IS H&M MAKING PROGRESS TOWARDS LIVING WAGES?

NOVEMBER 2018

A CLOSER LOOK AT H&M'S FIGURES ON WAGES AT ITS SUPPLIER FACTORIES

TURN AROUND H&M — LIVING WAGE

Let's take a closer look at the wages in H&M's supply chain based on H&M's own data.

H&M publishes information on average wages in some of its supplier factories.

What do these figures tell us about the possibility for workers who make H&M clothes to have a decent life?

In other words, how close are the reported wages in H&M's supply chain to a living wage? Or, put yet differently: how large is the living wage gap?

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SUMMARY OF FINDINGS

1. H&M is far away from securing workers at its supplier factories a living wage.

2. Wage increases in H&M supplier factories over the last few years are largely due to the increased legal minimum wages. What factories pay above the legal minimum has contributed far less, or has even decreased (India).

3. Because H&M does not account for inflation, real wages at H&M supplier factories have increased considerably less than one may think when first looking at H&M's wage data.

4. In the period 2015-2017 wage progress slowed down substantially compared with the previous two years. In the case of India (Bangalore) real wages at H&M suppliers even dropped (by 4%).

5. If things continue at the 2015-2017 pace, wages at H&M supplier factories in Bangladesh and India (Bangalore) will never reach a living wage level, and in Cambodia it will take another 20 years.

⚠️ Average wage figures at supplier factories according unverified data from H&M.

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In sum, what do the H&M wage data show us?

- Firstly, the latest available information (for 2017) shows that average wages at H&M supplier factories are far from living wages levels.

- Secondly, nominal average wages at H&M supplyer factories have increased over the last five years, but when inflation and currency conversion are taken into account the progress was considerably more limited than it appears at first glance.

- Especially worrying is the latest development. In the period 2015-2017 wage progress slowed down substantially compared with the previous two years. In the case of Bangalore real average wages at suppliers even fell by 4% during this period.

- If the trend from the last two years were to continue, wages at H&M supplying factories in Bangladesh and India (Bangalore) would never reach a living wage level, and in Cambodia this would not happen for another 20 years.

- Even if H&M returned to the more positive trend of 2013-2015, average wages at supplier factories would only reach living wage levels in 2039 in the case of Bangladesh, 2021 in Cambodia, and in 2044 in Bangalore, India.

- If H&M has any intention to ensure living wages for workers in its supply chain, it needs to turn around and get going on the right track, and at a far faster pace.

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THE H&M WAGE DATA
AND ITS LIMITATIONS

H&M'S WAGE DATA
(PRESENTED IN THE 2017 SUSTAINABILITY REPORT)

Wage progress at H&M group supplier factories
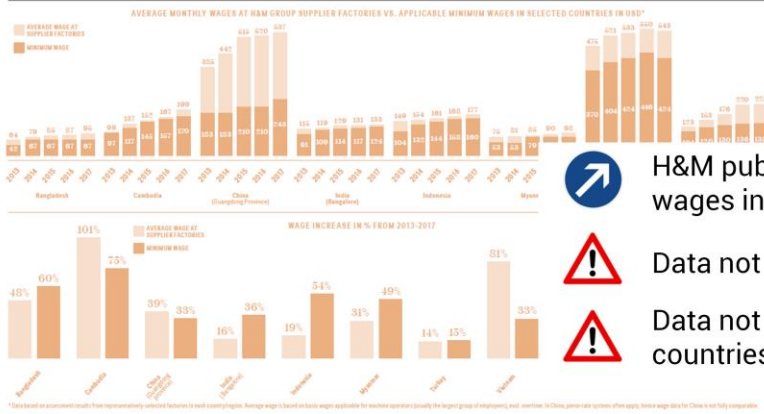
↗ H&M publishes an overview of wages in factories.

⚠ Data not verified.

⚠ Data not complete (missing countries and details).

This is how H&M publishes its wage data.

It's just one page posted on the corporate website.

It must be acknowledged that H&M at least publishes an overview of wages in its supplier factories, unlike many other fashion companies.

However, caution is also required. Namely, the data presented by H&M is not independently verified and it is far from complete. Many countries and details are missing altogether.

In addition -- as we learned from H&M when we asked for further information -- the data was collected through H&M's own «Sustainable Impact Partnership Programme». This is based on self-reporting by suppliers and verification through H&M. Details about the methodology remain unclear.

We will look into some of these pitfalls in more detail.

WHAT H&M SAYS ABOUT THE DATA (I)

Average monthly wages at H&M group supplier factories vs. applicable minimum wages in selected countries in USD*
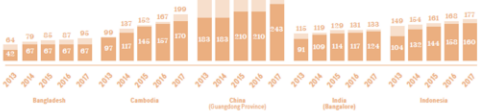
* Data based on assessment results from representatively-selected factories in each country/region. Average wage is based on basic wages applicable for machine operators (usually the largest group of employees), excl. overtime. In China, piece-rate systems often apply, hence wage data for China is not fully comparable.

Let us begin by looking more closely at how H&M presents its wage data.

The graphs we see here are accompanied with little explanation.

We see that, according to H&M, the graphs are based on average monthly wages at H&M group supplier factories. These wages are compared with applicable minimum wages in selected countries.

In a footnote H&M states that the data is based on assessment results from representatively-selected factories. The footnote also says that average wage is based on basic wages applicable for machine operators without overtime.

The one caveat that H&M points out is that piece-rate systems often apply in China, therefore data for China is not fully comparable.

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WHAT H&M SAYS ABOUT THE DATA (II)

- Average wages presented are for machine operators as most common category. Higher paid line managers are excluded. There are also workers (such as helpers) who earn less than machine operators.

- In-kind benefits, bonuses and overtime are reportedly excluded but we got no details on how this is done.

- The presented wage figures do not include any inflation adjustment.

