



H&M

**CONSCIOUS
ACTIONS**

**Sustainability
Report 2014**

Conscious Actions Sustainability Report 2014

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Interview with our CEO

What does sustainability mean to you?

My grandfather founded H&M in 1947. He often spoke about the importance of long-term thinking, not just about maximising short-term profits. He wanted to look at our customers and colleagues and feel good about the business – that it was run the right way. As CEO, I have a long-term perspective on H&M. And just like my grandfather, when one day looking back at my time at H&M, I want to feel proud of what we achieved. That we offer our customers great value for money, but also that we have a positive impact on the world.

How does sustainability fit into H&M's business idea?

Our business idea is to offer fashion and quality at the best price. It's about the best value, not the cheapest price. Sustainability is an important part of this. We know that our customers, just as our colleagues, care more and more about it. And while we must be realistic about the fact that most customers are not prepared to pay more for added sustainability value,



I am convinced that it will become an important differentiator in the future. But much more than that, in order to remain a successful business, we need to keep growing – and at the same time respect the planetary boundaries. So, there is no question that it makes clear business sense to invest in our sustainability.

What are the biggest challenges?

The fashion industry is too dependent on natural resources and we must

change how fashion is made. This is certainly a big challenge, but also a great opportunity. We want to go from a linear production model to a circular one. And we have to do it at scale. At the same time, we need to make sure that our growth helps the millions of people along our entire value chain to better lives and further improves their working conditions. Promoting fair living wages in our industry is an important part of this. Just as creating transparency, so that we can know exactly where each part of our products comes from as well as for our customers to be able to make truly informed choices.

Garment production can be a development escalator that show communities the way out of poverty. It's creating a lot of jobs, particularly for women. It's often their first paid job, so it's very often a great driver for independence and liberation.

That being said, we can't just lean back and be happy with the fact that there are a lot of jobs being created. It's a good starting point. From there, we need to ensure that these are good jobs that actually contribute to the development of people and their communities. And there are still a lot of other challenges connected to the garment industry – water impacts or textile waste just to mention a few. It's no easy task, but we need to continue tackling these, do it faster and together with a whole range of different stakeholders.

You mentioned fair living wages. H&M launched quite an ambitious roadmap in 2013 – how is it progressing?

We are seeing positive developments on many fronts. We started to test the so called Fair Wage Method, developed by the independent Fair Wage Network, in three role model factories, two in Bangladesh and one in Cambodia. These are factories where we have a five-year commitment and 100% of the capacity so we can have time to test this method and create best practice examples for our suppliers and our entire industry.

Although it's still early in the process, the initial results from the first factory that's been evaluated are promising. Overtime has been reduced by over 40%, wages have increased, pay structures have improved just as the dialogue between the management and workers. At the same time productivity has also gone up.

Based on what we have learned, we aim to scale this work up to all our strategic suppliers by 2018 at the latest, the first 60 of them already in 2015.

Interview with our CEO

We also continued our dialogue with governments. They need to be on board, for example to adjust minimum wages regularly and to create legal frameworks for fair and functional collective bargaining processes. I have myself met with the Prime Ministers of Bangladesh and Cambodia, and most recently with the Bangladeshi Minister of Commerce to discuss these topics.

We have also taken another important step in aligning with a number of other brands on a joint approach towards fair living wages. And not least, we are investing a lot of resources into empowering workers through better skills and to enable them to negotiate their wages and working conditions directly with their employers. As part of this, we set a unique goal for all of our strategic suppliers to have democratically elected workplace representation in place by 2018 at the latest.

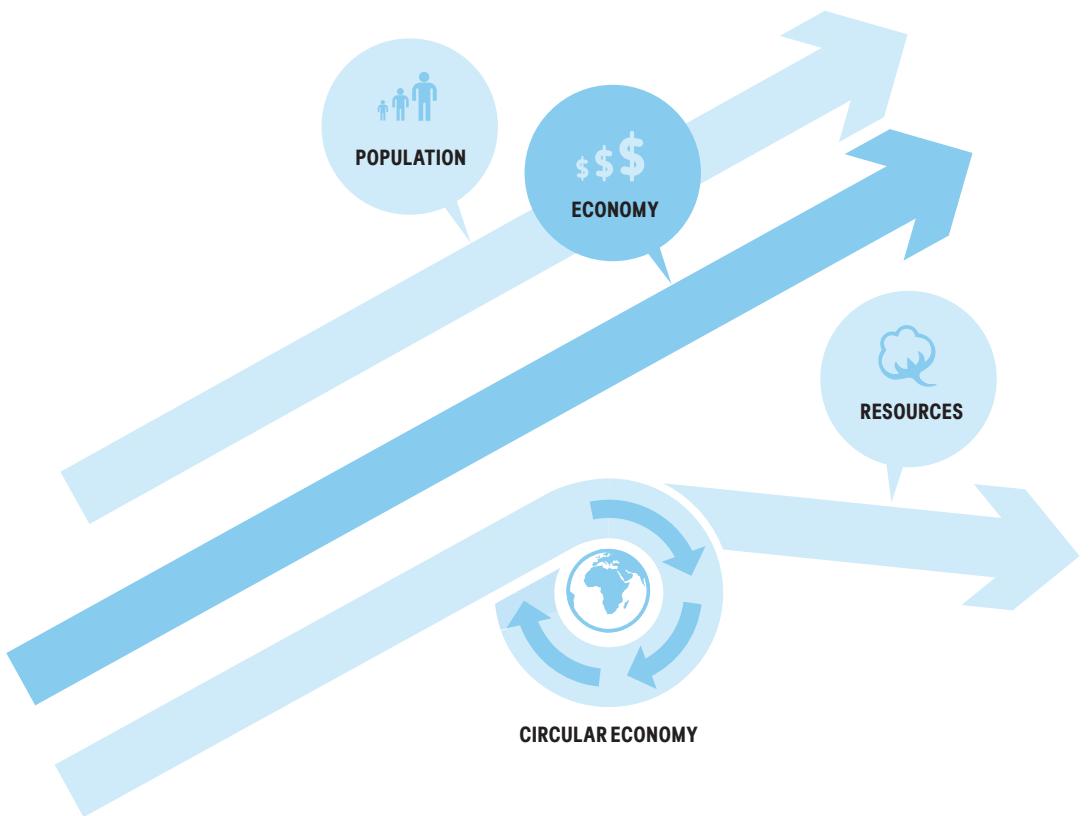
How about the closed loop?

In 2013, we launched our global garment collecting initiative. H&M cus-

tomers can leave used garments from any brand to be reused or recycled at almost all H&M stores in all our markets. This year alone, we have more than doubled the amount of garments that we collected this way and have now reached over 7,600 tonnes. That's as much fabric as in about 38 million t-shirts. Although we don't make profits with the collected clothes, it makes clear business sense: creating a closed loop will mean immediate access to environmentally conscious raw materials for new garments. In 2014, we already launched the first closed loop products made with 20% recycled cotton. More than 20% isn't currently possible without losing quality. But there are a number of interesting ideas and innovators working to overcome this and other challenges that we are working with.

You mentioned transparency as a key focus. How can transparency drive sustainability?

I believe that transparency is the starting point for all change. For example, we are working with other brands in the Sustainable Apparel



Interview with our CEO

Coalition on the HiGG Index, a tool to measure apparel and footwear products, brands or suppliers on their sustainability performance. It takes the entire value chain into account, from raw materials to end-of-life solutions. We hope that this will result in consumer labelling that will allow customers to compare products, even from different brands, based on the same standards in an easily accessible way. I believe that this kind of transparency will ultimately make sustainability a key driver in our industry, as we all are competitive and want to make our customers the best offer.

Transparency and mutual trust are also crucial with our suppliers. In 2013, we published our supplier list and we have now added the first second-tier suppliers. As far as I know, that's unique in our industry. And we keep working hard to further increase the transparency across our entire value chain, down to the raw materials.

How do you at H&M manage this process practically in a big company like yours?

Firstly, sustainability needs to be integrated into all parts of the business, be it design, sales or production. There have to be clear sustainability goals on which these functions are measured, and they need to have the same priority as other goals. Therefore, we have integrated sustainability goals into our major performance measurement tool. Our head



of sustainability is part of the management group and reports progress made regularly to our Board of Directors. In other words: we think it is very important that sustainability is completely integrated into the business and part of the company's DNA and values.

Secondly, it's very important to dare to take a long-term view. Good sustainability work will require big investments. We will have to be prepared to sacrifice short-term profits for long-term success.

Thirdly, we have to have a collaborative mindset. Meeting our sustainability goals is not an easy job and often nothing that one company can drive in isolation; we have to work together – with other brands but also with other stakeholders such as trade unions or NGOs and innovators. All of this forms the basis for taking those actions that will continue to make the right difference.

Thank you for your interest in our Conscious Actions Sustainability Report 2014!

A handwritten signature in black ink, appearing to read "Karl-Johan Persson".

Karl-Johan Persson, CEO,
H & M Hennes & Mauritz AB, Stockholm, March 2015

About H&M Conscious

By 2030 there will be 5 billion people in consuming middle classes and they will use 2 times our planet's resources

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

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

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

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

Making more sustainable fashion choices available, affordable and attractive to as many people as possible is our starting point.

We want to use our scale to bring about systemic change to our industry and across the lifecycle of our products. Together with our colleagues, customers, stakeholders, business partners and peers, we have the opportunity to bring about serious change – all the way from improving the livelihood of a cotton farmer to lowering the impacts from washing and drying our clothes. Ultimately, we want to make fashion sustainable and sustainability fashionable. Hundreds of Conscious Actions – big and small, short- and long-term – are dedicated to putting our commitments into practice.

H&M's Conscious Exclusive Collection is one of them. But there are many more. Working to ensure fair living wages across the textile industry or to achieve a closed loop for garments, for example.

This is our 13th sustainability report. We are excited and proud of the Conscious Actions we have taken and what we have achieved in this mission so far.

But we also know that together with our entire industry, there is more to do.

This report outlines the progress of some of our most important Conscious Actions. It has been prepared in accordance with the GRI G4 guidelines (core).

Please see page 114 for further details on how we report. We hope that you will find the reading interesting.

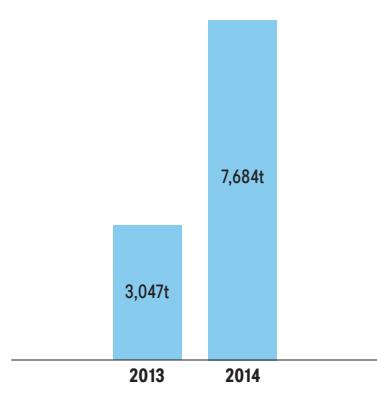
Thanks for taking your time to learn more about H&M Conscious.

OUR SEVEN COMMITMENTS

1. Provide fashion for conscious customers
2. Choose and reward responsible partners
3. Be ethical
4. Be climate smart
5. Reduce, reuse, recycle
6. Use natural resources responsibly
7. Strengthen communities

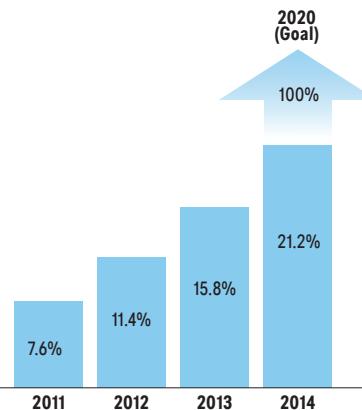
Key performance 2014

TONNES OF GARMENTS COLLECTED FOR REUSE OR RECYCLING THROUGH OUR IN-STORE GARMENT COLLECTING PROGRAMME



7,684 tonnes of used garments collected – that's as much fabric as in more than **38 million t-shirts**.

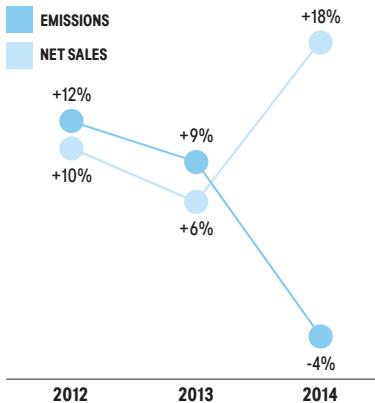
MORE SUSTAINABLE COTTON* IN % OF TOTAL COTTON USE



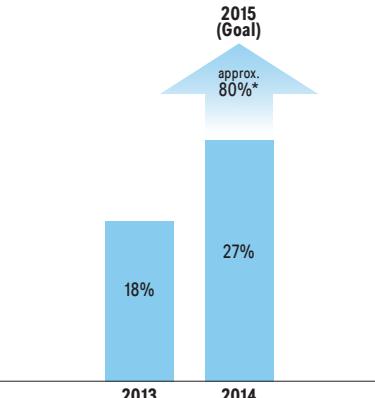
*Certified organic cotton, Better Cotton (BC) or recycled cotton. In 2014, organic cotton represented 13.7% of our total cotton use.

H&M is the world's **no. 1 user of organic cotton** according to Textile Exchange's latest Organic Cotton Market Report 2013.

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

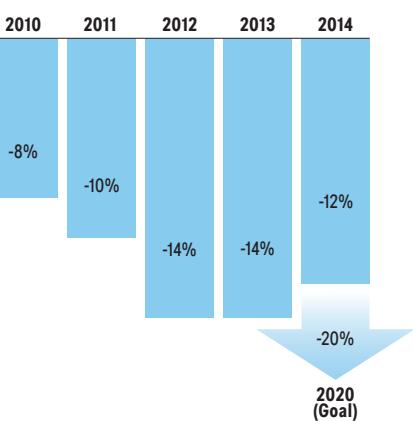


SHARE OF RENEWABLE ELECTRICITY IN ALL OUR STORES, OFFICES AND WAREHOUSES



* 100% in all markets where this is feasible and renewable electricity is credibly available. This is currently not the case, for example, in China or Peru.

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

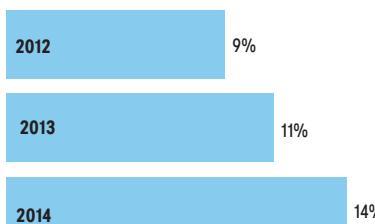


2020
(Goal)

We are going **all in for renewable electricity** – wherever this is credibly available and feasible. We expect this to cover about 80% of our total electricity use by 2015.



SHARE OF MORE SUSTAINABLE MATERIALS



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

Top news 2014



We have taken another major step in creating supply chain transparency. Now fabric and yarn suppliers-to-our-suppliers who make about 35% of our products are on our public supplier factory list.



We launched a new animal welfare roadmap and set ambitious goals to use 100% certified wool from 2018 and certified down already from 2016 onwards.

We launched our first Conscious Denim collection, on average using 56% less water and 58% less energy than comparable denim – on top of being made with materials such as organic or recycled cotton.

We have entered an agreement with the International Labour Organisation (ILO) to work together to strengthen fair negotiations and working conditions in global garment production.

We set the unique goal for all our strategic supplier factories to have democratically elected workplace representation in place by 2018.

We created about **16,000** new jobs globally in our stores, offices and warehouses alone.



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

We donated over **4 million** garments to charitable causes.



Recycled polyester is often made of PET bottles. And we used the equivalent of almost **40 million** bottles.

The impacts along our value chain

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

We have stores and suppliers all around the world. Without a doubt, we have an impact on these communities. H&M Conscious works to embrace positive impacts and to reduce negative ones along our entire value chain. It is usually easiest to control the things that happen in our own operations, but often these are not the most critical impacts. So, often we need to team up with others to make the difference that matters the most.



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

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



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

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



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

Our challenge: From making yarn to final fabrics, there are concerns regarding water, chemicals and working conditions as well as greenhouse gas emissions. Generally speaking, we do not have direct business relationships with mills but we work with organisations such as Solidaridad and the Natural Resources Defense Council (NRDC) to help mills improve their performance. And we have already started to integrate fabric and yarn mills that are involved in making about 35% of our products into our supplier audit system, aiming for 50% by 2015.

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

The impacts and challenges along our value chain



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

Our challenge: Over 1.6 million people work in our supplier factories, 64% of whom are women. Together with our suppliers we have made great improvements in developing high social and environmental standards. Achieving fair living wages, reducing overtime and ensuring workplace safety are key focus areas for our industry. We use our influence to promote human rights, and not only monitor factory compliance but also train our suppliers and their workers, promote industrial relations and social dialogue and collaborate with organisations such as the International Labour Organisation (ILO), the Fair Labor Association (FLA), the Fair Wage Network and the Ethical Trading Initiative (ETI).



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

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



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

Our challenge: We have over 3,500 stores across 55 countries. As we grow, enter new markets and employ new people we need to make sure that we live up to our values throughout and ensure an inspiring and healthy working environment for our colleagues. Our customers rightfully expect high quality products and shopping experiences. As part of that, we need to ensure the privacy of their and our colleagues' data and advertise in a responsible way.

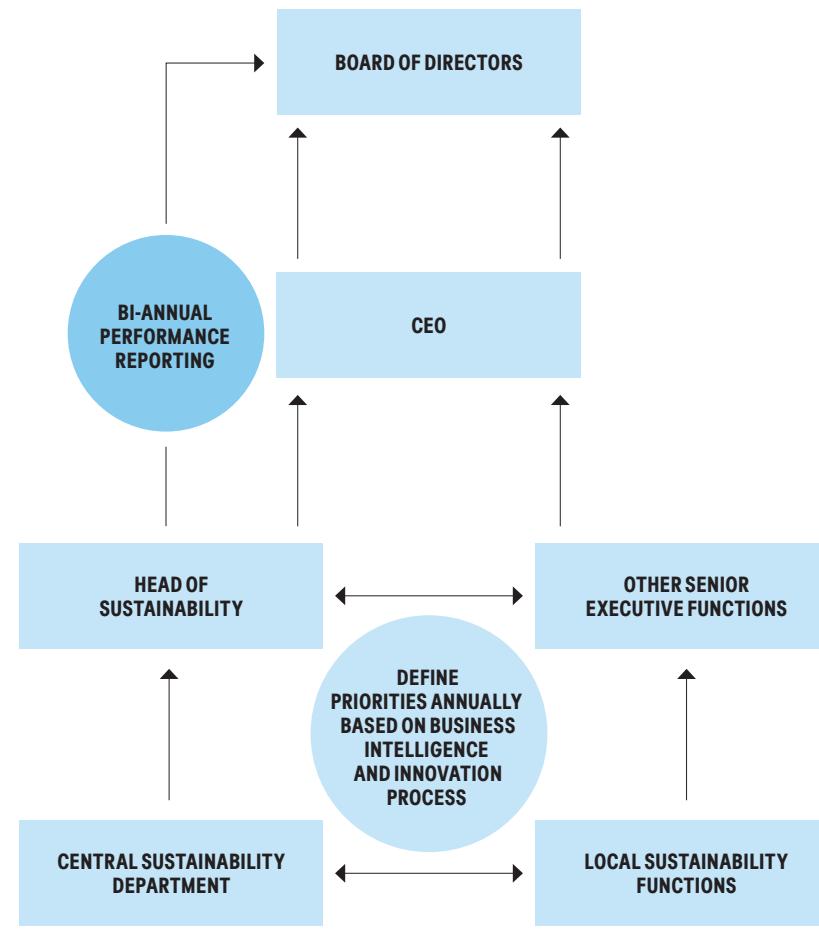


USE			
OUR INFLUENCE	CLIMATE IMPACT*	WATER IMPACT*	SOCIAL IMPACT
Low	26%	8%	High

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

How we organise sustainability

Our Head of Sustainability reports directly to our CEO and the responsibility for the implementation of our sustainability strategy is held by our executive management team. We have a total of around 170 colleagues who work with sustainability as a core task. At our head office, our sustainability team consists of more than 20 people responsible for developing global targets, reviewing progress, and encouraging and advising all relevant departments on the development and implementation of prioritised Conscious Actions based on continued stakeholder engagement, business intelligence and innovation research. We do this in an annual formalised process in which our sustainability team presents priorities, new trends and recommended goals and actions to each department that has a critical impact on the matter. With this support, in turn each department is responsible for developing and carrying out their Conscious Actions to fulfill our seven commitments. Besides these department specific goals, all function heads and country managers are measured against our 4C scorecard (Cash, Customers, Colleagues, Conscious), which gives all four areas equal importance.



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

Twice a year, our CEO, CFO and Head of Sustainability review the progress made. With the same frequency, our Head of Sustainability reports performance against key sustainability indicators to our Board of Directors. Over 100 people from our sustainability team operate from 21 locally-based production offices around the world. They work directly with our suppliers to support them in complying with our Code of Conduct and help to make our supply chain more sustainable. About 50 "Conscious Coordinators" work in our different departments and country offices supporting the implementation of our global sustainability strategy in their organisations.

Joint forces for solutions

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

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

But more than that, we seek to join forces with our stakeholders such as our peers, suppliers, NGOs and many others in order to tackle some of the major challenges in our industry – challenges that affect everyone along our value chain and that no company can solve on its own.

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



Such collaboration can also help to increase the level of influence we have and promote systemic change. To this end, we are involved in a number of local and global industry collaborations, partnerships and multi-stakeholder initiatives, such as the Better Cotton Initiative (BCI), Sustainable Apparel Coalition (SAC), Fair Labor Association (FLA), Fair Wage Network (FWN), Better Work and the Roadmap to Zero Discharge of Hazardous Chemicals, to mention just a few.

>hm.com/memberships

>hm.com/stakeholderdialogue

AWARDS AND RECOGNITIONS

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

World's biggest user of organic cotton according to Textile Exchange Organic Cotton Market Report 2013

Dow Jones Sustainability Index

FTSE4Good

World's Most Ethical Companies

Global 100 List

Interbrand Global Green Brands

CDP's Global 500 Climate Performance Leadership Index

Global Fairness Award*

Pontus Schultz prize for a more humane economy*

United Nations Association of New York Humanitarian of the Year award**

>hm.com/whatotherssay

*Recipient was H&M's CEO Karl-Johan Persson

**Recipient was H&M's Chairman of the Board of Directors, Stefan Persson

— COMMITMENT ONE —

Provide fashion for conscious customers



Fashion is a great way to express personality and a source of fun and inspiration. That said, it takes resources from the planet to produce and care for our clothes. By making conscious choices when designing our collections, we can really reduce these impacts – without compromising look, quality or comfort. This way, we can also make conscious choices in fashion easy and desirable for our customers. It allows us to create added value to our offering – something that our customers are increasingly looking for. But we don't want to stop there. We also want to inspire our customers to wash at lower temperatures and make it easier for them to not let fashion go to waste. Conscious fashion, however, is not just about our customers' choices. We want to make all of our products more sustainable, piece by piece, all the way from the cotton farm.

Performance overview

This dress is sold in around 200 H&M stores for EUR 199/USD 199.

It's made with 64% organic linen.

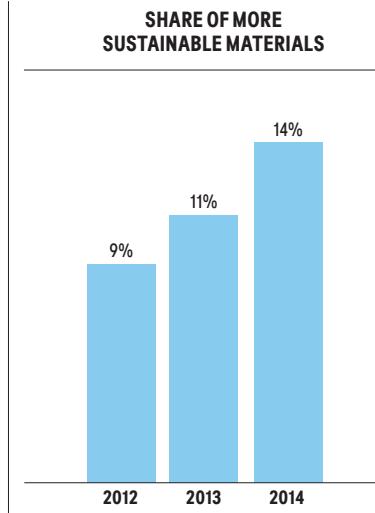
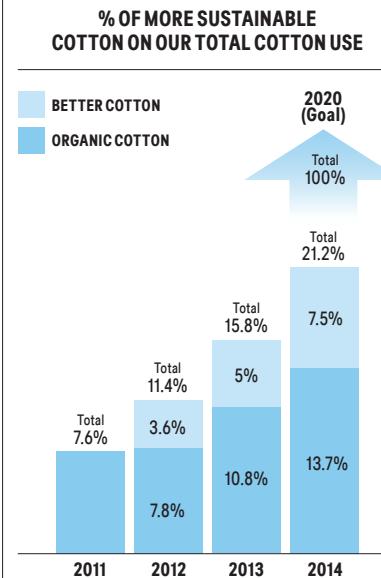
Organic linen is a soft and durable material that comes from flax plants grown without chemical pesticides or fertilisers.



At clevercare.info you can find inspiration on how to care for it with less impact on our planet, so you can wear it and love it for many years to come.

When you don't want or need it anymore, take it back to any H&M store and we will give it a new life.

Key performance 2014



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

Please find an independent assurance statement related to GRI G4 EN1 here (p. 112).

H&M is the world's no. 1 user of organic cotton according to Textile Exchange's latest Organic Cotton Market Report 2013.

Performance overview

PROGRESS OVERVIEW		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – CONSCIOUS PRODUCTS & MATERIALS					
1.1	Increase our use of more sustainable materials	year-to-year			
1.2	Use only cotton from more sustainable sources	2020			
1.3	Replace solvent-based glues in production of shoes and other accessories	2020			
1.4	Test water-based Polyurethane alternatives	2014			
1.5	Include environmentally preferable production processes in the scope of our “Conscious” product label	2014			
FOCUS – ANIMAL WELFARE (NEW)					
1.6	NEW Use only wool from certified sources	2018			
1.7	NEW Use only down from certified sources	2016			
FOCUS – INSPIRE OUR CUSTOMER AND COLLEAGUES					
1.8	Ensure that all of our own H&M stores provide garment collecting opportunities*	year-to-year			
1.9	Inspire our customers to conscious garment care	year-to-year			
1.10	Help set industry standard for measuring product sustainability	ongoing			
1.11	Roll out new sustainability training programme for all of our colleagues	2015			
1.12	Involve our customers and colleagues in our community work	year-to-year			

*For franchise markets at least one store per market. For new non-franchise stores, garment collecting systems must be implemented max. 6 months after opening.

Focus: Conscious products and materials

Our mission

We want to make the better choice easy and attractive – throughout the entire life of a garment. Piece by piece, this reduces the impact that fashion has on the planet. We want to help increase the scale of innovations in the fashion industry. Together with our customers and our industry, we want to create a more sustainable fashion future in which fashion and sustainability no longer mean choosing one or the other.

Our strategy

We are constantly on the lookout for innovative materials and processes that can make our products more sustainable. Products with the highest sustainability credentials are labeled with our Conscious hang tag. These are made of at least 50% independently certified materials such as organic or recycled fabrics* or other innovative more sustainable fabrics such as Tencel®. Since 2014, we have expanded the scope of the Conscious hang tag to also include products that are made using the most innovative technology to reduce environmental impact in their continued production. Our goal is to increase the share of these fabrics in our total material use every year. With our Conscious Exclusive collection, we want to show that sustainable fashion is ready for the red carpet. With our permanent Conscious range, these innovations become part of the standard offer across the board, all year long.

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



Focus: Conscious products and materials

Our Conscious Actions

1.1 Increase our use of more sustainable materials

DEADLINE	STATUS
year-to-year	more to do

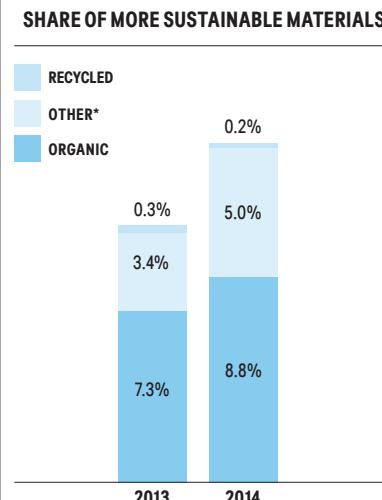
We use a wide range of organic or recycled fabrics and other more sustainable materials like Tencel® and Lyocell. These are included in our conscious materials list. This list is based on third-party sources such as the environmental benchmark for fibres created by the organisation MADE-BY, and we regularly introduce new materials. A product consisting of at least 50% of materials from this list (20% for post-consumer recycled cotton) is labelled with our Conscious hang tag.*

Together with Better Cotton, these materials now represent 14% (2013: 11%, 2012: 9.1%) of our products' total material use (8.8% organic materials, 0.2% recycled materials and 5.0% others). Our goal is to increase this

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

number each year. In doing so, we make more environmentally friendly choices available to our broad target groups and help lift these materials to scale and create demand for further innovation.

