

A high-angle, wide shot of a large garment factory. The floor is filled with rows of sewing machines and workers. The workers are mostly women, some wearing dark uniforms. The factory has a high ceiling with visible structural beams and lighting fixtures. The overall atmosphere is one of a busy, industrial production environment.

Corporate Social Responsibility Report 2003

H&M

Stockholm 7 April, 2004

Dear Reader,

The incredibly positive reception of our CSR-report last year makes it very inspiring to introduce the report for 2003. In fact, we won a citation from FAR, the Swedish professional institute for authorised public accountants, for our 2002 CSR report.

The work with the report, which has been produced entirely in-house, makes an important contribution to improving our CSR-performance. Shortcomings and areas in need of improvement are clearly highlighted. Areas of success are an inspiration to keep up the good work.

It is our intention that this report should be interesting reading to all our stakeholders. We keep the language easy and explain difficult expressions in a glossary. In the feedback from our readers, we know that the report is read, not only by ethical investors, students and consultants, but by employees, customers and others. It is therefore also important to explain the processes as much as the performance. Our readers clearly want a reply to the question "how?".

I specially want to comment on a few findings in the report. First, this year we have broadened our CSR-reporting to also include areas such as marketing and security. In Sweden more than anywhere else, we do get comments on our advertising, and it is important to us to explain our policy in this field.

H&M has not organised any special stakeholder dialogue event during the year. However, we do feel that we have a close and constructive dialogue with many stakeholder groups through various meetings. In this report we have made an attempt to explain the nature of this informal and continuously ongoing dialogue, particularly with NGOs and Trade Unions.

Finally, a word on CO2 emissions. In preparing this report, we have identified unintentional errors in previous year's reporting. In the interest of transparency, we try to explain the full reasons behind those errors, and have decided to change the base year to 2003 for better comparison with future years.

We hope that you will find our CSR- report interesting reading, and we welcome all feedback. Please let us know how we can make our next report even more relevant to you!

Sincerely Yours,



Ingrid Schullström
Manager, Environment & CSR

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STATEMENT FROM OUR MANAGING DIRECTOR



Our clothes must always be manufactured and sold under good working conditions. As an international corporation, we have a great responsibility to the world around us. Here our aims are clear. H&M intends to live up to the high ethical standards that can be placed on our business operation and on us as an employer and partner. We will both be and be perceived to be a good company and a good member of society.

Taking responsibility for how people and the environment are affected by our activities is well in line with our fundamental values. CSR, or Corporate Social Responsibility, is therefore an important strategic issue for H&M and the department that is responsible for social responsibility and the environment reports directly to me. The key to all this is cooperation and dialogue – not only between our suppliers and us, but also with fellow-members of our industry, UN organisations and trade unions.

H&M also supports the UN Global Compact and the OECD Guidelines For Multinational Enterprises. In so doing we want to signify that we respect human rights and are prepared to contribute to sustainable development within the areas that we are able to influence.

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

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

Rolf Eriksen

CSR VISION AND STRATEGY

CSR Vision

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

CSR Strategy

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

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

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

CSR as defined by H&M

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

MAIN RESPONSIBILITY ASPECTS

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

SOCIAL ASPECTS

Working conditions, Labour standards and Human Rights in our supply chain

H&M does not own or operate any factories of our own. We are doing business with approximately 750 suppliers, who in turn use subcontractors. 2911 production units¹ around the world manufacture our goods. More than half of these production units are located in countries where there is a risk of non-compliance with local labour laws and universally accepted human rights and labour standards.

Our risk assessments as well as several years of experience of monitoring of garment factories has shown that the main responsibility aspects are violation of laws concerning working hours and wages. Other pressing issues although less common are child labour, forced overtime, physical and verbal abuse, sexual harassment and unacceptable punishments. Unclear employment conditions, lack of employment contract, abuse of trainee status and exploitation of migrant workers are also not uncommon.

Identification of these violations has been the first step towards remediation. In our Code of Conduct we make it very clear to our suppliers that none of the above is acceptable to H&M.

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

ENVIRONMENTAL, HEALTH, AND SAFETY ASPECTS

Product quality and safety

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

Restricted Substances in our products

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

The environmental impact in the supply chain

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

Transportation - environmental considerations

Transportation of H&M goods, stands for approximately 46% of total carbon dioxide emissions caused by H&M operations. Therefore, it is vital for H&M, in cooperation with our transporters and service providers, to try to achieve more environmentally friendly transports.

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

H&M operates 945 shops and 13 distribution centres (DC's). Our operations result in waste from packaging, hangers, decorative materials, disposable materials etc. It is our ambition to reduce waste and re-use and recycle waste material when possible.

VALUE ADDED

Major Products and services

At H&M, everyone is working towards the same goal – giving the customer unbeatable value through the combination of fashion, quality and price. H&M's concept of quality means that customers must be satisfied with both our products and with H&M as a company.

We have a wide range of products and new goods are delivered to our stores every day. To make things clearer for our customers, we have divided the range into a number of different concepts. We offer fashion basics as well as clothes with high fashion content within each collection, so that customers easily can combine different garments and find their own personal style. This allows customers to choose from a wide range – from updated classics to the trendiest garments, from newborn baby to fully-grown adult.

Our stores are designed to allow customers to make their own choices easily. The aim is to create a comfortable and inspiring atmosphere in the store that makes it simple for customers to find what they want and to feel at home. It is important to provide customers with ideas and inspiration, so that they can choose what suits their own style. We do this through our garment displays and mannequins that provide inspiration for matching and styling tips.

H&M has been selling cosmetics since 1975. Today H&M sells cosmetics in Scandinavia, Germany, the UK, Austria, Spain, Portugal, France, The Netherlands and Italy. H&M places great emphasis on having a fashionable, good value range of high quality products with a high fashion

H&M IN BRIEF

- H&M was established in Sweden in 1947.
- Today H&M sells clothes and cosmetics in 945 stores in 19 countries. We *plan* to open 140 new stores and *plan* to close 13 stores in 2004.
- The business concept is "Fashion and quality at the best price".
- H&M has around 100 designers who work with a team made up of 50 pattern designers, 100 buyers and a number of budget controllers to create H&M's clothing collections for women, men, children and teenagers.
- H&M also sells cosmetics under its own brand.
- H&M sells over 500 million items a year and new goods are delivered to our stores every day.
- In Scandinavia H&M Rowells sells fashion by mail order.
- In Sweden, Denmark, Norway and Finland H&M sells fashion via the Internet.
- H&M does not have any factories of its own, but instead works with around 750 suppliers. Around half of production takes place in Europe and the rest mainly in Asia.
- H&M has 21 production offices around the world – ten in Europe, ten in Asia and one in Africa.
- The group has around 40,000 employees.
- The turnover in 2003 was 56,550 million SEK.

content. The product range now includes hair care and body care, make-up and accessories for men, women, and youth.

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

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

H&M'S PURCHASING PROCESSES

Suppliers

We do not have any factories of our own, but instead work with around 750 suppliers. Around 50 percent of the production takes place in Europe and the rest mainly in Asia. We make an effort to co-operate only with suppliers meeting a number of requirements in respect to compliance with our Code of Conduct, quality, capacity and punctual deliveries to mention a few of the most important ones. H&M endeavours to bring about long-term relationships with suppliers. Continuous co-operation with our suppliers helps us to ensure that our requirements are met.

Production offices

In order to be able to follow up production, H&M has 21 production offices in Europe, Asia, and Africa with nearly 700 people employed. The role of the production office is to serve as a link between the buying office and the suppliers. That can for example include order-placement, quality control, and follow-up of other H&M's requirements including compliance with our Code of Conduct.

Distribution

Every stage in the transport chain, starting with the forwarder, is controlled by H&M acting as importer and retailer. Once the garments are ready for shipment, they are distributed to H&M's stores via distribution centres. Most sales countries (with the exception of Luxembourg, Poland, Portugal, Italy and the Czech Republic) have a distribution centre where the clothes are checked and, if necessary, steamed before being sent on to the stores. Having few links and as few stops as possible in the distribution chain makes the supply of goods efficient. H&M sells more than 500 million items a year.

Turnover incl. VAT 2003 (SEK M)

Sweden	5,608
Norway	3,986
Denmark	2,517
United Kingdom	4,957
Switzerland	3,509
Germany	16,467
Holland	3,657
Belgium	2,028
Austria	4,072
Luxembourg	269
Finland	1,328
France	3,835
U.S.A.	2,782
Spain	1,202
Poland	86
Czech Republic	74
Portugal	118
Italy	55

Our Production Offices are located in:

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

LISTENING TO OUR STAKEHOLDERS

We think it is imperative to interact and have a dialogue with our various stakeholders. The values of society are constantly shifting and knowing what our stakeholders expect from us is essential to our business. We will only earn the "licence to operate" and the "licence to grow" if we meet those expectations.

Meeting our Stakeholders 2003

During 2003 H&M representatives have been to various meetings where we have had the opportunity to listen and talk to different stakeholders. Our interactions during 2003 enabled fruitful discussions with*:

- International, European, and National **trade unions** such as ITGLWF (International Textile, Garment and Leather Workers' Federation) UNI (Union Network International), The Industrial Workers' Union, Commercial Employees' union.
- Representatives from various **NGO's** such as Clean Clothes Campaign, Greenpeace, Amnesty International, Oxfam and a number of Swedish NGOs.
- **Governmental** representatives from the Swedish Ministry of Trade, Swedish Foreign Ministry, and the EU Commission.
- Investors and analysts

<p>Meetings between Swedish retailers and global textile trade unions.</p> <p>Stockholm April, August, December 2003</p> <p>Theme for the discussions: Forms for cooperation between the trade unions and the participating companies with the purpose of improving working conditions in garments factories</p>	<p>PRET-A-PROTESTER (Seminar)</p> <p>Stockholm November 2004</p> <p>Theme for the discussions: Social responsibility and Ethics in the fashion and garment industry</p>	<p>Panel discussion about Worker Education (Ethical Corporation Conference on Labour standards and Human Rights) Brussels November 2003</p> <p>Theme for the panel discussion: Encouraging worker education and empowerment in developing country factories</p>
<p>Social Standards in the Ready Made Garment Industry in Bangladesh.</p> <p>Berlin September 2003</p> <p>Theme for the workshop: How to improve social standards in Bangladesh in preparation for the MFA phase out in 2005</p>	<p>Breakfast Meeting with Greenpeace and EU Environment Commissioner</p> <p>London October 2003</p> <p>Theme of discussions: The new REACH legislation and the substitution principle</p>	<p>EU Multi-Stakeholder Forum on Corporate Social Responsibility (CSR EMS Forum) Brussels November 2003</p> <p>Theme of the Roundtable: Development aspects of CSR</p>
	<p>Workshop on Complaint Mechanisms</p> <p>Amsterdam October 2003</p> <p>Theme for the discussions: Complaints mechanisms in the context of monitoring and verification of codes of conduct in the garment industry.</p>	

* This footnote is found on the last page of this report.

GOVERNANCE STRUCTURE

Board of Directors' work

Since the Annual General Meeting on 28 April 2003 the Board of directors has had 13 members, of which 4 are deputy members (8 men and 5 women). The Board of Directors met six times during the financial year. At the statutory meeting following the AGM Stefan Persson was re-elected Chairman of the Board and the Board adopted rules of procedure for its work. The rules of procedure regulate matters such as the distribution of work between the Board and the Managing Director, financial reporting, investments and financing policy. The rules also call for the Board to hold five ordinary meetings annually, the statutory meeting not included. In its work the Board of Directors has kept abreast of the financial development and position of the Group, made decisions on investments for the forthcoming financial year, resolved on expansion into new markets, decided on new pension arrangements for the Managing Director, established a communications policy and kept up-to-date on organizational changes. During the year an audit committee was formed, with Stig Nordfelt as Chairman and Werner Hofer and Bo Lundquist as members. The audit committee has met twice.

Board fees

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

Managing Director's terms of employment

Remuneration to the Managing Director in the form of salary and benefits amounted to SEK 8,358,000, which included a bonus of SEK 1,500,000 (previous year SEK 7,621,000 including a bonus of SEK 1,500,000). Pension expenses for the Managing Director during the year were SEK 23,290,000 (previous year SEK 3,707,000), of which SEK 19,911,000 comprises pension commitments entered as liabilities. The Managing Director may retire at the age of 62 and receive a pension of 65% of

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

Terms of employment for other Group senior executive officers

Remuneration to other members of the Group management in the form of salary and benefits amounted to SEK 19,215,000 (18,039,000), which included bonuses of SEK 1,500,000 (SEK 1,500,000). Other Group management comprises 10 people, 3 of whom are female. In addition to the Managing Director, the management group includes those responsible for the following functions: finance, buying, product range, expansion, IR, accounts, marketing, HR, communications plus environment and social responsibility. There are rulings in respect of supplements to retirement pensions beyond the usual plan which cover certain senior employees. The retirement age for these varies between 60 and 62 years. The cost of these payments has been covered by separate insurance policies. In addition, a bonus amounting to SEK 6 m (6) was paid to 12 country managers (12).