- The data is collected through H&M's own "Sustainable Impact Partnership Programme" (SIPP). SIPP is based on self-reporting by suppliers and validation by H&M.

- The collected data is from representatively-selected factories in each country/region. Details of the sample are not clear.

- Countries for which data is published are the priority sourcing markets.

We asked H&M to provide some clarifications on how they collect and process their average wage data.

Here we list some of the explanations we received and the blind spots in that picture.
Further explanations provided by H&M include:

In the "Sustainable Impact Partnership Programme" (SIPP) workers and trade unions are seemingly not systematically included as part of data collection and verification. H&M referred to doing worker interviews often and generally asking questions about workers' wages during the validations.

H&M explained that the reporting on

Ethiopia was discontinued after just one year (2016) because this is currently not among the most important sourcing markets, which seems like an abrupt change of priorities.

Next, according to H&M they do also collect data regarding the average wage for some of the workers who earn the lowest wages. However, this data is not included in the wage progress report sheet.

H&M says it used annual averages of currency exchange rates.

THE PROBLEM WITH AVERAGE WAGE FIGURES

EXAMPLES OF WAGE RANGES IN A SAMPLE
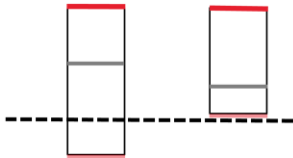
---- Living wage benchmark
——— Highest wage in sample
——— Average wage in sample
——— Lowest wage in sample

- H&M explains that its wage figures are based on average wages "applicable for machine operators (usually the largest group of employees), excl. overtime."

- H&M gives no information on the actual range of wages in this group, nor on the lowest wage level.

- Both minimum wage and living wage benchmarks represent a floor under which no wage should fall.

- **In order to assess to what extent the human right to a living wage is respected in H&M supplier factories, the lowest paid wage would have to be known, but H&M does not publish this data.**

NO WAGE DATA AVAILABLE FOR THE MAJORITY OF H&M'S PRODUCTION COUNTRIES
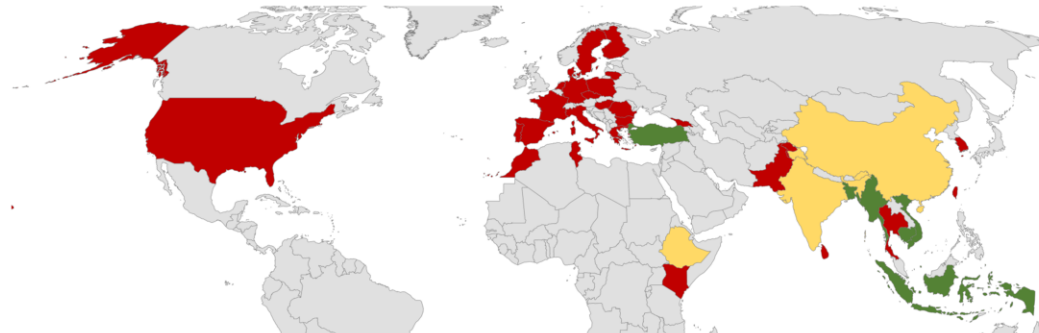
| DATA AVAILABLE	DATA PARTIALLY AVAILABLE	DATA NOT AVAILABLE
Bangladesh, Cambodia, Indonesia, Myanmar, Turkey, Vietnam.	China (only one region), Ethiopia (only 2016), India (only one region).	Bulgaria, Czech Republic, Denmark, Finland, France, Georgia, Germany, Great Britain, Greece, Hungary, Italy, Kenya, Lithuania, Luxembourg, Morocco, Netherlands, Pakistan, Poland, Portugal, Romania, South Korea, Spain, Sri Lanka, Sweden ,Taiwan, Thailand, Tunisia, USA.

Map developed with MS Excel with assistance of Bing, © DSAT Editor, DSAT for MSFT, GeoNames, Microsoft, Navinfo, Navteq, Wikipedia.

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H&M IS FAR AWAY FROM SECURING WORKERS AT ITS SUPPLIER FACTORIES A LIVING WAGE.

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THE LIVING WAGE GAP (2017)

AVERAGE WAGES AT H&M SUPPLIERS VS. ASIA FLOOR WAGE
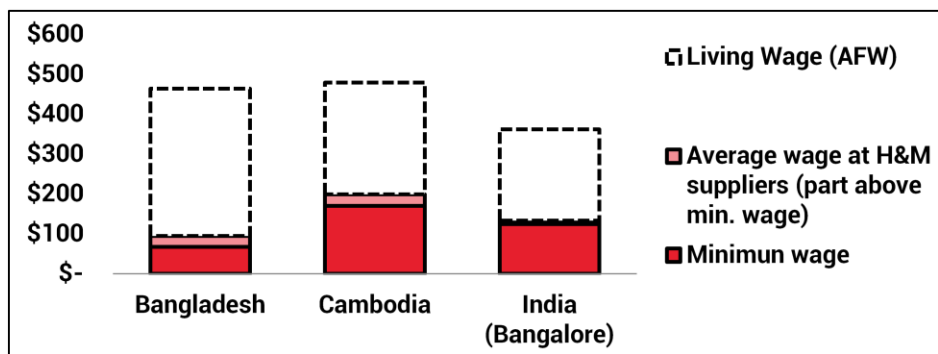
	Legal minimum wage	Average wage at H&M suppliers	Living Wage (Asia Floor Wage)
Bangladesh	$ 67	$ 95	$ 464
Cambodia	$ 170	$ 199	$ 479
India (Bangalore)	$ 124	$ 133	$ 362

So, where do H&M supplier wages stand in comparison with living wages?

To be able to look into details, we will focus on Bangladesh, Cambodia and the Indian state of Bangalore.

Here you can see the difference between workers' wages as presented by H&M, and a living wage benchmark.

