



Corporate Social Responsibility Report 2002

H&M



Stockholm 15 April, 2003

Dear Reader,

The journey towards the publication of this report has been one of insight and learning. The process has highlighted areas where we sometimes exceeded our own expectations, but also areas where we were just simply not yet up to the mark.

The reader of this report should see it as a first attempt to make H&M's commitment to sustainability understandable for a wide group of stakeholders. For the first time we publish our CSR vision and our objectives for the implementation of H&M's Code of Conduct in our supply chain. We also publish our main environmental aspects as well as our environmental objectives and targets. By primarily describing our processes, we hope to visualise for the reader H&M's approach to CSR.

One of our objectives for reporting on CSR has been to create a base for improvement of our performance. A concrete example is that while evaluating our work in 2002 we have realised that less factory re-inspections than expected were unannounced. Such insights help us to develop targets and action plans for specific areas of improvement where we find that our work is not meeting our ambitions. The internal benefits of the measures and reporting should not be underestimated.

H&M's approach to CSR has a strong focus on the supply chain. While we recognise the importance of taking responsibility for our own actions, we feel that we can bring about the most significant changes towards sustainability in the production of our garments. H&M is committed to the Global Compact's nine principles and to the OECD guidelines for multinational enterprises. In this report we try to clarify how we have interpreted our role in the promotion of each principle and guideline, with emphasis on our supply chain.

H&M is a financially strong company which is expanding quickly in existing and new markets. We understand that to continue to do so, we have to maintain the trust in our brand from our customers, employees, and investors. It is our belief that our long-term voluntary commitment to CSR will help us to earn that trust.

Sincerely Yours,

Ingrid Schullström
Manager, Environment & CSR

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CEO-statement

As a major international company, H&M has a social responsibility. It is important that we have good relations with the world around us and take responsibility for how people and the environment are affected by our activities.

Corporate social responsibility (CSR) has high priority within H&M and the department that is responsible for the environment and social responsibility reports directly to me. This enables me to keep a close track on this important work. Our employees have also demonstrated great commitment to these matters and during the year we introduced training of sales staff in CSR matters.

These types of issues require cooperation and dialogue with many different interested parties around the world. We run our own projects as well as cooperating with industry colleagues and international organisations. H&M also supports the UN Global Compact. In so doing we want to signify that we respect human rights and are prepared to contribute to sustainable development within the areas that we are able to influence.

By publishing this report, we genuinely want to demonstrate to our stakeholders our commitment to CSR as well as our successes and shortcomings within this field.



Rolf Eriksen

Our Philosophy

Our business concept is to give the customer unbeatable value by offering fashion and quality at the best price. H&M's concept of quality means that customers must be satisfied with both our products and with H&M as a company.

CSR Report 2002

CSR Vision and Strategy

H&M's CSR-vision is:

To uphold Human Rights, contribute to Sustainable Development and thereby earn trust from our Stakeholders.

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

The following quote from our environmental policy very well concludes the general strategy that H&M has on Corporate Social Responsibility:

"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 shall also co-operate 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 aspects that we consider our main responsibility in the area of CSR. The aspects are what we consider most pressing within our business.

Social Aspects

Working conditions, Labour standards and Human Rights

H&M does not own or operate any factories of its own. We are doing business with approximately 900 suppliers, who in turn use subcontractors. 2771 production units¹ around the world manufacture our goods. Based on our experience, it is necessary to work closely with our suppliers on issues such as working conditions, compensation and benefits, working hours, non-discrimination, health and safety, to mention a few, in order to make sure that nobody, whose work is contributing to our success, is deprived of his or her human rights, or suffers mental or bodily

¹ This term is used to describe factories producing clothes for H&M, whether it is a supplier's factory or a subcontractor's factory.

harm. The Code of Conduct also makes it clear that under no circumstances will H&M accept child labour, forced labour or discrimination amongst employees. All the suppliers who produce H&M's products must sign an agreement in which they undertake to adhere to our Code of Conduct. H&M's production offices have full-time inspectors who make regular inspections of our suppliers and their subcontractors to check that the requirements of the Code of Conduct are being respected. Should the inspectors find any shortcomings in this respect, an action plan is drawn up together with the supplier. Re-inspections ensure that improvements are made. As a last resort, if the supplier does not implement the agreed improvements, the co-operation with the supplier may be terminated.

Environmental, Health, and Safety Aspects

Anyone who uses, works with, or in any other way comes in contact with our products must feel absolutely sure that there is no risk of being exposed to, for example, hazardous chemicals, sharp objects or easily flammable fabrics. Therefore H&M is devoted to work hard with product quality and safety.

Product quality and safety

H&M have a high standard of product safety and quality. There are extra safety requirements for baby and children's products. 17 H&M laboratories are located in the production countries and approximately 110 quality controllers and their daily presence in the factories ensure that the quality and safety requirements are met.

Restricted Substances in our products

All our suppliers of goods have signed agreements to abide by established chemical restrictions. In this way, we contribute to the reduction of environmental harm throughout the production of our goods as well as during the burning and recycling of worn out clothing. Our chemical restrictions are continuously updated, with new substances being added on a regular basis. Our restrictions concern chemicals used in the production of clothing as well as cosmetics.

The environmental impact in the supply chain

The most substantial environmental effects occur in the dyeing of fabrics and processing of fibres - stages of production that take place before the assembly of H&M's clothing begins. In our experience, there is a need of more environmentally friendly operations in order to achieve sustainable development. H&M has initiated a pilot project to increase environmental consciousness in the early stages of production. Our experiences with this project will lay the groundwork for plans to reduce our suppliers' manufacturing effects on the environment.

Transportation - environmental considerations

Transportation of goods, although not operated by H&M, stands for almost 40% of total carbon dioxide emissions caused by H&M operations. Therefore, it is vital for H&M, in cooperation with our transporters and service providers, to try to achieve more environmentally friendly transports. For the 2nd consecutive year, a comprehensive enquiry to our transportation service providers about their environmental performance has been completed. From January 2003 we have a set of minimum environmental requirements for road transports.

Respect for nature and sustainable resource use in our shops and distribution centres

H&M operates 844 shops and 13 distribution centres (DC's). In order to optimise resource use, every decision with an environmental bearing demands careful consideration bearing in mind the size of our operations. We therefore endeavour to reduce consumption and increase recycling of packaging, hangers, decorative materials, disposable materials etc.

Major themes of sustainable development

Related to the major themes of sustainable development, this report just briefly covers human resource management, stakeholder management, and corporate governance.

Value Added

Major Products and services

At H&M, everyone is working towards the same goal – giving the customer unbeatable value through the combination of fashion, quality and price. H&M's concept of quality means that customers must be satisfied with both our products and with H&M as a company. We have therefore undertaken to act responsibly towards the society in which we are active.

We have a wide range of products and new goods are delivered to our stores every day. To make things clearer for our customers, we have divided the range into a number of different concepts. We offer fashion basics as well as clothes with high fashion content within each collection, so that customers can easily combine different garments and find their own personal style. This allows customers to choose from a wide range – from updated classics to the trendiest garments, from newborn baby to fully-grown adult. Our stores are designed to allow customers to make their own choices easily. The aim is to create a comfortable and inspiring atmosphere in the store that makes it simple for customers to find what they

want and to feel at home. It is important to provide customers with ideas and inspiration, so that they can choose what suits their own style. We do this through our garment displays and mannequins that provide inspiration for matching and styling tips.

H&M has been selling cosmetics since 1975. Today H&M sells cosmetics in Scandinavia, Germany, the UK, Austria, and Spain. H&M places great emphasis on having a fashionable, good value range of high quality products with a high fashion content. The product range now includes hair care and body care, make-up and accessories for men and women.

Since 1980 H&M has offered its customers an alternative and convenient way of shopping by mail order. This business is managed by H&M Rowells. Here, again, the aim is to provide fashion and quality at the best price. Mail order shopping is currently available in Sweden, Norway, Finland, and Denmark.

In 1998 H&M began its shopping online service, when e-commerce was first started as a test activity in Sweden. In 1999, the activity was extended to Denmark and Finland and in 2001, our online shop expanded to Norway.

H&M's Purchasing Processes

Suppliers

H&M does not have any factories of its own, but instead works with around 900 suppliers. Around 50 percent of the production takes place in Europe and the rest mainly in Asia. We make an effort to co-operate only with suppliers meeting a number of requirements in respect to compliance with our Code of Conduct, quality, capacity and punctual deliveries to mention a few of the most important ones. H&M endeavours to bring about long-term relationships with suppliers. Continuous co-operation 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 21 production offices in Europe, Asia, and Africa with nearly 600 people employed. The tasks of any production office are for example to develop each buying market, order-placement, to control all production and to make sure that the supplier is following H&M's instructions. This means making sure that all orders are placed with the right supplier, that the goods are produced at the right price, are of good quality, and to checking that our Code of Conduct is followed.

H&M IN BRIEF

- H&M was established in Sweden in 1947.
- Today H&M sells clothes and cosmetics in more than 844 stores in 14 countries. We plan to open 110 new stores and to close 7 stores in 2003.
- The business concept is "Fashion and quality at the best price".
- H&M has around 90 designers who work with a team made up of 50 pattern designers, 100 buyers and a number of budget controllers to create H&M's clothing collections for women, men, children and teenagers.
- H&M also sells cosmetics under its own brand.
- H&M sells over half a billion items a year and new goods are delivered to our stores 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 900 suppliers. Around half of production takes place in Europe and the rest mainly in Asia.
- H&M has 21 production offices around the world – ten in Europe, ten in Asia and one in Africa.
- The group has more than 39,000 employees.
- The turnover in 2002 was 53,332 million SEK.

Distribution

Every stage in the chain, starting with the transport from the supplier, is controlled by H&M, acting as importer and wholesaler as well as retailer. Once the garments are ready, they are distributed to H&M's stores via distribution centres. Every sales country (with the exception of Luxembourg, which is served by Belgium) has a distribution centre where the clothes are checked and, if necessary, steam-ironed before being sent on to the stores. Having few links and as few stops as possible in the distribution chain makes the supply of goods efficient. H&M sells more than half a billion items a year.

How can H&M keep low prices?

- having few middlemen
- buying large volumes
- having extensive experience of the clothing industry
- having a great knowledge of which goods should be bought from which markets
- having efficient distribution systems
- being cost-conscious at every stage.

Governance Structure and Management Systems

BOARD OF DIRECTORS' WORK

The Parent Company Board of Directors met seven times during the financial year. Stefan Persson was re-elected Chairman of the Board at a Board Meeting following election and the Board adopted a working arrangement for themselves. This calls for them to hold five ordinary meetings annually, the Board meeting following election not included. It also stipulates that the Board of Directors shall decide on the Group financing policy, investments and disinvestments in companies and activities, as well as new markets. The Board of Directors have kept abreast of the financial development and position of the Group. No special committees were appointed.

Severance pay

The managing Director of the Parent Company is entitled to one year's notice. In the event the company cancels the employment contract, the Managing Director shall receive, in excess of 12 months' notice, an additional year's salary as part of

the severance pay. There are no other agreements regarding severance pay in the Group.

Terms of employment for other Group senior executive officers

In accordance with decision at the Annual General Meeting, remuneration to the Board of Directors reached SEK 3,900,000 (3,900,000), of which SEK 2,700,000 (3,000,000) was paid to the Chairman of the Board. Board members employed by the company were not compensated. Remuneration to the Managing Director in the form of salary and benefits amounted to SEK 7,621,000, of which bonus SEK 1,500,000 (last year 4,775,000. No bonus was paid). The usual premium for a Swedish ITP retirement plan should be added to the aforementioned figures. Remuneration to other Group management in the form of salary and benefits amounted to SEK 14,663,000, of which bonus SEK 1,500,000. Certain executives who are entitled to retire between the ages of 60 and 62 receive retirement payments. The cost of these payments has been covered by separate insurance policies.

Bonus system

The Managing Director, country managers², 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 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.

² The Country Manager is managing one of our sales countries.

External factors influencing H&M

H&M faces various external risks in its business. A number of these can be dealt with by well-developed internal routines, while others are largely determined by external factors.

Fashion

Working in the fashion industry is a risk in itself. Fashion is a perishable item and there is always a risk that some of the collections will not be well received by customers. Within each concept H&M must have the right volumes and achieve the right balance in the mix between fashion basics and the goods with a high fashion content that are so important for H&M's image. To reduce the fashion risk H&M is systematically working on reducing lead times from the idea until the finished product is in the store. Production of clothing with high fashion content is also increasingly being commissioned in Europe, where lead times are shorter. This allows production to be adapted to customer demand more quickly. H&M trades in 14 countries on two continents. Although purchasing patterns are relatively similar in the various markets, differences do occur. The start of the season varies between countries, for example, as does the length of the season. Consequently, both the

delivery date and the volume of goods for the different stores must be adjusted to match. In Spain, for example, autumn comes later and is considerably shorter than in Scandinavia.

