

## Presentation of business operations 2008/2009

Hemtex's financial communication is primarily conducted via the Internet at [www.hemtex.com](http://www.hemtex.com). The website is a channel that is directly accessible to all stakeholders. The site contains Hemtex's press releases, interim reports, annual reports, share-related information and other financial statistics.

For the second consecutive year, Hemtex will publish an entirely web-based annual report. As a result, the format of the printed annual report has been simplified and its contents limited to the formal components. Accordingly, the presentation of business operations will only be available on the Internet. Refraining from printing and distributing the entire Annual Report results in savings for both the environment and the company, and thus also for Hemtex's shareholders.

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## The year in brief

The Hemtex Group's net sales declined 13.5% to SEK 1,390.6 M (1,608.3).

The operating loss amounted to SEK 32.5 M (profit: 141.1).

The net loss for the year amounted to SEK 42.9 M (profit: 96.5), and earnings per share before dilution amounted to a loss of SEK 1.46 (profit: 3.31).

The Hemtex Group established 14 new stores, and seven new franchise stores were opened. One franchise store in Sweden was acquired by Hemtex. A total of three stores, including two proprietary stores, were discontinued.

Göran Ydstrand was appointed as new President of the Hemtex Group and assumed his position in March 2009.

Decision was taken in April 2009 to implement a new share issue totaling SEK 164 M before issue costs.

A mandatory takeover offer was submitted by Hakon Invest on April 28, 2009.

No dividend is proposed for the fiscal year.



Hemtex is the Nordic region's leading home textiles chain, a position that Hemtex has achieved through a strong local presence, an attractive customer offering and an efficient value chain. Hemtex's target group are persons wanting to establish, refurbish and beautify their homes.

## Nordic region's leading home textiles chain

**S**ince the start in 1973, Hemtex has developed into the Nordic region's leading retail chain for home textiles.

By April 30, 2009, there were 223 Hemtex stores in Sweden, Finland, Denmark, Norway, Estonia and Poland. Of the stores, 193 are owned by the Hemtex Group and 30 by franchise holders. During the 2008/2009 fiscal year, a total of 21 new stores were established, including 14 by the Group and seven in cooperation with franchise holders. Seven stores were opened in Sweden, four in Finland, three in Norway and three in Denmark, while two new stores were opened in each of the markets in Estonia and Poland. During the same period, three stores were discontinued.

During the 2008/2009 fiscal year, sales at the consumer level (including franchise stores) declined by 14.5% to SEK 1,431 M (1,674), excluding value-added tax. The Hemtex Group's net sales declined by 13.5% to SEK 1,391 M (1,608), while operating earnings declined to a loss of SEK 32.5 M (profit: 141).

### Four product areas

Hemtex's offering is based on an attractively priced and functional range of high-quality textile products. The product range is largely the same in Hemtex stores in all six countries, which creates synergies. To increase the efficiency of operations and to offer customers the best possible service and inspiration, Hemtex's product range is divided into four product areas: Bedroom, Bathroom, Windows and Dining & Entertaining. All product areas are supplemented by non-textile home accessories.

### Strength factors

#### *Successful business model*

Efficiency and control throughout the entire value chain create the conditions for competitive customer offerings. Hemtex stores have two operating forms: proprietary stores and franchise stores. Regardless of the operating form, the stores are operated according to Hemtex's concepts and guidelines.

#### *Strong brand in combination with a market-leading position*

Hemtex is the market leader in the Swedish home textile market with a market share of 26.4% (28.4) during the 2008 calendar year. The closest competitors accounted for 12.0% and 10.4%, respectively. Hemtex estimates that the Group's total market share within home textiles in the Nordic region amounts to approximately 9%.

#### *Focus on home textiles:*

Hemtex is the Nordic player that offers the broadest range of home textiles. The company has few true competitors in the market.

#### *Strong product range:*

Hemtex offers attractively priced and competitive products that appeal to many people.

#### *Strategic store locations:*

Hemtex stores are found in attractive locations near major customer flows and other stores that attract customers.

#### *Financial strength:*

Hemtex has a strong financial position, which creates prerequisites for growth with profitability.

### Share of sales and number of stores per market

	Sweden	Finland	Denmark	Norway	Estonia
Number of stores, Group	125 (121)	42 (38)	11 (10)	13 (11)	2 (1)
Share of consolidated sales, %	75.4	15.1	5.0	3.9	0.6

# Business concept, goals and strategies

## Vision

Hemtex's vision "Inspiration and renewal for all rooms" guides the Group's development. Hemtex aims to ensure that customers in all countries find Hemtex so inspiring that they are enticed to refurbish their homes. This is a challenge that forces Hemtex to continuously improve its product range, store concepts and capacity to generate inspiring and marketable exposure.

## Business concept

Hemtex's business concept is to sell affordable home decor products that appeal to a broad spectrum of people. Accordingly, Hemtex's product range shall comprise modern, up-to-date products that are highly affordable and offer excellent value for money. Hemtex focuses on a broad target group, regardless of the customer's purchasing power, form of housing and area of residence.

## Goals

Hemtex's overriding goals were introduced in the 2006/2007 fiscal year. Several of the goals relate to targets over a business cycle. Hemtex's overall goal is to retain its position as the leading home decor chain in Sweden and one of the leaders in the Nordic region and to achieve favorable growth and profitability. The objective is to achieve a market share of 15% in the Nordic market for home textiles. The company's long-term financial targets are:

- annual, average total sales growth exceeding 15%
- an operating margin exceeding 15% over a business cycle
- an equity/assets ratio of 30 to 40%
- net debt/EBITDA that does not exceed 3

Given the current priorities as regards profitability within the existing store network, the Board of Directors decided to reduce the pace of new establishments. For the 2009/2010 fiscal year, four to six stores will be established, of which half will be owned by the Group. A review of the store structure is expected to result in a net reduction in the number of stores. During 2008/2009, a decision was taken to discontinue five stores, and about ten discontinuations will take place during

2009/2010. Combined, the announced measures will improve the operating margin to 13–15% over a three-year period.

## *Sales growth, %*

The outcome over the past four years has been 44.1% in 2005/2006, 26.8% in 2006/2007, 9.4% in 2007/2008 and –13.5% in 2008/2009.

## *Operating margin, %*

Over the past four years, growth has been 15.6% in 2005/06, 15.1% in 2006/07, 8.8% in 2007/08 and –2.3% in 2008/09.

## *Store growth in the Group*

The net increase in stores within the Group over the past four years has been 39 stores in 2005/06, 62 stores in 2006/07, 17 stores in 2007/08 and 15 stores in 2008/2009.

## Strategies

In August 2009, Hemtex will present a new business plan indicating the focus of the Group's future strategy. The business plan contains a number of measures that will result in Hemtex being able to fulfill its long-term financial targets within a three-year period. Much of the work in implementing these measures has already started.

The new strategy can be summarized in the following points:

### *Customer value/Positioning*

Hemtex shall have the leading product range and offer the market's best service. The offering to customers shall be high-quality home textiles with unparalleled scope and depth in the core categories.

### *Product range*

To live up to the customer value proposition, the product range must continue to be improved. A substantial reduction and concentration of the product range will be implemented with an increased proportion of base products and a lower proportion of trend products.

Prices will span over a broader range, with more premium products than today. More innovative products with new functions, new materials and new material combinations will be launched. Hemtex will continue to focus on its current target customers while at the same time expanding the offering to suit new target groups.

#### *Stores*

With a reduced product range, stores must be well-defined, inspiring and commercial. The store concept will be renewed and the graphic profile reviewed. Store display windows will be better utilized to draw attention and traffic. Smaller stores will have the same broad range (number of categories) but less depth (fewer product variants). Large stores will feature large product displays per product variant for selected products and more inspirational environments.

#### *Service*

Hemtex shall be characterized by truly great service and employees who are helpful and knowledgeable. Hemtex shall have a deep understanding of the customer's problems and needs in the stores or in the use of the products in their homes and be able to offer solutions.

#### *Pricing, campaigns and marketing*

Hemtex has stopped its constant sales and replaced them with strong customer offerings. Inventory clearances will also take place in the future, but they must be balanced by information providing news, tips and ideas and by innovative products. Marketing must be informative, surprising and driven by ideas.

#### *Purchasing and logistics*

Greater efficiency and a smaller product range will provide substantial potential for reducing purchasing prices. Hemtex will work in a structured manner to consolidate, create greater capacity and subject suppliers to competition to improve the Group's purchasing. There will be a focus on both purchasing prices and quality, as well as Hemtex's environmental and social responsibility.

During the most recent five-year period, Hemtex has grown by an average of 10.5% annually. Hemtex has increased its market shares due to a strong brand, combined with a successful business concept.

## The home textiles market

**H**ome textiles are considered less cyclical than other retail segments, but during 2008/2009, demand was affected by a sharp economic decline and a weak trend for private consumption. Most home textile products, however, are of such a nature that they are replaced relatively frequently, and the cost for purchasing home textiles is also relatively low, compared with other home-improvement investments.

Customers are normally not particularly conscious of brands with regard to home textiles. This means that the name of the retail company, availability in stores and prices are important competitive tools in the market.

### Sector undergoing long-term growth

According to Hemtex, the Nordic market (excluding Iceland) for consumer sales of home textiles was worth approximately SEK 18.3 billion in 2007, measured in terms of sales, of which the Swedish market accounted for about SEK 5.7 billion, the Finnish market about SEK 2.5 billion, the Danish market about SEK 4.2 billion and the Norwegian market about 5.9 billion.

Viewed over the long term, home décor and home textiles are among the most rapidly growing retail sectors. During the period 2003–2007, the market grew by more than 3% annually in Sweden. During 2008, the Swedish market contracted by about 4.5%, according to the market research company GfK.

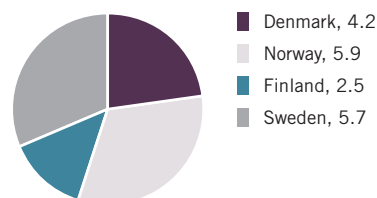
Hemtex experienced strong growth up until 2006/2007 when operating income amounted to SEK 221 M. During 2008/2009, Hemtex showed a negative trend with respect to both sales and income. Against this background, decisions were taken regarding cost savings and structural measures within store operations.

### Nordic competitors

Product ranges among companies in the Nordic home textiles market vary greatly. Some companies have a product range consisting only of home textiles, while other companies offer a broader selection that includes furniture, mattresses, rugs and other home decor products.

Hemtex, Kid Interiør, Princess Gruppen, Eurokangas, Jotex and Hansen & Dysvik are the largest Nordic companies with a product offering consisting mainly of home textiles. Jysk has a broader product range with significant collections of furniture and home decor products, with home textiles accounting for 20–25% of total sales, according to Hemtex's estimates. At IKEA, home textiles account for a limited share of total sales but are significant in absolute terms, accounting for 12.0% of the Swedish market in 2008, according to GfK. Competition in the home textiles market has increased in recent years, and more retail companies have expanded their product ranges to also include home textiles. H&M Home is one of the latest additions to the industry. Furthermore, competition is increasing from the mail-order sector, with the Internet as an increasingly common tool for customer purchases.

The Nordic market in 2007 (SEK billion)



### The Swedish home textiles market

During 2008, Sweden's GDP declined by 0.2% (growth: 2.6), while private consumption declined by 0.2% (growth: 3.0). Sales in the true retail market (excluding state-owned liquor stores and pharmacies) increased by 3.3% (6.6), according to the Swedish Retail Institute (SRI).

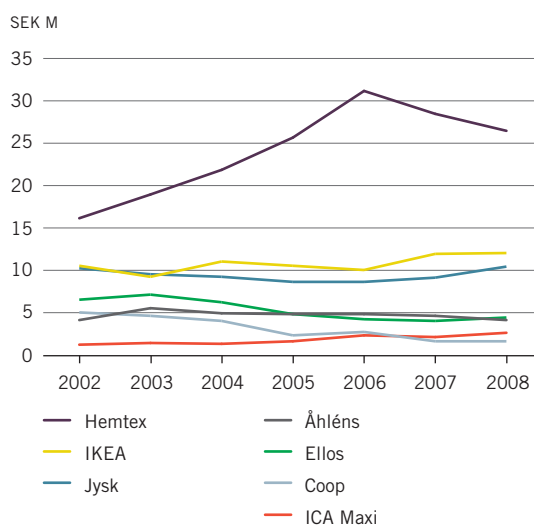
The Bank of Sweden's forecast is that GDP will decrease by 1.6% in 2009 and increase by 1.7% in 2010. SRI estimates that retail sales will increase by 1.0% during 2009.

The Swedish market for sales of home textiles to consumers amounted to about SEK 5.4 billion in 2008, according to GfK. This was a decline of 4.5%, compared with 2007. Market development during 2008 constituted a trend reversal, since the market had grown by more than 3% annually since 2003.

Hemtex has a leading position in the Swedish market for home decor products with a focus on home textiles. Hemtex is also the Swedish player that offers the broadest selection of home textiles. Hemtex focuses on home textiles, while its competitors are furniture stores, superstores and department stores that have their main operations in areas other than home textiles. Hemtex's market position focuses on the medium price sector, although with certain products in the higher price segments.

Hemtex's primary Swedish competitors are IKEA, Jysk, the mail-order sector and Åhléns. Within the low-price segment for Bedroom and Bathroom, IKEA, Jysk and the mail-order sector are the main competitors. Within the medium-price segment, Åhléns is the primary competitor, while specialty stores are competitors in the high-price segment. According to GfK's 2008 survey, Hemtex is the market leader with 26.4% of the market, compared with 28.4% during 2007. Thereafter come IKEA with 12.0%, Jysk with 10.4% and Åhléns with 4.1%.

### Market shares in Sweden



### The Finnish home textiles market

During 2008, Finland's GDP increased by 0.9% (4.5), while private consumption increased by 2.0% (3.3), according to the Bank of Finland, which expects Finland's GDP to contract by 0.5% in 2009 and to increase by 0.7% in 2010. Private consumption is expected to increase by 0.7% in 2009 and by 1.9% in 2010. Hemtex expects the Finnish home textiles market to decline somewhat during the 2009/2010 fiscal year.

According to Hemtex's assessment, the Finnish home textiles market amounted to about SEK 2.5 billion in 2007. Finland has a strong design tradition, and interest for home textiles is great. In Finland, Hemtex's primary domestic competitors are Kesko with Anttila and Kodin Ykkönen, SOK and Stockmann. These chains primarily sell home textiles with strong domestic brands and proprietary brands. Foreign players are also active in the Finnish home textiles market.

IKEA has three department stores in Finland, two in the Helsinki area and one in Turku, while Jysk has a nationwide chain. All of these chains compete with Hemtex, primarily in the low- and medium-price segments. Within mail-order, Hobby Hall and NetAnttila have leading positions. Specialty stores consist of the textiles chain Eurokangas, which is strong in goods sold by the meter in the low- and medium-price segments, and to a lesser extent small textile stores. Hemtex has a market share of about 9% (9) in Finland, according to the Group's own estimates.

#### **The Danish home textiles market**

According to the Danish Economic Council, Denmark's GDP increased by 0.4% (1.8) during 2008, while private consumption rose by 0.8% (2.4). During 2009 and 2010, GDP is expected to decrease by 0.5% and 0.3%, respectively.

According to Hemtex's estimates, the Danish home textiles market amounted to about SEK 4.2 billion in 2007. Just as in Sweden, interest in home decor is great in Denmark, and there are many magazines and TV programs devoted to the subject. The Danish market is more polarized than any other Nordic market. A relatively large portion of sales are in the upper price segment with high design content. In Denmark, Hemtex competes with Jysk, Botex, IKEA, Ilva, the Magasin and Salling department stores, Coop and Dansk Supermarked. Magasin, Salling and Ilva are active in the high-price segment, while the others operate in the low- and medium-price segments. In addition, Bahna and Inspiration sell some home textiles and compete with Hemtex in home accessories, quilts, pillows and sheets. In recent years, many independent local home textiles stores have closed, thus creating scope for Hemtex's expansion. Denmark is Jysk's domestic market, and Jysk has a strong position in the home textiles market, followed by Botex. Hemtex's own estimate is that the Group has a market share in Denmark of slightly more than 2% (2).

#### **The Norwegian home textiles market**

Norway's GDP increased by 2.0% (3.1) in 2008, according to Statistics Norway. Private consumption rose by 1.5% (6.0), while retail sales declined by 0.1% (increase: 7.7). Norway's GDP is expected to decline by 1.7% in 2009 and to increase by 0.5% in 2010, according to Statistics Norway. Private consumption is expected to decline by 0.4% in 2009 and increase by 3.1% in 2010, according to the same source.

According to Hemtex's estimates, the Norwegian home textiles market amounted to about SEK 5.9 billion during 2007. This makes Norway the largest home textiles market in the Nordic region in terms of value. Measured per capita, it is twice as large as the Swedish market. Hemtex has a somewhat more expensive product range that sells well in Norway. Competitors in Norway include IKEA, Hansen & Dysvik, Jysk, Kid Interiør and Princess Gruppen. Hemtex's own estimate is that the Group has a market share in Norway of slightly more than 2% (2).

#### **The home textile market in the Baltic countries and Poland**

The Baltic economies in Estonia, Latvia and Lithuania have expanded rapidly over the past decade. The high rate of growth resulted in salaries, property prices and private consumption increasing too rapidly to be sustained and led to substantial macroeconomic imbalances. During 2008 and the beginning of 2009, GDP has declined sharply in the Baltic countries. Unemployment has risen rapidly, while incomes have declined. This trend had a negative effect on private consumption and retail sales.

Poland with a population of nearly 40 million is a large market. The country has undergone a major economic transformation in recent years, and the economy has expanded rapidly. The consumer boom in recent years has benefited the retail sector. Today, several Swedish retail chains are established in Poland. The country is also one of the few in Eastern Europe that has best weathered the economic crisis.

The Hemtex business model is based on efficiency and control of the entire value chain, from design and purchasing via distribution to store sales, which creates favorable conditions for making competitive offerings to customers.

## Hemtex's business model

**H**emtex has considerable knowledge of customers' preferences through retailing and its own market surveys, and through its purchasing/wholesaling activities, Hemtex is an efficient purchaser of material and products.

Hemtex continuously monitors trends in home textiles and related sectors. When fashion trends are about to reach commercial volumes, Hemtex reacts rapidly. To hit the target in terms of the product range, time is an important factor – which is why it is important that design and purchasing occur as close as possible to the sales season. Consideration should also be given to the fact that manufacturing and delivery require a certain lead time in order to keep costs at a reasonable level. Central functions at the head office in Borås ensure that the entire value chain, from concept to retailing, is managed as efficiently as possible.

### Focus on own design

Hemtex's product range primarily consists of products of its own design. Textile patterns are produced by the design department at the Borås office, for example, or purchased from independent designers.

Hemtex's designers work closely with purchasers and gather ideas from the world around them and from stores to ensure that the stores continuously have access to the right, up-to-date range.

A Product Line and Market Council, with participants from store operations and central functions at the Borås office, develops the product line, store concepts and activity plans. Hemtex also works actively with trial sales to identify products with substantial sales potential.

### Proprietary and franchise stores

Hemtex stores have two forms of operation: proprietary stores and franchise stores. Regardless of their form of operation, the stores are managed in accordance with the Hemtex concept and guidelines, but with scope for local business influences. However, the target scenario, strategy and culture are the same for everyone working at Hemtex, regardless of the store's ownership form or the country in which it is located.

The Hemtex Group operates proprietary or franchise stores in selected retail centers, primarily in large city areas and in strategic locations. In each geographic area, the number of stores should be sufficient to enable an operating organization to be formed to ensure sales, earnings and skills development.

By operating its stores on a proprietary basis, Hemtex establishes direct contact with the market, which is also advantageous for the wholesale operations. This enables Hemtex to become an even more efficient supplier, which also benefits franchise holders.

Supplementing operations through the franchising concept enables additional economies of scale, since expansion is accomplished with lower establishment costs and less tied-up capital than would otherwise be possible for the Group. At present, there are franchise stores in Sweden, Denmark and Poland.

### Increased demands on the purchasing process

Hemtex owns no production plants; instead it purchases products from slightly less than 120 suppliers in some 18 countries. Hemtex is not dependent on one particular supplier; to a large extent, its current suppliers are all replaceable. Hemtex is working to develop and consolidate the number of suppliers.

As the home textile market has become more fashion-oriented in recent years, the demands placed on the purchasing process have grown. However, the level of fashion awareness is not as high as in the clothing industry, for example. At the same time, the lead time from design to availability of the product in stores is reduced. Contracts between Hemtex and its suppliers are normally order-specific. A written agreement, purchase order and quality control through Hemtex Purchasing Instructions are prepared with each supplier. The agreement regulates everything from product specifications to supply and terms of payment. It also includes a Code of Conduct with which the suppliers must pledge to comply.

Hemtex actively seeks new, and is continuously evaluating existing, suppliers and purchasing markets with regard to prices, quality, performance in terms of the Code of Conduct and delivery times.

By increasing the number of products purchased directly from manufacturers, purchase prices can be reduced, thereby strengthening Hemtex's margins. This also provides Hemtex with better opportunities for controlling and influencing the production facilities than when purchasing takes place through an intermediary. The goal in purchasing work is to increase the proportion of goods purchased directly from producers to about 80%. The proportion of directly purchased goods currently amounts to slightly more than 81% and Hemtex believes that this share can be somewhat further increased. For purchases from Asia, the goal is 80%. The current proportion is 74%.

#### *Purchasing offices in Dhaka and Shanghai*

To facilitate the Group's efforts to find the correct suppliers, Hemtex has established two purchasing offices in Asia in recent years – in Dhaka, Bangladesh, and in Shanghai, China. Together, the offices have slightly more than 20 employees. The purchasing offices are responsible for securing the right purchase prices, sourcing of new products, control of production and working conditions and coordination and optimization of the logistics flow. Ultimately, the office in Dhaka will function as a purchasing office for all of Southern Asia, including Bangladesh, India and Pakistan. The office in Shanghai is divided into two teams – one for textiles and one for hard goods – and will ultimately serve as a purchasing office for all of Southeast Asia. By concentrating its purchases to fewer suppliers, Hemtex's controls will become even more effective.

#### **Efficient IT and logistics are success factors**

For a retail company such as Hemtex, efficient logistics is a key competitive factor.

Hemtex partners with Schenker for logistics and distribution. All product distribution to stores is carried out from a distribution center in Gothenburg. Basic products are purchased using an automatic replenishment system. When the number of products reaches a certain minimum level, the system automatically indicates that new purchases should be

made. Fashion and seasonal products are replenished based on management's assessment of future sales, current sales rates and forecast inventory levels. Purchasing of fashion and seasonal products takes place three to six months prior to the start of store sales, depending on the type of goods.

Packaging and delivery to stores are customized for efficient handling, which means that the stocks held by stores can be kept at a minimum. Instead of allocating space for stocks, the space can be used for sales.

Hemtex's IT department is an integrated part of operations and has as its primary assignment to satisfy business requirements for efficient and reliable systems support. Hemtex works almost exclusively with standard systems, and the trend is towards greater simplification of work in the stores and central processing of more tasks. Over the past three years, Hemtex has upgraded the business system, thus creating prerequisites for expanding the system with new modules in order to increase efficiency and manage operations more successfully. Supply Chain and Assortment Planning are and will continue to be major focus areas.

#### **Three sources of revenue**

At the end of the 2008/2009 fiscal year, Hemtex operated 193 proprietary stores and had granted franchises to 30 stores. The Group's primary revenue sources are sales to consumers in its proprietary stores, wholesale sales to franchise holders and franchise fees. During the 2008/2009 fiscal year, Hemtex's proprietary stores had sales of SEK 1,293 M (1,503). Sales at the consumer level in all Hemtex stores during the same period amounted to SEK 1,431 M (1,674), excluding value-added tax.

#### *Contracts with franchise holders*

The contracts with the franchise stores are negotiated with the Hemtex Franchise Holders' Association. The contracts regulate the terms that apply within the Hemtex franchise system. They include a franchise fee that during the 2008/2009 fiscal year was 2.5% of sales. In addition, there is another fee linked to sales that is used entirely for marketing.

This fee can be adjusted according to an established joint consultation procedure. The contract also includes a pledge on the part of the franchisee to purchase goods from Hemtex's wholesale operations or to a limited extent from suppliers with which Hemtex has signed contracts centrally. The franchise stores are operated according to the same concept and guidelines as Hemtex's proprietary stores.

#### *Wholesale sales to franchise holders*

Hemtex AB has a wholesaler role towards the franchise stores. In 2008/2009, sales at the consumer level for franchise holders amounted to SEK 138 M (171), excluding value-added tax.

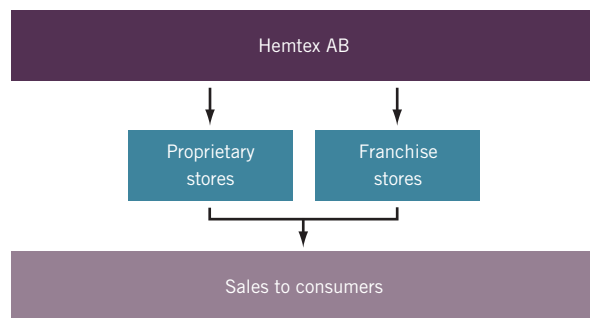
#### *Franchise fees*

Franchise holders pay an affiliation fee when starting operations plus a continuous monthly franchise fee based on store sales. They also pay a certain amount to Hemtex AB for cen-

trally produced or purchased marketing. During 2008/2009, franchise fees amounted to about SEK 3 M (4).

Hemtex also receives other revenues consisting of bonuses from suppliers and partners and non-margin based sales, such as store furnishings for franchise holders.

#### **Hemtex's business model**



# Hemtex's customers

**H**emtex targets women and men who need to furnish, refurbish and beautify their homes. According to a study by Orvesto Konsument, more than one of every two Swedes and slightly more than 80% of Sweden's women visited a Hemtex store during 2008.

According to the market research company GfK, Hemtex customers also more often than average live in a single or semi-detached house, are residents of a large city and have a medium income or higher. Hemtex's profile also appeals to customers with greater purchasing power, such as middle-aged couples without children in cities as well as smaller towns. The core target group is all women between the ages of 25 and 59.

## Loyal customers

Every fifth visitor to a Hemtex stores becomes a paying customer, meaning that the conversion ratio is 20%. Hemtex customers are loyal. According to GfK, customers who had at some time made a purchase at Hemtex purchased on average about 43.4% of their home textiles at Hemtex during 2008.

The Hemtex customer visited the stores on average 3.8 (3.7) times during the year. Among those who visit Hemtex once a year or more frequently, the average was 6.2 (6.1) times. Compared with clothing stores, this is a low figure, indicating that there is significant potential for attracting more visitors to Hemtex stores.

## Increase in average purchase

The average purchase per customer during 2008/2009 was SEK 190 (188). More paying customers and higher average purchases are important factors in increasing Hemtex's profitability. By creating inspiring store environments that display attractive combinations of matching accessories, customers are encouraged to buy more products from Hemtex.

## Hemtex Club

The Hemtex Club card for loyal customers has grown rapidly since its launch in the summer of 2005. By April 31, 2009, there were 265,000 (185,000) members in Sweden and 91,000 (67,000) in Finland. Members of Hemtex Club visit the stores more often than other customers, and their average purchases are significantly higher. Using the information that Hemtex Club provides, marketing measures can be specially matched to the interests of different customer groups. This includes special offers sent to different segments of the card customers.

# Hemtex's product range

The focus in Hemtex's offering is an attractively priced and functional assortment of high-quality textile products. Hemtex shall take the lead in its product range for home textiles and will offer the market's best service.

## Concentrated product range

The focus in Hemtex's offering is an attractively priced and functional assortment of high-quality textile products.

To live up to the company's position as range leader, the product range must continue to be improved. A substantial reduction and concentration of the product range will be implemented with an increased proportion of base products and a lower proportion of trend products.

Prices will span over a broader range, with more premium products than today. More innovative products with new functions, new materials and new material combinations will be launched. Hemtex will continue to focus on its current target customers while at the same time expanding the offering to suit new target groups.

The product range is largely the same in Hemtex stores in all six countries, which creates synergies throughout the entire value chain.

## Focus on textile products

The offering to customers shall comprise quality products in home textiles, with unparalleled scope and depth in core categories. Most of the product range consists of proprietary brands. These products are supplemented by a limited assortment of market-leading brands from external suppliers. The Group's strong position in home textiles provides a solid foundation for investments in developing the product range, an initiative on which great effort is focused within the organization.

Hemtex's strategy for its product range is to follow fashion trends, not to lead them. The time for Hemtex to focus on fashion trends is when they are about to achieve market volume. When fashion trends are seasonal, Hemtex's response will be limited in volume and scope.

## Four product areas

The foundation of the product range is textile products, which account for approximately 75% of sales. To increase the efficiency of operations and to offer customers the best possible service and inspiration, Hemtex has chosen to divide its product range into four product areas: Bedroom, Bathroom, Windows and Dining & Entertaining. All product areas are supplemented by non-textile home accessories, such as flowers, candle-sticks, candles and storage solutions.

The Bedroom product area consists of textile products for the bedroom, such as quilts, pillows, quilt covers, sheets, and pillowcases.

The Bathroom product area includes such products as hand towels, bath towels, bathrobes and bathroom mats, as well as some supplementary bathroom accessories.

The Windows product area consists of ready-made curtains and curtain accessories. The trend in this area has moved from piece goods to ready-made curtains.

The Dining & Entertaining product area has a basic product range consisting of tablecloths, runners, placemats, decorative cushions and rugs.

## Basic, seasonal and fashion

Hemtex categorizes its products as basic, seasonal and fashion. The core product range consists of a selection of proven patterns and designs. Examples of basic products are white sheets, light blue towels and down quilts. Basic seasonal products are matched to the various seasons but have a low fashion value. One example of a basic seasonal product is blue and white-striped cushions for garden furniture that are sold during a limited period but which have basically the same design year after year. Fashion products consist of products with new patterns and designs. They are not comparable to previous products and have a high fashion value. Basic and basic seasonal products comprise about 70% of the product

range. Basic products are always stocked in Hemtex's central warehouse and are distributed to stores several times a week through an automated replenishment system. Basic seasonal products and fashion products are purchased for each season, and allotment to stores initially takes place according to forecast sales. Products are then replenished in pace with sales.

#### Product range planning based on themes

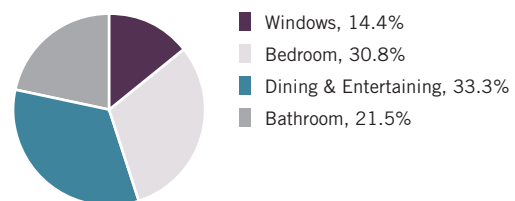
Hemtex's product range is coordinated, appeals to different styles and contains a mix of inspirational and volume products. Planning of the product range is based on themes: classic and traditional, modern and the latest trends. Following these themes, the product range is updated each season with pattern groups that are coordinated with a constantly renewed basic product range of patterned and solid-color textiles and products. Since themes and pattern groups are coordinated, it is easy for customers to find inspiration and matching combinations for their house, apartment or summer cottage.

#### Large share of proprietary brands

To maintain high quality, function and design combined with attractive prices, most of Hemtex's product range consists of proprietary brands. Proprietary brands also strengthen Hemtex's margins.

These brands are supplemented by a limited selection of market-leading brands from external suppliers with which Hemtex has central licensing agreements. A common characteristic of the Group's proprietary and external brands is that they are all products that are carefully designed and hand-picked to fit the Hemtex concept of meticulously selected home decor products of high quality and unique design.

Sales by product area



# Hemtex's stores

**T**he stores are the most important medium in communication and the interface with customers. Hemtex stores should be in prime locations. They should inspire customers to want to beautify and renew their homes. The high flow of the latest fashions and constant changes should induce customers to visit Hemtex stores often.

## **Common store plan**

Hemtex stores must be bright and spacious to inspire customers to want to renew and beautify their homes.

Renovation of Hemtex stores follows a plan that involves regular reviews and renewal as required according to the most recent interior design.

All stores follow a common plan so that Hemtex customers will always recognize the store and have the same experience, regardless of what store or market they visit. The plan also ensures that customers follow a specific path in the store to ensure that they experience the entire assortment. It must be easy to shop at Hemtex.

Activity is high in the stores. Store displays are constantly changed, and products are presented in new ways to suggest change and renewal. The objective is that all Hemtex's core values – know-how, service, inspiration, market-leading, value for money, comprehensive and contemporary – shall be communicated in a uniform manner, thus promoting the strong Hemtex brand. This is regulated in an activity plan that also leverages the sales opportunities provided by the seasons and the individual store's unique prerequisites.

## **Efficient operation and continuous monitoring**

The Hemtex retail chain is characterized by an enterprising spirit, customer focus and a single image to the market. Competitive advantages are gained through joint profiling and a

coordinated approach. The central store communication function, with regional and store communicators, is responsible for ensuring that every store has the expertise required to display goods as effectively and as inspirationally as possible. They also ensure that the stores have a common profile.

Hemtex constantly strives to make store operation as efficient as possible in terms of customer service and sales per hour. The performance of the stores is monitored using key indicators and compared with other stores regionally, nationally and between countries. There are centrally compiled, clear manuals that provide guidelines for store operation.

Efficient merchandise flows are a prerequisite for attaining sales increases and increasing operating profit. It is crucial that stores have a solid inventory structure that ensures rapid and optimal merchandise flows.

## **Proprietary stores account for 90% of sales**

The Hemtex Group has maintained a high rate of new establishment in recent years and also acquired franchise stores. As a result, each geographic area is sufficiently large to generate coordination benefits.

During 2008/2009, Group-owned stores accounted for 90% of the chain's total sales at the consumer level. The corresponding figure was 90% in 2007/2008 and 80% in 2006/2007.

Considering the current priorities for profitability in the existing store network, the Board of Directors decided to reduce the rate of new establishments. During the 2008/2009 fiscal year, 21 stores were established, of which 14 Group-owned. For the 2009/2010 fiscal year, four to six stores will be established, of which half will be owned by the Group. A review of the store structure is expected to result in a net reduction in the number of stores.

**Sales trend in comparable stores within the Group, %**

	2006/2007	2007/2008	2008/2009
Group total	2	- 4	- 20
Sweden	3	- 3	- 20
Finland	2	- 8	- 23
Denmark	- 3	1	- 26
Norway	16	0	- 23
Estonia	-	-	- 20

**Four different formats for Hemtex stores**

	Area
Compact stores City or shopping mall location	180-220 m <sup>2</sup>
Normal format City or shopping mall location	220-350 m <sup>2</sup>
Large format City or shopping mall location	350-500 m <sup>2</sup>
Hemtex & More Volume location	550-700 m <sup>2</sup>

# Hemtex's geographic markets

The Hemtex Group's net sales declined by 13.5% to SEK 1,391 M (1,608) during the 2008/2009 fiscal year. Sales in comparable stores declined by 20% (neg. 4). Total sales to consumers, including franchise stores, amounted to SEK 1,431 M, a decline of 14.5%, compared with the preceding year. Sweden is the Group's largest market with 75.4% (77.5) of consolidated net sales. Finland accounted for 15.1% (14.1), Denmark for 5.0% (4.7), Norway for 3.9% (3.5) and Estonia for 0.6% (0.2) of net sales.

## Continued store expansion in 2008/2009

During the fiscal year, the Hemtex Group opened a total of 14 new stores, of which four in Sweden, four in Finland, one in Denmark, three in Norway and two in Estonia. In addition, one store was acquired from a franchise holder in Sweden. Seven new franchise stores were opened during the year, of which three in Sweden, two in Poland and two in Denmark. During the year, three stores were discontinued, of which one in Norway, one in Estonia and one franchise store in Poland. At the end of the year, 193 stores were operated by the Hemtex Group and 30 by franchise holders.

Hemtex estimates that the Group has a total market share within the Nordic countries (excluding Iceland) of 9%. The goal is to achieve a market share of at least 15% of the Nordic market.

## Expansion through both franchising and proprietary stores

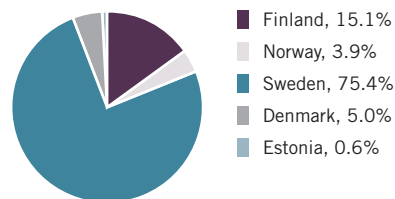
Expansion through franchise stores in new markets is an important component in Hemtex's growth strategy. There are also major opportunities for supplementing the expansion of own stores in existing markets through franchises. The combined power of Hemtex's strong concept and entrepreneurs with broad knowledge of the local market is an important key to successful establishment.

The franchise rights that were granted for Poland were by store and not for the entire region, since Hemtex wishes to keep the door open for being able to open its own stores in these markets.

## Review of store structure 2009/2010

Considering the current priorities for profitability within the existing store network, the Board of Directors decided to reduce the rate of establishment of new stores for 2009/2010. During the fiscal year, four to six stores will be established, of which half will be owned by the Group. A review of the store structure is expected to result in an overall reduction of the number of stores.

Group sales 2008/2009 per geographic market



# Hemtex in Sweden

In Sweden, the Hemtex Group's net sales declined by 15.8% during 2008/2009 to SEK 1,048.7 M (1,245.4). For comparable stores, the decline in sales was 20% (neg. 3). Operating profit fell to SEK 22.6 M (135.3). One reason for the sharp drop in sales was the economic downturn, which reduced consumer spending. Another reason was a change in Hemtex's price strategy, which during the preceding year included significant sale periods, which have now stopped.

## Seven new stores

During 2008/2009, a total of seven new Hemtex stores were opened in Sweden. Hemtex AB opened four stores in Skövde, Kalmar, Norrköping and Malmö. Three new franchise stores

were opened in Sala, Eslöv and Sandviken. In addition, Hemtex AB acquired and took over a store in Östersund from a franchisee.

Hemtex's assessment is that there is scope for about 150 Hemtex stores in Sweden. Since Hemtex already has a well-developed store structure, establishment of new stores will take place at a lower rate than in earlier years. Increased focus will be placed on structural measures to increase sales and profits in the existing store network.

## Hemtex in Sweden on April 30, 2009

Year established: 1973	Market share: 26.4 (28.4)%
Number of stores: 150 <sup>1</sup> (145)	Net sales: SEK 1,048.7 M (1,245.4)
New stores 2008/2009: 7 <sup>2</sup>	Operating profit*: SEK 22.6 M (135.5)
In focus 2009/2010: Focus on structural measure in the existing store network.	

1) Of which 125 (121) operated by the Group and 25 (24) by franchise holders.

2) The Group opened three stores in the 2008/2009 fiscal year. During the same period, three franchise stores were opened.

\* Earnings in Sweden consist of earnings from the Swedish retail operations and earnings from wholesales sales from the central warehouse to own stores and franchise stores in Sweden.

# Hemtex in Finland

In Finland, the Group's net sales declined by 7.4% during 2008/2009 to SEK 210.6 M (227.3). For comparable stores, sales declined by 23% (neg. 8) in local currency. Operating income declined and resulted in an operating loss of SEK 22.0 M (profit: 3.8). The sales decline in existing stores was due to lower demand. This resulted in a significant build-up of inventory in Finland and led to substantial price reductions.

Finland has a strong design tradition, and interest in home textiles is great. The Hemtex concept has been shown to work well in the Finnish market. Surveys show that consumers perceive Hemtex as a chain with a broad assortment of reasonably priced products with a high fashion content.

## Limited store expansion

Store expansion continued to take place at a low rate during the 2008/2009 fiscal year. Four new Hemtex stores were opened during the year in Porvoo, Joensuu, Vaasa and Tampere with the result that Hemtex had a total of 42 stores in Finland in April 2009. During the 2009/2010 fiscal year, Hemtex will open only a few stores. Some stores will also be discontinued during the year. Over time, there is scope for slightly more than 50 Hemtex stores in Finland. Just as in Sweden, structural measures will be implemented with respect to floor space and concept to increase sales and profits in the existing store network.

## Hemtex in Finland on April 30, 2009

Year of establishment: 2001	Market share: 9 (9)%
Number of stores: 42 (38)	Net sales: SEK 210.3 M (227.3)
New stores in 2008/2009: 4	Operating profit/loss*: SEK -22.0 M (3.8)
In focus 2009/2010: Limited store expansion, improve profitability, build customer awareness and confidence in Hemtex.	

\* Earnings in Finland consist of earnings from Finnish retail operations and earnings from the Swedish wholesale operation's sales to Finnish stores.

# Hemtex in Denmark

**D**uring 2008/2009, net sales in Hemtex's Danish operations declined by 9.2% to SEK 69.3 M (76.3). For comparable stores, sales declined by 26%, compared with a 1% increase in 2007/2008. Operating income declined to an operating loss of SEK 7.7 M (profit: 3.8). The sales trend was weak during the second half of the fiscal year. The impact of the weak economy was particularly noticeable in the Copenhagen area.

## Cautious store expansion

During 2008/2009, one new store operated by the Group was opened in Roskilde, and an additional two franchise stores were opened in Randers and Århus. On April 30, 2009, there were a total of 13 Hemtex stores in Denmark, of which 11 were owned by the Hemtex Group.

During 2009/2010, cautious expansion of the Hemtex store network will continue in Denmark. Hemtex estimates that there is potential over time for slightly more than 40 stores in the Danish market. Establishment of new stores outside the Copenhagen area will primarily take place through franchise agreements.

## Hemtex in Denmark on April 30, 2009

Year of establishment: 1999	Market share: 2 (2)%
Number of stores: 13 <sup>1</sup> (10)	Net sales: SEK 69.3 M (76.3)
New stores in 2008/2009: 3 <sup>2</sup>	Operating profit/loss*: SEK -7.7 M (3.8)
In focus 2009/2010: Cautious store expansion, increased volumes, improved profitability.	

1) Of which 11 (10) were operated by the Group and 2 (-) by franchise holders.

2) Of which 1 was opened by the Group and 2 by franchise holders.

\* Earnings in Denmark consist of earnings from Danish retail sales and earnings from the Swedish wholesale operation's sales to Danish stores.

# Hemtex in Norway

**D**uring 2008/2009, net sales in Hemtex's Norwegian operations declined by 3.8% to SEK 54.1 M (56.3). For comparable stores, sales declined by 23%, compared with the preceding fiscal year. An operating loss of SEK 24.9 M (loss: 1.0) was reported.

### Three new stores

The first Hemtex store in Norway was opened in March 2006 in Oslo. Seven stores were added in 2006/2007, four in 2007/2008 and three in 2008/2009 in Asker, Jessheim and Kolbotn. During 2007/2008, a store was discontinued in Oslo

and in April 2009, a store in Drammen was discontinued, since it was not developing according to plan. This meant that there were a total of 13 Hemtex stores in Norway in April 2009.

Expansion in Norway is important, since the market is the largest in the Nordic region in terms of value and also shows high growth. In addition, the home textiles market in Norway is relatively homogenous with respect to what consumers want and the prevailing trends. Hemtex therefore considers that the Group's concept is viable in the Norwegian market and that there is potential for about 50 Hemtex stores in Norway over the long term.

### Hemtex in Norway on April 30, 2009

Year of establishment: 2006	Market share: 2 (2)%
Number of stores: 13 (11)	Net sales: SEK 54.1 M (56.3)
New stores in 2008/2009: 3 <sup>1</sup>	Operating loss*: SEK -24.9 M (-1.0)
In focus 2009/2010: Cautious expansion, increased volumes, improved profitability.	

1) Three new stores were opened and one was discontinued during the 2008/2009 fiscal year.

\* Earnings in Norway consist of earnings from Norwegian retail sales and earnings from the Swedish wholesale operation's sales to Norwegian stores.

# Hemtex in the Baltic countries and Poland

In June 2007, Hemtex opened its first store in the Baltic countries in the Estonian city of Pärnu. During 2008/2009, stores were opened in Narva and Tallinn. The store in Narva, which was opened in May 2008, was discontinued in April 2009, when Hemtex concluded that prerequisites were lacking to achieve the targets in the original calculations for establishment. The goal for store establishment in the Baltic countries when the market once again stabilizes is to establish two to three stores per year in the region. Over time, Hemtex estimates that there is a potential for a total of 20 to 25 stores in the Baltic countries. Operation of the stores in Estonia takes place with support from Hemtex in Finland.

As part of the Group's continued expansion, Hemtex signed a letter of intent in April 2007 regarding franchise rights with a business partner in Poland. The agreement has resulted in the opening of three stores in Poland, two during the 2007/2008 fiscal year, and one in May 2008. Stores were established in Warsaw and Rumia. The store in Rumia was discontinued in March 2009, following a decision from the franchisee, which had not succeeded in achieving satisfactory profitability in the store. Because establishment in Poland takes place in partnership with the franchisee, expansion can take place rapidly with little tied-up capital, as well as with reduced risk and sound knowledge of the local market. The focus in continued establishment will be on the major cities.

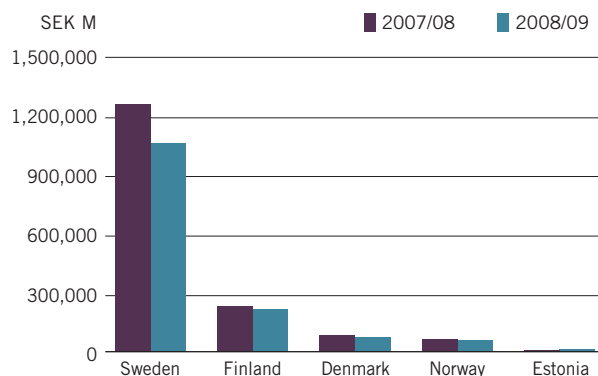
## Hemtex in the Baltic countries on April 30, 2009

Year of establishment: 2007	Market share: Newly established in the market, thus no data
Number of stores: 2 (1)	Net sales: SEK 7.9 M (2.9)
New stores in 2008/2009: 1 <sup>1</sup>	Operating loss*: SEK -0.6 M (-0.7)
In focus 2009/2010: Wait and follow economic trends before taking decision on continued store expansion in the region.	

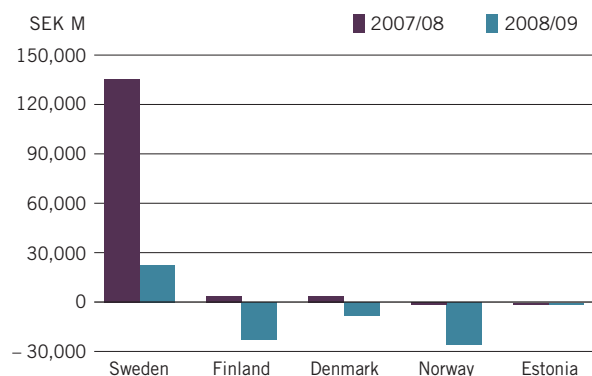
1) Two new stores were opened and one was discontinued during the 2008/2009 fiscal year.

\* Earnings in Estonia consist of earnings from Estonian retail sales and earnings from the Swedish wholesale operation's sales to Estonian stores.

### Sales in the Group



### Operating earnings in the Group



Operating earnings in the segments include earnings from the retail operation's sales in each market and earnings from the Swedish wholesale operation's sales to each market.

# An attractive employer

**S**ince all employees within both the Group and the franchise companies are important ambassadors for Hemtex, skills development is one of Hemtex's principal and most long-term investments.

The basic idea of Hemtex's personnel policy is to take the Group's vision, business concept and general guidelines as the starting point for stimulating all employees to show initiative, be creative and take responsibility. This is achieved by such means as ongoing development of managers, informal meetings within the various operational organizations and regular talks between managers and employees.

## **A sound work environment**

In order to create a secure and enjoyable workplace in which employees feel well both physically and mentally, Hemtex works systematically with the work environment and safety. All leaders within Hemtex have a key role in creating a work environment in which all employees enjoy their work and feel involved. Twice each year, combined work environment and safety training is arranged for all store managers. The store managers then bring this knowledge to their own stores where they conduct systematic occupational health and safety work. The greatest emphasis is on detecting possible risks and rectifying them.

The Hemtex culture should be free from prestige and characterized by cooperation, continuous improvement, openness and communication between various parts of the organization and between individuals. The company places its trust in people performing their work to the best of their ability. In addition, leadership within Hemtex shall be characterized by an enterprising approach, clarity and active internal communication.

An important part of Hemtex's efforts to create a sound work culture is the view that diversity is enriching and that all people have equal rights and value, regardless of ethnic or social background, political or religious convictions, gender, age, sexual orientation, marital status or functional disability.

## *Lower absence due to illness*

During the fiscal year, costs for fitness programs, including healthcare and physiotherapy, amounted to SEK 414 (587) per employee. Total absence due to illness was 5.0% (5.6), of which short-term absence accounted to 3.4% (3.3) and long-term absence for 1.6% (2.3).

Through fitness subsidies, Hemtex employees are encouraged to participate in fitness activities. The number of persons availing themselves of this opportunity increased by about 9% in 2008/2009.

## **Important skills development**

The foundation for skills development is the development talks that each employee has with his or her immediate supervisor at least once a year. It is the supervisor's responsibility to help employees to develop in a direction that is rewarding for both the individual and the Group. It is important to utilize the skills of all employees in the best manner. Both the company and the individual are responsible for the individual's development.

Skills development within a company with such broad operations as Hemtex can take many forms and range from store displays to training in leadership and enterprise. Hemtex's view of skills development, however, is based on the belief that learning best takes place in daily work and through the transfer of knowledge between employees. This is also supplemented by internal and external specialist training.

## *Expanded store manager training*

In order to strengthen and enhance leadership, Hemtex constantly offers store managers an opportunity to participate in leadership training. Over the past year, Hemtex's store manager training was expanded from four to six days. The content of the training was changed and given greater depth with more focus on self-awareness, leadership and coaching. Store finances and recruitment were also subjects that were added.

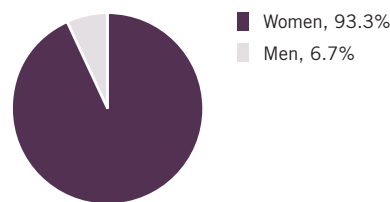
### *Sales and product training through e-learning*

At Hemtex as the market's leading player, it is important that the customer is met by knowledgeable and committed employees in the stores. To ensure good service and high availability to customers, activities are organized for more efficient scheduling in the stores, as well as programs for continuous training of store managers. During 2008/2009, a combined training program in sales and product expertise was developed in the area of quilts and pillows. The training, which is interactive via e-learning, included all employees and resulted in a higher level of expertise within the product area and greater sales skills.

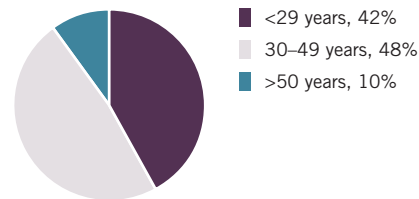
### **An attractive employer**

Hemtex works long-term in efforts to develop its reputation as an attractive employer and ensure effective short and long-term recruitment. Within the Group, there are various development and career opportunities both centrally and regionally. The establishment of purchasing offices in Asia and store expansion in the Nordic and Baltic countries creates further opportunities. Skills development is a central part of Hemtex's ambition to be an attractive employer that can both retain and develop existing employees and increase its ability to recruit new employees with the right skills. Hemtex stores receive large numbers of unsolicited applications for employment and can also recruit highly skilled individuals at other levels of the organization. It is important for the company that this situation be maintained.

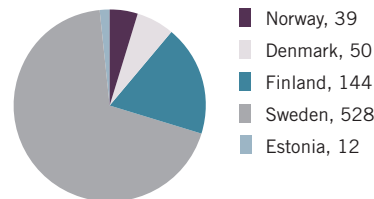
### **Gender distribution**



### **Age distribution**



### **Employee distribution per country**



<b>Key data</b>	2006/ 2007	2007/ 2008	2008/ 2009
Number of annual employees	602	756	773
Sales per employee, SEK M	2.4	2.1	1.8
Added value per employee, SEK M	0.8	0.7	0.5

Hemtex is responsible for ensuring that Group operations are sustainable, both with regard to the company's own operations and those carried out by companies with which Hemtex chooses to cooperate. This responsibility applies to all those countries and communities in which Hemtex is active.

## Work for sustainable development

**H**emtex purchases all of its textiles and other products from suppliers globally. Purchasing from Asia continued to increase in scope and in 2008/2009 was 74%. About 81% of the Group's purchases are direct from the suppliers.

Since Hemtex is not directly in control of production, the Group has produced guidelines for suppliers in terms of a Code of Conduct to ensure that the products are manufactured under satisfactory working conditions and in the correct manner. The Code of Conduct is based on the UN's Convention on the Rights of Children and conventions that the UN's agency for labor market issues, ILO, has established for working conditions and rights in working life. The Code of Conduct deals with such issues as discrimination, child labor, working hours, salaries, working conditions and the right to form and belong to trade unions. In 2008, the Code of Conduct was updated with environmental requirements.

All Hemtex suppliers have signed framework agreements regarding delivery, quality, environmental and ethical demands and also demands in terms of copyright protection. The framework agreement is connected to the purchasing conditions, Hemtex Purchasing Instructions.

### **Environmental requirements on manufacturing**

Hemtex operations have the greatest impact on the environment in conjunction with manufacturing and transport. Among other aspects, environmental work therefore focuses on reducing the use of harmful chemicals in manufacturing through establishing stop lists and permissible levels for certain chemicals, and making environmentally conscious choices as regards packaging materials.

In the framework agreement that is signed by suppliers, Hemtex demands that they comply with local environmental laws and have all necessary permits for their operations. The environmental requirements in Hemtex's Code of Conduct include regulations regarding purification of air and water emissions, certificates from authorities, lists and safety factsheets for all chemicals and demands concerning the handling of chemicals and waste.

### **Environmental requirements on transports**

For logistic services, suppliers are contracted who strive to be leaders in environmentally sustainable transport and logistic solutions. For the most part, shipments to Hemtex occur by sea and to a far lesser extent by air. Procedures for when air freight may be used have been produced, and only a marginal share of Hemtex's transports are by air. Emissions from the transportation of goods have been studied, and the results will form the basis for future emissions requirements.

### **Systematic monitoring of suppliers**

Hemtex implements systematic monitoring of work conditions and environmental practices at supplier operations. Hemtex has produced its own inspection manuals that comply with the company's Code of Conduct and build on previous experience of the established BSCI and SA8000 systems.

The purchasing offices in Dhaka, Bangladesh, and in Shanghai, China, function as hubs for both purchasing and inspection activities, which are closely connected. Hemtex carries out inspections under its own management and also contracts inspections from independent, certified companies such as SGS and ITS.

During the 2008/2009 fiscal year, most suppliers in Asia were inspected. Action plans were developed for all suppliers that were not approved. Hemtex's Code of Conduct is an important parameter in the evaluation of suppliers.

Hemtex's goal for 2008/2009 was to inspect all suppliers in Asia during the year. That the goal was not achieved depended on two factors. One was a consolidation of the Group's supplier base in which the emphasis was on important long-term suppliers and purchasing markets to become even more efficient by concentrating purchases to fewer suppliers. The other was that Hemtex performed extensive inspections of the delivery chain for down and feathers in China both through its own controls and in collaboration with other Swedish companies and Chinese industry associa-

tions. Hemtex purchases down and feather products directly from suppliers in China. In the inspections that were performed on all suppliers in this area, no hand-plucked products were detected. Hemtex also checked the delivery chains from producers of quilts and pillows to where and how the animals were slaughtered.

**Increased commitment within the Better Cotton Initiative (BCI)**

In an effort to positively influence conventional cotton production, Hemtex is committed as a partner member of the Better Cotton Initiative (BCI). BCI is an international organization that works to make large-scale cotton cultivation less

damaging to health and the environment and more economically viable than today's conventional cultivation. Among other aspects, the goal is to reduce the use of pesticides, artificial fertilizers and water. Proposers and members of the BCI's Board are global environmental organizations and leading companies in the textile industry. BCI has attained an important role in environmental work within cotton production, which results in a broader environmental impact than merely focusing on increasing the share of ecological cotton. Hemtex will further increase its commitment to the organization in the future.

Hemtex's view is that it is important to assume responsibility for the environment and to contribute to a long-term sustainable society.

## Hemtex's environment policy

**H**emtex's environmental work shall be characterized by an overall approach and be a continuous process, in which the company shall always strive to improve its work to ensure a reduction in its operations' impact on the environment. Since Hemtex must behave responsibly in the communities in which it operates, the Group has established the following guidelines for its work:

### **Health and safety**

When Hemtex products are manufactured, attention must be paid to both the environment and the health and safety of all people with whom the company interacts, from the suppliers' employees to the Group's own employees and customers.

### **Environmental legislation**

Hemtex shall comply with current environmental legislation and keep abreast of changes that affect the company.

### **Environmental awareness among employees and suppliers**

Hemtex's employees and suppliers shall receive information about Hemtex's environmental impact and environmental requirements. Hemtex shall motivate its staff to participate in and assume responsibility for environmental work to ensure that it becomes a natural part of daily work.

### **Environmental demands on suppliers**

Hemtex shall endeavor to reduce the environmental impact of manufacturing of its home textiles and other products by ensuring that suppliers improve their operations in accordance with the Group's environmental requirements.

The environmental aspect shall be one of the considerations in the choice of packaging and the design of stores.

Hemtex's environmental demands concerning the purchase of products and services shall be constantly improved.

### **Transports**

Hemtex shall strive to reduce the environmental impact of transports and take the environment into consideration in the choice of mode of transport.

Hemtex conducts systematic and focused environmental work to reduce the Group's environmental impact. During the 2008/2009 fiscal year, the focus was on the following areas:

## Hemtex's environmental work

### Purchasing

- Despite low demand among customers for ecological cotton products, Hemtex offers a wide range in this area. Through its commitment to the Better Cotton Initiative (BCI), Hemtex works actively so that large-scale cotton production will be less hazardous to health and the environment and more economical than today's cultivation.
- A list of chemicals that are hazardous to health and the environment was updated and is being continuously expanded. Hemtex is a member of what is called the Chemicals Group, which drives the industry's development in this area in collaboration with Swerea, a research organization that tests textile materials.

### Transports

- Key figures for emissions have been developed. The next step will be to establish concrete targets for emissions.
- Key figures and targets for load factors in transports have been developed and partially achieved.
- Routines for when air freight may be used are established. At present, a very limited portion of transports are by air.

### Marketing and sales

- Environmental requirements were introduced for non-retail items and will be expanded.
- All bags in Hemtex stores are made of recycled plastic, thus contributing to reducing environmental impact.
- Work was initiated to develop routines for environmental communication in stores for both employees and customers. In addition, a survey is in progress to determine what routines are needed for recycling in stores.
- Routines for environmental communication and recycling were introduced in the head office in Borås. These routines will then function as examples for the entire organization, including stores and administrative units.

### At Group level

- Work was initiated to establish goals for electricity consumption and origin.
- A new travel policy and an updated company car policy were developed based on more stringent environmental requirements.
- Environmental training of personnel in the offices in Borås, Shanghai and Dhaka was implemented.
- Work was initiated to increase the scope of the environmental policy to also include ethics, work environment, equality, communication and marketing. This work is taking place in collaboration with Hemtex's largest shareholder Hakon Invest.

**Hemtex AB**

Druveforsvägen 8 · Box 495  
SE-503 13 Borås · Sverige  
Phone +46 (0)33 20 69 00  
Fax +46 (0)33 20 69 90

**Hemtex**

[www.hemtex.com](http://www.hemtex.com)