Bonus system

The Managing Director, country managers and certain senior executives are included in a bonus system. The size of the bonus is based on 0.2% of the increase in the ordinary dividend decided by the Annual General Meeting, which is then adjusted to take account of the result in their respective areas of the business. The maximum bonus per person and year has been set at SEK 500,000. In the case of the Managing Director the bonus is 0.6% of the ordinary dividend increase, up to a maximum of SEK 1,500,000. The bonus paid after tax must be invested in its entirety in shares in the company, which must be held for a minimum of five years.

Specific related party disclosures

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

H&M's contribution to the Millenium Development goals:

Eradicate extreme poverty and hunger

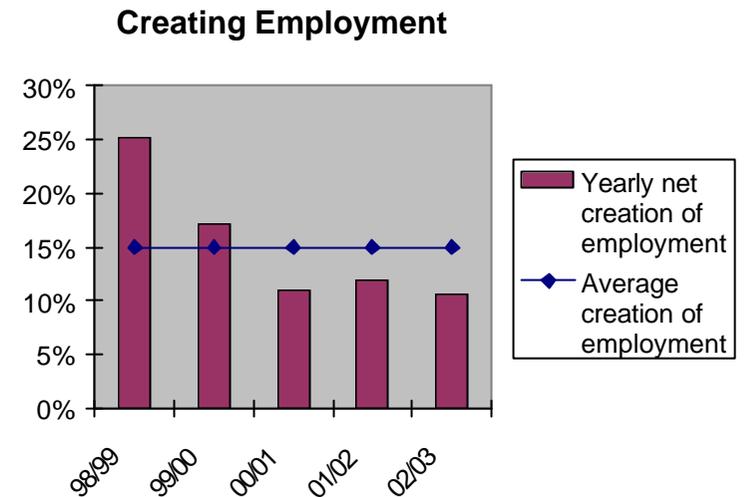
Access to economic opportunity through employment

Several countries that are found among the Least Developed Countries (LDC) produce the garments that are sold by H&M. We are working with some 750 suppliers in Europe and Asia who in turn work with around 2900 factories that employ approximately 530.000 workers.

HUMAN RESOURCES

The spirit of H&M creates commitment

At the end of the year, H&M had around 40,000 employees. The average number of employees was 28,409 (converted into full-time positions), of which 20 per cent were male. Net employment creation has been 15% on average the last six years. The chart illustrates this as well as yearly job net creation.



H&M's seven fundamental values

H&M's strong corporate culture – the spirit of H&M – has existed ever since the days of H&M's founder, Erling Persson. This strong culture is of great value and is a contributory factor to H&M's successes over the years. Constantly finding new staff around the world while at the same time retaining and communicating the particular spirit of H&M on which the company is based is a major challenge.

The spirit of H&M is based on a number of values that describe in simple terms how we want to work. These are in turn based on our business concept – fashion and quality at the best price. The fundamental values behind the spirit of H&M are common sense, taking own initiatives, believe in people, direct communication, cost consciousness, team work and fast pace with continual improvement.

Transferring the culture to new stores and countries

When H&M opens a new store the staff gets support from experienced staff at established H&M stores. They help to build up the store, recruit staff and run the business. In addition, they are important bearers of the culture who help pass on H&M's values to the new employees in a simple way. All this creates cross-border understanding, creativity and commitment. Generally, H&M staff within a country assists each other. When H&M opens stores in new countries, however, it is even more important to provide support and to transfer knowledge from staff in established countries. Staff with language skills stay from two weeks to two months to help during the start-up phase. Often a number of specialists will relocate to the new country for a longer period in order to pass on their specialist skills, so that the business can get going quickly. Transferring knowledge and the culture to the new countries Poland, the Czech Republic, Portugal and Italy, has been made considerably easier by the fact that their neighbouring countries have assisted with construction, warehousing and administration. The basic framework is already in place and committed employees have ensured that the new countries have gained the knowledge and natural understanding of H&M's values that is so important when expanding the business.

H&M Wallpaper and H&M Magazine

Since 1997 our staff newspaper H&M News has been one of a number of ways in which we have passed on information and strengthened the corporate culture. In 2004 H&M News will be replaced by two journals: a wall-posted newspaper called H&M Wallpaper and a fashion magazine called H&M Magazine. H&M Magazine, which describes the fashions and the latest trends, is aimed equally at both staff and customers.

Responsibility creates creativity

Within H&M we provide room for people to make their own decisions and take responsibility and staff gets regular feedback on their performance. It is an important part of H&M's culture that responsibility is delegated to the stores. Creativity and job satisfaction increase when there is a good working environment. The idea is to create as much commitment as possible within certain given confines.

Internal recruitment takes precedence

H&M principally recruits internally. Staff recruited from outside the company is primarily sales staff for the stores, who later form a good recruitment base for positions of responsibility both within the stores and in other areas of H&M. This gives our employees every opportunity to develop continually, while at the same time ensuring that the spirit of H&M is spread throughout the company.

Job rotation and skills development

Job rotation is common at H&M. In the stores, for example, duties may vary between the cash desk, fitting rooms and deliveries to goods display, advertising and campaigns. Working in the store provides very important experience and is a way of getting to know H&M from its very foundation. Attracting and retaining skilled staff is important for H&M's success. We therefore work constantly on skills development and all training is carried out within our own organisation. However, the biggest knowledge gain is made through active learning on the job. All new members of staff are given a mentor. Newly employed store staff undergoes a three-week introduction programme and they thereafter have regular training as needed in customer care, textiles and display. The introduction programme guarantees that everyone has an equal grounding in and insight into H&M's way of working. Management training is also carried out, with the emphasis on being a good communicator of H&M's values.

H&M's contribution to the Millenium Development goals:

Achieve universal primary education

Child prevention project in Southern India

For the fourth consecutive year H&M is donating 45 000 Euro to Terre des hommes in Germany. The donation supports a local Indian organization in southern India that works on preventing child labour in the Tirupur area, where a lot of textiles are produced.

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

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

Employees' freedom of association – a core value for H&M

H&M's core commitment to its employees includes among other things fair wages, reasonable working hours, and the freedom of association. This applies to all H&M operations around the world, as well as to companies supplying clothes and other products to H&M. There can be no doubt that H&M recognizes the legal and human right for our employees to seek representation, and to join the trade union of their choice.

Agreement with UNI

On January 14, 2004, H&M signed an agreement with the global trade union UNI (Union Network International). This agreement declares in writing that both parties consider the ILO Declaration on Fundamental Principles and Rights at Work to be the cornerstone for their corporation. It also makes clear within and outside the company, H&M's corporate policy on, among other areas, freedom of association and the right to collective bargaining at H&M's workplaces. It is of utmost importance to ensure the observance of these principles in the future.

The U.S. Case

H&M's core values are valid all over the world. The U.S. is no exception. It is therefore important for us to clearly state that the accusations that during the past autumn have been made against H&M in the U.S. were unfounded.

In H&M's efforts to reach a satisfactory agreement about the process to establish whether H&M's workplaces in the U.S. should be organised, discussions will be held with the central U.S. trade union AFL-CIO. The process to decide if a union has a majority at an H&M workplace should be in line with American practice – and should be carried out in a way that protects the integrity of our employees. This is the basic guideline for H&M's proposal to those American unions that seek to organize our employees in the U.S.

During the summer of 2003, the American union Unite initiated a campaign to organize the employees at H&M's distribution centre in New Jersey, USA. Shortly thereafter, H&M met with representatives from Unite and initiated a dialogue. In March 2004, H&M and Unite reached an agreement about how to conduct the work place election. The agreement is important

since it protects the integrity of our employees. The result from the election will be ready in April 2004.

Organisation

The company management is based at H&M's head office in Stockholm. Stockholm is also where the main functions for design and buying, finance, expansion, shop fitting and display, advertising, communications, human resources, logistics, security, corporate social responsibility, and IT are located. H&M has 13 country offices that are responsible for the various functions in each sales country. The country office in Belgium is responsible for administration of the Luxembourg stores. Our new markets are also administered from their neighbouring countries: Poland by Germany, the Czech Republic by Austria, Portugal by Spain, and Italy by Switzerland. H&M also has 21 production offices which take care of contacts with our approximately 750 suppliers. There are ten production offices in Europe, ten in Asia, and one in Africa.

Average number of employees

	02/03		01/02	
	Total	Male %	Total	Male %
Sweden	3,709	20%	3,604	19%
Norway	1,420	9%	1,448	9%
Denmark	954	5%	939	6%
UK	2,794	23%	2,354	21%
Switzerland	1,134	10%	1,161	10%
Germany	7,199	19%	6,880	20%
Netherlands	1,772	18%	1,818	14%
Belgium	1,051	16%	989	16%
Austria	1,613	13%	1,535	15%
Luxembourg	120	32%	97	15%
Finland	527	11%	534	10%
France	1,865	30%	1,517	30%
USA	2,255	30%	1,605	30%
Spain	975	21%	601	20%
Poland	88	20%	–	0%
Czech Republic	38	11%	–	0%
Portugal	125	26%	–	0%
Italy	106	25%	–	0%
Canada	8	50%	–	0%
Other countries	656	37%	592	34%
Total	28,409	20%	25,674	19%

SECURITY AT H&M

Our Security policy guides our security work. We centre our attention on:

- Fire prevention/Evacuation
- Loss prevention
- Crime prevention

It is key to us that the security work becomes an integrated part of everyday work. The security manual is a valuable help to all shop managers about information and checklists around all specifics.

Security Organisation

In general, every Shop Manager, Distribution Centre Manager, Division Head, Office Manager etc are responsible for Security issues. At their service, there is a corporate organisation to facilitate and govern the security work in the group. The head of Security reports to the CEO.

The corporate organisation also includes security managers for the following areas:

- Information and Information Technology.
- Internal audit

In addition, there is a Security Manager for the:

- Buying Office and Production offices
- Sales offices and Shops (14 people for 19 countries)
- H&M Rowells
- IT Department

H&M Security Policy

H&M must be a place where both staff and customers can feel safe. Every employee of the company must, in their daily work and personal behaviour, strive to create a working climate that avoids the risk of fire, criminal behaviour and damage to both customers and staff – without in any way limiting space for spontaneity and creativity in daily activities together or hindering sales in the company's shops. A properly functioning security system, where everything is ordered and well organised, creates a safer place in which to work; it reduces the company's costs for damage and loss and contributes to increased profitability and comfort.

Crime

Risk Assessment

Every Shop Manager must, in collaboration with the security manager of the country, analyse the risks for crime against the shop and train the staff accordingly.

Consequences of crime

We report all types of internal and external crime to the police. Any employee who has been found guilty of committing a crime against the company will be dismissed/given notice.

Combating Bribery

H&M does not give or take any form of bribes. We dissociate ourselves from all types of corruption. This is valid for every individual employed by H&M, regardless of business area or position.

Code of Ethics – Our Corruption policy

The Code of Ethics is a document stating the rules for what is considered corrupt behaviour. Our approximately 700 employees in our production offices sign this document, upon employment.

In addition, our suppliers have signed to confirm that:

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

They are also requested to immediately inform the Production Office Manager if a corruption situation occurred in dealing with our staff.

Enforcement and Control

The Security Manager for the Production Offices always conducts internal revisions on the Code of Ethics procedure to make sure it has been implemented correctly. If a corruption case occurs, the Security Manager will be informed and will deal with this accordingly.

If a supplier does not comply with our company policy in this matter, we will be forced to discontinue all business connections with this supplier.

If an employee is found taking bribes of any kind, it will be reported to the police for investigation.

Information and IT Security

The Information Security Policy and Guidelines is guiding all security work on information and IT. These instructions are covering:

- Organisation and Responsibility
- Asset classification and control

Internet policy

Rapid access to correct information is important if we are all to do our jobs in the best way possible. The Internet is a source of information that can be used to supplement and rationalise this knowledge gathering. The Internet is intended for the gathering of information and knowledge for business purposes. Employees must be aware that it is an external medium in which - as in all other external situations – he or she is representing the company.

Employees who wish to have access to information on the Internet from their PC in order to carry out their work undertake to abide by the following Internet policy.

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

- Document and information management
- Physical security
- Communication and operations management
- Access Control
- Systems development and maintenance
- Routines for incident management
- Business continuity planning

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

Policy

The levels of the security procedures are depending on the possible damage of threat that could be carried out against H&M: s businesses.

Responsibility and support

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

Risk Analysis

Damage prevention and damage-limiting measures shall be preceded by a risk analysis and be economically well balanced to the identified risks.