The weather

H&M's goods are bought and launched in stores on the basis of a normal weather situation, for example assuming that autumn will arrive when it should according to the statistics and will maintain a certain temperature. Major departures from the norm will affect sales. The biggest effect is felt if there are major departures at the beginning of a season.

The economic cycle

In 2002 a number of major economies experienced slower economic growth and generally weaker demand. It is difficult to know how an economic downturn will affect H&M's sales, but historically it has emerged that H&M does not tend to see any significant reduction in sales when there is a downturn in the economic cycle.

Currency hedging

The most significant purchase currency for the Group are the US dollar and related currencies. Fluctuations in the dollar/euro exchange rates form the largest individual transaction exposure within the Group. To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate fluctuations, the US dollar and related currencies are secured under forward contracts on an ongoing basis throughout the year. Since the sole aim of this currency management is to reduce risk, only actual exposure is hedged. In addition to the transaction exposure arising from purchases in foreign currencies, the Group is affected by currency fluctuations as a result of the receivables and liabilities that arise on an ongoing basis between Group companies. The introduction of the euro has reduced this exposure somewhat. The majority of the remaining risk is hedged through forward contracts.

Translation effects

In addition to the effects of transaction exposure, the Group's result is also affected by translation effects. These arise when a foreign subsidiary's profit/loss is converted into Swedish kronor in order to be

consolidated in the Group accounts. The underlying profit/loss in each market may be unchanged, but then either reduced or increased when converted into Swedish kronor. Translation effects also arise in respect of the Group's net assets on consolidation of the foreign subsidiaries' balance sheets. No equity hedging is carried out for this risk.

Liquidity management

Liquid surplus funds are invested short-term in banks or in government securities in the local currency of the company in question. The Group does not utilise any derivative instruments in the interest-bearing securities market. The Group does not trade in shares or similar instruments.

Stakeholder Engagement

H&M recognizes the need of interacting and having a dialogue with its various stakeholders. Every day we learn more about CSR-issues and concerns in our meetings with our stakeholders and in other forum. When making use of this knowledge and information that has been worked up, it is at times difficult to communicate what stakeholder information led to what decision. More important is of course that our stakeholders are comfortable with our plans, achievements, and progress. During 2003, we will look more thoroughly into our interactions with our stakeholders.

Furthermore, H&M, through its CSR-organisation, is kept up to date in the CSR-area through various channels such as newsletters, seminars, and memberships of different kinds. The subsequent stakeholder events have been of importance in our dealings with supply chain issues.

Master's Theses on Stakeholder Management

In 2002, H&M funded a Master's Theses that examined current practises on how to manage stakeholders who are situated in different parts of the world. The underlying assumption for this Master's Theses was that stakeholders in our sales countries, (e.g. our customers and staff), have concerns that do

not correspond with the concerns of stakeholders in our production countries (e.g. the textile workers). Our customers for example, are concerned about the presence of child labour in the garment production whereas the textile workers are concerned about attaining higher wages.

The conclusions of the Theses gave us input about:

- What stakeholders to include in a consultation.
- The need to compare and consider the influence of our stakeholders and the practical consequences of this comparison.
- Our stakeholders' various concerns and priorities and how to deal with the differences.

Stakeholder Dialogue

During the spring of 2001 H&M took part in a Stakeholder dialogue. Nine other companies participated. The stakeholder dialogue consisted of three parts, the keynote speeches, the workshops, and formal, as well as informal, individual meetings between corporations and organizations. Participating in this dialogue were representatives from, ECPAT, Amnesty International Business Forum, ATTAC, Friends of the Earth, Fair Trade Centre to mention a few.

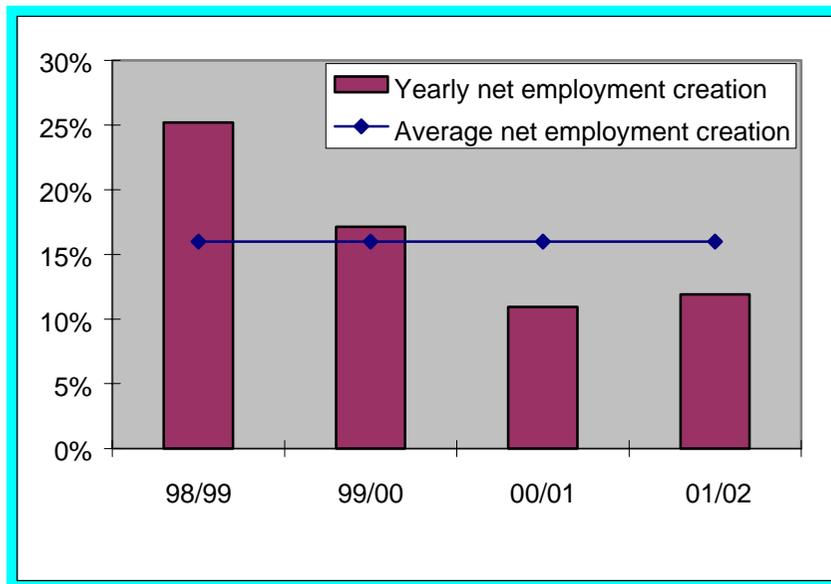
The Dress Code Project

In May 2001, the DressCode Project was concluded with a report describing the outcomes of the project. The purpose of the project was amongst other things to enable H&M to secure effective independent verification of H&M's monitoring program. The DressCode Project is a very good example of our various stakeholders coming together to address their concerns and share their knowledge.

Although this particular proposal for independent verification has not been implemented, H&M still supports the idea.

Human Resources

At the end of the year, H&M had around 39,000 employees. The average number of employees was 25,674 (converted into full-time positions), 19 per cent of whom were male. Net employment creation has been 16% on average the last five years. The chart below illustrates this as well as yearly job net creation.



Constantly finding new staff around the world while at the same time retaining and communicating the

particular spirit of H&M on which the company is based is a major challenge.

The spirit of H&M

The spirit of H&M is based on a number of values which describe in simple terms how we want to work. These values are the foundation of our business concept – fashion and quality at the best price.

The spirit of H&M is based on common sense, taking own initiatives, believe in people, direct communication, cost consciousness, team work, fast pace and continual improvement always with the focus on the customer. Within H&M we provide room for people to make their own decisions and take responsibility and staff get continual feedback on their performance.

Since we are constantly opening stores in new countries, our employees also have opportunity to work in different countries. This creates understanding across boundaries and increased commitment. Our internal newspaper H&M News is one of a number of tools in which we communicate and strengthen the corporate culture as well as updating our staff on what is going on within the Group.

Recruitment

At H&M we principally recruit internally. External recruitment is used primarily for sales staff for our stores. These later form a good recruitment base for positions of responsibility both in the stores and in other functions within the company. That way we ensure that the spirit of H&M is spread throughout the organisation, whilst at the same time giving our employees opportunity to develop continuously.

“At H&M we principally recruit internally. That way we ensure that the spirit of H&M is spread throughout the organisation, whilst at the same time giving our employees opportunity to

Developing skills

Attracting and retaining competent staff is important for our success. We therefore work continually on developing skills. The biggest knowledge gain is made through active learning in everyday work and all training is carried out within our own organisation. Newly employed store staff undergoes a three-week induction programme in which the emphasis is on passing on experience and skills. Each new member of staff is given a mentor. They then have continual training as needed, for example in customer care, textiles, and display. The induction programme guarantees that everyone has a basic knowledge in H&M's way of working. We also carry out management training in which we place great emphasis on being a good communicator of H&M's values.

Organisation

H&M's head office is in Stockholm. In addition to the company management this is also where the main functions for buying and design, finance, expansion, shop fitting and display, advertising, communications and Public Relations, human resources, CSR, logistics and IT are located.

AVERAGE NUMBER OF EMPLOYEES

	01/02		00/01	
	Total	Males	Total	Males
Sweden	3,604	19%	3,523	18%
Norway	1,448	9%	1,385	9%
Denmark	939	6%	939	6%
United Kingdom	2,354	21%	1,768	21%
Switzerland	1,161	10%	1,097	11%
Germany	6,88	20%	6,216	17%
Netherlands	1,818	14%	1,8	15%
Belgium	989	16%	710	16%
Austria	1,535	15%	1,407	16%
Luxembourg	97	15%	76	11%
Finland	534	10%	502	11%
France	1,517	30%	1,366	33%
USA	1,605	30%	1,187	38%
Spain	601	20%	463	18%
Other countries	592	34%	505	31%
Group, total	25,674	19%	22,944	17%

Environment



Environment

Main aspects

From a life cycle perspective, the most substantial environmental effects occur in the dyeing of fabrics and processing of fibers - stages of production that take place before the assembly of H&M's clothing begins. In our experience, there is a need of more environmentally friendly operations in order to achieve sustainable development. H&M have initiated a pilot project to increase environmental consciousness in the early stages of production as well. Our experiences with this project will lay down the groundwork for plans to reduce our suppliers' manufacturing affects on the environment.

Transportation of goods, although not operated by H&M, represents approximately close to 40% of total emissions caused by H&M operations. From January 2003 we have a set of minimum environmental requirements for road transports.

H&M's 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 co-operate 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.

Environmental Impact Assessment

Two studies have examined the environmental impact of H&M's activities:

- In 2000, we mapped out the environmental impact of the decisions affecting the shops. In addition, an action plan for improvement was created.
- In 2001-2002, one minor field study on a pair of cotton trousers was conducted that resulted in two Life Cycle analyses: "From the cradle to the gate" and "From cotton to clothes". The authors have collected their raw data from the same field study but have produced two separate Master of Science theses.

The Environmental Impact Assessment has been developed in-house. It is an environmental impact estimation produced by two experts, one with decades of experience in the textile business, and one with the environmental knowledge.

Coverage of Targets for 2003 and Business Partner Requirements

In addition to the environmental impact assessment illustrated in the next page, we also illustrate, through colours, in what environmental area we impose purchase requirements on our business partners.

Minimum requirements Shop Fitting
Minimum requirements Road Transport
Minimum requirements IT Products
Chemical Restrictions for Garments and Cosmetics
Code of Conduct – Environmental Requirements

Furthermore, we place each environmental target for 2003 (for detailed targets, see the chapter [Environmental Targets 2003](#)) in the environmental area where it belongs.

Target
5 and 11

Environmental Impact Assessment

Aspects	Stores (2)	Distribution Centres (1)	Office (1)	Product (2)	Production (4)	Impact
Emissions to air	xxx Transport Heating Electricity Target 5 and 11	xxx Transport Heating Electricity Target 11	xx Travel Heating Electricity	x Disposal	xxx Transport boiler, Generator Heating, Aircon Electricity Target 9, 10	25x
Chemical use	xx Cleaning Decoration Building Aircon Textile Appliances Target 2, 4, 6	x Cleaning Lab Aircon Building Target 3	x Cleaning Design Lab Aircon Appliances	xxx Garments Cosmetics Softener Target 8 Dry-cleaning	xxx Frequent use in several processes Cleaning Aircon Appliances Target 9, 10	24x
Solid waste	xxx Packaging Campaign material Display material Building material Target 1 and 5	xxx Packaging Surplus material from stores Household waste Target 7	xx Household waste Packaging Stationary	x Disposal	xx Leftover material Packaging Sludge Target 9, 10	21x
Energy consumption	xx Heating Lighting Escalator, doors Transport (DC-Store)	xx Heating Lighting Transport (Transit-DC) Target 3	xx Heating Lighting Travel Appliances	xx Care (wash, iron) Disposal Transport (Suppl- Transit)	xx Electricity Fuel (Generator, boiler) Transport (raw material) Target 9, 10	20x
Emissions to water	x Sanitation	x Sanitation Lab	x Sanitation Lab	xx Wash	xxx Waste water from dyeing, bleaching and other processes Target 9, 10	20x
Hazardous waste	xx Tube lights Paint, glue, felt pens Batteries Cosmetics Electronics	x Tube lights Batteries Cosmetics waste	x Tube lights Batteries	x Cosmetics	xxx Sludge Chemical leftovers Tube lights Target 9, 10	20x
Soil contamination	x	x Spillage Fuel storage	x	x Heavy metals	xx Sludge Untreated wastewater Irrigation and emission to soil Chemical storage spillage Fuel spillage Target 9, 10	14x
Noise	x Aircon Transport	x Aircon Fans	x Transport	x	xx Transport Machinery Generator Target 9, 10	10x
Use of resources						
Water	x	x	x	xxx	xxx	
Fuel	xx	xx	x	x	xxx	
Raw Materials	x	x	x	xx	xx	
Paper/Cardboard	xx	x	xx	x	xx	
Plastic	xx	xx	x	xx	xxx	
Wood	xx	x	x	x	x	
Metal	xx	xx	x	xx	x	
Glass/Stone/Concrete	xx	x	x	x	x	

Environmental Management

H&M's Environmental organisation

H&M's Corporate Social Responsibility Manager(CSR), environmental responsibility incorporated, is part of the management and reports directly to our Managing Director. The Environmental Co-ordinator coordinates environmental activities at H&M. H&M has environmental representatives for the following corporate functions: Building, Advertising, Buying, Travel, Logistics, Rowells, Cosmetic, Computer, and Design. Every production office and every sales office also have their environmental representatives. There are 34 environmental representatives in total.

