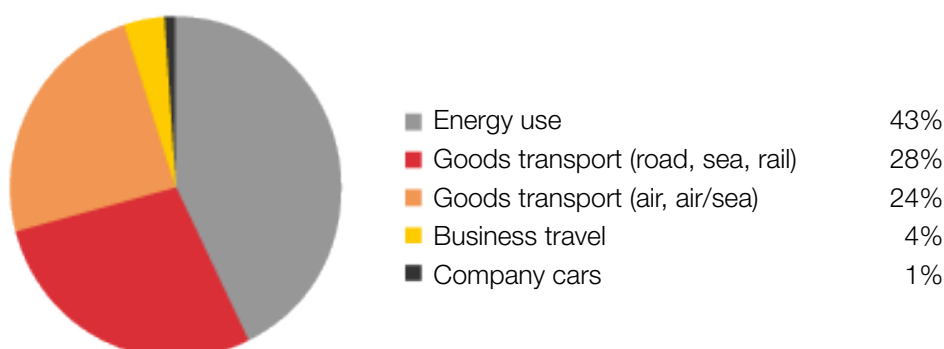
Carbon dioxide emissions from business travel increased by 31 per cent, while the Group's company cars produced eight per cent more emissions of carbon dioxide compared with the previous year. Air travel accounts for most of the carbon dioxide emissions from business travel, but travel by train, bus, car rentals and own car also make contributions. We hope to be able to replace a certain amount of business travel by increased use of video- and teleconferencing. Read more about this here.

Source of emissions	2006	2005	Change
Energy use	128,075	129,246	-1%
Goods transport (road, sea, rail)	90,682	83,149	9%
Goods transport (air, air/sea)	62,426	71,131	-12%
Business travel	16,691	12,537	31%
Company cars	2,531	2,346	8%
TOTAL	300,405	298,409	1%

Share of total carbon dioxide emissions by emission source 2006



Share of total carbon dioxide emissions by emission source 2005



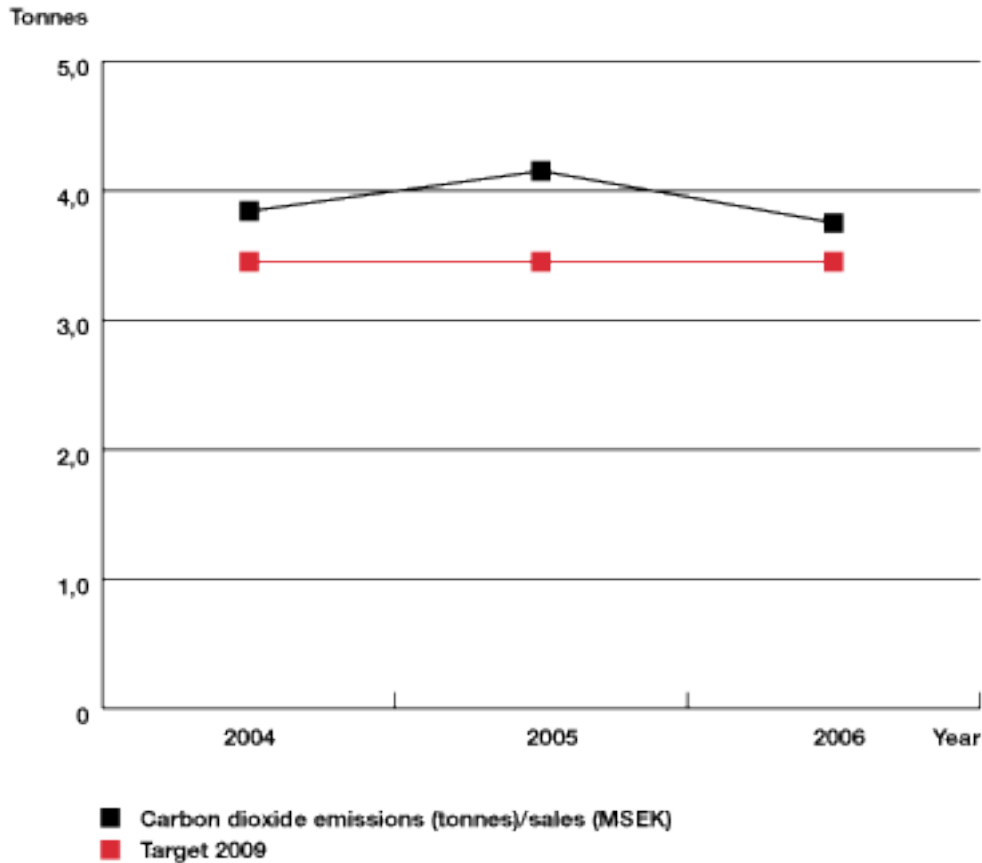
Environmental work for reduced emissions