Consequences when disregarding laws, regulations, and the internal rules

Staff who is not following the valid laws and regulations can be dismissed. Staff who is not following the internal rules can get a warning and in serious cases be dismissed. We report all types of crime to the police.

Privacy Policy

We have a privacy policy on our Web site www.hm.com. This privacy policy is based on PUL, which is the Swedish law to regulate this. PUL is based on the EU Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The content about cookies is based on the law on electronic communication.

Privacy Policy on our Web site www.hm.com

Hennes & Mauritz works to ensure that your integrity is maintained on the Internet. We have therefore produced a policy for how your personal information is used. The content of the policy can be changed on an ongoing basis and therefore you should read through it again when you visit our website next time.

Personal details

We accept responsibility for all the personal information such as your name, address and any other personal details that you provide us with or that we find out on recruitment or in competitions. The information is kept within the group H & M Hennes & Mauritz AB and its subsidiaries as the party responsible for personal data.

H & M Hennes & Mauritz AB will not pass on your personal details to third parties.

Why do we take your details and what are they used for?

We use the information that we collect to fulfil our commitments to you and to provide you with the service that you expect. This includes sending you information and offers for marketing purposes. In registering your interest/making an application you consent to our processing your personal details in a recruitment process. We will only store your details subsequently with your consent. We always try to respond to applications as quickly as possible.

Terms of use

Cookies

A cookie is a small text file sent from a website and stored locally on the visitor's hard drive.

In your browser you can select a setting that gives you a message before a website sends a cookie to your computer. You can then choose yourself whether to accept or block the cookie. You can also choose to block all cookies. Since different browsers work in different ways, look in your Help menu to find the setting on your browser.

If you choose to block all cookies you can still visit our website, but you will then have to select your country each time you come back.

One reason why we have chosen to use cookies is to store information concerning the country selection you make the first time you visit www.hm.com. In this way, you avoid having to select a country each time you visit us. The cookie also lets us know whether you have visited our website before and if so, which pages you have looked at. We never use cookies to store personal information about you. We use them only in order to make your visit easier and to keep track of the number of visitors to our website.

Links

www.hm.com may contain links to other websites beyond our control. We cannot be held liable for breaches of integrity or content on these websites - we simply provide the links to make it easier for people visiting our site to find more information within specific areas.

REPORT PROFILE

The GRI-Guidelines

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

Additional Information

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

- The CSR Report 2002
- The annual report 2003
- www.hm.com/csr
- The brochure "Our responsibility" that can be downloaded from www.hm.com/csr
- The contact persons for the CSR Report.
- Our list of restricted chemicals is found under a drop down menu at www.hm.com/csr
- Our Code of Conduct is found at <http://seit26.hm.com/codeofconduct>

Independent Assurance

An independent third party did not assure this report.

REPORT SCOPE

Contact Persons for the CSR Report:

Ingrid Schullström: Ingrid.Schullstrom@hm.com
Magnus Ljungberg: Magnus.Ljungberg@hm.com

Reporting Period:

Financial data: 2002-12-01 – 2003-11-31

Other data: 2003-01-01- 2003-12-31
Unless stated otherwise.

Previous report:

CSR-Report 2002

Significant Changes:

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

CORPORATE MEMBERSHIPS

Global Compact and the OECD Guidelines for Multinational Enterprises

H&M participates in the UN's Global Compact and supports the OECD Guidelines for Multinational Enterprises. Supporting these internationally recognized charters means that H&M, as a company, explicitly adhere to the values these charters express. H&M also welcomes the proposed 10th Global Compact principle on corruption.

CSR-initiatives

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

Memberships

- H&M is a member of Business for Social Responsibility (BSR). (<http://www.bsr.org>)
- H&M is a member of Amnesty Business Forum in Sweden. (<http://www2.amnesty.se/businessgroup.nsf>)

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Webb: www.hm.com

Business sector:
Fashion Retail

- H&M is a member of The Swedish Association of Environmental Managers (NMC). (<http://www.nmc.a.se/>)
- H&M is a member of the Confederation of Swedish Enterprise (<http://www.svensktnaringsliv.se/>)
- H&M is a member of the Swedish Federation of Trade (<http://www.svenskhandel.se/>)
- H&M is a member of the Textile importers' association in Sweden (<http://www.textileimporters.se/>)

SUBSCRIPTIONS

Magazines

- Ethical Corporation Magazine
- MiljöRapporten - A magazine covering environmental issues. Is distributed 4 times per year plus the yearly edition of "Miljöguiden".
- Dagens Miljö – A newspaper covering environmental issues. Is distributed 4 times per year.

Newsletters

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

GLOSSARY

AQL

Acceptable Quality Level

Business for Social Responsibility (BSR)

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

Declaration on Fundamental Principles and Rights at Work

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

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

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

Discrimination

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

Environmental Impact Assessment (EIA)

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

Forced Labour

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

Global Reporting Initiative (GRI)

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

ILO – International Labour Organisation

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

The ILO formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights: freedom of association, the right to organize, collective bargaining, abolition of forced labour, equality of opportunity and treatment, and other standards regulating conditions across the entire spectrum of work related issues.

ISO 14001

ISO 14001 is an environmental management standard

Life Cycle Analysis

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

OECD’S Guidelines for Multinational Enterprises

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

procedures whereby adhering governments agree to promote observance of the Guidelines.

PVC – Polyvinyl chloride

Plastic material.

Suppliers

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

Sustainable Development

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

Stakeholder

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

Sub-contractors

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

Transportation service providers

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

UN Global Compact

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

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

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Environment



ENVIRONMENT

Main aspects

- The environmental impact in the supply chain

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

- Environmental considerations on Transportation

Transportation of H&M goods stands for approximately 46% of total carbon dioxide emissions caused by H&M operations. Therefore, it is vital for H&M, in cooperation with our transporters and service providers, to try to achieve more environmentally friendly transports.

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

H&M operates 945 shops and 13 distribution centres (DC's). Our operation result in waste from packaging, hangers, decorative materials, disposable materials etc. It is our ambition to reduce waste and re-use and recycle waste material when possible.

H&M's Environmental Policy

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

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

We shall:

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

ENVIRONMENTAL IMPACT ASSESSMENT

The Environmental Impact Assessment is an environmental impact estimation produced by two experts, one with decades of experience in the textile business, and one with the environmental knowledge. Corrections to the table are done when needed. If changes are done with any major consequence for our decisions, this will be stated in this report.

The table is divided in environmental aspects (e.g. emissions to air) and impact areas (e.g. stores). Every impact area has been weighted within brackets, in order of importance. For example, we consider the production of garments to have the most critical impact on the environment.

Every environmental aspect is weighted within each impact area with one or more x. symbols, where three x stands for "Very Significant". We also summarize the impact of each environmental aspect in the far right column. Emissions to air, for example, we consider most pressing among the environmental aspects (27x)

Aspects	Stores (2)	Distribution Centres (1)	Office (1)	Product - After sales (2)	Production of garments (4)	Impact
Emissions to air	xxx Transport Heating Lighting Escalators, doors	xxx Transport Heating Lighting	xx Travel Heating Appliances Lighting	xx Care (wash and iron) Disposal transport	xxx Transport Boiler, Generator, Heating, Aircon	27x
Chemical use	xx Cleaning Decoration Building Aircon Textile Appliances	x Cleaning Lab Aircon Building	x Cleaning Design Lab Aircon Appliances	xxx Softener Dry-cleaning	xxx Dyeing Bleaching Finishing Washing Printing	24x
Solid waste	xxx Packaging Campaign material Display material Building material	xxx Packaging Surplus material from stores Household waste	xx Household waste Packaging Stationary	x Disposal	xx Leftover material Packaging Sludge	21x
Emissions to water	x Sanitation	x Sanitation Lab	x Sanitation Lab	xx Wash	xxx Waste water from dyeing, bleaching and other processes	20x
Hazardous waste	xx Tube lights Paint, glue, felt pens Batteries Some cosmetics waste Electronics	x Tube lights Batteries Some cosmetics waste	x Tube lights Batteries	x Aerosols hairsprays Nail polish Perfumes	xxx Sludge Chemical leftovers Tube lights	20x
Soil contamination	x	x Spillage Fuel storage	x	x Heavy metals	xx Sludge Untreated wastewater Irrigation and emission to soil Chemical storage spillage Fuel spillage	14x
Noise	x Aircon Transport	x Aircon Fans	x Transport	x	xx Transport Machinery Generator	10x
Use of resources						
Electricity	xxx	xx	xx	xxx	xxx	
Water	x	x	x	xxx	xxx	
Fuel	xx	xx	x	x	xxx	
Textile Materials	x	x	x	xx	xx	
Paper/Cardboard	xx	xx	xx	x	xxx	
Plastic	xx	x	x	x	x	
Wood	xx	xx	x	xx	x	
Metal	xx	x	x	x	x	
Glass/Stone/Concrete						

ENVIRONMENTAL MANAGEMENT

H&M's Environmental organisation

H&M's Corporate Social Responsibility Manager (CSR) is part of the corporate management and reports directly to our Managing Director.

The Environmental Co-ordinator coordinates environmental activities at H&M. H&M has environmental representatives for the following corporate functions; Advertising, travel, logistics, Rowells, Building and IT. The prime function for a representative is to be the communicative link between the line organisation and the CSR department that facilitates and govern the environmental work in the group. Every major production country and every sales office also have their environmental representatives. There are 32 environmental representatives in total.

Certification

H&M is not ISO14001-certified. Our ways of working do not correspond with the type of bureaucracy that comes with ISO certification. Nevertheless, we consider it important with a systematic approach to our environmental work. Environmental considerations should be an integral part of our everyday decisions and operations.

Organic Cotton

Since we are aware of the negative environmental impact of cotton farming, we are planning to start partly using organic cotton for our products. Organic cotton is certified to be naturally grown without the use of synthetic pesticides, defoliants and fertilizers. During 2003, we have investigated the possibilities to buy products containing organic cotton from Turkey and from India. The first test orders from Turkey were shipped in March 2004. In India, the situation is more complex, but we are hoping to be able to start a test late 2004 or 2005. From both markets, we intend to use a blend of 95% traditionally grown cotton and 5% organic cotton, and we will use it in our children's wear

range. The volumes will initially be very small, but we intend to gradually increase the volumes year by year in order to help increase the worldwide demand for organic cotton. The garments will not have a special label and we will not make a separate organic collection.

Environmental evaluation of Transportation Service Providers

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

Minimum Environmental Requirements for Road Transports

From The 1st of January 2003, we have the following minimum environmental requirements for companies performing goods transports on road.

- Use of Euro 1 engines (or equivalent)
- Purchase of (new and used) vehicles in minimum Euro 2 /US 94
- Diesel with maximum sulphur content of 350 ppm (0,035%)
- Instructions to drivers to use certain fuel quality
- Fuel-efficient driving (ECO-driving): 25% of drivers must have received theoretical and practical training.
- Company policy banning idling in excess of 1 minute

Coming minimum requirements for road transports

- Road transports for H&M must be carried out with vehicles meeting the requirements of Euro 2 or US 94 (from January 2006)
- All vehicles purchased must meet the requirements of Euro 3 /US 98 (from January 2005)
- At least 50% of drivers must have received theoretical and practical training in fuel-efficient driving ("eco-driving") (from January 2005)

In our evaluation during 2003 (for year 2002), we found two Transportation Service Providers that did not meet our minimum requirements on engines. They were required to show an action plan on how to comply with

the requirements that came into place from January 2003. Both Transportation Service Providers showed satisfactory plans on how to meet our demands. In 2004, we will make random checks of the fulfilment of our minimum requirements.

Minimum environmental requirements for other Business Partners

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

Apart from any legal requirements there are also some H&M specific environmental requirements. The following materials, metals and chemicals should generally be avoided in the production process or the product itself:

- **Materials:** PVC (Polyvinyl chloride), Halogen-based plastic materials, Paper-based materials processed with chlorine or chlorine derivatives and Tropical wood (never use such wood if not labelled FSC)
- **Metals:** Lead, Chrome (especially Cr6+), Cadmium, Mercury
- **Chemicals:** Bisphenol A, Brominated or chlorinated flame – retardants, e.g. PBB, PBDE, OctaBDE, TEPA, TCEP, TRIS, Bis(2,3dibromopropyl)phosphate, chloroparaffins), Chlorinated or aromatic organic solvents, Ozone depleting compounds, Nonylphenoethoxylates (NPE), Formaldehyde.

Building and Visual Merchandising – New decisions for a cleaner environment

- Make sure in the building and rebuilding process that source sorting and waste handling areas are sufficient either in the store or provided by landlord.
- To separate hazardous waste at demolition
- To have a contractual agreement with the contractors stating that we have the right to an Environmental Declaration for all used material, if we require it.
- Floors must be PVC free and we shall phase out PVC in other appliances
- To avoid the purchase of tropical wood. Any tropical wood purchased must be FSC certified.
- To install water saving appliances in washrooms and kitchens
- To phase out R22 (hazardous refrigerant) in the cooling systems in all countries
- To make sure that cadmium and nonylphenol etoxilate does not exist in paint that is purchased locally (already implemented centrally).