>hm.com/consciousmaterials



*Including Better Cotton

1.2 Use only cotton from more sustainable sources

DEADLINE	STATUS
2020	on track

We use more certified organic cotton than anyone else in the world according to Textile Exchange's latest Organic Cotton Market Report. During 2014, we increased our use of organic, recycled and Better Cotton so that these three sources now represent 21.2% of our total cotton use (2013: 15.8%, 2012: 11.4%). Our goal is to only use this kind of more sustainable cotton by 2020.

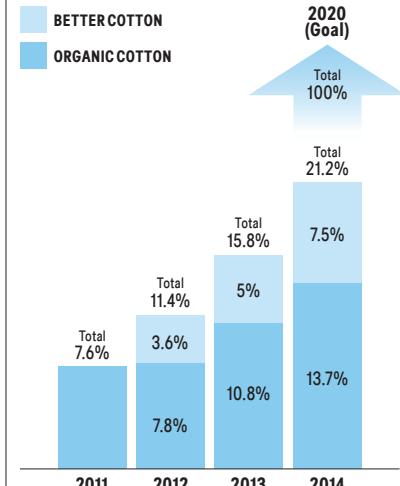
Cotton is the material we use the most. It is a natural, renewable fibre that offers many advantages, but also comes with a number of concerns. For example, the amount of cotton needed for an average t-shirt requires about 11 bathtubs of water to grow. About 10% of all pesticides in the world are used in cotton production.* Organic cotton, Better Cotton and

*Source: Pesticide Action Network

recycled cotton reduce these impacts significantly. Both organic and Better Cotton also help millions of farmers and their communities improve their standard of living. For example, Better Cotton trains farmers to grow more with less input of costly fertilisers or pesticides and thereby helps to improve both their profitability and the environment around them. Moving towards achieving our goals also means moving towards full traceability of cotton by 2020. Amongst other benefits, this will ultimately help us to ensure that no cotton originally sourced from Uzbekistan, a country that has repeatedly been connected to child and forced labour in its cotton industry, is used in any of our products.

>hm.com/cotton

% OF MORE SUSTAINABLE COTTON ON OUR TOTAL COTTON USE



Please find an independent assurance statement related to GRI G4 EN1 here (p. 112).

Focus: Conscious products and materials

24.6%

of our shoes are now made with mainly water-based glues

Our Conscious Actions

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

DEADLINE	STATUS
2020	more to do

Solvent-based glues are often used in shoe and accessory production and the VOCs (volatile organic compounds) that they contain can be harmful to factory workers if not handled with sufficient protection. Water-based glues can provide a better alternative. That's why our goal was to make all



our shoes, the biggest product group concerned, with these alternatives.

That said, we learned that even factories that use water-based glues for most parts of a shoe might still use solvents for other parts to ensure quality. In addition, water-based glue may still contain solvents, even though these are much lower than for purely solvent-based glues. Consequently, we changed our goal from using water-based glues only to what actually

makes a difference for the workers: replacing solvents with better alternatives throughout. All in all we want to contribute to a lower level VOCs in our supplier factories.

To achieve this, we are still working to make as many of our products as possible with such alternatives. In fact, we were able to increase the share of our shoes mainly made with water-based glues from 20.9% in 2013 to 24.6% in 2014. At the same time, we are working with our suppliers to ensure that when using water-based glues they choose the best possible options to ensure the lowest possible levels of VOCs. This alone, however, won't do the job. Sometimes it is as easy as just changing the design and adding a seam instead of glueing. But we are also looking for and testing other options, such as thermo glues.

SHARE OF SHOES MADE WITH MAINLY WATER-BASED GLUES



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



Focus: Conscious products and materials

Our Conscious Actions

1.4 Test water-based Polyurethane alternatives

DEADLINE	STATUS
2014	done

Polyurethane (PU) is a material often referred to as “vegan leather”. The downside is that it usually contains solvents requiring workers to wear protective gear and raising environmental concerns. Water-based alternatives would allow for fewer precautions. However, in the past, these alternatives did not provide sufficient

quality and durability. This is why we have been working for the past few years with several partners to find the required innovation. In 2014, we tested two new products made with a new water-based PU that Bayer Material Science developed in close collaboration with us. The results were very promising. Moving forward, our goal is to scale up the use of water-based PU materials to over ten products, including bags and shoes. This will guide us in setting future goals and milestones towards a full phase-out of solvent-based PU.



1.5 Include environmentally preferable production processes in the scope of our “Conscious” product label

DEADLINE	STATUS
2014	done

Up until 2014, our Conscious label was limited to products made with more sustainable materials. Now it's no longer just the material choice that make our products more sustainable but also low-impact production techniques that reduce the use of water, energy or chemicals. Denim in particular often requires water or energy intense treatments. That's why, in autumn 2014, we launched our first Conscious Denim Collection. With this collection we developed innovative techniques based on a tool from Jeanologia, a Spain-based company. With this, we managed to use on average 56% less water and 58% less energy as compared to other denim. In 2015, we will gradually apply this tool to all of our denim products. We will continue building on these and additional innovations in washing as well as dyeing processes.

And we are making this more transparent to our customers: We have now included environmentally

preferable production processes in the scope of our Conscious product label.



Focus: Animal welfare (New)

Our mission

Animal welfare is important to us and we want to make sure that animals are treated well. We have banned endangered and critical animal origin materials. We have joined forces with organisations such as Textile Exchange to help set the strictest possible standards not only for ourselves, but for our entire industry. We are committed to making positive contributions throughout our value chain and in the textile industry.

Our strategy

We have strict policies to enforce this belief across our business. We banned the use of real fur in our products many years ago and we are recognised as a Fur Free Alliance listed retailer. We updated our Animal Welfare & Material Ethics Policy in 2014 to include a range of updated and forward-thinking requirements. This includes a ban on the use of angora wool, exotic skins, horn and bones or materials from any endangered species.

We enforce strict requirements for wool, leather, feathers and down and collaborate with key stakeholders to further strengthen these standards for our entire industry. And of course we continue to not test any of our own brand cosmetics on animals. To achieve lasting and industry wide impact, a key focus of our work is on collaborating with other stakeholders and achieving transparency and traceability for all materials of animal origin in our value chain. Collaborations help us improve and protect animal welfare, influence best practices, and ultimately allow customers make conscious choices.



Focus: Animal welfare (New)

Our Conscious Actions

NEW 1.6 Use only wool from certified sources

DEADLINE	STATUS
2018	on track

Wool is an important fibre known for its high-quality attributes and securing the highest standards of animal welfare is crucial. Many years ago, we were one of the first companies to ban the use of mulesing, a cruel practice originally introduced to protect sheep from worm infestations. At the moment, however, there is no global standard or certification for responsible wool production. To change this, in early 2014, we initiated a Responsible Wool Standard together with the NGO Textile Exchange, and the certification body Control Union as well as a number of other fashion brands and stakeholders. The aim is to launch a certifiable global standard in 2015. The focus is on animal welfare.

Our goal is then to only use certified wool from 2018 onwards. With this, we also aim to achieve full traceability for wool and all other sorts of animal hair such as cashmere,

mohair or alpaca, and require that all farms, as a minimum, fulfill the conditions listed in our Farm Requirements for Animal Welfare document, a set of requirements based on the Five Freedom Framework.

>textileexchange.org/wool

NEW 1.7 Use only down from certified sources

DEADLINE	STATUS
2016	on track

We want our customers to feel reassured that any down used in our products comes from responsible farms. We have had stringent requirements for down and feathers in place for many years now. We strictly forbid live plucking and force-feeding. The challenge has been to control the implementation of these requirements in a sometimes complex value chain. To ensure this, we need to know exactly which farms our down comes from and what the conditions are at each of these farms. That is why we are now working to apply Textile Exchange's Responsible Down Standard. With this, we will gain full traceability of the origin of down and be able to ensure that these farms comply with strict animal welfare standards – all verified through third party certification. Our goal is to use only such certified down for all applicable products for all orders placed from the end 2015 onwards. These will then hit our stores from the autumn/winter season 2016 onwards.



Focus: Inspire our customers and colleagues

Our mission

We are constantly looking for ways to make our products more sustainable. Teaming up with our customers helps us make an even bigger impact. For example, washing and drying represents 26% of a garment's climate impact. So not only do we need to inspire our customers to make conscious wardrobe choices, we also need to help them care for their clothes so they'll last as long as possible, have less impact on our climate and water, and be easy to recycle.

Our strategy

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

ENABLE INFORMED CONSCIOUS CHOICES

We want to make conscious choices easy and fun throughout the life of a garment



Focus: Inspire our customers and colleagues

Jason Kibbey, CEO, Sustainable Apparel Coalition (SAC)

How do you think consumers will influence the sustainability of the fashion industry in the future?

I believe consumers who have access to trusted sustainability information and tools that help synthesise that information will be able to vote with their spending in ways that we can't imagine today. Now, consumers who want to buy something more sustainable are limited to a label or a certification.



It is a one-way information flow and a simple binary decision. In the future, we hope standardisation of the Higg Index will allow consumers access to more information that could start a conversation with other stakeholders and the entire apparel value chain.

What can they do already today?

Consumers can ask for information on the sustainability practices of the

brands they support. Responsible brands are already providing information ranging from how much of their products are made with sustainable materials to their code of conduct. We hope that in the future providing information from the Higg Index will allow orders of magnitude greater transparency.

What tools do they need in the future?

I'm biased but I believe they will need the Higg Index which measures brands, factories and products. This will provide a foundation for trusted information for clothing and footwear. But they will also need tools that help translate this information in a way that resonates with consumer values. You could imagine using an App on a mobile device to determine which article of clothing does the most to empower women, or has the lowest carbon footprint.

What role can the SAC and companies like H&M play in making this happen?

The SAC and H&M can commit to speaking a common language of sustainability to customers so that consumers from Tokyo to Stockholm or San Francisco understand the impact of their clothes. This requires measuring brands, factories and products using the same methodology. I believe that common language will be based on the Higg Index and "dialects" of that language will emerge for each brand. H&M's commitment and leadership on the Higg Index

"The HiGG Index will provide a foundation for trusted information for clothing and footwear".

Jason Kibbey, CEO, Sustainable Apparel Coalition (SAC)

already goes a long way towards meeting that goal.

When do you think consumers will be able to make fully informed choices?

I hope that we will see fully informed choices by the end of this decade for all clothing and footwear products across the entire industry. I expect that we will see the first examples of this coming within the next two to three years.

Focus: Inspire our customers and colleagues

Our Conscious Actions

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

DEADLINE	STATUS
year-to-year	done

In 2013, we built what is probably the world's biggest retail garment collecting system, offering millions of customers easy solutions to not let fashion go to waste at all our own H&M (brand) stores globally. Now our job is to ensure that all stores offer garment collecting opportunities as we grow. By the end of 2014, almost all H&M stores globally offered this service. The only exceptions are made for new stores and franchise markets. Our rule is that garment collecting services need to be up and running six months after the opening of a new store. For franchise markets, our current rule is that at least one store per market must offer recycling options to customers.

[>hm.com/garmentcollecting](http://hm.com/garmentcollecting)

*For franchise markets at least one store per market. For new non-franchise stores, garment collecting systems must be implemented max. 6 months after opening.



1.9 Inspire our customers to conscious garment care

DEADLINE	STATUS
year-to-year	done

We know that reducing the washing temperature from 60 to 30 degrees can reduce energy use by 50%, still this isn't necessarily common knowledge. This is why we started discussions with Ginetex, the owner of the current global standard care labelling system, in 2011. Our aim was to develop a common standard care label that encourages consumers to care for their clothes in a more conscious way. The Clevercare label is now available to all apparel brands globally. Since 2014, all products of all brands within the H&M Group carry the label.

clevercare.info

Focus: Inspire our customers and colleagues

33% of all our colleagues globally have taken new **sustainability training course**

Our Conscious Actions

1.10 Help set industry standard for measuring product sustainability

DEADLINE	STATUS
ongoing	on track

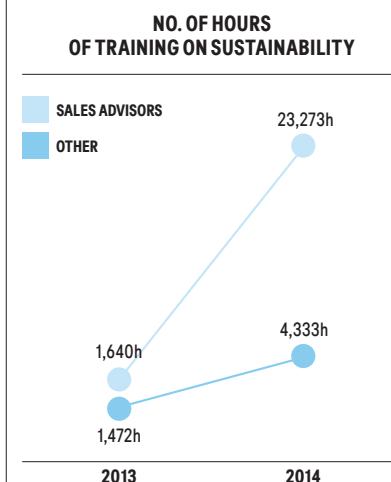
Together with several of our peers, academia, NGOs and many others in the Sustainable Apparel Coalition (SAC), we are building a common tool for measuring the sustainability performance of apparel and footwear through the Higg Index. This is a major driver in improving the sustainability performance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

>apparelcoalition.org

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

DEADLINE	STATUS
2015	on track

We want every one of our colleagues to feel proud of where they work and provide them with the training they need to deliver the best possible service to our customers. This is why in 2012, we started developing a broader sustainability training ladder including extensive training for all of our colleagues and additional role-specific courses for our buyers and designers. The training system has been implemented in most of our markets (excluding franchise). By 2014, 33% of our colleagues around the world had already undergone the training. The goal is to cover the remaining markets (Germany and USA) by 2015.



Focus: Inspire our customers and colleagues

Our Conscious Actions

1.12 Involve our customers and colleagues in our community work

DEADLINE	STATUS
year-to-year	done

For the past few years, we have teamed up with our customers to drive change in communities. We have raised funds and awareness for important causes through collections and campaigns. For example, our All for Children collections have supported UNICEF's work for children's rights in India and Bangladesh. In 2013, we involved our customers in a global giving Holiday Campaign together with the H&M Conscious Foundation.

The campaign resulted in a donation from the H&M Conscious Foundation of SEK 37 million to a project enabling access to safe water and sanitation for people in Bangladesh. During the holiday season 2014, we once again engaged our customers together with the H&M Conscious Foundation. H&M customers around the globe helped the cause to empower women in Ethiopia by buying sets of holiday gift labels. For each set of gift labels sold at H&M, the H&M Conscious Foundation made a donation to CARE – a humanitarian organisation fighting global poverty by working alongside women and girls. The project will start in 2015 and aims to reach at least 5,000 women.

Through our All for Children project we are helping UNICEF reach out to about 1.7 million children in India and Bangladesh.



— COMMITMENT TWO —

Choose and reward responsible partners



Garment production is often the first step in an emerging market's industrial development and it has a major impact on these communities. Today, some of the world's biggest garment producers are China, Bangladesh, India, Cambodia and Turkey, all of which are key sourcing markets for us. It is a labour-intense industry that creates millions of jobs, in particular for women, and substantial economic growth. The 1,926 factories in which our 850 suppliers make our products employ about 1.6 million people alone. About 64% of them are women, often important income providers for their families. At the same time, human rights standards and environmental awareness are less developed in many of these countries.

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

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

the environment is very much part of our values and we rely on stable sourcing markets with skilled workers for our future growth. We want to use our influence to promote better working conditions and environmental consciousness throughout our value chain – from working with the individual factories to promoting systemic change in entire countries and our industry. This includes using our influence to achieve a fair living wage and decent working hours for all garment workers. We stand behind the right to freedom of association and work systematically to strengthen industrial relations and collective bargaining.

Working together with several different stakeholders and partners is the key to lasting change. We choose and reward responsible partners who share our values and are willing to work transparently with us to improve their social and environmental performance. We look for long-term partnerships with our suppliers and engage in strategic partnerships with the most progressive ones. We set high standards for our suppliers and regularly monitor how well they live up to them. Likewise, in order for our partners to deliver their very best, we need to be a good partner ourselves by, for example, providing training and support and rewarding good sustainability performance with better business.

Performance overview

This is Wang Xuefei.

She works at the Suzhou Silk factory close to Shanghai.

Wang's monthly income is about EUR 425/USD 530. This is 50% more than the local minimum wage.

We have worked with the Suzhou Silk factory for the past 8 years. They employ about 300 people, 65% of whom are women.



They are one of our 160 strategic partners and their sustainability performance is above the norm.

This is why we systematically place more and bigger orders with them than with less progressive suppliers and we support them in getting even better every day.

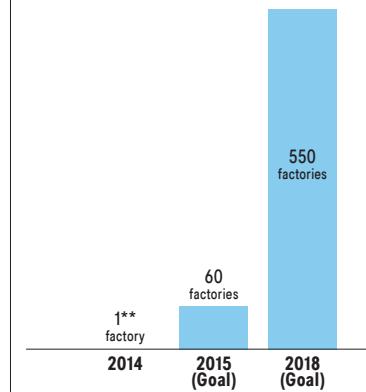
Key performance 2014

PROGRESS IN SUPPLIER FACTORY SUSTAINABILITY PERFORMANCE (IN ICOC* SCORES)

STRATEGIC FACTORIES
ALL FactORIES



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



*Index Code of Conduct

**Manufacturing factories

**Implementation completed in one role model factory, started in two additional role model factories (full implementation expected mid 2015).

We have taken another major step in creating supply chain transparency. Now fabric and yarn suppliers-to-our-suppliers who make about 35% of our products are on our public supplier factory list.

Performance overview

PROGRESS OVERVIEW		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – SUPPLY CHAIN MANAGEMENT					
2.1	Update our strategy for sustainable purchasing practices to ensure fair business partnerships with our suppliers	2016			
2.2	Reward good sustainability performance with better business	year-to-year			
2.3	Ensure that all new supplier factories are screened and audited before first order placement	year-to-year			
2.4	Audit each of our supplier factories on their sustainability performance	At least every two years			
2.5	Help remedy causes of non-compliance through management system analyses and capacity building	year-to-year			
2.6	Develop and roll out the next generation of supplier assessments	2015			
2.7	Follow up on initial inspections as per the Bangladesh Accord on Fire and Building Safety, ensure remediation and enroll new factories in the Accord Inspection Programme	2014			
2.8	Implement anti-forced labour training together with Ethical Trading Initiative (ETI) at Indian spinning mills	2016			
2.9	Integrate second-tier suppliers involved in making at least 50% of our products into our sustainability assessments	2015			
2.10	NEW Expand our public supplier list to include the first second-tier suppliers*	2015			
2.11	Develop updated strategy to promote high environmental, social and animal welfare standards in leather production	2015			
2.12	Further increase sustainability performance at all supplier factories	year-to-year			
FOCUS – FAIR LIVING WAGE					
2.13	Develop our purchasing practices to further support our suppliers in paying a fair living wage and reducing overtime	2015			
2.14	Pilot the Fair Wage Method in selected role model factories	2016			
2.15	Implement improved pay structures at all strategic supplier factories, impacting 850,000 workers	2018			
2.16	Update our Code of Conduct	2014			
2.17	Set advocacy plan to strategically engage with governments on wage issues	2014			
2.18	NEW Form strategic partnership with the International Labour Organisation (ILO)	2014			
2.19	NEW Develop a common approach towards fair living wages with other brands	2014			
2.20	Define needs and update strategy for extended skills-development programme for garment workers	2014			
FOCUS – INDUSTRIAL RELATIONS					
2.21	NEW Ensure democratically elected workplace representation at all our strategic supplier factories	2018			
2.22	Expand social dialogue project in Bangladesh to reach all supplier factories	2018			
2.23	Support an increased number of collective bargaining agreements and improve the industrial relation process in Cambodia together with ILO/IF Metall and SIDA	2016			
2.24	NEW Engage all strategic suppliers in China in social dialogue project	2018			
2.25	Provide workers and middle managers in supplier factories in India and Bangladesh with training about their rights	year-to-year			

*Done before the release of this report in 2015.

Focus: Supply chain management

About 1.6 million people work in our supplier factories and 64% of them are women

Our mission

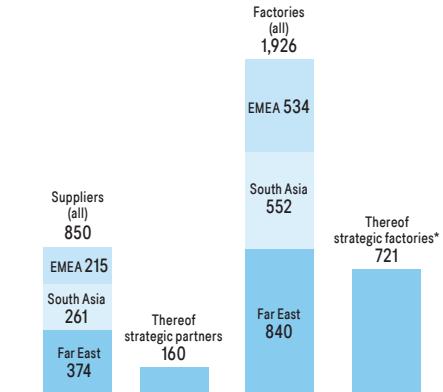
We have high expectations of our suppliers in terms of quality, price, lead times and sustainability. That said, creating a sustainable supply chain starts with us. We have developed advanced systems for managing our supply and helping suppliers to improve their performance. And we continue to advance them further every day. We need to choose the right partners from the start and know exactly where and under what conditions production takes place. Throughout a partnership, we must enable, promote and reward constant improvement. However, achieving 100% compliance with all our requirements amongst all our suppliers is a challenge. Major challenges are health and safety, excessive overtime, wages, freedom of association and industrial relations. Other specific local challenges in some of our key sourcing markets include so-called Sumangali schemes (a form of forced labour mainly present at Indian spinning mills), fire and building safety (particularly in Bangladesh) and workers' health and social dialogue in Cambodia. All of these require holistic solutions – from the factory level to systemic change in our entire industry. While our supply chain management systems can support improvements, we need to continue to collaborate closely with our suppliers, governments, industry peers, NGOs, unions and many parties to jointly achieve lasting change. In doing so we are ultimately nudging our suppliers towards better performance, bettering lives of the workers and their communities which in turn supports greater stability and reliability in our sourcing.

Our strategy

Our over 2,500 colleagues in our 21 production offices around the world maintain close relations with our suppliers. We focus on building strong, long-term relationships characterised by trust and transparency. We are committed to working together with our suppliers on improvements rather than terminating relationships. Our local teams support their performance in various areas throughout a partnership. Regular audits through our comprehensive Full Audit Programme are one part of this. Additional independent monitoring helps verify and improve our audit systems. We are aware of the limitations and challenges in standard audit procedures, and faked records or undeclared subcontracting do, unfortunately, happen in our industry. This is completely unacceptable and we work systematically to prevent this. This is one of the reasons why monitoring alone is not enough.

Our strategy includes a wide range of additional elements such as supplier management system analyses to tackle structural causes of non-compliance. We also provide or facilitate training, technical assistance and

NO. OF SUPPLIERS AND FACTORIES BY REGION (1ST TIER) 2014



*Including both manufacturing and processing factories

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

Focus: Supply chain management

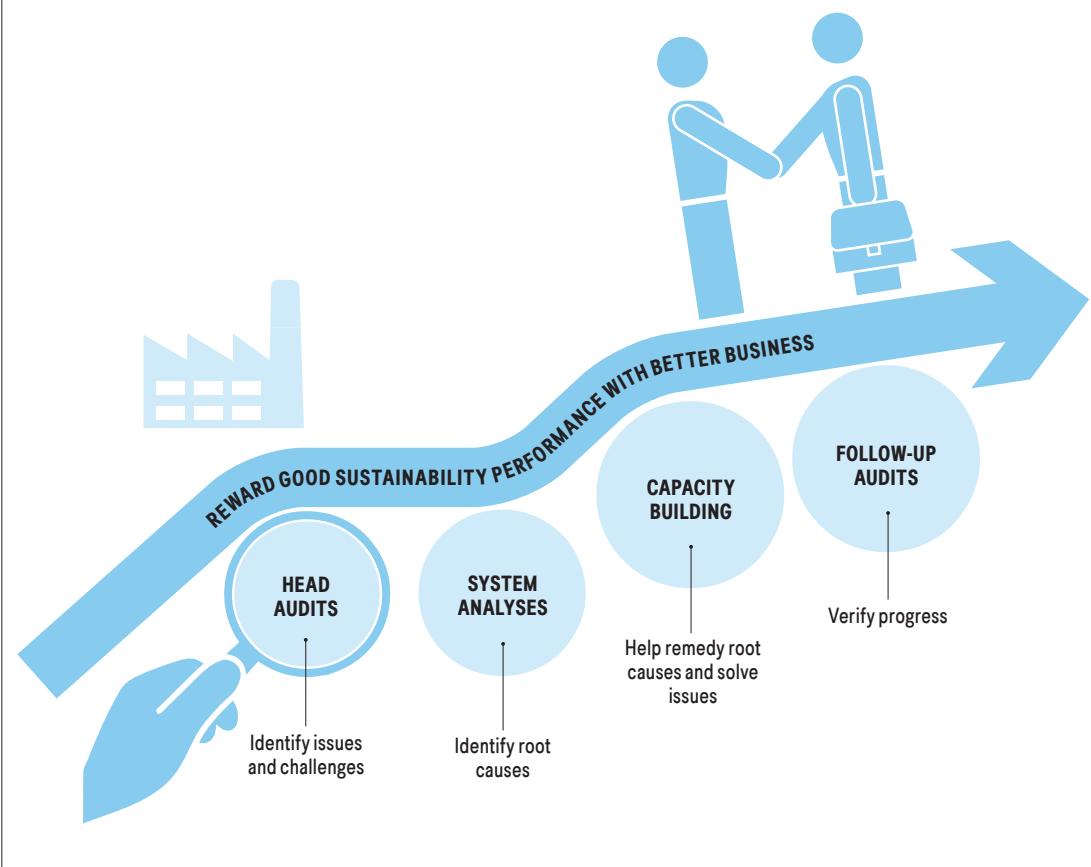
even joint investments. Our strong presence gives us profound insight into each market and factory. This gives us the possibility to integrate our knowledge from them and other local stakeholders in our business decisions.

We measure our suppliers' sustainability performance through our Index Code of Conduct (ICoC). Each factory and supplier is rated using an ICoC score (max. score: 100). We assess these scores through our regular audits (s. 2.4). These scores are clearly communicated. The ICoC is an integrated tool in our purchasing processes which allows us to systematically reward suppliers for good sustainability performance with better business. Only suppliers with the highest scores can become our strategic partners. We focus on strategic factories where we have the strongest impact. By being a good partner ourselves, setting clear demands and providing training and support where needed, we want to enable our suppliers to take ownership and improve their performance. This includes making sure that our purchasing

practices enable our suppliers to live up to our demands and deliver their very best to us, our customers, their workers and their communities.

By publishing our supplier factory list, we further strengthen the sustainability ownership of our suppliers' performance and incentivise further improvements. Likewise, we also encourage our suppliers to report on their social and environmental impacts publicly and get involved with their local stakeholders directly.

We are clearly committed to working together with our suppliers on improvements rather than terminating relationships. However, if a supplier shows an unwillingness to work with us on improvements or does not comply with our minimum requirements, we will, for example, reduce order volumes as warning or – as a last resort – terminate our business relationship. In any such case, if it is for sustainability or any other business reason, we follow our responsible phase-out standards. This allows the concerned supplier a certain transition period to find new clients in order to avoid the loss of jobs.



Focus: Supply chain management

Our **160** strategic partners make almost **60%** of all our products

Our Conscious Actions

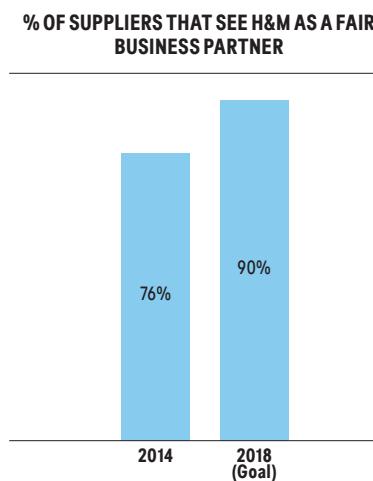
2.1 Update our strategy for sustainable purchasing practices to ensure fair business partnerships with our suppliers

DEADLINE	STATUS
2016	on track

We need to ensure that our purchasing practices enable our suppliers to live up to our demands, for example, by providing reasonable lead times, fair pricing, timely payments and transparent communication. To measure how well we are doing in this respect, we survey our suppliers every year anonymously. Today, 76% of our suppliers see us as a fair business partner. Our goal is to reach 90% by 2018 at the latest.

To achieve this, our focus is to ensure that all our suppliers receive seasonal production plans. This means that they will be able to plan their capacity utilisation well ahead. Furthermore it allows us to help suppliers spread their production over the year to reduce peaks as well as unused capacity in low seasons. This brings a number of benefits for the suppliers

such as planning security, a stable income and better capacity utilisation. Doing so is also an important contribution to reducing overtime hours through better staff planning. We are also developing our purchasing practices with regard to our Fair Living Wage Roadmap (s. 2.13).



