Company Comment: H&M has decided to terminate business relations with the factory due to multiple incidents of undisclosed production units, which is one of the most serious forms of noncompliance for H&M. H&M needs to know each production unit of our suppliers where H&M garments are produced to ascertain that the supplier follows H&M’s quality requirements in their factories as well as subcontractors. We inform our suppliers that noncompliance in this regard is grounds for termination of business. In December 2009 we communicated to the factory that H&M will no longer be working with them. For these kinds of situations, we follow an exit strategy to give the supplier an opportunity to find alternative brands and to make sure that during this period all legal rights of workers are provided. According to our exit strategy we will stop working with [factory] in the beginning of July 2010. Until then, we will closely check on remediation plans regarding FLA findings as well as our internal findings. We are planning to conduct a follow-up visit to verify that necessary actions are taken by the factory.
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*Denotes a notable feature
Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

Noncompliance

Explanation: During the document review it was noted that most of the workers did not use their annual leaves. It was observed that in the last year the factory worked the whole year as peak months. Workers, instead of being given annual leaves as they accrue, are paid for their annual leaves when they leave their job. However, as per the Turkish Labor law, the worker shall use their annual leave as they accrue.

Law Reference: Turkish Labor Law article 53.

Plan Of Action:
H&M requires that workers' basic right of leave is respected and the factory to pay workers all leaves that they are entitled to according to the law. The worker should have the right to take paid annual leave according to the law. Due to high number of employees the facility should establish a system to be sure that annual leave is provided to all employees according to law.

Deadline Date: 06/15/2009

Supplier CAP:
The annual leaves usually start from June 15, as was mutually agreed by workers and management. Even it was already agreed as mentioned above; if any employee requests to change the date of his/her annual leave, this request is evaluated by the supervisors and the date can be changed according to production planning. It is not preferred to provide annual leaves for many workers at the same time; not to effect the production. Workers have started to use their annual leaves.

Supplier CAP Date: 06/15/2009
Action Taken: 
Plan Complete:
Wages, Benefits and Overtime Compensation: General Compliance Wages, Benefits and Overtime Compensation

WBOT.1 Employers shall comply with all local laws, regulations and procedures concerning the payment of wages and benefits, including overtime compensation. In any case where laws and the FLA Code are contradictory, the standard that provides the greatest protection for workers shall apply. Where provisions are lacking, employers shall take measures to reasonably accommodate matters concerning the payments of wages and benefits, including overtime compensation. (S)

Noncompliance

Explanation: The factory keeps double booking on payrolls. The wages are shown as minimum wage but paid higher than minimum wage. Also, the overtime wage is paid in cash.

Plan Of Action: H&M requires the supplier and inside subcontractor to follow local law as well as the requirements in the H&M Code of Conduct. Transparency is of utmost importance for H&M and we require the factory to record all hours and payments truthfully and to provide accurate records for our auditors during audit and follow-up visits. H&M is aware that this problem exists in Turkey and this issue is addressed to suppliers and factories through our audit reports and our ongoing dialogue with suppliers and factories. We do encourage the supplier and inside subcontractor to, in a sustainable way, work towards full legal compliance in this matter, without forgoing their transparency towards our auditors or H&M.

Deadline Date: 12/31/2009

Supplier CAP: Will be evaluated.

Supplier CAP Date: 12/31/2009

Action Taken:
Wages, Benefits and Overtime Compensation: Timely Payment of Wages

WBOT.4 All wages, including overtime compensation shall be paid within legally defined time limits. When no time limits are defined by law, compensation shall be paid at least once a month. (S)

**Noncompliance**

**Explanation:** The workers were not paid April 2009 wages or November and December 2008 overtime payments.

**Plan Of Action:** H&M requires from suppliers that wages should be paid regularly, on time and at least once per month. We also encourage supplier to establish a system to be sure that all wages and OT wages are paid correctly on time.

**Deadline Date:** 06/15/2009

**Supplier CAP:** All overtime wages are paid now.

**Supplier CAP Date:** 06/15/2009

**Action Taken:** When we visited supplier's factory after the FLA audit on June 19, 2009, we noted that all previous months' wages and OT wages were paid to employees according to law (dividing by 225).
Wages, Benefits and Overtime Compensation: Accurate Calculation and Recording of Wage Compensation

WBOT.17 All payments to workers, including hourly wages, piecework, benefits, bonuses, and other incentives shall be calculated and recorded accurately. (S)

Noncompliance

Explanation: The hourly rate is miscalculated by dividing monthly wage by 300, instead of 225, which affects the OT wages.