H&M uses minimum environmental requirements when purchasing IT Products

H&M uses the ECO declaration developed by The Nordic IT-Organisations (NITO). Nemko² randomly examines the information declared by the companies selling IT equipment for verification purposes. Nemko works on the commission of NITO. Each year 25% of the companies selling IT equipment are examined. If a company is found consciously declaring false information, NITO will expel that member. Our different supplier of IT-equipment has to send in one eco declaration for every product they offer. We evaluate all answers to find an acceptable level. Any product that does not live up to the law is automatically sorted out. The requirements we have set are based on legislation and our own standard, i.e. no PVC.

² The Nemko Group is a Norwegian company that offers testing, inspection and certification services concerning products, machinery, installations, and systems worldwide.

New packing instructions for our suppliers

In order to reduce waste from plastic and cartons and to make packing and transport more efficient changes have been made in the packing instructions to achieve the following:

- Reduction of Plastic, Filling paper and Tissue paper
- Reduction of Carton boxes
- Reduction of hanging garments
- Reduction of hangers

Environmental Objectives

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

THE SEMS PROJECT EVALUATION

Major findings

It is easier to motivate suppliers to make concrete improvements when there are multiple gains. Even if a supplier can be willing to make improvements out of concerns about the environment, the motivation is higher if other gains can also be made, such as reduced cost, reduced use of resources, better quality, lower waste etc. The gains must be measurable. The cost must be realistic in proportion to the gains. It is difficult to achieve sustainable improvements unless the supplier clearly sees the business benefits.

The suppliers have shown substantial interest in becoming ISO 14001 certified although this was originally not within the scope of the project. At times the two objectives, fulfilling the targets set for the SEMS³ project and getting the ISO 14001 certificate, were mixed up. This has made it difficult in the end to fully evaluate only the SEMS project.

The conclusion is that it is possible to achieve certain environmental improvements through an awareness and motivation approach. Further lessons learned were:

- On a general level we have learned a lot about the driving forces and hindrances to improvements concerning issues with environmental consequences.
- We have identified the most important environmental aspects. This has been useful for determining the relevant areas of interest for the revised environmental section of the Code of Conduct checklist.

³ SEMS – Supplier Environmental Motivation Strategy

The SEMS Project

Introduction

H&M wants to take responsibility for the environmental impact of our operations in the supply chain. It is our ambition to make our suppliers aware of the importance of improving the production processes in the entire chain of production. Through the requirements in our Code of Conduct, we make clear that environmental laws must be followed and that the supplier must possess all required permits.

However, through the SEMS project we wanted to move forward and in so doing further contribute to the reduction of the environmental impact of the production of our products.

The Project Strategy

The authorities in many of the countries where H&M's garments are produced do not necessarily have the same monitor and audit systems in place to check the compliance with laws and regulations. Hence, our suppliers must see the advantages of taking their own responsibility. We have therefore decided to use education and inspiration as our premier tools to achieve the motivation necessary for reaching the goals of the project.

The Project Steps

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

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

The next step was for the supplier to set environmental targets, based on the IER, to improve their environmental performance. A designated person was required to take responsibility for the targets and a time frame was set.

The final step, which was concluded in 2003, was to evaluate actions taken by the suppliers. The analysis was made and the major findings and conclusions are laid out in this chapter.

Our knowledge was increased on the environmental impact of the various production steps.

- Understanding of the various obstacles and difficulties that our suppliers encounter in the process towards improved environmental awareness and performance.
- As always, key to internal engagement is management commitment and competence.
- The pilot suppliers were motivated to make improvements on their environmental practice that went beyond the law.

Environmental benefits explored

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

H&M's contribution to the Millenium Development goals:

Ensure environmental sustainability

Through our Code of Conduct we require our suppliers to comply with all applicable environmental laws and regulations in their country of operation.

Through the Chemical Restrictions and corresponding tests, we take our responsibility in making sure that prohibited chemical substances are not present in our products.

How the knowledge accumulated in the project should be spread to other suppliers.

The SEMS project resulted in three initiatives:

1. The first outcome is the revised environmental section of the Code of Conduct checklist. Apart from the fact that we are requiring environmental considerations on hazardous waste, chemical handling, wastewater treatment, our inspectors increase the suppliers' awareness and knowledge in the dialogue on these topics.
2. Secondly, we will also educate selected vertical garment suppliers on the successes from the SEMS project.
3. In 2004, we will initiate cooperation with the largest fabric suppliers used by our garment suppliers in our largest sourcing markets. The purpose is to improve the environmental performance of their operations. We will share with them the good examples from the SEMS project.

ENVIRONMENTAL INFORMATION TO EMPLOYEES

Our environmental information is communicated through a number of different channels. Colleagues who make decisions with high impact on environment are targeted with more in depth education. For other employees we mainly focus on awareness building.

The channels of communication

- **H&M's intranet** - Our intranet is covering all offices in H&M. No shop is included yet.
- **H&M's website at internet (www.hm.com/csr)** - Here one can download the CSR Report. Hence, this is where the most comprehensive information is found.
- **H&M's staff news (H&M News)** - Our newsmagazine is distributed to every employee in the company.
- **Education at the Buying Office (optional)** – This education takes place approximately 3 times per year.
- **Key Group Education** - During 2003, key group education was given to Project managers - Building⁴ and Visual Merchandisers⁵.

⁴ The Project Managers are responsible for building and rebuilding of stores in the sales organisation

⁵ The Visual Merchandiser is responsible for presentation of the products in the store and the window in their respective country, through them paint for window is bought locally they are also

H&M's contribution to the Millenium Development goals:

Reduce child mortality, improve maternal health & give access to safe drinking water

H&M supports the Charity WaterAid who directs our donations on our request to a project in Dhaka, Bangladesh.

In 2002, we contributed with £ 30.000 and in 2003 with more than £ 35.000. In order to learn about the achievements in Bangladesh, please click your way forward through "What we do \ Where we work \ Bangladesh" at <http://www.givewater.org/>

responsible for the volumes of material used in their field and hence also waste is a consequence of their work.

ENVIRONMENTAL PERFORMANCE MEASURES

This year we report on greenhouse gas emissions, and recycled cardboard. We also describe the reasons for omissions on other environmental important aspects.

Included in the Carbon Dioxide figures are:

- Purchased fuels for heating of Distribution Centres, where H&M owns the contract
- Purchased fuels for H&M owned vehicles in the entire company
- Purchased heat for Distribution Centres, where H&M owns the contract
- Purchased electricity in the entire company, where H&M owns the contract
- Purchases of transports of goods⁶
- Purchases of transports of personnel

⁶ Excluded is road transport in connection to airports due to data collection problems

GREENHOUSE GAS EMISSIONS (GHG)

Carbon Dioxide Emissions - Performance

- 2000: 102 494 Tonnes (Earlier Base Year)
- 2001: 124 611 Tonnes
- 2002: 134 437 Tonnes
- 2003: 180 031 Tonnes (New Base Year)

Carbon dioxide	Tonnes of CO ₂	
Purchased fuels for heating of Distribution Centres	2 480	1%
Purchased fuels for H&M owned vehicles	2 021	1%
Purchased heat for Distribution Centres	8 274	5%
Purchased electricity in entire company	76 384	42%
Purchases of transports of goods (Road, Sea, Rail)	46 666	26%
Purchases of transports of personnel	8 988	5%
	Subtotal	144 813 80%
Purchases of transports of goods (Air)	35 218	20%
	Total	180 031 100%

Carbon Dioxide Emissions - Quality of Data:

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

- Obtainment of data

The obtainment accuracy is about *absence* of data or *old* data.

- Correctness of the source data. The correctness of the source data is about the incorrect data or inaccurately calculated data. This correctness have not been assured or controlled in detail. However, an estimate on the size of energy consumption has been made.
- Energy sources. In cases when the information on energy sources is missing, assumptions have been made. The data quality in this regard has 98% accuracy.

Obtainment of data

Our carbon dioxide data calculation last year failed to include the carbon dioxide data for our air transports. This was due to mainly two reasons. First, our air transports were considerably fewer last year and consisted mainly of transports purchased by our suppliers. Secondly, our transport service providers were not able to report any reliable carbon dioxide figures last year. The problem of getting reliable carbon dioxide figures still exists. However, based on the weight provided from our service providers, and the calculation methods (templates) given by the Swedish initiative NTM Calc (www.ntm.a.se), we have been able to assemble reliable data. We know that these template calculations resulted in, due to their nature, lower emissions than what is true. However, according to our reference checks, we believe that the size of the emissions shall be just about correct. Excluded in these calculations is the haulage from the airport to our warehouses.

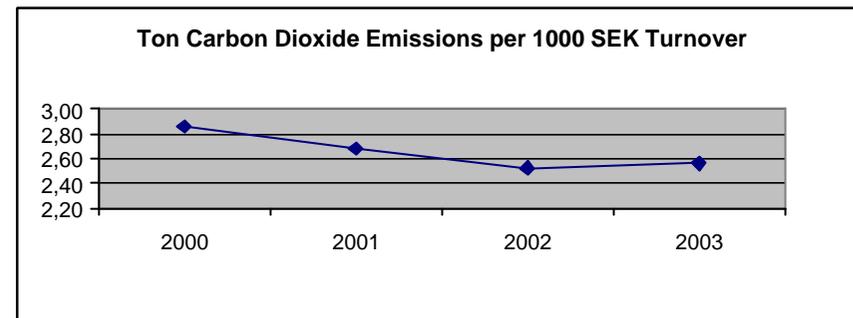
Ultimately, we should have reported the omissions on air transports last year, but unintentionally we failed to do so.

Additionally, we also realized we missed figures for some of our German distribution centres. Due to these mistakes, we have recalculated the data accuracy for 2002.

2002: 61% accurate (89% was stated in the last years' report)

2003: 96% accurate

Carbon Dioxide Emissions in relation to Company Turnover (data excluding air transport)



Conclusions

There is an 8% increase in Carbon Dioxide Emissions 2003 compared to 2002 on the data excluding the air transports. This year there is also a relative increase compared to last year when measured against turnover. This increase is due to the purchase of more carbon dioxide intense electricity in Germany and Holland (Germany and Holland is approximately representing 36% of company turnover). Another reason is the addition of collected data from our stores in France (amounted to 2447 tonnes of carbon dioxide) as well as our distribution centres in Germany (amounted to 3166 tonnes of carbon dioxide).

The reasons for the decrease on comparable transports (excl. air) instead of a raise in level with the increase of turnover are mainly two. First, data based on an expired transportation service was eliminated (amounted to 4763 tonnes of carbon dioxide). Secondly, air transports have replaced boat transports on some occasions.

Altogether, we have reasons to believe that the figures this year are much more accurate than earlier years. That is why we now are changing the base year to 2003.

Energy use

From a cost perspective, energy use is continuously on the agenda in our operations due to the very clear link to cost cutting. However, our environmental department is currently not running any corporate energy-cutting program and thus we choose not to report this indicator this year. Environmental aspects currently not measured

Water

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

NOx and SOx

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

Waste Management

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

However, the cardboard fraction is mainly collected at our Distribution Centres. In spite of an increase in total volumes of 18%, and a shift from hanging transportation to garments packed in cardboard boxes, the increase in cardboard collected and recycled at our DC's was only 9%.