2.2 Reward good sustainability performance with better business

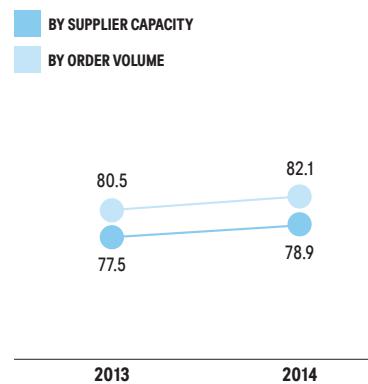
DEADLINE	STATUS
year-to-year	done

In order to sustain and incentivise good sustainability performance, we reward our suppliers with what they appreciate most: long-term business and growth opportunities. To measure how well we perform in this ambition, we look at our supplier factories ICoC scores and weigh these against the order volumes they received from us. Then we compare with the ICoC scores weighed by the available capacity in our entire factory base. This allows us to see that we place more and bigger orders with better performing factories before others. The data shows that we do. Our aim is to maintain this year-to-year. This is one of the reasons why we integrated ICoC scores in our overall supplier grading already some years ago. This means that only those suppliers who demonstrate the best sustainability performance can become strategic partners.

This type of partnership is win-win, for example, by securing stable business through long-term capacity planning up to five years ahead. Out of 850 suppliers, only 160 are strategic partners. That said, they make almost 60% of our products.

>hm.com/supplierrelations

ICOC WEIGHTED BY



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

DEADLINE	STATUS
year-to-year	more to do

Before placing any orders, suppliers must sign our Code of Conduct and undergo an initial screening process. If they pass, our auditors conduct an in-depth head audit to assess if the factory lives up to our minimum requirements and shows good potential to further improve their sustainability performance. Only then can orders be placed. This is the case whether a factory is owned directly by one of our suppliers or if it is subcontracted. By 2014, 96% of our supplier factories were audited before an order was placed (2013: 96%). The remaining 4% were low risk factories, for example, in terms of product type as well as their location in countries such as Sweden and Portugal.

>hm.com/monitoring

Focus: Supply chain management

About **70%**
of our Head Audits were
unannounced

Our Conscious Actions

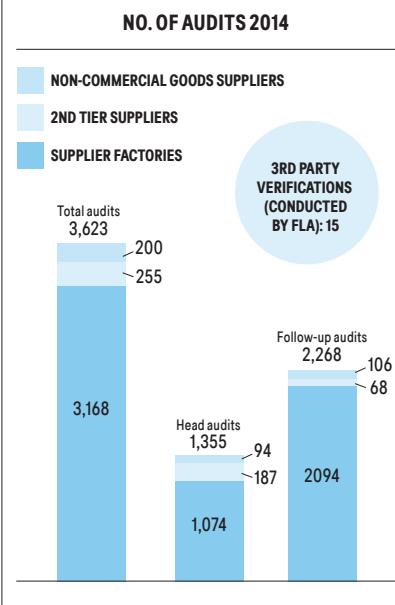
2.4 Audit each of our supplier factories on their sustainability performance

DEADLINE	STATUS
at least every two years	done

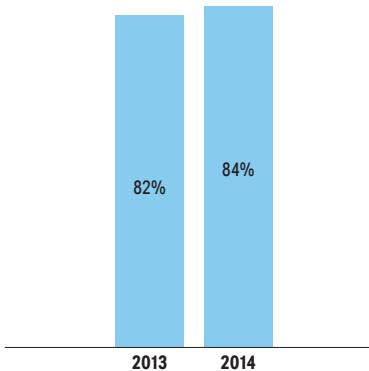
Our Full Audit Programme consists of more than 200 questions and includes a visual inspection of the factory, management interviews, document checks and interviews with workers. It covers all of our first-tier supplier factories, regardless of whether they are directly owned or subcontracted by our suppliers, and increasingly also suppliers of non-commercial goods and second-tier suppliers such as fabric and yarn mills. As a minimum, each of these factories must be audited every two years with up to three follow-up audits conducted in between. In 2014 alone, 84% of our supplier factories were audited at least once (2013: 82%). Some 70% of all head audits were unannounced (2013: 73%, 2012: 66%). The audit frequency varies largely depending on risks in the market, product types and individual factory performance record.

On average, each active first-tier factory was audited 1.5 times (2013: 1.3). All in all, we performed a total of 3,623 audits (head audits and follow-up audits) in 2014.

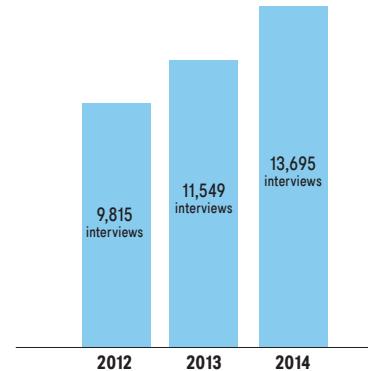
>hm.com/monitoring



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



NO. OF WORKER INTERVIEWS CONDUCTED



Focus: Supply chain management

Over 3,000 training sessions and workshops helped our suppliers to further improve their sustainability performance

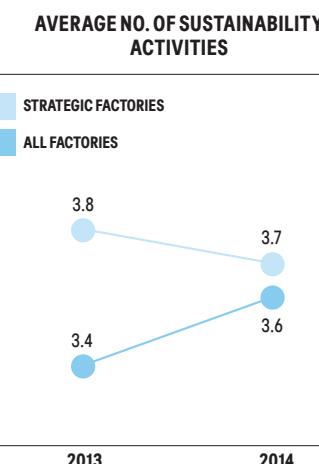
Our Conscious Actions

2.5 Help remedy causes of non-compliance through management system analyses and capacity building

DEADLINE	STATUS
year-to-year	done

Monitoring our suppliers is important, but that alone is not enough to create lasting change. This is why we are investing substantial resources to help them improve their management systems and train workers and management in order to strengthen their in-house capacities. Our focus is on our strategic partners where we have stronger influence and bigger impact. In 2014, we conducted 2,055 management system analyses. Together with about 3,137 other activities (such as training sessions and workshops) and our audits, each factory was subject to an average of 3.6 (strategic factories 3.7) activities aiming to support them in further improving their sustainability performance.

[>hm.com/beyondmonitoring](http://hm.com/beyondmonitoring)



2.6 Develop and roll out the next generation of supplier assessments

DEADLINE	STATUS
2015	on track

With over 15 years of experience, we have developed extensive knowledge on how to assess the sustainability performance of our supply chain. We started in the 90s with monitoring our suppliers and drafting remediation plans for non-compliance. We learned quickly that this could help address many issues, but that it's not enough to tackle systemic issues. Years ago with the launch of our Full Audit Programme, we went beyond just monitoring and put stronger focus on management systems, capacity building and collaboration with key actors beyond the factory walls to help tackle societal barriers to improvements. It's now time to take this to the next level. We want to move our approach from "yes or no" based compliance audits to even more impactful assessments and put even greater focus on partnerships and involvement of local stakeholders. This will help us make a measurable difference in the social and environmental impacts – not only amongst our first-tier suppliers, but gradually across our entire value chain. That's why we are currently developing an updated supplier assessment method that we are



planning to roll out during 2015. This will further advance our data management and risk assessments, strengthen supplier ownership and prepare us for the integration of new tools, such as the HiGG Index, that will provide better alignment and comparability across our industry.

Focus: Supply chain management

All of our supplier factories in Bangladesh have now undergone additional safety inspections as per the Bangladesh Accord on Fire and Building Safety

Our Conscious Actions

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

DEADLINE	STATUS
2014	done

The collapse of the Rana Plaza building in Bangladesh in 2013 that left more than 1,100 people dead was the worst industrial accident in the history of Bangladesh and probably the entire garment industry. While we never had any production in the building, this disaster underlines the importance of the work we already started several years ago to improve fire and building safety in the country. We were the first company to sign and support the Bangladesh Accord on Fire and Building Safety in its updated version initiated by IndustriALL and UNI Global Union. Additionally, the H&M Conscious Foundation donated USD 100,000 to the ILO-managed Rana Plaza Donors Trust Fund supporting the victims of the disaster.

As planned, all of our supplier factories in Bangladesh had undergone additional safety inspections as per the Accord. More precisely, during 2014, 157 of our supplier factories underwent inspections conducted by the Accord.* These assess three different areas: fire risks, electrical installations and structural conditions of the building. All of our supplier factories passed the fire and electrical assessments with no immediate risks, while all factories required some improvements mostly concerning fire exits.

In the structural assessments, the majority (56%) of our supplier factories were graded green or yellow which means that no immediate risks could be found. For about one third of the factories, partial risks were identified, for example, due to a potential overload in some parts of the building. Any such risks have been addressed immediately, for example, by removing weight from the concerned part of the factory while the rest of the factory was cleared for continued production. Completion of these immediate



measures has been verified by the Accord in all cases. All of these factories are now undergoing additional Detail Engineering Assessments (DEA) in order to ensure structural safety with the highest level of precaution. The aim is for the Accord to finalise these additional assessments within the next 6 months, depending on the individual factory situation. About 15 factories showed needs for immediate structural improvements,

for example, due to concerns about the strength of the concrete or columns compared to the weight they had to carry. For 13 factories, these immediate risks have been confirmed as addressed, for example, through partial closure of concerned factory floors, while structural remediation and further DEAs are being conducted. Two factories were closed down for further improvements. Both of these factories had already

been under phase-out according to our responsible phase-out standards as they were located in a shared building, which H&M does not allow. The last order from these suppliers was shipped in spring 2014. The detailed results of all inspections along with the factory names are published here. Our focus is now on securing continued remediation and making sure that any newly added factories will undergo the same initial inspections and, where required, remediation procedures.

>bangladeshaccord.org

>bangladeshworkersafety.org

>[National Tripartite Plan of Action on Fire Safety](#)

*Another 51 factories were inspected by the Alliance for Bangladesh Worker Safety, an alternative institution that was founded by a number of North American brands. As suppliers may work for several different brands, some of which could be either Accord or Alliance members, both organisations aligned their inspection standards in order to avoid double inspections of factories. No immediate risks were identified at any of these factories.

Focus: Supply chain management

Our Conscious Actions

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

DEADLINE	STATUS
2016	on track

India's garment and textile sector plays an important role in helping lift people out of poverty. In Tamil Nadu, it provides work for rural women who might otherwise have no means of employment. An estimated 500,000 people work in the region's textile and garment industry and women are estimated to make up about 60% of the workforce, mostly in unskilled or semi-skilled jobs. Where decent work is provided, this sector can have a positive impact for women extending beyond income generation.

In recent years, media and NGO reports have put a spotlight on labour rights abuses within some parts of Tamil Nadu's garment sector. These are linked to employment arrangements often referred to as Sumangali schemes. These are forms of forced

labour where often young women from rural areas commit to long-term working contracts. This often comes with a promise of money to the girl's families at the end of the period that they can use as dowry for their daughters. This type of scheme, and any others like it, is completely unacceptable.

More than 80% of the Sumangali schemes have been identified as existing in the spinning mills sector. As is common for our industry, we do not have direct business relations with spinning mills. Mostly these are second or even third-tier suppliers. This means that we have no direct contractual influence over this stage of our value chain. We are progressing quickly in extending our influence over this part of our value chain (s.2.9). This will provide us with better possibilities to promote improvements in this sector and, where needed, allow us to exclude non-compliant mills from our value chain. However, as the issue is closely connected with systemic root causes in both the sector and the community, a holistic approach is needed

to promote improvements beyond our own value chain.

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

>ethicaltrade.org

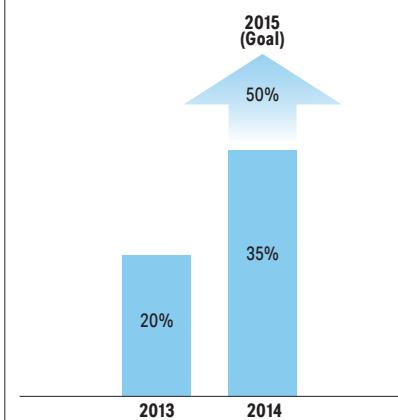
2.9 Integrate second-tier suppliers involved in making at least 50% of our products into our sustainability assessments

DEADLINE	STATUS
2015	on track

Taking a holistic approach to our value chain, we are extending our knowledge and influence over second-tier suppliers such as fabric and yarn mills. Our Lifecycle Assessments show that fabric production represents major environmental impacts. For example, 36% of the climate impact of a garment's lifecycle occurs at this stage. For several years we have worked, for example, through our development programme to help mills reduce these impacts. In 2013, we started to request information about the fabric and yarn source for each order placed. We have now started to integrate the most important fabric and yarn/spinning mills into our audit programme and also into our supplier-relationship management strategy. Our goal is to cover such mills involved in at least 50% of our production volume by

2015. We are on track in achieving this goal, with fabric and yarn/spinning mills involved in about 35% (2013: 20%) of our production volume now covered by our Limited Audit Programme. Most of these mills had never been exposed to any demands or compliance standards from brands, so one of our challenges is to educate them and develop a mutual understanding. In turn, this provides a great opportunity for improvements and for competitive advantages.

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



Focus: Supply chain management

We are now auditing second-tier suppliers involved in making about 35% of our products – and we are one of the first companies to disclose their names publicly

Our Conscious Actions

2.10 Expand our public supplier list to include the first second-tier suppliers

DEADLINE	STATUS
2015	done

Transparency is key to our supply chain management and can be a catalyst for positive change. It's also a good way to incentivise our suppliers for the progress they make during our partnership. We were one of the first fashion brands to publish our supplier factory list, covering close to 100%* of our production volume, and even factories that are subcontracted by our suppliers for specific tasks such as washing or printing. Now we are taking this one step further and we are the first major fashion brand to disclose the names and locations of the most important mills that provide our suppliers with fabrics and yarns that account for about 35% of our products. We hope that this will continue to promote transparency and drive further positive change in our industry.

>hm.com/supplierlist



**Excluded are only factories that are currently undergoing a phase-out period according to our responsible phase-out standards. During this period, products can still be made in this factory to avoid loss of jobs, while the relationship is terminated either for sustainability or other business reasons. Not included are homeworkers who can perform specific tasks in compliance with our homeworkers' guidelines.*

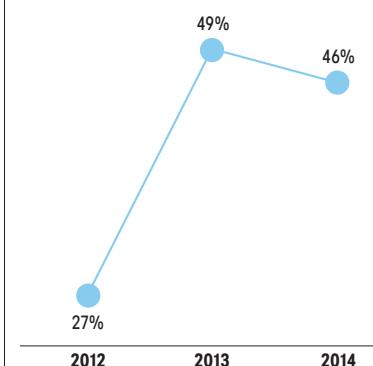
2.11 Develop updated strategy to promote high environmental, social and animal welfare standards in leather production

DEADLINE	STATUS
2015	more to do

Leather products can require intense chemical treatment that can affect both the environment and workers. We joined the Leather Working Group (LWG) in 2009. Tanneries must comply with high environmental standards before being graded by the group. This is why our goal has been to gradually increase the use of leather that is either graded by the LWG or certified organic. However, these currently do not cover all critical issues in leather production, such as key labour, health and safety and animal welfare aspects. While we are still promoting the use of these certifications, this is why, during the year, we made the decision to focus our efforts on reworking our strategy for leather products to also take these aspects into account. As part of this we are focused on adding

social criteria as well as animal welfare standards. And we are further developing related tools such as a closer integration of leather tanneries into our auditing and supply chain management systems and improved material traceability. We plan to finalise and roll out this updated strategy during 2015.

% OF LEATHER SHOES MADE WITH CERTIFIED LEATHER



Focus: Supply chain management

Our Conscious Actions

2.12 Further increase sustainability performance at all supplier factories

DEADLINE	STATUS
year-to-year	done

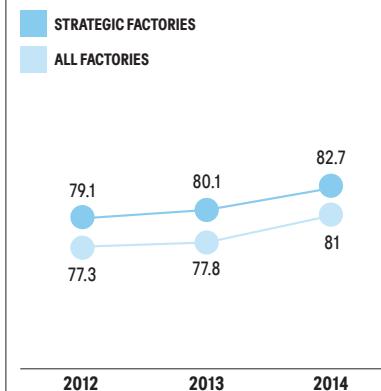
Ultimately, our supply chain management should help our suppliers to improve their performance and create a positive impact for the livelihood of their about 1.6 million workers and their communities. We measure each supplier factory's sustainability performance through our ICoC index. Our aim is to increase the average ICoC index across our entire supplier factory base year-to-year. This is despite the fact that we are constantly improving our auditing methods and increasing demands. Also, adding new factories normally has a negative effect on the total average, as factories usually improve their scores during their partnership with us. We achieved this goal in 2014 with ICoC scores increasing to 81 (max. score: 100, 2013: 77.8, 2012: 77.3, 2011: 76.5). You can find a detailed breakdown of our supplier factories' compliance with all of the

over 200 items from our Full Audit Programme questionnaire [here](#).

Please find an independent assurance statement related to GRI AF14 (p. 112).

[>hm.com/suppliercomplianceindetail](http://hm.com/suppliercomplianceindetail)

PROGRESS IN SUPPLIER FACTORY SUSTAINABILITY PERFORMANCE (IN ICoC* SCORES)



*Index Code of Conduct



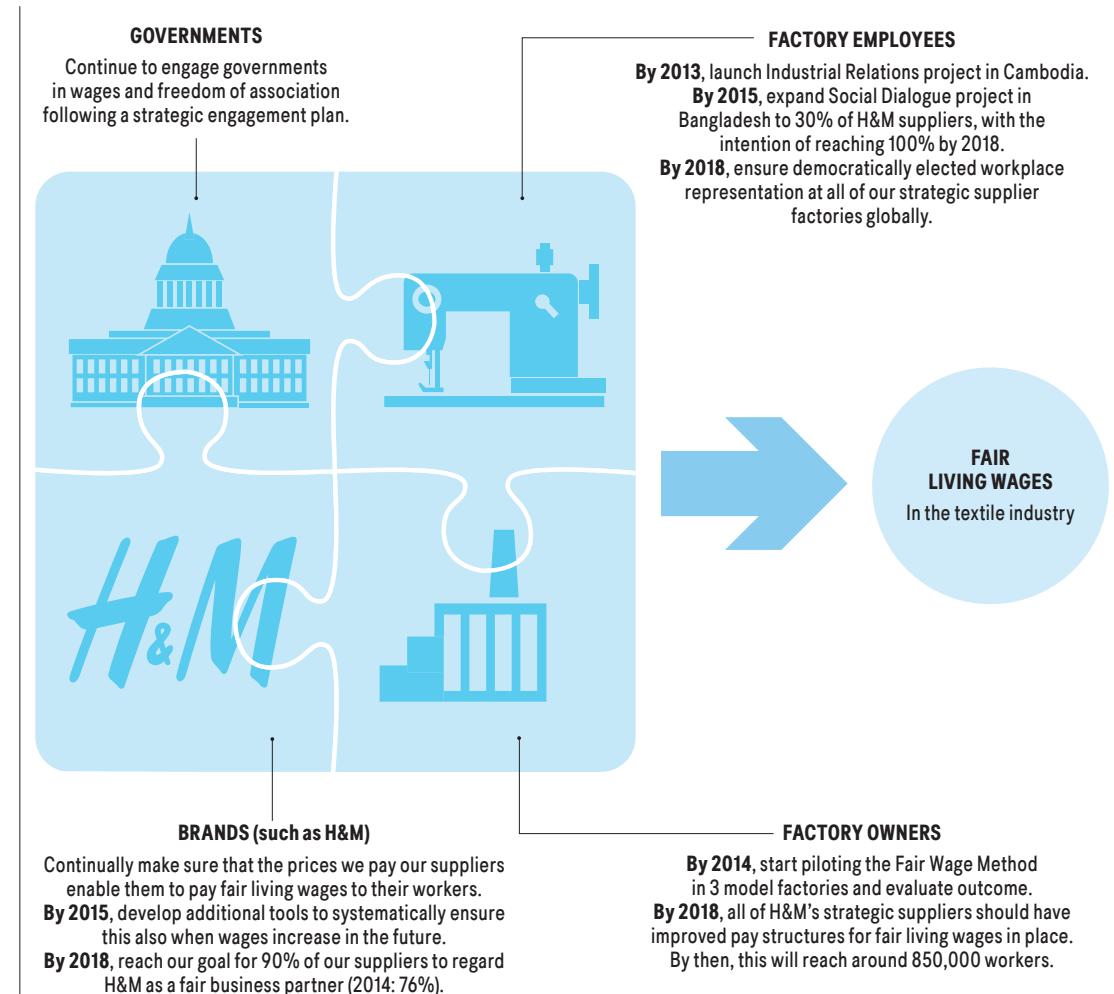
Focus: Fair living wages

Our mission

There is no question that every garment worker should earn enough for a decent living. In order to ensure this throughout our industry and in all of our sourcing markets, further change is needed. The challenges along the way are diverse and complex. In many markets, workers have limited possibilities to negotiate wages collectively. We think that collective bargaining is the best way to define wages. Where, for example, legal minimum wages or the systems to define them are not yet sufficient, we need to find solutions that in the meantime can ensure that individual factories can pay fair living wages to their workers without putting their business and jobs at risk.

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

not move orders to other countries as minimum wages increase. The challenges are complex but the aim is clear: A fair living wage across the textile industry.

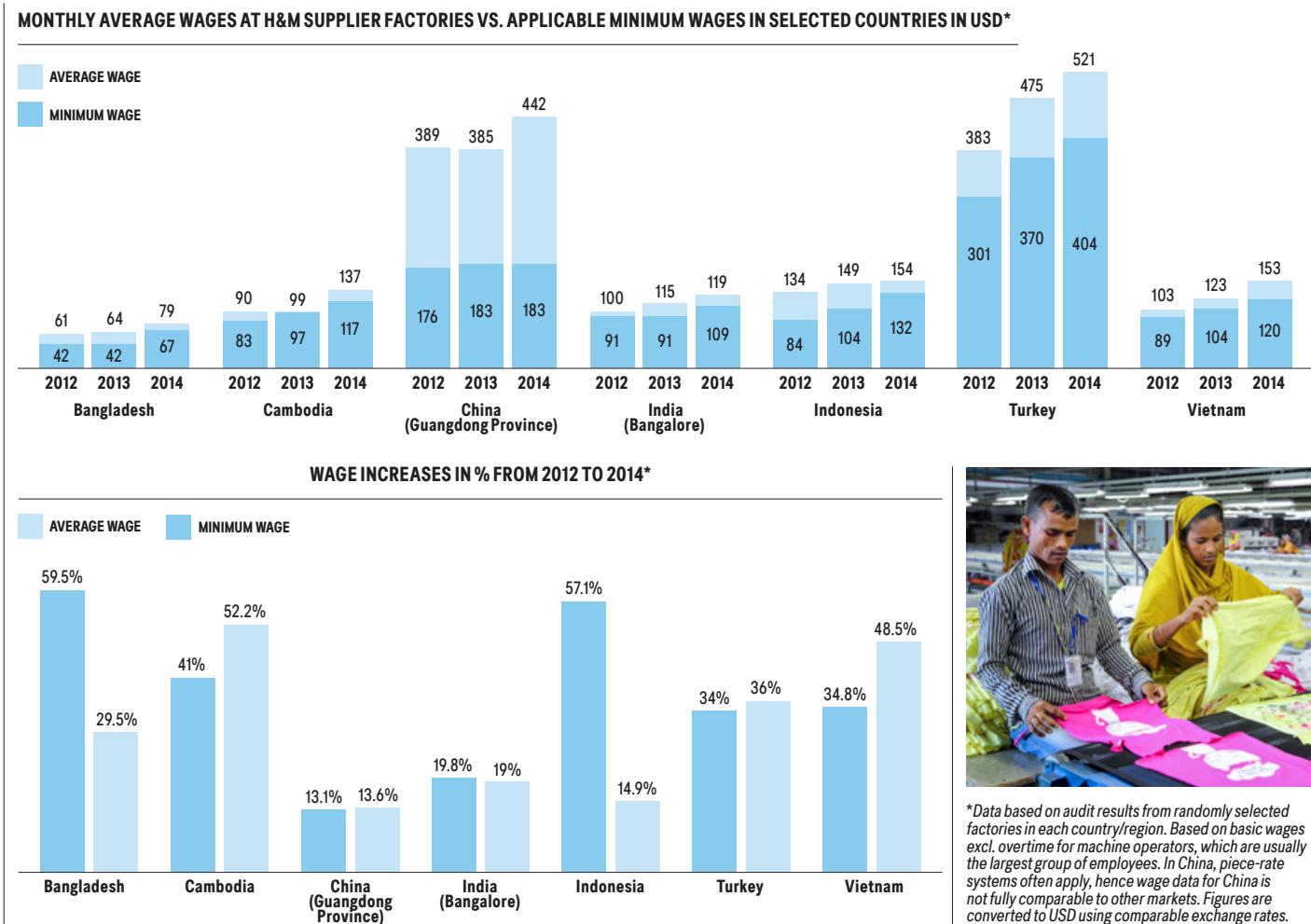


Focus: Fair living wages

Our strategy

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

We need to ensure that our purchasing practices support our suppliers in implementing fair living wages. And we need to work with our suppliers to implement the required pay structures and systems. These are defined through the Fair Wage Method, developed by the Fair Wage Network. To achieve this, we are working with our suppliers to deliver best practice examples and gradually scale them up. We are focusing on our strategic suppliers to start. Our goal is for all of them to implement improved pay structures such as the Fair Wage Method by 2018 at the latest. By then, this will impact about 850,000 people working in their factories. To assess the progress made, we will ask the workers themselves in regular surveys conducted by third parties such as the Fair Wage Network, while closely following the development of minimum wages, average wages



Focus: Fair living wages

as well as real wages, considering the change in living costs, for each market.

But to achieve lasting progress, we also need to look beyond individual factory walls. We believe that ultimately all of the people working in the garment industry should be able to influence their wages and working conditions in regular and fair negotiations with their employers. That is why we help both workers and employers to develop the required structures and knowledge and actively support the right to collective bargaining.

We are also continuing to involve governments and other stakeholders to promote systemic change across communities and our entire industry. As an important part of this, we are sending clear signals to governments and suppliers that we remain fully committed to long-term relations with suppliers and existing sourcing markets. And that we are prepared to reflect increasing costs resulting from wage increases in our sourcing prices where this is needed.

With this holistic approach covering brands like H&M, factory owners, factory employees and governments, we are taking a lead in promoting fair living wages for garment workers – not only in our supply chain, but across the entire textile industry.

[>hm.com/fairlivingwage](http://hm.com/fairlivingwage)
[>fair-wage.com](http://fair-wage.com)



Focus: Fair living wages

Interview with Jyrki Raina, General Secretary, IndustriALL Global Union

What is the biggest challenge in achieving fair living wages for all garment workers?

There are many challenges. The entire garment industry sourcing model is predicated on low wages, and the difficulty of transforming this cannot be overstated. An important initial challenge is to get the commitment of brands, suppliers and governments to work together with trade unions with a clear intention to bring about genuine large scale change.

How do you see the role of fashion brands in this regard?

Fashion brands have a critical role to play. Their sourcing practices and the price that they pay to their

“H&M must continue to take a leading role in our joint effort to make the global garment industry more sustainable”.

Jyrki Raina, General Secretary,
IndustriALL Global Union

suppliers determine the conditions for workers. What we have seen over many years is prices being squeezed, leaving very little room for pay increases to be negotiated. This must stop. Brands must be prepared to pay a fairer price for the clothes they sell.

How do you think H&M's Fair Living Wage Roadmap corresponds to this?

H&M's work towards identifying the labour component of manufacturing costs is most welcome and ensuring that wage increases are reflected in the price paid to suppliers is essential. There has been impressive progress in H&M's role model factories which shows what is possible. However, we need to go much further than a factory-by-factory approach to change the industry as a whole. We are particularly pleased to see H&M actively communicating with governments its commitment to reflect increased wages in prices paid to suppliers and the need for fairer wage fixing processes. Most important of all is H&M's willingness to collaborate with other brands to drive significant and lasting change in the industry.