The top part of each bar is the gap between the reported workers' wages and the amount that a worker would need for her- or himself and the family to cover basic needs.

The benchmark used in this graph is Asia Floor Wage that accounts for the basic needs of a family.

As we can see, the living wage gap in all four countries is quite large.
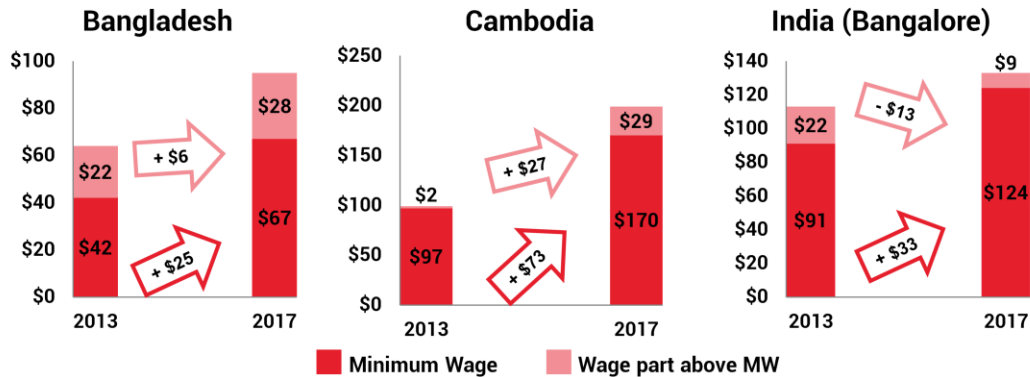
The lowest is in Cambodia, where it still stands at 58%. In Bangladesh it is as much as 80%!

WAGE INCREASES IN H&M SUPPLIER FACTORIES ARE LARGELY DUE TO THE INCREASED LEGAL MINIMUM WAGES.

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MINIMUM WAGE INCREASES
(NOMINAL WAGE DEVELOPMENT IN USD)

Bangladesh

	2013	2017
Wage part above MW	$22	$28
Minimum Wage	$42	$67

+ $6
+ $25

Cambodia

	2013	2017
Wage part above MW	$2	$29
Minimum Wage	$97	$170

+ $27
+ $73

India (Bangalore)

	2013	2017
Wage part above MW	$22	$9
Minimum Wage	$91	$124

- $13
+ $33

■ Minimum Wage   ■ Wage part above MW

The amount that factories pay above the legal minimum has contributed less to the higher nominal wages than the minimum wage increases. In the case of Bangalore this amount even decreased.

Increased legal minimum wages account for the larger part of the reported wage increases.

The amount that factories pay above minimum wages has contributes less or has even decreased (Bangalore).

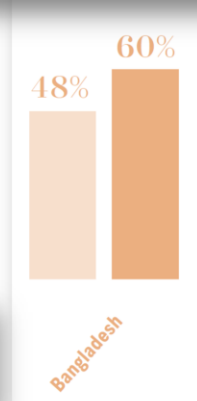Public Eye

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BECAUSE H&M DOES NOT ACCOUNT FOR INFLATION, REAL WAGES AT H&M SUPPLIER FACTORIES HAVE INCREASED CONSIDERABLY LESS THAN ONE MAY THINK WHEN FIRST LOOKING AT H&M'S WAGE DATA.

EXAMPLE BANGLADESH:
H&M'S PRESENTATION OF THE BANGLADESH DATA
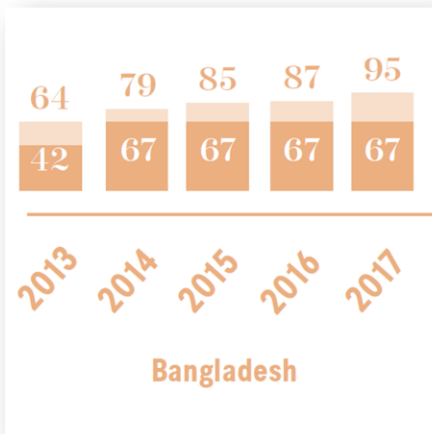
Let us take a closer look at the data presented by H&M from another perspective, using the example of Bangladesh.

You can see the reported wages in USD increased over time.

H&M says that in the period from 2013 to 2017 wages at its supplier factories increased by 48%.
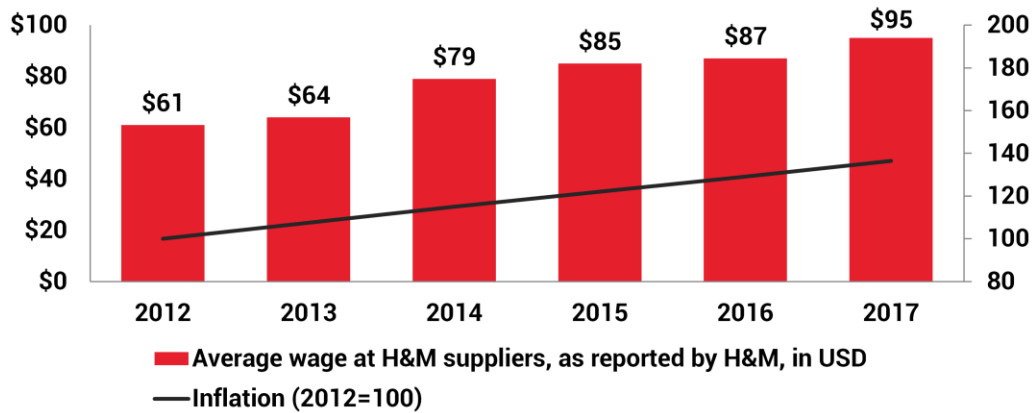
There are two big problems.

Firstly, H&M's data is only in USD, which does not take into account currency volatility.

Secondly, the published wage data that at face value shows a sizeable increase does not take inflation into account, but in most countries consumer prices increased rapidly in the observed period.