Cardboard in tons		Increase
<u>2002</u>	<u>2003</u>	
12342	13 502	9%

Green House Gas emissions in use and disposal

It is not feasible, being a company mainly selling garments, to measure the emissions generated by use and disposal of the product. Neither would it be feasible to measure the emissions caused by our supply chain. Just sewing and assembling of garments employs 2911 production units. These production units lack the possibilities of collecting and reporting any reliable figures

TARGETS 2003 AND ON

OBJECTIVES	TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE	FULFILMENT
Environmental awareness	Instructions on source sorting for waste from campaign material included in Store book and Window book	August 31, 2003	Sofia Lövgren	To communicate to the shops how to sort the material fractions included in the campaign material in the shop and in the window	The Store book now includes source-sorting information. For window material specific source sorting on each item is distributed to the stores. Both done within time frame.
	Develop environmental requirements for the building descriptions for the shops	September 30, 2003	Henrik Lampa	Requirements can be locally adapted	Agreed requirements and preferences distributed to project managers in January 2004.
	Develop environmental requirements for the building descriptions for the distribution centres	September 30, 2003	Henrik Lampa		Agreed requirements and preferences distributed to project manager in January 2004
	Environmental training for building project managers	December 31, 2003	Henrik Lampa	Environmental training designed for the project managers in the building field in H&M will be held the next time that they will gather, if not this year.	Done in August, we also trained our people responsible for visual merchandising.
	Environmental information developed that should be communicated to all H&M shops	Mars 31, 2004	Henrik Lampa	The information should include the policy for optimizing energy -efficiency of lighting control systems in our shops and information on source sorting.	Source sorting information distributed via Store book, and window information. Energy information will be distributed through national channels.
Respect for nature	Plastic cards used as staff cards, club cards and gift vouchers in PVC-free material	December 31, 2003	Viveca Kleebinder	PET-plastic will be used instead of PVC	Implemented with in time frame.
Sustainable resource use	Review the waste management in the Distribution Centres	September 30, 2003	Ivan Pedersen	Review what fractions are separated, the amount of waste in each fraction and what happens to the fractions afterwards.	Done February 2004.
Healthy products	Revise test routines on cosmetic products	December 30, 2003	Karin Sundberg		New routine in place
Clean supply chain	Include specific environmental items in the Code of conduct audit checklist.	Mars 31, 2003	Ingrid Schullström	The new Environmental Evaluation Form will be added to the Inspection form used for Code of Conduct inspections.	Implemented within time frame
	Evaluate the Supplier Environmental Motivation Strategy (SEMS) project	December 30, 2003	Henrik Lampa		Done with in time frame. The project is evaluated, the things we learned we have used in our code of conduct work. The good examples will be spread.
Green transports	Revise the questions asked in the environmental declaration for goods transports on sea	Mars 31, 2003	Henrik Lampa		Implemented with in time frame.

TARGETS 2004 AND ON

OBJECTIVES	TARGETS	TIMEFRAME	RESPONSIBLE	COMMENT/SCOPE
Environmental awareness	Key group education	Dec 31, 2004	Ingrid Schullström	Key persons in Logistic dept involved in purchase of transport solutions and our Distribution centres.
	Environmental information developed that should be communicated to all H&M shops	May 31, 2004	Henrik Lampa	Information on the use of electricity in the stores will be distributed on a national level.
Respect for nature	Requirements for paint purchased in the sales countries should be equal to the centrally bought paint.	Mars 31, 2004	Lena Hedin	Paint is bought in the sales countries for the window display.
	Formulate a strategy on how to decrease the release of CO2 from our business and related activities	December 31, 2004	Ingrid Schullström	
	H&M must receive an Eco-declaration before the purchase of 75% of all IT products. The IT products with an Eco-declaration must meet H&M's minimum environmental requirements for IT products	December 31, 2003	Stefan Andersson	The target will be met if we through reviews of filled out Eco-declarations for purchase of shop IT products and back-office products can make sure no product is classified not accepted. This include purchase within H&M's general agreement and purchase locally out side general agreement on purchases bigger than 10000 SEK.
Sustainable resource use	Start installing water saving appliances in back areas in stores when building and rebuilding.	December 31, 2004	Building project managers in the sales countries	This is fulfilled if this is included in the routine for building or rebuilding of stores in each country. This goes for the stores where the decision is H&M's
	Make sure in the building and rebuilding process that source sorting and waste handling areas are sufficient either in the store or provided by property owner.	December 31, 2004	Building project managers in the sales countries	This is fulfilled if this is included in the routine for building or rebuilding of stores in each country.
Clean supply chain	Starting to include 5% organic cotton in baby and children's' garments.	April 30, 2004	Ingrid Schullström, Hulya Sevindik	Test to be initiated in Turkey
	Initiate cooperation with the biggest fabric suppliers in our biggest markets to improve their environmental performance.	Dec 31, 2004	Elisabeth Hall Khokar	Evaluate the possibility to influence their environmental efforts and performance. The first step of several with the mentioned target.
Green transports	Develop future new requirements for road transports to be communicated to our service providers.	Mars 31, 2004	Henrik Lampa	
	Include air cargo into our CO2 calculations	Mars 31, 2004	Magnus Ljungberg	
	Follow up on the environmental requirements on road, on a random sample basis	July 31, 2004	Henrik Lampa	

Social Responsibility



SUPPLY CHAIN MANAGEMENT AND CODE OF CONDUCT

Introduction to our Code of Conduct work

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

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

The UN Convention on the Rights of the Child and the Declaration on Fundamental Principles and Rights at Work form the basis for this Code of Conduct. In 1997, we published our Code of Conduct and in 1998, we made our first inspections. Since then, we have made more than 10.000 inspections.

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

- Our Code of Conduct is found at <http://seit26.hm.com/codeofconduct>

Improved conditions

The improvements, since the start of our monitoring program, are substantial. The standard of fire safety and the working environment has been radically improved. In many cases, and according to the results of our evaluations, the working hours have come down and all workers now receive at least the legal minimum wage and frequently more. More and

more factories also pay correct over time compensation. The right to paid annual leave; sick leave and maternity leave has become radically improved. In countries with a social security system, a majority of the workers are now covered.

Currently we have our main focus on working hours, wages and other workers' rights issues.

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

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

We also realise that the work towards a sustainable supply chain where human rights and workers rights are being fully respected is difficult and will take long time.

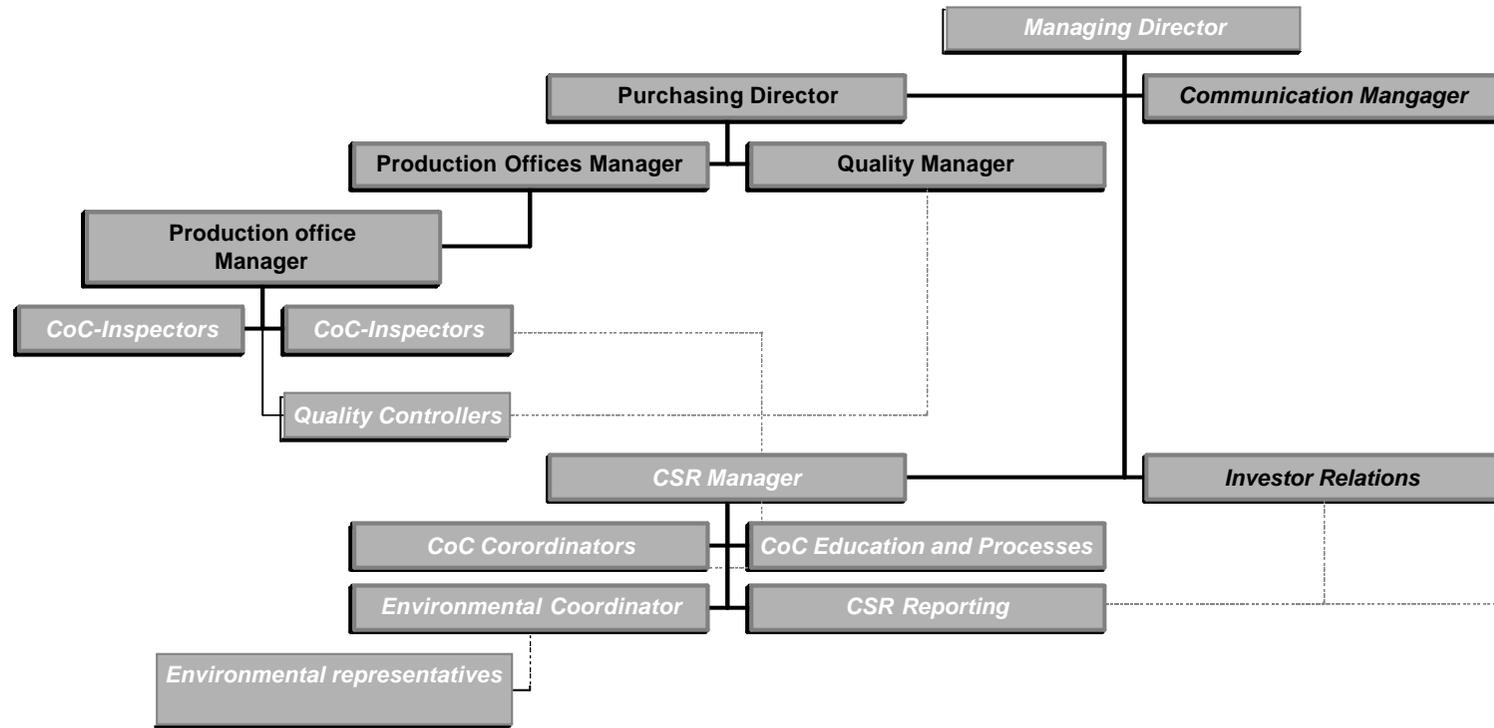
Inspections

In 2003, the number of inspections was 2232. Approximately every third re-inspection was unannounced.

Factories

In 2003, 2911 production units were registered. In these production units, there is approximately a workforce of 530.000 people.

CSR Reporting Structure



Report to local office and buying office

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

CSR Organisation

H&M has around 30 Code of Conduct inspectors who carry out repeated inspections of supplier's premises. The inspectors work at one of H&M's 21 production offices, where around 115 quality controllers also have the task of reporting any infringements of the Code of Conduct that they find. The CSR-department is a corporate department with its manager reporting directly to the CEO.

Training our inspectors

The expectations on the performance of our CoC-inspectors are high. Hence, we need to facilitate the basic conditions for every inspector to meet these expectations.

In order to secure the quality of the inspections and the continuous improvements towards Code of Conduct compliance among our suppliers' production units, it is of utmost importance to:

- Give our newly employed inspectors a good introduction to both H&M and to their new profession.
- Further educate and challenge our CoC-inspectors.

Capacity building 2003

During the year, 14 of our 30 inspectors teamed up with a colleague in another country in order to exchange knowledge and ideas to improve their work.

Introduction to new inspectors

In 2003 a plan on how to make a structured and systematic introduction to new inspectors was drafted and agreed upon.

The introduction plan covers topics that should be communicated, written, orally or through practical training. Some examples of the topics are:

- Company values
- Our Code of Conduct
- The ILO Core Conventions
- The role of the inspector
- Relevant Labour Law
- H&M's latest CSR Report
- H&M's set of guidelines
- How to make inspections

The introduction is done by senior inspectors or by the Stockholm based Code of Conduct Coordinators.

To further educate and challenge our CoC-inspectors

Twice yearly, H&M is organising workshops for the inspectors and other key people in the production offices. These workshops are further education for our inspectors with the purpose of exchanging best practices in different areas. Supply chain topics such as worker interviews, overtime, network building, piece-rate systems, migrant workers, work-methodology, and statistics are addressed. In 2003, the workshops were held in Shanghai, China for our East and South-East Asian inspectors and in New Delhi, India South Asian inspectors. These workshops focused especially on environmental- and overtime issues, besides general development issues.networks

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

Production

We do not have any factories of our own. We buy our garments and other goods from approximately 750 suppliers, primarily in Europe and Asia. Our supply chain comprises mainly two types:

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

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

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

BSR Labour Standards Working Group

One of the important success factors commonly identified within the field of CSR is co-operation between companies within the garment industry. H&M participates in several formal and informal groups of garment brands and retailers working for a common goal of improving labour standards. One example of a formal group is the Labour Standards Working Group within BSR (Business for Social Responsibility).

Objectives for the Code of Conduct work

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

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

SUPPLIER ASSESSMENT STRATEGY

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

Cooperation on a long-term basis

We at H&M wish to work together with our suppliers, on a long-term basis, to improve the conditions in the factories. We strive to focus on a limited number of key suppliers in order to achieve better control of quality and working conditions. The number of suppliers we work with is now around 750.

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

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

Dealing with violations

However, when we encounter serious violations a strong statement must be made. If the factory management is repeatedly faking documents or if a supplier has subcontracted production to a production site that is not

known to us⁷ or in other ways refuses to cooperate, we are forced to cease the cooperation. In such cases, we try to terminate the business in a responsible manner in order to avoid sudden adverse affects for the workers.

Extending the checklist on environmental issues

In spring 2003 we started to use a more extensive checklist on environmental issues such as Hazardous waste, Wastewater treatment, and Chemicals. The purpose of this checklist is to map the environmental management of our suppliers on critical environmental aspects. Another reason is to advice our suppliers on sound environmental practices. Ultimately, the checklist helps us verify compliance to environmental legislation and regulations.

COMPLIANCE AND INSPECTION PROCEDURES

Prior to Inspection

- **Compliance Commitment** - Supplier has to sign the Code of Conduct commitment before the first inspection. This commitment cover the suppliers own unit as well as their subcontractors.

The Inspection

- **Management interview** - The management is interviewed about relevant management practices, salaries, working hours, freedom of association etc. according to a fixed list of questions.
- **Document Review** - Documentation to verify working hours, wages and overtime compensation is checked. Staff records and age certificates are checked.

⁷ In case of an undeclared unit (a unit not known to us), we have no way of checking the working conditions and cannot be sure that our requirements are being met.

- **Factory inspection** - The factory is inspected to evaluate working environment, safety, child labour, etc in accordance with a checklist.
- **Closing meeting** - The inspection results are discussed with the supplier, as well as realistic time limits for improvements.