Do you think fashion brands should define the amount that constitutes a fair living wage for countries like Bangladesh or Cambodia?

As trade unions, we are clear that it is the workers who should define what

amount they need to live on. In most garment producing countries, this amount is well above what they are currently paid. Government minimum wage fixing mechanisms are failing to deliver the necessary increases. To make a real breakthrough, trade unions must be able to negotiate wages across the industry so that all workers are able to earn a wage that they and their families can live on.

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

We would like to see H&M using its powerful position in the industry to bring brands together in joint work with IndustriALL Global Union towards large scale reform through collective bargaining on the industry level. This process has already started and it is the best chance we have to drive the necessary changes. For years, brands followed each other in a race to the bottom for cheaper labour. They now need to collaborate to drive a race to the top. H&M must continue to take a leading role in our joint effort to make the global garment industry truly sustainable.

Focus: Fair living wages

Our Conscious Actions



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

DEADLINE	STATUS
2015	on track

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

Additionally, we are working hard to strengthen our current so-called "open costing method". This tool

results in transparency between us and suppliers regarding the major costing blocks of each order. Currently, we are working on refining this so we can more accurately understand the labour costs associated with each order. This will support us in making sure that any wage increases are properly reflected in the prices we pay our suppliers. As wages can't be regarded without also addressing the industry wide issue of overtime hours, we are also further optimising our planning routines to help suppliers to achieve more stable capacity utilisation and (staff) planning security (s. 2.1).

Focus: Fair living wages

Our Conscious Actions

2.14 Pilot the Fair Wage Method in selected role model factories

DEADLINE	STATUS
2016	on track

In 2013, we started the process of testing the Fair Wage Method in three model factories, one in Cambodia and two in Bangladesh. Together with these factories, we want to set best practice examples for our industry and showcase that leadership in sustainability, including paying a fair living wage, can go well together with best business performance.

As part of this, we guaranteed these factories a 100% capacity usage for us for five years to avoid any business risks for them.

In 2014, we evaluated the first factory after year one of this unique collaboration in close detail to take findings from this factory further. The evaluated factory is located in Cambodia and it is a quite typical one for the Cambodian garment industry, with needs to further improve their pay

structures, social dialogue and overtime hours, but also with a strong will to improve the way their business is run.

To understand the progress, we went through loads of data, talked to the management and the Fair Wage Network conducted an anonymous detailed survey amongst the workers, a so-called fair wage assessment.

This evaluation showed very promising results. Overtime hours decreased by 43% from 60 to 34 on average per worker and month. At the same time workers' total take home wage has increased. This has mainly been achieved through improved productivity, wage structures that were better linked to workers' skills and experience, individual and collective incentives and better production planning.

This is also shown in the survey conducted amongst the workers. The share of workers that said they are satisfied with the pay systems in their factory increased to 94%, compared to a level below 50% in

a fair wage assessment conducted in 2012. Social dialogue processes also improved significantly. The management and worker representatives now agreed on a wage grid that better reflects factors such as skills and individual and collective performance. These are exactly some of the key areas identified for further improvements in the worker survey. At the same time, the factory showed reductions in staff turnover rates and worker absenteeism.

The other two model factories in Bangladesh started to implement the Fair Wage Method in late 2014 and we plan to evaluate their progress during 2015. Our next step will then be to work to lift these systems and results from a role-model environment with 100% capacity usage guarantees to a real market environment. That's certainly no easy task, but we aim to reach all our strategic supplier factories by 2018 at the latest (s.2.15).



"It has taken courage to work with the Fair Wage Method. Involving unions was a sensitive topic as there would be serious consequences if things didn't go well. Without H&M we wouldn't have had the courage to work with this topic".

Managing Director at one of our role model factories

Focus: Fair living wages

During 2015 we aim to implement the Fair Wage Method at 60 strategic supplier factories

Our Conscious Actions

2.15 Implement improved pay structures at all strategic supplier factories, impacting 850,000 workers

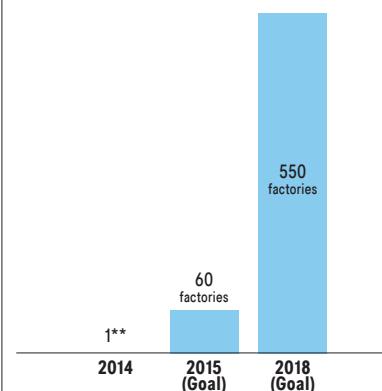
DEADLINE	STATUS
2018	on track

In 2011, we partnered with the Fair Wage Network. As part of this, the Fair Labour Association (FLA) conducted independent fair wage assessments at about 200 of our supplier factories to assess pay structures and workers' perception of their wages. Building on the implementation of the Fair Wage method in selected model factories (s. 2.14), our goal is to scale up such improved pay structures at all of our strategic supplier factories* by 2018 at the latest. This will affect around 850,000 workers. Developed by the Fair Wage Network, the Fair Wage Method defines twelve dimensions of wages that need to be in place to make a fair living wage. For example, this includes ensuring that wages cover workers' basic needs, reflect their skills and are negotiated in a fair process involving workers and their representatives. Our plan is to

increase the implementation of such improved pay systems to cover 60 strategic supplier factories in Bangladesh, Cambodia and China in 2015. As part of this, we will conduct further worker surveys at these factories. We will use this broader group of factories and the data gathered from these surveys to make decisions on how to move forward.

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

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



*Manufacturing factories

**Implementation completed in one role model factory and started in two additional role model factories (full implementation expected mid 2015).



2.16 Update our Code of Conduct

DEADLINE	STATUS
2014	more to do

During 2014, we worked on updating our Code of Conduct to among other things better reflect our position regarding fair living wages, for example, by stating: "A fair living wage should always be enough to meet the basic needs of the employees and their families, and provide some discretionary income". Prior to the update we gathered vital input from a variety of stakeholders, including unions, suppliers and a variety of NGOs. We plan to publish the updated Code and roll it out to all suppliers in the first half of 2015. We chose this slightly later date than originally planned in order to release the new Code together with the launch of our new generation of supplier assessment and thereby create a stronger impact in our supply chain.

>hm.com/codeofconduct

Focus: Fair living wages

We remain fully committed to long-term relations with our suppliers and existing sourcing markets

Our Conscious Actions

2.17 Set advocacy plan to strategically engage with governments on wage issues

DEADLINE	STATUS
2014	done

Systemic change cannot be achieved by one company alone. The ambition must be for all garment workers in the industry – not just in our supplier factories – to earn a fair living wage. In order to ensure income equality and competition-neutral

playing fields, the governments concerned need to strengthen their legal frameworks such as regular wage revisions and functioning industrial relations. This is why we, from the beginning of the development of our fair living wage roadmap, also have taken the importance of involving governments in the process into account. And sent a clear signal to them: We remain fully committed to long-term relations with our suppliers and existing sourcing markets and are prepared to reflect

wage increases in our sourcing costs where needed.

To expand these efforts strategically, we have now developed an engagement plan for four priority countries: Bangladesh, Cambodia, Myanmar and Ethiopia. These countries have been chosen due to great potential and needs in government actions on wage issues. We plan to engage with these governments directly, together with actors such as the ILO (s. 2.18). The aim is to support stronger minimum wage legislation, for example, in the form of annual minimum wage revisions, and to strengthen the legal framework and enforcement of the right to freedom of association.

This plan builds on our previous experience from working with governments on this matter. In recent years, we have on several occasions been in contact with the Bangladeshi Government and requested increases in minimum wages and systematic minimum wage revisions, most recently during a [meeting between our CEO and the Bangladeshi](#)



H&M's CEO Karl-Johan Persson and Tofail Ahmed, Minister of Commerce in Bangladesh.

“We are prepared that higher wages can mean higher sourcing prices. We see this as an investment in our customer offering”.

Karl-Johan Persson, CEO at H&M

Minister of Commerce in autumn 2014. Also in 2014, we initiated a joint letter with several other brands urging the Cambodian government to ensure fair collective bargaining processes and expressed our support for increasing wages in the country, including our willingness to incorporate higher wage costs in our sourcing prices where needed. This came after the 2013 meeting between our CEO and the Cambodian Prime Minister to discuss the importance of annual minimum wage revisions and fair industrial relations.

We will continue these efforts and start implementing this plan from 2015 onwards.

Focus: Fair living wages

Our Conscious Actions

NEW 2.18 Form strategic partnership with the International Labour Organisation (ILO)

DEADLINE	STATUS
2014	done

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

This new partnership includes joint work on industrial relations and wages, training and skills development in our supplier factories, as well as strengthening employers' and workers' organisations in the global garment industry. Together, we will promote a wide range of activities with the aim to further strengthen sustainability work in our supply chain. We hope to establish a positive model for other operators and create a global alliance to promote the [ILO's Decent Work Agenda](#).



H&M's Head of Production and former Head of Sustainability Helena Helmersson with Guy Ryder, Director-General at the ILO.

NEW 2.19 Develop a common approach towards fair living wages with other brands

DEADLINE	STATUS
2014	done

As a single brand, we can go ahead, but we can't do the job alone. Besides governments and international organisations such as the ILO, other brands play a vital role, too. To create a critical mass in our industry and help governments and suppliers feel secure that increasing minimum

wages will not necessarily result in a loss of competitiveness for their economies, several brands need to pull in the same direction. That's why during the past year, we had a number of talks with other brands, all sharing a similar vision that all workers in our industry should earn fair living wages and recognising the need for even more industry collaboration to make this a reality. The result is a joint set of what we called the Enabling Principles. These principles outline a shared approach towards fair living wages based on, for example, purchasing practices, the right to freedom of association and collective bargaining and possibilities for productivity improvements. 13 leading brands in our industry signed these principles and are committed to their implementation.

“Issues in the garment industry are systemic and require action that helps develop effective industrial relations and promote respect for international labour standards. There is therefore an urgent need to establish strategic and comprehensive collaborations with companies that have experience in these fields, such as H&M,” says ILO Director-General Guy Ryder.

Focus: Fair living wages

Our Conscious Actions



2.20 Define needs and update strategy for extended skills development programme for garment workers

DEADLINE	STATUS
2014	done

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

That's why during 2014, we refined our strategies and mapped different existing projects and additional needs. Our goal is that all workers at H&M

supplier factories should have access to relevant skills development programmes – and have employment and a wage that reflect their skills. As part of this, we will continue with an important project that we started in 2013 together with the ILO and the Swedish International Development Cooperation Agency (SIDA) in Bangladesh. In a joint centre of excellence, we aim to train 5,000 students until the end of 2016. In China, we initiated a career-training programme reaching out to about 8,000 young migrant workers in 9 factories. Based on these experiences we will set up or connect with further local projects, based on local needs and conditions.

>ilo.org
>sida.se

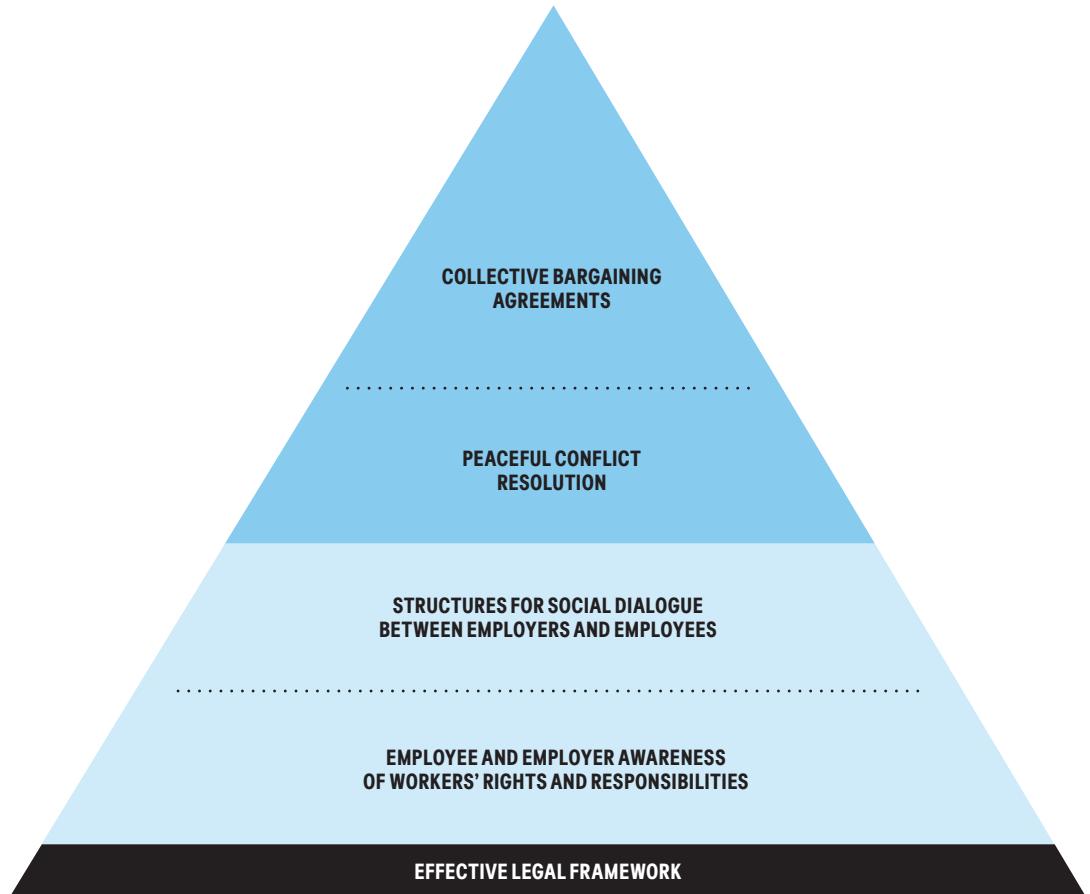
Focus: Industrial relations

Our mission

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

Our strategy

In order to achieve fair and functioning industrial relations, we are addressing the issue with our supplier factories as well as on the industry and government level. Freedom of association is a clear demand in our Code of Conduct. In 2011, we made a major shift in the way we assess compliance with this requirement in our audit programme. Instead of asking if a worker's right to freedom of association is respected, we now measure if trade unions are actually in place. Factories with trade union representation or a collective bargaining agreement are now rewarded with higher ICoC scores. Where unionisation is restricted by law or where systems are insufficient, we work to empower workers with awareness about their rights at work and to help our suppliers establish functioning and democratically elected workplace representation. The aim is that these will develop into mature collective bargaining systems. Beyond the factory level, we work with governments and other partners such as unions to promote the required legal frameworks and help to mature the concept of solution-oriented negotiations amongst both employers and worker representatives.



Focus: Industrial relations

Our Conscious Actions

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

DEADLINE	STATUS
2018	on track

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

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

systems exist, we will continue to help strengthen them. Where this is not the case, we will work with our strategic suppliers to develop factory-based worker representation that is democratically elected. As part of this, we have set up dedicated local projects (s. 2.22, 2.23 and 2.24). By developing a new supplier assessment method (s. 2.6), we are currently also strengthening our data collection so that we can track the performance against these goals also in regard to democratically elected workplace representation. This is a unique approach and ambition in our industry and we hope that it will inspire others to follow and support our efforts.

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

DEADLINE	STATUS
2018	on track

In 2011, we launched a social dialogue project in Bangladesh. The aim is to help supplier factories in establishing democratically elected workplace committees and to improve the dialogue between management and factory employees. Since then, we collaborated with external experts to train the management and workers which finally led to the free election of workplace committees that are in an active dialogue with the management. Our goal for 2014 was to expand this project and cover 15% of our Bangladeshi supplier factories. We exceeded this goal and reached over 20%. As a result of the project, 30 factories now have workplace committees in place with over 70,000 workers represented by them. Another 30 factories are currently in the process of setting up committees. With this progress, our target is now to reach 100% of the Bangla-

deshi factories in the project by 2018 at the latest. This project marks the starting point for our goal to ensure democratically elected workplace representation at all strategic suppliers globally (s. 2.21) and we will use these experiences when rolling out similar projects in other markets.



Focus: Industrial relations

Our Conscious Actions

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

DEADLINE	STATUS
2016	on track

Unlike many other countries in the region, Cambodia has a history of trade union representation. The vast majority of our supplier factories in the country have trade unions in place. However, negotiations in the sector are often confrontational, resulting in major conflicts and even violence. Currently, 18% of our supplier factories in Cambodia have collective bargaining agreements in place. Together with the ILO, the Swedish trade union IF Metall and the Swedish International Cooperation Development Agency (SIDA), we have now started a unique project that will run through 2014 to 2016. The aim of the project is to increase this number, create best practice examples for fair and solution-oriented negotiations and ultimately contribute to greater

stability in the market. To achieve this, we are working jointly to improve negotiations and conflict resolution skills amongst both employers and unions and working with government institutions to help them establish frameworks that support this. Currently, five of our supplier factories in the country are participating in the programme. Training sessions conducted by IF Metall will run throughout 2015. Moving forward, we aim to include more supplier factories while establishing best practice examples that can lead the way for the industry show that solution-oriented collective bargaining is possible and for the benefit of all.

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

NEW 2.24 Engage all strategic suppliers in China in social dialogue project

DEADLINE	STATUS
2018	on track

In China, freedom of association is restricted by law. At the same time, the Chinese garment sector increasingly faces challenges such as labour shortages and turnover issues as well as labour conflicts. Recent developments in Chinese legislation reflect a strong need for better employee relations and provide great opportunities for the development of democratically elected worker committees. That's why, building on our experiences in Bangladesh, we have now launched a social dialogue project in China as well. The aim is to promote awareness of workers' rights and responsibilities, two-way communication between management and workers, peaceful conflict resolution and collective consultation in Chinese factories. The management, HR staff, CSR staff, supervisors and worker representatives will take part in a series of training courses and assess-

ments that will give them the skills and knowledge needed to have a constructive dialogue about issues that are important to the workers.

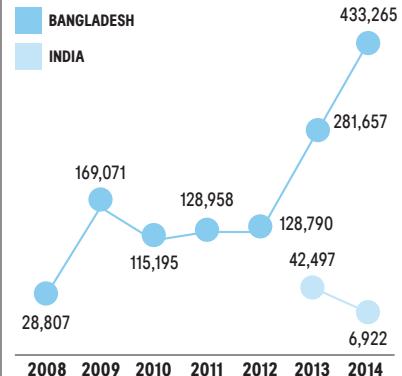
We started in autumn 2014 with two strategic suppliers and aim to add another 8 suppliers in spring 2015. By then, this will affect about 8,200 workers. From here, we plan to scale up the project rapidly to ultimately include all of our strategic suppliers by 2018.

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

DEADLINE	STATUS
year-to-year	done

In 2008, we teamed up with suppliers and local NGOs in Bangladesh to develop a series of short films and training packages in order to increase awareness of workers' rights. In 2013, we expanded this programme to India. Just in 2014, over 440,000 workers and middle managers were trained.

NO. OF WORKERS EDUCATED ON THEIR RIGHTS PER YEAR



— COMMITMENT THREE —

Be ethical



Being ethical is about doing the right thing. This means respecting human rights, taking a clear stance against corruption and embracing diversity and inclusion. It also means, of course, to respect laws and regulations wherever we operate and to pay taxes accordingly. We interact with millions of people across various countries and cultures. Whether you are a customer, colleague, business partner or any other stakeholder, we believe that mutual respect, integrity, transparency and honesty are essential to our business. Our commitment to be ethical throughout our operations is firmly rooted in our corporate values.

Performance overview

This is Lynsey Buell. She works as a sales advisor at our H&M store on 5th Avenue, New York City.



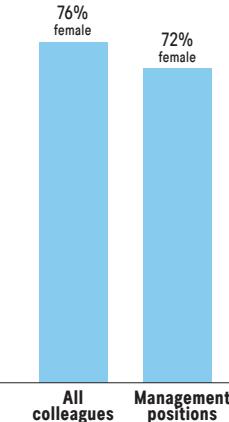
She is one of 215 colleagues here.

She is part of a global team of over 132,000 people from various backgrounds and with different personalities.

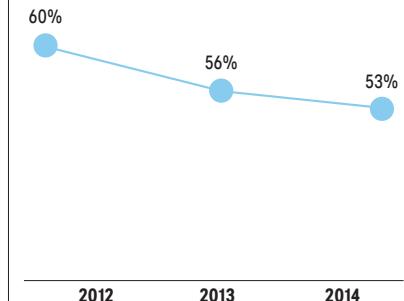
The H&M Way guides us all in living our corporate values, in fighting corruption and respecting human rights wherever we operate.

Key performance 2014

SHARE OF FEMALES AMONGST ALL COLLEAGUES VS. MANAGEMENT POSITIONS



PERCENTAGE OF TOTAL EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS



Introduced new policy for how to address HIV/AIDS amongst our colleagues in a responsible manner.

Performance overview

PROGRESS OVERVIEW		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – ANTI-CORRUPTION					
3.1	Detect violations of our Code of Ethics	year-to-year			
3.2	Ensure that all colleagues concerned have signed our Code of Ethics (CoE) and received dedicated training	year-to-year			
3.3	Update and implement additional training for managers	2014			
3.4	Ensure that all our commercial goods suppliers have signed our Code of Ethics	year-to-year			
FOCUS – EMPLOYER OF CHOICE					
3.5	NEW Increase employee satisfaction in each market	bi-annually			
3.6	NEW Set up global grievance and complaint register	2015			
3.7	Reach all of our colleagues with our learning management system “GROW”	2014			
3.8	Ensure good workplace relations and dialogue with our colleagues and their representatives	year-to-year			
3.9	NEW Develop global policy for severe diseases in collaboration with ILOAIDS and SWHAP	2015			
3.10	NEW Increase compliance level with all safety standards to 90% in all stores globally	2015			
FOCUS – HUMAN RIGHTS MANAGEMENT					
3.11	Ensure compliance with our discrimination and equality and harassment policies	year-to-year			
3.12	Assess human rights risks and impacts before entering any new market (production and sales)	year-to-year			
3.13	NEW Role out in-depth human rights training for key functions	2015			
3.14	Promote increased awareness and respect for human rights and equality by partnering with Civil Rights Defenders	2016			
3.15	Ensure compliance with our customer privacy policy	year-to-year			
FOCUS – DIVERSITY & EQUALITY					
3.16	NEW Update our diversity policy and ensure compliance	2015			
FOCUS – RESPONSIBLE MARKETING					
3.17	Ensure compliance with our advertising policy	year-to-year			

Focus: Anti-corruption

Our mission

Corruption is a challenge in most of our production countries and also in many sales markets. We have a zero tolerance policy towards this and take a proactive approach in preventing it. Mutual trust and transparency are important and expected in all of our relationships, including those with our colleagues and business partners. Education, building awareness and zero tolerance are effective tools in preventing corruption among our colleagues and business partners.



Our strategy

We make it a point to act with integrity at all times. We have based our entire Code of Ethics on the strictest regulations and legislation regarding corruption. It outlines our commitment to compliance in each country we operate in and to not accept or facilitate any form of corruption. In early 2013, we became a Corporate Supporter Member of Transparency International Sweden to demonstrate our commitment to integrity and our support for the fight against corruption. We conduct regular risk assessments for all of our business units and for our business partners. Based on these, the code applies to all of our business partners and colleagues who are in regular contact with any of them. We have made it mandatory for all our partners to sign the code and go through dedicated training. We have internal audit systems and a whistleblowing procedure in place whereby potential breaches can be reported confidentially, anonymously and without any risk of reprisals. We follow up on reported incidents thoroughly. We focus on achieving the greatest possible transparency in all of our business relations to thereby detect any non-compliance.

>hm.com/anticorruption

Focus: Anti-corruption

Interview with Johan Gernandt, Chairman Transparency International (TI) Sweden

What are the biggest challenges for a company like H&M when it comes to corruption and business ethics?

As a major listed company, H&M is subject to a higher degree of, and in some cases disproportionate and unbalanced, attention from the media and H&M's shareholders, customers and other stakeholders have very high demands on H&M in relation to ethical conduct of business. In addition, companies like H&M face particularly difficult challenges since they operate in jurisdictions where corruption is widespread and the protection of human rights is low.

How do you think H&M performs in this area?

I think that H&M takes a very serious view on business ethics and fighting corruption, that these issues are highly prioritised by top management, and that procedures in these respects seem to be well integrated into H&M's business strategies. In my work as a lawyer, I have seen several cases of the difficulties companies with global operations face. Comparing H&M to

such companies, I believe that H&M performs well.

What does the collaboration between H&M and TI entail?

H&M is a member of TI Sweden's Corporate Supporters' Forum, which is a network against corruption and includes a number of major Swedish companies with international business.

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

We would like to see H&M continue to be a leading company when it comes to ethical work and anti-corruption, both internally and externally.



“We would like to see H&M continue to be a leading company when it comes to ethical work and anti-corruption, both internally and externally”.

Johan Gernandt, Chairman Transparency International

Focus: Anti-corruption

Our Conscious Actions

3.1 Detect violations of our Code of Ethics

DEADLINE	STATUS
year-to-year	done

Rather than aiming for zero cases on paper, our goal is to actually find the cases where our Code of Ethics has been violated. In 2014, we investigated 30 (2013: 36) incidents of potential non-compliance. These investigations led to actions in 18 cases* (2013: 18), nine terminations and nine warnings. The actions included both employees and business partners. Investigations were conducted based on direct reports from our business partners and employees who made use of our open-door policy, complaint procedure or whistleblowing instruments. Most of the cases concerned requests for money or personal favours, conflict of interest or theft.

[>hm.com/anticorruption](http://hm.com/anticorruption)

*Please find an independent assurance statement related to GRI G4 S05 here (p. 112).

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

DEADLINE	STATUS
year-to-year	on track

All colleagues who are in regular contact with business partners, in-house consultants and our Board of Directors are required to sign our Code of Ethics, receive relevant training and obviously comply with it. To maintain this systematically, we have made the signing of our Code of Ethics a routine element when entering new employment contracts globally. As a result, by 2014, 100% of these colleagues had signed the Code.

But signing the Code of Ethics is no guarantee that individuals are fully aware of its contents and, what's more, feel confident in complying with it. Education and training are most certainly needed. We have made this a mandatory element of our training for all concerned colleagues and the education rates have continued to increase to 83% (2013: 60%, 2012:

47%) for all markets identified as higher risk, as well as to 68% across all markets. While this is a great step forward, we will continue working towards our goal of reaching 100% in the high-risk markets by 2015 and to maintain this level.

[>hm.com/codeofethics](http://hm.com/codeofethics)

3.3 Update and implement additional training for managers

DEADLINE	STATUS
2014	done

All of our managers play a key role in preventing and fighting corruption. They are role models for their teams, colleagues and business partners alike and ultimately responsible for implementing our values and routines. We equip them with all the necessary tools to take this responsibility through additional tailor-made training. In 2014 we intensified our education programmes for managers, starting with priority sourcing and sales markets such as China, Bangladesh and our head office functions. We will continue the global implementation through 2015 and 2016.

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

DEADLINE	STATUS
year-to-year	done

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

Focus: Employer of choice

Our mission

We want to be the employer of choice for the talent we need to attract in the future and, of course, continue to be so for our current 132,000 colleagues. Working at H&M means working in an inspiring, fast-paced, exciting and ever-changing environment with numerous career opportunities. Our goal is to increase the number of stores by 10–15% per year. As part of this, we will need to attract thousands of new talents over the coming years. And we need to retain and develop the talent we already have. Being a good employer is particularly important in countries where laws and regulations fall short of our own standards and requirements. Wherever we operate, we need to ensure that our corporate values are lived throughout our operations.

Our strategy

We recruit from within the company wherever possible and provide training and regular performance reviews for all of our colleagues. Wherever we operate, we follow the same strong corporate values. We believe in people and encourage new ideas and initiatives. We keep hierarchies low, provide a wide range of benefits adjusted to local needs and contexts and promote teamwork. Through the [H&M Incentive Programme](#), all of our colleagues benefit from the company's success on equal terms, regardless of their position. We promote diversity and strive to have good relations with all of our colleagues and the employee associations and trade unions that represent them. This also includes ensuring a healthy working environment and good work-life balance. We survey job satisfaction anonymously and have made this a key measurement for all of our business units.