Certification

H&M is not ISO14001-certified. Our customers do not call for certification as such. Hence, no value is added with it. Nevertheless, we consider it important with a systematic work on environmental issues that is a natural part of our everyday work.

Environmental evaluation of Transportation Service Providers

Since 2001 the Transportation Service Providers are evaluated on a variety of environmental issues in order to improve their environmental performance.

From The 1st of January 2003, we have the following minimum environmental requirements for companies performing goods transports on road. However, whether our Transportation Service Providers fulfil these requirements or not will not be evaluated until the end of 2003.

- Use of Euro I engines (or equivalent)
- Purchase of (new and used) vehicles in minimum Euro II (or equivalent)
- Diesel with maximum sulphur content of 350 ppm (0,035%)
- Instructions to drivers to use certain fuel quality
- Fuel-efficient driving (ECO-driving): 25% of drivers must have received theoretical and practical training.
- Company policy banning idling in excess of 1 minute

Minimum environmental requirements for other Business Partners

- H&M uses minimum environmental requirements when purchasing Shop Equipment
- H&M uses minimum environmental requirements when purchasing IT Products

The Supplier Environmental Motivation Strategy project.

Introduction

H&M has a responsibility towards the community to take responsibility for the environmental impact of our operations. It is our ambition to make our suppliers aware of the importance of improving the production processes in the entire supply chain. Through the requirements in our Code of Conduct, we make clear that environmental laws must be followed and that the supplier must possess all required permits. However, through the SEMS³ project we move forward and in so doing further contribute to the reduction of the environmental impact of the production of our products.

Strategy

We have decided to use education and inspiration as our premier tools to achieve our goal. We do not believe that only strict regulation and inspections will give the desired effect. Furthermore, the authorities in many of the countries where H&M's garments are

produced do not monitor or audit the compliance of laws and regulations. For all of the reasons above, it is essential that our suppliers see the importance and the advantages to take their own responsibility. To achieve this, we want to educate our suppliers, and work with them towards long-term gradual improvement.



³ SEMS – Supplier Environmental Motivation Strategy

The Project Status

In this project, four vertical factories (i.e. factory with all the wet processes in house) are taking part. The suppliers' factories are located in Indonesia, India, Turkey, and Portugal. They participate voluntarily in the project.

The first step, which has been finalized, was to perform an initial environmental review (IER). The IER focused on the environmental aspects of activities in the factories and graded the aspects due to their significance. Finally, suggestions on improvements were given.

The next step was for the supplier to set environmental targets, based on the IER, to improve their environmental performance. A designated person is required to take responsibility for the targets and a time frame must be set. At this stage, the targets are set for three out of four suppliers. One of these suppliers has already been evaluated thanks to that the targets were set at an earlier stage.

Furthermore, we have already learned that the pilot suppliers are motivated to make improvements on their environmental practice that goes beyond the law.

The improvements are focused on resource use where the producer benefits environmentally and economically. The achievements often concerns energy saving where isolation of pipes, reuse of steam, and heat exchangers are some examples. Also changes in the processes means sometimes that chemicals that are more efficient are introduced and consequently less auxiliary chemicals and water are needed. By using the counter current flow principles in non-sensitive parts of the processes; reuse of water and heat can be attained. Some processes can become more efficient through cutting the resource use. For example, through precise control of the processes, chemicals and heat in surplus can be minimized and excluded. This changes often also leads to better quality of the products since the production process become more even.

The project will be completely evaluated during 2003. Next step is to determine how the knowledge accumulated in the project should be spread to other suppliers.

Communication of Environmental information to employees

Our environmental information is communicated through a number of different channels, in order to reach all of our employees. Here are some examples:

- H&M's intranet
- H&M's website at internet (www.hm.com/csr)
- H&M's personnel magazine (H&M News)



- H&M's Annual report
- Training

H&M's environmental objectives

Environmental awareness:

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

Environmental Performance Measures

This year we report on greenhouse gas emissions.

Greenhouse Gas Emissions (GHG)

Included in the Carbon Dioxide and Energy figures are:

- Purchased fuels for heating of Distribution Centres, where H&M owns the contract
- Purchased fuels for H&M owned vehicles in the entire company
- Purchased heat for Distribution Centres, where H&M owns the contract
- Purchased electricity in the entire company, where H&M owns the contract
- Purchases of transports of goods (air transports excluded)
- Purchases of transports of personnel

Carbon Dioxide Emissions - Performance

- 2000: 102 494 Tonnes (Base Year)
- 2001: 124 611 Tonnes
- **2002: 134 437 Tonnes**

Carbon Dioxide Emissions – Break down

Carbon dioxide	Tonnes of CO ₂	
Purchased fuels for heating of Distribution Centres	1 569	1%
Purchased fuels for H&M owned vehicles	1 711	1%
Purchased heat for Distribution Centres	4 517	3%
Purchased electricity in entire company	67 290	50%
Purchases of transports of goods	51 393	38%
Purchases of transports of personnel	7 936	6%
	134 437	100%

Carbon Dioxide Emissions - Quality of Data:

Three types of data quality can be identified. Here we present information concerning the

1. Obtainment of data

- 2001: 86% accurate
- 2002: 89% accurate

The inaccuracy is about absence of data or old data.

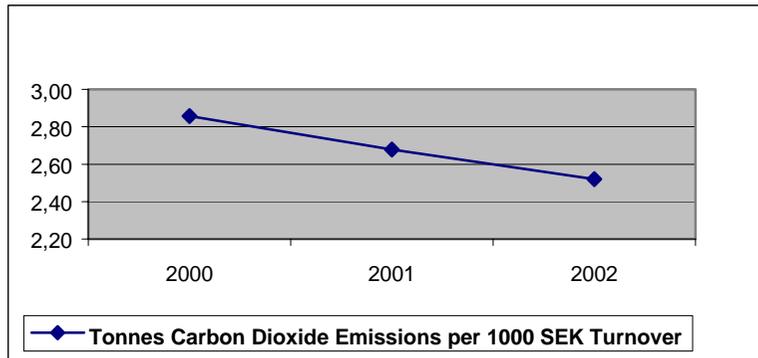
2. Correctness of the source data calculations

These have not been assured or controlled.

3. Energy sources

In cases when the information on energy sources is missing, assumptions have been made. The data quality in this regard has 98% accuracy.

Carbon Dioxide Emissions in relation to Company Turnover



Conclusions

There is an 8% increase in Carbon Dioxide Emissions 2002 compared to 2001. However, as the diagram above shows, there is a relative decrease compared to last year when measured against turnover. This relative decrease is due to mainly two things: The fulfilment of our goal to exchange spotlights from 50W to 35W and the decrease of business travel by central functions in Stockholm.

Energy use

Energy use is a major cost for H&M and as such constantly monitored throughout the organisation. However we are currently not systematically working with energy use as an environmental aspect and thus we do not report this indicator this year.

Environmental aspects currently not measured

Water

As described in our impact assessment, emissions to water and use of water is a significant aspect in the production of the garment and in the use of the garment. For shops, offices and warehouses, the use of water is for sanitary needs. Due to the complexity of collecting and aggregating the data, we have decided not to measure use of and emissions to water in our supply chain (production) or in the use of our products.

NOx and SOx

NOx and SOx are emissions mostly related to transports. Evaluating features like motor type and fuel type is at this point too complex to handle. Nevertheless, we are in this regard trying to cut the emissions from our transportation service providers through our minimum requirements on motor type and fuel type.

Waste Management

As described in our impact assessment solid waste is a significant aspect in our stores and at our DC's. The waste situation in our shops differs depending on the sales country. In Norway, for example, more than 80 % of the shops are referred to the waste handling system of the shopping centre/landlord. In USA, on the other hand, more than 60% have a separate contract with a waste handling company. In Germany, more than 60% of the waste is sent back to H&M's warehouse. Due to the mentioned complexity, it is quite difficult for us to measure waste in total figures and the amounts in each separated fraction and their respective reuse or destination.

Green House Gas emissions in use and disposal

It is not feasible, being a company mainly selling garments, to measure the emissions generated by use and disposal of the product. Neither would it be feasible to measure the emissions caused by our supply chain. Just sewing and assembling of garments employs 2771 production units. These production units lack the possibilities of collecting and reporting any reliable figures

Environmental Targets 2003

This year there is a strong focus on creating environmental awareness.

OBJECTIVES	TARGETS	Timeframe	Responsible	Comment/s cope
Environmental awareness	1. Instructions on source sorting for waste from campaign material included in Store book and Window book	August 31, 2003	Sofia Lövgren	To communicate to the shops how to sort the material fractions included in the campaign material in the shop and in the window
	2. Develop environmental requirements for the building descriptions for the shops	September 30, 2003	Henrik Lampa	Requirements that can be on a national basis
	3. Develop environmental requirements for the building descriptions for the distribution centres	September 30, 2003	Henrik Lampa	
	4. Environmental training for building project managers	December 31, 2003	Henrik Lampa	Environmental training designed for the project managers in the building field in H&M will be held the next time that they will gather, if not this year.
	5. Environmental information developed that should be communicated to all H&M shops	Mars 31, 2004	Henrik Lampa	The information should include the policy for optimizing energy-efficiency of lighting control systems in our shops and information on source sorting.
Respect for nature	6. Plastic cards used as staff cards, club cards and gift vouchers in PVC-free material	December 31, 2003	Viveca Kleebinder	PET-plastic will be used instead of PVC
Sustainable resource use	7. Review the waste management in the Distribution Centres	September 30, 2003	Ivan Pedersen	Review what fractions are separated, the amount of waste in each fraction and what happens to the fractions afterwards.
Healthy products	8. Revise test routines on cosmetic products	December 30, 2003	Karin Sundberg	
Clean supply chain	9. Include specific environmental questions in the Code of conduct inspections	Mars 31, 2003	Ingrid Schullström	The new Environmental Evaluation Form will be added to the inspection form used for Code of Conduct inspections.
	10. Evaluate the Supplier Environmental Motivation Strategy (SEMS) project	November 30, 2003	Henrik Lampa	
Green transports	11. Revise the questions asked in the environmental declaration for goods transports on sea	Mars 31, 2003	Henrik Lampa	

Environmental Target 2002 – Fulfilments

OBJECTIVES	TARGETS	Timeframe	Responsible	Comment/scope	Fulfilment
Environmental awareness	Develop H&M specific training documentation for key groups	November 1, 2002	Ingrid Schullström		Postponed
	Environmental consideration integrated into our Travel Policy	May 1, 2002	Gunilla Brunemalm		Done by 30 th November
	Publication of H&M's first CSR-report for 2001 on www.global-responsibility.com	April 15	Ingrid Schullström		Done within timeframe
Respect for nature	No laying of new PVC-flooring (except extensions to or repairs of existing flooring)	Oktober 1, 2002	Frits van Sambeek	Comment: All shops opening after October 1, 2002, will get PVC-free flooring everywhere. Existing PVC-flooring will be replaced when worn-out or when the shop is rebuilt. Today H&M lays approximately 100 000 m ² PVC flooring annually. The flooring weighs 3 kg/m ² so the flooring laid in recent years equals 300 tons of PVC per year.	Done within timeframe
	85% of all purchased IT products must meet the minimum environmental requirements of our ECO-declarations for IT products	January 1, 2003	Hans Thunström Kjersti Kristiansen	The target will be met if we through reviews of filled out Eco-declarations for all IT-products for offices purchased within H&M's general agreement, and for all shop IT products (except those from NCR) and back-office products can make sure no product on any point is classified not accepted.	Not fulfilled. The reached percentage of purchased IT products are 69% (all ECO-declaration sent in met our requirements)
	Start applying environmental requirements to purchases of interior, display and stationery products at the Interior department & Display departments	June 1, 2002	Frits van Sambeek		Done within timeframe
Sustainable resource use	Purchase light-intensive and energy-efficient 35W spotlights instead of current 50W spotlights	March 1, 2002	Johan Wohrne	When 35W spotlights have replaced all 50W low-voltage spotlights the 30% reduction in electricity use will result in the following savings: Assumption: 180 000 spotlights turned on 10 hours a day 320 days per year. Before: 28 800 000 kWh/year After: 20 160 000 kWh/year = a saving of 8 640 000 kWh, reducing CO ₂ emissions by roughly 2 592 tons (assumption 300 g CO ₂ /kWh)	Done within timeframe
	Develop and communicate a policy for optimizing energy-efficiency of lighting control systems in our shops	June 30, 2002	Clas Moberg	There is a potential to reduce energy use/save money through optimizing lighting control systems in our shops. The policy will include instructions on procedures and adjustments necessary to ensure an optimized energy-efficiency of the lighting control systems in our shops	Policy is developed but not communicated in written form.
Healthy products	New version of H&M's Chemical restrictions	May 20, 2002	Karin Sundberg	The new Chemical restrictions will partially be identical to that of some American and Canadian companies. Apart from that H&M will e.g. include antibacterial substances like Triclosan and TBT, clarify the requirements on metals, and clearly state required test methods.	Done within timeframe
Clean supply chain	Evaluate supplier target fulfillment in the pilot project	December 31, 2002	Henrik Lampa		Postponed until the November 30 2003. Status report December the 31, since the pilot project aren't finished
Green transports	Develop minimum environmental requirements (to be enforced from January 1, 2003) for goods transports on roads	January 31, 2002	Henrik Lampa		Done within timeframe

4 Not taking into account the positive side effect of less need for cooling shops. The reduced cooling need is estimated to save an additional 1 080 000 kWh of electricity/324 tons of CO₂.