After the inspection

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

Needs based actions

- **Inspection of residential area** - The residential facilities are inspected for cleanliness and safety according to a fixed list of items to check.
- **Pre-inspection questionnaire** – In very rare cases the supplier must fill in a pre-inspection self-assessment questionnaire. This happens when an inspection cannot be made immediately due to geographical distance.
- **Interviews with workers** - Information sometimes needs to be validated through interviews to ensure that the suppliers are observing our requirements.

New Tools

■ The role of the Inspector

This guideline includes the responsibility of the inspector, the wider organisation in which the inspector is part of, how to organise their work, reporting routines and information flow.

■ Inspector Kit

This checklist gives information on what documents and other tools that are good to bring when doing an inspection.

■ Over Time Audit Form

The audit form is a template for conducting over time audits.

■ Over Time Audit Guideline

This tool guides the inspector on how to make over time audits. Advices are given on where over time is most frequently discovered, how many workers should be sampled, how to cross check your information etc.

Inspector tools

- **Inspection checklist** - The inspector has a checklist to support the inspection. The checklist contains approximately 100 items that correlate to our code of conduct.
- **Evaluation checklist guidelines** – To help the inspector there are guidelines on how to use the evaluation checklist and how to manage interviews in the most efficient way.
- **Child labour guideline** – To aid the inspector in a situation where suspected child labour has been found there are guidelines to make sure that the child's best interest is secured.
- **Violation guideline** – To guide the inspector when certain severe violations occur.
- **Rating system guideline** – The guideline outlines what requirements need to be fulfilled to earn a certain grade.
- **Worker interview guideline** – Supports the inspector on how to conduct interviews with garment workers. Enclosed with the guidelines is a questionnaire covering issues such as discrimination, working environment, fire safety, working hours, leaves, wages, child labour, forced labour, discrimination, punishment practices, freedom of association, forced labour. The guidelines also give information on how to summarise, report, and take action.

NON-COMPLIANCE AND ENFORCEMENT

Compliance mechanisms – The Grading System

Our responsibility is to cooperate with our suppliers in order to improve the situation at the factories they own or work with. All over the world, whether in Europe, Asia, or Africa, Human Rights and Workers' Rights are being violated or disrespected daily in one way or the other. Hence, the purpose with the grading system is essentially to create a tolerable level where we can start to work with the production units. It's primarily when we place orders with them that we have the chance to be truly influential.

This grading system is regularly under development in order to put further pressure on the production units. One must always bear in mind that our suppliers and their production units are companies of different size, different company culture, ownership etc and it is with great difficulty that we evaluate these units.

Isolated cases, occasional, or systematic breaches of our code must be dealt with in a corresponding fashion.

The Grading System

The grading scale consists of 5 levels. The five levels are:

Permanently rejected – A supplier/production unit graded permanently rejected can never again do business with H&M.

Rejected – A production unit graded rejected can do business again with H&M if they show clear evidence of complying with our Code of Conduct on all ILO Core Conventions and basic safety standards (i.e. Insufficient level).

Temporary – A production unit graded temporary can do business with H&M for 6 months. Before that time period comes to an end, the production unit must be in compliance with the next level of grading system, i.e. *Insufficient*

Insufficient – A production unit graded insufficient is complying with our Code of Conduct on all ILO Core Conventions and basic safety standards.

Satisfactory – A production unit graded satisfactory is seemingly complying on all aspects of our code.

Grading results and sanctions

■ *Permanently rejected*

In case of repeated child labour, repeated faked documents, repeated use of undeclared units or repeated failure to make agreed corrections, H&M will terminate business permanently with the supplier.

■ *Rejected*

We also, due to other severe violations such as minimum wage not paid, uncooperative management, unsafe premises, denied access to premises etc., grade the suppliers or their subcontractors as Rejected.

Permanently Rejected

In 2003, we ***permanently rejected*** the business with 10 suppliers. In 2002, it was 2 suppliers. The increase of 8 suppliers is mainly due to the raise in repeated use of undeclared units by our suppliers. The explanations to the more frequent use of undeclared units or to the detection of more undeclared units are quite uncertain.

Our IT-system supports us

If a supplier's production unit is graded Rejected or Permanently rejected, our purchase order system obstructs the buyer from placing an order with that particular supplier.

EDUCATING OUR SUPPLY CHAIN

In order to improve conditions in the factories, knowledge, and awareness is of course fundamental. Many of the bad conditions in the factories are a result of insufficient knowledge among factory management on all levels.

H&M is organizing workshops on different issues such as local legislation, safety, labour rights, and human rights. The target groups are managers of our suppliers and their subcontractors.

Internal Workshops

21 workshops were organized for our suppliers and their subcontractors. The majority of workshops were organized by H&M and a few were organized by BSR. Around 648 managers and supervisors from our suppliers and their subcontractors attended.

INDEPENDENT MONITORING

The Dress Code Project

H&M believes that some kind of independent⁸ verification system for our internal monitoring program is a necessity in order to be completely credible. We have from the start of the Code of Conduct Monitoring Program been supportive of the idea of independent verification.

After 3 years of devoted work, the DressCode Project for Independent Monitoring was concluded in 2001. H&M was positive to the conclusion of the project. However, due to circumstances beyond our control, and to our disappointment, the results could not be implemented.

⁸ Independent monitoring is conducted by an independent part (or parties) that is in no way attached to the retailer or its supply chain by contract, funding or similar. This must not be confused with external monitoring where the monitoring is done on commission.

Investigating options on independent monitoring

Although this particular proposal for independent verification was not implemented, H&M continues to support the idea. Being predominantly a European company with our headquarters in Stockholm, we feel that a pan-European initiative would suit us the most. To our knowledge, there is not yet an operational organisation for independent verification in Europe, but we are closely following the development of the Dutch FWF (Fair Wear Foundation).

However, with increasing sales in the USA we have recently also established contact with FLA (Fair labour Association). No decision has yet been taken to join the FLA for their monitoring and verification program, but we continue a dialogue with them about forms for future co-operation.

VIOLATIONS

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

- **Maintenance of safety issues** Many production units have, as a result of our work, implemented fire exits, fire alarms, fire extinguishers etc. However, the procedures to maintain the good safety level are lacking.
- **Maintenance of cleanliness and sanitary problems**
- **Over time** over the legal limit.
- **Overtime and leave compensation.** Worker's are too often not compensated enough, for worked over time or various leaves.

Potential production units never inspected before:

In 2003, our inspectors graded 19 production units (2002: 106 units) *unacceptable/Rejected* for H&M production at their *initial inspections* in spite of the fact that there were commercial reasons that spoke to the advantage of these units. These 19 production units were graded *Unacceptable/Rejected* at both the first inspection and the follow up inspection.

Production units previously inspected:

At the end of the year 2003, 164 production units (2002: 105 units) were graded, and remained *Unacceptable/Rejected* for H&M production due to various code violations.

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

- Forged ID-cards can mislead factory management and us about a person's age.
- Double record keeping (pay-slips, salary-records, time-cards, log-books etc.). By keeping double records, the intent by the factory management is to mislead the inspector. However, through checking in detail that the information on the time-cards correspond with salary records and pay-slips, our inspectors often detect double record keeping. The records can also be validated through worker interviews.

HUMAN RIGHTS

Forced labour

The problem with certain sorts of forced and compulsory labour is that it is quite difficult to detect. Through demands on our suppliers, we make it clear that any kind of human rights abuse is not acceptable.

Discrimination

To detect discrimination for gender or other reasons in respect of employment and remuneration is a challenging task.

Nevertheless, we have made an effort checking if the dismissal of pregnant women occurs. In addition, when different ethnic groups are present in one workplace, we try to make sure that no group is discriminated concerning wages paid. In our internal workshop in Shanghai in December 2003, all the inspectors were particularly educated on this matter.

Freedom of Association

The right to Freedom of association and to collective bargaining is stipulated in our Code of Conduct. If H&M gets indications of violations of this human right, through interviews or other sources, we always take immediate action.

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

Freedom of Association is not permitted in Bangladesh Export Processing Zone. Since 1999 we have written to BEPZA (Bangladesh Export Processing Zone Authority) <http://www.epbbd.com/BanEPZA.html> requesting them allow Freedom of Association in the EPZ. We can now see actual transformation gradually take place. BEPZA instructs their members to implement Workers Welfare Committees (WWC) as a part of facilitating the implementation of labour unions. that will be approved from somewhere in April 2004 according to a decision taken by the government. The initial approval of labour unions was decided to come into place from January 2004.

In the meantime

H&M is encouraging suppliers in the EPZ to make the legally required WWC's truly operational. In two factories we have taken the help of a consultant and a local NGO to achieve this goal. We are also requiring new potential suppliers in EPZ's in Bangladesh to verify a number of issues concerning for example:

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

Child labour

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

If a child is found H&M executes an action plan together with the child's family and the supplier in order to get the child back in school. Another possibility is vocational training or a combination of both. When seeking a

solution for the child, H&M makes sure that the measures taken are in the child's best interest. This is our primary focus.

H&M demands the supplier to pay both for school and retained salary. H&M stays in contact with the supplier, the family, and the school to make sure that the child continues his or her education. If there is no follow-up, the child may leave the school and take up another job, seeking to earn double incomes.

DIALOGUE ABOUT LIVING WAGE

In H&M's Code of Conduct we say that "The legal minimum wages should be a minimum, but not a recommended, level". This has been criticized by some of our stakeholders who feel that we should instead require that our suppliers pay a so-called "living wage". Although we agree, in principle, that people should earn a wage that covers their basic needs, there are practical reasons for not requesting this in our Code, at least not yet.

To start with, we have around 750 suppliers who in their turn use more than 2900 production units. The living wage varies in countries and regions around the world. It would be difficult to explain to our suppliers on what we base our demand.

Adding to the problem is also that other companies buying from the same factory may have a different opinion about what constitutes a living wage. The legal minimum wage on the other hand is decided by the government and cannot be disputed by either suppliers or other buyers. We agree with our stakeholders that the legal minimum wage in many countries, such as Bangladesh, is too low and we would welcome a raise. It should however be a government decision.

Another possibility is that the wages are negotiated in a collective bargaining agreement between the employer and a union representing the workers in the factory. It is our understanding that many trade unions prefer this model.

BURMA

In line with our commitment to human rights, H&M has a policy of not sourcing products manufactured in Burma. This policy will stand until the situation in Burma changes. H&M is convinced that human rights issues require cooperation and dialogue with many different interested parties around the world. H&M will therefore consult with the Swedish Burma Committee as one source of information, before any initiatives of trade with or investments in Burma are taken. Thereby we can take into account the views of those working for democracy and respect for human rights in Burma when making our decision.

The Kahatex Sweater case

One of the cases where H&M has been deeply involved to solve a serious conflict at a supplier's factory during 2003 is at Kahatex Sweaters in Indonesia. In July of 2003, we were contacted by WRC (Workers Rights Consortium) who informed us that 532 workers had been dismissed from the factory after a dispute related to organising activities.

Although H&M had rejected the factory for H&M production already before the conflict, H&M immediately contacted the management of the factory and demanded that workers should be reemployed. Unfortunately, the management did not agree to the demands, but H&M has continuously supported the struggle of these workers to be reemployed. We have also put pressure of the top management of the P.T Kahatex group to find a solution for the workers.

We have cooperated closely with involved NGO's both on an international and on a local level as well as with other buyers who source from the factory.

As of February 2004, more than 200 of the dismissed workers were finally offered reemployment with the company that has now changed name from Kahatex sweater to P.T. Micro.

CODE OF CONDUCT RELATED PROJECTS

The overtime project in China

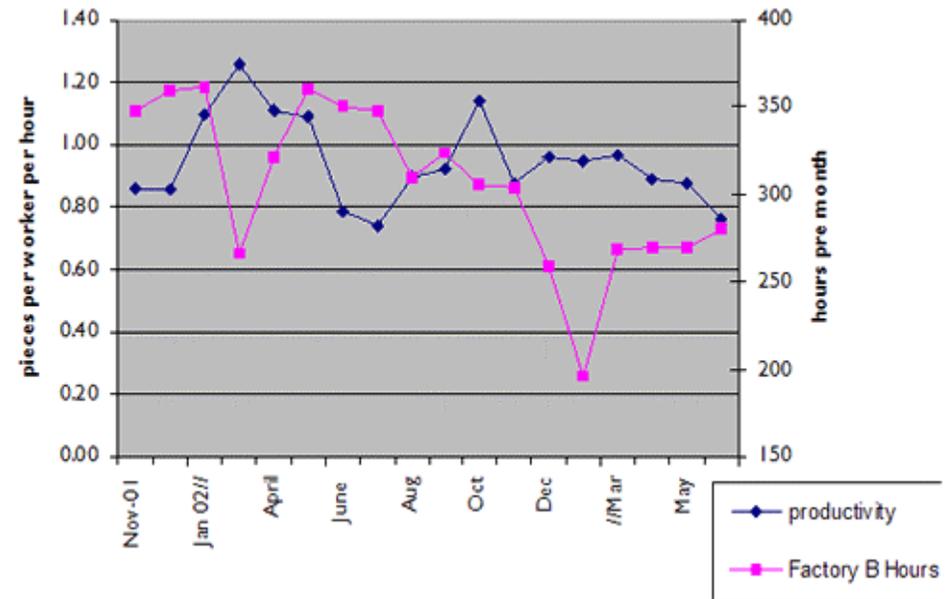
This project, as the name reveals, is trying to improve the situation regarding excessive and compulsory overtime. This is a problem in many countries, among them China. Impactt, a UK based organisation specialising in improving labour standards, has initiated the project, designed the methodology and is working in partnership with Chinese institutions.