[>hm.com/career](http://hm.com/career)



Focus: Employer of choice

79%

of our colleagues are now covered by our training system “GROW”

Our Conscious Actions

NEW 3.5 Increase employee satisfaction in each market

DEADLINE	STATUS
bi-annually	on track

Being an attractive employer is very important to us. In 2013 and 2014, we surveyed our colleagues all around the world anonymously to get feedback on how they feel about working at H&M. We analysed the data and found that satisfaction varied widely from market to market. As each market is unique, we tailor-made solutions in order to explore and share best practice examples. All markets have now set individual goals to increase employee satisfaction. We have made these goals one of the key measurements for each market and integrated them in our global performance review tool, our 4C scorecard (Cash, Customers, Colleagues and Conscious) and included up to 3 key performance indicators for each of these categories which are reviewed annually by our CEO with each

market. We plan to conduct this survey bi-annually with help from the Great Place to Work Institute to follow up on our continued performance.



**Our brands Monki and Weekday have not been included in the survey.*

NEW 3.6 Set up global grievance and complaint register

DEADLINE	STATUS
2015	on track

Straightforwardness is one of our corporate values. We have an open-door policy and encourage frank and respectful dialogue. We genuinely want to know how things are going. For many years we have had a global complaint procedure in place that provides guidance and protection for anyone who, in good faith, lodges a complaint. So far, any complaints were registered and followed up market by market. To gain better knowledge over the extent and content of such complaints and to share best practice amongst our markets, we plan to set up a global complaint register in 2015.

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

DEADLINE	STATUS
2014	more to do

We have implemented our global learning management system GROW in almost all of our markets. A total of 79% of our colleagues are now covered by the system with the exception of the roll out for the US and Germany expected to take place in 2015. The system allows our colleagues to manage their training, access additional optional e-learning or classroom courses and test their knowledge. Sustainability training is one of our mandatory training courses for all colleagues. Additional modules cater to role-specific needs.

[>hm.com/training](http://hm.com/training)

Focus: Employer of choice

53%

of our colleagues are covered by collective bargaining agreements

Our Conscious Actions

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

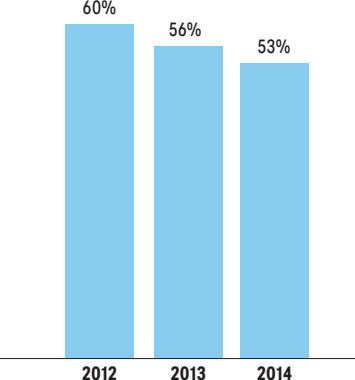
DEADLINE	STATUS
year-to-year	on track

As our Global Framework Agreement with UNI Global Union clearly states, we as a company and our colleagues are jointly responsible for complying with the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. This includes our commitment to freedom of association and collective bargaining across all of our operations. Employees are also represented at the board level. Besides various engagements on the local level, our global Employee Relations Manager holds regular meetings with representatives of the European Works Council (EWC) that comprises employee representatives from some of our most important sales countries including Germany, UK, France and Sweden. Currently, 53% of our colleagues are covered by collective bargaining agreements (2013: 56%).

With our continued global growth, we sometimes face very specific challenges and often less mature labour regulations and systems for workplace relations. In China, for example, unionisation is restricted by law. This is gradually reducing the ratio of colleagues who are covered by collective bargaining agreements, mainly because we have an increasing number of colleagues in markets where these do not sufficiently exist. That's why we are currently speaking with UNI Global Union to set up additional partnerships beyond our existing framework agreement specifically for each of these markets to jointly define minimum standards where existing legislations falls short of our values.

[>hm.com/fairpartner](http://hm.com/fairpartner)
[>uniglobalunion.org](http://uniglobalunion.org)

PERCENTAGE OF TOTAL COLLEAGUES COVERED BY COLLECTIVE BARGAINING AGREEMENTS



NEW 3.9 Develop global policy for severe diseases in collaboration with ILOAIDS and SWHAP

DEADLINE	STATUS
2015	on track

During 2015, we plan to open our first stores in South Africa. This will mark our first store in Sub-Saharan Africa and a step into a new market that presents great opportunities, for us as well as the community, but also new challenges. About 18% of the population between the ages of 15 and 49 live with HIV*, one of the highest rates in the world. That's why we teamed up with ILOAIDS, the UN's lead agency for HIV/AIDS policies and programmes in the world of work, and SWHAP, the Swedish Workplace HIV/AIDS Programme, to discuss how we as an employer can ensure the best possible working environment and support for colleagues who are HIV positive. We developed a global policy to guide us in all of our operations as a result,

not only in South Africa, to support all of our colleagues who are in any way affected by HIV/AIDS, for example, by providing them with access to treatment and by offering prevention programmes in areas with high or increasing HIV prevalence. This policy will be rolled out to all of our markets in 2015.

[>iloaids.org](http://iloaids.org)
[>swhap.org](http://swhap.org)

Focus: Employer of choice

Our Conscious Actions



NEW 3.10 Increase compliance level with all safety standards to 90% in all stores globally

DEADLINE	STATUS
2015	on track

We want to ensure an inspiring and safe environment for our colleagues and customers. We have clear safety requirements and guidelines in place that all stores must follow. We monitor compliance through regular store audits. In 2014, we conducted over 4,300 audits and found a compliance rate of 84% with our safety requirements. The main areas of non-compliance included omitting to provide new employees with safety training on their first day of work – a challenge on a normal working day, but a requirement that is one of our highest priorities. Our target is to achieve a compliance level of 90% by 2015. In order to achieve this, after each audit we create action plans to tackle any non-compliance systematically. We provide different kinds of safety training ranging from mandatory emergency evacuation practice to more role-specific

training. We will continue to focus on ensuring that adequate training and follow-up is in place.

Focus: Human rights management

Our mission

We have operations and suppliers in countries where human rights are at risk. Respecting human rights is vital to us as an employer, business partner and corporate citizen. Consequently, we have developed a group-wide human rights policy based on the UN Guiding Principles on Business and Human Rights. This policy defines our responsibility to respect human rights by remediating actual impacts and to work to prevent potential impacts throughout our value chain. To secure its implementation and compliance, we need to have the right systems and tools in place that help us to assess and manage our impacts.

Our strategy

We routinely assess and manage the human rights impacts of our business based on the operational context, our level of influence and business relationships. We prioritise our own operations and commercial goods suppliers. We focus on three key human rights that are particularly important to our industry: labour conditions, women's rights and the right to water. We integrate human rights into all relevant business decisions and have therefore established systems and tools for due diligence, risk and impact assessments and, where needed, remediation.

In 2014, we developed additional tools based on the UN Guiding Principles on Business and Human Rights to help us assess human rights impacts that can be applied to potential scenarios to help shape our strategies going forward. For example, we worked together with the NGO SHIFT to develop training for concerned colleagues and suppliers. Specific policies guide our efforts for different stakeholder groups, such as our Code of Conduct, our discrimination and equality policy (s. 3.11), our advertising policy (s. 3.17) and our privacy policies (s. 3.15). We have complaint procedures and audit systems in place. In addition, we promote respect for human rights through a set of other engagements such as public policy, stakeholder dialogues and partnerships. As human rights concern various parts of our business, tools to assess and manage our impacts are increasingly integrated across our organisation and therefore a vital part of all of our seven commitments.



Focus: Human rights management

Our Conscious Actions

3.11 Ensure compliance with our discrimination and equality and harassment policies

DEADLINE	STATUS
year-to-year	done

All of our stores, offices and warehouses* regularly undergo audits in which we check compliance with our policies and routines. This includes our discrimination and equality policy, as well as our harassment policy. For 2014, we identified a global compliance level of 100%. Our goal is to maintain this level while improving our audit routines to detect any non-compliance. As part of this, we are currently working on building a global register for complaints filed according to our complaint procedure (s.3.6).

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

DEADLINE	STATUS
year-to-year	done

Our human rights policy commits us to conducting human rights risk and impact assessments before entering new production or sales markets. This goes for all production markets that we have sourced from since 2013 (Ethiopia, Kenya, Myanmar). Gradually we've extended these assessments to include existing production markets, together now covering about 90% of our production volume. We also assessed all new sales markets* that opened in 2014 or that are planned for 2015.

NEW 3.13 Role out in-depth human rights training for key functions

DEADLINE	STATUS
2015	on track

In 2014, together with the independent non-profit organisation SHIFT, we developed an updated, in-depth training programme. This training targets our top management in both our sales country offices and our production offices as well as key colleagues in functions such as Sustainability, HR and Security. It provides insight into actual and potential human rights impacts and equips our colleagues in these areas with hands-on knowledge and tools to help implement our human rights policy. During 2015, we will focus on rolling this training out to our sustainability teams and key decision makers in our sourcing organisation.

>shiftproject.org

*Franchise operations not included

*Excluding Australia which we considered low risk from the start

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

DEADLINE	STATUS
2016	on track

In early 2014, we entered into a partnership with Civil Rights Defenders. We will contribute SEK 4 million over a period of three years to support their work for human rights and equality globally. The projects supported include protecting human rights defenders at risk and LGBT* rights in Central Asia.

>civilrightsdefenders.org

3.15 Ensure compliance with our customer privacy policy

DEADLINE	STATUS
year-to-year	on track

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

Focus: Diversity & equality

Our mission

Diversity and inclusion are clearly assets to the company. The majority of our customers and colleagues are women. This should be and is well reflected in our management. We need to ensure that we live our values in our around 3,500 stores as well as our offices and warehouses in all of our markets. We promote everyone from floor managers to board members regardless of gender, age, ethnicity, sexual orientation, religious beliefs, disability and more wherever we operate and ensure equality at all times.

Our strategy

Diversity and equality are part of our values. So, promoting our corporate values is also key in achieving this. In addition, we have a group-wide diversity policy in place, as well as a discrimination and equality and harassment policy (s. 3.11). We check how well our stores, offices and warehouses comply with these policies through regular audits and we have clearly communicated complaint procedures in place. Our aim is to achieve full compliance with these policies. Additionally, we promote diversity and equality beyond our operations and strive to show diverse looks in our advertising.

[>hm.com/diversity](http://hm.com/diversity)



Focus: Diversity & equality

Our Conscious Actions

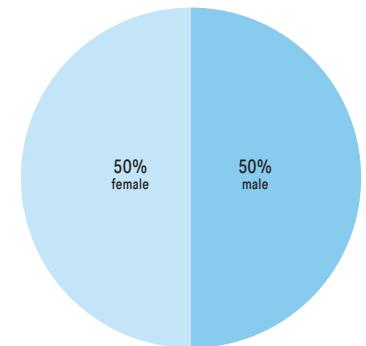


NEW 3.16 Update our diversity policy and ensure compliance

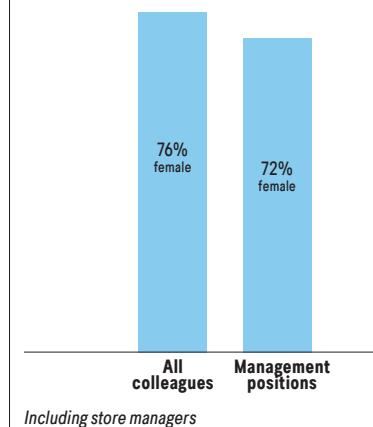
DEADLINE	STATUS
2015	on track

Diversity is a natural part of our culture, and openness and tolerance are part of what we call an “H&M personality”. Since 76% of our colleagues are female, it is integral to our operations that leadership reflects that. Some 72% of our managers and 50% of our board members are women. However, to ensure that we live up to these ambitions especially when entering new markets, we have had a global diversity policy in place for many years. Through our internal audits, we have found that the vast majority of our stores, offices and warehouses have implemented it. To make the policy even stronger and include additional aspects, we will roll out an updated policy in 2015. We also plan to further strengthen our tools to follow up on its implementation through a global complaint register (s. 3.6).

BOARD OF DIRECTORS GENDER SPLIT



SHARE OF FEMALES AMONGST ALL COLLEAGUES VS. MANAGEMENT POSITIONS



Focus: Responsible marketing

Our mission

Our advertising campaigns are one of the many ways we communicate our business idea. They have a broad impact in our 55 sales countries. We work with some of the world's best photographers, models and style icons, aiming to inspire a wide and diverse target group. In doing so, balancing individual and cultural perceptions and customer demands requires sensitivity and tact. We need to ensure a diverse and healthy look while producing high-fashion images and messages that support current trends and our customer offering in an inspiring way. Also, we need to ensure that any data we gather for marketing or any other purposes is treated with the highest possible integrity and privacy.

Our strategy

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

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



Focus: Responsible marketing

Our Conscious Actions

3.17 Ensure compliance with our advertising policy

DEADLINE	STATUS
year-to-year	on track

Our advertising has a broad impact on many people in all 55 sales countries. Our advertising policy commits us to featuring models with different looks, styles and cultural backgrounds. Of course, we want our advertising to inspire as many people as possible and we target a wide and diverse target group. The challenge we face is to balance individual and cultural perceptions, customer demands, diversity of models, looks and attitudes and at the same time produce high-fashion images and messages that support current trends and our customer offering in an inspiring way – without conveying any specific ideal or encouraging a choice of lifestyle. We try to take all of these aspects into consideration right from the start when planning our campaigns and constantly improve our internal routines and systems to ensure this. For example, we follow multi-tier check systems

for each image and produce an even larger variety of images at each shoot. Accordingly, during 2014, we received a lot of positive feedback on our campaigns. However, there may always be perspectives and global developments that we can't foresee. During 2014, we also received comments from some of our customers that one look featured in an H&M campaign during the summer reminded them of the look of female Peshmerga fighters. While the design for this product was developed long before the developments that led to broad media attention on the Peshmerga, it has naturally never been our intention to make such a connection.

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



— COMMITMENT FOUR —

Be climate smart



Climate change is one of the major challenges of our time. The UN estimates that by 2050, the global temperature will increase by more than 2°C compared to pre-industrial levels – making the most serious consequences of climate change irreversible.* Also, with the global population pushing towards 10 billion people** and with the global middle class on the rise, the need for energy will most likely increase even further.

We believe that we all have a responsibility to meet climate challenges. So we want to be as climate smart as possible – for example, by only using renewable energy in our stores, offices and warehouses wherever this is credibly available and feasible. In doing so, we expect to reduce our emissions, despite our continued growth, by well over 50% compared to 2010 already by 2015.

That said, looking at our products' lifecycle, we know that the most significant climate impacts happen outside of our own operations, mostly when the fabric is made and in washer and dryer use at home. That's why we

increasingly work to help our partners and inspire our customers to make climate-smart choices so that we together strengthen our climate efforts.

*www.ipcc.ch
**Source: un.org

Performance overview

This T-shirt has been made with 100% certified organic cotton.

That means 46% less climate impact than using conventional cotton.

It's been transported to our warehouse from the supplier by ship and train, as around 90% of all our products are.

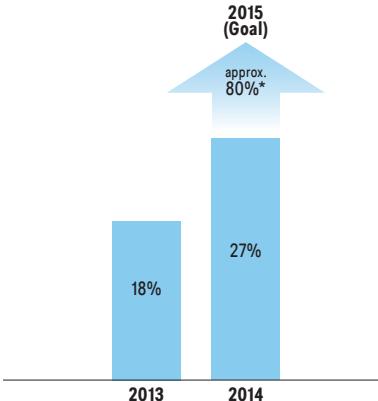


About 26% of the carbon emissions in its life occur when it's washed and cared for at home.

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

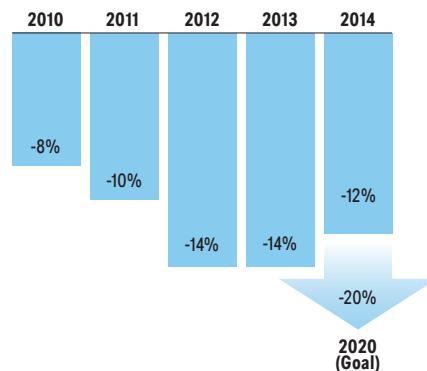
Key performance 2014

SHARE OF RENEWABLE ELECTRICITY IN ALL OUR STORES, OFFICES AND WAREHOUSES

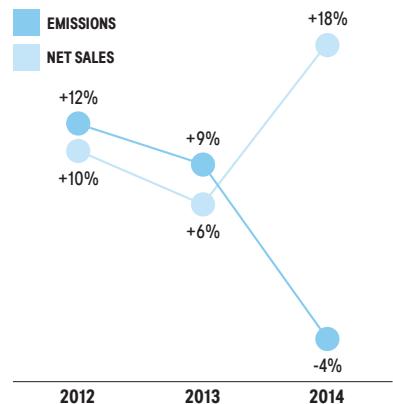


*100% in all markets, where this is feasible and renewable electricity is credibly available. This is currently not the case in, for example, China.

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



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



Performance overview

PROGRESS OVERVIEW		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – EMISSIONS FROM OUR OWN OPERATIONS					
4.1	Reduce our operations' total greenhouse gas emissions	2015			
4.2	NEW Use renewable electricity only*	2015			
4.3	Reduce electricity use in H&M (brand) stores by 20% per sqm	2020			
FOCUS – EMISSIONS ALONG OUR VALUE CHAIN					
4.4	Ensure that 100% of transport service providers are either SmartWay partners (North America), WayAhead registered (Europe and Asia) or participating in the Clean Shipping Project	year-to-year			
4.5	NEW Develop a method to report on value-chain greenhouse gas emission reduction	2015			
4.6	NEW Align with best practice in responsible corporate engagement in climate policy	2016			

*In all markets where renewable electricity is credibly available and feasible.

Focus: Emissions from our own operations

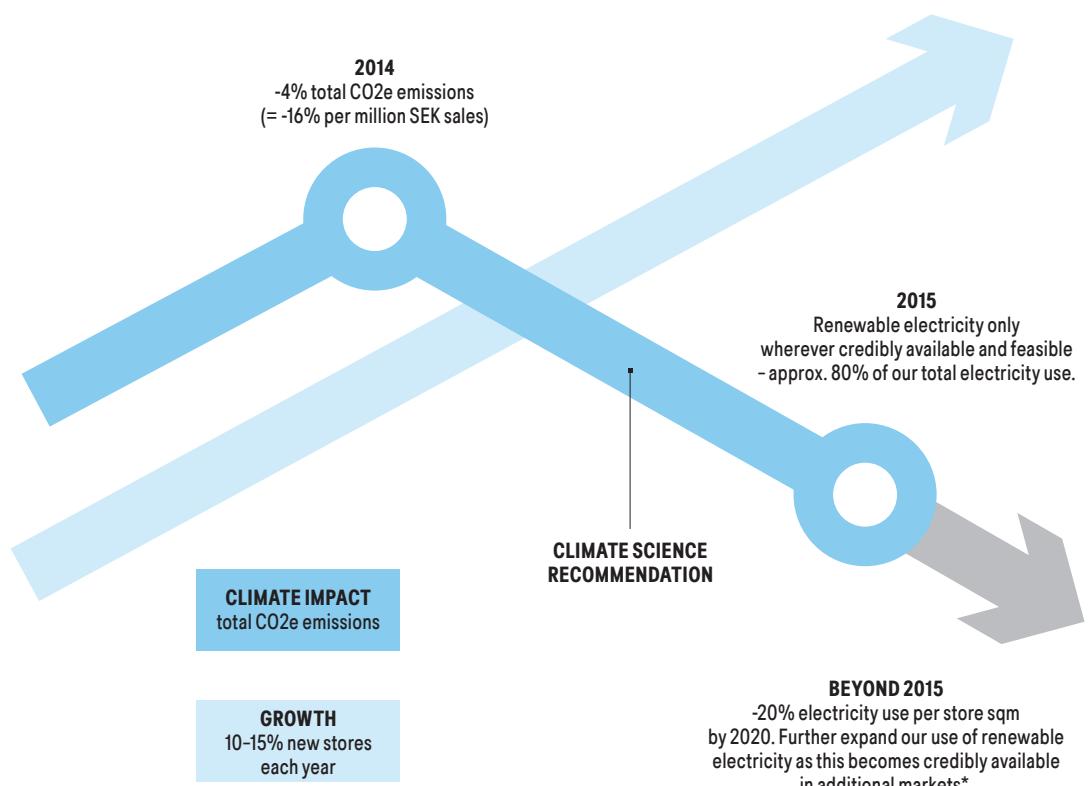
Our mission

Retail is a relatively low-carbon business. But the consequences of climate change are as likely to affect us as everyone else on our planet, including our suppliers, colleagues and customers. So it is essential that we do everything we can to reduce climate impact. In our own operations, which we can influence and control ourselves, this means nothing less than striving for the lowest climate impact possible.

Our strategy

Our main focus is on our stores where more than 80% of our electricity use occurs. We want to be as energy savvy as possible. However, it is, of course, not possible to completely avoid electricity use. Instead we made a decision to shift all the electricity we use to renewable sources wherever this is credibly available. This means that we plan to purchase about 80% of all the electricity used in our stores, offices and warehouses from renewable sources by 2015. This way, we will reduce our emissions through structural and lasting change and push the boundaries way beyond what science tells us is needed for keeping the global temperature below the expected 2°C increase by 2050.

>hm.com/climate
>ghgprotocol.org



*Such as China or Peru, where we currently consider the sourcing of renewable electricity as not credible.

Focus: Emissions from our own operations

Interview with Ben Ferrari, Director of Partnerships, The Climate Group

What role do retail and fashion brands play in tackling climate change?

Retail and fashion brands can play a major role in making progressive corporate behaviour the new normal and help create the low-carbon economy that we all urgently need. The majority of these brands have large and international supply-chain operations. Through these operations and relationships, companies can exert huge positive influence on the behaviour of their suppliers and partners with regard to reducing emissions, increasing resilience and promoting wise use of resources.

But critically, these are also some of the most visible brands on the high street and their customers are increasingly value conscious. This creates an opportunity for such brands to show that paying attention to emissions and reducing the use of scarce resources does not have to result in higher costs for customers – despite the fact that much media commentary does tend to suggest such an impact is inevitable. So there is scope for retail and fashion brands to contribute massively to showing their customers that taking climate action can also create real value for consumers and that we can achieve a thriving low-carbon economy.

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

Leadership is critical to achieving the change that we need. It is encouraging when any company commits to a progressive and ambitious strategy. However, climate science tells us that we need to achieve a great deal in

terms of emissions reductions in a short space of time. Therefore, we need the biggest companies to act in order to make real change in terms of our impact on emissions. And we need those actions to be visible to the public and to policy makers in order to help alter the narrative about the role of corporates in achieving the essential transitions to a safer, low-carbon future. H&M has the scale in its operations and customer base to achieve real impact by making changes and showing leadership through public commitments – it is great to see that happening.

What do you think about H&M's decision to use only renewable electricity wherever this is credibly available by 2015?

We believe that the development of a thriving, global market for authentically

renewable power will be a game-changer in securing the emissions reduction that climate science tells us it is critical to achieve. Business leadership is essential to making this change happen and it is very encouraging to see H&M making a public commitment to such a transition. This action helps to illustrate that there is real corporate demand for genuine renewable electricity and that this will scale up further in the future. It is especially encouraging that H&M has made a public commitment to get on with this transition now and with a sense of urgency – even if not all of its operations can be addressed straight away.

We know that challenges to going 100% renewable vary by sector, across geographies and even within a single company's operations. These realities must be faced and we know that making

decisions about the best ways to switch to credible, authentic renewable power options can be very challenging. That is why we do not see this as a challenge that corporates should face alone – the right policy frameworks need to be put in place by national and sub-national governments to make this happen.

What would you like to see in the future?

We hope that H&M will continue to expand procurement to cover as much of its operations as possible. We hope that H&M will continue to work with us, through RE100, to ensure that utilities and other stakeholders understand that demand for authentic renewable electricity is growing and that policy makers act to enable and incentivise progressive corporate behaviour in scaling up generation, procurement and use of renewable electricity.

“H&M has the scale in its operations and customer base to achieve real impact through changes and showing leadership by making public commitments – it is great to see that happening”.

Ben Ferrari, Director of Partnerships, The Climate Group

Focus: Emissions from our own operations

27%

of our electricity use
comes from renewable
sources

Our Conscious Actions

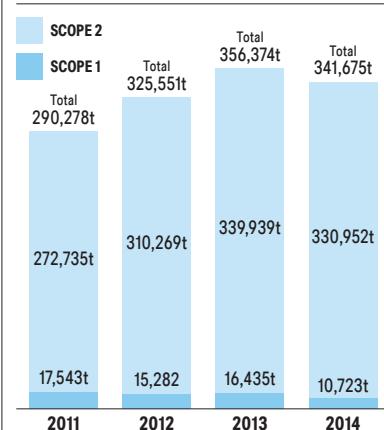
4.1 Reduce our operations' total greenhouse gas emissions

DEADLINE	STATUS
2015	done

Originally our goal was to reduce our total emissions by 2015 while growing 10%-15% annually. We met this goal already this year and reduced our total emissions by 4% compared to 2013, which equals a reduction of 16% per million SEK in sales (incl. VAT). And we are now working to reduce these emissions even further and to exceed science-based recommendations for how to keep the average global temperature increase

below the expected 2°C rise. We are confident that we will achieve this by next year, given our planned investments in renewable electricity (s. 4.2).

TOTAL CO₂E EMISSIONS IN TONNES (SCOPE 1+2) - INCL. RENEWABLES*



*Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on residual grid mix emission factors where available. Figures based on grid average emission factors (comparable to emission figures published in our 2012 and 2013 reports) were for 2014: scope 1: 10,723t, scope 2: 330,952t. For further details and data, please see our CDP Climate Change Investor Response 2013. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF₆). Please find an independent assurance statement related to GRI G4 EN15 and EN16 here (p. 112).

Carbon efficiency improved by 16% and total emissions decreased by 4%.

CARBON EMISSIONS PER MILLION SEK SALES (LOCAL CURRENCY - INCL. VAT)



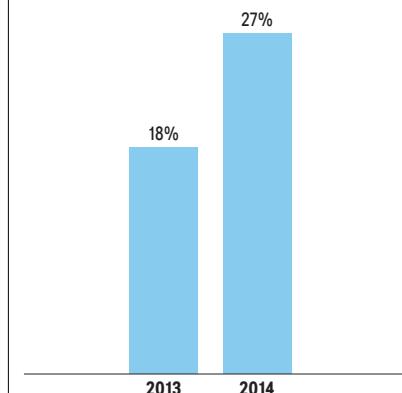
NEW 4.2 Use renewable electricity only*

DEADLINE	STATUS
2015	on track

Using electricity from renewable sources is key to reducing our absolute emissions. During 2015, for the first time in the history of the company, we'll be sourcing 100% renewable electricity wherever it is credibly available and technically feasible. Currently 27%** of our total electricity consumption comes from renewables. (2013: 18% 2012: 18%, 2011: 15%). This is equivalent to the yearly electricity usage of around 85,000 households***. Additionally, our own solar panels at our warehouses generated approximately 785,000 kWh of electricity. At the end of the year, we plan to source about 80% of our electricity from renewable sources. Some limitations we currently face are lack of local renewables capacity, lack of tracking systems which eliminate double-counting and the extreme location of an operation. This makes it very difficult to purchase renewable electricity credibly in some locations. So our task

now is to secure the possibilities for credible purchasing of renewable electricity in these remaining locations. For example, we have entered into collaboration with The Climate Group's RE100 where we hope to help make renewable electricity more readily available, for example, in China and India.

% OF RENEWABLES OF OUR TOTAL ELECTRICITY USE



*In all markets where renewable electricity is credibly available and feasible.

**31% considering only markets where renewable electricity is credibly available and feasible.

***Based on the world average electricity usage wee-indicators.enerdata.eu.

Please find an independent assurance statement related to GRI AF21 on p. 112.