Reducing the company's carbon dioxide emissions thus limiting its impact on climate is an important part of H&M's environmental work. The goal is to reduce carbon dioxide emissions by ten per cent between 2005 and 2009 relative to the size of the company measured in terms of sales, the base year being 2004.

A ten per cent reduction would leave H&M's operations capable of giving rise to a maximum of 3.45 tonnes

of carbon dioxide per million SEK of sales. The table below shows that our activities in 2006 caused 3.75 tonnes of carbon dioxide emissions per million SEK of sales. This is certainly an improvement compared with last year's figure (4.15 tonnes CO₂/SEK m), but our work on reducing emissions to a maximum of 3.45 tonnes/SEK m continues.

CARBON DIOXIDE EMISSIONS RELATIVE TO SALES 2004–2006



About the data collected

H&M's carbon dioxide statistics cover emissions caused by goods transport, the transport of shopfitting and display material, business travel and the use of energy in our stores, warehouses and offices. The category of energy use includes electricity consumption as well as the purchase of heating or fuel for heating warehouses and certain stores.

The statistics cover energy use where H&M has its own contract with suppliers of electricity, heating or fuel.

Those stores that have their energy use included in the statistics account for 85 per cent of the company's net sales.

At present we are unable to collect statistics from our goods suppliers. The carbon dioxide emissions reported thus represent H&M's own activities and transportation, and not the manufacture of our products.

More information on data collection can be found in our 2005 CSR Report.

RECOGNITION

H&M "IMPROVER OF THE YEAR"

During the year 2006 H&M was named "Improver of the Year" in a recently introduced award from the Swedish newspaper Svenska Dagbladet. The award is given to a company that has clearly improved its social and environmental actions.

The reasons cited were: "Hennes & Mauritz has worked purposefully and systematically for a number of

years to ensure that the company takes clear ethical and environmental responsibility for its activities in the long term. H&M's strict requirements of suppliers have contributed to noticeable improvements in production conditions."

H&M INCLUDED IN SUSTAINABILITY INDEXES

H&M is included in a number of sustainability indexes, including the Dow Jones Sustainability World (DJSE World), FTSE4Good and the Ethibel Sustainability Index. The aim of these indexes is to make it easier for

institutional investors to choose socially and environmentally sustainable investments. Read more at www.sustainability-indexes.com, www.ftse.com and www.ethibel.com.

OBJECTIVES

OVERALL OBJECTIVES

H&M has established a number of overall objectives that stipulate the long-term orientation of its CSR work.

H&M's overall environmental objectives

- Environmental awareness
- Promotion of environmental awareness among our employees and suppliers.
- Respect for nature
- Caution in decision-making out of respect for nature.
- Sustainable use of resources
- Resource conservation, recycling and reduction of waste.
- Healthy products
- Products that are safe to use and harmless to the environment.
- Clean production chain
- Sustainable production and production methods throughout the supply chain.
- Green transport
- Clean and efficient transport with limited influence on the climate

H&M's overall social objectives

- Full compliance with the Code of Conduct
- Code of Conduct fully integrated into H&M's business activities
- The importance of the Code of Conduct is to be reflected in both ongoing and strategic decisions.
- Factory workers able to demand their rights
- Factory workers are to be informed of labour law and human rights in accordance with national and international legislation. Their efforts to improve their own work situation should be supported.
- Compliance with the Code of Conduct upheld by means of efficient management system
- Tools and routines are to be developed in cooperation with the supplier.
- Knowledge of H&M's work on corporate social responsibility among our stakeholders
- The information or training should be adapted to the various interest groups.

To come closer to these objectives, each year we formulate a number of detailed intermediate targets to be achieved in a specified time frame. You can read more about how well we achieved our aims in 2006 and about our objectives for the future here.