Impactt has convened a group of 5 purchasing companies - Debenhams, H&M, New Look, Pentland and Sainsbury - to work together to help supplier factories find ways of reducing excessive overtime working whilst maintaining appropriate wage levels. It is clear that asking factories to cut overtime, without addressing the causes of long working hours, will reduce workers wages and cause workers to leave the factory. The project aims to tackle some of the underlying factors which drive high levels of overtime by providing technical assistance on productivity, human resource management and improving management/labour relations in order to reduce the need for long overtime hours, without dramatically cutting wages. To read more, access <http://www.impacttlimited.com/site/casestudy.asp>

CONCLUSIONS AT THE HALF-WAY STAGE – Update 2003

The project is nearing completion. Key findings include:

- Inverse relation between productivity and hours - when hours creep up, productivity falls
- If hours are cut without productivity increases then wages fall
- Commitment and capacity of factory management decisive
- Commitment of purchaser/agent decisive



inverse correlation between hours and productivity in Factory B

- Model works best when negotiated by all parties rather than imposed
- reworking has reduced significantly in 4 out of 5 factories.
- productivity has increased by between 23 and 78% in all factories.
- Hours have been reduced to near or below legal limits in all factories. The most successful factories have been able to reduce hours by between 20% and 37%.
- Wages have increased in 4 out of 5 factories.

TRAINING AND EDUCATING OUR EMPLOYEES

Internal communication and education

During the fall of 2002 and the spring 2003, all shops in 13 out of our 14 selling countries were educated about our CSR Programs and efforts. U.S.A. will be the next selling country to educate its employees. This will take place during 2004. The purpose of this education was to build reliance and pride among our employees regarding our CSR-efforts and to give them enough information to be able to give our customers a reliable answer.

The feedback that we have received from the stores has been very positive and we learned that there was a great desire for information on the subject.

Another channel for information to our employees is through our internal newsmagazine where the work around improving working conditions in our supply chain is occasionally brought up.

SOCIAL TARGETS 2003 – FULFILMENTS

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

Objective	Activities & Targets	Timeframe	Responsible	Comment/scope	Fulfilment
Full Code of Conduct Compliance	Improve inspector guidelines, that serve to educate and instruct our inspectors with a standardized tool aimed at guiding them in matters such as breeches of the code, worker interviews, inspections etc.	December 31 st	Tobias Fischer	All countries	Based on existing material, best practices were identified and documents were revised. This calibrated material was then handed out to our inspectors. Done within timeframe.
	Develop tool on how to do overtime audits.	December 31 st	Tobias Fischer	All countries	Done within timeframe
	Develop inspections tools as well as decide a standard for dealing with chemicals in chemical intense production units.	December 31 st	Henrik Lampa	All countries	The inspection questionnaire now has an extensive environmental part. The standard chosen for dealing with chemicals is the Chemical Convention No. 170, (1990)
	Network building – Find and implement in all major markets best practice on how to build, maintain, and hand over a functioning network that consists of relevant NGO's and other experts.	December 31 st	Not decided	All countries	Postponed. Will be initiated during 2004 and fully implemented during 2005.
Code of Conduct completely integrated with our business operations	Advance the integration of the Code of Conduct responsibility in our everyday operations. Placing the responsibility of the monitoring effort and the code of conduct performance by our suppliers directly on the operational managers (i.e. the manager(s) of the Production Office).	December 31 st	Corporate Production Office Manager and the CSR -staff in Stockholm	All countries	Done within timeframe
	Computerized folder system (This target was added after the CSR Report 2002 was published)	December 31 st	Magnus Ljungberg	All countries	Done within timeframe
	Educate our inspectors further in making workers interviews. (This target was added after the CSR Report 2002 was published)	December 31 st	Tobias Fischer	All countries	All major countries covered except Mauritius and India that will be covered during 2004.
	Developing and integrating Code of Conduct supporting functions in our new IT-system for Order Follow Up (OFS). Implementation will take place in 2004.	December 31 st	Tobias Fischer		The project has been delayed due to change of technical platform (will not be integrated in the OFS). The current plan is to develop the functionality during 2004 and implement it during the fall of 2005.
	Revise and implement the supplier grading system.	December 31 st	CSR Department	All countries	Done within timeframe.
Code of Conduct compliance maintained through effective management systems	<i>No specific corporate target was set during 2003</i>				
Factory workers empowered to claim their rights	<i>No specific corporate target was set during 2003</i>				
Knowledge among our stakeholders about our Corporate Social Responsibility efforts.	Launch our first CSR Report	April	Magnus Ljungberg	All countries	Done within timeframe

SOCIAL TARGETS 2004

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

Objective	Activities & Targets	Timeframe	Responsible	Comment/scope
Full Code of Conduct Compliance	Revised evaluation checklist – To finalize the evaluation checklist, introduce it to inspectors, and finally start to use it 2005.	December 31 st	CSR Department	All countries
	New work methods - With the help of revised evaluation checklist introduce a new way of doing deeper and more thorough inspections. The aim is to detect severe violations among our suppliers at an earlier stage than we do today. We will update new guidelines, new supplier motivation methods, statistical package etc. Implementation will begin in 2005.	December 31 st	CSR Department	All countries
	Developing and integrating Code of Conduct supporting functions in a new IT-system. Implementation is planned to take place in 2005.	December 31 st	Tobias Fischer / Magnus Ljungberg/ Ingrid Schullström	All countries
	Implementation and anchoring. Have a systematic way of anchoring, implementing and follow up projects.	August 31st	Magnus Ljungberg	All countries
	Worker Interviews. The know how on conducting worker interviews has increased. Therefore worker interviews will become established as an integral part of the compliance and inspection procedures to verify management statements or document control	December 31 st	CSR Department	All countries
	Inspectors tool kit. Improving existing supplier educational material.	Spring 2004	CSR Department	All countries

COMMUNITY INVOLVEMENT

Vocational training in Bangladesh

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

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

H&M's training project includes a four-month theoretical and three-month practical program that leads to guaranteed employment as a machine operator at one of H&M's suppliers. H&M pay the students' wages during the course as a means of support to their families. The project began in spring 1999 and as of today, the 9th batch of students just completed their training. Currently around 50 students trains in each class, divided on two locations in Dhaka. H&M has engaged highly qualified persons to set up the training centre. A consultant who has previously worked in similar projects for ILO and other UN agencies developed the training program. The head of the centre is also highly qualified from previous work with ILO and UNDP.

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

CHARITY INITIATIVES 2003

Every year our sales organisations are engaged in some kind of charity project. Here are some examples from 2003.

- H&M Norway and H&M Denmark continues to support the Cancer Association in Norway. Together they have supported the Breast cancer awareness campaign with approximately NOK 350.000 in 2003.
- H&M Norway also donated NOK 100.000 to Save the Children's TV-gala. This year the money was allocated to education for children who suffer from war, are disabled or lives under extreme poverty.
- H&M U.S.A partnered with Save the Children, for our U.S. storewide "Creative Kids Make a Fashion Statement" charity drive. Save the Children is a national not-for-profit child-assistance organization committed to making lasting positive changes in the lives of children in need. The winning children's design was printed onto a T-shirt, sold in all H&M U.S. stores (with children's departments) with the entire purchase price (\$5,50) of each T-shirt directly benefited Save the Children.
- H&M Austria gave vouchers and garments for a value of Euro 10.000 to SOS Kinderdorf, which is a social institution for kids without parents.
- H&M England has for the second consecutive year supported the Pink Ribbon Appeal for Breast Cancer. H&M stocks pink ribbons within all UK stores for customers to wear. Customers donate £1 or more for each ribbon. In 2002 and 2003, £14051 was raised. H&M England also supports FTBC (Fashion Targets Breast Cancer) through various activities and contributions.

Rural development project in Delhi

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

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

H&M is now financing this project in northern India, which aims to improve conditions for women in selected villages around New Delhi. The project organizes education in health matters, woman's rights, and the consequences of child labour as well as investing in local teaching facilities and providing older children with computer training. Another challenge of this project is to create a model, that protects the rights of women and children, which can be applied to other villages under the same conditions.

As a result of the project, the women have now started to market their own products at bazaars all over India. They have also started local savings groups to handle their earnings and the project is now being expanded to include women in other villages.

PRODUCT RESPONSIBILITY

Our Quality is secured through our Production offices in Europe and Asia

Quality is an integral part of the business idea at H&M. Our ambitions is to make sure that all customers always can be both safe and satisfied regarding the quality of all goods in our shops. Our customers' expectations are leading our everyday work.

To fulfil this ambition, our quality work is secured through our 21 production offices and their local quality organisation that consists of lab technicians and quality inspectors. Each office has a well-equipped lab that work according to H&M standardized working methods monitored from the Quality Department in Stockholm.

Our work with quality is organised within the following sections:

Quality standards and testing

This section focuses on developing and implementing requirements for our physical and chemical tests in accordance with the most strict legislations and standards available in our selling countries.

Technical

This section centre their attention to issues related to fit, sizes and technical making on garments. Also in process is the involvement in a body measurement study and a size project that will lead to a common size system in Europe.

Product control

This section engages in issues regarding quality control by standardising the working methods of each H&M production office. Consumer Product Safety and Children Safety issues are other focuses for this section. Much attention is also centred on the implementation of a guideline for Production and Quality Control with our suppliers, through which we take further control of quality.

CUSTOMER HEALTH AND SAFETY

Quality controls

H&M sets high quality requirements. At the buying office in Stockholm there are about 20 people supporting the production offices in quality related issues. They are textile engineers, chemists, designers, and all experienced. To ensure the quality of all products at the production stage, we have 115 quality controllers employed in the production offices who regularly go to the factories to control and correct any quality problems in the course of production. They also, most often, carry out a final inspection before the goods are shipped. H&M uses the AQL⁹-system 2.5 to decide whether the quality level is acceptable for shipment.

H&M require of all suppliers to have a built-in quality control system in each factory. This system, called GPQ (Guidelines for Production and Quality Control), is coordinated with the system the 115 H&M Quality Controllers use when checking the production. The main purpose is to detect any quality problems as early as possible in the production and to correct them. The goods are controlled at several stages during production including packing stage.

⁹ AQL= Acceptable Quality Level

How garments are quality controlled

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

1. Start-up meeting

Frequently we meet the supplier prior to production to go through the garment in order to identify any technical difficulties that may occur.

2. Inspection

Our controllers must carry out inspections as early as possible during production in order to avoid mistakes being made. These inspections include checking measurements. The controllers have a size chart to help them and the suppliers must have a sample against which they can compare their products to make sure they are exactly what H&M has ordered. The quality controllers can carry out several inspections during production. As well as the measurements, they look at how the garments have been made. Are the stitches the right length? Is the thread the right colour and quality? The controllers use an inspection manual in which H&M specifies the things they have to check.

3. Final inspection

During the final inspection, the controllers check to see if the garments have been well sewn, well pressed and are produced according to the approved sample and other requirements. They also check that the price tags and labels are correct. The controllers measure three garments in each size to make sure they correspond correctly. A number of garments are always checked, depending on the size of the order.

Quality testing

Samples of every product in H&M's collections undergo a number of quality and safety tests. Yearly, several hundred thousand tests are carried out, mainly at our 17 Production Office labs, but also at some external laboratories. Garments are washed and measured to check that they do not shrink or twist and to check their colourfastness and dry rubbing. In addition, we test salt and chlorine bleaching, pilling and seam strength. Durability tests are carried out on details such as zippers and press-button. Flammability tests are performed to check that the garment is not easily flammable. Final quality control takes place at our distribution centres before the garments are distributed to the stores.

Children's safety

Children's clothes must meet particularly high safety requirements. It is our constant goal to have baby's- and children's wear designed and made with safety in mind. All suppliers of baby and children garments must sign H&M's Safety Requirements for Baby's- and Children's wear. There are no international standards for Children Safety yet, but during 2004 there will come a European standard concerning cords and drawstrings on children's clothing.