Social Responsibility



Supply Chain Management and Code of Conduct

Introduction to our Code of Conduct work

“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 is contributing to our success, is deprived of his or her human rights, or suffers mental or bodily harm.”

The above quote is from our Code of Conduct and is a good summary of why we at H&M are working with these issues. The UN Convention on the Rights of the Child and the Declaration on Fundamental Principles and Rights at Work 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 around 8000 inspections.

We have learned a lot and continuously we have improved our monitoring and enforcement program.

Improved conditions

The improvements, since the start of our monitoring program, are substantial. The workers can today feel much more protected concerning fire safety. More often than before they receive a correct pay check every month at level or above the minimum wage. The working conditions in general have gotten better and cleanliness, ventilation, heat and sanitary conditions are maintained at decent levels.

The first thing we found when we started our systematic inspection programme was that the factories were sometimes unclean and in poor condition. Demands for a good clean up and a lick of paint - as well as better lighting and ventilation - made a real difference to the actual working environment. Better and cleaner toilets were required almost everywhere.

Initially, fire safety often left something to be desired. Fire extinguishers and emergency exits were sometimes missing; if there were any emergency exits, they were often locked or blocked. Fire alarms were too repeatedly missing and evacuation plans and fire drills were rarely carried out. Now that we and other buyers have been setting requirements of better

safety for a few years, there has been a real improvement in fire safety in the factories.

To check wages, working hours, etc. we started by examining the documents that existed in the factories. Fairly soon we realised that first we had to get our suppliers to introduce meaningful reporting systems. For example, we made suggestions for how payroll reporting should be organised, with columns for the total number of hours worked, the number of overtime hours and for any bonuses or deductions, so that it was clear how the final pay was calculated. Only once the new reporting systems had been introduced were we able to effectively check that the staff were getting the wages to which they were entitled.

We are proud of what we have accomplished so far. However, we have so far developed few indicators to verify our achievements.

We also realise that the work towards a sustainable supply chain where human rights and workers rights are being respected is difficult and demanding.

“H&M does not have any factories of its own.”

Production

H&M does not have any factories of its own. Instead, we buy our garments and other goods from 900 suppliers, primarily in Europe and Asia. Our supply chain comprises mainly two types:

Suppliers are companies that have a direct business relationship to H&M. These companies may have factories of their own or they subcontract parts or their entire production. All variants exist, depending upon country.

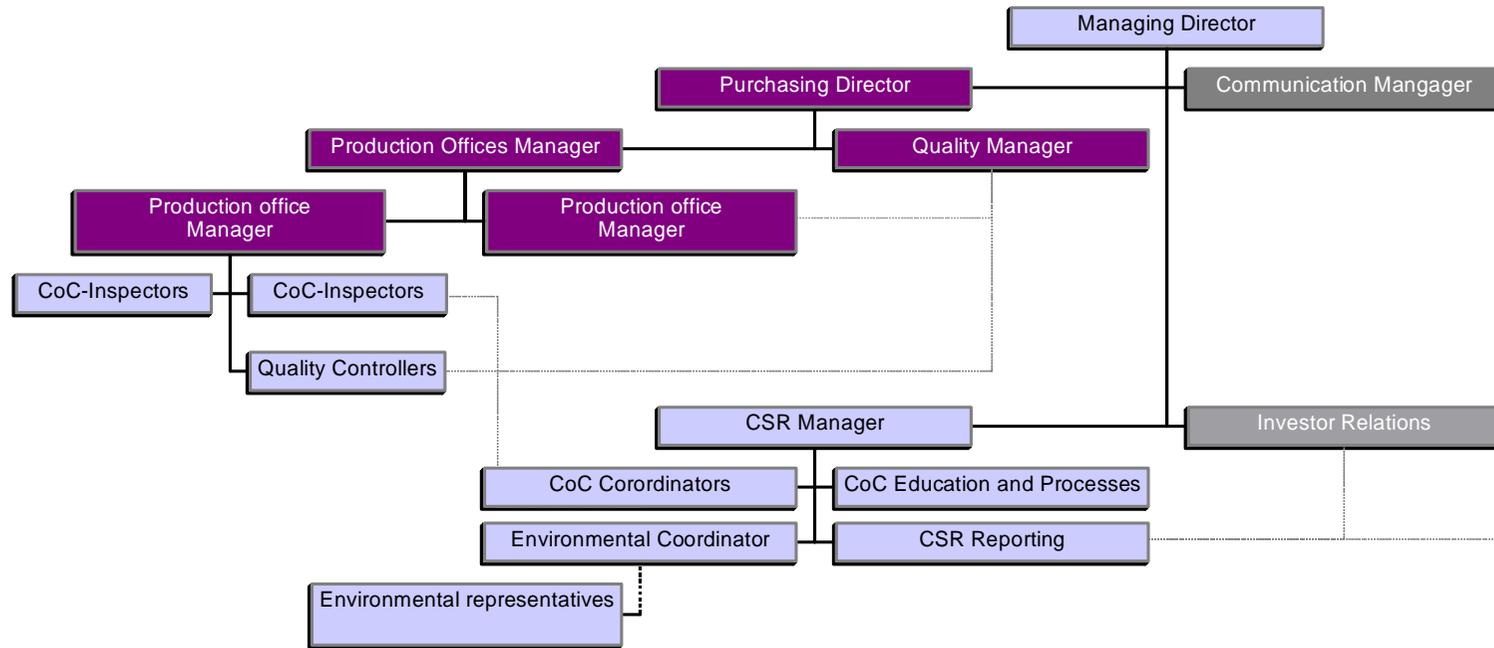
Sub-contractors are companies that have been subcontracted by our suppliers. They do not have a direct business relationship with H&M.

Production units – this term is used to describe factories producing clothes for H&M, whether it is a supplier’s factory or subcontractor’s factory.

In 2002, 2771 production units were registered. In these production units there is approximately a workforce of 540.000⁵ people.

⁵ This is an estimated number based on the figures given to us during our inspections.

CSR Reporting Structure



CSR Organisation

H&M has around 30 Code of Conduct inspectors who carry out repeated inspections of supplier's premises. The inspectors work at one of H&M's 21 production offices, where around 110 quality controllers also have the task of reporting any infringements of the Code of Conduct that they find. The CSR-department is a corporate department with its manager reporting directly to the CEO.

Report to local office and buying office

Inspection results are reported to the local H&M office as well as to the buying office in Stockholm. Results are registered in the Code of Conduct database.

Objectives for the Code of Conduct work

When setting our yearly targets, we make sure that they lead to the following long-term objectives. Each objective is expressing an ideal condition that serves to direct us to what we are aiming for.

- **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 every day 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.

Inspector Workshops

Twice yearly, H&M is organising workshops for the inspectors and other key people in the production offices. These workshops are further education for our inspectors with the purpose of exchanging best practices in different areas. Supply chain topics such as worker interviews, overtime, network building, piece-rate systems, migrant workers, work-methodology, and statistics are addressed. In 2002, the workshops were held in Phnom Penh, Cambodia for our East and South-East Asian inspectors and in Istanbul, Turkey for our European inspectors.

Networks

Due to the strong advisory function of our inspectors, a whole network of local contact has to be built up in each location. Examples are lawyers with knowledge of local legislation, schools, voluntary organisations, authorities, trade unions, UN-representatives, industry associations, and competitors.

Inspections

In 2002, the number of inspections was 2210. Approximately every third re-inspection was unannounced.

Supplier assessment strategy

To make sure that we reach our objectives and in order to gain trust from our stakeholders we need systems and procedures that are efficient and credible.

Our strategy can in broad terms be described as follows:

We at H&M wish to work together with our suppliers, on a long-term basis, to improve the conditions in the factories. 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 leaves a factory due to poor management, the ones that are truly affected are the workers. Another buyer indifferent to workers' rights might then replace H&M.

However, when we encounter serious violations a strong statement must be made. If the factory management is faking documents or if a supplier has subcontracted production to a production site that is not known to us⁶ or in other ways refuses to cooperate, we are forced to cease the cooperation.

⁶ In case of an undeclared unit (a unit not known to us), we have no way of checking the working conditions and cannot be sure that our requirements are being met.

There are numerous ways that management can mislead our inspectors consciously or unconsciously. Some examples are:

- **If we only make announced inspections**, child labour can be hidden away, fire-safety, cleanliness etc. can be temporary resolved. Therefore, we are sometimes making unannounced visits.
- **Forged ID-cards** can mislead factory management and us about a person's age.
- **Double record keeping** (pay-slips, salary-records, time-cards, log-books etc.). For example, through checking in detail that the information on the time-cards correspond with salary records and pay-slips, our inspectors often detect double record keeping. The records can also be validated through worker interviews.

"In our monitoring effort there is a strong element of consultation/education to really make our suppliers understand the importance and the advantages of complying with our code."

Compliance and Inspection procedures

Prior to Inspection

- **Compliance Commitment** - Supplier has to sign the Code of Conduct commitment before the first inspection. This commitment includes all subcontractors who are also inspected.

The Inspection

- **Management interview** - The management is interviewed about relevant management practices, about salaries, working hours, freedom of association etc. according to a fixed list of questions.
- **Factory inspection** - The factory is inspected to evaluate working environment, safety, child labour, etc in accordance with a questionnaire.
- **Interviews with workers** - Information sometimes needs to be validated through interviews to ensure that the suppliers are observing our requirements.

- **Inspection of residential area** - The residential facilities are inspected for cleanliness and safety according to a fixed list of items to check.
- **Document Review** - Documentation to verify working hours, wages and overtime compensation is checked. Staff records and age certificates are checked.
- **Closing meeting** - The inspection results are discussed with the supplier, as well as realistic time limits for improvements.
- **Pre-inspection questionnaire** - If an inspection cannot be made immediately due to geographical distance, the supplier should fill in a pre-inspection self-assessment questionnaire.

After the inspection

- **Corrective action plan** - The supplier signs the corrective action plan.

Non-compliance and Enforcement

In case of repeated child labour, unsafe premises, faked documents, uncooperative management or repeated failure to make agreed corrections, H&M will terminate business permanently with the supplier.

- In 2002, we permanently terminated the business with 2 suppliers on these grounds.

We also, due to other severe violations such as minimum wage not paid, unsafe premises, denied access to premises etc., grade the suppliers or their subcontractors as *Unacceptable*. If a supplier's production unit is graded *Unacceptable*, our purchase order system obstructs the buyer from placing an order with that particular supplier. This obstruction will not be taken away until the supplier's production unit has made the necessary improvements.

- Production units previously inspected⁷:

At the end of the year 2002, 105 production units were graded, and remained *Unacceptable* for H&M production due to various code violations.

- Potential production units never inspected before⁸:

In 2002 our inspectors graded another 106 production units *Unacceptable* for H&M production at their *initial inspections*⁹ in spite of the fact that there were commercial reasons that spoke to the advantage of these units. The 106 production units graded *Unacceptable* for H&M production were graded *Unacceptable* at both the first inspection and the follow up inspection.

⁷ These production units existed in 2001 or earlier.