Plan Of Action: H&M requires from suppliers that overtime work should always be properly compensated. All workers, including piece rate workers, should be entitled to and receive overtime compensation according to labor law. We encourage the supplier to prepare a sustainable plan for correcting overtime wage payment and pay it according to law. H&M requires retroactive payments to be paid to workers for overtime if this violation still exists as we start a new FAP (full audit program) cycle. During a FAP cycle we accept gradual improvements regarding overtime compensation, as we strive for full transparency and sustainable solutions for suppliers to get in full legal compliance in this matter. If overtime is not compensated to workers correctly as we conduct audit in second FAP cycle we require the suppliers to pay the difference to workers, or this violation will lead to rejection.

Deadline Date: 08/01/2009

Supplier CAP: The OT wages in supplier's factory were already calculated according to law. Inside subcontractor will also start to calculate overtime wages according to law beginning from August 1, 2009.

Supplier CAP Date: 08/01/2009

Action Taken: When we have visited the inside subcontractor after FLA audit last time on December 22, 2009, we have noted that OT wages were still not paid to employees according to law (dividing by 300 instead of 225). The previous internal reports show that supplier's factory is calculating overtime wages correctly according to the law. At the time of our last follow-up audit (December 2009), there was no production for H&M in supplier's factory and therefore the overtime in supplier's factory was not checked.
Wages, Benefits and Overtime Compensation: False Payroll Records

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

Noncompliance

Explanation: 1. The factory keeps double booking on payroll. The factory has 2 payrolls; one for governmental use which shows workers are paid minimum wage or a bit higher than minimum wage, no overtime shown within these payrolls. The second is the actual payment for the workers which show true set of payment to workers with overtime. The overtime is miscalculated, please see WBOT 17 above.

2. During the time card review and payroll review it was noted that 1 worker’s overtime payment for March 2009 was not paid. And there was a 1 day cut from 1 worker’s wage in April 2009, without any reasoning.

3. As per management interview, workers are working 2-3 days uninsured as trial period at the factory. It was also noted that 1 worker was not insured for almost 1 month.
Plan Of Action: H&M requires the supplier and factory to follow local law as well as the requirements in the H&M Code of Conduct. Transparency is of utmost importance for H&M and we require the factory to record all hours and payments truthfully and to provide accurate records for our auditors during audit and follow up visits. H&M is aware that this problem exists in Turkey and this issue is addressed to suppliers and factories through our audit reports and our ongoing dialogue with suppliers and factories. The primary focus is to get suppliers and factories to ensure all workers are registered and pay premiums to social security administration. We do encourage the supplier and factory to, in a sustainable way, work towards full legal compliance in this matter, without forgoing their transparency towards our auditors/H&M. H&M requires the factory to pay legal wages in accordance with local stipulations on minimum and overtime wages, and to inform all workers in advance about the salary calculation method. When we have visited supplier after FLA audit on June 19, 2009, we have noted that overtime payment for March 2009 was paid to relevant employee. H&M requires that all workers producing garments for H&M should be entitled to all their basic rights according to law. All employees, including inside subcontractor's employees, must be registered to national social insurance office 1 day before of their employment as required by law. H&M encourages their suppliers to establish a system to ensure that employees are insured as they start work.

Deadline Date: 06/15/2009

Supplier CAP: All workers will be registered with the insurance office a day before day start to work. The worker submitted his health report and has been duly paid OT wage and absence day.

Supplier CAP Date: 06/15/2009

Action Taken:

Plan Complete:

Plan Complete Date:
Wages, Benefits and Overtime Compensation: Pay Statement

WBOT.26 Employers shall provide workers a pay statement each pay period, which shall show earned wages, wage calculations, regular and overtime pay, bonuses, all deductions and final total wage. (P)

Noncompliance

Explanation: The workers were not provided copies of their pay slips.