EXAMPLE BANGLADESH:
WAGES AT H&M SUPPLIERS (IN USD) AND INFLATION

Chart data:

Year	Average wage at H&M suppliers, in USD
2012	$61
2013	$64
2014	$79
2015	$85
2016	$87
2017	$95

Legend:
- ■ Average wage at H&M suppliers, as reported by H&M, in USD
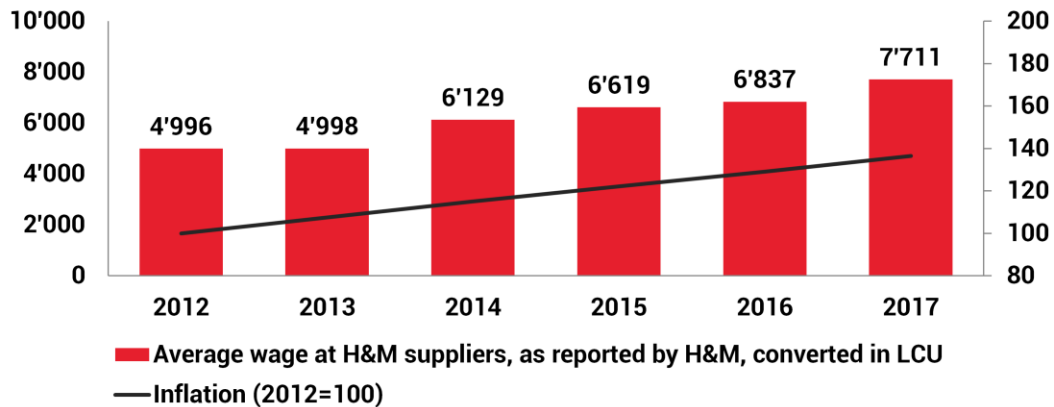- — Inflation (2012=100)

Here you can see both, the reported nominal wages and inflation development in Bangladesh, which is shown as a black line.

From 2012 to 2017 consumer prices increased by nearly 40%.

This means that the wage increase is far less positive in real terms than it appears at first glance.

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EXAMPLE BANGLADESH:
WAGES AT H&M SUPPLIERS (IN BDT) **AND INFLATION**

Average wage at H&M suppliers, as reported by H&M, converted in LCU
— Inflation (2012=100)

Year	Average wage
2012	4'996
2013	4'998
2014	6'129
2015	6'619
2016	6'837
2017	7'711

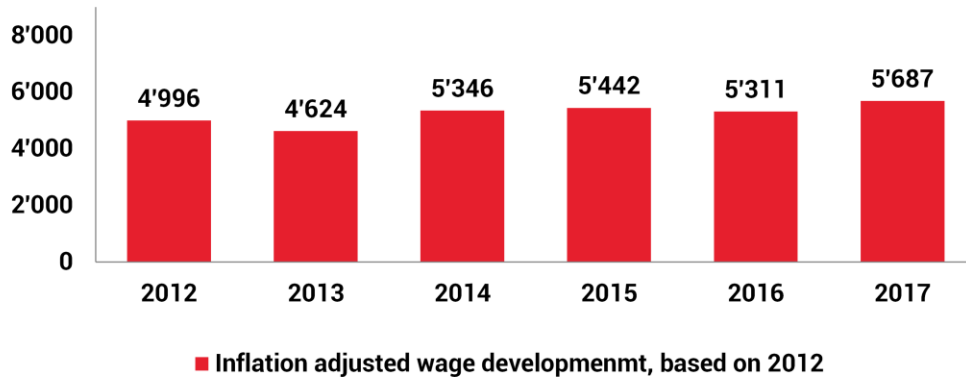Next, let us turn to the question of currency volatility.

As mentioned, H&M presents all data in USD, but workers' expenses predominantly occur in local currency.

In addition, inflation data usually also refers to price changes in local currency, while of course prices (especially of imported goods) are influenced by exchange rates.

For this graph H&M's average wage figures are presented in local currency, based on a conversion from the published data in USD.

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EXAMPLE BANGLADESH:
INFLATION AND CURRENCY ADJUSTED WAGE DEVELOPMENT (IN BDT)

Chart values:
- 2012: 4'996
- 2013: 4'624
- 2014: 5'346
- 2015: 5'442
- 2016: 5'311
- 2017: 5'687

Legend: ■ Inflation adjusted wage developmenmt, based on 2012

This is what we get once we adjust H&M's reported wage data based on inflation and local currency:

quite a different picture from the graphs which show the nominal wage increase.

The wage increase is clearly much smaller than it appeared in the earlier graphs that were not inflation and currency adjusted.

IN THE PERIOD 2015–2017 WAGE PROGRESS SLOWED DOWN SUBSTANTIALLY COMPARED WITH THE PREVIOUS TWO YEARS. IN THE CASE OF INDIA (BANGALORE) REAL WAGES AT SUPPLIERS EVEN FELL BY –4%.