⁸ These production units have never before produced goods for H&M.

⁹ *Initial inspections* consists of a first inspection and, if graded *unacceptable* for H&M production, a follow up inspection to check possible improvements.

Violations

Examples of common violations that our inspectors face when doing audits:

- Maintenance of safety issues. Many production units have, as a result of our work, implemented fire exits, fire alarms, fire extinguishers etc. However, the procedures to maintain the good safety level are lacking.
- Cleanliness and sanitary problems.
- Over time over the legal limit. Often due to inefficient ways of organizing work, the production units become dependent on workers putting in a lot of extra overtime.
- Overtime and leave compensation. Worker's are too often not compensated enough, or at all, for worked over time or various leaves.

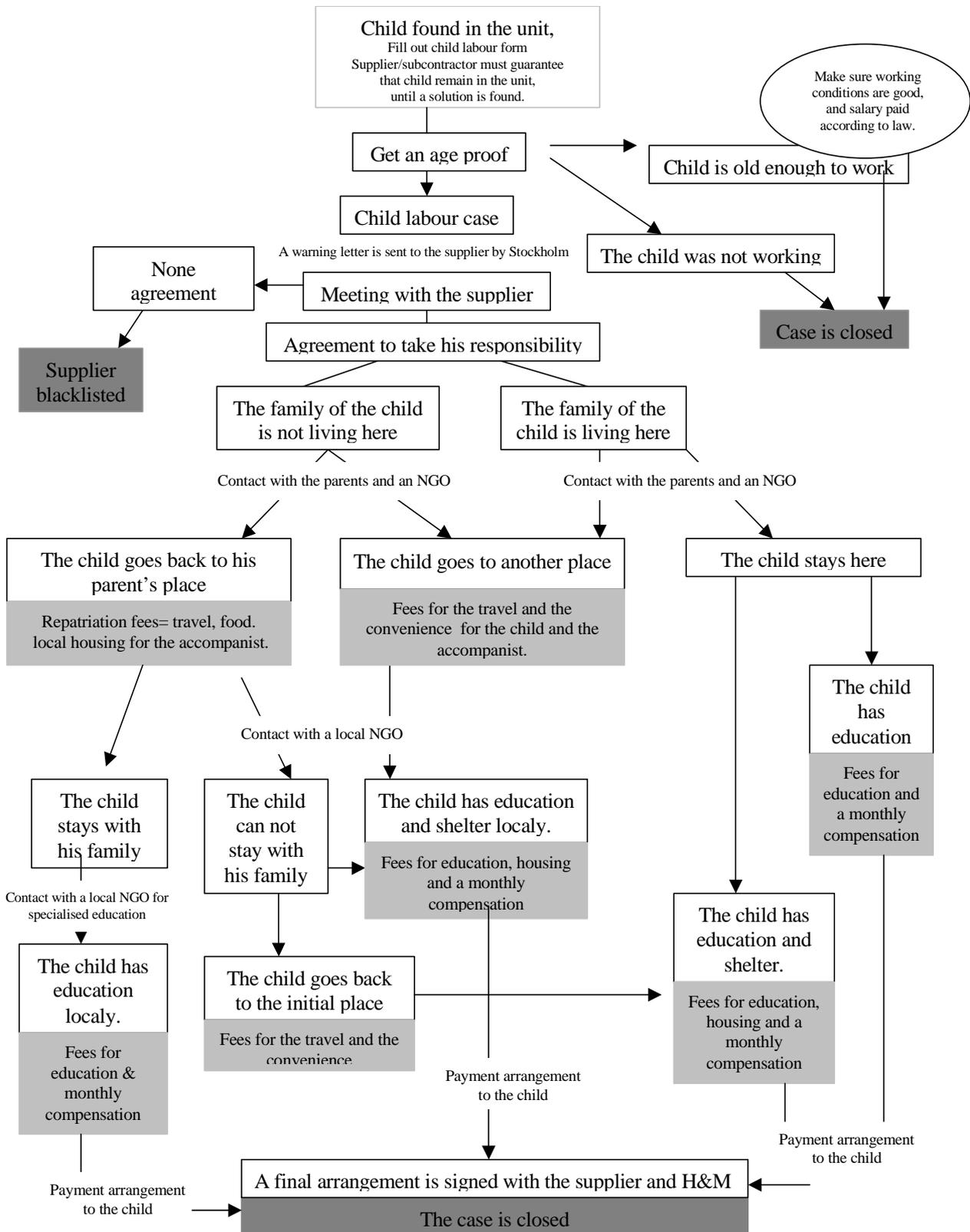
Child labour

Child labour is a problem for the textile producing industry in developing countries. However, due to very clear communication, unannounced inspections, and severe sanctions from H&M, child labour is very rarely found.

When a child is found H&M executes an action plan together with the child's family and the supplier in order to get the child back in school. When seeking a solution for the child, H&M makes sure that the measures taken are in the child's best interest. This is our primary focus.

H&M demands the supplier to pay both for school and retained salary. H&M stays in contact with the supplier, the family and the school to make sure that the child continues his education. If this is not cared for, the children often are off to another job, trying to earn double incomes.

- Overview of H&M actions in case of suspected child labour developed by our CSR-team in India: (Similar procedures are followed in other countries.)



Training and Education

In order to improve conditions in the factories, education is of course fundamental. Many of the bad conditions in the factories are a result of inadequate management systems.

H&M alone, or Business for Social Responsibility¹⁰, is organizing workshops on different issues such as local legislation, safety, labour rights, human rights. The target group is the managers of our suppliers and their subcontractors.

- In 2002, 12 workshops were organized for our suppliers and their subcontractors. 9 workshops were organized by H&M and 3 were organized by BSR. More than 700 managers from our suppliers and their subcontractors attended.

Middle management education

Besides other training events, H&M started a middle management training in Bangladesh, during the fall 2002. The purpose of this training is to build the supplier management's competence and capacity.

Our goal is to help our suppliers' middle management to see the benefits of complying with our code. This will only be sustained through their changed attitudes and behaviour. In 2003 this educational effort will be evaluated.

Inspector tools

- **Evaluation questionnaire** - The inspector has a questionnaire to support the inspection. The questionnaire contains approximately 100 questions that correlate to our code of conduct.
- **Evaluation questionnaire guidelines** - To help the inspector there are guidelines on how to use the questionnaire and how to manage interviews in the most efficient way.
- **Child labour guideline** - To aid the inspector in a situation where child labour has been found there are guidelines to make sure that the child's best interest is secured.
- **Violation guideline** - To guide the inspector when certain severe violations occur.

¹⁰ Business for Social Responsibility (BSR) is a global non-profit organization that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. BSR member companies have nearly \$2 trillion in combined annual revenues and employ more than six million workers around the world.

- **Rating system guideline** – The guideline outlines what requirements need to be fulfilled to earn a certain grade.
- **Worker interview guideline** – Supports the inspector on how to conduct interviews with garment workers. Enclosed with the guidelines is a questionnaire covering issues such as discrimination, working environment, fire safety, working hours, leaves, wages, child labour, forced labour, discrimination, punishment practices, freedom of association, forced labour.

Internal communication and education

Between the fall of 2002 and summer 2003, the employees in our 844 shops, distributions centres and service offices will become educated about H&M's CSR work. The purpose of this education is to build reliance and pride among our employees regarding our CSR-efforts. On top, our employees can now serve our customers with knowledgeable answers concerning this subject.

Through our internal newsmagazine, the work around improving working conditions in our supply chain is constantly brought up.



Targets 2003

During 2003 we set out to accomplish quite a number of issues. Here are some examples:

- Advance the integration of the Code of Conduct responsibility in our everyday operations. Placing the responsibility of the monitoring effort and the code of conduct performance by our suppliers directly on the operational managers (i.e. the manager(s) of the Production Office).
- Improve inspector guidelines, that serve to educate and instruct our inspectors with a standardized tool aimed at guiding them in matters such as breeches of the code, worker interviews, inspections etc.
- Develop tools on how to do overtime audits.
- Develop inspections tools as well as decide a standard for dealing with chemicals in chemical intense production units.
- Developing and integrating Code of Conduct supporting functions in our new IT-system for Order Follow Up (OFS). Implementation will take place in 2004.
- Revise and implement the new rating system.
- Network building – Internally find and implement in all major markets best practice on how to build, maintain, and hand over a functioning network.

Code of Conduct related projects

The overtime project in China

Below you find a general outline of this project. After phase four is completed, we will summarize the results that are expected to be included in our CSR-report 2004.

This project, as the name reveals, is trying to improve the situation regarding excessive and compulsory overtime. This is a problem in many countries, among them China. Impactt, a UK based organisation specialising in improving labour standards, has initiated the project, designed the methodology and is working in partnership with Chinese institutions. Impactt has convened a group of 5 purchasing companies - Debenhams, H&M, New Look, Pentland and Sainsbury - to work together to help supplier factories find ways of reducing excessive overtime working whilst maintaining appropriate wage levels. It is clear that asking factories to cut overtime, without addressing the causes of long working hours, will reduce workers wages and cause workers to leave the factory. The project aims to tackle some of the underlying factors which drive high levels of overtime by providing technical assistance on productivity, human resource management and improving management/labour relations in order to reduce the need for long overtime hours, without dramatically cutting wages.

The objectives are to build:

- A model process for negotiating on overtime in factories
- A model process for allowing workers to exercise choice on whether they work overtime and how many hours they work
- An opportunity for factory managers to investigate ways of bringing hours of work and payment into line with the law without negative effects on their business.

The project consists of four phases:

- Phase one: identifying factories and project partners (completed May 2001)
- Phase two: benchmarking the current situation in the factories (completed October 2001)
- Phase three: Driving improvements (completed December 2002):

This will consist of:

- Training course for factory managers on effective human resource management
- Productivity consultancy in each factory carried out by the Hong Kong Productivity Council. This will consist of evaluation, recommendations, and implementation support. HKPC will also provide training for management and supervisors.

- Consultative PRA¹¹ exercises with workers and management in each factory to begin to empower and involve workers changing their working conditions. These will be carried out by the Centre for Community Development Studies, Yunnan.
 - Negotiations in each factory on reducing overtime, paying overtime premium and bringing in choice for workers on overtime working. The purchasing company will attend these.
- Phase four: Measuring change (April 2003)

Freedom of Association in Export Processing Zones (EPZ) in Bangladesh

Freedom of Association is not permitted in Bangladesh Export Processing Zone. Since 1999 we have been in contact with BEPZA (Bangladesh Export Processing Zone Association) in order to make them understand H&M's view on this subject. We can now see actual transformation gradually take place. BEPZA instructs their members to implement Workers Welfare Committees (WWC) as a part of facilitating the implementation of labour unions that will be approved from January 2004.

H&M is now requiring new potential suppliers in EPZ's in Bangladesh to verify a number of issues concerning for example:

- Elections to WWCs
- WWC-meetings
- Education regarding the matters of a WWC
- Adherence to the law that will come in 2004

Furthermore, a pilot project has been initiated together with a consultancy organisation. The project aims at capacity building of Workers' Welfare Committees. Furthermore, apart from the obvious aim of implementing the WWC, an important purpose with the project is to find a methodology that is applicable in similar cases.

¹¹ PRA – Participatory Rural Appraisal

Global Compact and the OECD Guidelines for Multinational Enterprises.

H&M supports the nine principles of the UN's Global Compact and the OECD Guidelines for Multinational Enterprises. Supporting these internationally recognized charters means that H&M, as a company, explicitly adhere to the values these charters express.

Therefore, we wish to describe our positions and actions undertaken that provides support to the nine principles and the OECD Guidelines. These charters are multi-faceted. Hence, expectations on what we should report on will vary. We will be grateful to receive any comments regarding any apparent omissions in this regard. All the same, we also appreciate to be provided with positive feedback.

However, the entire CSR-report is dealing with the provisions of these charters. The Principles of the UN's Global Compact and the provisions of the OECD guidelines will either be treated one by one or in groups. The headlines from the 9 principles and the OECD Guidelines are used to make it possible for the reader to find the relevant passage from these charters. However, the full text from these charters will not be reproduced.

Global Compact's 9 principles

Principle 1, 2, 3, 4, 5 and 6:

- ❑ To support and respect the protection of internationally proclaimed human rights within their sphere of influence.
 - ❑ To make sure they are not complicit in human rights abuses
 - ❑ Uphold freedom of association and effectively recognize the right to collective bargaining;
 - ❑ Promote the elimination of all forms of forced and compulsory labour;
 - ❑ Promote the effective abolition of child labour; and
 - ❑ Uphold the elimination of discrimination in respect of employment and occupation.
- As a policy, widely communicated, H&M's Code of Conduct serves as a non-negotiable standpoint. Here H&M makes clear that "We have to make sure that nobody whose work is contributing to our success, is deprived of his or her human rights, or suffers mental or bodily harm. The monitoring and sanction system is there to ensure that our Code of Conduct is being implemented and is vital in improving the actual conditions in the supply chain.