Focus: Emissions from our own operations

More than 66%
of our stores are now
equipped with real-time
electricity metres

Our Conscious Actions

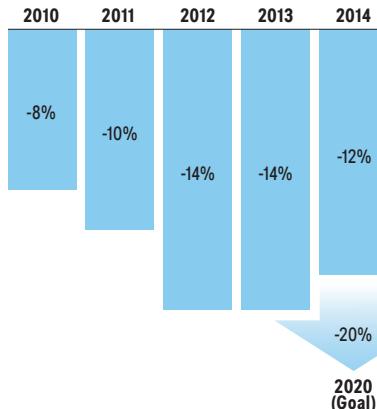
4.3 Reduce electricity use in H&M (brand) stores by 20% per sqm

DEADLINE	STATUS
2020	more to do

While we are very excited about lighting our stores with electricity from renewable sources, we are also keenly aware that the best electricity is that which is never used. That's why we keep working to increase the energy efficiency of all our stores – it helps us to save energy and reduce costs. One way is to continue rolling out real-time electricity meters in more of our stores (66%) for better on-site control and energy management. Our target is to reduce electricity use per square metre in H&M (brand) stores by 20%, as compared to a 2007 baseline, by 2020. In 2014, we saw a small slowdown compared to the 14% improvement we achieved by 2013. Compared to the 2007 baseline our reduction jumped back slightly to 12%. One explanation for this slowdown is the addition of some shopping experience enhancements such as LED lighting accents

and video screens. We are nonetheless confident about our results and we are continuing our work to increase energy efficiency in our stores and to achieve our 2020 goal.

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



ENERGY USE IN GIGAJOULES	2010	2011	2012	2013	2014
Buildings diesel	16,262	20,469	5,215	403	3,586
District heating	54,149	81,475	61,894	67,901	68,208
Electricity	2,788,354	3,006,870	3,195,689	3,402,762	3,804,291
Buildings natural gas, oil and others	123,896	211,752	184,606	252,124	155,937
TOTAL	2,982,661	3,320,566	3,447,404	3,723,190	4,032,022

Please find an independent assurance statement related to GRI G4 EN3 and EN5 on p. 112.
Figures for 2013 have been restated due to a unit error in previous reporting.



Focus: Emissions along our value chain

26%

of the carbon emissions
in a garment's life occur
in the user phase

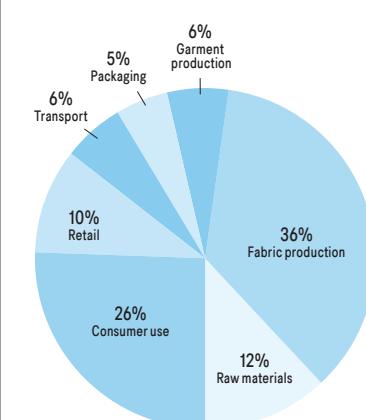
Our mission

Reducing our emissions is an important contribution to the environment and an essential goal for us. But we are well aware that the biggest climate impacts happen along our value chain and outside of our operations. For example, 12% occurs in the production of raw materials like cotton, 36% results from fabric production and another 26% when customers wash and care for their clothes. In most cases, we do not have any direct business relations at these stages. This makes it challenging to make the same demands on them as we do on ourselves or our first-tier suppliers. No matter what, we still want to do our utmost to lower climate impacts across all stages of our value chain.

Our strategy

We are working with our suppliers, second-tier suppliers, transport providers and customers to help them reduce their climate impacts. At our manufacturing suppliers this involves contractual demands and incentives for energy efficiency improvements through a range of Cleaner Production programmes. We are also extending our influence over fabric mills by gradually mapping them and including them in our supplier auditing programme. In terms of raw materials, we can make a major difference already in the design phase by choosing the right materials. And finally, we try to inspire our customers to wash their clothes at lower temperatures (s. 1.9) and bring unwanted garments to our stores for reuse and recycling (s. 1.8).

BREAKDOWN OF CLIMATE IMPACT ACROSS THE VALUE CHAIN %



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



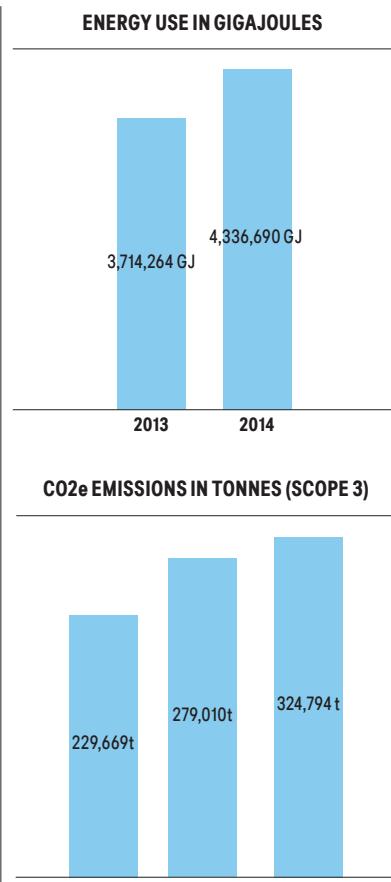
Focus: Emissions along our value chain

Our Conscious Actions

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

DEADLINE	STATUS
year-to-year	on track

Transport is a key source for our scope 3 emissions. This is why all of our transport providers are now covered by applicable environmental initiatives. This was not the case for all partners last year so we remedied it. We followed up to ensure that all partners live up to our standards and we reviewed our verification systems to ensure compliance in the future. All of our road transport providers must now be SmartWay partners (North America) or registered with WayAhead (Europe and Asia). Similarly, our sea freight partners need to register their environmental performance in the Clean Shipping Index for evaluation.



Please find an independent assurance statement related to GRI G4 EN17 on p. 112.
Reported scope 3 emissions include energy use, goods transport and distribution, and business travel.

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

DEADLINE	STATUS
2015	on track

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

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

DEADLINE	STATUS
2016	on track

We believe a strong public stance on the issue of climate change is important. At the same time we want to be at the forefront of an important new movement within the sustainability area: responsible corporate engagement in climate policy. In 2014, we committed to the guidelines developed by CDP, the UN Global Compact, Ceres, The Climate Group, WWF and the World Resources Institute in the "Guide for Responsible Corporate Engagement in Climate Policy". We will follow a programme to demonstrate best practice in policy engagement. These actions include setting up internal audits of all activities that we take part in that influence climate policy, ensuring consistency and communicating on progress.

— COMMITMENT FIVE —

Reduce, reuse, recycle



We strive to reduce, reuse and recycle wherever we can: packaging, hangers and shopping bags, for example. But the really big question is what happens to clothes when consumers no longer want them. Many countries have great systems in place to, for example, donate clothes to charities. Still, too many clothes end up in landfills. According to a study conducted by WRAP, some 31% of all textiles in the UK end up in the garbage. According to the Environmental Protection Agency (EPA), 5% of landfills in the US consist of textiles. About 95% of these could be reused or recycled. So, we need to change something about the fact that resources are extracted on one end and wasted on the other. This opens up great opportunities. A new source for making new garments with low-impact materials, for example, while reducing waste and minimising the need for land, water, chemicals and more to make virgin raw materials.

Performance overview

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

Here, we collect any clothes in any condition and from any brand to give them a new life. We will even give you a small reward.

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

Our goal is to recycle as much as possible into new garments.



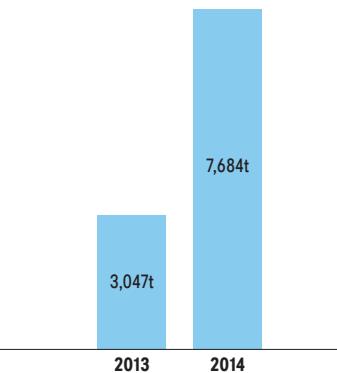
In 2014, we introduced the first pieces made with 20% recycled cotton from such collected clothes.

To increase this share without losing quality, we need more technological innovation.

We are working hard to overcome this challenge and we are investing in the innovation we need to create a closed loop for fashion.

Key performance 2014

TONNES OF GARMENTS COLLECTED FOR REUSE OR RECYCLING THROUGH OUR IN STORE GARMENT COLLECTING PROGRAMME



Recycled polyester is often made of PET bottles. And we used the equivalent of almost 40 million bottles.

For 2015, our target is to increase the number of pieces made with at least 20% recycled fabric from collected garments by more than 300% compared to 2014.

Performance overview

PROGRESS OVERVIEW		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – CLOSE THE LOOP ON TEXTILE FIBRES					
5.1	Increase the amount of collected garments, set baseline and target moving forward	2014			
5.2	NEW Make 300% more garments with recycled fabric from collected garments compared to 2014	2015			
5.3	NEW Invest in closed-loop innovation	year-to-year			
FOCUS – WASTE					
5.4	Recycle at least 95% of waste handled in our warehouses	2014			
5.5	Increase the share of H&M stores that recycle the main types of store waste	2014			
5.6	NEW Use recycled polyester equivalent to at least 60 million PET bottles	2015			

Focus: Close the loop on textile fibres

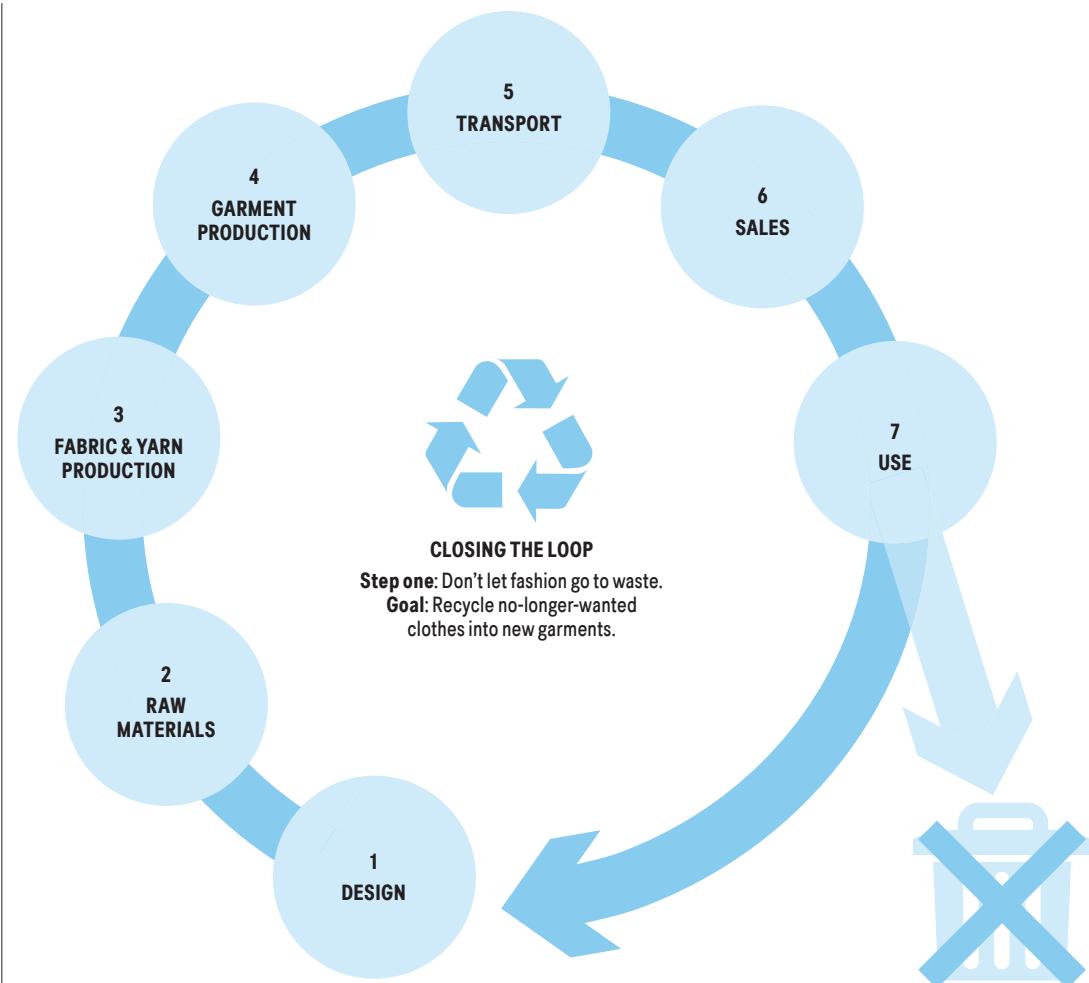
Our mission

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

Our strategy

We teamed up with one of the world leaders in textile recycling, I:Collect (I:Co) to collect unwanted clothes in all our markets – from any brand and in any condition. We have placed easily accessible collection boxes in almost all H&M (brand) stores, rewarding contributors with discounts as thanks. All collected clothes are then reused or recycled. At the moment they are used, for example, as second hand clothes or recycled into your next cleaning cloth or into the first new yarn to make new clothes. Nothing goes to the landfill. We work with suppliers and other stakeholders to increasingly recycle collected garments that are not suitable for reuse and use these fibres to make new products. Currently we can blend in about 20% of these fibres without any loss of quality or longevity. To increase this share and enable large-scale production, we are creating demand for and investing directly in the required technical innovation. To this end, we are currently involved in a number of different initiatives and partnerships.

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



Focus: Close the loop on textile fibres

Interview with Andrew Morlet, CEO, Ellen MacArthur Foundation

What does a closed loop mean to you?

A circular economy is an economic and industrial model that is regenerative by intent and design. Biological materials are cascaded before being returned into the biosphere where they restore natural capital; technical materials are maintained, upgraded, reused, remanufactured or refurbished, and ultimately their materials are recycled.

A circular model is closed loop when the products, components or materials are being re-purposed into either the same product or the same company. These models often lead to greater benefits as they help to incentivise higher value strategies. By contrast, in open loop models, materials are brought back into the market pool.

Why should companies think in terms of closed loops and circular economy?

Today's economic model can be largely characterised as linear: we take resources, make products and eventually dispose of them. While this model has successfully supported the economic development of industrialised

regions over the 20th century, it is not adapted to the conditions of the modern world. A number of trends are indicating a need for a change of paradigm, for example,

- Emerging countries are experiencing rapid development, leading to large increases in demand for resources;
- New reserves of resources discovered today are often harder, and therefore more costly, to exploit;

– New forms of consumption and business models are emerging in some markets. People show increasing interest in getting access to goods rather than owning them;

- A number of technologies have been developed over the past few years and have been key enablers of these new business models but they will also make it possible to better track and maintain products of use and consumption.

By leveraging the principles of a circular economy, businesses can reap various benefits, including reduced material input costs, access to new markets, improved customer relationships and reduced risks of resource depletion. In addition, this model can help to create thriving, resilient economies in healthy environments with restored natural capital.

What are the biggest challenges on the way?

To implement a circular economy, action is needed in four key building blocks:

- Circular design and production, e.g. design for disassembly or for modularity;
- Innovative business models, e.g. performance models or collection schemes;
- Reverse logistics and improved treatment methods, e.g. the repair or remarketing of products;
- Enabling system conditions, such as education, policy frameworks or collaboration platforms.

“Today's economic model can be largely characterised as linear: we take resources, make products and eventually dispose of them. While this model has successfully supported the economic development of industrialised regions over the 20th century, it is not adapted to the conditions of the modern world”.

Andrew Morlet, CEO, Ellen MacArthur Foundation

Focus: Close the loop on textile fibres

How do you see H&M's work progressing in this area?

H&M's garment collecting initiative leverages a number of principles of circular economy. It relies on an incentivised collection scheme where reverse logistics are optimised by using the same trucks as for deliveries. Post-collection approaches leverage the higher value of short cycles: rewearing is preferred to cascading into other applications, which in turn is prioritised over recycling and, only as a last resort are materials used for energy recovery. Interestingly, H&M invests part of the profit from this model in recycling innovation, therefore ensuring continuous improvement. H&M is also an active member of the Circular Economy 100 network, where they work in collaboration with other leading companies to create effective market conditions for the recovery of textiles.

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

H&M could build on its experience with circular models and explore additional opportunities by rethinking the design of its own products. For example, more durable clothing would enable more cycles of rewear; garments designed for disassembly could enable the reuse of certain parts in new clothing or the separate treatment of different materials. H&M has started its experimentation in business models

with a collection scheme. A next step could be to explore other approaches. For example, an online clothing rental model would help to optimise the use of the products while ensuring their recovery. By closing the loop in such a way, H&M can capture the benefits of improvements on the design and the recovery methods, which would in turn enable the company to scale up this model. H&M's supply chains will be instrumental in the success of these innovations. We would be very interested in seeing H&M explore collaboration opportunities, economic models and incentives enabling a shift away from a focus on volumes and throughput to a more systemic perspective.

“H&M’s garment collecting initiative leverages a number of principles of the circular economy”.

Andrew Morlet, CEO, Ellen MacArthur Foundation



Focus: Close the loop on textile fibres

We collected over 7,600 tonnes of old garments for reuse and recycling – that's as much fabric as in about 38 million t-shirts

Our Conscious Actions

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

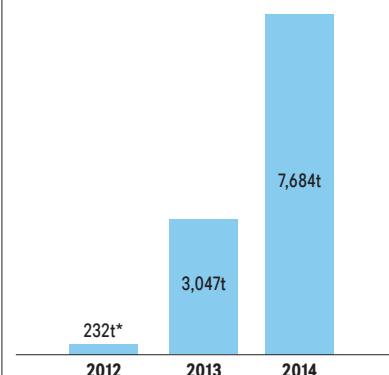
DEADLINE	STATUS
2014	done

Our customers can drop off any clothes they no longer want or need at almost all* H&M (brand stores) around the globe – probably the world's biggest retail garment collecting system. During 2013, the first year of our garment collecting initiative, we gathered 3,047 tonnes of garments to give them a new life. In 2014, we more than doubled that amount with 7,684 tonnes. In parallel, we could see in customer surveys that the awareness of this programme increased significantly amongst H&M customers from 2013 to 2014. This tells us how much we can achieve by banding together with our customers and making

*For franchise markets, our minimum requirement is to include at least one store per country and for newly entered markets, the system should be up and running 6 months after the first store opening at the latest.

it easy to not let textiles go to waste. Given this steady growth and great reception from our customers, we are now setting a new target for the years ahead.

TONNES OF GARMENTS COLLECTED



*From initial pilot projects. Please find an independent assurance statement related to CRI G4 EN1 here (p. 112).

NEW 5.2 Make 300% more garments with recycled fabric from collected garments

DEADLINE	STATUS
2015	on track

It's an important step to keep textiles from ending up in landfills. But we want to do more. We want to turn unwanted clothes into an innovative resource for new, fresh quality pieces. In short: we want to create a closed loop in fashion. In early 2014, we took the first big steps in this mission and made the first products with at least 20% recycled material from collected garments. Since then we have launched increasingly more products containing 20% recycled cotton across our entire range. There are a number of challenges on the way to increase these figures even further, for example, import barriers for used clothes in major production markets such as Turkey or China, as well as technological challenges that currently do not allow for more than 20% of recycled cotton without quality loss. That said, we are investing in technology to overcome this

challenge. For 2015, our target is to increase the number of pieces made with at least 20% recycled fabric from collected garments by more than 300% (compared to 2014) to 1.2 million pieces.



Focus: Close the loop on textile fibres

Our Conscious Actions



NEW 5.3 Invest in closed-loop innovation

DEADLINE	STATUS
year-to-year	done

There are certainly challenges on the road towards a closed loop for textiles. For example, the fact that we currently cannot make products with more than 20% recycled fabric from collected garments without a loss in quality and durability. Or that polyester fibres can't yet be recycled into new garments without running into dyeing problems. By creating demand for solutions and actively working with innovators and scientists, however, we are positive that we can

overcome these challenges. We are currently involved in a number of different promising initiatives and projects. For example, together with Kering, we entered into a partnership with UK-based innovation company Worn Again, which is developing promising technologies for textile-to-textile recycling.

By creating demand for solutions and actively working with innovators and scientists, we are positive that we can overcome the challenges on the way towards a closed loop.

Focus: Waste

Our mission

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

Our strategy

Our aim is to send as little waste to landfills as possible. We follow the European waste hierarchy. We are focusing on our warehouses where most of our operational waste is handled. We are currently implementing recycling systems in our stores. We are also using cut remnants and post-consumer waste to make new shopping bags and new clothes. Through our garment collecting initiative, we give our customers a convenient means to dispose of used clothes and give them a new life (s. 5.1) rather than throwing them in the garbage.

[>hm.com/waste](http://hm.com/waste)

[>ec.europa.eu/wasteframework](http://ec.europa.eu/wasteframework)



Focus: Waste

We used recycled polyester equivalent to almost 40 million PET bottles

Our Conscious Actions

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

DEADLINE	STATUS
2014	more to do

The majority of the waste that we generate is handled in our warehouses. In 2014, this was around 32,000t (2013: 35,000t), mainly cardboard (65%), paper (10%) and plastic (7%). Our goal for 2014 was to recycle 95% of this waste.



We reached 91% (2013: 92%) which means that we did not meet our goal. This is mainly due to the fact that we entered new markets with less developed waste management and recycling systems. We will continue to work towards this goal from a comparably high level during 2015.

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

DEADLINE	STATUS
2014	done

While much of the waste generated in our stores is sent to our warehouses and recycled from there, we want to make sure that the remaining waste is also handled in the best possible way. We are focusing on our largest brand's stores, H&M, and the most common types of waste, namely cardboard, plastic and paper. Much depends on existing recycling systems in the community or the building where we rent space, for example. While these can pose serious challenges locally, over the last year we further increased the share of stores that have recycling systems for these waste types in place to 58%* (2013: 56%). Our aim is to further increase this share and ultimately reach 100%.

*Extrapolation based on data available for 93% (2013: 90%) of H&M (brand) stores.

NEW 5.6 Use recycled polyester equivalent to at least 60 million PET bottles

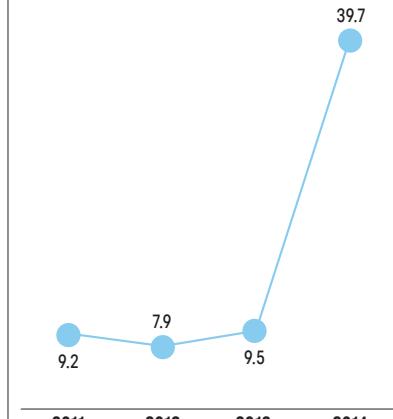
DEADLINE	STATUS
2015	on track

In our collections, we use a range of recycled materials, such as recycled cotton, wool and polyester. Recycled materials in particular have two major benefits – they reduce the need for extracting virgin resources and less waste ends up in landfills. Recycled polyester, for example, does not need any of our world's limited oil resources, but instead is usually made from PET bottles that might otherwise have ended up in landfills. In 2014, we used recycled polyester equivalent to nearly 40 million PET bottles (2013: 9.5 million, 2012: 7.9 million). Even though this is a considerable amount, recycled material still has a lot more potential and currently represents 0.2% of our total material use, a figure that we expect to increase as we move closer to a closed loop for textiles in the coming years. So, drop your PET bottles at your nearest recycling

station and we might bring them back as new, fresh fashion!

[>hm.com/carryerbags](http://hm.com/carryerbags)

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



Since 2014, we have improved our data management method and have received more accurate data, which is part of the massive increase compared to previous years. Thus 2014 data is not fully comparable to the previous year's data, though more accurate than before.

— COMMITMENT SIX —

Use natural resources responsibly



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

Performance overview

This denim is sold for EUR 39.99/GBP 29.99.



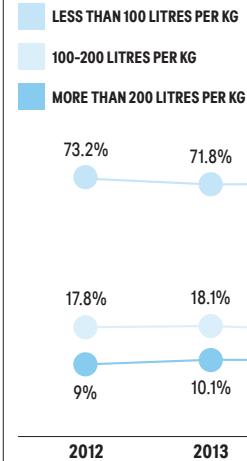
It's been made with 20% recycled cotton. This cotton is generated from consumer waste, maybe even those garments that you dropped off at an H&M store.

Making recycled cotton requires zero water, fertilisers or chemicals and even fewer carbon emissions than growing new cotton.

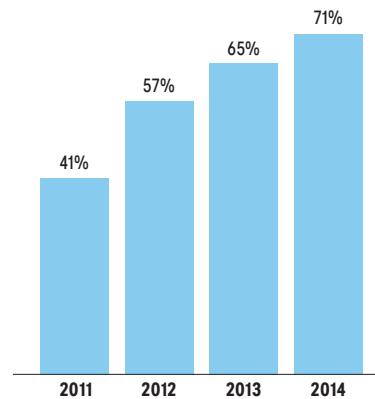
Creating the slightly washed-out look could have required a lot of water, but innovative technologies meant that it needed 50% less water than average denim.

Key performance 2014

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



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



Based on data submitted by 450 supplier factories.

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

On average our Conscious Denim collection used 56% less water and 58% less energy than comparable denim.

Performance overview

PROGRESS REPORT		DEADLINE	STATUS		
			MORE TO DO	ON TRACK	DONE
FOCUS – WATER STEWARDSHIP					
6.1	Install water-efficient equipment across our own operations	2020			
6.2	Ensure appropriate wastewater treatment for all supplier factories with wet processes	2015			
6.3	Reduce water use and withdrawal at all supplier factories with wet processes	2015			
6.4	Reduce water use in washing processes of denim and other water-intense product types	year-to-year			
6.5	Extend water impact reductions in raw material and fabric production	2015			
6.6	Raise awareness on water issues amongst colleagues and suppliers	year-to-year			
6.7	Develop water engagement plans for the Yangtze (China) and Brahmaputra (Bangladesh) river basins	2014			
FOCUS – CHEMICAL MANAGEMENT					
6.8	Help to lead our industry towards zero discharge of hazardous chemicals	2020			
6.9	NEW Develop new method to ensure data disclosure for all strategic suppliers	2016			
6.10	NEW Develop improved chemical management practices for our suppliers	2017			
6.11	NEW Drive industry developments and collaboration	year-to-year			

Focus: Water stewardship

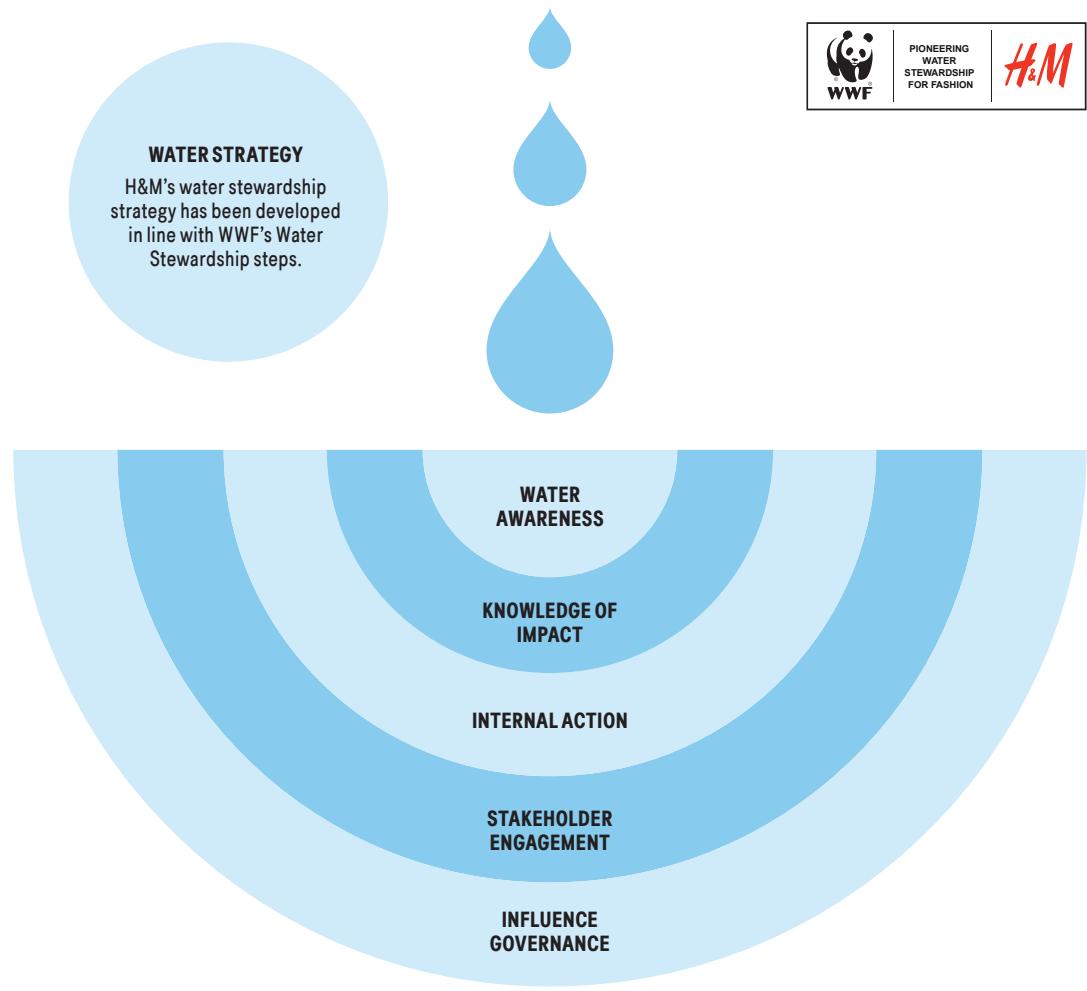
Our mission

Growing cotton, dyeing fabrics, creating washed-out looks and not least washing our clothes at home all has an impact on water resources. At the same time, the World Economic Forum has just ranked water scarcity as the biggest global risk. Operating in a water-intense industry, we have a keen interest and responsibility to not only reduce water impacts across our value chain, but also to help the communities along our value chain to ensure that clean water is available to all those who need it. Therefore, we have set our sights on becoming the fashion industry's leading water steward. We are working for responsible management of the water resources on which our supply chain depends and through this helping others that rely on water to meet their needs. What's most important is what we, together with our peers, do to ensure that water is used responsibly throughout the value chain. In line with our commitment to use natural resources responsibly, we have teamed up with a number of organisations, such as the WWF and Solidaridad, to set new standards in the fashion industry.