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EXAMPLE BANGLADESH

H&M REPORTED NOMINAL VS. REAL WAGE DEVELOPMENT

48% | 27% | 33% | 19% | 16% | 9%

2013-2017   2013-2015   2015-2017

■ Nominal wage development (based on USD)
■ Inflation and currency adjusted wage development
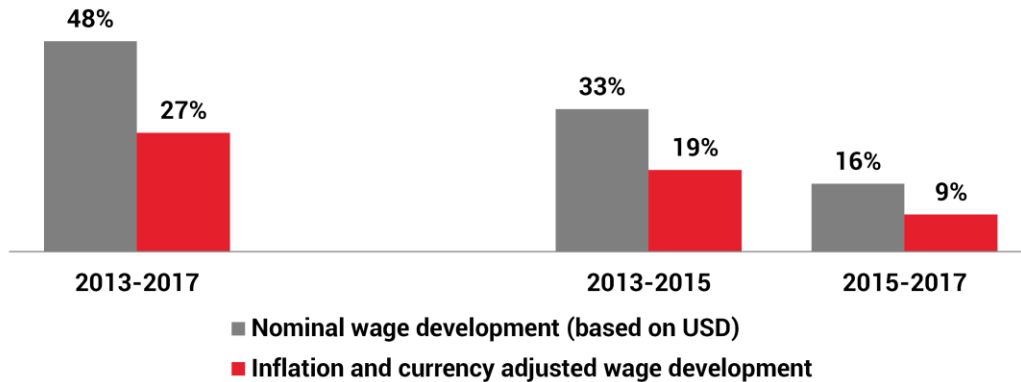
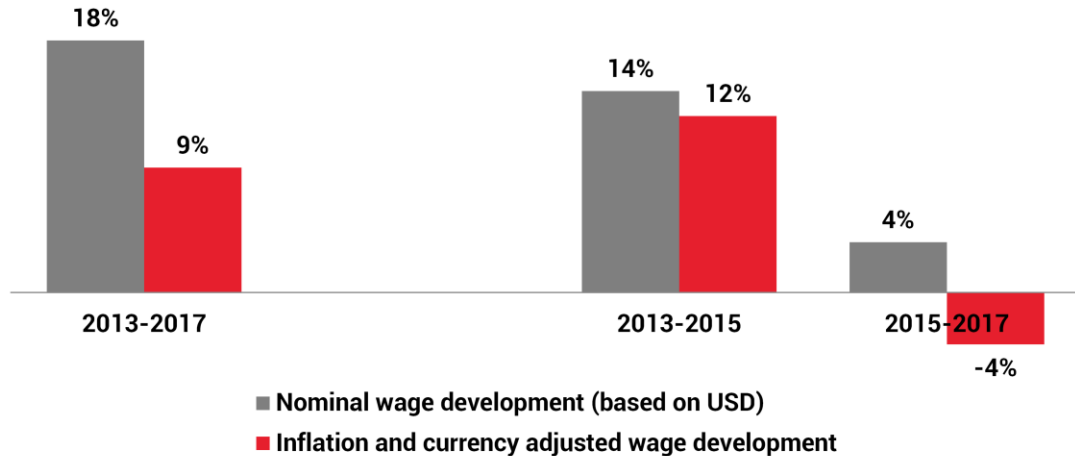This is an overview of wage increases in Bangladesh over time.

On the left you can compare the 48% percent nominal wage increase over four years presented by H&M with the far lower increase when figures are currency and inflation adjusted.

On the right side you can see this development broken down to shorter time periods.

In the first two years after H&M's living wage commitment, the development was far more positive than in the last two years, 2015 to 2017. Wage increases slowed down by about a half. And as the following slides will show, this is not only the case in Bangladesh.

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EXAMPLE INDIA (BANGALORE)
H&M REPORTED NOMINAL VS. REAL WAGE DEVELOPMENT

18%

9%

2013-2017

14%

12%

2013-2015

4%

2015-2017

-4%

■ Nominal wage development (based on USD)
■ Inflation and currency adjusted wage development
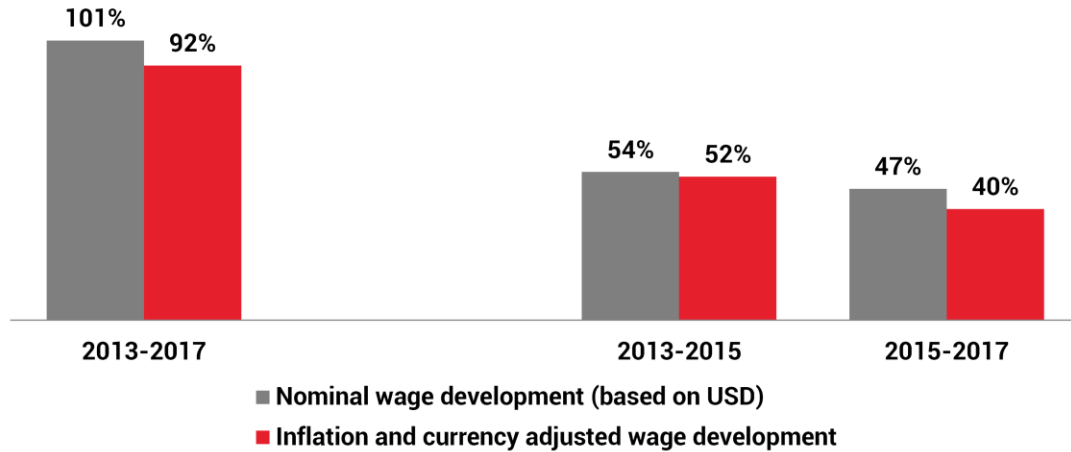
This is the case of the Indian state of Bangalore.

Again, the nominal wage increase is far lower with the currency and inflation adjustment.

You can also see that, again, the development differs between the more positive period from 2013 to 2015 and the less positive period from 2015 to 2017.

Inflation adjusted, the real wages of workers at H&M supplier factories in Bangalore even decreased by 4%.