- Child labour is a challenge for the garment producing industry in developing countries. However, due to very clear communication, unannounced inspections, and severe sanctions from H&M, child labour is very rarely found.
- Compulsory and forced labour as we know it are not commonplace in the textile producing industry. The problem with certain sorts of compulsory or forced labour is that it is quite difficult to detect. Through monitoring crosschecks, demands on our suppliers etc we make it clear that human rights abuses are not acceptable.
- Freedom of Association in Export Processing Zones (EPZ) in Bangladesh is a right that currently is banned. H&M has initiated a pilot project together with a consultancy organisation. The project aims at capacity building of Workers' Welfare Committees. An important purpose with the project is to find a methodology that is applicable in similar cases (e.g. China). Furthermore, H&M is now requiring new potential suppliers to present proof that shows that they are taking this matter seriously. Labour unions will be approved by BEPZA¹² from January 2004.

- To uphold the elimination of discrimination in respect of employment and occupation is a challenging task for anyone who really understands the notion of discrimination. To uphold the elimination of discrimination in a supply chain is even more difficult. Here educational efforts play a more important role than monitoring efforts due to the difficulties in detecting discriminatory behaviour.

Nevertheless, we have made an effort in checking if the dismissal of pregnant women occurs. In addition, when different ethnic groups are present in one workplace, we try to make sure that no group is discriminated concerning wages paid. These two examples illustrate how we are dealing with discriminatory issues in our supply chain.

- In 2002, three BSR-workshops were held where some managers of our suppliers were present. At every BSR-workshop the declaration on fundamental principles and rights at work are presented and discussed.
- In H&M's sales countries legislation, ombudsmen and collective agreements are at work to uphold these principles.

¹² BEPZA stands for Bangladesh Export Processing Zones Association

Principle 7,8 and 9

- ❑ Support a precautionary approach to environmental challenges
 - ❑ Undertake initiatives to promote greater environmental responsibility
 - ❑ Encourage the development and diffusion of environmentally friendly technologies
- Our environmental policy and our environmental objectives are stressing the importance of applying a precautionary approach out of the respect for nature. We also consider it important to promote the awareness among employees and suppliers, and through various purchase requirements impose environmentally friendly technologies to be used by our different suppliers. The subsequent examples illustrate the environmental work that constitutes our policy and objectives.

- Through our chemical restrictions, we are not only applying a precautionary approach by banning and restricting chemicals that may not necessarily be legally prohibited. We are also managing our supply-chain; through the diffusion of know-how, making the suppliers take a greater environmental responsibility.

- Our minimum environmental requirements for Road Transport Providers, IT-products, and shop-interior are other ways of promoting and encouraging greater environmental responsibility and the development of environmentally sound technologies.

The OECD Guidelines for Multinational Enterprises

General Policies

- This entire report addresses H&M's respect for human rights, our contribution to sustainable development and the other provisions mentioned under this chapter.

Disclosure

- This report, together with our annual report and the information provided at our web site should mirror our standards on disclosure, audit and accounting concerning both regarding financial and non-financial information.

Employment and Industrial Relations

- See our enclosed Code of Conduct

Environment

- See Environmental Management.

Combating Bribery

- H&M does not give or take any form of bribes. We dissociate ourselves from all types of corruption. This is valid for every individual

employed by H&M, regardless of business area or position.

Consumer interests

- The customers'/consumers' interest is always in focus at H&M. Many of their interests are addressed in the chapter about Product Responsibility.

Science and Technology

- Through various H&M requirements towards our suppliers and their subcontractors (Code of Conduct, Chemical restrictions etc) the diffusion of technologies and know-how is supported. H&M is obviously not a technology intensive company, which limits the relevance of this issue.

Competition

- H&M performs business in a competitive manner and follow all applicable competitions laws.

Taxation

- H&M complies with the tax laws and regulations in all countries where we operate. H&M always pay taxes timely. We provide the relevant authorities the information necessary for the correct determination of taxes in connection with our operations.

Community Involvement

Social development projects

Vocational training in Bangladesh

Children in Bangladesh are working for a multitude of reasons ranging from poverty and ignorance, to lack of access to educational opportunities. However, it may be noted that a vast majority of the children asserted that given the opportunity, they would attend school. Consequently, as a part of H&M's social responsibility program, we are financing development projects that are related to our Code of Conduct and the abolition of child labour.

Vocational training for young textile workers in Bangladesh is one example. The program is intended to train ex-child labourers who previously lost their job due to under age. The children have been given basic education in the so-called MOU13-schools.

H&M's training project includes a four-month theoretical and three-month practical program that leads to guaranteed employment as a machine operator at one of H&M's suppliers. H&M pay the



¹³ MOU – Memorandum Of Understanding

students' wages during the course as a means of support to their families. The project began in spring 1999 and as of today, the 9th batch of students just completed their training. Currently around 50 students trains in each class, divided on two locations in Dhaka. H&M has engaged highly qualified persons to set up the training centre. A consultant who has previously worked in similar projects for ILO and other UN agencies developed the training program. The head of the centre is also highly qualified from previous work with ILO and UCEP.

This kind of project makes possible a long-term commitment that enables us to develop models for sustainable social development. The need for vocational training in Bangladesh is enormous. Garments being the country's leading export, it is important for the future of the country to increase the level of skills in the garment industry. In line with our expectations and goals, the education level for the students, theoretically and practically, have improved. In addition, awareness has been raised for education among the students' guardians. The students are not only trained to be first grade sewing operators, but are also taught to be positive thinkers and socially aware.

Sponsored projects

Rural development project in Delhi

In rural parts of India, there are villages that remain completely outside of modern society. They have no electricity, sewerage, health care, medical treatment, government schools, etc. Women are often particularly vulnerable in such villages. For cultural and religious reasons, girls are not allowed to travel to the nearest town to go to school. The women of the village often supplement the family income with some kind of home working, which frequently means that older daughters have to take care of the children and housework rather than going to school if there is a school at all.

A UNDP study supported by H&M was conducted by three local NGOs (contracted by UNDP) in 1999-2000 in 20 villages. The study recommended a community development project for poverty alleviation in 6 out of these villages. The village project was initiated in January 2001.

H&M is now financing this three-year project in northern India, which specifically hopes to improve conditions for women in selected villages around New Delhi. The project aims to strengthen the women's situation and to prevent the use of child labour. The project organizes education in health matters, woman's rights, and the consequences of child labour

as well as investing in local teaching facilities and providing older children with computer training. Another challenge of this project is to create a model, that protects the rights of women and children, which can be applied to other villages under the same conditions.

Child prevention project in Southern India

For the third consecutive year H&M is donating 45 000 Euro to Terre des hommes in Germany. The money will go to a local Indian organization in southern India that works on preventing child labour in Tiripur, where a lot of textiles are produced.

The project aims at persuading parents to allow their children to go to school rather than working. Through organizing evening classes and weekend activities for the children, the Indian organization works to enable children to return to normal schooling as quickly as possible.

H&M has chosen to support the Indian organization via Terre des hommes in Germany, which works to help vulnerable children around the world. It works not just on the problem of child labour, but also on other important child issues such as child soldiers and child prostitution.

CSR-Initiatives - a few examples from our Sales Countries

- H&M Sweden supported the organisation Mentor with 1,5 million SEK in 2002.

Mentor works to reduce drug abuse among young people. Their preventative work is focused on building strong individuals. Together with companies, schools and parents, Mentor is running two major drug preventive programs. Hundreds of various experts comprise the Mentor network.

- H&M Switzerland cooperated with Switzerland's Federal office for public health (StopAids)

All H&M shops in Switzerland were used as a communication platform during two very busy Saturdays in December. The sales staff was wearing a special "StopAids" t-shirt. Customers (except children) received a condom and a card to enable participation in a web-based contest. Before this event, The Federal office for public health sent out a press release to all medias.

The broad target of this event was to lead people to the StopAids website. The response was impressive. 10.000 people participated in the web-based contest. In addition, the reaction from media and our business partners were positive. Equally important, our staff was motivated to be part of this cause.

- H&M Norway and H&M Denmark has together supported the Breast cancer awareness campaign with approximately 500.000 SEK in 2002.
- H&M England has supported Fashion Targets Breast Cancer with approximately £8.000.

H&M donates clothes to charity

Every year major tragedies occur around the world. Naturally, this contributes to a great need of clothing for victims of war and natural catastrophes. H&M continues to donate clothes to those in need.

H&M's fierce 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 stores.

We have signed an agreement with a reputable aid organization in each sales country and large quantities of new clothes have been sent to those in need through these organizations in recent years.

It is understood that we never give away clothes that contain dangerous chemicals or that are otherwise classed as hazardous waste. Such garments are destroyed.

Cause Related Marketing

The WaterAid Project

Safe water is something many of us take for granted. However, in many parts of Asia and Africa, women and children may have to travel for hours to reach the nearest source of clean water. The British charity WaterAid, with its partners in fifteen countries, help to prevent death and the spread of disease by providing safe domestic water supplies and better sanitation in poor areas.

In 2002 H&M donated 10% of the selling price of a bikini to WaterAid. The total donation was more than GBP 30,000. WaterAid is running one of their projects in the slums of Dhaka where short supply of clean water has caused severe diseases and high infant mortality. Bangladesh is one of H&M's main production countries in Asia, and we have chosen to donate the money to WaterAid's project in Dhaka, in order to support the community in an area where our garments are produced.

Product Responsibility

Customer Health and Safety

Quality controls

H&M sets high quality requirements. At the buying office in Stockholm there are about 20 people supporting the production offices in quality related issues. They are textile engineers, chemists, designers, and all experienced. To ensure the quality of all products at the production stage, we have 110 quality controllers employed in the production offices that regularly go to the factories to control and correct any quality problems in the course of production. We also, most often, carry out a final inspection before the goods are shipped. H&M uses the AQL¹⁴-system 2.5 to decide whether the quality level is acceptable for shipment.

H&M demands of all suppliers to have a built-in quality control system in each factory. This system, called GPQ (Guidelines for Production and Quality Control), is coordinated with the system the 110 H&M Quality Controllers use when checking the production. The main purpose is to detect any quality problems as early as possible in the production and to correct

them. The goods are controlled at several stages during production including packing stage.



¹⁴ AQL= Acceptable Quality Level

Quality testing

Samples of every product in H&M's collections undergo a number of quality and safety tests. 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-button. Flammability tests are performed to check that the garment is not easily flammable. Final quality control takes place at our distribution centres before the garments are distributed to the stores. During 2002 approximately 500 000 tests were performed, mainly at our 17 Production Office labs, but also at some external laboratories.

Children's safety

Children's clothes must meet particularly high safety requirements. It is our constant goal to have baby's- and children's wear designed and made with safety in mind. All suppliers of baby and children garments must sign H&M's Safety Requirements for Baby's- and Children's wear. There are no international standards for Children Safety. Some countries have national standards, whereas we at H&M always follow the one of our selling countries that has the strictest safety regulations.

At every production office there is a person responsible for children's safety. A majority of designers, buyers, and staff at our production offices have been educated in issues concerning children's safety. New employees are also getting this training. Every supplier of children's and baby garments must receive a special children's safety training in order to qualify as a supplier for children's garments.

Furthermore, on the request of SIS (Swedish Standards Institute) and BSI (The British Standards Institution) H&M participates in the work to establish safety standards for baby and children's garments. This work is organized by CEN – The European Committee for Standardization.

Some examples of H&M's children safety requirements that illustrate our dedication:

- H&M pays extra attention to hoods and drawstrings in order to avoid situations where the construction of the garment increases the risk for entrapment or suffocation. Buttons and snap buttons must be securely fastened.
- The supplier must make sure that no details on the garments have sharp edges or sharp points
- All sewn on buttons, press buttons, ribbons, etc. are tested according to the standard for small parts and must also be securely fastened to withstand normal wear and wash.

- H&M is trying to avoid too many details and decorations on Baby and Children garments to prevent them from being a safety risk.
- Before packed and exported all Baby and Children garments are going through a needle detector machine, which detects any small fragment of metal such as broken needles.

We should underline that H&M reserves the right to cancel the order or, if already delivered, return the goods if any of the conditions in H&M's safety requirements for children's and baby wear will fail in a test according to mentioned standard for small parts.

H&M also holds the supplier responsible for any consequences caused by products that do not meet our requirements.