ENVIRONMENTAL TARGETS 2006 – FOLLOW-UP

Objective	Target	Deadline	Responsible	Comments	Status
Environmental awareness	To train suppliers in the systematic and safe handling of chemicals	31 December, 2006	Henrik Lampa	The training will be adapted to the type of production and target group	In progress
Respect for nature	To reduce H&M's carbon dioxide emissions by 10 per cent relative to the size of the company measured in terms of sales	31 December, 2009	Mikael Blommé, Ingrid Schullström	The base year is 2004. In 2006 we will focus on energy use in our stores	In progress
	To integrate H&M's lists of chemicals that are banned or being phased out with the company's instructions for the building of stores and warehouses	30 April, 2006	Mikael Blommé	The banned substances and phase-out lists were compiled in 2005, but implementation has been partly delayed	In progress
Sustainable use of resources	To test out plastic bags made from biodegradable material in at least one sales country	30 December, 2006	Eva Polzer Skytt, Viveca Kleebinder		The test was not carried out during the year, partly due to capacity problems at the supplier. We will continue investigating the options for using carrier bags made of environmentally friendly materials
Healthy products	To update H&M's Chemicals Restrictions for our own-brand cosmetics and hygiene products	31 December, 2006	Karin Sundberg	The revised restrictions for H&M's own-brand cosmetics and hygiene products will include, for example, further restrictions on preservatives, metals and perfumes	Done within time frame
Clean production chain	To expand the scope of the cleaner production programme by including vertically integrated suppliers in China, India and Bangladesh	30 June, 2006	Harsha Vardhan		Done within time frame. Read more about the cleaner production programme here
	To adopt Business for Social Responsibility's (BSR) guidelines on water quality	31 March, 2006	Henrik Lampa	BSR's guidelines on water quality will be included in H&M's requirements for factories with wet processes	Done within time frame
Green transport	To investigate the potential for reducing carbon dioxide emissions caused by the transportation of H&M's goods	31 December, 2006	Anders Tell, Mikael Blommé		Done within time frame

SOCIAL TARGETS 2006 – FOLLOW-UP

Objective	Target	Responsible	Deadline	Comments	Status
Full compliance with the Code of Conduct	Full Audit Programme (FAP):	Ingrid Schullström, Lars-Åke Bergqvist, Maritha Lorentzon, Ann-Charlotte Dahl	31 December, 2006		In progress
	To test and quality-assure the FAP and its tools	Maritha Lorentzon, Lars-Åke Bergqvist, Deeba Remheden	31 December, 2006		Done within time frame
	Capacity development: To find potential local partners such as non-governmental organisations and consulting firms who can help our suppliers with their action plan processes, particularly in connection with complex and/or sensitive matters	Lars-Åke Bergqvist, Maritha Lorentzon	31 December, 2006		In progress
	Reduce overtime working: To gather information on best practice relating to reducing overtime working and investigate the overtime worked in different production markets. This data will form a basis for future work in this area	Maritha Lorentzon, Lars-Åke Bergqvist	2006 onwards		In progress
	Homeworking: To revise and develop further H&M's guidelines for homeworking	Maritha Lorentzon, Ingrid Schullström	31 December, 2006	The revised guidelines will form a basis for assessing the working conditions of homeworkers	Done within time frame
Code of Conduct fully integrated into H&M's business activities	Criteria for supplier assessment: To revise and improve the grading of our suppliers' compliance with the Code of Conduct that is included in H&M's overall supplier appraisal	Ingrid Schullström, Maritha Lorentzon, Lars-Åke Bergqvist, Per Vestervall, Karl-Gunnar Fagerlin	31 December, 2006	The aim is to make the assessment of the suppliers' compliance with the Code of Conduct more efficient and more useful	In progress