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EXAMPLE CAMBODIA

H&M REPORTED NOMINAL VS. REAL WAGE DEVELOPMENT

2013-2017: 101% Nominal wage development (based on USD), 92% Inflation and currency adjusted wage development

2013-2015: 54% Nominal wage development (based on USD), 52% Inflation and currency adjusted wage development

2015-2017: 47% Nominal wage development (based on USD), 40% Inflation and currency adjusted wage development

■ Nominal wage development (based on USD)
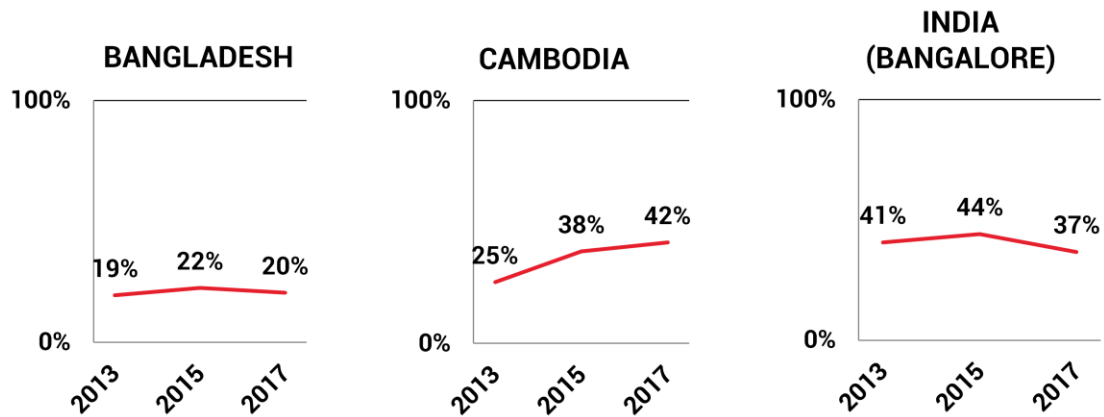■ Inflation and currency adjusted wage development

The development in Cambodia is more positive, mostly because inflation was lower there.

Wage increases are overall higher than elsewhere but it is still notable that the increase is lower in 2015-2017 than in the previous period.

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THE LIVING WAGE GAP

H&M SUPPLIER WAGES AS A SHARE OF A LIVING WAGE (ASIA FLOOR WAGE)

BANGLADESH

100%

19% 22% 20%

0%

2013 2015 2017

CAMBODIA

100%

25% 38% 42%

0%

2013 2015 2017

INDIA (BANGALORE)

100%

41% 44% 37%

0%

2013 2015 2017

The last few slides focused on the wage development.

Now we are going back to the gap between the reported workers' wages and a living wage.

Looking at the data for Bangladesh, Cambodia and Bangalore, you can again see that reported wage increases slowed down in the latest period.

While from 2013 to 2015 the gap between average workers' wages and living wages narrowed, it then widened again from 2015 on. The only exception is Cambodia where the positive trend continued, but it did so at a notably slower pace.
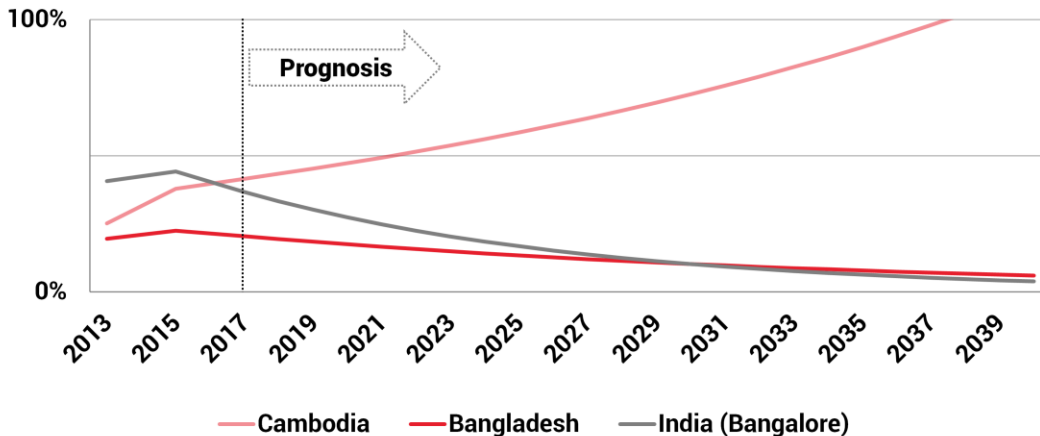
All this means that H&M is overall on a wrong course if it actually wants to ensure that workers making H&M clothes today live to see a living wage on their pay slips.

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IF THE WAGE TREND CONTINUES
AT THE 2015–2017 PACE OF DEVELOPMENT,
WAGES AT H&M SUPPLIER FACTORIES IN
BANGLADESH AND BANGALORE WILL NEVER
REACH LIVING WAGE LEVEL, AND IN
CAMBODIA ONLY AFTER AROUND 20 YEARS.

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THE 2015-17 TREND BASED PROGNOSIS
WILL AVERAGE H&M SUPPLIER WAGES REACH A LIVING WAGE?

Prognosis

100%

0%

2013 2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035 2037 2039

— Cambodia   — Bangladesh   — India (Bangalore)

This is what the future looks like if H&M lets things continue in line with the 2015-2017 trend.

On the left you can again see how the gap between the average workers' wages that H&M reports and living wages has developed over the last years. And on the right hand side you can see a prognosis for how that gap would develop over time in Cambodia, Bangladesh and India (Bangalore).

If the development continued unchanged, then workers in Bangladesh and India (Bangalore) would never reach living wages, and in Cambodia only in 2038. This shows how crucial it is for H&M to turn around and get going in the right direction if living wages are ever to materialize. And if the current generation of garment workers should benefit from living wages, as H&M announced they would, than wages would need to increase at a yet far faster pace than that in the earlier years.