Our strategy

Our lifecycle assessments show that the most significant water footprint in our value chain occurs in raw material production (87%). It is mainly because cotton production is highly water intense. That is why our goal is to use cotton solely from more sustainable sources by 2020 at the latest (s. 1.2). The third biggest footprint is from wet processing in fabric production and garment finishing. Here, we are targeting supplier factories with in-house wet processes. Our main focus is on the river basins of the Yangtze (China) and the Brahmaputra (Bangladesh) where many of our suppliers are located. Here, we are also engaging stakeholders and decision makers to achieve further change beyond the factory walls.

Responsible water management is vital for the future of communities, the environment and a sustainable business. More specifically, water is essential for biodiversity – a central tenet of the WWF. Together, we have developed a holistic strategy for water stewardship. This collaboration is the first of its kind in the fashion industry to engage companies, decision- and



Focus: Water stewardship



policy makers to act together on water issues. We are combining the WWF's expertise on global water issues with our own experience of over a decade of supply chain water management in a unique partnership. The cornerstones of our water stewardship strategy include increasing awareness (within the company, supplier factories and amongst our customers), analysing our water impact in detail and doing what is necessary to reduce it. We are constantly raising the bar of our requirements and improving data quality, which poses challenges in presenting performance data, but is needed to create progress on the ground.

Besides further strengthening data measurements and management, we are additionally further increasing transparency of wastewater data amongst our suppliers and across our industry.

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

Focus: Water stewardship

Interview with Janet Mensink, Programme Coordinator, Solidaridad

What are the biggest challenges when it comes to water impacts in the fashion industry?

Water challenges are unfortunately a big part of the fashion industry. The issues are numerous and relevant in the entire supply chain. For cotton cultivation, water scarcity, pesticides and synthetic fertilisers are amongst the key issues. Excessive use and pollution of water in textile wet processing is another important one. These issues can have a big negative impact for the communities in production countries that rely on cotton and textiles. Access to drinking water, agriculture and food safety is at stake.

These costs to the environment are often not factored into the prices. Governments in cotton and



textile producing regions are often weak, which makes it even more complex to ensure that all necessary precautions, like good agricultural practices and effluent treatment, are addressed properly. What is sometimes forgotten is the role of the consumer. Not only through washing do we add to the environmental impact, but over-consumption and the fact that clothing is more and more treated as a disposable item add to the problems in the production of clothing.

How do you think the industry should address and overcome these challenges?

The fashion industry has production in countries where the environmental management in general and water management specifically are not yet well developed – while many of the textile regions are confronted with water scarcity and high pollution levels. This means that the private sector needs to take responsibility to put these challenges on the agenda and to work with suppliers on raising awareness and identification of improvements. But perhaps more importantly, the industry

also needs to ensure that sustainability precautions and good practices are factored into product development, design and sourcing and that progress monitoring becomes part of the system.

And how do you see H&M's role and performance in tackling these?

H&M has realised and is working actively with water as a key challenge in the sector and has developed a water strategy. Solidaridad and H&M have a strategic partnership covering various issues throughout the supply

chain. Water is a central element in our partnership. On the cotton front this includes the Better Cotton Initiative, where water conservation is one of the six principles. In our cleaner production programmes in China and Bangladesh we see that H&M benefits from their well-established supply chain relations. In comparison to a number of other brands, H&M is progressing in engaging its suppliers in sustainability programmes. We'd like to see H&M keep the leadership position by scaling up these programmes to the total supply base.

“H&M has realised and is working actively with water as a key challenge in the sector and has developed a water strategy. Solidaridad and H&M have a strategic partnership covering various issues throughout the supply chain”.

Janet Mensink, Programme Coordinator, Solidaridad

Focus: Water stewardship

Our Conscious Actions

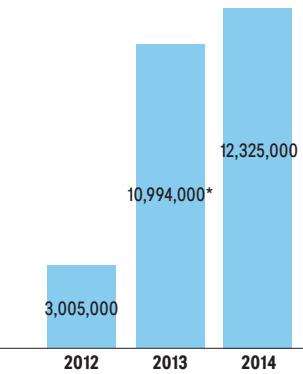


6.1 Install water-efficient equipment across our own operations

DEADLINE	STATUS
2020	on track

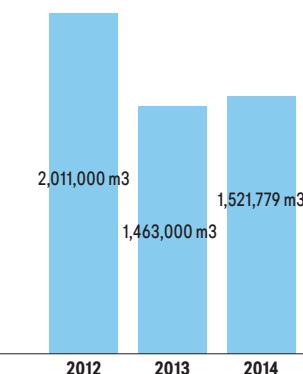
Looking at our entire value chain, our stores, warehouses and offices have a rather small water impact. Still, we want to act as a good example by reducing our water use as much as possible. And of course this also helps us reduce some costs in the long run. So by 2020 at the latest, we aim to have water-efficient equipment such as low-flow taps in all of our stores, warehouses and offices. By 2014, 24% of our facilities had water-efficient equipment in place (2013: 19%). Our warehouses in Hamburg, Ghlin, Pozan and Madrid as well as a number of stores in the UK have additional rainwater harvesting facilities in place. In total, our facilities harvested roughly 12.3 million litres of rainwater in 2014. This is an increase of 1.3 million litres compared to 2013.

LITRES OF RAINWATER HARVESTED IN OWN OPERATIONS

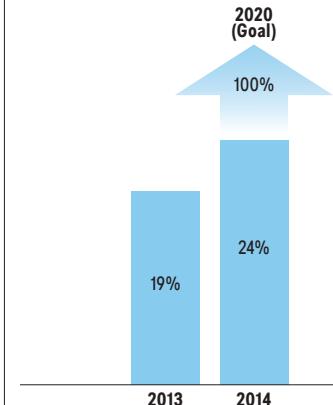


We re-stated 2013 figures as a result of improved data quality and in order to ensure comparability to 2014 figures.

TOTAL WATER WITHDRAWALS FOR H&M'S OWN OPERATIONS



% OF STORES, OFFICES AND WAREHOUSES WITH WATER-EFFICIENT EQUIPMENT



Focus: Water stewardship

Our Conscious Actions

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

DEADLINE	STATUS
2015	on track

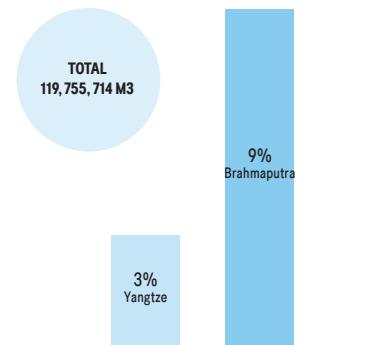
All of our approximately 500 supplier factories with wet processes are required to treat their wastewater, either by having their own treatment plant or by using shared treatment plants. Factories with their own effluent treatment plants (ETP) are monitored against globally defined quality levels.

These standards follow at least legal requirements, but in most cases they go beyond. Currently, we apply the Business for Social Responsibility (BSR) Water Group's water quality definitions. Through our partnership with the WWF, we have developed a number of new routines and working structures, for example, for data verification and testing through external laboratories. With our new routines we have seen some improvements and so far we have reached a compliance level of 71%.

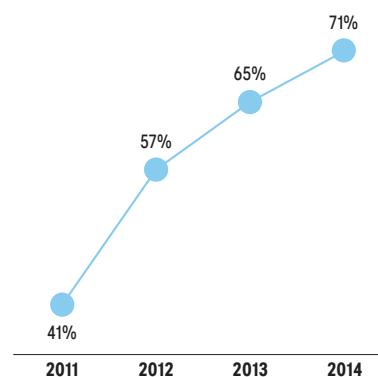
To keep improving the compliance level, we focus on individual factory action plans and together we assess the plants and systems including ETP technology, operational controls and operators' competence. We also apply strict business consequences for repeated compliance failure. In the worst case, this means termination of the business relationship following our responsible phase-out routines (s. p31). In parallel, we keep increasing our alignment with other brands in shared factories and work with authorities to improve legal requirements where needed.

A specific example is a case from Bangladesh. The country is facing significant water challenges since the regulatory framework requires further improvements and wastewater treatment is still not common. Still, we require that all supplier factories as well as subcontracted factories have proper ETPs in place. As a consequence of our requirements, we have seen positive developments with suppliers investing over EUR 30 million into 65 new ETPs and the upgrading of existing ones.

TOTAL WATER DISCHARGE BY DESTINATION 2014



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



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



© Michal Gunther/WWF-Catton

Focus: Water stewardship

Our Conscious Actions

6.3 Reduce water use and withdrawal at all supplier factories with wet processes

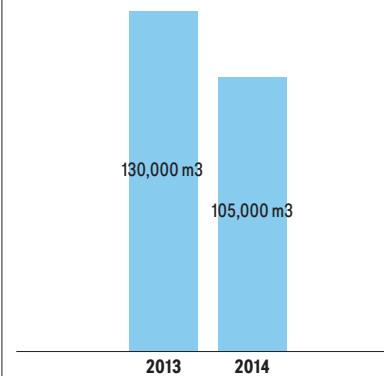
DEADLINE	STATUS
2015	on track

The way our supplier factories impact their local water resources also depends on water availability and how much water they withdraw. We aim to reduce the water impact of all of our supplier factories with wet processes from a holistic perspective. The goal is that all of these roughly 500 factories must have improved water management systems, for example water usage measurement tools, in place by 2015. Furthermore, we want these factories to set annual targets for reduced water withdrawals and increased water recycling rates, etc.

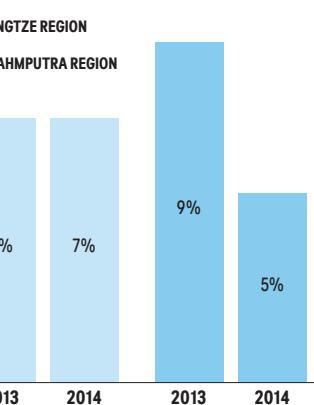
We are focusing specifically on suppliers in water-scarce areas on the Yangtze and Brahmaputra river deltas, which are the two single most significant water sources for our wet-process suppliers. To support them, we provide training (s. 6.6) and have included additional water manage-

ment criteria in our new supplier performance assessments (s. 2.6). This way, we can help suppliers identify prioritised improvement areas – and we can provide them with incentives for good performance, such as cost efficiencies and business commitments. In 2015, we aim to set baselines and targets based on the data we collect through our new supplier assessment method. Specifically we will work to strengthen water recycling, an area in which we have seen a slight decrease in performance this year.

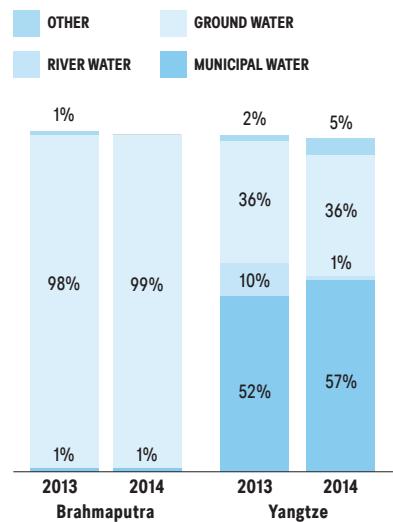
AVERAGE YEARLY WATER WITHDRAWAL PER FACTORY IN WATER STRESSED AREAS (H&M PRODUCTION)



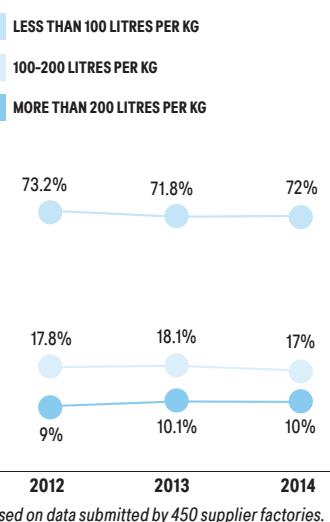
%/LITRES OF USED WATER THAT IS RECYCLED



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



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



Based on data submitted by 450 supplier factories.

Focus: Water stewardship

76%
We scored 76%
of our denim orders using
Jeanologia's Environmental Impact
Measurement tool

Our Conscious Actions

6.4 Reduce water use in washing processes of denim and other water-intense product types

DEADLINE	STATUS
year-to-year	done

Producing denim requires significant amounts of water. And in order to reduce water use, we focus on innovative production methods without compromising our customers' needs. In 2014, we introduced our first Conscious Denim collection. Like all of our Conscious Collections each style was made with at least 50% more sustainable materials. In addition, we also looked into continued production. All the washes used in the collection, required both less water and energy. The water reduction alone was 56% compared to conventional denim collections.

These results are largely thanks to Jeanologia, a Spanish consultancy and experts on denim washes. We used their Environmental Impact Measurement tool (EIM) to rate the washing process impacts. The ratings

are divided into three categories – green, yellow and red.

To meet our Conscious Denim standards, the washing processes must achieve green scores. This guarantees that a maximum of 35 litres of water per garment is used during the washing. We are working to increase the use of this tool among our denim suppliers, while maintaining the fashion value of the products. In 2014, 76% of our denim orders were scored using the EIM tool and over one third reached the green level. For 2015, we aim to use the tool to score all of our denim orders to be scored against this tool.

6.5 Extend water impact reductions in raw material and fabric production

DEADLINE	STATUS
2015	on track

Producing raw materials and making fabrics can have significant water impacts. That's why we want to make the best possible fabric choices and help cotton farmers and fabric mills in particular to reduce their water impacts. And of course make water conscious fabric choices right from the start when designing our products.

One way to do this is to choose recycled materials. This year, we launched our first closed-loop denim collection

using 20% recycled cotton from collected clothes. We estimate that each such denim saves up to 1,000 litres of water compared to using only conventional virgin cotton.

During 2014, we also took important steps in including fabric mills involved in making about 35% of our products into our supplier assessment systems (s. 2.9). This is particularly relevant in the sense that these will be immediately enrolled into our new assessment method during 2015, which include improved water impact measurement tools (s. 2.6).

Additionally, we have expanded a set of programmes that aim to help fabric producers in particular to improve their environmental footprints, such as the Partnership for Cleaner Textiles (PaCT) in Bangladesh and the Better Mill Initiative in China. Together with Solidaridad and the Natural Resources Defense Council (NRDC), we aim to improve the production efficiency of more than 30 printing and dyeing mills in China over a three-year period.

So far the results show that participating mills have increased profits due to reductions in energy, water usage and saved time and materials.

When it comes to raw materials, it is mainly through the Better Cotton Initiative that we are helping cotton farmers to grow cotton with less water impacts (s. 7.3).

We will continue to extend these efforts and improve our tools for measuring impacts and reduction opportunities.

Already by 2014, more than one third of all our denim products had reached the highest “green level” in Jeanologia's EIM tool.

Focus: Water stewardship

77%

of our colleagues in our production offices have been trained on water issues

Our Conscious Actions

6.6 Raise awareness on water issues amongst colleagues and suppliers

DEADLINE	STATUS
year-to-year	on track

We have found that general awareness about water issues is rather low compared to, for example, climate change. Since water is a significant resource when making fashion, we want to emphasise the importance of water together with our efforts to tackle the world's growing water challenges. Through different initiatives, we hope to raise awareness amongst all of our colleagues, suppliers and customers. Specifically we have rolled out mandatory e-learning sessions for employees that emphasise water issues and solutions. So far more than 43,000 colleagues (33%) have taken our introductory e-learning and more than 5,800 have taken our more advanced learning programme. We also have specific water and technical training for our colleagues in our production countries. Some 77% of these colleagues have been trained.

This year we also rolled out a technical training programme for all of our suppliers with wet processes such as dyeing and washing. Until now, 457 factories (89%) have been trained in three different areas: general water awareness, our water requirements, technical water testing and technical training on ETP functionality.

We continuously strive to inform our customers about the importance of water in textile production. Through for example our Conscious Denim collection (s. 1.5) we are demonstrating our efforts to reduce water and energy usage. With the Clevercare label (s. 1.9), we are focusing on water and energy reductions after the garments leave our stores. The label encourages customers to take care of their garments in more conscious ways and as of 2014 all of our garments have the Clevercare label included in the washing instructions.

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

DEADLINE	STATUS
2014	done

The Yangtze and Brahmaputra river basins are the two most important water sources for our supplier factories with wet processes. This means we are especially focused on industry engagement reaching beyond the factory lines of individual companies in order to drive holistic improvements. Together with the WWF we have developed and rolled out dedicated engagement plans.

In China, we have developed a detailed method for engagement with the industry, policy makers and communities. We are currently running a pilot project and our ultimate goal is to implement our method across several industrial parks in the Yangtze to strengthen shared water risks and water planning. We also support the WWF's conservation project to protect and

sustain the Yangtze finless porpoise and contribute to positive developments for the river eco-systems.

In Bangladesh we are conducting a gap analysis on water management legislation. We are also doing an economic risk analysis of how current business practices and water

impacts affect long-term growth and production. The purpose of our research is to form a powerful foundation for better water management in Bangladesh. In 2015, we are continuing to collaborate with other partners in Bangladesh to strengthen local and national platforms for water engagement.



Focus: Chemical management

Our mission

Chemicals are essential in many things that we use in our everyday lives, as well as in the clothes that we wear. Our task is to uphold the strictest standards for handling chemicals and eradicate any hazardous chemicals going into our supply chain. We, of course, want to ensure that our products are free from any harmful substances. And beyond just looking at our own products, it is equally important to ensure safe working conditions for the people making our products and to protect the environment.

Our strategy

We follow the precautionary principle to avoid any harmful chemicals going into our supply chain. This means that we ban substances even if they are not legislated or if there is any indication of scientific uncertainties. Our focus is on preventing restricted substance use at our suppliers as well as their fabric suppliers. In late 2014, we introduced a new strategy and chemical roadmap to further improve our work. Internally, we have strengthened our organisation and coordination between departments. An important focus area is to strengthen our chemical inventory requirements in order to help improve our suppliers' purchasing systems. This way we can increase control of the chemicals that are used by our suppliers when making our products. Thus we avoid the use and discharge of hazardous substances and control the chemicals that are used for dyeing, printing and washing processes.

We continuously review and update our chemical restrictions including our Manufacturing Restricted Substances List (MRSList) and Restricted Substance List (RSL). Based on risk assessments for each individual product order, we perform regular tests – most of them in third-party laboratories. Additionally, we conduct specific chemical audits, for example by checking what is referred to as the Safety Data Sheet (SDS). We have ongoing training on our chemical restrictions and management, with additional focus on factories with chemical-intense processes, such as dyeing and printing too. We have integrated our work



towards Zero Discharge of Hazardous Chemicals (ZDHC) into our new strategy. Furthermore, we have enhanced our stakeholder engagement including

both industry and governments to further advance chemical management and transparency and even actively promote stricter legislation.

Focus: Chemical management

Our Conscious Actions

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

DEADLINE	STATUS
2020	on track

As part of the ZDHC group we are working actively to implement the joint roadmap with milestones to secure a cleaner environment with increased accountability and lead our industry to zero discharge of hazardous chemicals by 2020. This year, a research list was developed to allow safer alternatives for 10 chemical substances with specific CAS numbers to be prioritised for research and development in the coming years. Another achievement was the MoU that was signed between the Sustainability Apparel Coalition (SAC) and the ZDHC group to further align a chemical management module and ZDHC audit protocol. In our supply chain, we have been leading and conducting a ZDHC Chemical Management Training programme in China, Bangladesh, Vietnam and India to improve suppliers' knowledge of chemical management. Since the

launch in 2011, the ZDHC group has grown steadily. We started out by teaming up with five other brands. Today there are 18 brands in the group.

>roadmaptozero.com

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

DEADLINE	STATUS
2016	on track

So far, we have been using the Institute of Public and Environment Affairs (IPE) for data disclosure for roughly 47 strategic suppliers in Bangladesh, China, India, Cambodia and Indonesia. Now, we have started to look into and develop new solutions to provide all suppliers with the best possible disclosure mechanism. Through extensive research we found that the Pollution Release Transfer Register (PRTR) is an effective method to prevent intentional use of hazardous chemicals in the manufacturing process. Inspired by the PRTR methodology, we are currently working on implementing a similar method together with Bureau Veritas, a global leader in Testing, Inspection and Certification (TIC). During 2015, we will get the first results of this pilot project. Based on our results, we will continue our work with the aim

to implement this new disclosure methodology for our suppliers.

>ipe.org.cn
>bureauveritas.com



Focus: Chemical management

Our Conscious Actions

NEW 6.10 Develop improved chemical management practices for our suppliers

DEADLINE	STATUS
2017	on track

We keep testing our products through our chemical restrictions that are among the strictest in the industry and here we follow the precautionary principle. In 2014, we conducted 30,000 tests to ensure compliance with our chemical restrictions. We review and update our restrictions lists at least once a year.

We are also putting more and more focus on the actual chemical input in the production processes. In 2013, we introduced our positive lists to help our suppliers choose the chemical products that comply with our restrictions. We started with positive lists from three chemical producers and this year we included another three producers: BASF, Zhejiang Longsheng Group and Transfar Chemicals Co. We will keep increasing the number of positive lists to help the industry move towards

better substitutions. We also ensure awareness of the Manufacturing Restricted Substances List (MRSList) requirements and in 2015 we are extending MRSList training to also include our tier 2 suppliers.

Our new chemical management strategy, Best Chemical Management Practice (BCMP), aims to drive better purchasing practices to control the chemical input and ensure traceability in the production cycle. This will also include a new systematic method to monitor the chemicals that are used and discharged in production units. In this way, we can phase out hazardous chemicals and find substitute for them. During 2015, we will test this method in our first-tier suppliers as part of our new supplier assessment programme. The aim is to have the method in place by 2017.



NEW 6.11 Drive industry developments and collaboration

DEADLINE	STATUS
year-to-year	on track

During 2014, we increased collaborative efforts on both the technical and policy levels. This allowed improved discussions with key influencers such as the ZDHC CNTAC conference in China and the ZDHC Hazardous Chemical Management Conference in Bangladesh. We are currently working to set up an Asian chemical stakeholder panel to drive discussion on chemical substitutions and eliminations.

— COMMITMENT SEVEN —

Strengthen communities



The way we do business, our values and our growth affect millions around the world. With this in mind, we believe it is essential to contribute to the communities along our value chain, from raw material to our stores. It is important to us that we drive lasting change and ensure that these communities benefit from having us there. We work to create positive impact through the way we do business in our own operations and across our value chain. Our strategic investments and partnerships help us to extend these impacts. We want to create shared value for us as a company, our customers and local communities. In addition, we believe it is vital to both communicate with and engage our customers and colleagues on community issues. We do so, for instance, through specially designed collections, additional in-store campaigns and garment donations.

Additionally, the H&M Conscious Foundation, an independent non-profit global foundation, is driving long-lasting change for people and communities beyond the value chain of H&M.

>hm.com/communities

>hm.com/consciousfoundation

Performance overview

This is Shathi,
26 years old, from Dhaka,
Bangladesh.

She lives in Shattola Basti,
a part of the city where access
to sanitation is limited.

Together with WaterAid, the
H&M Conscious Foundation
wanted to change this and
invested about EUR 4
million /USD 5.7 million.

Within 3 years, this will help
Shathi and an estimated
4 million people in Dhaka
to have access to safe drinking
water and toilets.



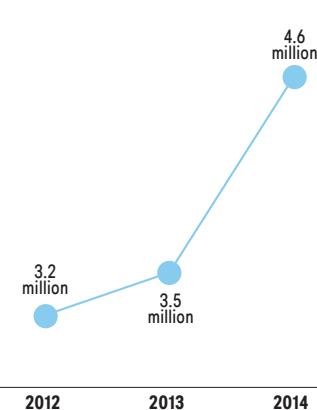
These toilets are regularly
cleaned and guarded,
so that women like Shathi
can feel safer.

The money was generated
from H&M's 2013
holiday campaign, where
the H&M Conscious
Foundation donated money
to WaterAid for each
10 EUR/10 USD gift
card sold at H&M.

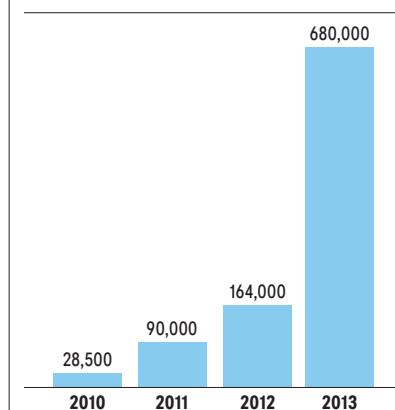
Thank you
for your support!

Key performance 2014

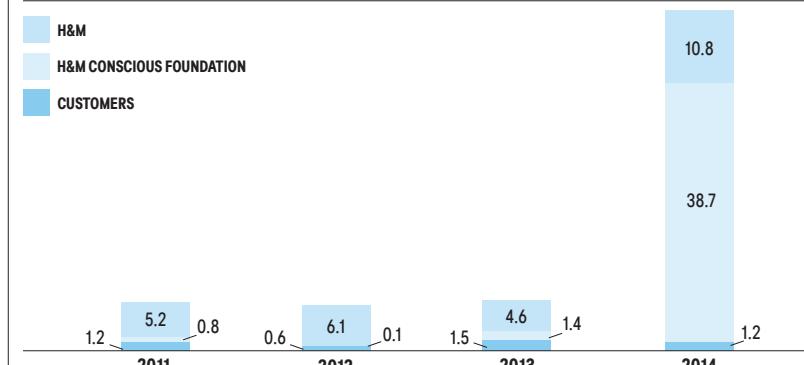
NO. OF GARMENTS DONATED
TO AID ORGANISATIONS



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



TOTAL COMMUNITY INVESTMENTS/DONATIONS (IN MILLION USD)



For 2014 the H&M Conscious Foundation's total is pledged donations (not disbursed) covering the period of January 1–December 31. The currency is converted from SEK as per Nov 30. For 2014 H&M's total donation also includes shared value investments.