Care Label instructions

As in all our work with quality, also our work on labelling is strongly customer orientated. Since autumn 2002, in correspondence with American regulation, all garments are labelled with country of origin information. However, no matter where the garments are produced, our quality requirements are the same. Furthermore, our long-term goal is that wearing and caring of our garments should be simple and comfortable in the everyday life of all our customers.

On children's wear, our goal is that all garments should be washable in 60 degrees as well as suitable for tumble-drying. Today the majority of them are washable in 60 degrees. In addition, the vast majority of H&M clothing can be machine-washed and does not have to be dry-cleaned.

Chemical restrictions

H&M has, with the 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, established Chemical Restrictions for textile, leather, plastic and metal products.

H&M's suppliers contractually guarantee not to use certain chemicals in production. These chemicals are, or could be hazardous to health and environment. Particular consideration is given to substances that could cause skin irritation or allergies or that may be carcinogenic. The precautionary principle is guiding our work when restricting chemicals. The restrictions therefore include both chemicals restricted by law, and chemicals we have chosen to include for precautionary reasons. As an important part of H&M's long-term work against allergies, we are participating in work aimed at establishing reliable standards for testing allergenic substances.

We require compliance with these restrictions from all our suppliers, and all suppliers must sign the Chemical Restrictions Compliance Commitment and/or Restrictions for Cosmetic and Hygiene Products. In this way we also contribute to reducing the environmental impact of the production stage, as well as in the incineration and recycling of worn-out clothing.

Tests are performed to check that the banned chemicals are not present in the garments. PH, PVC, AZO and Formaldehyde are some of the most common.

The phase out of PVC

In the mid-1990s H&M decided to gradually remove all PVC products from the range for environmental and health reasons. PVC - short for polyvinyl chloride - is a plastic that is used in items such as rainwear, imitation leather, bags and cosmetics bags as well as in prints on T-shirts. It is also often found in various types of packaging. From 1 January 2002 H&M does no longer sell products containing PVC.

The tests are carried out partly in H&M's own laboratories and partly by external laboratories. Considering the number of styles and garments H&M is selling, naturally the number of tests is large. We have estimated that approximately 30,000 chemical related tests were performed during 2002. In addition, the nickel release is checked in jewellery and metal details in contact with the skin. Samples from every order are tested.

Our chemical restrictions are continuously updated, with new substances being added on a regular basis. In 2001 H&M entered into cooperation, through BSR, with a number of companies, to establish common restrictions. These restrictions are now finalized and can be viewed as an industry standard and a minimum level. The list is predominantly based on worldwide legislation¹⁵ and regulations, while also maintaining a perspective on legislative trends and stakeholder concerns which is indicated by the fact that H&M has gone further than the agreed restrictions stipulates.

The chemicals currently included in our chemical restrictions are listed below. The list was latest updated in May 2002. The restrictions are applied to the various products in our product range according to relevance and risk. The limits and test methods are

also defined as per tested material, legislation, technical feasibility etc.

Co-operations

A proactive work in the areas of quality, health and safety is essential and given a high priority within H&M. Nevertheless, in order to stay ahead in this area, a close co-operation and exchange with relevant authorities is crucial. Our co-operation and knowledge exchange with the U.S. Consumer Product Safety Commission (CPSC), the National Chemicals Inspectorate in Sweden, and other similar organisations help us to become a leader in the field.

¹⁵ If law in one of our sales countries restricts a chemical, we always follow the same restriction for all our sales countries.

Products and Services

Animal rights

H&M acknowledges fair treatment of animals. When documented unfair treatment of animals has been brought to our attention, we have made decisions that minimize the risk for H&M to be complicit to the mistreatment. H&M does only accept leather and fur from animals that are used for meat-production. H&M does not accept any leather production in India due to the alleged bad conditions in which the animals are transported.

Animal testing

H&M does not allow animal testing on cosmetic and hygiene products, either during production or of 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 by H&M itself. Products are always assessed for their safety and quality. H&M has had a policy on animal testing since mid 1990's. This policy forms part of H&M's restrictions for cosmetic and hygiene products¹⁶. All

¹⁶ H & M Hennes & Mauritz AB and H & M Rowells AB Restrictions for Cosmetic and Hygiene Products.

suppliers of H&M's own cosmetic and hygiene products have to abide by these restrictions. The supplier also has a duty to inform his subcontractors of H&M's restrictions and ensure that they abide by them.

Advertising policy

Every year, we communicate H&M's business concept, "fashion and quality at the best price" through different advertising campaigns throughout Europe and parts of the U.S.A. Our advertising is clear and simple and aims to inform our customers about H&M's new products while representing who we are and what we stand for. We present the latest fashion and the price of the garment.

Our advertisements are produced centrally in Sweden by H&M's advertising department in cooperation with internal and independent creators. Our advertising is in large part identical in all of H&M's markets, but the medium used varies according to local needs and necessities. We have opted to follow the International Chamber of Commerce's basic rules for advertisement.

Our marketing is very influential. It is therefore essential for us to convey a positive, healthy image. H&M's advertising photos do not aim to convey a specific ideal. We portray different characterizations and a mix of different looks and styles for our variety of concepts for women, kids, men, and teenagers.

The models portrayed in our advertisements should be healthy and wholesome. H&M deliberately distances itself from drug and alcohol abuse. Our models are chosen in cooperation with internationally recognized modelling agencies and our own representatives. The agencies we rely on must guarantee that none of their models suffer from eating disorders or drug or alcohol abuse. The reason why we use professional models is that they are accustomed to working in front of a camera and are therefore able to do justice to our garments. By working with professional models, photographers and stylists, we communicate our fashion and quality in a clear and inspiring manner. We have special guidelines when it comes to advertising our "kids" concept. Our target group is parents, not children. This means that we place our advertisements in media that are not directly focused on children. We are careful to make sure that the children appearing in our advertisements choose freely to participate. A representative from H&M is always present during

child photo sessions to ensure the seriousness of the session and the children's safety. We market clothing for both boys and girls in different age groups. We reflect diversity in society by using children from different cultural backgrounds.

H&M follows the International Chamber of Commerce's basic rules on advertising.

H&M Product Policy

Kids wear: H&M's children's clothes must be comfortable and practical. We do not make clothes that may be perceived as provocative on small children.

War-inspired garments: H&M has decided not to use camouflage patterns on our garments.

Offensive patterns: Prints on tops and other garments must not be offensive, racist, sexist, political or religious.

Report Profile

The GRI-Guidelines

The Sustainability Reporting Guidelines by GRI has inspired this report. For the future, H&M is considering whether to report in accordance with the Reporting Guidelines.

Additional Information

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

- The annual report 2002
- www.hm.com
- The brochure "Our responsibility" that can be downloaded from www.hm.com/csr

Independent Assurance

This report is not assured by an independent third party.

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Report Scope

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Reporting Period:

Financial data: 2001-12-01 – 2002-11-31
Other data: 2002-01-01- 2002-12-31

Previous report:

CSR-Report 2001

Significant Changes:

To the best of our knowledge there have been no significant changes to the company's structure, ownership, products and services that have occurred since the previous report.

Selling Countries and Production Office Countries 2002

Turnover incl. VAT 2002 (SEK m)

Sweden	5,787
Norway	4,114
Denmark	2,472
United Kingdom	4,605
Switzerland	3,563
Germany	16,108
Holland	3,494
Belgium	1,829
Austria	3,848
Luxembourg	223
Finland	1,224
France	2,972
U.S.A.	2,380
Spain	713

Our Production Offices are located in:

Bangladesh
Bulgaria
Cambodia
China
Greece
India
Indonesia
Italy
Lithuania
Mauritius
Portugal
Romania
South Korea
Turkey

CSR initiatives and corporate memberships

CSR-initiatives

- H&M is supporting the 9 principles of the Global Compact. (<http://www.unglobalcompact.org/Portal/>)
- H&M is supporting Swedish Partnership for Global Responsibility (<http://www.utrikes.regeringen.se/ga/>)
- H&M is supporting OECD's guidelines for multinational enterprises (<http://www.oecd.org>)



H&M is included in the following indexes

- Dow Jones Sustainability Indexes
- FTSE4Good Index series
- Ethibel Sustainability Indexes
- Humanix 50 Sweden

Memberships

- H&M is a member of Business for Social Responsibility (BSR). (<http://www.bsr.org>)
- H&M is a member of Amnesty Business Forum in Sweden. (<http://www2.amnesty.se/businessgroup.nsf>)
- H&M is a member of The Swedish Association of Environmental Managers (NMC). (<http://www.nmc.a.se/>)
- H&M is a member of the Confederation of Swedish Enterprise (<http://www.svensktnaringsliv.se/>)
- H&M is a member of the Swedish Federation of Trade (<http://www.svenskhandel.se/>)
- H&M is a member of the Textile importers' association in Sweden (<http://www.textileimporters.se/>)

Subscriptions

Magazines

- Ethical Corporation Magazine
- MiljöRapporten - A magazine covering environmental issues. Comes out with 15 issues per year plus the yearly edition of "Miljöguiden".
- Miljö Eko - A magazine covering environmental issues. Published 6 times yearly.
- Tomorrow - Global Sustainable Business Magazine

Newsletters

- BSR – Newsmonitor
- CSRWire Weekly Alert - e-newsletter from SRI World Group, Inc.
- Dow Jones Sustainability Index Quaterly Newsletter/Monthly update
- ENDS - Environment Daily - Europe ´s Environmental News Service
- Etik och Affärer – Newsletter
- Etik&Miljö
- Greenbuz - A newsletter from Greenbiz.com - the resource center on business, the environment and the bottom line.
- GRI(Global Reporting Initiative)-news updates
- Social Accountability International & SA 80000 e-Update
- SRI News - A socially responsible investment and business news service of SRI World Group, Inc.
- Svenska Naturskyddsföreningen - SNF - e-newsletter
- Swedwatch – Newsletter
- Transparency International Newsletter

Glossary

AQL

Acceptable Quality Level

Business for Social Responsibility (BSR)

Business for Social Responsibility (BSR) is a global non-profit organization that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. BSR member companies have nearly \$2 trillion in combined annual revenues and employ more than six million workers around the world.

Child Labour

See the following ILO Conventions for further information.

- C138 Minimum Age Convention, 1973
- C182 Worst Forms of Child Labour Convention, 1999

CSR (Corporate Social Responsibility)

H&M defines 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

Declaration on Fundamental Principles and Rights at Work

The Declaration on Fundamental Principles and Rights at Work is a reinvigorated commitment by the International Labour Organization to the values of the ILO Constitution.

A universal consensus now exists that all countries, regardless of level of economic development, cultural values, or number of ILO Conventions ratified, have an obligation to respect, promote, and realize the following fundamental principles and rights:

- Freedom of association and the effective recognition of the right to collective bargaining;
- Elimination of all forms of forced or compulsory labour;
- Effective abolition of child labour; and
- Elimination of discrimination in respect of employment and occupation.

Discrimination

Discrimination refers to any distinction, attitude, or action with the effect of excluding individuals or groups from enjoying opportunities and benefits arising out of employment or occupation.

See the following ILO Convention for further information.

- C111 Discrimination (Employment and Occupation) Convention, 1958

Dow Jones Sustainability Index

The Dow Jones Sustainability Indexes are focused on meeting the financial market's demands for:

- Rational, consistent, flexible and, most importantly, investable indexes to benchmark the performance of investments in sustainability companies and funds.
- Independent reliable indexes as a basis for derivatives and funds focused on sustainability companies.

Environmental Impact Assessment (EIA)

"...a process of environmental planning that provides a basis for resource management to achieve the goal of sustainability" (Smith, 1993: 95).

Ethibel Sustainability Index

The Ethibel Sustainability Index (ESI) provides a comprehensive perspective on the financial performance of the world's leading companies in terms of sustainability for institutional investors, asset managers, banks, and retail investors.

The Ethibel Sustainability Index (ESI) groups four regional indexes: ESI Global, ESI Americas, ESI Europe, and ESI Asia Pacific.

Forced Labour

Forced labour is all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily.

See the following ILO Convention for further information.

- C105 Abolition of Forced Labour Convention, 1957

Freedom of Association

See the following ILO Conventions for further information.

- C87 Freedom of Association and Protection of the Right to Organise Convention, 1948
- C98 Right to Organise and Collective Bargaining Convention, 1949
- C154 Collective Bargaining Convention, 1981

FTSE4Good

FTSE4Good is an index series developed by Financial Times Stock Exchange, which aims to set a global standard for socially responsible investment (SRI).