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PROGNOSIS BASED ON THE MORE POSITIVE 2013-15 TREND

WILL AVERAGE H&M SUPPLIER WAGES REACH A LIVING WAGE?
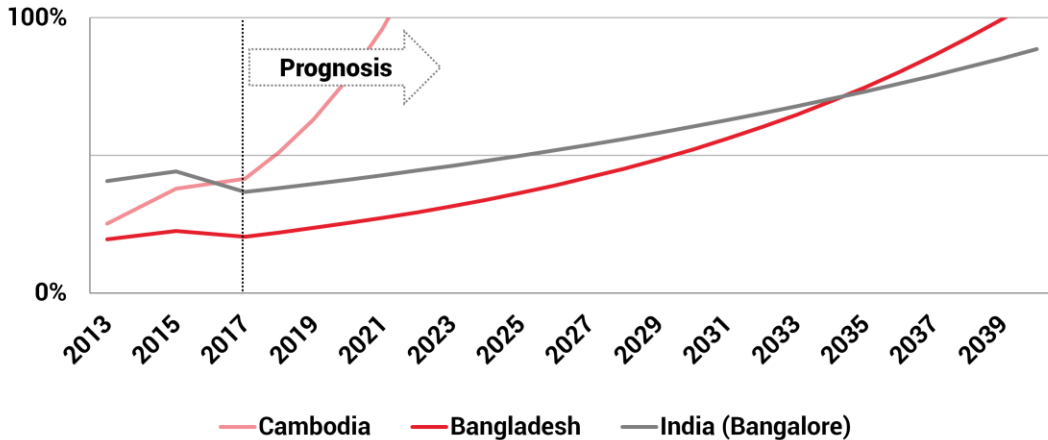
As shown before, the trend in the previous two years was notably more positive than in the period from 2015 to 2017.

So, what would happen in average wages were to rise in line with the 2013-2015 trend?

This prognosis clearly shows that it would still take a long time before average wages would reach a living wage, but H&M would at least get there considerably sooner than at the most recent pace of development.

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FURTHER INFORMATION AND SOURCES

For background information and points on how H&M needs to move to fulfill the commitment that workers would be paid a living wage, go to:

cleanclothes.org and TurnAroundHM.org.

SOURCES FOR THIS ANALYSIS:

- Average wages figures at H&M supplier factories: H&M website and Sustainability Report 2016. Inflation: World Bank (-2015) and CIA World Factbook (2016-17).

- Currency exchange rates: Oanda (using annual average rates).

- Asia Floor Wage (AFW): Asia Floor Wage Alliance.

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ADDITIONAL SLIDES

WHAT IS THE ASIA FLOOR WAGE (AFW)

THE ASIA FLOOR WAGE

PAY A LIVING WAGE

(AFW) is calculated based on the following assumptions:

A WORKER IS SUPPORTING THEMSELVES
1 X WORKER +
2 x adult dependents **or**
1 x adult + 2 x children **or**
4 x children

40% clothing, housing, travel costs, children's education, health costs.

40%

50% of monthly salary goes towards food, based on 3,000 calories a day per adult.

3000 calories **50%**

10% towards discretionary income (some entertainment, savings, pension or if main earner loses their job).

10%

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PROGNOSIS BASED ON 2013-17 TREND
WILL AVERAGE H&M SUPPLIER WAGES REACH A LIVING WAGE?

100%

Prognosis

0%

2013 2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035 2037 2039

—— Cambodia   —— Bangladesh   —— India (Bangalore)

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DETAILS ON CAMBODIA

Left chart:
- Average wage at H&M suppliers, as reported by H&M, converted in LCU:
  - 2012: 364'462
  - 2013: 398'502
  - 2014: 553'347
  - 2015: 617'231
  - 2016: 678'009
  - 2017: 805'115
- Inflation (2012=100)

Right chart:
- Inflation adjusted wage development, based on 2012:
  - 2012: 364'462
  - 2013: 390'484
  - 2014: 535'575
  - 2015: 590'445
  - 2016: 630'872
  - 2017: 725'798

DETAILS ON INDIA (BANGALORE)

Average wage at H&M suppliers, as reported by H&M, converted in LCU
Inflation (2012=100)

Left chart values: 5'361 (2012), 6'612 (2013), 7'254 (2014), 8'271 (2015), 8'800 (2016), 8'662 (2017)

Inflation adjusted wage development, based on 2012

Right chart values: 5'361 (2012), 6'028 (2013), 6'227 (2014), 6'733 (2015), 6'860 (2016), 6'492 (2017)

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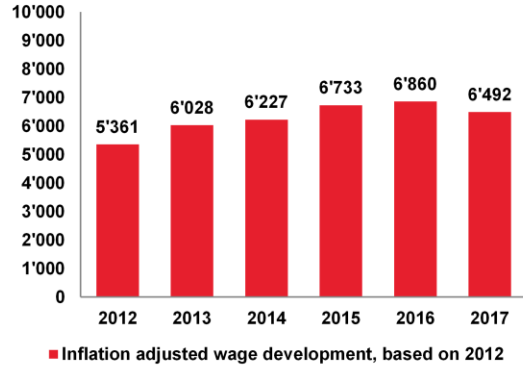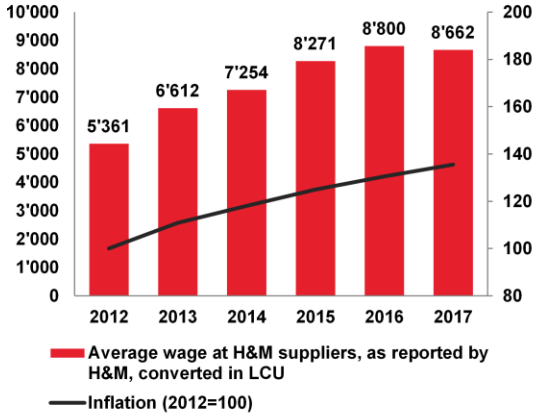
DETAILS ON INDONESIA

Gap between H&M supplier wages and LW (AFWA)

Gap chart: 38% (2013), 46% (2015), 40% (2017); scale 0% to 100%

Bar chart (left): values from 1'254'898 (2012) to 2'368'321 (2017); left axis 0 to 2'500'000, right axis 80 to 200

- ■ Average wage at H&M suppliers, as reported by H&M, converted in LCU
- —— Inflation (2012=100)