Some countries have national standards, whereas we at H&M always follow the one of our selling countries that has the strictest safety regulations.

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

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

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

- H&M pays extra attention to hoods and drawstrings in order to avoid situations where the construction of the garment increases the risk for entrapment or suffocation. Buttons and snap buttons must be securely fastened.
- The supplier must make sure that no details on the garments have sharp edges or sharp points
- All sewn on buttons, press buttons, ribbons, etc. are tested according to the standard for small parts and must also be securely fastened to withstand normal wear and wash.
- H&M is trying to avoid too many details and decorations on Baby and Children garments to prevent them from being a safety risk.
- Before packed and exported all Baby and Children garments are going through a needle detector machine, which detects any small fragment of metal such as broken needles.

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

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

Care Label instructions

As in all our work with quality, also our work on labelling is strongly customer orientated.

Four keywords guide our *internal work* with care instructions:

Simple – Should contain no unnecessary information

Accurate – Should hold only relevant information

Tough – The aim is that the garments are marked with as high temperature as possible. We will only have satisfied customers if the garments are clean after wash.

Consumer friendly – It must be easy to wash all H&M clothes together, whether men's, ladies or children's'.

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

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

Chemical restrictions

H&M has, with the concern for the health of our customers as well as for the environment and the working conditions in the factories where our We have estimated that approximately 22,000 chemical related tests were performed during 2003. In addition, the nickel release is checked in jewellery and metal details in contact with the skin. Samples from every order are tested.

products are made, established Chemical Restrictions for textile, leather, plastic and metal products.

H&M's suppliers contractually guarantee not to use certain chemicals in production. These chemicals are, or could be hazardous to health and environment. Particular consideration is given to substances that could cause skin irritation or allergies or that may be carcinogenic.

The precautionary principle is guiding our work when restricting chemicals. The restrictions therefore include both chemicals restricted by law, and chemicals we have chosen to include for precautionary reasons. As an important part of H&M's long-term work against allergies, we are participating in work aimed at establishing reliable standards for testing allergenic substances (see more information in the box).

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

Tests are performed to check that the banned chemicals are not present in the garments. Nickel, AZO and Formaldehyde are some of the most commonly tested.

H&M cooperate comprehensively with Swedish Standards Institute (SIS) on analytical methods for allergens

Allergens are limit by EU and national regulations such as the Nickel Directive, Cosmetics Directive etc. Standardised analytical methods are often lacking for control of compliance with regulations. Common analytical methods would support existing and future European legislation.

H&M participates on several meetings yearly. In addition, we contributed with SEK 100.000 during 2001-2002 to move the work forward.

Our chemical restrictions are continuously updated, with new substances being added on a regular basis.

In 2001 H&M entered into cooperation, through BSR, with a number of companies, to establish common restrictions. These restrictions are now finalized and can be viewed as an industry standard and a minimum level. The list is predominantly based on worldwide legislation¹⁰ and regulations, while also maintaining a perspective on legislative trends and stakeholder concerns which is indicated by the fact that H&M has gone further than the agreed restrictions stipulates. The restrictions are applied to the various products in our product range according to relevance and risk. The limits and test methods are also defined as per tested material, legislation, technical feasibility etc.

- Our list of restricted chemicals is found under a drop down menu at www.hm.com/csr

Implementation of Chemical Restrictions

We support our suppliers with information on how to implement and comply with our Chemical restrictions. The suppliers also get information on how to locate and solve the problem if they infringe our restrictions.

Co-operations

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

¹⁰ If law in one of our sales countries restricts a chemical, we always follow the same restriction for all our sales countries.

Update of Chemical Restrictions 2003

The chemicals currently included in our chemical restrictions are listed as an attachment. The list was latest updated for the 6th time during 2003. The following changes took place:

- **Formaldehyde** - limit for baby lowered
- **Pesticides** - more pesticides added
- **Flame retardants** - one flame retardant added
- **Mercury** - new limit for surface coatings
- **Down & Feather** - New requirements regarding hygiene & cleanliness
- **pH-value** - Slightly greater tolerance. Still no risk for harm of neither the customer nor the environment.

Recall Management

In spite of well-organized work with various quality aspects, garments do end up in our stores that are not up to mark. In such cases, our recall management system is of utmost importance in order to secure a fast and professional recall of a particular item from our stores.

Follow legislation through ECO-TRACK

Our concerns about ecological and human health impacts resulting from certain substances require us to be updated on the stringent legislation that exist in many of our selling countries. The need to ensure effective compliance is a crucial and continuing process for manufacturers and hence for H&M as a buyer.

ECO-TRACK provides valuable and up-to-date information on relevant legislation – existing and forthcoming – that may affect our products.

PRODUCTS AND SERVICES

Animal rights Policy

Animals should be fairly treated. When documented unfair treatment of animals has been brought to our attention, we have made decisions that minimize the risk for H&M to be complicit to the mistreatment.

H&M does only accept leather and fur from animals that were bred for meat-production. H&M does not accept any leather production in India due to the alleged bad conditions in which the animals are transported.

Other product related policies

- For products made of tropical wood H&M requires a certificate from FSC, Forest Stewardship Council.
- H&M's suppliers must guarantee that material used for H&M's products does not contain endangered species in any form.

Routines for ensuring that policies are being respected

For all products covered by our policies on leather, fur, or any endangered species, H&M requires the supplier to send a written confirmation, specifying origin of material, correct name and breed.

Animal testing

H&M does not allow animal testing on cosmetic and hygiene products, either during production or on the finished products. All the ingredients used in H&M's products are approved in accordance with the high requirements set by the appropriate authorities and by H&M itself. Products are always assessed for their safety and quality. H&M has had a policy on animal testing since mid 1990's. This policy forms part of H&M's restrictions for cosmetic and hygiene products¹¹. All suppliers of H&M's own cosmetic and hygiene products have to abide by these restrictions. The supplier also has a duty to inform his subcontractors of H&M's restrictions and ensure that they abide by them.

¹¹ H & M Hennes & Mauritz AB and H & M Rowells AB Restrictions for Cosmetic and Hygiene Products.

COMMUNICATIONS

The purpose of H&M's communication is to build the brand in the longer term. Much of H&M's credibility is based on the way we communicate with the world around us. Both internal and external communications must therefore be characterised by an open attitude with clear messages, objectivity, accessibility and sensitivity. H&M communicate and convey the brand via a number of different channels. The main forum for communication is via our stores. Our methods of communicating include the media, advertising in magazines, on television, billboards and the Internet.

MARKETING

Values are in the eyes of the beholder

H&M communicate the business idea - fashion and quality at the best price - through a large number of advertising campaigns. The advertisements are largely the same in all markets and are a way of inviting customers into our stores. Commercial pictures are often subject to one's taste. The interpretation is in the eye of the beholder and it is of enormous difficulty to satisfy contradicting opinions. Through customer surveys in all our markets, we know that the vast majority of our customers appreciate our marketing and that it creates positive brand values.

Choosing the right model

H&M must not only have the right timing in terms of the collections but it is fundamental for us to have the right timing regarding the choice of model and illustrative language.

Fashion changes continuously and our campaigns strive to follow the trends in the society as a whole, which calls for different models for different campaigns. However, when trends are revolving towards

unhealthiness, we actively chose not to follow such trend in our communication.

The choice of the model is of course important because the model is showing our fashion. The models personality and character must convey the fashion we show and inspire and interest our customers.

Our models are chosen in cooperation with internationally recognized model agencies and our own representatives. The models portrayed in our ads should be healthy and wholesome. H&M actively chose not to contract too young or too thin models or models suffering from eating disorders or drug or alcohol abuse.

Representatives from H&M are always present at commercial photo shootings to secure that H&M's demands are met.

The reason why we use professional models is that they are accustomed to act in front of a camera and are therefore able to easier clarify our fashion to the customer.

H&M Product Policy

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

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

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

The marketing team at H&M are mainly women

H&M's marketing team is well experienced in terms of ethical dilemmas. Ethical issues are discussed regularly and to show our sincerity we have chosen, some years ago, to adopt the International Chamber of Commerce's basic rules on advertising. The majority of our marketing is aimed towards women and the fact that our marketing team mainly consist of women make us comfortable and convinced that our advertisements also appeals to women.

Handling feedback

H&M is sometimes criticized in the way our campaigns have been designed. The critique is most often directed towards the choice of model but can also be linked to looks, poses, the choice of garments, the surrounding environment or the pure feeling that is conveyed through the pictures. H&M listens to positive and negative feedback and whatever feels relevant we bring with us to the next marketing campaign. When the choice of model is debated we are keen on emphasizing that it is primarily the present fashion that guides us in the choice of model.

Sometimes H&M's campaigns are reported to national ethical councils. We approve of this since it means an objective review based on legal or ethical standards.

- No underwear or swimsuit campaign has ever been found to be in breach of any law or ethical standard. Nor has any kind of Men, Women, or Youth campaign been in breach of any law or ethical standard.¹²
- In 1997, pictures in one of our children clothes catalogues were found "conserving old gender roles and hence insulting both to men and women"¹³. The pictures showed boys doing traditionally men's work and girls doing traditionally women's work. Because of these pictures and the corresponding text, the council felt that the boys were

¹² To the best of our knowledge

¹³ Confederation of (Swedish) enterprises' ethical council against gender discriminating advertisement.

Advertising policy

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

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

Our marketing is very influential. It is therefore essential for us to convey a positive, healthy image. H&M's advertising photos do not aim to convey a specific ideal. We portray different characterizations and a mix of different looks and styles for our variety of concepts for women, men, teenagers, and children. H&M deliberately distances itself from drug and alcohol abuse and actively chose not to follow unhealthy trends in our communication.

The models portrayed in our advertisements should be healthy and wholesome. Our models are chosen in cooperation with internationally recognized modelling agencies and our own representatives. The reason why we use professional models is that they are accustomed to working in front of a camera and are therefore able to do justice to our garments. By working with professional models, photographers and stylists, we communicate our fashion and quality in a clear and inspiring manner. We have special guidelines when it comes to advertising our "kids" concept. Our target group is parents, not children. This means that we place our advertisements in media that are not directly focused on children. We are careful to make sure that the children appearing in our advertisements choose freely to participate. A representative from H&M is always present during child photo sessions to ensure the seriousness of the session and the children's safety. We market clothing for both boys and girls in different age groups. We reflect diversity in society by using children from different cultural backgrounds.

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

portrayed as they had power to act, were performance oriented, and showed good confidence. The girls were, on the contrary, portrayed as less capable, helpless and with bad confidence. Subsequently, the catalogue was found in breach of ICC's basic rules on advertising. H&M responded to this saying that we share the value of gender equality and that H&M's business idea is fundamentally fair and humanistic. It was not H&M's intent to convey a message in our catalogue that is perceived as humiliating. Since then, no other of our children clothes catalogues has been found in breach of these rules.

Endnotes

* **Key Participants in the Workshop on complaint Mechanisms:** SOMO (Centre for Research on Multinational Corporations), CCC (Clean Clothes Campaign), FLA (Fair labour Association), FWF (Fair Wear Foundation), SAI (Social Accountability International), ETI (Ethical Trading Initiative), WRC (Workers Rights Consortium)

Key Participants in the EU Multi-Stakeholder Forum on Corporate Social Responsibility (CSR EMS Forum): FMV, Fair Wear Foundation, ETUC, ETUF-TCL, UNI, UNICE, EURATEX, European Platform of Social NGO's, Oxfam, Amnesty, Friends of the Earth, CCC, ILO

Key Participants PRET-A-PROTESTER (Seminar): Ministry of trade, LO – The Swedish Trade Union Federation, Fair Trade Center, Clean Clothes Campaign, The Confederation of Swedish Enterprise

Key Participants Meetings between Swedish retailers and global trade unions: ITGLWF (International Textile, Garment and Leather Workers' Federation), UNI (Union Network International), The Industrial Workers' Union, Commercial Employees' Union, Lindex, Kapp-Ahl, Indiska

Breakfast Meeting with Greenpeace and EU Environment Commissioner Key Participants: Greenpeace, EU Environment Commissioner, Marks & Spencer

Social Standards in the Ready Made Garment Industry Key Participants: Bangladesh Institute for Development Studies (BIDS), Bangladesh Garment Manufacturers & Exporters Associations (BGMEA), Ambassador of Bangladesh, Federal Ministry for Economic Cooperation and Development (BMZ), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH – German Technical Cooperation, FCI Clothing Ltd. (Garment Supplier), LIFT Standards Ltd., Bangladesh, European Clean Clothes Campaign (CCC), Federal Ministry of Economics and Labour (BMWA), European Commission, Directorate-General Trade.

Panel discussion about Worker Education (Ethical Corporation Conference on Labour standards and Human Rights) Key

Participants: ITGLWF (International Textile, Garment and Leather Workers' Federation), SAI, Central American Women's Network