ENVIRONMENTAL TARGETS – 2007 ONWARDS

Objective	Target	Deadline	Responsible	Comments
Environmental awareness	To encourage the use of telephone and video conferencing as an alternative to business travel	31 March, 2007	Peter Norberg, Patrik Lindered, Mikael Blommé	Employees will be given information about telephone and video conferencing possibilities. They will be informed that meetings by telephone or video help reduce H&M's negative environmental impact
	To train suppliers in the systematic and safe handling of chemicals	31 December, 2007	Henrik Lampa	Project in progress since 2006
Respect for nature	To reduce H&M's carbon dioxide emissions by 10 per cent relative to the size of the company measured in terms of sales	31 December, 2009	Mikael Blommé, Ingrid Schullström	The base year is 2004
	To use electricity from renewable energy sources in Germany and thereby help to reduce H&M's climate impact	31 December, 2007	Fredrik Nilsén, Mikael Blommé	Achieved by procuring Guarantees of Origin, which guarantee that the electricity comes from renewable sources, in accordance with the EU Directive on the promotion of electricity produced from renewable energy sources in the internal electricity market (2001/77/EC). Read more about Guarantees of Origin at www.aib-net.org
	To assess and revise our environmental requirements for the purchase of shopfitting and décor materials as well as office supplies	30 April, 2007	Joachim Hellman, Mikael Blommé	
Sustainable use of resources	To test out energy-efficient solutions in conjunction with the building of a new warehouse	2008–2009	Ivan Pedersen, Mikael Blommé	
	To include environmental requirements in invitations to tender for the building of the warehouse and to establish which solutions are to be tested in conjunction with its building	31 December, 2007	Ivan Pedersen, Mikael Blommé	
Healthy products	To label at least one million baby garments with the Flower, the EU's eco-label	31 December, 2007	Charlotte Tholsby	
Clean production chain	To mix at least 100 tonnes of organic cotton into selected garments	31 December, 2007	Henrik Lampa	The garments in question will be made from fabrics consisting of a mixture of organic and conventionally grown cotton. H&M will also launch collections made from 100 per cent organic cotton. Read more here

SOCIAL TARGETS – 2007 ONWARDS

Objective	Target	Responsible	Deadline
Full compliance with the Code of Conduct	To train the persons responsible for the Code of Conduct at all H&M's suppliers in Turkey in self-monitoring. The aim is to achieve greater compliance with local legislation and with H&M's Code of Conduct at an earlier stage	Deeba Remheden, Maritha Lorentzon	31 December, 2007
	In cooperation with SEDF and another international clothing company, to organise training in communications and workers' rights for middle managers at up to eight factories in Bangladesh. Read more here	Deeba Remheden, Maritha Lorentzon	31 December, 2007
	To identify the most serious infringements of the Code of Conduct and analyse the causes of these	Maritha Lorentzon, Lars-Åke Bergqvist	31 December, 2007
	To organise training for suppliers affected with a view to dealing with the most serious infringements of the Code of Conduct	Maritha Lorentzon, Deeba Remheden, Lars-Åke Bergqvist	31 December, 2007
	To quality-assure and develop the methods used for audits and follow-up visits	Maritha Lorentzon	1 June, 2007
	To investigate the need to adapt our tools to special circumstances and develop the tools thereafter. Examples of special circumstances are production units that employ just a few people	Maritha Lorentzon	31 December, 2007
	To assess the possibility of carrying out factory audits and improvement measures jointly with other international clothing companies	Maritha Lorentzon, Lars-Åke Bergqvist	31 December, 2007
	To develop clearer guidelines for our suppliers. The aim is to create a better basis to enable the suppliers to understand H&M's CSR-related requirements and to take responsibility for meeting the requirements	Maritha Lorentzon, Deeba Remheden, Nanna Engquist	31 December, 2007
Factory workers capable of demanding their rights	To organise training for all works council members at three factories in India in cooperation with the Fair Wear Foundation and two other international clothing companies	Deeba Remheden, Maritha Lorentzon	31 December, 2007
Factory workers capable of demanding their rights	To assist two suppliers in Turkey with the formation of well-functioning works councils with a view to strengthening the dialogue between management and workers	Deeba Remheden, Maritha Lorentzon	31 December, 2007
	To train the persons responsible for the Code of Conduct at all H&M's suppliers in Turkey in internal auditing with a view to achieving greater compliance with local legislation and H&M's Code of Conduct	Deeba Remheden, Maritha Lorentzon	31 December 2007
Code of Conduct fully integrated into H&M's business activities	To further integrate H&M's CSR and buying work, with a view to giving greater consideration to the suppliers' compliance with the Code of Conduct when placing our orders	Maritha Lorentzon, Lars-Åke Bergqvist	31 December, 2007
	To complete and implement IT support for dealing with FAP-related information	Ingrid Schullström, Ann-Charlotte Dahl	31 December, 2007
Knowledge of H&M's CSR work among our stakeholders	To improve the information on H&M's CSR work that is given to customers and employees	Katarina Kempe	31 December, 2007