Global Reporting Initiative (GRI)

GRI is an independent global institution developing a generally accepted framework for sustainability reporting.
www.globalreporting.org

Humanix

The main purpose of Humanix is to offer Ethical Indices. Humanix is owned to 75% by NGOs (Non Governmental Organizations). The organizations are:

- Church of Sweden Mission
- Church of Sweden Aid
- Diakonia
- Swedish Red Cross
- Save the Children, Sweden
- WWF World Wide Fund for nature, Sweden

The NGO's have jointly formulated the Humanix Ethical Criteria. An independent screening company performs the ethical screening of the enterprises. Humanix has an ethical board composed of representatives from all NGO's. The Ethical Board evaluates which companies can be part of Humanix indices and funds that track Humanix indices.

Human Rights

As defined by the Universal Declaration of Human Rights, 1948

ILO – International Labour Organisation

The International Labour Organization is the UN specialized agency which seeks the promotion of social justice and internationally recognized human and labour rights. It was founded in 1919 and became the first specialized agency of the UN in 1946.

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 the entire spectrum of work related issues.

ISO 14001

ISO 14001 is an environmental management standard

Life Cycle Analysis

“A system-oriented approach estimating the environmental inventories (i.e. waste generation, emissions and discharges) and energy and resource usage associated with a product, process or operation throughout all stages of the life cycle. “ (EEA, 1996)

OECD'S Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises contain non-binding recommendations by governments to multinational enterprises operating in or from the 33 adhering countries – the OECD members as well as Argentina, Brazil and Chile. They are complemented by implementation procedures whereby adhering governments agree to promote observance of the Guidelines.

Production units

This term is used to describe factories producing clothes for H&M, whether it is a supplier's factory or a subcontractor's factory.

PVC – Polyvinyl chloride

Plastic material.

Suppliers

Suppliers are companies that have a direct business relationship to H&M. These companies may have factories of their own or they subcontract parts or their entire production. All variants exist, depending upon country.

Sustainable Development

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (The Brundtland Commission, 1987)

Stakeholder

“Any group or individual who can affect, or is affected by, the achievement of an organisation’s purpose” (Ed Freeman, 1984)

Sub-contractors

Sub-contractors are companies that have been subcontracted by our suppliers. They do not have a direct business relationship with H&M.

Transportation service providers

A term that covers transport companies, forwarders, consolidators etc.

UN Global Compact

The Global Compact is a voluntary corporate citizenship initiative with two objectives:

- Making the Global Compact and its 9 principles part of business strategy and operations.
- Facilitating cooperation among key stakeholders and promoting partnerships in support of U.N. goals.

Enclosure #1: Code of Conduct

INTRODUCTION

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 is contributing to our success is deprived of his or her human rights, or suffers mental or bodily harm.

In order to make our position clear to our suppliers, our own staff, as well as any other parties, we have set up a Code of Conduct. It is a non-negotiable requirement from our side that all our suppliers and their subcontractors, without exception, should follow this code.

1. LEGAL REQUIREMENTS

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.

2. CHILD LABOUR

2. 1 Policy

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.

2.2 Definition

We define, in this context, the word "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.

2.3 Implementation of H&M's policy on Child labour

H&M does not accept child labour.

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 NGO's (Non Government Organisations) in third world countries, to try to improve the situation for the children affected by our ban on child labour.

If a child (see definition under 2.2) is found working in any of the factories producing our garments, we will request the factory to make sure that the measures taken are in the child's best interest. We will, in co-operation with the factory, seek to find a satisfactory solution, taking into consideration the child's age, social situation, education, etc. We will not ask a factory to dismiss a child without a discussion about the child's future. Any measures taken should always aim to improve, not worsen, each individual child's situation. Any costs for education, etc. have to be paid by the factory.

We will firmly demand that the factory employs no further children.

We recommend factories with predominantly female workers to arrange day care for children below school age.

2.4 Enforcement

If a supplier does not accept our policy on child labour, we will not continue our co-operation with this supplier.

2.5 Apprenticeship programmes

In countries where the law permits apprenticeship programmes for children between 12 and 15 years of age, we will accept that children of this age work a few hours per day. The total numbers of hours daily spent on school and light work should never exceed 7 (seven) hours (ILO convention No. 33). The factory must be able to prove that this work is not interfering with the child's education, that the work is limited to a few hours per day, that the work is light and clearly aimed at training, and that the child is properly compensated. If

we have any reason to doubt that these conditions are met, such apprenticeship programmes will not be accepted in factories producing garments for H&M.

2.6 Special recommendations

We acknowledge, that according to the UN Convention on the Rights of the Child, a person is a child until the age of 18. We therefore recommend our suppliers to make sure, that employees in the age group 15-18 years are treated accordingly. Limits for working hours and overtime for this age group should be set with special consideration to the workers' low age.

3. SAFETY

3.1 Building and Fire Safety

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

The factory should have clearly marked exits, and preferably emergency exits on all floors. All exit doors should open outwards. Exits should not be blocked by cartons, fabric rolls or debris, and should be well lit. If emergency exits are locked, the keys should be placed behind breakable glass next to the doors, and thus be available to all staff at all times.

All workers should be aware of the safety arrangements in the factory, such as emergency exits, fire extinguishers, first aid equipment, etc. An evacuation plan should be displayed in the factory, the fire alarm should be tested regularly, and regular evacuation drills are desirable.

3.2 First Aid

First aid equipment must be available in each factory, and at least one person in each department should have training in basic first aid.

It is recommended that a doctor or nurse should be available at short notice, in case of an accident in the factory. The employer should pay any costs (not covered by the social security) which a worker may incur for medical care, following an injury during work in the factory.

4. WORKERS' RIGHTS

4.1 Basic Rights

All workers producing garments for H&M should be entitled to his or her basic rights:

4.1.1 We do not accept that bonded workers, prisoners or illegal workers are used in the production of goods for H&M.

4.1.2 If foreign workers are employed on 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.

4.1.3 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.

4.1.4 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.

4.1.5 No worker should be discriminated against because of race, gender, religion or ethnic background. All workers with the same experience and qualifications should receive equal pay for equal work.

4.1.6 All workers should be entitled to an employment contract.

4.2 Wages and Working Hours

4.2.1 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.

4.2.2 Weekly working time must not exceed the legal limit, and overtime work should always be voluntary and properly compensated.

4.2.3 The workers should be granted their stipulated annual leave and sick leave without any form of repercussions.

4.2.4 Female workers should be given their stipulated maternity leave in case of pregnancy.

4.2.5 Dismissal of pregnant female workers is not acceptable.

In developing countries, we recommend our suppliers to provide the workers with at least one free meal daily.

5. FACTORY CONDITIONS

5.1 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.

5.2 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.

5.3 The lighting in each workplace should be sufficient for the work performed, at all times of day.

5.4 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.

6. HOUSING CONDITIONS

If a factory provides housing facilities for its staff, the requirements regarding safety and factory conditions, under point 3 and 5 above, should also cover the housing area.

All workers must be provided with their own individual bed, and the living space per worker must meet the minimum legal requirement.

Separate dormitories, toilets and showers should be provided for men and women.
There should be no restriction on the workers' right to leave the dormitory during off hours.

We want to particularly stress the importance of fire alarms, fire extinguishers, unobstructed emergency exits and evacuation drills in dormitory areas.

7. ENVIRONMENT

The environment is of increasing concern globally and H&M expects its suppliers to act responsibly in this respect.

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.

8. MONITORING AND ENFORCEMENT

8.1 The principle of trust and co-operation

H&M expects all its suppliers to respect the above Code of Conduct and to actively do their utmost to achieve our standards. We trust our own staff to take a lot of responsibility in their work, and we expect from our suppliers that they do the same. We believe in co-operation and we are willing to work with our suppliers to achieve workable solutions in each individual case.

We are willing to take into consideration cultural differences and other factors which may vary from country to country, but we will not compromise on our basic requirements regarding safety and human rights.

8.2 Monitoring

All suppliers are obliged to always keep H&M informed about where each order is being produced. H&M reserves the right to make unannounced visits to all factories producing our goods, at any time. We also reserve the right to let an independent third party (e.g. a NGO) of our choice make inspections, to ensure compliance with our Code of Conduct.

8.3 Non-compliance

Should we find that a supplier does not comply with our Code of Conduct, we will terminate our business relationship with this supplier, if corrective measures are not taken within an agreed time limit.

If we find repeated violations, we will immediately terminate the co-operation with the supplier and cancel our existing orders.

Enclosure # 2: Restricted Chemicals

SUBSTANCES	SUBSTANCES	SUBSTANCES
<p>Azo dyes</p> <p>4-Aminodiphenyl Benzidine 4-Chloro-o-Toluidine 2-Naphthylamine o-Aminoazotoluene 2-Amino-4-nitrotoluene 2,4-Diaminoanisole 4,4'-Diaminodiphenylmethane 3,3'-Dichlorobenzidine 3,3'-Dimethoxybenzidine (o-Dianisidine) 3,3'-Dimethylbenzidine (o-Tolidine) 3,3'-Dimethyl-4,4'-diaminodiphenylmethane p-Chloroaniline p-Cresidine 4,4'-Methylen-bis-(2-chloroaniline) 4,4'-Oxydianiline 4,4'-Thiodianiline 2,4-Toluenediamine o-Toluidine 2,4,5-Trimethylaniline o-Anisidine p-Aminoazobenzene</p>	<p>Carcinogenic and/or Sensitizing Disperse Dyes</p> <p>Disperse Blue 1 Disperse Blue 3 Disperse Blue 7 Disperse Blue 26 Disperse Blue 35 Disperse Blue 102 Disperse Blue 106 Disperse Blue 124 Disperse Red 1 Disperse Red 11 Disperse Red 17 Disperse Orange 1 Disperse Orange 3 Disperse Orange 11 Disperse Orange 37/76 Disperse Yellow 1 Disperse Yellow 3 Disperse Yellow 9 Disperse Yellow 39 Disperse Yellow 49</p>	<p>Carcinogenic Dyes</p> <p>Acid Red 26 Basic Red 9 Basic Violet 14 Direct Black 38 Direct Blue 6 Direct Red 28</p>

SUBSTANCES	SUBSTANCES	SUBSTANCES
<p>Flame Retardants tris-(2,3,-dibromopropyl)-phosphate (TRIS) polybromobiphenyles (PBB) tris-(aziridinyl)-phosphineoxide (Tris(1-aziridinyl)phosphine oxide) or (TEPA) Pentabromodiphenyl ether (PBDE) Octabromodiphenyl ether (OctaBDE) bis (2,3-dibromopropyl)phosphate Tri-o-cresyl phosphate Tris(2-chloroethyl) phosphate (TCEP) Hexabromocyclododecane 2,2-Bis(bromomethyl)-1,3-propanediol Tris(1,3-dichloro-isopropyl) phosphate (TDCP) Chloroparaffines</p>	<p>Triclosane</p> <p>Distearyldimethylammoniumchloride (DSDMAC)</p> <p>Nonylphenol (NP)</p> <p>Nonylphenoethoxylates (NPE)</p> <p>Octyphenol (OP)</p> <p>Octylphenoethoxylates (OPE)</p> <p>Perfluoro-octane sulphonate (PFOS)</p> <p>Polyvinyl chloride (PVC) Total ban for all product groups since January 1st 2002.</p> <p>Bisphenol-A (BPA)</p>	<p>Toxic Metals Antimony (Sb) Arsenic (As) Barium (Ba) Cadmium (Cd) Chromium (Cr) Chromium VI (Cr6+) Cobalt (Co) Lead (Pb) Mercury (Hg) Nickel (Ni) Selenium (Se)</p>
<p>Formaldehyde</p>	<p>Phthalates di-isononyl phthalate (DINP) di(ethylhexyl) phthalate (DEHP) di-n-octyl phthalate (DNOP) di-iso-decyl phthalate (DIDP)</p> <p>butyl benzyl phthalate (BBP) dibutyl phthalate (DBP)</p>	<p>Pesticides Aldrine DDD DDE DDT Dieldrine DTTB - (Timiperone)</p> <p>Endrine Heptachlor Hexachlorobenzene α-Hexachlorocyclohexane β-Hexachlorocyclohexane δ-Hexachlorocyclohexane Lindane (= γ-Hexachlorocyclohexane)</p>
<p>Organotin Compounds Dibutyltin (DBT) Tributyltin (TBT) Tricyclohexyltin (TcyT) Trioctyltin (TOT) Triphenyltin (TPhT) Tripropyltin (TPT)</p>	<p>Polychlorinated Biphenyles (PCB)</p> <p>Polychlorinated Triphenyles (PCT)</p> <p>Chlorinated Bleaching Agents</p> <p>Chlorinated Aromatic Hydrocarbons</p>	

ADDITIONAL REQUIREMENTS
pH
No smell/odour abnormal for the product.
No detection of mould.
No change in colour caused by chemicals e.g. BHT.
Supplier must inform H&M before use of genetically modified fibres (GMO).