Plan Of Action: H&M requires the factory to pay legal wages in accordance with local stipulations on minimum and overtime wages, and to inform all workers in advance about the salary calculation method. This should be possible for the workers to verify by cross-checking against a correct pay slip. When we have visited supplier after FLA audit on June 19, 2009, both supplier in-house and inside subcontractor had begun to give pay slips.

Deadline Date: 06/15/2009

Supplier CAP: Pay slips will be given to all employees from June 2009.

Supplier CAP Date: 06/15/2009

Action Taken:

Plan Complete:

Plan Complete Date:
Harassment or Abuse: Discipline/Monetary Fines and Penalties

H&A.8 Employers shall not use monetary fines and penalties as a means to maintain labor discipline, including for poor performance or for violating company rules, regulations, and policies. (S)

Noncompliance

Explanation: There was a monetary fine as disciplinary action.

Plan Of Action: H&M requires the factory to set up an efficient system of progressive discipline. The disciplinary actions should follow legal requirements and should be clearly communicated to all workers. We have clarified to the factory how to handle disciplinary practices in any circumstances. When we have visited supplier after FLA audit on June 19, 2009, we have noted that 1 day deduction from 1 workers' wage in April 2009 was paid back to this employee.

Deadline Date: 06/15/2009

Supplier CAP: The worker submitted his health report and has been duly paid OT wage and absence day.

Supplier CAP Date: 06/15/2009

Action Taken:

Plan Complete:

Plan Complete Date:
**Harassment or Abuse: Discipline/Verbal Abuse**

H&A.11 Employers shall not use any form of verbal violence, including screaming, yelling, or the use of threatening, demeaning, or insulting language, as a means to maintain labor discipline. (S)

**Noncompliance**

**Explanation:** 1) During the factory tour it was noted that supervisors shouted the workers, as if bullying the workers.

2) It is recommended that the factory should review their Harassment & Abuse policy against lashing. Harassment & Abuse policy are stated only in factory's and their client's code of conduct whereas factory should implement these policies and provide appropriate training for supervisors and key personnel.

**Plan Of Action:** H&M requires the factory to set up a policy against sexual harassment, abusive behavior, forced labor and discrimination. H&M does not accept any kind of harassment and abuse from the factory against workers. The factory should work on implementing a grievance procedure to ensure any cases of harassment and abuse can be detected immediately. Cases of harassment or abuse should, if they occur, be dealt with in a fair and constructive way, for example, through a progressive disciplinary system.

**Deadline Date:** 12/31/2009

**Supplier CAP:** The band heads were warned against harassment and abuse.

**Supplier CAP Date:** 12/31/2009
Health and Safety: Evacuation Requirements and Procedure

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

Noncompliance

Explanation: During the factory tour it was noted that:

1) The emergency exit routes were marked, but markings were discontinuous and peeling off

2) One emergency exit door on the 1st floor (warehouse) was locked. And 2 out of 3 emergency doors were opening inwards. As per local law, factory shall have at least 2 emergency exit doors per floor.

3) 1 fire extinguisher at warehouse and several fire extinguishers were blocked by goods.

4) 1 electrical cable which was in use temporarily for weighted machine blocked the emergency exit route at warehouse.

5) 1 pipe from the stem boiler to ironing machines was around 180 cm height.

Plan Of Action:

H&M requires from suppliers that the workers’ safety should be of priority at all times. We will encourage the factory to maintain an efficient Health and Safety Committee and set up an effective control system on health and safety conditions in order for this to be sustainable. This committee should be established and work according to law (member of the committee should be in compliance with law, committee should do regular checks of the H&S conditions in their production units, necessary improvements must be done and followed by this committee, etc.).

Every floor or large room must have at least 2 ways out. All emergency exits must be clearly marked with emergency exit signs. Exit doors and gates should open outwards or to the sides. Emergency routes should be kept clear and safe all the way out of the factory at all times. All emergency exits on all floors should be unlocked during working hours. All workers should have free access to and from their workstations during working hours. All fire extinguishers and fire hydrants should be unblocked and easy to see and reach at all times.
Deadline Date: 08/31/2009

Supplier CAP: The bans will be reorganized and according to new situation exit routes will be remarked. Only 1 door will be kept locked. The 2 other doors will be opening inwards from June 25. All fire extinguishers blocking doors have been cleared and the responsible persons are warned to keep the doors unblocked at all times. Workers at the area were warned to keep the exits from being blocked. The specific pipe is now wrapped by foils to prevent endangering workers.