Performance overview

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

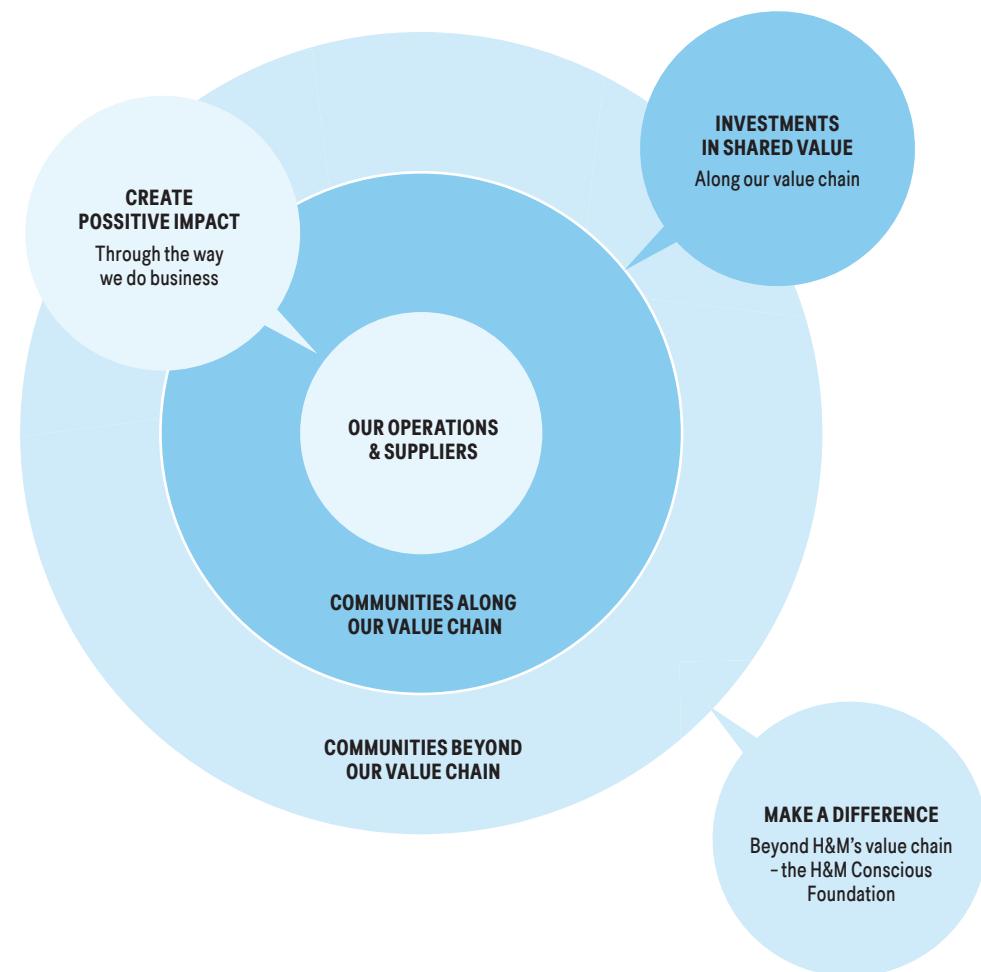
Focus: Investments in shared value along our value chain

Our mission

Prosperous and stable markets where human rights are respected, skills training is readily available and the eco-systems are healthy benefit our business. In order to secure our long-term profitability and growth, we need to ensure the communities that contribute to our success benefit from our presence. So the way we operate must contribute to their development and we create shared value through strategic investments. This way, we make a difference to the livelihood of millions, human rights and the environment wherever we operate.

Our strategy

We work across our operations with our suppliers and increasingly with their suppliers to create jobs and better livelihoods for people, women in particular. With mutual dependency along our value chain, this positive impact is vital to the way we do business. In our sales and our production markets, we invest in strategic initiatives and long-term collaborations that help us extend the positive impacts we create through our business. Where community issues are beyond our direct operations and our influence is weaker, we partner with community partners such as WaterAid, the ILO and the Better Cotton Initiative to drive positive development.



Focus: Investments in shared value along our value chain

Interview with Vidyasagar Ramamurthy, Child Protection Specialist UNICEF Office for Tamil Nadu & Kerala, India

What are the biggest challenges for the fashion industry in India?

India accounts for 22% of the world's area that is under cotton cultivation and 14% of global production. The textile industry plays an important role in the Indian economy and generates significant employment. The industry accounts for about 14% of industrial production, 4% of GDP and 16% of the country's export earnings. Over 30% of the textile production of India is exported to foreign markets.

Still, the major challenge for the fashion industry and international buyers is to change the working conditions throughout the supply chain. This includes issues from children involved in cotton production to young girls working in spinning, weaving and

“H&M is working for systemic and sustainable changes in their supply chain”.

Vidyasagar Ramamurthy, Child Protection Specialist UNICEF Office for Tamil Nadu & Kerala, India

garment production. The main challenge is to eliminate child labour and establish fair labour practices as well as environmentally-friendly production conditions. Unfair labour practices affect not only the workers in the textile industry but also the children of the workers. Moreover, when children are involved in production processes down the supply chain, it is often at the expense of their health and schooling.

Unfortunately, spinning mills are the area where questionable working conditions are most likely to exist, especially in the form of 'camp coolie systems' or 'Sumangali Schemes'. Some owners of the spinning mills take advantage of the poverty and illiteracy of rural parents and their anxiety about their daughters' marriage possibilities and employ unmarried young girls from the villages to work in their mills (married girls are not employed).

The weaving operation is often carried out in small-scale power loom units. In Tamil Nadu alone, there are 500,000 registered power looms, which is 22% of the total number in the country. It is estimated that there is an equal



number of unregistered power looms. The power loom sector in the state also accounts for employment of young workers under servile working conditions.

How do you think H&M's shared value strategy helps address this along their value chain?

As a major buyer, H&M has well-conceived plans for addressing the issues mentioned above. In particular, H&M is working for systemic and sustainable changes in their supply chain. Some of the best examples are the Better Cotton Initiative, promoting organic cotton and their efforts to implement fair living wages in the textile industry.

These projects are all implemented with a time bound action plan and detailed road maps, and when fully implemented they will have significant positive impacts. Not only for the current generation of workers but also for the future generation.

What do you think is the most significant achievement from All for Children?

Through All for Children, H&M has financially supported the Integrated Child Protection Project in the Salem and Dharmapuri districts of Tamil Nadu. UNICEF has been running this project since 2009. The objective of the programme is to prevent and respond to the exploitation of children working in these two districts where cotton and cotton seed are produced.

The project has so far benefited over 1.7 million children below the age of 14 and their families, either directly or indirectly. A protective environment has been built for these children through creating new structures at various levels including the grass root level, intermediate levels and the

Focus: Investments in shared value along our value chain



district level. Capacities of elected representatives, service providers/officials and communities as key stakeholders at various levels have been established and are oriented and motivated to focus on child rights issues. There is universal elementary education for children up to 14 years in the two districts, and the problem of last mile population is being tackled. The issues of child marriage and abuse of children have entered the public discourse in the districts and there has been a positive response to reported cases. A deep awareness of child rights issues has been persistently created in both the districts. Now we are experiencing a

much stronger social commitment to bring all children to schools and stop child labour. Regular inspections are conducted in identified child labour intensive occupations like cotton seed farming and urban informal sectors.

The most important contribution of the programme is to activate the government structures at various levels to get information flow, respond to the issues of children immediately and come up with necessary changes in the administrative structures. The distance between the people and the government administration has been narrowed so that children enjoy their entitlements.

“Still, the major challenge for the fashion industry and international buyers is to change working conditions throughout the supply chain”.

Vidyasagar Ramamurthy, Child Protection Specialist
UNICEF Office for Tamil Nadu & Kerala, India

Focus: Investments in shared value along our value chain

56,000 additional jobs created in our stores, offices and warehouses in the last 5 years

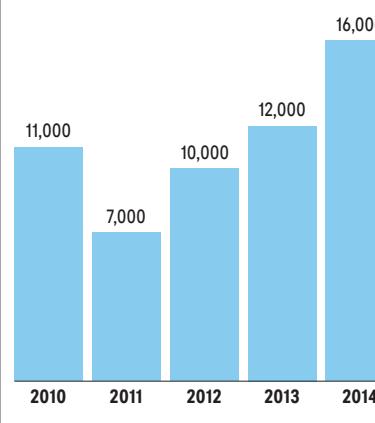
Our Conscious Actions

7.1 Create and contribute to more and better employment opportunities

DEADLINE	STATUS
year-to-year	done

We are a growing business and with our growth new job opportunities follow. In 2014, we created 16,000 additional jobs (net) within the H&M Group. In total, we have created 56,000 jobs (net) globally in the past five years. Additionally, our business contributes to job opportunities for around 1.6 million people employed by our suppliers, 64% of whom are women. While the economic climate is challenging in many countries, we are confident that we can keep creating further employment both in our own operations and throughout our value chain.

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



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

DEADLINE	STATUS
2018	done

The right to education is a universally recognised human right and a prerequisite for sustainable development and prosperity. Together with UNICEF we initiated the All for Children project in 2009. All for Children is a unique collaboration through which we support UNICEF in cotton-growing areas in India and in urban slum areas in Dhaka, Bangladesh. The goal is to protect the right to education as well as other basic rights of some of the world's poorest children. Our initial goal was to empower 1.7 million children through preschool and primary education, health and child protection structures by 2018 at the latest. The H&M Conscious Foundation took over the project at the end of 2014 and will continue to support the project with UNICEF until 2018.

By 2014, the All for Children project had reached out to more than 1.7 million children in the Tamil Nadu province in the southern part of India and in the poorer communities of Dhaka.

>hm.com/allforchildren



Focus: Investments in shared value along our value chain

Together with partners such as WaterAid we have so far helped over 430,000 people in Bangladesh, India, Pakistan and Ethiopia gain access to safe water

Our Conscious Actions

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

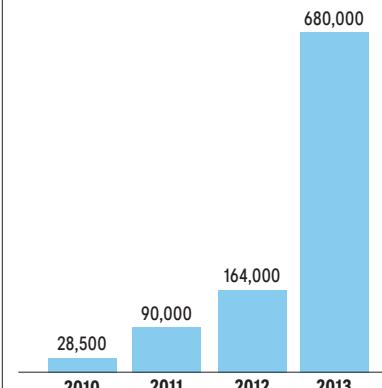
DEADLINE	STATUS
2015	on track

Through our membership in the Better Cotton Initiative (BCI), we help train cotton farmers. We are a founding member and major contributor to BCI since its establishment in 2009. We have invested a total of EUR 3.85 million, making us the biggest financial contributor. The BCI plays an important role in reaching our goal to only use cotton from more sustainable sources by 2020 at the latest (s. 1.2). We use more and more Better Cotton and the training of cotton farmers helps us to secure the supply that we need. The WWF and Solidaridad are implementation partners in the BCI and ensure farmers receive both the know-how and tools to grow cotton with less environmental impact. At the same time, the farmers increase their profitability and strengthen their local communities. Since 2010, more than 680,000 farmers have been trained

and accredited as BCI farmers. With this, the BCI is close to reaching the goal to train one million farmers by 2015. This year, the BCI initiated various new partnerships such as Cotton made in Africa (CmiA). This is clearly shown in the significant increase in the training of farmers this year. The BCI aims to have 5 million Better Cotton farmers that will be producing roughly 30% of the world's cotton.

>bettercotton.org

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



Figures have been re-stated to align with BCI reported data and reporting cycles. Latest figures available are 2013 calendar year figures.

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

DEADLINE	STATUS
2016	on track

748 million people in the world do not have access to clean water. We want to play our part in tackling this challenge especially in the countries where our products are made. H&M and the H&M Conscious Foundation are working to provide at least 500,000 people with safe water. Together with partners such as WaterAid we have so far reached 430,697 people in Bangladesh, India, Pakistan and Ethiopia since 2002.

>wateraid.com

7.5 Develop and roll out a new community development strategy

DEADLINE	STATUS
2014	done

During 2014, we finalised and rolled out our new community development strategy. It is a significant step to further strengthen our community work and our business decisions locally. With the new strategy we are focusing on long-term projects and initiatives with expected returns for both our business and the local communities where we operate. More specifically, this means that nearly 70% of all of our investments and donations are shared value investments.

We define shared value investments as business cases that address a challenge for us to reach key business goals in the market by working on the community level with partners.

More than 680,000 cotton farmers trained in growing cotton with less environmental impact and better livelihood for their communities and accredited by the Better Cotton Initiative since 2010.

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

– The H&M Conscious Foundation

Mission

The H&M Conscious Foundation is an independent non-profit global foundation initiated to complement H&M's sustainability work. The mission of the Foundation is to drive positive long-lasting change by investing in people and communities beyond H&M's value chain.

PLEDGED DONATIONS 2014* (IN SEK)	
Three global programmes ¹⁾	180,000,000
Local projects ²⁾	68,408,000
Emergency relief ³⁾	1,379,743
Global giving Holiday Campaign ⁴⁾	37,050,000
TOTAL**	286,837,743

¹⁾ Mentioned on pages 110 and 111.

²⁾ Mentioned on page 111, including UNICEF project mentioned in 7.2.

³⁾ Mentioned on page 111.

⁴⁾ Mentioned on pages 26 and 102.

* Referring to the full calendar year of 2014.

** Whereof SEK 96,180,559 has been disbursed during 2014.

Strategy



The H&M Conscious Foundation is funded by the Stefan Persson family, the founders and main owners of H&M. Thanks to their donations – a total of SEK 700 million (USD 105 million /EUR 80 million) since 2013 – it is possible for the H&M Conscious Foundation to drive positive change on a global scale. The Foundation

works with three focus areas: Education, Clean Water and Strengthening Women. These focus areas were chosen by H&M customers and employees through a global online vote in 2013.

Through its three global programmes, the H&M Conscious Foundation works together with UNICEF, WaterAid and

CARE to drive transformative change by addressing structural barriers and promote new policy within each focus area. As of 2014, these three programmes receive a total of SEK 60 million each within a three-year period. In addition to the global programmes, the H&M Conscious Foundation supports local projects in countries where H&M operates with the aim of achieving positive and direct impact on people's everyday lives. The Foundation works with a range of partner organisations with specific local knowledge to address issues within the three focus areas. During 2014, local projects were initiated in Cambodia, Ethiopia, India, Indonesia, Romania, South Africa and the USA.

In addition, the H&M Conscious Foundation is able to quickly provide emergency relief support in the case of any sudden natural disasters in a country where H&M operates. The Foundation initiates discussions with community partners to determine if and what support is needed in order to act quickly.

>hm.com/consciousfoundation

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

– The H&M Conscious Foundation

Our Conscious Actions

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

DEADLINE	STATUS
2017	on track

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

supporting three governments in integrating early childhood development in their development agendas and national budgets as well as by creating the first ever Global Report on Early Childhood Development, providing the necessary data to base policies on and measure their success. In 2014, UNICEF initiated the implementation process of the planned activities. UNICEF country offices have collaborated with governments to include the H&M Conscious Foundation's funded activities in the official national collaboration plans and have also involved multiple sectors of government and communities in the planning and implementation of Early Childhood Development programmes to influence systems, policies and curricula.

unicef.org

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

DEADLINE	STATUS
2017	on track

Imagine if you didn't have access to a toilet or clean water. This is the reality for over 50% of the students in low-income countries in their schools. This lack contributes to diseases, with negative impacts on education, but it also has wider implications on gender equality, development and economic growth in these communities. This is why the H&M Conscious Foundation partnered with WaterAid to provide 250,000 students with access to clean water and toilets in schools and hygiene education. Beyond this, the programme will advocate, influence and support policy-makers on the national and regional level and lobby for the Post 2015 framework and the UN Sustainable Development Goals. The purpose is to include a water and sanitation goal, with targets to provide safe water,

sanitation and hygiene for all schools globally. In 2014, WaterAid initiated the implementation process of the programme. WaterAid has been working closely with implementing partners to prepare programmatic plans, perform risk assessments and baseline studies and establish relationships with multiple sectors of government, communities and other stakeholders. In addition, several lobbying activities have been carried out at the UN in order to influence the inclusion of water and sanitation in the new Sustainability Goals.

[>wateraid.com](http://wateraid.com)

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

– The H&M Conscious Foundation

Our Conscious Actions

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

DEADLINE	STATUS
2017	on track

60% of the world's working poor are women. Globally, women spend at least twice as much time as men doing unpaid domestic work, and their total work hours are longer than men's in all regions of the world. Women have less access to education, financial services and resources, technical and vocational skills training as well as limited rights to own and inherit property. Women often face more barriers, cultural or structural, than men in most aspects of life. In partnership with the international humanitarian and development organisation, CARE, the H&M Conscious Foundation is committed to empowering women in developing countries. One of the goals is to provide 100,000 women in poor communities worldwide with business skills training

and/or seed capital to start up or expand their business. Studies show that societies as a whole benefit when countries practice gender equality. Beyond that, the programme aims to break down myths and beliefs about women's abilities through regional campaigns with inspiring role models. Also by advocating policy changes, more women can reach their full potential and exercise their rights. In 2014, CARE finalised the inception phase of the programme. Country offices have begun implementing and developing the programme components of skills development, seed capital funding and regional campaigning with women from poor communities. Further, monitoring and evaluation processes have been planned and developed.

>care.org

7.9 Provide emergency relief and donations

DEADLINE	STATUS
as required	done

In 2014, parts of South Asia were affected by devastating flooding, affecting more than 7 million people all together. In response, the H&M Conscious Foundation donated USD 100,000 to Save the Children's relief efforts. The donation enabled Save the Children to provide hygiene kits, blankets, tents, nutrition and child-friendly spaces.

The H&M Conscious Foundation also donated USD 100,000 to the Rana Plaza Donors Trust Fund in order to support the victims of the Rana Plaza disaster and their families in Bangladesh. The Foundation made this donation based on humanitarian grounds, even though H&M never had any business relations with any factories in Rana Plaza.

In addition to the H&M Conscious Foundation's emergency relief, H&M's customers donated over USD

300,000 through in-store campaigns to causes such as UNICEF's relief to refugees from Syria and efforts to fight the spread of Ebola. H&M's local offices donated USD 179,000 to UNICEF and the Red Cross (in Croatia and Serbia during the heavy flooding in the region in May).

Additionally, each year, H&M donates large quantities of clothes to organisations and charities in the countries where H&M operates. To support these efforts there is an explicit garment donation policy stating that all unsold, safe-to-use products should be donated to charity or, if possible, recycled into something useful. In 2014, H&M donated more than 4.6 million garments globally.

>ranaplazaarrangement.org

Auditor review statement

To H & M Hennes & Mauritz AB

We have been engaged by the management of H & M Hennes & Mauritz AB (H & M) to perform a limited assurance engagement on the information in H & M's Conscious Actions Sustainability Report 2014 with regards to the following indicators referred to in the GRI index that can be found in the 'GRI index 2014':

- Identified material aspects and boundaries (G4-17 – G4-23), p. 115–116.
- Stakeholder engagement (G4-24 G4-27), p. 12, 115.
- Energy: Energy consumption within the organization (G4-EN3), p. 74. Energy intensity (G4-EN5), p. 74.
- Percentage of renewable energy (AF21), p.73, 74.
- Emissions: Direct greenhouse gas emissions (scope 1), (G4-EN15), p. 73. Energy indirect greenhouse gas emissions (scope 2), (G4-EN16), p. 73. Other indirect greenhouse gas emissions (scope 3), (G4-EN17), p. 76.

– Materials: Materials used by weight or volume (G4-EN1), p. 17. Tons of garments collected for reuse and recycling, p. 83.

– Supply chain: Incidents of non-compliance with Code of Conduct (AF14), p. 38.

– Anti-corruption: Confirmed incidents of corruption and actions taken (G4-SO5), p. 57.

H & M's Conscious Actions Sustainability Report 2014 covers the period 1 December 2013–30 November 2014.

Management's responsibility

The Management of H & M is responsible for preparing and presenting the H & M Conscious Actions Sustainability Report in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Guidelines G4. As discussed in the section "How we report", p. 114 in the H&M Conscious Actions Sustainability Report, greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions fac-

tors and the values needed to combine emissions of different gases.

Auditor's responsibility

Our responsibility is to express a conclusion on the above specified indicators in the H & M Conscious Actions Sustainability Report based on the limited assurance procedures we have performed. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, nor assume responsibility to anyone else, except to H & M for our work, for the limited assurance report, or for the conclusion that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. The ISAE 3000 standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters have come to our atten-

tion that would cause us to believe that the above-specified information in the H & M Conscious Actions Sustainability Report has not been prepared, in all material respects, in accordance with the reporting criteria.

A limited assurance engagement is provided only on the information disclosed in the H & M Conscious Actions Sustainability Report, not on information linked to and disclosed on other web pages.

The presented information in the H & M Conscious Actions Sustainability Report is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by H & M. This independent limited assurance report should not be used on its own as a basis for interpreting H & M's performance in relation to its principles of corporate responsibility.

Our review procedures are designed to obtain limited assurance on whether the above-specified indicators are presented in accordance with the

Auditor review statement

Sustainability Reporting Guidelines of the Global Reporting Initiative, G4, in all material respects.

A limited assurance engagement consists of making inquiries, primary of persons responsible for the preparation of the H & M Conscious Actions Sustainability Report and applying analytical and other evidence gathering procedures, as appropriate. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than, for a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion. Our procedures are based on the criteria defined by the Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information regarding the above specified indicators in the H&M Conscious Actions Sustainability Report has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, April 9 2015
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Charlotte Söderlund
Authorised Public Accountant

How we report

We are committed to transparent reporting on the progress we make towards meeting our seven commitments.

H&M's Conscious Actions Sustainability Report, which is produced annually, covers material sustainability strategies, activities, goals and performance for the global Group operations of H & M Hennes & Mauritz AB (also called H&M in this report), including all its brands (H&M, COS, Weekday, Monki, Cheap Monday, & Other Stories) as well as its wholly or partially-owned subsidiaries globally during our financial year from 1 December 2013 to 30 November 2014, unless stated otherwise (for a full list of entities, please see our Annual Report 2014). We aim to tackle impacts wherever they occur in our value chain, and this is reflected in our reporting wherever possible. Information limited in scope to only one of these brands or any other limitations or deviations in scope are clearly stated in the respective section of this report. Unless stated, franchise operations are not included.

The report was reviewed by the highest executive management and external assurance has been performed for selected indicators (clearly marked and where applicable as well as in regards to materiality and stakeholder engagement). Additional stake-

holder comments and interviews have been included throughout this report. All data is collected by our sustainability team from the relevant functions within our organisation and from external parties such as suppliers or implementing partners. It is always reviewed by our internal controlling team in addition to relevant experts in our sustainability team as well as expert functions following a two-tier quality control principle. Any extrapolations or estimations are clearly indicated. The same goes for any changes in data methodologies or scope that may have an effect on data comparability.

All data is based on the best possible systems that are currently available to us and where applicable aligned with recognised standards. However, this needs to be seen in the light of continued improvements of data systems, methodologies and scientific uncertainties. For example, while our GHG emissions accounting and reporting is aligned with the GHG Protocol and the emission factors we use are from publicly available sources such as the International Energy Agency (IEA),

the Network for Transport Measures (NTM), Reliable disclosure system for Europe (RE-DIIS) and supplier specified emission factors. GHG emission data is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emission factors and resulting effects on measurements and estimations. The reported energy usage is based on invoiced data and data as reported by transport providers. Conversion between fuel usage and energy content has been done using energy values specified by the supplier or by using tabled values provided by national bodies.

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

Monetary amounts are reported mainly in the currency of transaction (usually SEK). Additional currency values are conversions as approximate figures based on the conversion rate on 30 November 2014, unless stated otherwise.

Additional information is provided at hm.com/conscious as well as in our financial and corporate governance reporting. Our most recent sustainability report was published in April 2014.

We are signatories to the UN Global Compact and our annual Conscious Actions Sustainability Report also serves as our Communication on Progress (COP) for the UN Global Compact as well as the CEO Water Mandate.

Global Reporting Initiative (GRI)
This report is prepared in accordance with the GRI G4 Sustainability Reporting Guidelines (Core). We have additionally included material indicators from the pilot of the Apparel and Footwear Sector Supplement. The detailed GRI index can be found at hm.com/gri.

How we report

Process for identifying the most material aspects and their boundaries

In 2014, we reviewed the material aspects identified and published with our Conscious Actions Sustainability Report 2013. The process for defining the report content and the aspect boundaries in our 2014 Report has been based on the following main steps:

Identification: Mapping aspects and creating a gross list

During 2013, we identified a gross list of aspects through an analysis of external standards such as the GRI G4 Aspect list, legislation, investor and NGO questionnaires, peer reviews, business intelligence, lifecycle assessment results, stakeholder dialogues and stakeholder reports as well as media coverage. The gross list has been checked against GRI's Sustainability Context and Stakeholder Inclusiveness tests.

Prioritisation: Scoring and prioritising aspects

To prioritise the most material aspects from this gross list, we scored the different aspects in regards to their

influence on stakeholder assessment and decisions and their significance for economic, environmental and social impacts. Both categories were broken down into a number of different categories such as frequency raised by key stakeholders (weighted x3), frequency featured in media (weighted x1) and frequency raised in key sustainability benchmarks, rankings and indices (weighted x1) (to determine the influence on stakeholder assessment and decisions) as well as social and environmental impacts (weighted x1) and importance to business strategy (weighted x2) (to determine the significance of economic, environmental and social impacts). Scores were given by at least two internal experts per category as well as based on lifecycle assessment (LCA) data and existing strategy documents. This way, about 60 aspects could be identified as material. For the sake of user friendliness, these were thematically clustered into 25 focus areas and gathered in a materiality matrix (p. 116).

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

Validation of materiality matrix with key stakeholders

To validate the matrix, we selected at least one representative from each of our key stakeholder groups (including customers, colleagues, communities, suppliers and their employees, industry peers, NGOs, IGOs, policymakers and investors). 11 stakeholder representatives were asked to provide feedback on this materiality matrix. These organisations were chosen based on their know-how, their ability to make professional and critical judgements, and the coverage of aspects potentially material.

Their comments were gathered systematically and are incorporated in the materiality matrix published in this report.

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

Throughout this process, we have used the principles of defining report

content in order to secure a robust process.

Review of materiality matrix in 2014

In 2014, we reviewed the outcomes of this process based on stakeholder feedback gathered with the release of our 2013 report as well as stakeholder engagement processes throughout the year and feedback from internal stakeholders. As a result, we found that our materiality matrix was still valid for 2014. However, we made two adjustments. Following stakeholder feedback we prioritised animal welfare even higher in its significance to economic, environmental and social impacts and in our business strategy by developing an animal welfare roadmap spanning across our entire value chain. We have also merged our focus area "Improved Supplier Performance" into our focus area "Supply Chain Management" as both internal as external feedback told us that both aspects are too closely connected to be separated.

How we report

Materiality matrix



ASPECTS INCLUDED

1. Materials (G4), Products and Services (G4), Product and Service Labelling (G4)
2. Sustainable Customer Behavioural Change
3. Animal Welfare
4. Purchasing Practices, Supplier Environmental Assessments (G4), Supplier Assessments Labour Practices (G4), Investments (Human Rights) (G4), Supplier Human Rights Assessments (G4), Human Rights Grievance Mechanisms (G4), Supplier Capacity Building, Strategies to Expand Influence over Entire Value Chain, Labour Practices Grievance Mechanisms (G4), Non-discrimination (G4), Child Labour (G4), Forced or Compulsory Labour (G4), Overtime in Supply Chain, Uzbek Cotton, Sumangali Schemes, Supply Chain Workers Health & Safety
5. Fair Living Wages in Supply Chain
6. Freedom of Association and Collective Bargaining (G4)
7. Anti-Corruption (G4)
8. Employment (G4), Labour/Management Relations (G4), Occupational Health & Safety (G4), Training and Education (G4), Employee Satisfaction
9. Investment (G4), Assessments (G4), Human Rights
10. Diversity and Equal Opportunity (G4), Non-discrimination (G4)
11. Marketing Communications (G4), Customer Privacy (G4)
12. Energy (G4), Emissions (G4)
13. End of life solutions/Circular Economy Strategies
14. Effluents and waste (G4)
15. Packaging (G4)
16. Water (G4)
17. Effluents and Waste (G4), Customer Health & Safety (G4)
18. Indirect Economic Impacts (G4), Local Communities (G4)
19. Economic Performance (G4)
20. Market Presence (G4)
21. Biodiversity (G4)
22. Overall (G4)
23. Anti-competitive Behaviour (G4)
24. Responsible Tax Planning

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