Bar chart (right): values from 1'254'898 (2012) to 1'867'414 (2017); axis 0 to 2'500'000

- ■ Inflation adjusted wage development, based on 2012
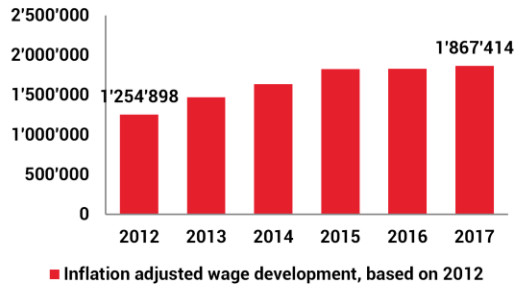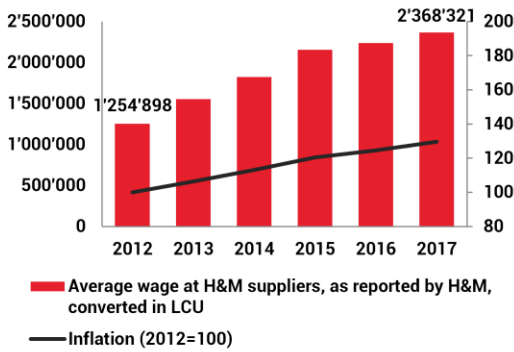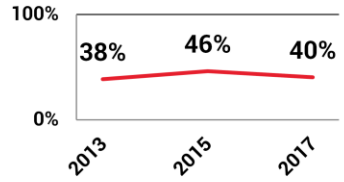
DETAILS ON CHINA

WAGE DATA NOT COMPARABLE DUE TO THE PIECE-RATE SYSTEM

Left chart — Average wage at H&M suppliers (left axis 0–4'000, right axis 80–200 for inflation):
- 2012: 2'455
- 2013: 2'385
- 2014: 2'716
- 2015: 3'207
- 2016: 3'454
- 2017: 3'630

Legend:
- Average wage at H&M suppliers, as reported by H&M, converted in LCU
- Inflation (2012=100)

Right chart — Inflation adjusted wage development, based on 2012 (axis 0–3'500):
- 2012: 2'455
- 2013: 2'321
- 2014: 2'597
- 2015: 3'030
- 2016: 3'203
- 2017: 3'308

Legend:
- Inflation adjusted wage development, based on 2012

DETAILS ON MYANMAR

H&M AVERAGE WAGES REPORTED FROM 2013 ONWARDS ONLY
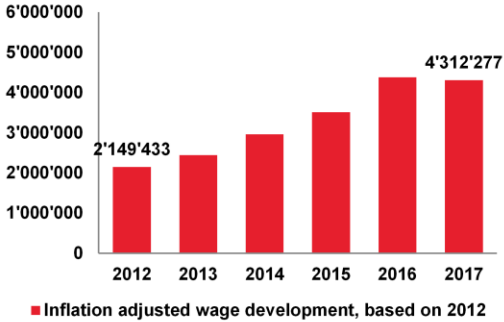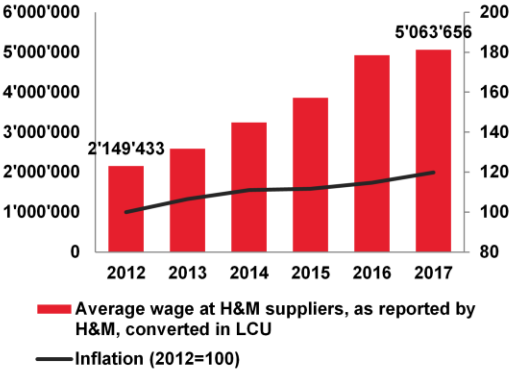
Left chart:

Year	Average wage at H&M suppliers (LCU)
2012	n/a
2013	70'015
2014	79'732
2015	98'912
2016	111'261
2017	133'431

- Average wage at H&M suppliers, as reported by H&M, converted in LCU
- Inflation (2012=100)

Right chart:

Year	Inflation adjusted wage development, based on 2013
2012	
2013	70'015
2014	75'881
2015	85'940
2016	90'826
2017	103'020

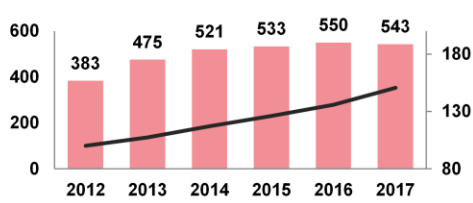- Inflation adjusted wage development, based on 2013

DETAILS ON VIETNAM

Average wage at H&M suppliers, as reported by H&M, converted in LCU

Inflation (2012=100)

Inflation adjusted wage development, based on 2012
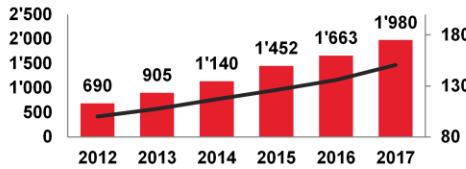
Public Eye

Clean Clothes Campaign

DETAILS ON TURKEY

DUE TO CURRENCY VOLATILITY HUGE DIFFERENCES BETWEEN USD AND LIRA

Average wage at H&M suppliers, as reported by H&M, in USD
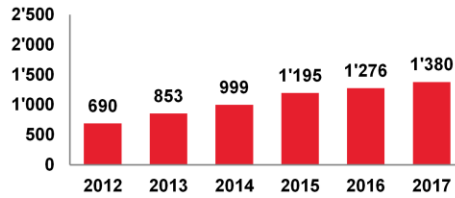Inflation (2012=100)

Inflation adjusted wage development, based on 2012

Average wage at H&M suppliers, as reported by H&M, converted in LCU
Inflation (2012=100)

Inflation adjusted wage development, based on 2012