Supplier CAP Date: 08/31/2009

Action Taken:

Plan Complete:

Plan Complete Date:
Health and Safety: Safety Equipment and First Aid Training

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

Noncompliance

Explanation:
1) There were 13 first aid certified employees at the factory (8 for factory A and 5 for factory B), which is 10 short of the legally required number.
2) 3 out of 6 kitchen workers did not have a periodic health check.

Plan Of Action:
H&M requires that factory safety is maintained according to local law and our Code of Conduct. We suggest to the factory that first aid equipment must be available in each factory and at least 1 person in each department should have training in basic first aid.
We will encourage the supplier to send extra 10 employees to first aid training. Also periodic health check of kitchen employees should be conducted for all of them.
H&M conducted a visit to the factory after the FLA audit on June 19, 2009. It was noted that the factory had planned for first aid training for extra 10 employees and the training will be conducted in beginning of August 2009.

Deadline Date: 10/31/2009

Supplier CAP:
10 more employees will be enrolled in first aid courses starting from August 2009.
Health checks for will be finalized in October 2009 for new kitchen workers.

Supplier CAP Date: 10/31/2009

Action Taken:

Plan Complete:

Plan Complete Date:
Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Noncompliance

Explanation: 1) During the factory tour it was noted that in the stain remover section workers were not wearing appropriate PPE while working.

2) The safety shoes were not provided for warehouse workers.

Plan Of Action: H&M requires suppliers to ensure that the workers' safety should be of priority at all times. We require the factory to develop a system to ensure that the workers are provided with adequate personal protection (that also should be in accordance with information in the MSDS). Also, the workers should be trained by qualified people about proper usage of PPE. Trainings should be given regularly and records should be kept.

Deadline Date: 08/01/2009

Supplier CAP: New less disturbing PPE have been provided so that the workers wear them at all times. The safety shoes will be provided until August 1, 2009. Employees will be trained about usage of the safety shoes.

Supplier CAP Date: 08/01/2009

Action Taken:

Plan Complete:

Plan Complete Date:
**Noncompliance**

**Explanation:** During the time card review it was noted that the daily working hours exceeded 11 hours a day.

**Plan Of Action:** H&M is interested in being shown the true situation in the factory and requires the factories to always provide the correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirement of transparency. Only after knowing the real overtime are we able engage in dialogue with the factory to establish a system to reduce overtime in a sustainable manner. The long term aim is through improved production planning and efficiency to steadily reduce the overtime hours in order to meet the legal limit of overtime hours per month. In the short term, we require the factory to ensure that workers may have 1 day off per week and reduce the number of overtime hours in the weekdays.

**Deadline Date:** 10/31/2009

**Supplier CAP Date:** 10/31/2009

**Action Taken:**

**Plan Complete Date:**
Hours of Work: Meal and Rest Breaks

HOW.3 Employers shall provide reasonable meal and rest breaks, which, at a minimum, must comply with local laws. (S)

Notable Feature

Explanation: 1) The factory provides free transportation from/to work.
2) The factory provides free meal to workers.

Hours of Work: Overtime/Reduced Mandated Overtime

HOW.8 The employer shall demonstrate a commitment to reduce overtime and to enact a voluntary overtime system, including for overtime mandated to meet extraordinary business circumstances. (P)

Noncompliance

Explanation: During the time card review it was noted that weekly working hours exceeded 60 hours a week.

Plan Of Action: H&M is interested in being shown the true situation in the factory and requires the factories to always provide the correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirement of transparency. Only after knowing the real overtime are we able engage in dialogue with the factory to establish a system to reduce overtime in a sustainable manner. The long term aim is through improved production planning and efficiency to steadily reduce the overtime hours in order to meet the legal limit of overtime hours per month.

Deadline Date: 10/31/2009

Supplier CAP: Due to the work overload, this could not be reviewed but has been rearranged. Now it does not exceed 60 hours weekly.

Supplier CAP Date: 10/31/2009

Action Taken:
Plan
Complete:

Plan Complete
Date: