



H&M GROUP SUSTAINABILITY REPORT 2017

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About H&M group

H&M group loves fashion and design. We are always working to create the best offering for our customers, in the most sustainable way.

H&M group includes eight clearly-defined brands – H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories and ARKET. Together, our brands offer customers a wealth of styles and trends in fashion, beauty, accessories and home-ware – as well as healthy, modern food in selected stores.

Through our integrated physical stores and digital channels, we reach customers around the world. Our customer proximity is amplified by our 171,000 colleagues globally, operating in both sales and production markets.

ABOUT H&M FOUNDATION

H&M Foundation is a non-profit global foundation, privately funded by the Stefan Persson family, founders and main owners of H&M group. The foundation's mission is to drive long lasting positive change and improve living conditions by investing in people, communities and innovative ideas. Learn more about H&M Foundation's work on pages 20, 35 and 72, and read the annual report, A Catalyst for Change 2017 at hmfoundation.com



2017 FIGURES

SEK **232** billion in sales incl. VAT in 2017.

4,739 stores in **69** markets and e-commerce in 43 markets.

H&M group welcomed approximately **10,000** new employees in 2017.

We have more than **171,000** colleagues around the world.

H&M

COS

WEEKDAY



MONKI

H&M HOME

& other Stories

ARKET

Our value chain



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

We create fashion and quality at a great price in a sustainable way. To do this, H&M group is responsible for the efficient and effective running of its own value chain. Our value chain describes the full sequence of processes involved in the production and lifespan of all our products, from product ideation to customer use and disposal.

But our value chain does not operate in isolation. With eight brands, selling products in over 4,700 stores, it is connected to countless people, communities, ecosystems and other businesses around the world.

IMPACTS ALONG OUR VALUE CHAIN

Our vast network of value chain connections means that our social, environmental and economic impacts are significant and far-reaching. Therefore, to maintain our business idea, we need to maximise the positive impacts and minimise the negative impacts we have along our value chain. We achieve this by using our size and scale to leverage and catalyse changes that improve the operation of our own value chain as well as the wider industry.

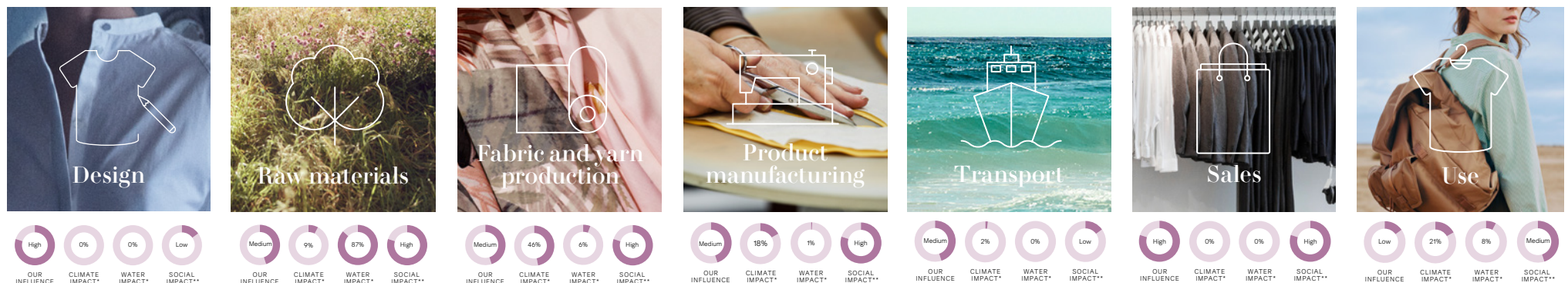
Please see the illustrations below for a more in-depth look at the impacts we have along our value chain. Please also visit sustainability.hm.com for further information.

In 1947, H&M opened its first store in Västerås, Sweden. 2017 marked our **70th** anniversary.

The supplier factories we work with employ over **1.6** million people of which 62% are women.

H&M alone has **800** million customer transactions per year.

Our products are made in **1,668** supplier factories around the world.



*Climate impacts are based on a scope 3 assessment made by Ecofys in 2016, based on 2014 data. Calculations in the footprint analysis are based on a combination of quality H&M group data (2014 material usage) combined with the best available public data sources on CO₂ emissions. We are working to further improve the calculations by using primary data from our main suppliers. The water footprint is based on the Water Footprint Network's methodology and includes green, blue and grey water footprints. Deviation from 100% due to rounding effects.**For more information about our social impacts, see pg 92. A number of these issues related also to H&M group's salient human rights issues, i.e. those human rights at risk of the most severe impact across our operations and supply chain.

Letter from CEO



Karl-Johan Persson, CEO.

We believe sustainable fashion and design should be available to everyone, not only to a privileged few. Since my grandfather founded the company 70 years ago we have had a long-term perspective.

To secure future business it is essential and natural for us to address sustainability proactively. We are dedicated to continue making great fashion and design affordable, by having a circular approach and being a fair and equal company.

Thanks to our size and to our committed colleagues, H&M group is fit to lead the change towards a more sustainable fashion future. However, this is not a task that we can manage on our own; collaboration, new-ways of working and joint industry goals are key for accelerating the changes and results needed. Our continued commitment to the United Nations Global Compact and our ongoing collaborative work with stakeholders, including local and global experts and NGOs, are a few examples of how we work to achieve positive change through shared responsibility.

This report presents the H&M group's achievements and progress within the sustainability field over the past year. There are still challenges ahead, but I am proud of what we have achieved so far and the positive impact we are making.

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

Executive summary

We believe that sustainable fashion and design should be available to everyone today, tomorrow and for generations to come. Our vision is to use our size and scale to lead the change towards circular and renewable fashion, while being a fair and equal company. To achieve this, we have developed an ambitious strategy, with a broad range of external and internal experts. Our strategy follows a science-based approach wherever possible.

OUR VISION AND STRATEGY ARE BUILT ON THREE KEY AMBITIONS



KEY 2017 ACHIEVEMENTS

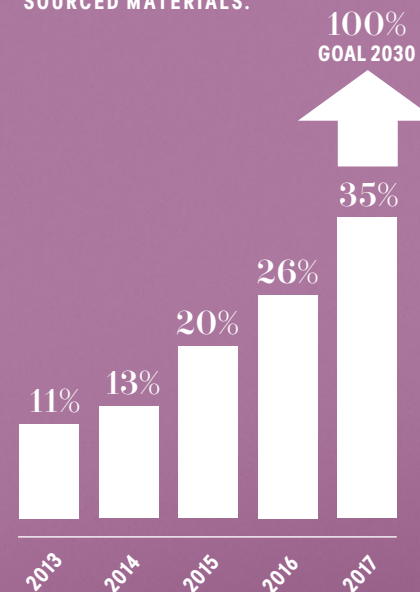


INNOVATION IS THE KEY TO ACHIEVING FULL CIRCULARITY. THAT'S WHY WE ARE SUPPORTING GROUND-BREAKING COMPANIES SUCH AS RE:NEWCELL, WORN AGAIN AND TREETOTEXTILE.

We've reduced emissions from our own operations by a further 21%. This takes us another step closer to achieving a climate positive value chain by 2040.

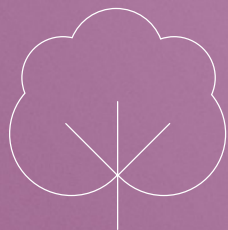
100% OF THE FACTORIES WE WORK WITH IN BANGLADESH HAVE NOW CONDUCTED DEMOCRATIC ELECTIONS OF WORKER REPRESENTATIVES.

BY 2030, WE WILL ONLY USE 100% RECYCLED OR OTHER SUSTAINABLY-SOURCED MATERIALS.



Our supplier list includes the details of tier 1 factories for 98.5% of our products and tier 2 factories for 60% of our products.

458 SUPPLIER FACTORIES HAVE BEEN TRAINED IN OUR WORKPLACE DIALOGUE PROGRAMME, AND MORE THAN 620,000 WORKERS ARE NOW REPRESENTED BY ELECTED WORKER REPRESENTATIVES.



Today, 59% of the cotton we use is sustainably-sourced. Our goal is to use 100% sustainably-sourced cotton by 2020.*



During 2017, we collected 17,771 tonnes of textiles through our garment collecting initiative for reuse and recycling.

*Which includes certified organic cotton, Better Cotton (BCI) and/or recycled cotton.

We've set a new chemical vision and roadmap to lead the change towards a toxic-free fashion future.

BOARD OF DIRECTORS GENDER SPLIT 2017
56% WOMEN / 44% MEN

100% of our commercial business partners have signed our Code of Ethics.



Awards & recognitions

Dow Jones Sustainability Europe Index
Dow Jones Sustainability World Index
Fashion Revolution's Fashion Transparency Index
FTSE4Good
Global Compact 100 index
Global 100 Most Sustainable Corporations
Newsweek Green Ranking
SIGWATCH – most praised company in the world by activists
Sustainable Cotton Ranking – category “Leading the way”
Textile Exchange Preferred Fiber & Materials Report 2017 – second biggest user of organic and recycled cotton
The Business of Fashion – the Best Companies to work for in fashion 2017

Each year, we produce a sustainability report summarizing H&M group's sustainability work and progress. The report includes all brands (H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories and ARKET) and is prepared in accordance with the GRI Standards: Core Option. We also report on human rights in line with the UN Guiding Principles Reporting Framework and are signatories to the UN Global Compact. Our sustainability strategy is also well aligned with the UN's Sustainability Development Goals (SDGs). To learn more, please visit sustainability.hm.com



H&M.

OVERVIEW
VISION & STRATEGY
100% LEADING THE CHANGE
100% CIRCULAR & RENEWABLE
100% FAIR & EQUAL
STANDARDS & POLICIES
HOW WE REPORT

Our vision & strategy

At H&M group, we believe that sustainable fashion and design should be available to everyone. Our vision is to lead the change towards a circular and renewable fashion industry, while being a fair and equal company. Using our size and scale, we are working to catalyse these systemic changes across our own operations and the wider industry to ensure that we can continue to create great fashion and design in a sustainable way for many generations to come.

This vision applies to every brand within H&M group. We all share the same values, the same belief in fairness, diversity and equality and the same ambition to lead the change towards a sustainable fashion and design industry.

While we have a long and well-established history in sustainability, projected population growth figures and natural resource levels make it clear that a different approach to our work is needed, hence the creation of our latest vision and strategy.

But our vision is not only necessary from a social and environmental perspective – it also makes good business sense. Long-term investments in sustainability provide us with long-term business opportunities that will keep H&M group

relevant and successful in our rapidly changing world.

We know that achieving our vision will not be easy, but we always strive to embrace and tackle challenges. By continuing to work with and learn from stakeholders and industry experts who help set and shape our sustainability work, we believe that we are in a strong position to have a positive impact. Furthermore, by applying a science-based approach to our work, we can set the best goals and roadmaps possible to drive positive change throughout our company and the wider industry.

Our sustainability strategy



Our ambitions

Our vision and strategy are built on three key ambitions

100% LEADING THE CHANGE

- Promote and scale innovation
- Drive transparency
- Reward sustainable actions

100% CIRCULAR & RENEWABLE

- A circular approach to how products are made and used
- Use only recycled or other sustainably-sourced materials
- A climate positive value chain

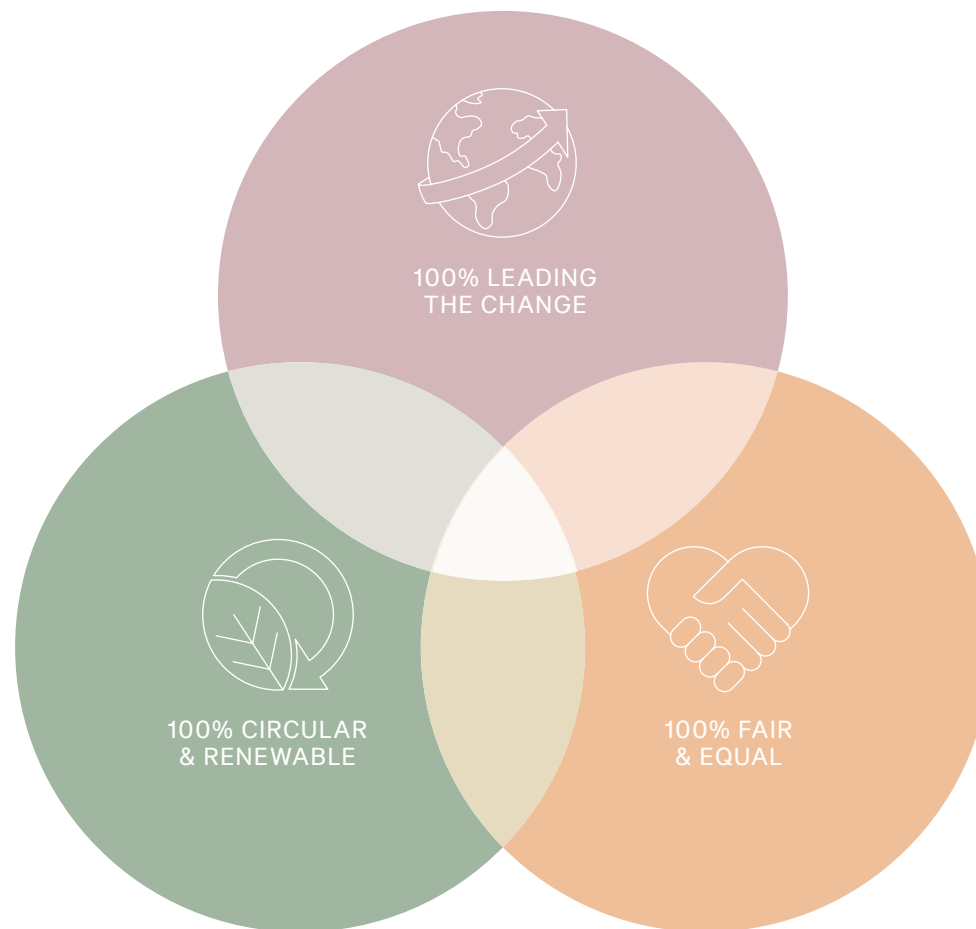
100% FAIR & EQUAL

- Fair jobs for all
- Stewards for diversity and inclusiveness

Our ambitions set a very high bar and that's because we believe big change requires big ambitions. Solutions to many of the challenges facing the industry are simply not in place yet and as such we need strong ambitions and vision to help us find those solutions. It is our ambitions that give us the long-term focus, direction and motivation needed to really drive positive change across the industry.

“A company of our size and scale has a responsibility as well as a great opportunity to lead the change towards a more sustainable fashion and design industry.”

ANNA GEDDA, HEAD OF SUSTAINABILITY, H&M GROUP



Our Change-Making Programme

While our strong vision and ambitions help set the direction of our sustainability strategy, it is our Change-Making Programme that really turns this strategy into action.

As H&M group is comprised of multiple brands, operating in a variety of functions across many different countries and cultures, we need a programme that systematically and effectively integrates sustainability into all aspects of our business. Our Change-Making Programme is our solution.

The programme brings together the goals, roadmaps, standards and follow-up methods we need to work towards our vision, while leaving room for locally-tailored implementation and activities. This approach helps us make sustainability a relevant part of all our colleagues' daily working lives.

We turn our vision and strategy into action by working with:



GOALS

Our vision and ambitions are translated into concrete goals at group, market and function levels.

Each function and market has ownership of its own sustainability goals.



ROADMAPS

These are strategic plans, targets and actions for reaching our goals.

We have roadmaps for specific sustainability areas, for example energy, water, innovation, waste and transparency.



STANDARDS AND POLICIES

Our sustainability standards ensure that we and our business partners operate in a sustainable way.

They include our Code of Ethics, Sustainability Commitment, Human Rights Policy, etc.

See more on page 79 in Standards & policies.



METHODS AND FOLLOW-UP

These are the processes, routines and methods we use to set goals and evaluate our progress.

They ensure that our strategy is well-integrated across our business.



CULTURE AND VALUES

Engaging our changemakers

We believe that changemakers are the people who can help H&M group achieve our vision of a sustainable fashion and design industry.

STAKEHOLDERS & EXPERTS

Building and maintaining partnerships and dialogue with industry stakeholders and experts is crucial to achieving our vision. Stakeholders and experts provide us with direction and expertise that we can then use to develop our long-term goals and action plans. They also work together with us to address specific challenges and help us to find the best solutions.

BUSINESS PARTNERS

We build rewarding partnerships with our business partners and are working with them to raise environmental and social standards across our industry.

OUR COLLEAGUES

Everyone at H&M group should feel like they can contribute. We're working to enable all employees to use their talents, skills and passions in their daily work to lead the change our industry needs.

OUR CUSTOMERS

We are working to inspire our customers to make more sustainable choices and to join our sustainability mission. Our size and scale means that we have many customers, so every single action, no matter how small, makes a huge collective difference.

“Achieving systemic change is not something that can be done alone. Collaboration is essential.”

HENDRIK ALPEN, SUSTAINABILITY ENGAGEMENT MANAGER, H&M GROUP



How we are organised

As our Change-Making Programme illustrates, to drive long-term change throughout our entire value chain, it is crucial that sustainability play an active role in the daily work of all our colleagues and across every function within H&M group.

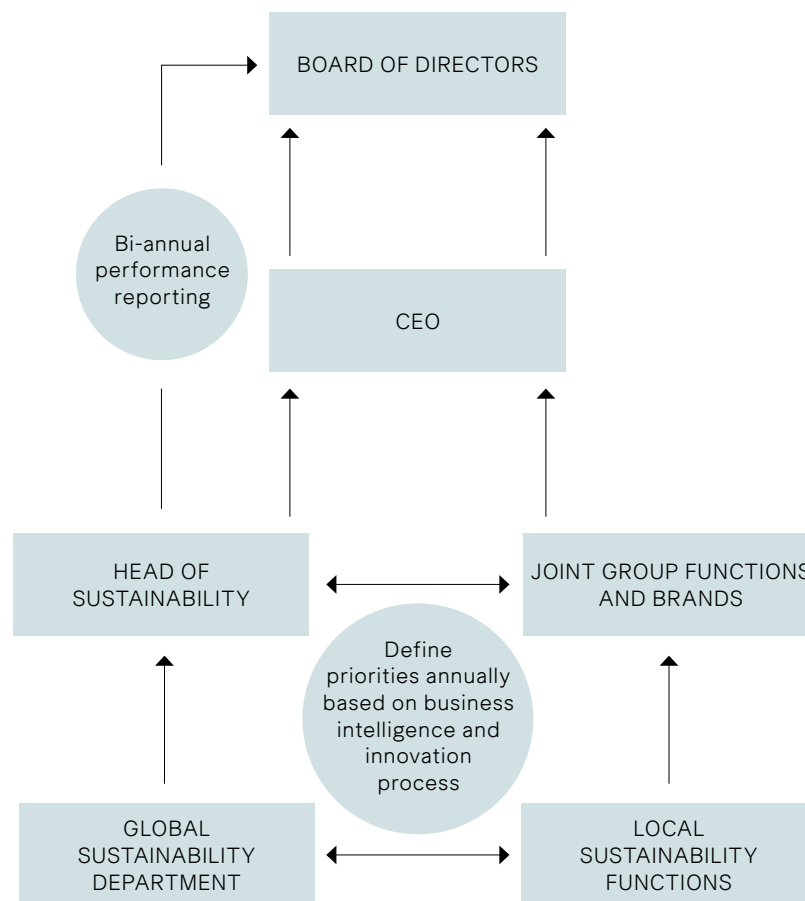
Reporting directly to our CEO, our Head of Sustainability is responsible for the implementation of our sustainability vision and strategy together with the Executive Management Team. Twice a year, our CEO, CFO and Head of Sustainability review the progress made and report performance (against key sustainability indicators) to our Board of Directors.

Our global sustainability department consists of more than 30 experts responsible for setting strategies, targets, goals, policies and follow-up procedures to ensure that our sustainability work is carried out systematically.

In our 20 production markets, we employ more than 150 people working specifically in sustainability. These colleagues work directly with our business partners to assess their performance against our Sustainability Commitment (which replaced our Code of Conduct in 2016 – read more on page 82) and support them in making improvements through capacity building programmes and activities.

Each function within each sales market then additionally sets its own measurable sustainability goals and activities based on the strategy set by our global sustainability department. Within each sales market, we employ a dedicated sustainability manager who drives the implementation of our strategy across the entire market to engage all colleagues and customers.

Organisational chart



Interview with Head of Sustainability

How have H&M group's new sustainability vision and strategy been received since their launch last year?

I think our new sustainability strategy has been well received. As it was developed with the support and guidance of leading industry experts with a great knowledge of the current sustainability landscape, we believe that it resonates with many key challenges and opportunities that face the fashion industry.

Since the launch, our focus has been on the long-term implementation of the strategy across the entire H&M group. But alongside our work towards achieving our key long-term goals, we are also continuously adding short-term goals and milestones to really help drive our vision and ambitions forward.

What are the biggest challenges to fulfilling your goals?

The main challenges we face are not specific to H&M group, they are industry-wide. Therefore, solutions cannot be reached by us alone – they all require industry collaboration. For example, our goal to become 100% fair and equal is very much dependent on industry collaboration. While we are seeing good progress with industrial relations and wage systems through our work with ACT



and GFA, systemic change takes time. It is a complex undertaking that involves multiple players.

Similarly, on the environmental side, our core goals – to become 100% circular and climate positive – depend heavily on collaborations that will further the development of new technology and

innovation. Finding innovations to fill the technological gaps we have throughout our supply chain and bringing these new innovations to market fast enough are two of our biggest challenges.

What are the three main priorities going forward?

Accelerating the move towards full circularity is one of our main priorities. Here our focus is on the continued quest for more recycled and sustainably sourced materials, improved design, production processes and product lifespan. Innovation will be key to achieving our 100% circular ambition.

On the social side, our main priorities are to deliver the goals we set for 2018. Looking beyond this, we will focus on maintaining the stability of our production markets to ensure the provision of good, fair opportunities for workers. Our third priority is to further develop customer engagement around sustainability. We will, for example, continue our commitment to the SAC and the Higg Index, as well as exploring other solutions.

H&M group is one of the world's leading design companies and to many, associated with fast fashion. Can a fast fashion company ever really be sustainable?

I don't believe that providing fashion on a large scale and working in a sustainable way needs to be a contradiction. Like many other industries, there are inherent challenges, but for truly systemic change to take place, industry-wide collaboration is essential. At H&M group, we are positive that by working to achieve a 100% circular and renewable value chain, that treats people in a fair and equal way and makes it possible for our customers to make more sustainable choices, we can lead the way to this systemic change and provide truly sustainable fashion to all our customers around the world.

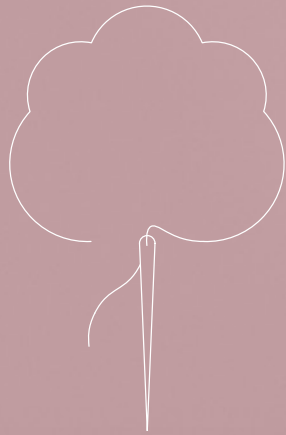
Is H&M group afraid to fail?

We are, of course aware that our strategy is very ambitious and the solutions needed to achieve some of our goals are simply not in place yet. However, a company of our scale and reach has a responsibility as well as a great opportunity to lead the change towards a more sustainable industry. The evidence is clear: our planet is running out of natural resources and our population is growing exponentially so we must be bold and ambitious in our work. Of course, there is always the risk of some failures along the way, but I would rather fail having pushed the boundaries as far as possible than having only done what's expected.





100% Leading the Change: Key facts & figures 2017

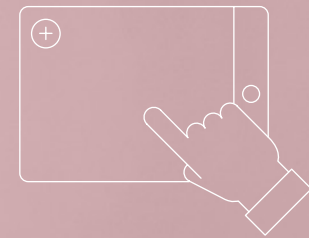


Innovation is the key to achieving full circularity. That's why we are supporting ground-breaking companies such as re:newcell, Worn Again and Treetotextile.

In addition to all tier 1 supplier factories, the Higg Index facility module is now applied to 60% of our total tier 2 supplier factories.

ARKET

H&M group launched a new brand called ARKET in 2017. The brand is all about well-made, sustainable design, while providing customers with transparency of the origin of its products.



In 2017, we trialled a new customer-facing transparency layer for the launch of our H&M Conscious Exclusive Collection on hm.com. This allowed customers to see where garments were made, what materials were used and who made them. This feature runs again for the 2018 Conscious Exclusive Collection.



Our supplier list includes the details of tier 1 factories for 98.5% of our products and tier 2 factories for 60% of our products.



OUR LEADING THE CHANGE AMBITION CONTRIBUTES TO SDG 12 AND SDG 17.



100% Leading the Change explained

100% Leading the Change is our commitment to act as a catalyst for change across the entire fashion industry. By bringing partners together to identify challenges and share innovative ideas and solutions, we want to push boundaries and break new ground to improve the way our products are designed and made.

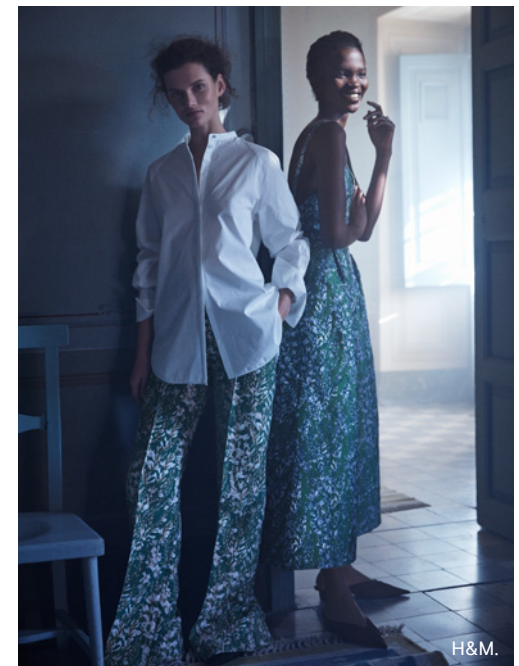
This leadership approach is core to our strategy and will empower us to fulfil our ambitions to become both a 100% Circular & Renewable and a 100% Fair & Equal business.

To lead the change across our own operations and those of the industry, we are working to catalyse three core focus areas:

- Innovation
- Transparency
- Rewarding sustainable actions



Our collections are created by our own designers, patternmakers and buyers.



Innovation

We believe that innovation is the key to achieving industry-wide change.

Many challenges that the industry currently faces can and will be overcome through new innovation. For example, there is currently no viable technology for recycling blended fibres on a large scale, therefore, we simply cannot make new products from as many old products as we would like to. But we are working with experts who are developing technologies to tackle this and when a scalable solution comes to fruition, it will transform the way the entire industry works with materials.

At H&M group, we are working to identify, invest in and promote all types of sustainable innovations from digital systems that provide traceability information to new energy-saving solutions. We want to use our size and global reach to take sustainable innovations to scale because for us, innovation means transformation and that is exactly what our industry needs.

➤ 2017 PROGRESS & LEARNINGS INNOVATION

- We invested in a new innovation company called re:newcell which has developed a new technology for recycling materials.
- In 2017, the HKRITA innovation and H&M Foundation saw further positive developments (read more on page 35). Funding for the project is made possible thanks to the surplus funds generated from H&M's garment collecting scheme.

Case study: Interview with Nanna Andersen – Head of H&M CO:LAB

What is H&M CO:LAB?

H&M CO:LAB is a business area within The Laboratory. The Laboratory is a think-tank within H&M group that works to take an outside-in perspective on our business and challenge our thinking. H&M CO:LAB invests in companies that can add value to our business. We look to help these companies thrive and reach their vision. H&M CO:LAB invests in three areas: *sustainable fashion* – that develop the technologies the industry needs to become fully circular and sustainable, *innovative business models* – companies that explore how consumers will shop fashion in the future and *enablers* – companies that provide technology and solutions that makes us better. By investing in these types of companies, we support the long-term growth of H&M group.

How does H&M CO:LAB decide what projects to invest in?

H&M CO:LAB only invests when we think we can make a big difference for the companies we invest in with our knowledge and resources, and always in collaboration with the existing business.



Nanna Andersen.

By doing this we learn and challenge ourselves in a way that, besides providing the opportunity for financial return, can improve and develop our business in a positive way.

Which projects are H&M CO:LAB currently supporting?

We currently support around ten companies including:

Worn Again are developing a ground-breaking chemical separation and recycling technology for blended fibre textiles.

re:newcell have developed a unique technology for recycling textiles made from cellulosic fibres (such as cotton, lyocell and viscose) into a pulp, which is used as input for making fully circular viscose or lyocell.

Treetotextile are developing a new sustainable process to make textile fibres from forest raw material in a sustainable way.

Thread is a marketplace focusing on personalization. By combining tips from real stylists with machine-learning algorithms, Thread reduces the millions of style options available by only suggesting things that are perfect for you.

Sellpy is a service helping people to easily sell their unwanted clothes, giving fashion a second life.



Case study: H&M Foundation's Global Change Award

The Global Change Award, initiated by the non-profit H&M Foundation in 2015, is one of the world's biggest challenges for early stage innovation, calling for ideas that will help protect the planet by accelerating the shift from a linear to a circular fashion industry.

Every year, a panel of international experts helps to select five winning innovations, and the global public distributes a €1 million grant between the winners through an online vote. The winners also gain access to a one-year innovation accelerator provided by H&M Foundation, Accenture and KTH Royal Institute of Technology in Stockholm, offering tailor-made support to further develop their innovations.

"Now in its third year, the Global Change Award has really become a positive force in the fashion industry. It has proven to be a true catalyst for the winners, giving them support and access to a valuable network so they can bring their innovations to the market quicker and better prepared," says Karl-Johan Persson, Board member of H&M Foundation and CEO of H&M group.

WINNERS OF THE GLOBAL CHANGE AWARD 2017:

€300,000: **Grape Leather** – using leftovers from winemaking to create fully vegetal leather (Italy)

€250,000: **Solar Textiles** – harvesting the sun's energy to make fashion fabrics (US/Switzerland)

€150,000: **Content Thread** – facilitating sorting and recycling of clothes using a digital thread (US/UK)

€150,000: **Denim-dyed Denim** – letting used denim give colour to new denim (Australia)

€150,000: **Manure Couture** – making cow manure-based fabric (the Netherlands)



Global Change Award 2017 winners.

Global Change Award is calling for game-changing ideas that can help reinvent the entire industry. Neither H&M Foundation nor H&M group takes any

equity or intellectual property rights in the competing innovation ideas.

Learn more at globalchangeaward.com

“The Global Change Award has opened so many doors. If we hadn't won the award, I think it would have taken us at least five years to reach the point we're at today.”

ANN RUNNEL, ONE OF THE GLOBAL CHANGE AWARD WINNERS

Transparency

Transparency is key to building trust and credibility along our supply chain and empowering our business partners and customers to make more sustainable choices. Transparency means knowing how and where our products are made and sharing that information wherever possible. As such, supply chain transparency creates greater accountability for both ourselves and our business partners, allowing us to pinpoint priorities, set better goals, take smarter actions and communicate confidently about our progress.

At H&M group, we believe that greater transparency will help lead the change towards a more sustainable industry and therefore, we are working with transparency in two key ways:

- We share information in a transparent way.
- We collaborate on industry-wide transparency tools.

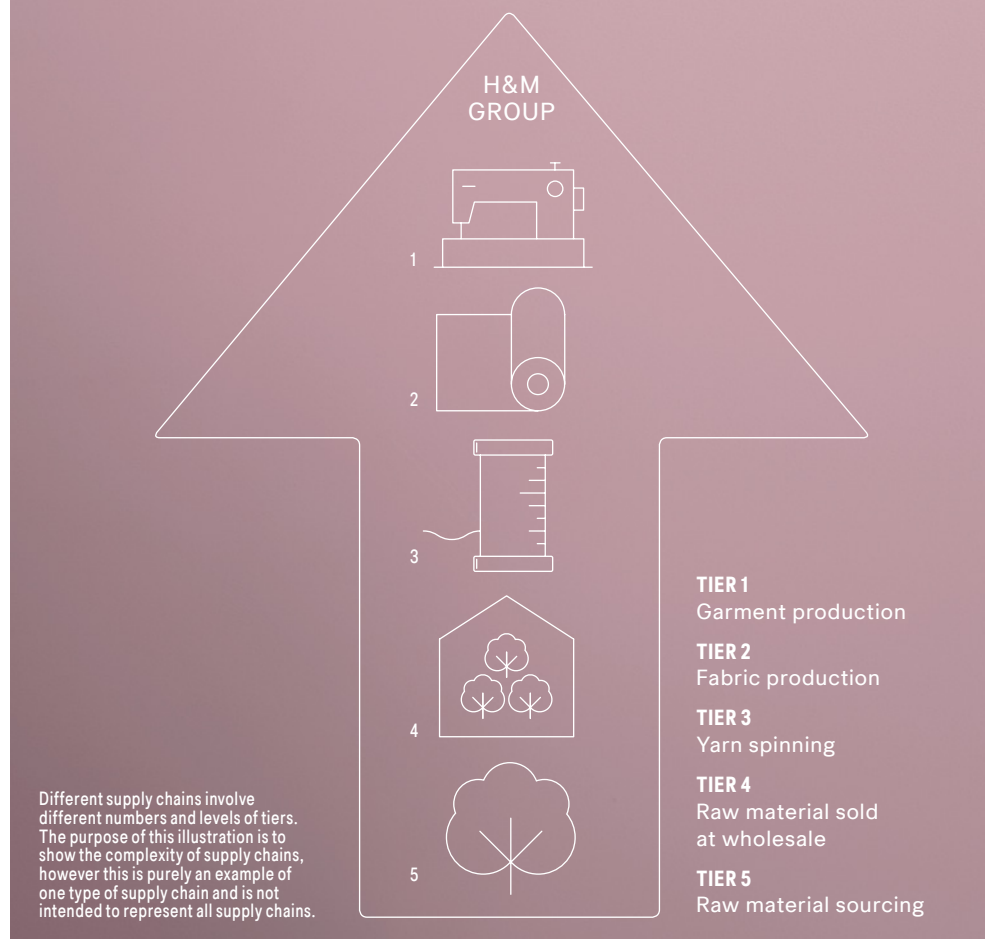
1) WE SHARE INFORMATION IN A TRANSPARENT WAY

In 2013, we were one of the first fashion retailers to make our supplier list customer-facing. Our supplier list includes tier 1 manufacturing supplier factories for 98.5% of H&M group products. As a

of 2016, it also includes tier 2 factories which account for 60% of our products. We are working towards greater transparency across our tier 2 and tier 3 suppliers as well, however, the challenge lies in the fact that in most instances neither we nor our competitors have a direct business relationship with those tier 2 and tier 3 suppliers.

In spite of these challenges, we believe that we can do more. We want our customers to have faith in the operations we run and the products we create, so we are working to build transparency layers into our brands that go beyond our supplier list i.e. sharing more than business name and address details.

An example of the tiers in a supply chain



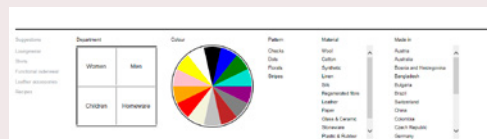


➤ 2017 PROGRESS & LEARNINGS CUSTOMER-FACING TRANSPARENCY

- In 2017, we trialed a new type of customer-facing transparency for our H&M Conscious Exclusive Collection on hm.com. This feature allowed customers to see where garments were made, what materials were used and who made them. This feature will be offered again for the 2018 Conscious Exclusive Collection.
- In 2017, we launched ARKET, the latest brand within H&M group. Built with principles of transparency and sustainability at its core, the brand allows customers to search all ARKET products on its website based on the country of production and material type.

Case study: How does ARKET work with transparency?

With transparency as a core pillar of its business model, ARKET is taking an industry lead with a new and innovative way of making supplier information customer-facing. Using a simple search function, customers visiting the ARKET website, are immediately provided with the option to select and buy products based upon the products' country of origin. As such, the tier 1 supplier details of each individual ARKET product are presented to the customer directly alongside the product itself. Details listed include supplier name and production unit. Selected products also provide customers with supplier stories, giving them an in-depth look at the facility responsible for making the product. Not only does this level of transparency increase awareness amongst our customers, it also provides suppliers with recognition for their contribution to the brand's products.



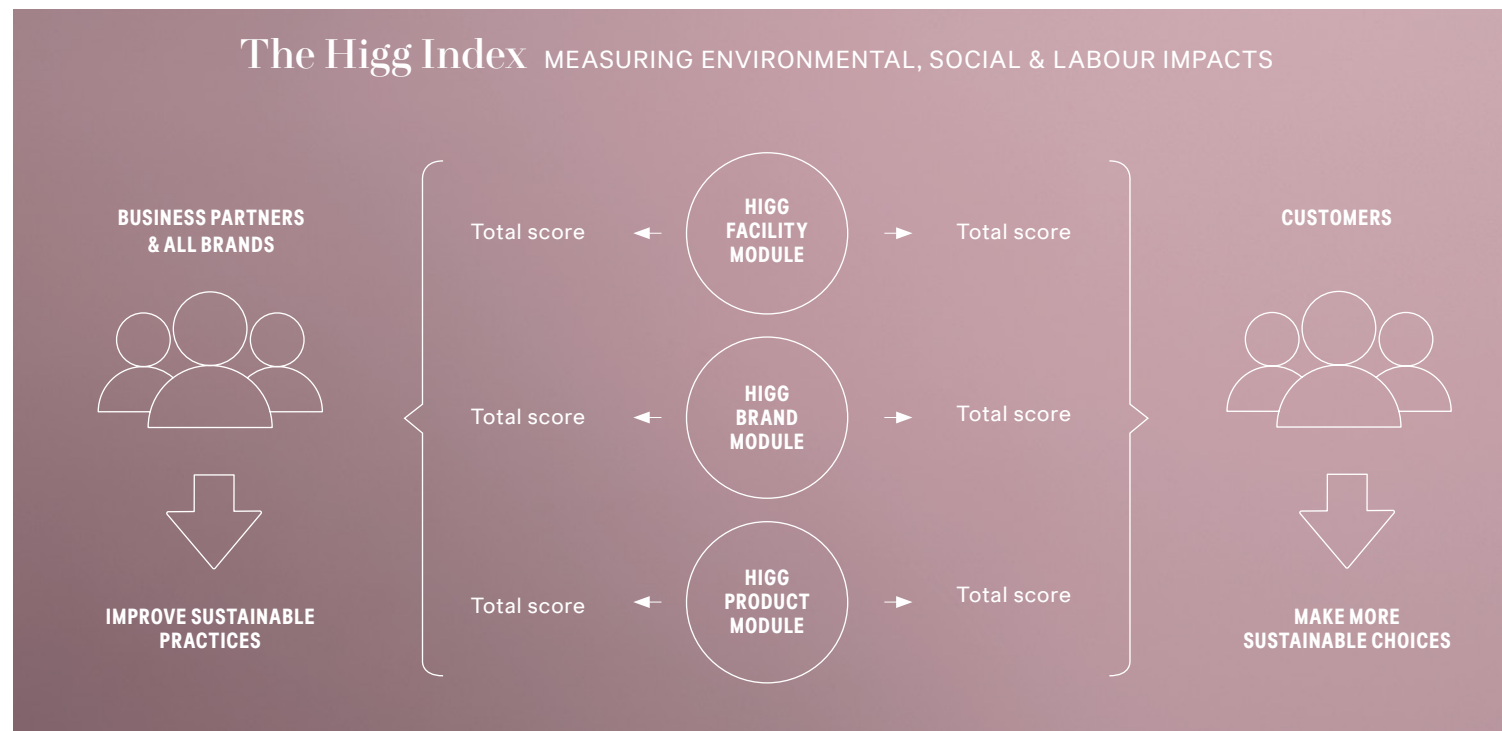


2) WE COLLABORATE ON INDUSTRY-WIDE TRANSPARENCY TOOLS

In 2010, H&M group joined the Sustainable Apparel Coalition (SAC) as a founding member. The SAC is an industry-wide alliance between brands and stakeholders who are all working towards a more transparent and therefore sustainable fashion industry.

Since its inception, the SAC has been focusing on the ground-breaking development of the Higg Index, a measurement tool which assesses sustainability performance. Using self-assessment and verification tools, the Higg Index measures the environmental, social and/or labour impacts that are associated with a brand, a facility (i.e. a factory) or a product and generates a holistic score. This score adds comparability and enables areas for improvement to be readily identified and addressed.

The Higg Index is an industry first – it is currently the only assessment tool that provides transparency information of this nature and detail and H&M group were one of the first global fashion companies to implement it. The facility module was applied to all our tier 1 suppliers in 2015. We also began using the assessment tool on tier 2 factories in 2015.



The brand module of the Higg Index is currently used internally while the product module is still in development. Once the product module is complete, we will be able to assess the sustainability performance of a single product within H&M group.

The ambition is for the Higg Index to become a customer-facing, universal benchmark for sustainability performance assessment across all brands. This will allow customers to compare the performance of our products to those of our competitors. We see this as healthy competition that is needed to drive real progress in transparency across the industry.

2017 PROGRESS & LEARNINGS TRANSPARENCY TOOLS

- In addition to all tier 1 factories, the Higg Index facility module is now applied to 60% of our total tier 2 factories.
- In 2017, we began to use the brand module of the Higg Index internally.



Rewarding sustainable actions

We believe that it is important to encourage and empower sustainable actions throughout our value chain. We know that incentives and reward systems help to achieve long-term, positive behavioural changes. Therefore, we want to work with reward systems that engage our changemakers and accelerate progress towards our sustainability vision.

To achieve this, we have developed and will continue to use different reward systems that are tailored to the needs of three different groups of changemakers:

- Business partners
- Colleagues
- Customers

BUSINESS PARTNERS

Using the Sustainable Impact Partnership Programme (SIPP), we are working with our business partners to raise their environmental and social performance. This involves rewarding high-achieving and ambitious partners with more orders, training opportunities and long-term contracts. This helps improve environmental and social standards across our whole industry. Read more about SIPP in our Standards & policies chapter on page 83.

COLLEAGUES

We ensure that all our colleagues are encouraged to contribute to our sustainability work and we seek to reward them for doing so. We implement and measure sustainability goals at every level and across all functions within H&M group and crucially, this includes goals set at an executive level. Sustainability goals are included in our overall management evaluation process and we regularly follow up on function specific goals. Through a range of activities and strategies, we encourage colleagues to contribute to change in the workplace and in their communities.

Case study: Rewarding sustainable actions at H&M UK & Ireland

To encourage colleagues to take an active role in our sustainability vision, the H&M UK & Ireland management team runs a garment collecting competition across all UK & Ireland stores every quarter. As such, store teams compete against

each other to see who can collect the biggest volume of unwanted garments through the in-store H&M, garment collecting scheme. The winning store is then selected, announced and rewarded with a trip to visit the I:CO recycling facility in Germany. Not only does the competition help H&M group work towards its goal to collect 25,000 tonnes of unwanted textiles each year by 2025, it also provides colleagues with a deep understanding

of how garment recycling works and why it is so important. Colleagues can then return to their stores with a greater understanding of how we work with I:CO and a greater belief in our sustainability work. Rewarding colleagues in this way has proven to be very successful in the UK & Ireland – it builds loyalty, pride and trust while increasing knowledge and engagement in H&M group's sustainability vision.

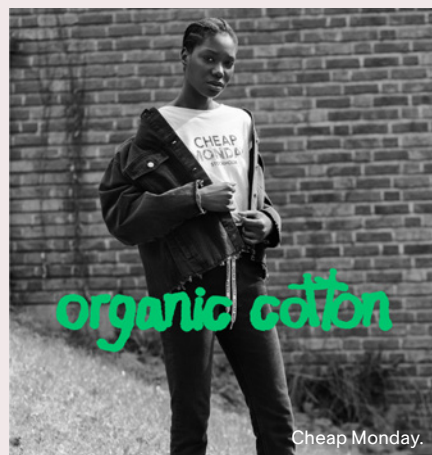


UK colleagues visiting the I:CO facility in Germany.



CUSTOMERS

We know that we have a responsibility to take sustainable actions on behalf of our customers, but we also need active participation from our customers to really achieve our 100% Circular & Renewable ambition and drive this change across the whole industry. By providing our customers with optional incentives for sustainable actions, we can increase customer interest and knowledge in sustainability and create positive behavioural change. We therefore use incentives to help encourage our customers to rewear, reuse and recycle unwanted clothes wherever possible. We reward customers for sustainable actions in several ways across H&M group brands.



Fact box: Rewarding customers for garment collecting

H&M – At all H&M stores around the world, customers are encouraged to bring unwanted garments and textiles, by any brand and in any condition, to be recycled, reworn or reused via the brand's in-store garment collecting scheme. In return, customers are rewarded with a voucher that they can use towards their next H&M purchase.

& OTHER STORIES – As well as collecting customers' unwanted textiles, which are also reworn, reused or recycled via the H&M group's partnership with I:CO – & Other Stories also encourages customers to return empty beauty containers for recycling. In return for either sustainable action, customers are rewarded with 10% off their next in-store purchase.

CHEAP MONDAY – By 2020, 5% of all cotton used in Cheap Monday denim will be recycled cotton from post-consumer waste. To encourage customers to recycle with them, Cheap Monday offers them 10% off their next purchase every time they hand in a bag of unwanted textiles. Unwanted textiles are reused or recycled.

MONKI – All Monki stores around the world offer an in-store garment recycling service. Customers are rewarded with a "10% off your next purchase" voucher when they bring a bag of unwanted textiles into any Monki store.



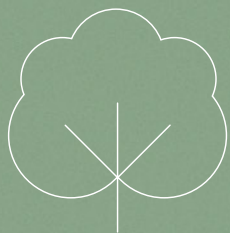


100% CIRCULAR & RENEWABLE



H&M.

100% Circular & Renewable: Key facts & figures 2017



We are the biggest buyer of Better Cotton,* and the second biggest user of organic cotton and recycled cotton.**

In 2017, we reduced emissions from our own operations by a further 21% compared to 2016.



We've collected 17,771 tonnes of textiles through our garment collecting initiative for reuse and recycling. That's 12% more than last year, and the equivalent of 89 million t-shirts.

*Source: Better Cotton Initiative's (BCI) latest annual report (2016). **Source: Textile Exchange Preferred Fiber & Materials Market Report 2017.

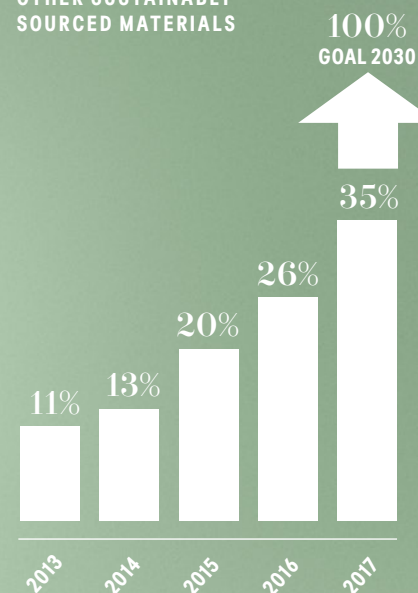
We've set a new chemical vision and roadmap to lead the change towards safe products and a toxic-free fashion future.



Our cleaner production programmes have reduced water consumption by 7.82 million m³.



TOTAL SHARE OF RECYCLED OR OTHER SUSTAINABLY-SOURCED MATERIALS



OUR CIRCULAR & RENEWABLE AMBITION CONTRIBUTES TO SDG 6, SDG 7, SDG 12 & SDG 13.



100% Circular & Renewable: KPIs and goals

Goal-setting is an ongoing process. We work with experts – both internally and externally – and follow a science-based approach to define targets and actions wherever possible. The below KPIs and goals represent the initial key milestones along the way to achieving our ambition to become 100% Circular & Renewable.

100% Circular & Renewable					
KPI	2014	2015	2016	2017	GOAL
% of recycled or other sustainably-sourced material of total material use (commercial goods)	13%	20%	26%	35%	100% by 2030 at the latest
% of cotton from sustainable resources (certified organic, recycled or Better Cotton)	22%	34%	43%	59%	100% by 2020
Tonnes of garments collected through garment collecting initiative	7,684t	12,341t	15,888t	17,771t	25,000t per year by 2020
% of stores with recycling systems for main types of store waste	58%	61%	71%	64%	100%
% of facilities in own operations with water-efficient equipment	24%	37%	51%	51%	100% by 2020
% business partner factories in compliance with wastewater quality requirements as defined by BSR	71%	75%	82%	84%	100%
% of renewable electricity in own operations	27%	78%	96%	96%	100%
% change in CO ₂ emissions from own operations (scope 1 + 2) compared with previous year	-4%	-56%	-47%	-21%	Climate positive by 2040
% change in electricity intensity (kwh/m ² per opening hour compared with 2016)	n/a	n/a	n/a	-2.7%	-25% by 2030



100% Circular & Renewable explained

Our planet provides us with an abundance of natural resources. However global demands are rapidly outstripping supply. If population growth continues as expected, the volume of clothes sold across the world will triple to 160 million tonnes by 2050.* This level of demand would require the equivalent of 2.3 planets' worth of resources.** Put simply, the fashion industry is running out of the natural resources it uses to make products and cannot continue to operate in the same way. At H&M group, we believe that an industry-wide shift from a linear to a circular business model is the only solution.

Circular models maximise resources and minimise waste. Using the current linear model, less than 1% of material used to produce clothes across the industry is recycled into new products.*** But in a circular model, resources stay in use for as long as possible before being regenerated into new products and materials, resulting in a reduction in waste and negative impacts.



Our 100% Circular & Renewable ambition represents our commitment to achieve the shift from a linear to a circular model. We are approaching this ambition holistically by building circularity into every stage of our value chain, including the products we design and make, the materials and processes we use and how our customers care for and dispose of our products.

But a business model can only be truly circular if it is powered by renewable energy. As such, we are working to use 100% renewable energy throughout our own operations, which will significantly reduce our climate impact.

Beyond switching to renewable energy and cutting our emissions, we also want to set an example in our own operations, drive change along our entire value chain and lead our industry towards positive transformation. Our goal is therefore to achieve a climate positive value chain – a value chain that creates a net positive impact on the climate by 2040.

*Source: A New Textiles Economy: Redesigning Fashion's Future by Ellen MacArthur Foundation & CFI – pg 20.
Source: footprintnetwork.org. *Source: A New Textiles Economy: Redesigning Fashion's Future by Ellen MacArthur Foundation & CFI pg 21.

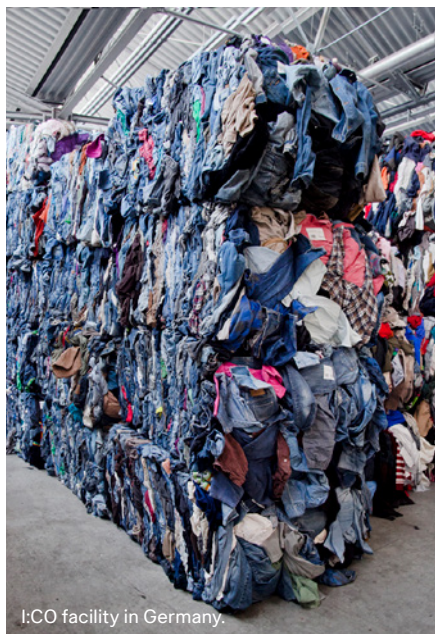
Becoming 100% circular

Making the shift from a linear to a circular model is not only necessary for the planet, it also presents a strong business case. Once customers are finished with products, 87% of the material fibres used by the industry to create those products end up in landfill. This represents a lost opportunity of more than USD 100 billion every year.*

By designing for circularity, maximising resource use by working with recycled or other sustainably sourced materials, prolonging product lifespan and creating a climate positive value chain, we will increase the efficiency and the value of our operations and products. This responsible production and consumption will enable us to continue designing and producing great, sustainable products while creating positive social and environmental impacts.

To become 100% circular, we are focusing on five key stages within our value chain that are applicable to both commercial and non-commercial products:

- A. Design, B. Material choice,
- C. Production processes, D. Product use,
- E. Product reuse and recycling.



Our circular approach



“As a core partner of the Circular Fibres Initiative, H&M group acts as an industry pioneer in the transition to a circular economy.”

ELLEN MACARTHUR, FOUNDER OF ELLEN MACARTHUR FOUNDATION

*Source: A New Textiles Economy: Redesigning Fashion's Future by Ellen MacArthur Foundation & CFI – pg 36.

A. Design



Design offers the first opportunity for circularity to enter our value chain.

By incorporating circular thinking at this stage, we can pave the way for later stages to follow suit.

By taking the whole value chain into account, circular design involves finding ways to expand product lifespan, creating greater durability and greater opportunities for rewear, reuse and recycling. Similarly, by taking a circular approach to the way in which we design our stores, we can increase operational efficiency and longevity.

CIRCULAR GARMENT DESIGN

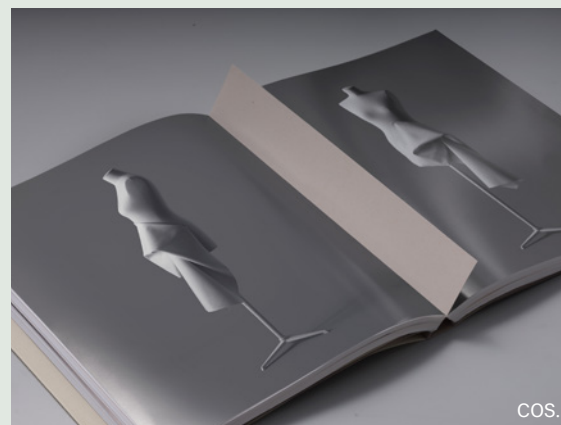
Every brand within H&M group has its own teams of designers and buyers. They are trained in how to design for circularity and therefore how to choose the best possible materials – those that are recycled and sustainably sourced, and suited to longevity, reuse and recyclability.

Case study: Designing for longevity at COS

The longevity of garments has been an integral part of the COS design ethos since the brand began ten years ago. Founded on the principles of timeless, functional and considered design, COS has an in-house pattern studio and team comprised of twenty-five experienced pattern cutters that work to create the collections.

Many COS pieces are created using a special design process in which the patternmaker and designer work in parallel. The pattern teams develop each garment from a block and experi-

ment with clever construction techniques to maximise the use of fabric while minimising excess; this approach was highlighted in the 10th anniversary collection in March 2017. The pattern team also combine both modern and traditional tailoring techniques such as French seams, double turned hems and structured interlining to ensure the longevity and durability of the garment. This way of designing reduces waste, ensures longevity and contributes to H&M group's work towards becoming 100% circular, without compromising on style or brand aesthetic.



2017 PROGRESS & LEARNINGS

CIRCULAR GARMENT DESIGN

- In 2017, we upgraded our online sustainable materials training course. This resource helps H&M group designers select the best material from the outset.

- Throughout our brands, we now take a “component first” design approach, meaning that our designs are initially based on material choice. As such, we are building circularity into the design process by accounting for longevity, durability and the recycling capabilities of our products.

- In 2017, H&M created its sixth annual Conscious Exclusive collection with all products made from at least 50% sustainably-sourced material. In 2017, a new recycled material called Bionic® – made from shoreline waste – was introduced to customers. In this years 2018 collection H&M has worked with a material called Econcyl®, a 100% - regenerated nylon fibre made from fishingnets and other nylon waste.



CIRCULAR STORE DESIGN

As well as product design, we are also looking at ways in which we can work with a circular approach when designing our stores. Not only will this increase our operational efficiency, it will also increase the longevity of our stores. Together with the Ellen MacArthur Foundation, we have developed a tool to assess the circularity of our non-commercial goods, which includes our store interiors (for H&M to begin with). In 2016, we set a goal that at least 80% of these store concepts should be circular by 2025.*

2017 PROGRESS & LEARNINGS CIRCULAR STORE DESIGN

- In 2017, we started using the Ellen MacArthur Foundation tool with H&M. So far, it has had a good impact on the sustainability of our non-commercial goods. The tool also improves how we communicate with our suppliers and raises awareness of the need for circularity in their products and processes.

*As defined in the Circular Assessment Tool which has been developed together with the Ellen MacArthur Foundation.

Case study: Interview with Ellen MacArthur

What is the Circular Fibres Initiative and how is H&M group involved?

The Circular Fibres Initiative brings together key industry stakeholders to create a circular economy for textiles. In November 2017, the initiative published a report, 'A New Textiles Economy, Redesigning Fashion's Future', which outlined for the first time a positive vision for a textiles system that works – one that is aligned with the principles of a circular economy. We are now shaping the second phase of the initiative, which will over three years mobilise key industry players and other stakeholders behind the report's recommendations. As a Core Partner of the initiative, H&M group acts as an industry pioneer in the transition to a circular economy.

Why is a move towards a circular textile economy so important?

The fashion industry is incredibly wasteful: every second, the equivalent of one garbage truck of clothing is burned or landfilled. An estimated USD 500 billion of value is lost every year due to clothing being barely worn and rarely recycled.



Ellen MacArthur.

The industry is also polluting: washing our clothes releases every year the equivalent of more than 50 billion plastic bottles worth of microfibres, which eventually end up in the ocean. Yet, in this wasteful and polluting model lies a golden opportunity to do things better by moving to a circular economy for textiles. In such an economy clothes are designed to last

longer and be worn more, be resold and recycled, and not release toxins or pollute the environment.

What does the industry need to focus on to drive the changes towards a circular textile economy?

In our report, we highlighted four ambitions for a new textiles economy: (1) phase out substances of concern and microfibre release; (2) increase clothing utilisation; (3) radically improve recycling; and (4) make effective use of resources and move to renewable inputs.

To achieve these ambitions, the industry will need to focus on exploring new materials, pioneering business models that capture the value of more durable clothes, designing clothes that are compatible with recycling technologies and setting up a system in which fabrics are used over and over again. We are now calling on the entire industry to rally behind the vision, raise the ambition level and explore new ways of working together to build a new textiles economy.



B. Material choice



Our goal is to use 100% recycled or other sustainably-sourced materials by 2030

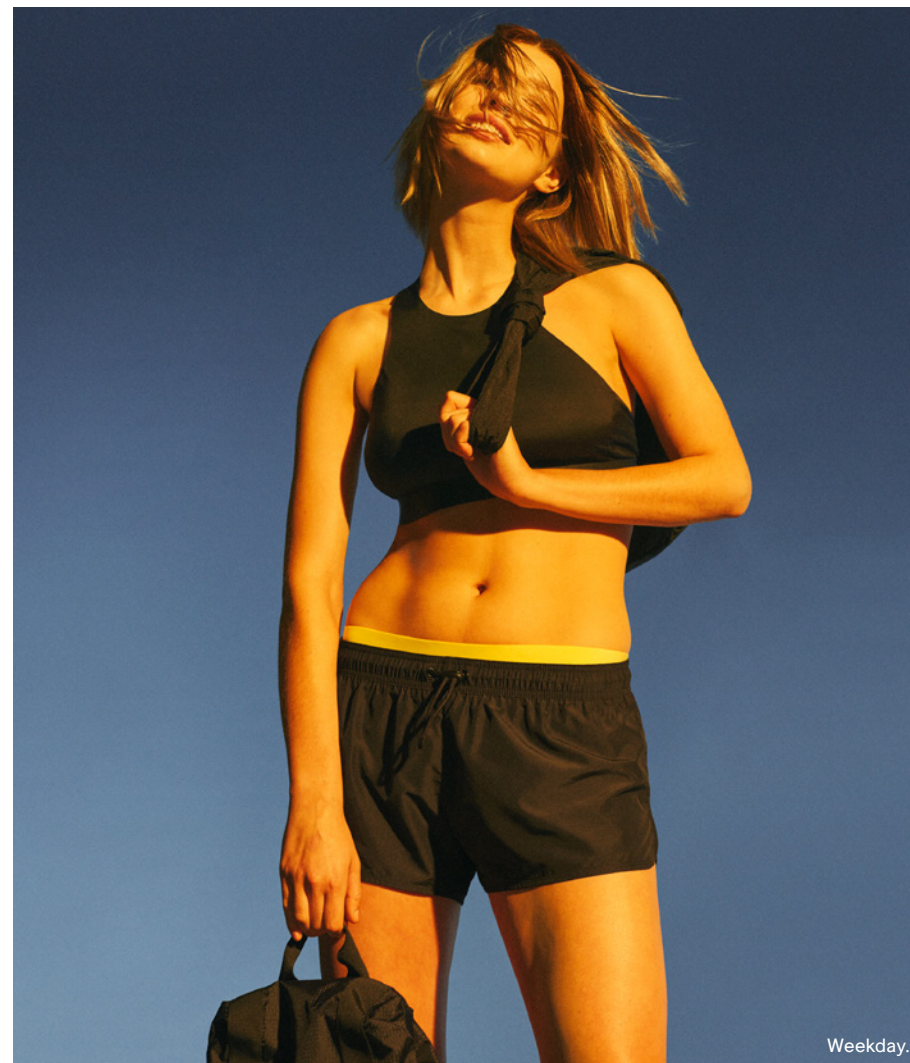
at the latest. In 2017 we achieved 35%.

By choosing to work with more recycled or other sustainably-sourced materials, we can reduce the negative impacts of material production in our value chain. Recycled materials are a win-win: they stop waste material going to landfill and reduce the use of virgin raw materials (as well as the chemicals, energy and water used to make them). Likewise, bio-based, sustainably-sourced materials are naturally grown or cultivated, recycleable and typically less polluting.*

We evaluate the sustainability credentials of recycled and sustainably sourced materials by using third-party verified life cycle assessment data such as the MadeBy fibre benchmark and the Higg Index (specifically the Material Sustainability Index within the Higg).**

To ensure that we are able to integrate recycled and sustainably-sourced materials into our value chain as rapidly and successfully as possible, we are collaborating with industry experts. We are, for example, collaborating with the Cradle to Cradle Products Innovation Institute on an initiative called Fashion+. By bringing brands, designers and suppliers together, the initiative seeks to identify, optimise and innovate sustainable materials while making them widely available.

Similarly, we are working, on a long-term strategic basis, with the Ellen MacArthur Foundation and Stockholm Resilience Centre in a research project to explore ways in which the circular textile fibre industry can successfully operate within planetary boundaries.



Weekday.

*Not all sustainably-sourced materials can be naturally grown or cultivated i.e. minerals or stones. In these instances, we set up material-specific policies such as the use of external standard schemes to secure sustainable sourcing. **H&M group uses materials that are certified according to relevant material standards including OCS, GOTS, GRS, RCS, RDS, RWS. They are then verified by third parties such as Control Union, Ecocert, ICEA, IMO.



Recycled materials

We currently use several types of recycled materials including recycled cotton, polyester, nylon, wool, cashmere and plastic. But we are constantly working to increase this share and maximise our use of recycled or other sustainably-sourced materials.

The challenge we face, however, is that viable recycling solutions for many types of textile fibres – especially blended fibres – have either not been invented yet or are not commercially available at scale.

To tackle this, we are creating demand for these solutions and working with scientists and innovators including Worn Again, re:newcell, the HKRITA and the Circular Innovation Working Group to name but a few.



2017 PROGRESS & LEARNINGS RECYCLED MATERIALS

- In 2017, 35% of the materials used by H&M group included recycled or other sustainably-sourced materials.
- In 2017, we used the equivalent of over 100 million plastic PET bottles in recycled polyester.
- In 2017, H&M launched its first garments made from recycled shoreline waste. Named Bionic® the new material was featured within the annual H&M Conscious Exclusive collection. In the 2018 collection, H&M has worked with a new material called Econcyl® – a 100% regenerated nylon fibre made from fishingnets and nylon waste.
- For spring/summer 2017, Weekday debuted its first sustainable swimwear collection made from recycled waste. Garments were created using recycled polyamide, which includes everything from old fishing nets to carpets, and recycled polyester created from old PET bottles.

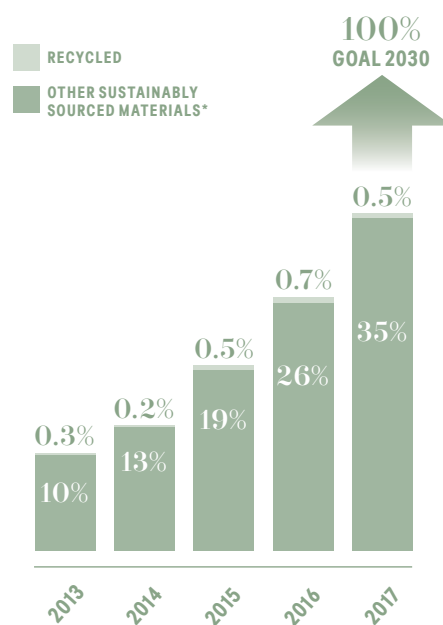


- During 2017, H&M group partnered with Swedish innovation company re:newcell, whose unique technology recycles used cotton, viscose and other cellulosic fibres into a new, more sustainable dissolving pulp that can be turned into new textile fibres.

- This year, H&M group joined DEMETO, a new research project focusing on recycling polyester textiles into new fibres without compromising quality. The project is partly funded by the EU and other partners.*

- In 2017, H&M collaborated with Danone AQUA on a project called Bottle2Fashion in Indonesia. Through this collaboration, Danone collects and recycles plastic waste which is then sent to H&M group suppliers where it is turned into recycled polyester, made into products and sold in H&M stores.

SHARE OF RECYCLED OR OTHER SUSTAINABLY-SOURCED MATERIALS**



**Included are all materials classified as sustainable materials that are not recycled, such as Better Cotton (BCI) and certified organic materials.

Please note: Material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy. Deviations are due to rounding effects.



*The DEMETO project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement no 768573.

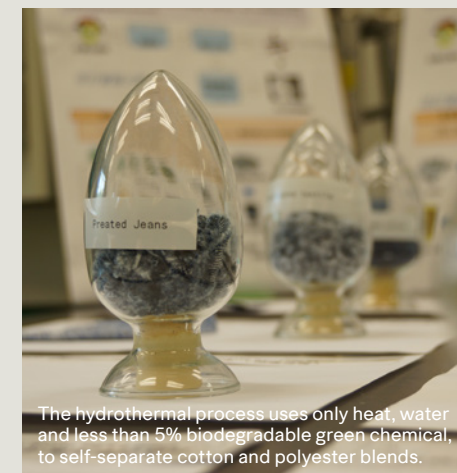
Case study: H&M Foundation invests in HKRITA

During the last few decades, the composition of fibres in clothes has become increasingly complex. This makes recycling blended fabrics incredibly difficult. To address this, H&M Foundation partnered with the Hong Kong Research Institute of Textiles and Apparel (HKRITA) in 2016. With an estimated funding of €5.8 million the aim was to find at least one ready technology to recycle clothes made from blended textiles.

Only a year into the partnership, HKRITA found a chemical process to fully separate and recycle cotton and polyester blends into new fibres. The hydrothermal process uses only heat, water and less than 5 percent of a biodegradable green chemical to self-separate cotton and polyester blends. This fibre-to-fibre recycling method is cost effective and there's no secondary pollution to the environment, ensuring the life of the recycled material is prolonged in a sustainable way. "By being able to upcycle used textiles into new high value textiles, we no longer

need to solely rely on virgin materials to dress a growing world population. This is a major breakthrough in the pursuit of a fashion industry operating within the planetary boundaries," says Edwin Keh, Chief Executive Officer of HKRITA.

The new technology will be tested further before being made available to the global fashion industry. H&M Foundation want their work to benefit as much of the environment and as many people and communities as possible, so when the technology is finalized, it will be licensed widely to ensure broad industry access and maximum impact.



The hydrothermal process uses only heat, water and less than 5% biodegradable green chemical, to self-separate cotton and polyester blends.



Sustainably-sourced materials

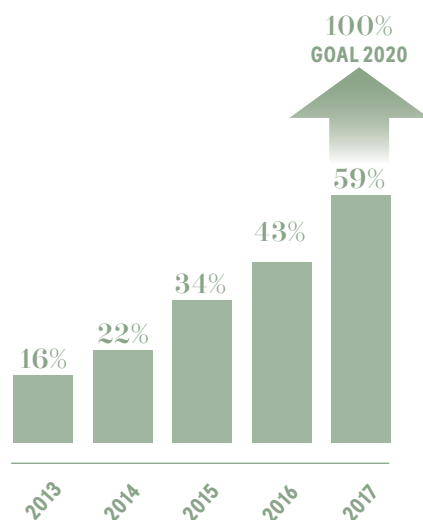
We define sustainably-sourced materials as those that are either naturally grown/cultivated or created using renewable processes. For those materials that cannot be cultivated or replenished via natural growth, we set up material – specific policies such as the use of external standard schemes to secure sustainable sourcing. When such schemes do not exist, we will create new schemes and work together with credible partners.

Crucially, all sustainably-sourced materials must have the potential to be used as closed loop materials i.e they need to have the potential to be recycled or regenerated.* As such, sustainably-sourced materials are typically less polluting than other materials.

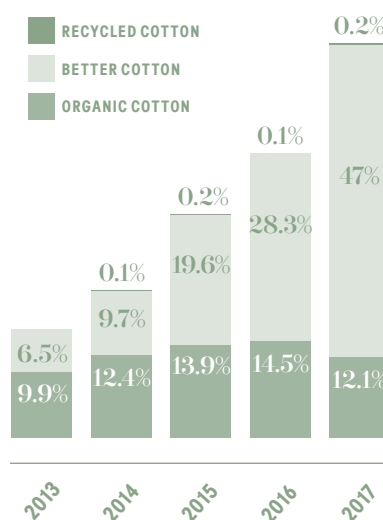
All sustainably-sourced materials used by H&M group must be certified according to relevant material standards for example OCS, GOTS, RCS etc. They must then be verified by relevant third-party lifecycle assessments or benchmarks such as the Higg Index (Material Sustainability Index) or the Made By fibre benchmark.

* It is not possible for all materials such as stones, ceramics and minerals, to be used in a closed loop.

SUSTAINABLE COTTON IN
% OF TOTAL COTTON USE**



**% OF SUSTAINABLE
COTTON OF TOTAL USE**



COTTON

Our goal is to use 100% sustainably-sourced cotton by 2020, which includes certified organic cotton, Better Cotton (BCI) and/or recycled cotton.

2017 PROGRESS & LEARNINGS COTTON

- In 2017, 59% of the cotton we used was sustainably-sourced.**
- According to Better Cotton Initiatives (BCI) latest annual report from 2016, H&M group is the biggest buyer of Better Cotton.
- In 2017, H&M group was named the second largest user of organic cotton as well as the second largest user of recycled cotton by the Textile Exchanges Preferred Fiber & Materials Market Report 2017.
- As a founding partner, we helped launch the Organic Cotton Accelerator (OCA) in 2016 and we are an active member of the board. The OCA exists to remove road-blocks and accelerate the growth of the organic cotton market. In 2017, we worked together with OCA on prototype sourcing pilots in India in which we collaborate with one of our spinning mills to carry out farmer capacity building and to improve supply chain transparency.

**Certified organic cotton, Better Cotton (BCI) or recycled cotton.
Please note: Material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy. An independent assurance statement related to GRI 301-1 is provided on pg 97. Deviations are due to rounding effects.



MANMADE CELLULOSIC FIBRES (MMC)

At H&M group, we are working to eliminate the use of MMC fibres (viscose, rayon, lyocell) derived from ancient or endangered forests and replace them with sustainably-sourced alternatives. To do this, we are co-founders of the CanopyStyle Leader for Forest Conservation and are collaborating with the non-for-profit group Canopy and the CanopyStyle Initiative (alongside 125 other leading brands) to drive compliance from both fibre producers and our own brands.

➤ 2017 PROGRESS & LEARNINGS MMC FIBRES

- In 2017, H&M group became one of two core investors in the Swedish sustainable innovation company Treetotextile. Treetotextile is working with new technologies that use wood pulp, or cellulose, to make textile fibres in an environmentally-friendly way.
- In 2017, we made significant progress towards ensuring that our supply chain is free of ancient and endangered forest fibres. However, as with transforming any global supply chain, it doesn't happen overnight and additional work with

Canopy and our supply chain partners is needed to reach our target of zero tolerance for ancient and endangered forest fibres.

- As of October 2017, producers representing 70% of global viscose production have CanopyStyle policies in place that commit to end sourcing from ancient and endangered forests, require free, prior and informed consent of indigenous and traditional communities, support lasting forest conservation and invest in innovative solutions.

- As of October 2017, 25% of the MMC fabric supply chain (including rayon, viscose, lyocell and modal) has been audited and classified as low risk for sourcing wood from ancient and endangered forests or other controversial sources. This is a result of the CanopyStyle Audits – a third-party verification of the world's largest viscose producers completed by Rainforest Alliance. These audits represent a major step in transforming the environmental footprint of the rayon/viscose supply chain.

- Viscose comes with many challenges when it comes to the production process, which is very chemically intensive. Please read more about our work in the chemical management section on page 39.



Knit production at our supplier factory JQR, China.

WOOL

We are continuing to work with the Responsible Wool Standard (RWS) in a project led by the Textile Exchange. We are currently working to get RWS-certified wool into our supply chain. Our goal is for 100% of our wool products to be RWS-certified by the end of 2022.

➤ 2017 PROGRESS & LEARNINGS WOOL

- 100% of our tier 2 suppliers (70% of our product volume in wool) have been briefed on the new RWS.
- Approximately 25% of our tier 2 spinners have completed the Content Claim Standard (CCS)* for RWS.
- In 2018, RWS-certified products will be sold in H&M group stores for the first time.

*The CCS is the chain of custody verification used for all Textile Exchange standards. It is used to verify wool through the entire supply chain.



LEATHER

We are working towards a more transparent leather supply chain. Our long-term goal is to only use leather from sources we know are proactively addressing their environmental, social and animal welfare impacts. For now, our work focuses on integrating leather tanneries into our supply chain management systems, improving traceability and working with others to improve the entire leather supply chain, all the way to farm level. We are also exploring innovative non-animal leather materials.

➤ 2017 PROGRESS & LEARNINGS LEATHER

- We are systematically working to integrate tanneries into our social and environmental sustainability assessments.



COS shoes in the making at one of our business partner's, Luis Onofre, factory in Portugal.

OTHER SUSTAINABLY-SOURCED MATERIALS

Down – We require 100% of the down in our products to be certified by the Responsible Down Standard (RDS). The Textile Exchange's 2017 Preferred Fiber Market Report, lists H&M group as the world's largest user of RDS-certified down.

Wood – By the end of 2025, 100% of all our wood and forest based products will be sourced from well-managed certified forests or from recycled sources.

Cashmere – By the end of 2025, 100% of all virgin cashmere used by H&M group will come from sustainable sources that are independently certified by standards that cover both animal welfare and environmental aspects of cashmere production.

Biomaterials – For all biomaterials and bioplastics made from food crops, H&M group requires that the raw material be independently certified to a credible standard.

Palm oil – H&M group only accepts RSPO (Roundtable on Sustainable Palm Oil) certified sustainable palm oil in our products containing palm oil, with the exception of products containing palm oil derivatives. For derivatives used in our products, H&M group buys RSPO credits to contribute to the development of more sustainable palm oil production.

C. Sustainable production



Sustainable production processes are an important part of a circular system.

In the fashion and design industry, water and chemicals are involved in most of the largest production processes. This means that the way in which we address our chemical and water management is crucial to achieving sustainable production and our larger 100% Circular & Renewable ambition.

CHEMICAL MANAGEMENT

Chemicals are used in many processes involved in garment production. At H&M group, we have always worked with one of the most advanced chemical restrictions lists in the industry to ensure that our products are safe for both people and the environment. But we are always working to further develop our chemical management and therefore in 2017 we launched a new chemical vision and roadmap.

Our new vision is to lead the change towards safe products and a toxic-free fashion future and our new chemicals roadmap helps to identify exactly how we plan to achieve this. The roadmap points to

three key working areas: toxic-free, safe products and leading the change.

For us toxic-free means that the chemicals used to make our products and across our supplier factories, should never represent a threat to people or the environment. To achieve this, we are continuing to work towards our goal of zero discharge of hazardous chemicals in our own supply chain and across the fashion industry.

Similarly, safe products are those that do not cause any harm to people or the environment. We work actively to ensure the safety of our products by continuously evaluating new scientific knowledge and data.

Finally, we want to lead the change by not only minimising, but eliminating the impact of harmful chemicals and we want to do this in a transparent way. We have therefore set a new goal to have 100% traceability of input chemicals by 2030.



2017 PROGRESS & LEARNINGS

CHEMICAL MANAGEMENT

- In 2017, we created a new chemical vision and roadmap which you can view at sustainability.hm.com

- In 2017, we set a new goal to achieve 100% traceability of input chemicals by 2030.

- We continued to work actively alongside other brands and stakeholders with the Zero Discharge of Hazardous Chemicals Programme (ZDHC) to raise awareness and industry standards. We were also appointed as one of the new Board Directors of the ZDHC Foundation.

- H&M group participated in a pilot programme launched by the ZDHC group to review the execution of the ZDHC wastewater guidelines across our supply chain.

- The viscose production process is based on the use of hazardous chemicals which require efficient treatment systems for chemical, wastewater and waste management. This is a major challenge for the entire industry which we are very attentive too. We are

addressing this issue through a collaborative approach within the ZDHC group and more recently with the organisation Changing Markets. Read more on page 86.

- In 2016, we piloted The Environmental Emission Evaluator – a measurement tool launched by Bureau Veritas to help suppliers assess and improve their chemical usage and discharge – at 29 suppliers in China, Bangladesh, Indonesia, India, Pakistan and Turkey. In 2017, we scaled the project up to include 49 suppliers.

- Our Best Chemical Management Practice (BCMP) guideline provides guidance for our suppliers to help minimise the use of hazardous chemicals. In 2017, the BCMP training was rolled out to all suppliers.



Water management

While responsible water management is a critical component of our 100% Circular & Renewable ambition, H&M group has, in fact, been working to reduce negative water impacts throughout our value chain for over ten years.

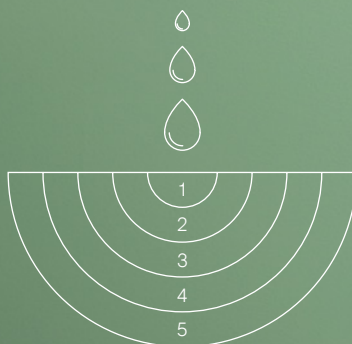
United in a common vision for better availability and quality of freshwater, H&M group began a long-term partnership with WWF in 2011. Our goal is to become a leading water steward within the fashion industry and with the help of WWF, we have developed a 5-step water stewardship strategy to achieve this (see adjacent illustration).

OUR WATER STEWARDSHIP STRATEGY

In contrast to conventional approaches to monitoring water footprint and efficiency, which tend to focus simply on how much water is used and disposed of, our stewardship strategy takes an integrated approach and goes beyond the factory lines to take the whole supply chain into account.

This approach therefore factors in the water sources that are being drained (which accelerates water scarcity and decreases water quality) and addresses local impacts such as depletion of fish stocks and threat to livelihoods.

Our 5-step strategy



1. WATER AWARENESS

Building water awareness at our company, at our suppliers' factories and amongst our customers to ensure high level understanding of the global water challenges and their dependence on freshwater.

2. KNOWLEDGE OF IMPACT

Measuring water impact and risk within our stores, warehouses and suppliers' factories.

3. INTERNAL ACTION

Improving the use of water within our stores, warehouses and our suppliers' factories.

4. STAKEHOLDER ENGAGEMENT

Increased focus on collective action with other companies, governments and NGOs in multi-stakeholder platforms to address water issues in specific focus regions.

5. INFLUENCE GOVERNMENTS

Increased focus on government influence by engaging with public policymakers to manage water basins in a sustainable way.

Case study: The Bangladesh Water Multi-Stakeholder Partnership

Supported by the 2030 Water Resources Group (WRG), The Bangladesh Water Multi-Stakeholder Partnership has been in action since November 2015. In 2017, with support from H&M group, the Bangladesh government and others, the partnership confirmed an action plan to improve water governance through

institutional strengthening, water valuation and economic incentives to reduce dependence on groundwater. The partnership also confirmed that an industrial wastewater infrastructure in economic zones was needed and efficiency in agricultural water use needs to be increased to ensure better water security in Bangladesh.



National Steering Board for The Bangladesh Water Multi-Stakeholder Partnership.



2017 PROGRESS & LEARNINGS WATER MANAGEMENT

- We work with our business partners to help fabric producers improve their environmental footprint and collect water management/impact assessment data. In 2017, we connected fabric mills involved in making 60% of our products (2016: 56%, 2015: 50%, 2014: 35%) to our supplier assessment systems.
- We advanced our water stewardship programme with WWF in the Taihu Basin, China. The programme engages stakeholders and the government to improve water basin governance.

• In 2017, we began a one year project focusing on promoting clean production technologies and water stewardship to help protect the Büyük Menderes river in Turkey.

• Our work with resource efficiency & cleaner production programmes has continued to help our supply chain business partners to reduce their water consumption. In 2017, our efforts reduced water consumption by 7.82 million m³.

• Our cleaner production program trained 2,636 workers in 270 production units across Bangladesh, China, Indonesia, India and Turkey.

• Our cleaner production programme with the STWI, BMI with Solidaridad, PaCT partnership and Resource Efficient & Cleaner Production – UNIDO, has now worked with 103 factories in six regions. This programme aims to reduce environmental impacts associated with textile wet processing, particularly groundwater extraction and surface water pollution.

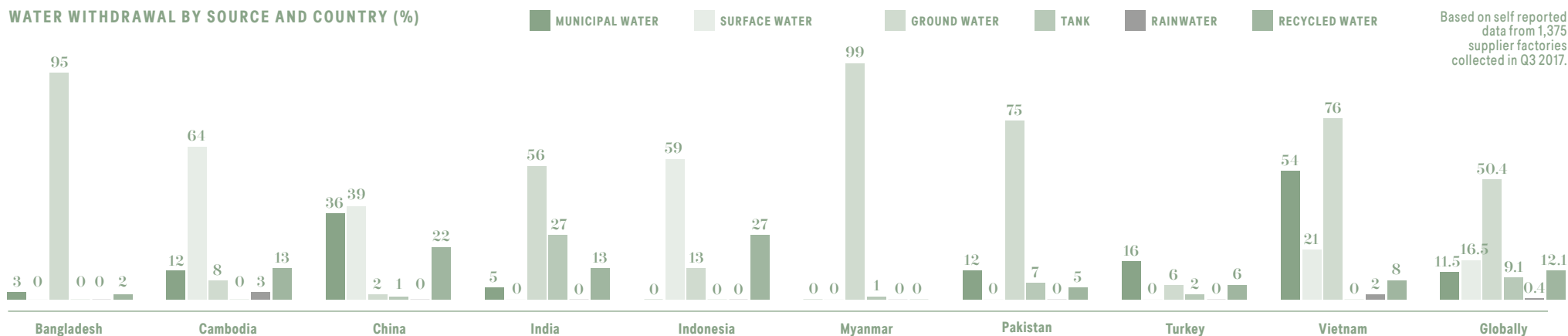
• In 2017, 84% of our supplier factories complied with Business for Social Responsibility (BSR) requirements (see graph on page 42). We apply the BSR Water Group's quality definitions, which go beyond legal requirements in many locations. We have included

these standards in our Sustainability Commitment and intend to reach full compliance. (See graph on page 42).

• In 2017, we increased the amount of rainwater we harvested to 13.1 million litres (2016: 12.6, 2015: 12.8, 2014: 12.3).

• In 2017, we found that our supplier factories sourced 50% of water from the ground, 17% from surface water, 12% from municipal water, 12% recycled water, 9% tank water and 0% rainwater. See more details in the below graphs.

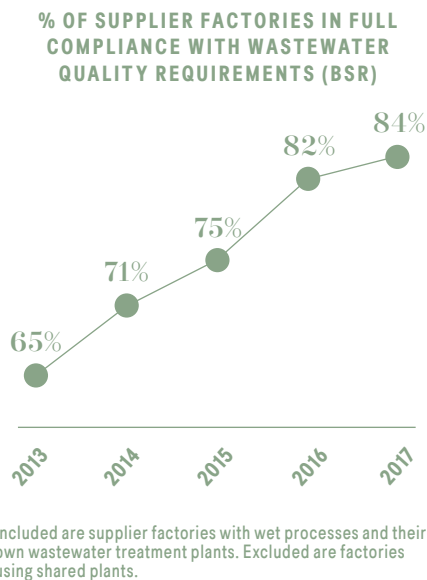
WATER WITHDRAWAL BY SOURCE AND COUNTRY (%)





- We have been using Jeanologias Environmental Impact Measurement tool to score the water, energy and chemical impact of our denim production, since 2015. In 2017, 55% of our denim products achieved a 'green' level, which means they used a maximum of 35 litres of water per garment during the treatment processes.

- We have installed water efficient equipment in 51% of our own stores, offices and warehouses. Our goal is to install water efficient equipment across all our operations by 2020.



Case study: How are we dealing with microfibres?

When synthetic fabrics such as polyester and acrylics are washed, microfibres are released into the water system and disturb natural ecosystems. Each year, approximately 500,000 tonnes of microfibres – the equivalent of 50 billion plastic bottles – enter the ocean from washing clothes.*

In 2017, H&M group, alongside other brands and stakeholders, began a three-year research project with the Swedish Research Institute SWEREA to tackle the issue of microfibre contamination. This project will investigate the develop-

ment of washing machine filters that prevent the release of microfibres and create guidelines on how to design fabrics and garments that do not shed microfibres.

Starting with the German market, H&M will also begin offering the Guppyfriend laundry bag to customers from spring 2018. Microfibre-reducing laundry bags aim to prevent the release of microfibres into the water system during wash cycles.

“Transforming the textile industry’s water management to reduce pollution is a critical part of WWF’s work to conserve freshwater resources. Our global partnership with H&M group has led the way by improving H&M group’s water management and encouraging other companies, NGOs and policymakers to collectively engage on water issues on a global level.”

STUART ORR, LEADER FRESHWATER PRACTICE, WWF INTERNATIONAL

*Source: *A New Textiles Economy: Redesigning Fashion's Future* by Ellen MacArthur Foundation & CFI pg 39.

D. Product use



We know that products with a long lifespan have a less negative impact on the environment. We also know that the largest part of a product's life is spent with its owner. Therefore, we need to ensure that we create products that can be used for as long as possible and that we give our customers the tools to help enable this.

By designing products with longevity and durability, empowering our customers to care for products in a sustainable way and providing opportunities for customers to recycle with us, we can prolong the lifespan of our products and create a truly circular economy.

CUSTOMER USE

We encourage all our customers to make sustainable choices while using and disposing of our products. There are several ways we go about this, including providing information about garment care, encouraging customers to use products for as long as possible and offering opportunities for reuse and recycling, rather than disposal.

For example, our garments have the Clevercare label included in their washing instructions. This

encourages washing at lower temperatures and hang drying instead of tumble drying. Simple behavioural changes like this can dramatically reduce the environmental impact of our products after they leave our store, as well as increasing their overall lifespan.

2017 PROGRESS & LEARNINGS PRODUCT-USE

- In 2017, ARKET launched its website which features clear and prominent care instructions for every ARKET product listed. The instructions are intended to help customers look after their clothes in the best way possible.
- Selected ARKET childrenswear products feature name tags that leave space for the names of three different owners. The purpose is to encourage and enable the garment to be reused and passed on to new owners.
- In 2017, H&M laid the groundwork for the new Take Care pilot which aims to help customers prolong the lifespan of their products.



Case study: The H&M Take Care pilot project

In spring 2018, H&M will pilot a new and innovative concept aimed at guiding and inspiring customers to prolong the lifespan of their garments.

The Take Care pilot will provide customers with guidance and inspiration as well as services and products to

help refresh, repair and remake their clothes. The Take Care pilot will be located in our German flagship store in Hamburg. Customers will be able to try out repair and remake services and shop selected products.

Find out more at [hm.com/takecare](https://www.hm.com/takecare).

E. Product reuse & recycling



We are continuously working to increase the number of our products that are reused or recycled. At the core of our strategy is our garment collection initiative through which we collect unwanted clothes from our customers and give them a new life, through reuse, rewear or recycling. In 2016, we set a new goal to collect 25,000 tonnes of unwanted clothes annually by 2020. In 2017, we collected over 17,000 tonnes.

Garment collection is easy, accessible and works for our customers and our business. We started collecting unwanted textiles (from any brand, in any condition) in H&M stores in 2011. In 2013, we rolled out the initiative globally. This service is now also offered by all & Other Stories stores, Monki stores and selected Weekday stores. & Other Stories also collect and recycle beauty product containers in store.

To run our garment collecting scheme, we partner with I:CO – a solutions provider for textile sorting. Once in the hands of I:CO, all unwanted textiles are sorted to either be reused/reworn or recycled. 60% of textiles are reused/reworn; 34% are recycled and 6% are used as combustibles for energy production



Used clothing and shoes are sorted for reuse or recycling at I:CO's facility plants.

with 0% of textiles going to landfill. Part of the recyclable post-consumer waste collected with I:CO is then used to create new products in both regular and special collections that are sold across H&M group brands.

We are constantly working to increase the share of textile-to-textile recycled materials in our products. As new innovation and recycling technologies develop, we will be able to create more products from the post-consumer waste we collect via

our garment collecting scheme and this will help us reach our goal to use only 100% recycled or other sustainably-sourced materials by 2030.



➤ 2017 PROGRESS & LEARNINGS REUSE & RECYCLING

- In 2017, we collected 17,771 tonnes of textiles through our garment collecting initiative. This is an increase of 12% from 2016. Between the start of the initiative and November 2017, we have collected more than 57,000 tonnes of garments.
- In January 2017, H&M launched the global Bring It film campaign to raise customer awareness around the importance of garment recycling. In conjunction with the film release, the brand also produced an exclusive Re-make Close the Loop Denim Collection consisting of 500 unique denim pieces. Each unique garment was made entirely from recycled, post-consumer denim waste.
- In October 2017, H&M launched its fourth exclusive Close the Loop Denim Collection. All pieces in the collection contained 20% recycled cotton fibres sourced from garments, collected via H&M's in-store garment collecting scheme.
- In spring 2017, H&M launched the UNI-denim collection. A 90's inspired, 10-piece unisex collection made entirely from recycled, post-consumer waste.

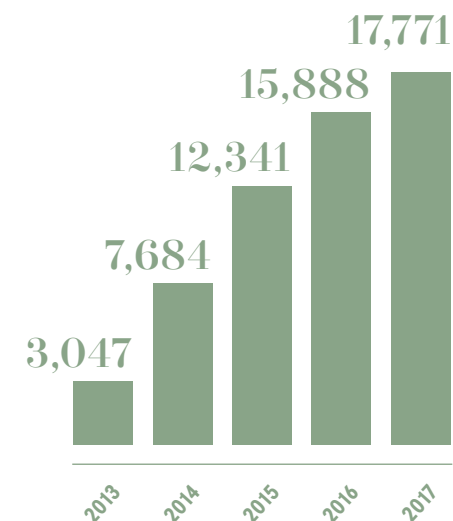
- In fall 2017, Cheap Monday released a capsule collection including jeans and denim jackets made from a mix of organic cotton and recycled cotton from post-consumer waste.

- In 2017, H&M group joined forces with the Swedish recycling innovation platform Siptex to investigate automated sorting solutions that will improve the recycling process. Automated sorting will speed up sorting using optical sensors that can detect fibre content.

- In 2017, H&M group invested in a new innovation company called re:newcell. Using a unique technology, re:newcell recycles used cotton, viscose and other cellulosic fibres into a new, more sustainable dissolving pulp. The pulp can then be turned into new textile fibres and fed into the textile production cycle.



TONNES OF GARMENTS
COLLECTED IN H&M GROUP STORES



Please find an independent assurance statement related to our tonnes of garment collected for reuse and recycling on pg 97.



WASTE MANAGEMENT WITHIN OUR OWN OPERATIONS

Our waste management currently focuses on two categories: faulty products and store and warehouse waste. To ensure that we operate in a truly circular way, we always aim to reuse or recycle both types of waste with zero going to landfill.

FAULTY PRODUCTS

The safety of our customers is always paramount, therefore we will only ever sell products if we know that they are entirely fit for purpose. If any of our products fail our strict quality and safety requirements or appear faulty or damaged, they cannot be sold. Faulty products are of course never intended and we are always working to improve our design and production processes. But when faulty products do occur, it is crucial that we handle them in the most sustainable way possible.

While faulty products, damaged, samples or stopped-orders cannot be sold in our stores, they are still fit for use. In these instances we send these products for reuse or recycling. We partner with charity organisations and reuse/recycling companies on a local market level and with larger partners to ensure that zero percent goes to landfill.

There are, however, rare instances when we create products that we cannot sell because they are unsafe for use. These may be, for example products that have failed certain chemical safety tests or that have been contaminated by mould during transportation. Unsafe products cannot be reused and depending on how unsafe the product is, it may not be possible to recycle it either. In these instances, the only option is to destroy these unsafe products. We must stress that this is not only an incredibly rare occurrence, it is also an absolute last resort.

STORE & WAREHOUSE WASTE

Within our stores and warehouses we are focusing our efforts on managing the most common types of waste – cardboard, plastic and paper. In most cases, these materials are collected in our stores and then sent to our local warehouse facilities where they can be recycled. However, this depends on the availability of existing recycling systems in the country or region where our stores and warehouses are located and this can pose challenges.

In 2017 the share of stores that had sufficient recycling systems for these types of waste equated to 64%. This indicates a

decrease from last years result (2016: 71%) which can be attributed to improved data collection.

We have however seen an increase in the amount of waste that is recycled at our warehouses. In 2017, 92.8% of waste originating in our warehouses and waste delivered to our warehouses from stores, was recycled compared to 91.8% in 2016. Our aim is to recycle 100% of the waste collected in all our stores and warehouses.

2017 PROGRESS & LEARNINGS WASTE MANAGEMENT

- Reporting on the way in which we handle faulty products is a new addition to our sustainability reporting and we will continue to develop this.
- In 2017, 0.345% of our total product assortment was reused (including charity donations) or recycled due to the products being faulty.
- In 2017, 0.055% of our total product assortment was destroyed due to the products being unsafe.
- In 2017, the share of stores that have recycling systems was 64%.
- In 2017, we recycled 92.8% of waste originating at our warehouses and waste that is delivered to our warehouses from our stores (2016: 91.8%, 2015: 92.3%).

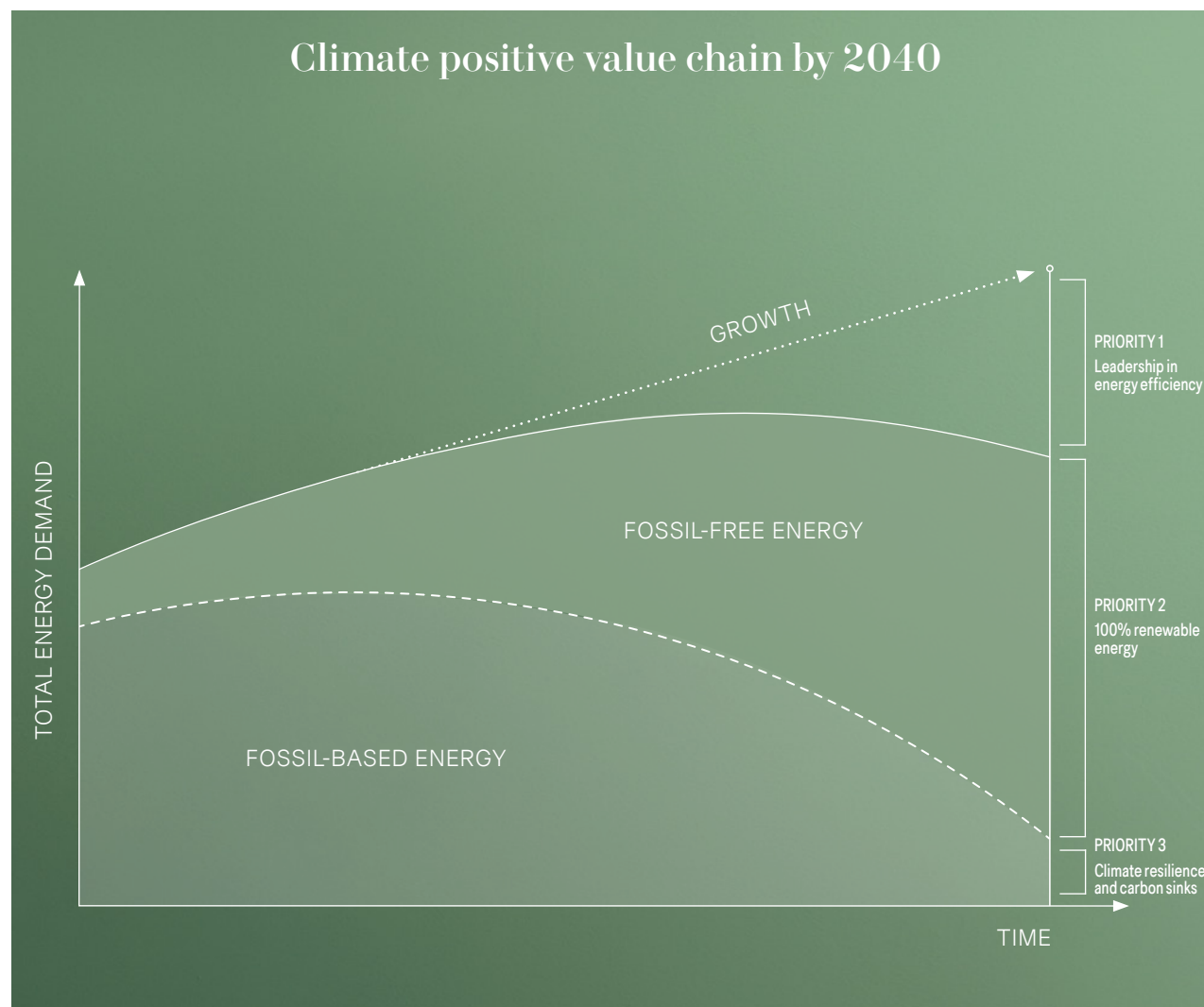
Becoming climate positive

Climate change remains one of the greatest challenges of our time. Its consequences will affect our entire planet and everyone living on it – making it a key challenge for all industries, including fashion. H&M group is determined to be part of the solution to climate change. By going beyond simply cutting our emissions, we are fully committed to make a significant contribution to help our planet stay below the 2°C global warming limit as set by the Paris Climate Agreement.

H&M group's goal is to have a climate positive value chain by 2040, which means removing more emissions from the atmosphere than that which we (our value chain) produce. With the help of expert scientific organizations and the WWF Climate Savers, we have taken a science-based approach to establish three key priorities to help us reach this goal.

Priority 1 focuses on leadership in energy efficiency to enable us to use as little energy as possible. Priority 2 tackles our 100% renewable energy goal which will help us to ensure that the energy we use is renewable. Lastly, priority 3 targets climate resilience and carbon sinks, to address unavoidable emissions and emissions beyond what our value chain is responsible for.

These three priorities relate to both our own operations and those across our value chain.





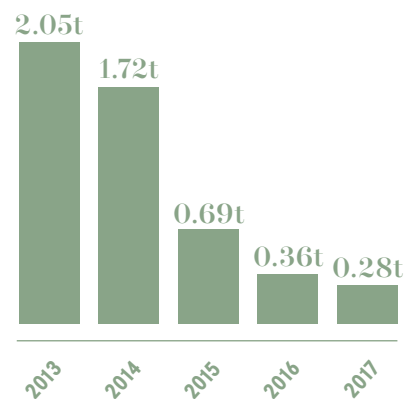
Priority 1: Leadership in energy efficiency

Different parts of our value chain require different approaches to energy efficiency. Similarly, the level of control we have over energy efficiency varies across our value chain i.e. we have greater control over some parts of our value chain than others. But regardless of this variability, we are committed to increasing energy efficiency across our entire value chain to help reach our 2040 climate positive goal. As such, we must work out how to optimise the maximum energy output from the smallest, necessary energy input at every stage.

OUR STORES

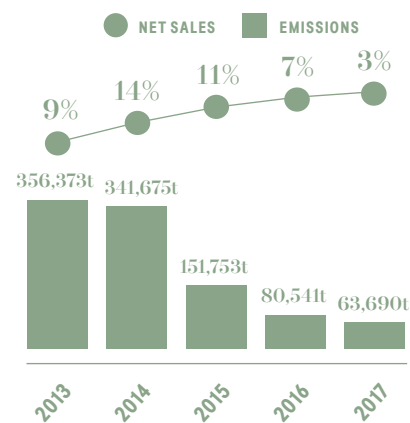
With over 4,700 stores, our bricks and mortar portfolio accounts for the majority of H&M group's own electricity consumption. As such, we have developed a new goal and a new store energy management strategy to help reduce our in-store energy consumption and reach our 2040 climate-positive goal. Originally, our goal was to achieve a 20% reduction in electricity intensity (amount of electricity used per square metre of sales area) by 2020. We have now increased our goal to a 25% reduction in electricity intensity by 2030. We will measure this by taking into account the amount of electricity used per square metre of sales area and opening hours, with 2016 as a new baseline.

CARBON EMISSIONS FROM OUR OWN OPERATIONS PER MILLION SEK SALES TURNOVER INCL VAT (CONSTANT EXCHANGE RATE)



As lighting and HVAC (heating, ventilation, air-conditioning) accounts for 90% of the electric energy we use in our stores, our new store energy management strategy aims to improve the way we work with these systems. By putting more specific demands on HVAC systems and replacing HID with LED lighting systems, we believe that by 2030, every store we construct will use 40% less energy per square metre and opening hour than those we construct today.

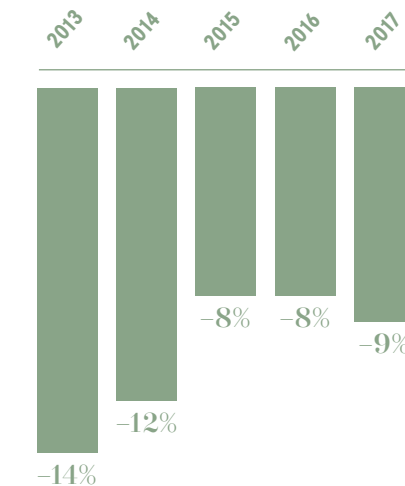
TOTAL CO_{2e} EMISSIONS* FROM OUR OWN OPERATIONS (SCOPE 1+2) VS. GROWTH IN SALES (IN LOCAL CURRENCIES)



2017 PROGRESS & LEARNINGS ENERGY EFFICIENCY IN OUR STORES

- In 2017, we reduced carbon emissions from our own operations by a further 21% compared to 2016.
- All new stores in 2018 will have 100% LED lighting concepts.
- HID lighting will be phased out of

ELECTRICITY USE REDUCTION PER H&M BRAND STORES SQM (2007 BASELINE**)



existing stores and replaced with LED lights to contribute to our 2030 goal.

- The above graph shows our progress on electricity use based on our old KPI of reduction per square metre. From next year, we will only report on our new KPI based on electricity use per square meter and opening hours (using 2016 as a baseline). In accordance with our new KPI, we achieved a decrease of 2.7% in electricity use in 2017.

*Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO_{2e} emissions are based on supplier-specific emission factors where available. For further details and data, please see our CDP Climate Change Investor Response 2016. CO_{2e} emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is included here on pg 97. **Energy intensity in 2007 was 190.39 kWh/m². This will be the last year that we report on the electricity reduction per square meter KPI. From next year, we will report on electricity reduction per square meter and opening hour with base year 2016. Please find an independent assurance statement related to GRI 302-3 on pg 97.



Energy use within our own operations

ENERGY USE IN GIGAJOULES	2013	2014	2015	2016	2017
Building diesel	403	3,586	716	3,241	3,791
District heating	67,901	68,208	44,953	43,347	98,921
Electricity*	3,402,762	3,804,291	4,399,990	4,995,002	5,575,996
Building natural gas, oil and others	252,124	155,937	161,959	178,128	214,451
TOTAL	3,723,190	4,032,022	4,607,618	5,219,718	5,893,266

*Energy related to electricity based cooling consumption is included. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 302-1 is included here see pg 97.

OUR SUPPLIERS

We aim to create a climate neutral supply chain for our tier 1 and tier 2 suppliers by 2030. This commitment will involve both an increase in energy efficiency and a transition to renewable energy. It includes the following milestones:

- 20% of factories enrolled in an energy efficiency programme by 2018
- 100% of factories enrolled in an energy efficiency programme by 2025
- 30% GHG reduction per product by 2025 compared to 2017 baseline.

2017 PROGRESS & LEARNINGS ENERGY EFFICIENCY WITH OUR SUPPLIERS

- We are reducing greenhouse gas emissions at a factory level through supplier energy efficiency programmes in Bangladesh, China, India and Turkey. In 2017, our improvement programmes resulted in savings of 98 million kWh, triple that of last year (2016: 30 million kWh saving). The programmes have also helped save 72 million m³ of natural gas and 0.17 million tonnes of coal. Together, this equals a reduction of 0.35 million tonnes of greenhouse gas emissions.

OUR TRANSPORT & WAREHOUSE OPERATIONS

Within our transport and warehouse operations, we work to reduce energy emissions in several ways. We monitor our own energy consumption and ensure that our warehouse operations and logistics are as energy efficient as possible.

When it comes to transport, we work with transport companies to ensure that we use the most energy-efficient options where possible. This involves optimizing routes and looking at energy efficient vehicles and alternative fuel options.

We are members of the Clean Shipping Network, Clean Cargo Working Group and Network for Transport Measure. We are also working closely with the Global Logistics Emissions Council (GLEC) to support work to find a global standard that accurately measures logistics-derived emissions.

2017 PROGRESS & LEARNINGS ENERGY EFFICIENCY OUR TRANSPORT & WAREHOUSES

- In 2017, the first Global Logistics Sustainability Week was hosted to engage our logistics and warehouse teams in our sustainability work and raise awareness about the importance of improving our energy efficiency. Several concrete ideas to decrease energy use were presented by colleagues including, for example, how to utilise natural light in a more effective way.



Priority 2: 100% renewable energy

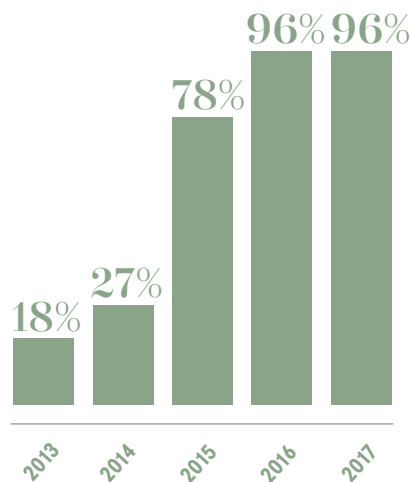
We are committed to maximising the use of renewable and sustainable energy in our value chain. We know that by using more renewable energy and helping our suppliers and customers do the same, we are supporting the transition to fossil-free energy use.

OUR OPERATIONS

We want to source 100% renewable energy in our own operations. Today, 96% of our electricity comes from renewable sources. We have achieved this through various methods, including the purchase of Energy Attribute Certificates which fulfil the quality criteria set by the GHG Protocol Scope 2 Guidance and by generating our own renewable electricity.

We will continue to develop our renewable energy procurement method to reach 100% renewable energy in our own operations. We are also members of RE100, a group of businesses committed to using renewable electricity.

% OF RENEWABLES IN OUR OWN OPERATIONS
TOTAL ELECTRICITY USE



Please find an independent assurance statement related to AF21 on pg 97.

2017 PROGRESS & LEARNINGS RENEWABLE ENERGY – OUR OPERATIONS

- GO2 is an innovative project that builds on the system of Guarantees of Origin, bundling the cost of our renewable energy usage with a contribution to new renewable energy supply. Our investment in GO2 has helped make possible the construction of a new wind park in Sweden. The Tågeröd Wind Power Plant is expected to generate 16,000 to 18,000 MWh per year.

OUR SUPPLIERS

We want our business partners to use renewable energy. Although some partners already source clean energy, access to viable renewable energy can be limited, particularly in new markets. We are working closely with stakeholders – including government bodies – to push for further progress.

2017 PROGRESS & LEARNINGS RENEWABLE ENERGY WITH OUR SUPPLIERS

- In 2017, 96% of the electricity used in our own operations came from renewable sources.
- In Bangladesh and India, we ran workshops with our suppliers and government representatives to encourage renewable energy and identify potential ways of moving forward.
- We have been working with experts (such as IFC and WWF) to create low-carbon roadmaps in sourcing markets, including research and analysis on renewable energy regulatory and commercial frameworks and financing mechanisms.
- We conducted more than 20 pre-feasibility studies on rooftop solar projects in Bangladesh, China and India.

Case study: H&M group's green data centre

The IT system that serves the majority of our brands online services (and our offices) is run from our global IT centre based in Sweden. This centre runs on 100% renewable energy and has solar panels on the roof. The facility is connected to the district heating system in Stockholm, which enables reuse of the

data centre's excess heat. This means that the IT centre is actively reducing CO₂ emissions and is therefore operating as a climate-positive facility.



Priority 3: Climate resilience & carbon sinks

We are committed to fully eliminating greenhouse gas emissions from our own operations. However, despite our best efforts, we recognise that there will still be unavoidable emissions in our value chain. To truly become climate positive, we are engaging in activities to absorb emissions both within and beyond our direct control.

This involves actively supporting mechanisms that reduce existing emissions while strengthening climate resilience. We need to further develop this approach and collaborate with experts to move solutions forward.

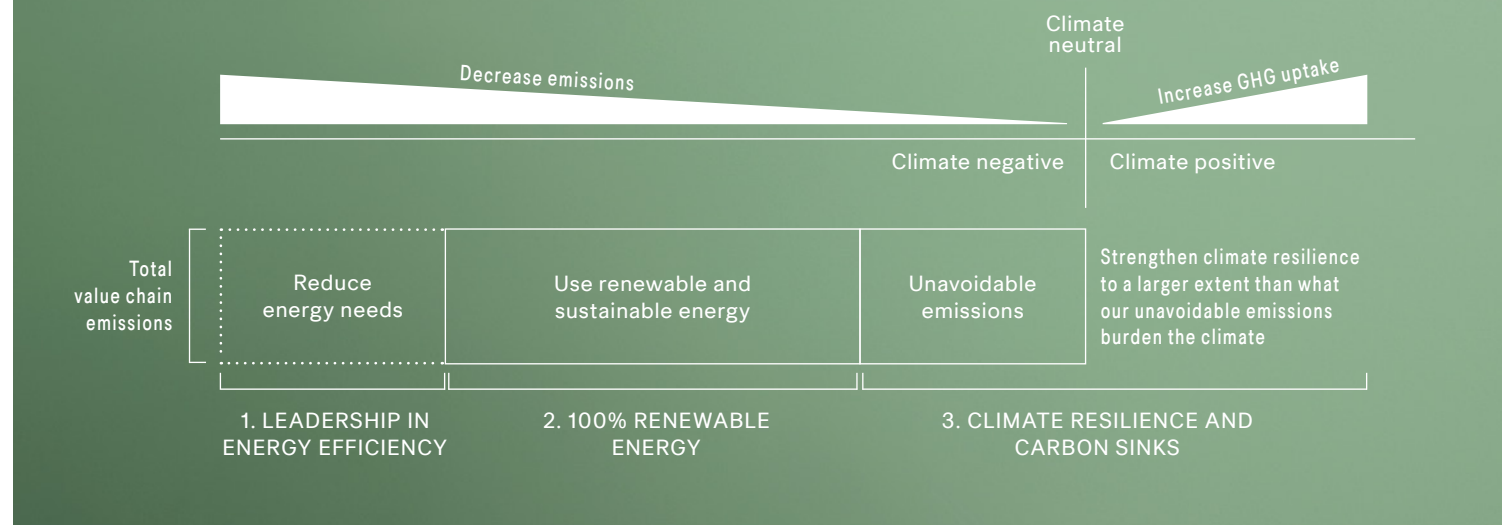
Currently, we are exploring opportunities in three areas:

1. Natural carbon sinks – these are nature's existing mechanisms for absorbing greenhouse gases. This area could include protecting valuable biomass (such as rainforests) or investments in more sustainable agriculture.

2. Technological carbon sinks – these are technological innovations that are designed to absorb existing greenhouse gases and turn them into new products and materials.

3. Reductions outside our value chain – these are engagement activities that reduce greenhouse gases coming from sources unrelated to our value chain.

Becoming climate positive



We urge innovators and experts to collaborate with us and like-minded partners to develop these opportunities and strengthen climate resilience. Resilience within planetary boundaries is crucial for many reasons, including the need to address global warming and its consequences and to safeguard global social security. This is an area that science identifies as critical for our chances to stay within the 2°C warming limit.

2017 PROGRESS & LEARNINGS CLIMATE RESILIENCE & CARBON SINKS

- We are continuously learning about how best to integrate and operationalise climate resilient thinking in to our business and decision making. As such in 2017 we continued to work with experts and partners to explore this new area.



Fact box: What are scopes?

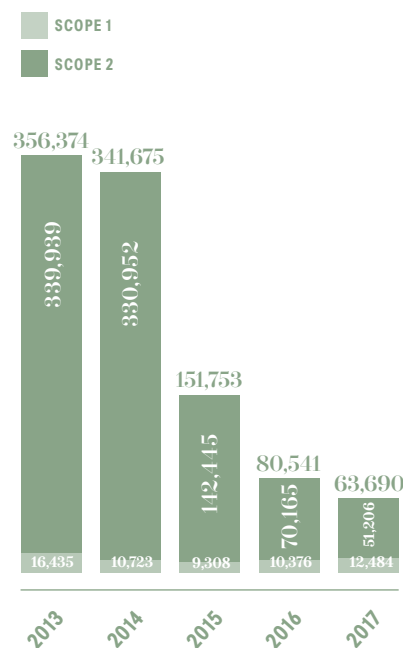
According to the Greenhouse Gas Protocol, emissions can be categorised into three groups known as scopes:

Scope 1 emissions: are defined as “direct” emissions the we (H&M group) either own or have direct control over.

Scope 2 emissions: are defined as “indirect” emissions created from the consumption of purchased electricity. Purchased electricity is defined as electricity that is bought or otherwise brought into the organisational boundary of the company.

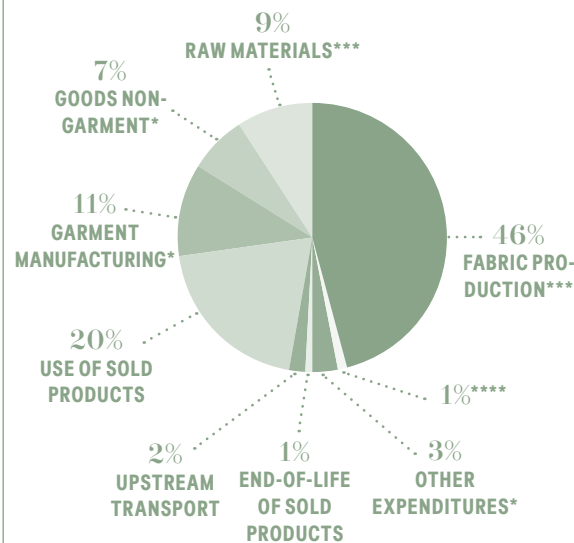
Scope 3 emissions: are defined as any emissions that are produced outside of our own operations and that we therefore have indirect control over. This includes our suppliers and the producers of raw materials used in our products as well as emissions from the use of products, for examples when our customers use washing machines to wash their clothes.

TOTAL CO₂e EMISSIONS IN TONNES (SCOPE 1+2) - INCL. RENEWABLES*



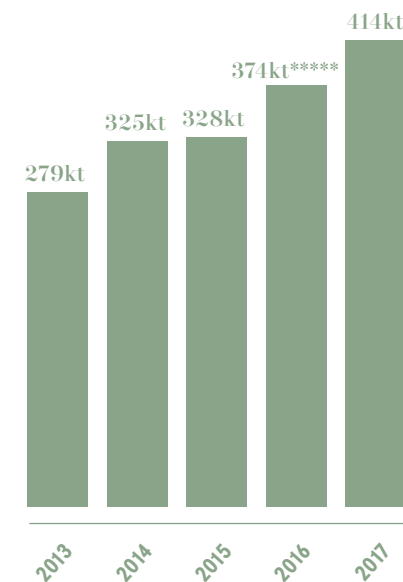
*Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on supplier-specific emission factors where available. Figures based on grid average emission factors (comparable to emission figures published in our 2013, 2015 and 2016 reports) were for 2017: scope 1: 12 484 t, scope 2: 630 490 t. For further details and data, please see our CDP Climate Change Investor Response 2016. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is included on pg 97.

TOTAL SCOPE 3 CO₂e EMISSIONS18,215KT**



Climate impacts are based on a Scope 3 assessment done by Ecofys in 2017, based on 2016 data. The categories are based on GHG Protocol. Calculations in the footprint analysis are based on calculations on a combination of high-quality H&M group data combined with the best available public data sources on CO₂ emissions, using conservative assumptions. We are working to further improve the calculations by using primary data from our main suppliers. Deviation from 100% due to rounding effects. *GHG Protocol Category 1: Purchased products ****Including fuel & energy related activities (0.1%), employee commuting (0.2%), business travel (0.4%), waste generated in operations (0.02%), franchises (0.1%).

CO₂e EMISSIONS IN KILO TONNES FROM UPSTREAM TRANSPORT AND BUSINESS TRAVEL



*****In 2016, we had a data inputting error in our CO₂e emissions which were incorrectly reported to be 796 kt.

Please find an independent assurance statement related to GRI 305-3 on pg 97. Reported scope 3 emissions include energy use, goods transport and distribution, and business travel. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). Increase mainly due to more accurate data collection and validation from our transport providers and a slight increase in air transportation. Emission data from previous years was likely underreported and actual historic emission data is unavailable.





100% Fair & Equal: Key facts & figures 2017

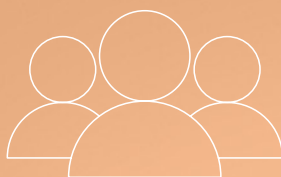


OUR FAIR & EQUAL AMBITION CONTRIBUTES TO SDG 5, SDG 8 AND SDG 17.

In early 2018, a Global Leader for Diversity and Inclusiveness was appointed within H&M group to drive our ambition to be stewards for diversity & inclusiveness forward.



227 supplier factories, covering over 375,000 workers, have implemented an improved wage management system.



458 supplier factories and more than 620,000 workers have been reached by our workplace dialogue programmes.

In 2017 we re-launched our company values across the entire business.



100%
of the factories we work with in Bangladesh have now conducted democratic elections of worker representatives.

We were one of the first brands, to sign the new “Transition Accord” which will continue the fire and building safety operations and remediation programme initiated by the Bangladesh Accord.



100% Fair & Equal: KPIs and goals

Goal-setting is an ongoing process. We work with experts – both internally and externally – and follow a science-based approach to define targets and actions wherever possible. The below KPIs and goals represent the initial key milestones along the way to achieving our ambition to become 100% Fair & Equal.

100% Fair & Equal					
KPI	2014	2015	2016	2017	GOAL
No. of supplier factories using Fair Wage Method (% of product volume covered)	3	69	140 (29%)	227 (40%)	50% of product volume by 2018
No. of supplier factories that have implemented democratically-elected worker representation (% of product volume covered)	–	132	290 (42%)	458 (52%)	50% of product volume by 2018
% of business partners regarding H&M group as a fair business partner	76%	84%	83%	94%	90% by 2018
% of employees agreeing with the statement “People here (at H&M group) are treated fairly regardless of age, ethnicity, sex, sexual orientation and disabilities”	89%	90%	90%	90%	Continuously increase
% of remediated issues (defined by the Bangladesh Accord)	-	61%	81%	90%	100%

100% Fair & Equal explained

At H&M group, we firmly believe that everyone connected to our business should be treated in a fair and equal way. Being 100% Fair & Equal means making sure our values and respect for human rights are upheld and promoted within our own company and across our supply chain.

Our 100% Fair & Equal ambition has two focus areas:

1. Fair jobs
 - within H&M group
 - within our supply chain
2. Stewards for diversity and inclusiveness

A fair job means fair compensation, a safe and healthy workplace, an environment free from discrimination and respect for every employee's voice. We also believe that a fair job should make every individual feel valued and respected within their workplace. Fair jobs are fundamental to the positive growth and development of employees within H&M group and workers within our supply chain. Fair jobs are also good for business – they make us an attractive employer and an attractive business partner and that helps us maintain stability and productivity in the markets in which we operate.

Simultaneously, as stewards for diversity and inclusiveness, we believe that we have a responsibility and an opportunity to drive inclusiveness and embrace diversity throughout our business. By protecting every individual's right to equal treatment and ensuring a zero tolerance policy on discrimination, we are working towards a more open society where everyone is welcome. We also recognise that our stewardship extends beyond employees. We are responsible for influencing our customers around the world through our products, campaigns and messaging.

Ultimately, we believe that through offering fair jobs and acting as stewards for diversity and inclusiveness, we can make a positive impact on the lives of employees within H&M group, workers within our supply chain and our customers. Diversity helps foster innovation and the ability to rethink. In return, this will make our business more resilient, productive and sustainable.



H&M.



Fair jobs for all: within H&M group

As one of the world's biggest fashion and design groups, we are constantly working to be a fair and equal employer.

Through our Global Employee Strategy, we strive to create a workplace that is transparent and trustworthy, fair and equal, and where anything is possible. A place where our company values are the red thread in everything we do. In turn, this leads to a workplace that creates and attracts the people we need for our continued success.

We believe that creating fair jobs for all within H&M group is built on four foundations:

1. PEOPLE: We make sure we have the right people on board and in the right positions. We do this through our recruitment and induction processes.

2. GROWTH: We offer all employees the opportunity to grow and develop in their roles, and we emphasise leadership training towards this. We enable development through business growth, internal recruitment and training opportunities.



We are more than 171,000 colleagues around the world.

3. VALUES: We promote a value-driven way of working and expect all employees to be ambassadors for these values in their work. Our shared values (outlined in "the H&M way"*) are the starting point for how we do business and how we interact with the world around us. Our strong company culture gives us a competitive advantage and ensures a sustainable way of working.

4. EQUALITY: We provide a solid foundation of fair and attractive working conditions. These include fair labour standards, health and safety standards, fair and competitive compensation, a comprehensive grievance procedure and a cooperative workplace dialogue.



2017 PROGRESS & LEARNINGS FAIR JOBS WITHIN H&M GROUP

- In 2017, we re-launched our company values across the entire business.
- We launched our Global Health & Safety Policy in January 2017, an upgrade to our existing Safety Policy that will help establish a strong health and safety culture across our operations. This policy is now permanent and relates to all functions across the business.
- In 2017, we changed Global Safety Week into Global Health & Safety Week in line with the launch of our new Group Health & Safety Policy. This global and group-wide initiative helps to contribute to our safety culture.
- Gender pay gap reporting was introduced by the UK government in April 2017, meaning all employers with over 250 employees in the UK are now legally required to publish an annual report of their gender pay gap. H&M group UK's first report showed a 3.94% (median) pay gap for H&M UK employees. This pay gap is 50% smaller than that of the average retailers and businesses in the UK.

* The H&M way represents H&M group values which can be viewed at about.hm.com



Case study: Interview with Arthur Erasmus – H&M employee

Name: Arthur Erasmus

Place of work: H&M Cape Town,
South Africa.

Job title: Area HR



What is your role and what are your responsibilities?

I work as an Area HR so I have to contribute and support our business and teams to achieve success, sales and profit by setting and implementing HR strategies. This includes for example succession planning as well as talent and leadership development. I work to secure structured performance management based on our values and offer all employees

a fair and attractive working environment/ conditions. As a team, we also work to drive diversity and inclusiveness. For example, we are supporting community social upliftment programmes by providing internships to previously disadvantaged groups.

How long have you been working in this store and within H&M group?

I started my journey with H&M in October 2015 at our V&A Waterfront store (Cape Town) as a Department Manager and I then moved on to the role of Country Employee Relations in 2016. Today, I am an Area HR.

What has your career development been like at H&M?

It has been amazing. Feedback and support from all my team members has been a real catalyst for my career growth and development.

What do you enjoy most about your job at H&M?

I really enjoy the opportunity that I have to empower, motivate and positively influence my colleagues. Helping them to achieve their best through challenges and encouragement is very rewarding.





Fair jobs for all: within our supply chain (production)

The concept of a fair job may sound simple, but in many of the production markets in which we operate, poor implementation of legislation means that fair jobs are not available to all. This creates an industry-wide challenge. In collaboration with our business partners, we are working towards our ambition to ensure that everyone in our supply chain has access to a fair job.

While our 100% Fair & Equal ambition is relatively new, our work towards creating fair jobs within our supply chain is not. H&M group started an assessment programme to help monitor working conditions in supply chain factories back in 1998 which led to improvements in basic health and safety, regular employment, legal payment of wages and prevention of child labour.

In 2013, we updated our social sustainability strategy to take on a more holistic approach that aims to create lasting improvements on an industry level. As an integral part of our company risk and human rights due diligence framework our assessment programme still provides a solid foundation for our work.

Today, our core social sustainability work is focused on capacity building and addressing key human rights issues to achieve our ambition of 100% fair jobs within the supply chain. Our strategy currently has three focus areas:

1. Enabling industrial relations
2. Supporting a fair living wage
3. Respecting human rights



The supplier factories we work with employ over 1.6 million workers, of which 62% are women.



Enabling industrial relations

At H&M group, we believe that well-functioning industrial relations are crucial to the creation of fair jobs. Good relationships between workers and management and effective interactions and negotiations on factory, industry and country level, promote good working conditions and better wages. Good labour relations also support stability and performance in our production markets.

Many markets, however, lack sufficient systems to make well-functioning industrial relations a reality. Therefore, as part of our strategy to achieve 100% fair jobs in our supply chain, we are working to improve industrial relations across our industry and in all our production markets. This kind of systemic change is highly complex and depends on us working to:

- give workers a voice
- build industry collaborations
- engage with local governments

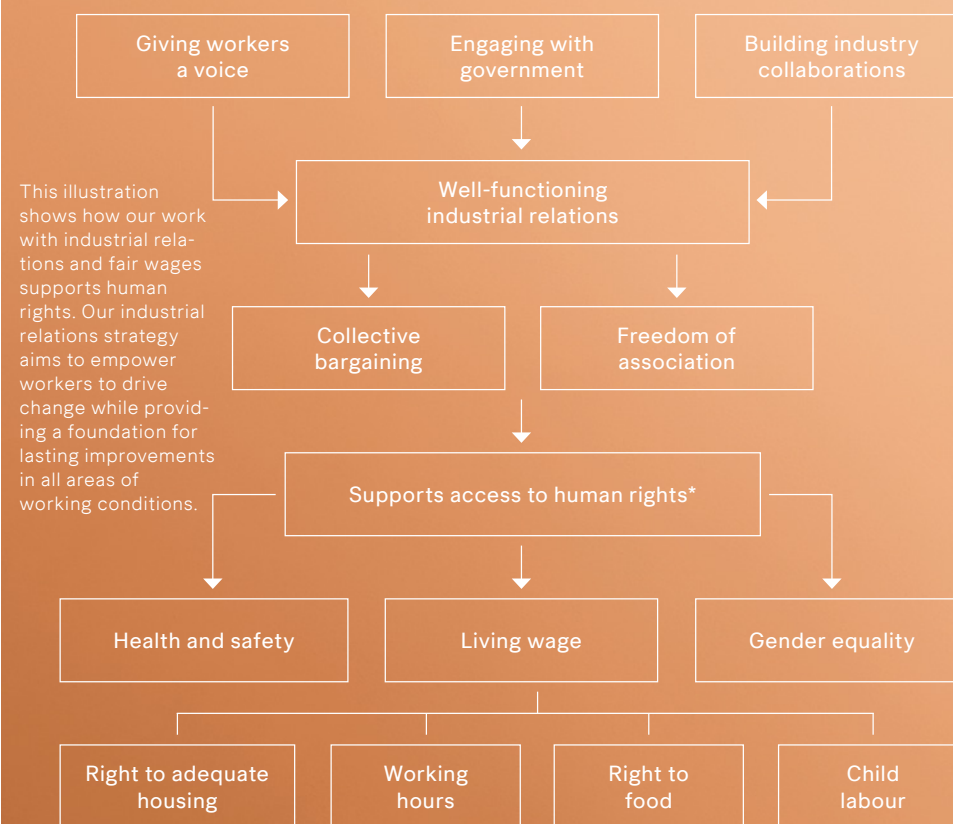
GIVING WORKERS A VOICE

H&M group has a production office (PO) team present in almost every country in which our products are made. It is their responsibility to help facilitate stronger relationships between factory workers and factory owners through our varying social dialogue programmes.

For example, through our Workplace Dialogue Programmes, we work directly with workers and management to raise awareness of their rights and obligations, including the importance of freedom of association and collective bargaining. We also help facilitate the democratic election of worker representatives.

Worker representatives can ensure that workers voices are truly considered and that managements decisions are truly accountable. Being trusted by their fellow workers and respected by management enables the worker representatives to bridge the gap that often exists between the two parties (i.e. workers and management). As such, we believe that democratically-elected worker representatives are a hugely important communication channel and a crucial first step towards enabling well-functioning industrial relations.

How does our work with industrial relations and fair wages support human rights?



*There are many more human rights that good working conditions – resulting from well-functioning industrial relations and fair wages – contribute to, but to be non-exhaustive we have chosen to focus on those listed in this illustration.



Case study: The H&M group Workplace Dialogue Programme in action

We spoke to a worker and a member of the management team at one of the supplier factories we work with in Bangladesh to find out their experiences of working with the H&M group Workplace Dialogue Programme. Kakoli was elected as a worker representative via the Workplace Dialogue Programme and as a member of the management team, Abdul was involved in implementing the programme.

Name: Kakoli Akter
Role: Mending operations



What is your experience of the Workplace Dialogue Programme so far?

All processes were good. The movie for workers to raise awareness of rights and how an election works was good.

Why did you decide to stand for election?

I thought I could contribute to the development of my colleagues. When workers have an issue they can come to me and I can help them bring their voice to management and help resolve issues where there are issues.

What were your thoughts about running for election?

I was a little bit hesitant of what it would be like, but I feel trust in the process.

Are you happy to have been elected?

Yes. I am looking forward to representing my colleagues.

Name:

Abdul Quddus Sajib

Role: Senior Officer-
HR & Compliance



What was your initial reaction when you were approached by H&M group to participate in the Workplace Dialogue Programme?

When Pretty Fashion was approached two years ago, we didn't want to participate. Hesitation came from all levels of management, from the top to supervisors. But two years later, our view has changed.

What was the reason for hesitation?

The possibility of unrest among workers was a great concern. The experience from factory management in Bangladesh in relation to worker representation is not positive. There was a lack of trust in the belief that a relationship between management and workers could be established based on mutual respect and there

was concern about the ability of workers to engage in constructive dialogue and learn about rights and responsibilities.

How was this overcome?

The trainers and H&M group have been very supportive both for management and workers to overcome hesitations and establish trust. Providing training and films for workers has really helped them gain trust. The messages in the training film were very clear for both management and workers. They showed how to engage in fruitful dialogue, how worker representatives can be elected, how to handle issues in meetings and what the benefits can be for workers and management. The film was not only shown to all 3,800 workers, but also all levels of management including supervisors.

What has been your experience of the process so far?

Very good experience of all activities so far. Also very positive feeling in the factory during the days coming up to election. Workers were engaged, excited and happy. Satisfaction level and trust level towards the management is improving through just this process. We are happy.



BUILDING INDUSTRY COLLABORATIONS

We believe that collaboration within the industry is essential to establish the agreements and strategies needed to further improve industrial relations.

One of the key relationships that we have built within the industry is with IndustriALL and IF Metall. With these two organisations, our Global Framework Agreement (GFA) works to improve labour conditions within our global supply chain with a focus on enabling freedom of association and collective bargaining.

To implement the GFA, National Monitoring Committees (NMC) have been set up in our production countries. NMCs

are composed of local IndustriALL affiliated trade union representatives and local H&M group production office representatives. The NMCs develop local action plans and facilitate conflict resolution. H&M group was also a founding member of Action Collaboration Transformation (ACT). ACT is a collaboration between international brands, retailers and trade unions to address the issue of a living wage through industry-wide collective bargaining. Read more about our work with ACT on page 64.

ENGAGING WITH LOCAL GOVERNMENTS

Enabling legal and institutional frameworks are crucial for well-functioning industrial relations. Through regular

discussions with local governments, advocacy work and through our partnership with ILO, we support the development of necessary frameworks. Having offices and local staff in each production market is a key strategy and great asset when it comes to engaging with local governments and other key stakeholders.

OUR INDUSTRIAL RELATIONS GOALS

- To ensure that supplier factories producing 50% of H&M group's product volume, have democratically-elected worker representation in place by 2018.
- Continue to engage with industry experts and governments on industrial relations issues and freedom of association following a strategic engagement plan.

2017 PROGRESS & LEARNINGS INDUSTRIAL RELATIONS

- In 2017, factories producing 52% of our product volume, implemented democratically-elected worker representation. This means we have achieved our 2018 goal.
- 100% of our garment manufacturing units in Bangladesh have held democratic elections of worker representatives. In total, 2,882 people were elected of which 40% were women.
- Our industrial relations and workplace dialogue programmes, reached 458 factories in 2017 (2016:290, 2015: 132). Our 2017 programmes included factories in China, Bangladesh, Cambodia, India, Indonesia, Turkey, Ethiopia and Myanmar. In total 621,977 workers were reached.
- In October 2017, IndustriALL and representatives from several of H&M group's production office teams, met in Bangkok to discuss the progress and challenges of the Global Framework Agreement (GFA) that was signed two years ago.
- The NMC mechanism has been set up in Bangladesh, Cambodia, Indonesia, Myanmar and Turkey.

“The NMC system creates a space for our unions not only to develop as responsible social partners but also to increase their organizing and collective bargaining capacity, which is needed for unions to develop and strengthen.”

JENNY HOLDCROFT, INDUSTRIALL GLOBAL UNION ASSISTANT GENERAL SECRETARY



Supporting a fair living wage

We believe that all workers should earn a fair living wage and we are fully committed to this vision. Consequently, we are improving wage practices factory-by-factory while at the same time partnering with other brands and trade unions to achieve the systemic changes needed to ensure fair wages across the industry.

We define a fair living wage as one which satisfies the basic needs of workers and their families as well as providing some discretionary income. A fair living wage should be revised annually and negotiated regularly.

Across the industry, workers are employed by factories that produce for multiple brands at the same time and therefore, the salary workers receive cannot be linked to a single brand. In other words, workers are paid the same amount of money by factory owners, regardless of a product's final price tag.

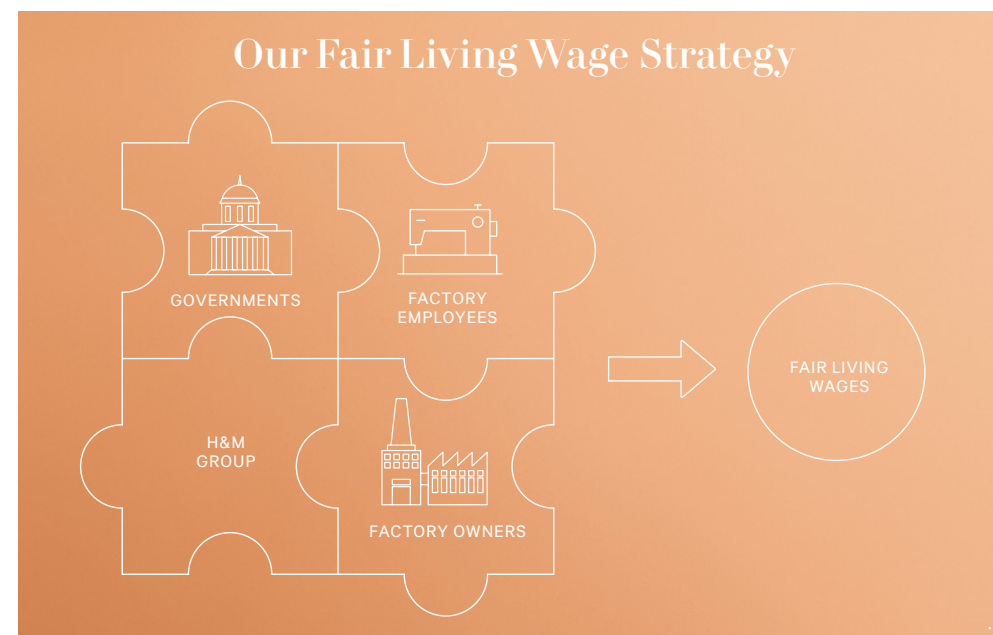
While H&M group cannot directly decide what workers are paid, we believe that we can support the creation of fair living wages via our Fair Living Wage Strategy.

OUR FAIR LIVING WAGE STRATEGY

We developed our global Fair Living Wage Strategy in 2013 with guidance from multiple experts, trade-unions

and NGOs. The strategy focuses on governments, factory owners, our own purchasing practices and most crucially, workers. The strategy is both interlinked with and dependent on well-functioning industrial relations, including collective bargaining. Therefore, it is crucial for all parties involved to work together for the strategy to really come to life. Here's how it works:

- We engage in dialogue with local governments to further develop the legal framework needed for improved industrial relations.
- We engage with factory owners to promote the importance of well-functioning industrial relations. We also help them implement well-functioning wagemanagement systems by using the Fair Wage Method.
- We ensure that we maintain good purchasing practices by being long-term,



stable business partners, which helps factory owners to pay a fair living wage.

- We train workers and management about their rights and responsibilities and facilitate the democratic election of worker representatives through trade unions or worker committees.

To drive our Fair Living Wage Strategy forward on an industry level, we collaborate with industry experts, NGOs, unions

and other brands through our partnership with ACT (Action, Collaboration, Transformation). Read more about our work with ACT on page 64.

OUR FAIR LIVING WAGE GOALS

- Supplier factories representing 50% of product volume should be using the Fair Wage Method by 2018.
- 90% of business partners should regard H&M group as a fair business partner by 2018.



➤ 2017 PROGRESS & LEARNINGS FAIR LIVING WAGE

- In 2017, we scaled up implementation of wage management systems (using the Fair Wage Method, FWM) to reach a total of 227 factories (2016: 140, 2015: 69). In 2017 Myanmar was also included as a new market. This means that the FWM is now operating in factories who supply 40% of our product volume, bringing us close to meeting our 2018 goal.
- Our annual anonymous supplier survey, showed that 94% of our suppliers consider H&M group as a fair business partner, exceeding our goal of 90%.
- During 2017, we developed wage management system guidelines based on the learnings made so far and in close consultation with a variety of stakeholders. This will guide the work with our business partners going forward and has also been shared with industry partners.
- Achieving sustainable and fair living wages goes beyond what can be achieved by wage management systems in single factories. While we can see substantial increases in

minimum wage levels in several markets, further systemic change is needed. In agreement with a broad range of our stakeholders, we see industry-wide collective bargaining as the best way to define and further drive minimum wages across the industry. ACT is instrumental in the work towards this and its collective effort has resulted in substantial progress in several key markets.

- ACT has been recognised in the G20 Ministerial Declaration as an acknowledged, credible initiative to work on living wages.
- In order to support the development of industry-wide collective bargaining agreements, H&M group and the other ACT brands signed an MoU to facilitate the payment of fair living wages through their purchasing agreements.

Case study: Interview with Frank Hoffer – Executive Director of ACT

Can you briefly describe ACT's vision and objectives?

ACT (Action, Collaboration, Transformation) brings together global brands, retailers and IndustriALL – the global trade union federation representing garment and textile workers – to address the issue that in many countries, garment and textile workers do not earn a living wage.

We believe that substantial and sustained improvement of wages and working conditions in the industry requires collaboration between brands, suppliers, governments and trade unions and, crucially, a change in purchasing practices and representation of the workers themselves.

We engage with governments, employers and workers to encourage industry-wide collective bargaining. Coordinated wage-setting enables companies to compete on quality and innovation without being undercut by bad labour practices and poor wages. ACT corporate members are committed to supporting this through responsible purchasing practices that incorporate higher wages.

What are ACT's priorities for 2018?

We want to move towards practical implementation of our vision that global supply chains can be efficient, dynamic and just. We will continue to work with other initiatives such as Sweden's Global Deal and Germany's Textile Partnership and international organisations like the ILO and the OECD to build momentum for the achievement of living wages through freedom of association and responsible purchasing practices. We are also engaging with other brands to gain further support for our approach.

In addition to continuing our conversations in Cambodia, Vietnam and Turkey, we are going to begin new discussions in Myanmar and Bangladesh. To achieve genuine progress, the establishment of a culture of trust, recognition and collaboration between trade unions and manufacturers in the garment-producing countries, as well as between the national actors and international buyers, is absolutely essential. That culture has to be developed through a patient process of discussion and negotiation in which commitments are made and kept.



Map of industrial relations and fair wage progress

This map summarises some of the progress we have made through our industrial relations, workplace dialogue and wage management programmes.

TOTAL FIGURES

- 227 factories are using the Fair Wage Method which represents 40% of our total product volume and reaches 375,586 workers.
- 458 factories received workplace dialogue training, which represents 52% of our total product volume and reaches 621,977 workers.
- Five National Monitoring Committees were set up.
- ACT country consultations were initiated in three production markets.

TURKEY

- National Monitoring Committee set up and trained.
- ACT country consultation initiated.
- Workplace dialogue training in 18 factories reaching 5,890 workers.
- 18 factories are implementing the Fair Wage Method, reaching 5,725 workers.

ETHIOPIA

- In partnership with the ILO, Sida and IF Metall launched a project aimed at improving labour relations for decent work in the garment industry.
- Workplace dialogue training in five factories reaching 4,469 workers.

INDIA

- Workplace dialogue training in 34 factories reaching 24,000 workers.
- 28 factories are implementing the Fair Wage Method, reaching 27,620 workers.

CHINA

- Workplace dialogue training in 123 factories, reaching 55,988 workers.
- 79 factories are implementing the Fair Wage Method, reaching 25,645 workers.

BANGLADESH

- National Monitoring Committee set up and trained.
- Workplace dialogue training in 227 factories reaching 445,575 workers.
- 61 factories are currently implementing the Fair Wage Method, reaching 235,980 workers.
- 1,102 students in skills development Centre of Excellence.
- Set up 10 enterprise training programmes (in cooperation with the ILO and Sida) which trained 5,048 workers.

CAMBODIA

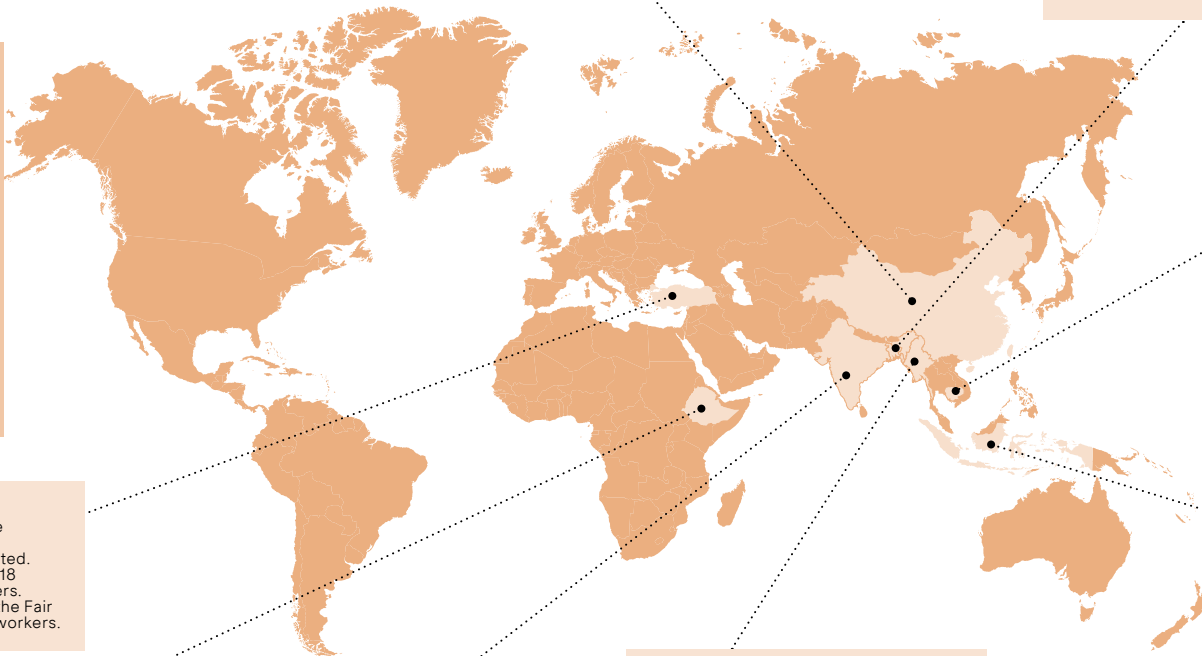
- National Monitoring Committee set up and trained.
- ACT country consultation initiated.
- Workplace dialogue training in 24 factories reaching 48,521 workers.
- 17 factories are implementing the Fair Wage Method, reaching 32,255 workers.

INDONESIA

- National Monitoring Committee set up and trained.
- Workplace dialogue training in 17 factories reaching 37,534 workers.
- 14 factories are implementing the Fair Wage Method, reaching 34,061 workers.

MYANMAR

- National Monitoring Committee set up and trained.
- In partnership with the ILO, Sida and IF Metall launched a project aimed at improving labour relations for decent work in the garment industry involving 10 factories.
- 10 factories are implementing the Fair Wage Method reaching 14,281 workers.





Respecting human rights

The safety and wellbeing of factory workers is of the utmost importance to H&M group. It is imperative that all the suppliers (business partners) we work with provide safe conditions for their workers and failure to do so is a failure to respect human rights.

ADDRESSING CHILD LABOUR

Child labour and children's rights are identified as salient human rights issues. H&M group does not accept any form of child labour and as a result of our strong and long-term position on the issue of child labour, it is exceptionally rare to find any workers below the statutory minimum age in our business partners factories.

We make it an absolute, minimum requirement for all factories producing for H&M group to be free from child labour and this compliance is continuously monitored. During 2017 we identified one case of child labour.

If we find any person below the minimum age working in any of our business partners factories, then our Child Labour Policy guides us (and our business partners) to act in the best interests of the child. This can include ensuring that the individual enrolls in school, providing compensation to the family for lost income and partnering with civil society organisations. Read more information on our policies at sustainability.hm.com

2017 PROGRESS & LEARNINGS CHILD LABOUR

- We have identified a risk of child labour linked to mica*. In line with our strategy on mica, we have held training courses with cosmetic suppliers to raise awareness on the risks connected to exposure to mica. In cooperation with suppliers, we are also systematically gathering further information to increase the traceability of mica in our products.
- In 2017, we participated in the general assembly annual meeting of the Responsible Mica Initiative (RMI) in Delhi and participated in various working groups.
- In 2017, we continued to collaborate with the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) in a project to prevent child labour and protect young workers in our supplier factories in Myanmar. So far 35 factories have been covered, amounting to over 300 management staff and approximately 14,000 workers.

ADDRESSING FORCED LABOUR

Forced labour is identified as a salient human rights issue that poses a potential risk throughout our value chain. As with our approach to child labour, it is an absolute minimum requirement for all factories producing for H&M group to be free from forced labour and this compliance is continuously monitored.

We have several risk assessment processes to ensure that we identify and address any risks of forced labour. Our ongoing work to address the specific risks of forced labour is described in our Modern Slavery Statement which is published each financial year alongside our annual sustainability report.

2017 PROGRESS & LEARNINGS FORCED LABOUR

- During 2017, we continued to conduct internal training and capacity building to address modern slavery issues, covering all forms of forced labour, child labour and human trafficking.
- We conducted training sessions for our local sustainability teams and quality teams in Cambodia and Vietnam in cooperation with International Organisation on Migration (IOM) and Corporate Responsibility for Eliminating Slavery and Trafficking (CREST).

“Our commitment to respecting human rights is fundamental to the way in which we run our business.”

SOFIE NYSTROM, SUSTAINABILITY BUSINESS EXPERT
HUMAN RIGHTS, H&M GROUP

*Mica is a type of mineral used to add colour to cosmetics.



ADVANCING THE BANGLADESH ACCORD

The Bangladesh Accord was set up five years ago to help improve fire and building safety in the textile industry in Bangladesh. As one of the first companies to sign the Accord, H&M group has been on the steering committee since day one. The Bangladesh Accord is now monitoring over 1,600 factories.

The initial aim was to transfer the Accord to a local national regulatory body by May 2018. However, transfer of the Accord is dependent on the local body demonstrating the full capacity to inspect factories, protect workers, provide transparency and provide confidential complaints mechanisms.

Readiness for this transfer will be agreed by the Accord committee which includes brands (including H&M group), global unions, the ILO, the Bangladesh Garment Manufacturers Association and the Bangladeshi government.

2017 PROGRESS & LEARNINGS THE BANGLADESH ACCORD

- In 2017, the national government of Bangladesh extended the Accord's permission to operate beyond May 2018. In June 2017, H&M group signed the, newly named "Transition Accord." The Accord will continue its current operations and remediation programme until local regulatory bodies have the full capacity to take over. The Transition Accord will remain in operation until May 2021.
- By November 2017, 90% of original issues had been remediated and 82% of original and new issues were remediated.

ADDRESSING SOCIAL SECURITY

In most developed countries, permanent forms of employment often entitle employees to social security benefits i.e. healthcare, sick pay, work-related injury cover and maternity leave etc. Employment schemes in many developing countries, however, do not always entitle their workers to the same kind of protection. In some instances, the schemes can in fact limit the workers ability to exercise their worker's rights. At H&M group, we work to ensure that these limitations are minimised by addressing the employment schemes offered by suppliers (our business partners) to their workers.

We ensure that suppliers/factory owners are aware of their obligations under labour and social security laws and that these obligations are being met. We then look to identify instances in which social security obligations are being systematically avoided. For example, the continued use of short-term contracts rather than the opportunity for full-time employment can enable suppliers to avoid making provisions for higher levels of protection.

2017 PROGRESS & LEARNINGS SOCIAL SECURITY

- In 2017, we continued our work to address social security issues, specifically failures to issue work permits and the unwarranted use of short-term contracts.
- In 2016, we engaged with the labour rights organisation Solidarity Centre to develop a training plan to increase awareness of legal contract rights for Cambodian workers. In 2017, we held workshops with a broad range of stakeholders, including our suppliers, trade unions, Better Factories Cambodia and the Cambodian government to raise awareness about the advantages of undetermined duration contracts (UDCs).
- In 2017, we acted on issues relating to both social security and working conditions in Turkey. We continued to engage with the government, UN organisations, NGOs, other brands and business associations to further improve refugees' access to work permits.
- Through capacity building and collaboration with various stakeholders, H&M is enabling formal employment of Syrian refugees in our supplier factories. As of 2017, more than 250 refugees are employed in our approved units in Turkey, supported by the United Work program.



Stewards for diversity & inclusiveness

Through our relationships with our employees, our business partners and our customers, H&M group represents and connects with a huge and diverse group of people around the world. We believe each and every one of those people should be treated equally.

We want to challenge prejudice and restrictive stereotypes and be part of creating an inclusive society. Furthermore, we believe that as a global brand we have a responsibility to champion these beliefs and ensure that any job connected to H&M group is accessible to all and reflects the diverse mix of people in the world around us. To achieve this, our ambition is to act as stewards for diversity and inclusiveness.

Internally, we act as stewards for diversity and inclusiveness by welcoming, accepting and celebrating all employees based on individuality and regardless of differences.

Externally, we act as stewards for diversity and inclusiveness by engaging with our customers through global marketing campaigns and collections that aim to to recognise and support everyone's right to proudly be, and express, who they are.



We believe in people.



➤ 2017 PROGRESS & LEARNINGS STEWARDS FOR DIVERSITY & INCLUSIVENESS – INTERNAL

- 90% of H&M group employees agree with the statement that “people are treated fairly regardless of age, sex, ethnicity, sexual orientation and disabilities.”
- In 2017, 76% of all H&M group employees were female and 72% of management positions were filled by female employees (2016: 75%, 69%, 2015: 75%, 72%).
- In 2017, we ran an internship for integration programme which focused on providing refugees in Germany, Sweden and Italy with work experience opportunities. Learn more on page 70.
- In 2017, we developed a global guidance on Adapting for an Ageing Workforce. The guidance supports an active approach to managing age in the workplace.
- In 2017, our Board of Directors was represented by a 56:44 (female:male) gender split.
- Local legislation in India restricts the hours that women can work, so to increase access to jobs and career opportunities, H&M is continuing to run

an initiative which provides safe transport to and from work for our female H&M store employees.

- In January 2018, H&M released an image of a children's sweater on hm.com that was deemed by many as racist. H&M issued an unequivocal apology and admitted to having unintentionally made a terrible error of judgement. H&M group believes that racism and bias in any shape or form, deliberate or accidental, is absolutely unacceptable. Immediately after this incident, all H&M group stakeholders were informed and all employees were asked to share their thoughts and input via a feedback channel.

- To further strengthen our work with diversity and inclusiveness going forward, we have created a new position of Global Leader for Diversity & Inclusiveness who will formulate and drive a roadmap to raise awareness and lead positive change throughout our entire organisation. Several awareness-raising training courses have already taken place, including training courses with our executive team and CEO. Our aim is to set a clear strategy during 2018.



“Diversity and inclusiveness relate to how we act as an employer to ensure that all our colleagues are treated fairly and equally and how we act as a corporate citizen to engage with and contribute to the societies we reach.”

ANNIE WU, GLOBAL LEADER FOR DIVERSITY & INCLUSIVENESS, H&M GROUP



Case study: Integration programmes at H&M

At H&M group, we always work to foster an inclusive workplace and welcome an exchange of skills, so in 2017 H&M launched a series of integration programmes. Rolled out in Italy, Sweden and Germany, the aim of the programmes was to provide refugees in each of the three H&M markets, with a chance to settle into a new society, build social networks and gain training and work experience to help them secure a job in the future. Here, we meet a few of the programmes participants:

ITALY

Name: Umar Mohammed
From: Nigeria
Participant type: Intern



Why did you want to be a part of the internship programme?

My previous years of experience have prepared me well for this internship as a sales advisor. One of my big goals here is to improve customer service as this is a big part of this work. I want to develop more new skills and abilities to have more opportunities for my future and this internship is giving me what I'm looking for. This internship will support me creating a wonderful CV to apply for a job, because H&M is known all over the world.

What are your thoughts on the programme so far?

This is a great experience. I have developed extensive skills with customers and finding a way to make them happy. I have learnt so much from this company and my mentors and all my colleagues in store. I hope this experience will give me many new opportunities.

SWEDEN

Name: Najd Dergham
From: Syria
Participant type: Intern



Tell us about your background?

I'm a computer engineer from Aleppo in Syria. I have a masters degree in Encryption-Decryption, and in Syria I had my own IT

solution company. As an intern at H&M, I learnt a lot thanks to my mentors, they made sure I got the required knowledge about the company and the job. Being treated as a real employee helped me improve my skills and integrate faster.

What happened after your internship?

The internship turned into a real job at the H&M Head Office. Today, I work as a Technical Solution Architect at the IT department.

GERMANY

Name: Assagie Bernarda
From: Germany
Participant type: Mentor



Why did you want to participate in the programme?

The programme really exceeded my expectations. Thanks to the co-learning sessions on intercultural communication, I learned so much more about my buddy and the whole group. I did not expect that we could actually make a big difference with this programme but we really did. In my case, I talked to my store manager and we developed a three-day internship at our store for my buddy. This setup did not exist before and it can now be used for other newcomers to get

an idea of what our job looks like at H&M. This makes me very happy and proud.

Why would you recommend the programme to other colleagues?

You get to know a lot of interesting new people and cultures and, of course, it is a lot of fun. It is also good for your net-working: you meet many colleagues from different stores with different roles, but you also meet many people from totally different countries and cultures who can share their experiences with you. I would never have met all these different people in my private life.



➤ 2017 PROGRESS & LEARNINGS STEWARDS FOR DIVERSITY & INCLUSIVENESS – EXTERNAL

• During September 2017, Weekday celebrated Zeitgeist, its long-standing print project, by launching re-editions of some of the most popular prints. Zeitgeist is a weekly in-store print project that reflects on current events in popular culture, society and politics. Limited numbers of prints are available and sold for one week only. The 2017 re-edition collection covered topics such as social media addiction, women's rights, self-love/acceptance, mental health and gender equality.

• During 2017, Monki launched an exclusive menstrual cup together with the brand Lunette. The cup, which was available to buy in store and online, was also accompanied by a strong campaign which formed part of the brand's ongoing work to empower women and end the stigma that exists around periods. Together with Lunette, Monki also donated 5,000 menstrual cups to The Cup Foundation. The Cup Foundation is a non-profit organisation that works to support underprivileged girls around the world by providing them with sustainable menstrual cups and education on sexuality and reproductive rights.



• In spring 2017, Monki released the #NoFilter campaign – a campaign featuring completely unretouched bodies. The swimwear and underwear campaign represents H&M group's fundamental belief in celebrating diversity and inclusiveness as well as Monki's mission “to make girls feel great about themselves just the way they are.”

• In March 2017, H&M launched the UNI-denim collection featuring six denim garments made to be worn by all customers regardless of gender. The collection featured jackets, jeans and shorts available in extra small, small, medium, large or extra large sizes rather than the traditional female or male denim sizing. The collection was accompanied by an advertising campaign which featured male and female models wearing exactly the same outfits.





Case study: Foundation 500 by H&M Foundation

In June 2017, the non-profit H&M Foundation launched a campaign in collaboration with humanitarian agency CARE called Foundation 500. With reference to the famous Fortune 500 list, the Foundation 500 is a list of successful female business leaders from emerging markets.

“The entrepreneur is the hero of our time, and it is estimated that over the coming years over one billion women will enter the workforce – a majority through entrepreneurship. But you can’t be what you can’t see. With the Foundation 500 list, we want to re-define what a business leader looks like,” said Diana Amini, Global Manager, H&M Foundation.

All 500 women in the campaign are part of a programme set up by H&M Foundation and CARE to provide women in developing countries with economic empowerment. The idea of the campaign was to challenge stereotypes and inspire other women to develop their own businesses.

“Born with zero privilege, the women portrayed in the Foundation 500 list have

made their own fortunes in the harshest of start-up environments. Yet, their stories often go untold. I wish I had seen women like these on the cover of business magazines when I grew up in South Sudan,” said Alek Wek, British/Sudanese supermodel, entrepreneur and H&M Foundation ambassador.

“With the Foundation 500 list, we want to re-define what a business leader looks like.”

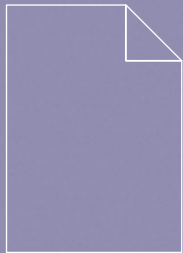
DIANA AMINI, GLOBAL MANAGER,
H&M FOUNDATION





COS.

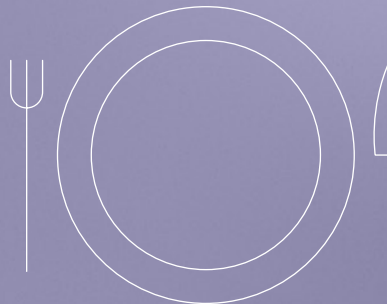
Standards & policies: Key facts & figures 2017



We completed nearly 10,000 safety and security store audits worldwide, reaching a compliance level of 88%.

44,500

chemical tests were conducted in 2017.



We began working with a food policy for the first time in 2017.



100% of our commercial business partners have signed our Sustainability Commitment.



100%

of our commercial business partners have signed our Code of Ethics.



1,860 desktop validations and 1,589 onsite validations were conducted to measure the sustainability performance of our tier 1 and tier 2 business partners.

Standards & policies explained

Our standards and policies help us ensure that we are staying on track to achieve our sustainability vision and goals. We use our standards and policies to communicate our ethics and business values to all our employees and business partners. These ethics and values are essential to H&M group – they define who we are as a company and what we stand for.



All our policies and standards are based on international equivalents and well-recognised initiatives, such as ILO Conventions or the UN Guiding Principles on Business and Human Rights.

We divide our standards into three different categories:

- our own operations
- our business partners
- our materials/products.

Above these standards rests our human rights policy which is applicable to all areas of our work.

This chapter will illustrate the way in which our standards and policies are implemented throughout our value chain and the systematic assessment and monitoring that we conduct to ensure compliance and progression.

Our sustainability standards and policies*

HUMAN RIGHTS POLICY

H&M GROUP

OUR OWN OPERATIONS

- Code of Ethics
- Global security policy
- Whistleblowing policy
- Global social policies
- Tax policy



OUR BUSINESS PARTNERS

- Code of Ethics
- Sustainability Commitment



OUR MATERIALS/ PRODUCTS

- Animal welfare and material ethics policy
- Chemicals policy
- Food policy

* A list of our policies can be found at sustainability.hm.com

Working with standards & policies

When we become aware of a need, risk or opportunity within our value chain, there are many different ways that we can address this. One way, is to create a set of standards and policies to help guide our work. Creating tailored strategies allows us to follow-up on the implementation of standards and policies and assess their effectiveness and impact. Although we use different follow up methods for different standards and policies, we always apply three clearly defined processes that help us to ensure we work with the correct standards and policies for the given need, risk or opportunity:

- We identify
- We address
- We report & evaluate

1) WE IDENTIFY

We look at our key long-term sustainability needs and we conduct in-depth assessments to enable identification of both opportunities and risks. This type of identification involves regular in-depth checks of our own operations and our business partners' operations. There are three focus areas that require particular due diligence:

Human rights

Ongoing human rights due diligence is key to ensuring that we meet our responsibility to respect human rights throughout the value chain. We continuously work to ensure human rights are an integral part of all relevant processes. Our human rights due diligence processes act to identify risks and impacts and adequately address them.

Environment

Assessments on water, chemicals, climate change, biodiversity and animal welfare are conducted on a daily basis as part of our basic risk management operations.

Corruption

Our risk assessments for corruption focus on levels of risk defined by; country, industry and position/function. Once the level of risk is ascertained, we set short and long-term goals to help mitigate the risk. We annually map the biggest risks for corruption in our organisation based on a combination of our own assessments and experience and those of external sources such as the [Maplecroft Country Risk Tool](#) and the [Transparency International Perception Index](#). We then use the results of these assessments to identify high-risk countries and allocate

our resources in the best way. We apply a zero tolerance policy when it comes to corruption and within our Code of Ethics, we have a strong anti-corruption programme in place which enables us to take a proactive approach towards preventing corruption.

2) WE ADDRESS

Once a need, risk or opportunity is identified, we work according to a clear framework to mitigate and remediate it. We then either follow the framework prescribed by an existing standard or policy relating to the identified need, risk

or opportunity, or we look to create a new and more suitable standard or policy.

3) WE REPORT & EVALUATE

We regularly follow-up on all actions taken to address needs, risks and opportunities. This follow-up then provides us with a base for further strengthening and improving our programmes. We report findings, progress and impacts to relevant stakeholders, within and outside of our company, through continuous dialogues as well as through our public communication channels and reports.



Knit production at our supplier factory JQR, China.

Our human rights policy

Respect for human rights is a fundamental part of any successful business. As stated in our human rights policy, we work to integrate our respect for human rights across all our operations and relevant activities. This means that we need to understand the risks and impacts on human rights and seek ways to prevent, mitigate and remediate these risks and impacts. Hence, we apply human rights due diligence and continuously conduct internal training to put our human rights policy into practice and to embed respect for human rights in everything we do.



Jersey production at our supplier factory Ayka Addis, Ethiopia.

HUMAN RIGHTS DUE DILIGENCE

We use human rights due diligence as an ongoing process to monitor the practice of and respect for, human rights throughout H&M group. Our human rights due diligence is conducted systematically as an integral part of all relevant assessment processes including, for example, risk management processes, business partner due diligence, stakeholder engagement, grievance handling and all internal training. Each of these assessment processes contains a clear component that enables us to identify, address and report on any risks or impacts that relate to human rights.

HUMAN RIGHTS MANAGEMENT

Our human rights due diligence serves as the basis for our human rights management.

The main processes and activities connected to our human rights management include:

- Identifying and addressing salient human rights issues.

- Annual sustainability risk assessments, conducted by all functions within the business.
- Business partner due diligence conducted prior to entering a new contract.
- Country sustainability risk assessment for both production and retail markets.*
- Business partner management follow-up through SIPP (Sustainable Impact Partnership Programme).
- Human rights due diligence process in production markets.
- Material/process/product risk assessments.
- Incident-handling routines with integrated analysis according to the UN Guiding Principles (UNGPs).
- In-depth training on UNGPs and our Human Rights Policy.
- Continuous stakeholder engagement at global and local levels.

**100% of new retail markets opened in 2017 were assessed.*

TRAINING

Through ongoing in-depth training, we raise awareness and competence in human rights issues throughout our business. While training is customised for different functions and roles, all training covers a basic introduction to human rights, outline our responsibilities as per the UNGPs, explains how we work with human rights due diligence and how we address situations that may have a human rights impact. We prioritise training for key positions and roles, such as sustainability managers in our production markets, country managers in our sales markets, and relevant business functions such as sustainability, HR and legal.

INCIDENT MANAGEMENT

Specific policies and standards are in place to help prevent human rights impacts from occurring. But within the course of our business activities, situations may still arise in which human rights impacts do occur and which go beyond what is dealt with through our Sustainability Commitment (previously called Code of Conduct). In these situations, we respond with our incident management routine. This involves a systematic approach to analysing our responsibility according to the UNGPs and applying appropriate measures. We make sure to integrate what we learn from analysing each situation into our practices going forward.



Lunch break at one of our supplier factories in Indonesia.



2017 PROGRESS & LEARNINGS

HUMAN RIGHTS POLICY

- In 2017, we collaborated with Shift to conduct a training programme for our sustainability managers working in some of our key production markets. The training focused on analysing the likelihood and severity of human rights risks as well as the impacts these risks have in the given market. Taking issues raised by global and local stakeholders, as well as the political and cultural landscape of the market into account, the training helped identify priority issues and define ways to address them. The training also fed into our goal setting process by helping us identify challenges that we need to create goals for and work towards in the coming year.
- In 2017, the annual review of our salient human rights issues was conducted and confirmed the continued relevance of the issues identified. Read more in How we report on page 92.

Policies within our own operations

CODE OF ETHICS (FOR H&M GROUP EMPLOYEES)

At H&M group, we make it a rule to always act with integrity. To make our expectations clear to our employees and business partners, we have a Code of Ethics (CoE), which often goes beyond the strictest regulations and legislation in our markets.

It includes a no-gift policy and zero tolerance on bribery and corruption. We also cover conflict of interest, company assets and confidential information. Our CoE is the same around the world and is translated into all languages spoken at H&M group. It secures our position and clarifies the expectations we have of employees when doing business on our behalf.

It is mandatory for our Board of Directors, senior executives, all employees in contact with business partners, in-house consultants and staff from employment agencies (and similar) to sign our CoE. We also make it mandatory for employees who sign the CoE to undergo online training on the CoE. The training provides a deeper understanding of the CoE, including how it relates to daily work and how it helps employees know how to act when representing H&M group in a business context. In addition to our online training, we also provide a three-hour dilemma workshop

which involves hands-on practical examples of ethical dilemmas that managers, HR and purchasing staff could encounter.

Several functions within H&M group, such as security, IT and expansion, conduct internal audits of their department routines and policies and these audits include analysis of how the CoE is being implemented in the organisation. Random samples are also carried out on specifically risky markets or positions.

We follow up on reported incidents of CoE breaches thoroughly. If a violation is reported, the security department will start an investigation. Anyone who deliberately violates the CoE will receive a warning and can, in serious cases, lose their employment. We also have a whistleblowing procedure in place whereby potential breaches can be reported confidentially, anonymously and without any risk of reprisal.

Every six months, the Head of Security reports the number of breaches and the progress of these cases, to the Board. Annually we also disclose the number of cases in our annual report and in our stand-alone sustainability report. We also use the history of the cases for our annual risk mapping.



“I am proud to be an ambassador for our values, promoting business ethics and integrity within our own four walls and those of our business partners.”

ROGER HUBERT, GLOBAL PRODUCTION OFFICE
GOVERNANCE MANAGER, H&M GROUP

GLOBAL SECURITY POLICY

H&M group must help our customers and colleagues feel safe. Our 2017 goal for the global store audit - which consists of safety, loss prevention and information security - is 85% compliance. In 2017, we completed 9,905 store audits and achieved 86% compliance. The safety area result of the global store audit was 88% compliance across all stores and brands. We have identified employee training as the area with most opportunity to improve our compliance rates. Training our employees includes how to work safely, prevent losses and comply with local legal safety training demands and we are working with HR to improve this further.

WHISTLEBLOWING POLICY

We have a whistleblowing procedure in place so that potential breaches can be reported by H&M group employees confidentially, anonymously and without any risk of reprisal.

GLOBAL SOCIAL POLICIES

H&M group is present in many markets around the world. We are rapidly expanding and recruiting new employees every day. Our success depends on our people.

Our social policies, such as our global policy on diversity, inclusiveness and equality and our global non-discrimination and harassment policy, are founded on our respect for human rights and on UN and ILO conventions, amongst others. They set our minimum expectations and complement our company values. These policies contain clear directions that help managers and employees to meet daily business needs, understand how to work and act towards business partners and create fair and equal working conditions in safe and healthy workplaces. Our global policies set the minimum standard regardless of local legislation where we operate. Whatever gives the greatest protection for all colleagues is always the guiding principle.

TAX POLICY

H&M group works in accordance with the tax laws and regulations set by each and every country that our business operates in. Our tax policy reflects and supports our compliance as a business.

See a full list of our policies on sustainability.hm.com



2017 PROGRESS & LEARNINGS

POLICIES WITHIN OUR OWN OPERATIONS

- In October 2017, we launched a new Sustainable Workplace Strategy (SWS) which is required in every H&M group workplace. The standard states a minimum level of sustainability requirements to ensure that our colleagues are working in sustainably-functioning workplaces. The SWS also encourages an aspirational level of performance which encourages colleagues to make tailored sustainable adaptations to their workplaces.
- In 2017, we started working with a new food policy to help support the launch of our first commercial food projects - The ARKET café and the H&M It's Pleat restaurant. The policy helps the organisation to purchase food that has been sourced in a sustainable way from both an environmental, social and animal welfare perspective.
- In 2017, we investigated and closed 41 incidents* of potential non-compliance with the Code of Ethics (2016: 39, 2015: 33, 2014: 30). These investigations led to terminations or written warnings for employees or business partners in 27 cases.

*Please find an independent assurance statement related to GRI Standard disclosure 205-3 on pg 97.

Policies for our business partners

In order to be an H&M group business partner, all new (and existing) business partners must sign and comply with our policies. Two of our most crucial policies are our Code of Ethics and our Sustainability Commitment.

CODE OF ETHICS (FOR OUR BUSINESS PARTNERS)

We set an expectation of mutual trust and transparency in all our business relationships. Our Code of Ethics (CoE) for business partners underpins this, as does building awareness, providing education and maintaining a no-gift policy.

Business partners include any business that supplies us with goods and/or services, acts on behalf of our business or has a collaboration with us. Business partners include suppliers (commercial and non-commercial), vendors, consultants, landlords, agents, service providers and organisations. To date, 100% of our commercial goods suppliers – our biggest group of business partners – have signed our CoE.

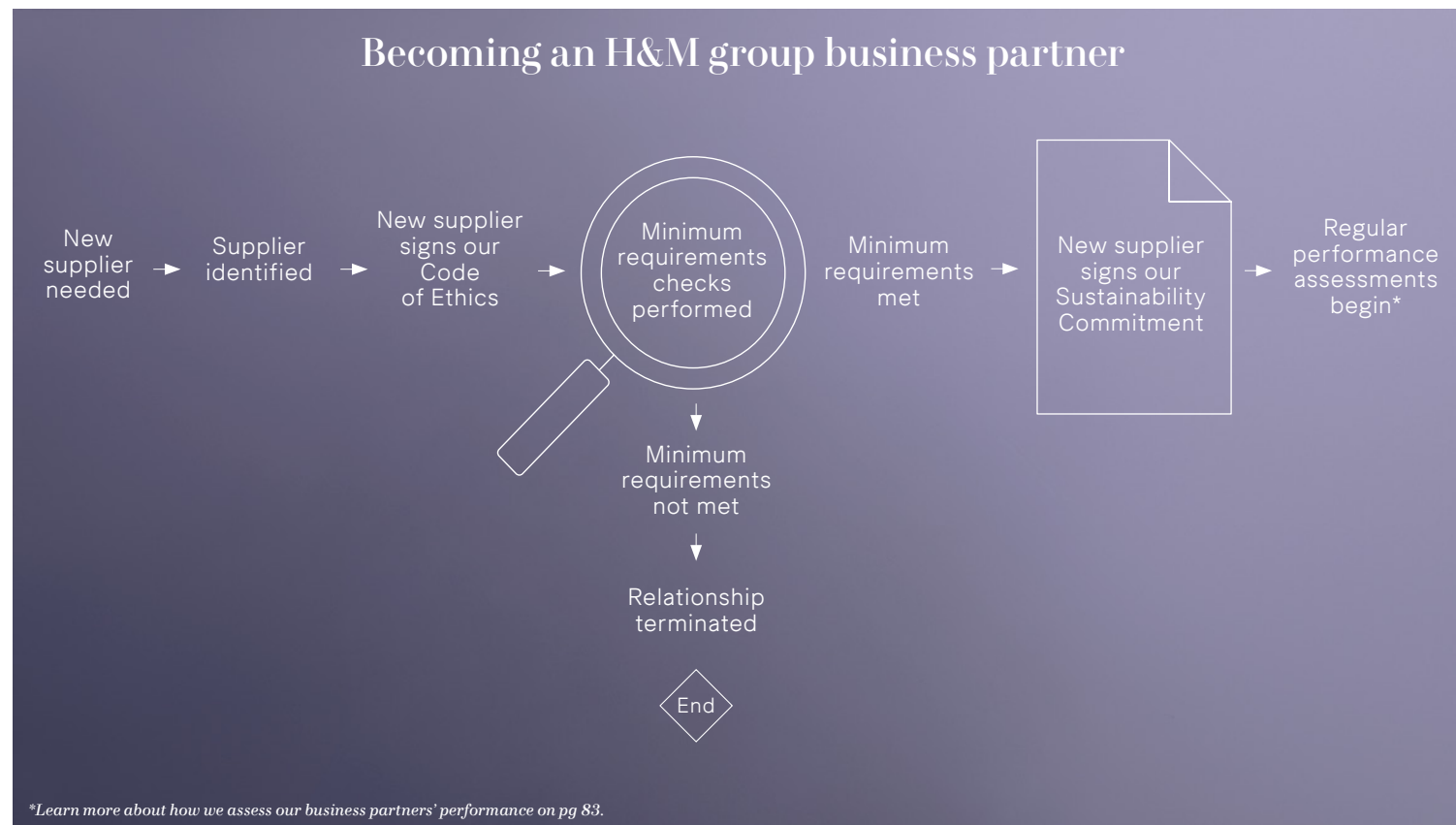
Any kind of bribery (including facilitation payments) will always be addressed and may lead to the termination of our business relationship. By taking a firm line on refusing to accept any kind

of contribution or bribery, we aim to encourage others in our markets to share our values. We are focusing on high-risk countries such as Cambodia, Bangladesh, India and Russia where we provide train-

ing and awareness-building activities to both employees and business partners.

We provide face-to-face training on the CoE for all new commercial suppliers.

This training focuses on our zero tolerance of bribery and corruption, gifts and hospitality as well our position on confidential information and compliance.



SUSTAINABILITY COMMITMENT

We launched our Sustainability Commitment (SC) on 1 February 2016. It replaced our Code of Conduct, which had been in place since 1997. The SC outlines the basic requirements we place on business partners of H&M group. Moreover, it also communicates an aspirational level of performance we want all our business partners to aspire to. The aspirational level demonstrates where we want to go in the long term. Through empowering our business partners and promoting constant improvement, we want to give our partners the opportunity to use their initiative to further their sustainability credentials. In our performance evaluation, we will reward business partners that commit to and meet their aspirations.

The SC is shared by all brands within H&M group and it is mandatory for all our commercial business partners to sign it if they want to start or continue working with us. The SC summarises the areas we are working on to make our supply chain more sustainable as well as describing how we work with our business partners to create progress in these areas. The three major focus areas of the SC are healthy workplaces, healthy ecosystems and animal welfare.

We want to grow with those business partners who share our values and who are willing to work transparently with us. We believe that our SC will help to improve our collective social and environmental performance.



Visit at one of our supplier factories in Turkey.



& Other Stories garment at supplier factory in China.



Water facility at supplier factory in Ethiopia.

How do we assess our business partners performance & compliance?

SIPP is our Sustainable Impact Partnership Programme. It is with SIPP that we assess the level of compliance with the Sustainability Commitment (SC) and it is how we measure our business partners' performance and drive constant improvements. We started using SIPP in 2015 to support our business partners to become more environmentally and socially sustainable. SIPP is only applied on our commercial business suppliers (those providing goods that we sell). SIPP consists of five major components: minimum requirements, self-reporting, validation, capacity building and case handling.

MINIMUM REQUIREMENTS

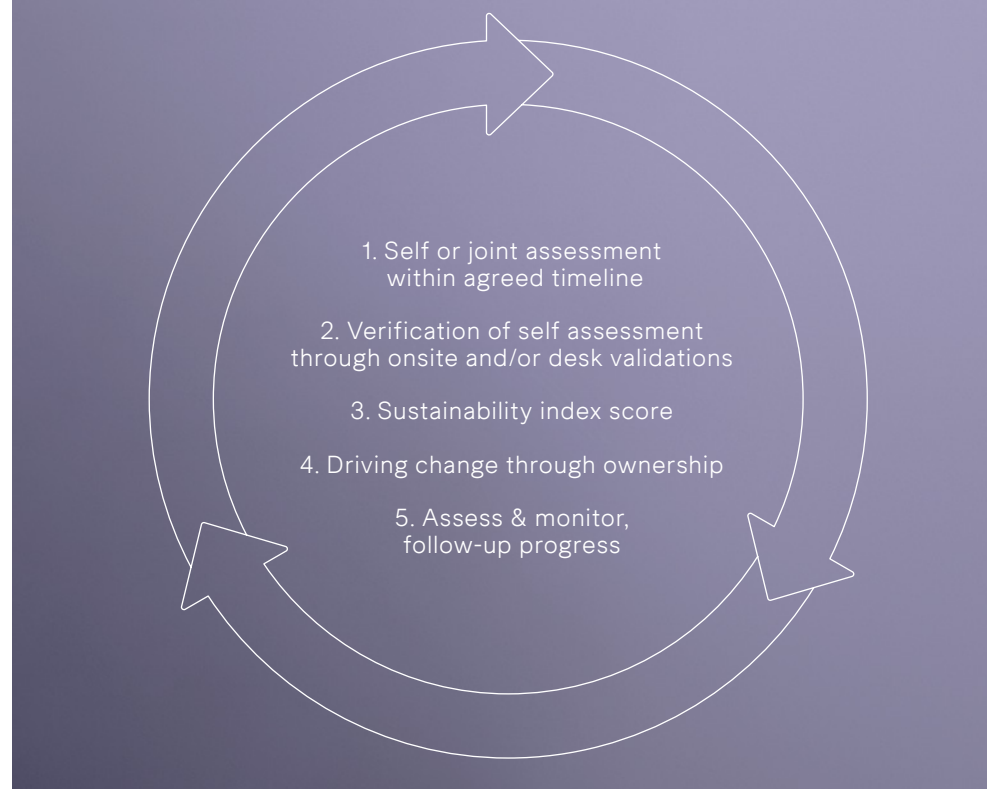
Before starting any working relationship with a business partner, we conduct a 'minimum requirement assessment', which we carry out on site. All business partners must pass the assessment to begin working with H&M group. (See Becoming an H&M group business partner illustration on page 81). In 2017, we performed 1,736 minimum requirements assessments across tier 1 and tier 2 business partners.

SELF-REPORTING

We want our business partners to take ownership of their sustainability performance because we believe it is the best way to achieve long-lasting and sustainable change. Therefore, once our business partners have passed the initial, 'minimum requirement assessment' we then enable our partners to self-assess their own sustainability performance annually. We encourage our business partners to set their own goals, priorities and focus areas. We then work with our partners to identify areas where H&M group can best provide support through capacity-building workshops, training and management systems analysis. We also build connections between our suppliers and other functions at our production offices, such as our merchandising and quality departments. We use these connections to encourage our suppliers to develop their own strategies and solutions to challenges, as well as providing incentives to shift impacts from negative to positive ones. This consistent presence helps us build long-term and mutually-rewarding partnerships.

The self-reporting component of SIPP is closely linked with [SAC's](#) facility module ([Higg](#)). We were one of the first brands to incorporate the Higg facility modules

How we assess our business partners' performance



(both environmental and social) into our supply chain. The main advantage of the Higg facility scores is that all brands can use them, so business partners only need

to complete one assessment rather than several brand-specific ones. This makes factory assessments fairer and more comparable, regardless of the brand.

VALIDATION

Our business partners self-report through SIPP and we validate the result. We assess every business partner's capacity to manage their sustainability issues and to track their performance using environmental and social sustainability metrics. Our Sustainability Index (SI) is created as a result of our SIPP assessment process. We give every factory we work with an SI score of between zero and 100, which is based on the Higg facility module and our own criteria.

The overall performance and country risk assessments, amongst other indicators, helps to determine the level of validation that is needed for each factory. For all high-risk and new commercial business partners, we perform an onsite check at least once a year. If the business partner is low risk (e.g. they achieved a high score on the audit), a desktop validation is usually sufficient. This involves checking data and paperwork for anomalies and inconsistencies.

To encourage our suppliers to improve their sustainability performance, we reward those who set ambitious goals and maintain good performance. Rewards include long-term business commitments and growth opportunities.

CAPACITY BUILDING

Using the validated assessments, we are able to see our business partners strengths and weaknesses in sustainability performance. Business partners are then asked to set their own goals and take actions to strengthen their capacity to better manage sustainability matters themselves. H&M group capacity building programmes serve as platforms through which we can support our business partners in different focus areas.

CASE HANDLING

If H&M group receives input that a problem or incident linked to a supplier has occurred, our sustainability team will log the case and investigate. Cases cover a broad range of issues that may affect a business partner from an issue in a specific facility to a regional natural disaster. If a case of minimum requirement non-compliance by a supplier is confirmed, a Letter of Concern is sent to the supplier. Depending on the number and kind of violation, different consequences will be applied by H&M group.

In such cases, a corrective action plan must be submitted and approved by H&M group before any further business is conducted. The underlying idea is to apply a long-term strategy where we eval-



uate if the business partner involved is the right type of partner for H&M group. If not, we exclude them from our business partner list permanently.



2017 PROGRESS & LEARNINGS POLICIES FOR BUSINESS PARTNERS

- 100% of our commercial business partners have signed our Code of Ethics and Sustainability Commitment.
- In 2017, we performed 1,736 minimum requirements assessments across tier 1 and tier 2 business partners.
- In 2017, we conducted 1,589 onsite validations to measure the sustainability performance of our business partners across tier 1 and 2.
- In 2017, we conducted 1,860 desktop validations to measure the sustainability performance of our business partners across tier 1 and 2.
- In 2017, we investigated and closed 41 incidents* of potential non-compliance with the Code of Ethics (2016: 39, 2015: 33, 2014: 30). These investigations led to terminations or written warnings to employees or business partners in 27 cases.

*Please find an independent assurance statement related to GRI Standard disclosure 205-3 on pg 97.

Products & materials policies

Our standards and policies do not only cover our operations and our business partners operations, they also cover our products and materials. When our business partners sign our Sustainability Commitment, they are also legally agreeing to comply with our animal welfare and chemical restrictions policies.

ANIMAL WELFARE

We strongly believe that animals should always be treated humanely and have their basic needs met. Our animal welfare policy outlines our commitment to source animal-based raw materials in a fully traceable and responsible way. All our suppliers must meet high standards of animal husbandry and fulfill our animal welfare requirements.

Our Sustainability Commitment requires all relevant suppliers to follow our animal welfare and material ethics requirements. Any product that involves animal-based materials and merchandise must follow a checklist of strict routines and instructions to ensure that the policy is being followed. We regularly train any merchandisers that work with suppliers on issues of compliance and traceability documentation. For example, we have introduced the new wool standard to our supply chain and established relationships further down our supply

chain (including to the farm level). We also train our suppliers in our animal welfare and material ethics policy – both as part of the onboarding process and through refresher courses.

For a full list of animal welfare policies please visit sustainability.hm.com



2017 PROGRESS & LEARNINGS ANIMAL WELFARE

- The Textile Exchanges 2017 Preferred Fiber Market Report, lists H&M group as the world's largest user of RDS (Responsible Down standard) certified down.
- We are currently working to integrate tanneries into our social and environmental sustainability assessments.
- 100% of our key tier 2 suppliers have been briefed on the new [responsible wool standard](#) (RWS).



CHEMICAL RESTRICTIONS

To ensure the safety of our products and to limit negative impacts on the environment and surrounding communities, we implement one of the strictest chemical management programmes in the industry. Our vision is to lead the change towards safe products and a toxic-free fashion future and our key goal is to achieve zero discharge of hazardous chemicals throughout our supply chain by 2020.

H&M group's Chemical Restrictions List bans and/or limits any chemicals that are considered hazardous. Compliance with our restrictions is mandatory for all our business partners. As a minimum, our chemical restrictions are always based on laws and regulations in each of our sales markets as well as information from authorities, NGOs and scientific reports. We apply the precautionary principle, meaning that we preventively restrict chemicals even where there is scientific uncertainty. Accordingly, our requirements usually go further than the law demands.

We require all our business partners to take responsibility for their own chemical management and we monitor compliance via a series of self-assessment processes. Business partners send samples for third-party testing and the test results are submitted to H&M group for review and final approval. We also conduct dedicated chemical audits at our business partners factories and work with experts and our business partners to promote better chemical management practice throughout our industry.

H&M beauty.



2017 PROGRESS & LEARNINGS CHEMICAL RESTRICTIONS

- Together with our business partners, we have conducted nearly 44,500 chemical tests to ensure compliance with our [Restricted Substances List](#).

- Following the success of our 2016 pilot study, we continued our use of the Hazardous Substance Control (HSC) training programme (developed in partnership with SGS - the world's leading inspection, verification, testing and certification company) to secure the capabilities of our suppliers chemical management. In 2017, the HSC was extended to 82 chemically intensive suppliers.

- In early 2018, we committed to implement The Changing Markets Foundation "Roadmap towards responsible viscose and modal fibre manufacturing," within our existing sourcing policy. The viscose production process is a challenge for the whole industry and creating lasting change requires long-term and collaborative work.



HOW WE REPORT

H&M Home.

How we report

We are committed to transparent reporting on the progress we make towards achieving our sustainability strategy.

The H&M group sustainability report is produced annually and includes sustainability strategies, challenges, activities, goals and performance for the global group operations of H & M Hennes & Mauritz AB (also called H&M group in this report), including all its brands (H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories, ARKET), as well as its wholly-or partially-owned subsidiaries globally during our financial year from 1 December 2016 to 30 November 2017, unless stated otherwise. For a full list of entities, please see our [Annual Report 2017](#).

We address key impacts (positive and negative) across our value chain, and this is reflected in our reporting wherever possible. This means that our reporting scope often goes beyond or even outside of our own operations, for example covering business partners manufacturing our products. Information limited in scope such as specific brands, parts of our operations or our value chain is clearly stated in each respective section of this report. Unless stated, franchise operations are not included. The report has been reviewed by the highest executive management and external assurance has been performed for selected indicators (clearly marked where applicable, as well as in regards to materiality and stakeholder engagement). Additional stakeholder comments and interviews have been included throughout this report.

All data is collected by our sustainability teams from relevant functions within our organisation and from external parties such as business partners or implementation partners. This data is always reviewed by our internal controlling team, relevant experts in our sustainability team and expert functions following a two-tier quality control principle. Any extrapolations or estimations are clearly indicated.

The same goes for any changes in data methodologies or scopes that may influence data comparability. All data is based on the best possible systems that are currently available to us and where applicable aligned with recognised standards. However, this needs to be seen in the light of continued improvements in data systems, methodologies and scientific uncertainties. For example, while our GHG emissions accounting and reporting is aligned with the [GHG Protocol](#), the emission factors we use are from publicly-available sources such as the [International Energy Agency \(IEA 2017\)](#), the [Network for Transport Measures \(NTM\)](#), [Reliable Disclosure System for Europe \(RE-DISS\)](#) and supplier-specified emission factors. The global warming potential (GWP)

factors used in the calculation of CO₂e are based on the [IPCCs Fourth Assessment Report \(AR4\)](#) over a 100-year period.

GHG emission data, as with other data, is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emission factors and resulting effects on measurements and estimations. The reported energy usage is based on invoiced data, data from real-time electricity meters and data as reported by transport providers. Conversion between fuel usage and energy content has been done using energy values specified by the supplier or by using tabled values provided by national bodies.

Our material reporting requires us to make assumptions on waste factors, weight per sizes, etc. We are continuously working to improve those aspects of reporting that may lead to minor updates in our yearly material consumption reporting, as well as our data systems and accuracy to report on material consumption.

Unless otherwise specified, all data concerning business partners and

supplier factories includes all suppliers and factories that were active and approved for production during the reporting period. Factories included in our scope are tier 1 manufacturing or processing (i.e. washing or dyeing), factories that are owned or subcontracted by our suppliers and, where stated, selected tier 2 suppliers and suppliers for non-commercial goods (such as store interior suppliers). The tier 2 suppliers we have selected so far are mostly fabric and yarn suppliers that account for about 60% of our products.

Monetary amounts are reported mainly in the currency of transaction. Additional currency values are conversions as approximate figures based on the conversion rate on 30 November 2017, unless stated otherwise.

Additional information is provided at sustainability.hm.com and in our financial and corporate governance reporting. Our most recent sustainability report was published in April 2017. We are signatories to the [UN Global Compact](#) and our annual sustainability report also serves as our Communication on Progress (COP) for the UN Global Compact as well as the [CEO Water Mandate](#).

GLOBAL REPORTING INITIATIVE (GRI)

This report is prepared in accordance with the [GRI Standards: Core Option](#). We have additionally included material indicators from the pilot of the Apparel and Footwear Sector Supplement. You can download a detailed GRI index at sustainability.hm.com

UN GUIDING PRINCIPLES REPORTING FRAMEWORK

In 2015, we were one of the first companies in the world to report on human rights in line with the [UN Guiding Principles Reporting Framework](#). This framework is the first comprehensive guidance for companies to report on human rights issues in line with their responsibility to respect human rights set out in the UN Guiding Principles on Business and Human Rights. The detailed references to the UN Guiding Principles Reporting Framework can be found at sustainability.hm.com

As part of this, we identified our salient human rights (page 92) in a comprehensive process we conducted in 2015, involving a variety of internal and external stakeholders. Going forward, we plan to conduct this process every third year, or as deemed necessary. We will review the relevance and definitions of the issues

identified and discuss emerging issues annually. This complements our materiality assessment described below which identifies human rights as a highly material topic with further detail and granularity.

PROCESS FOR IDENTIFYING THE MOST MATERIAL TOPICS AND THEIR BOUNDARIES*

1. Identification: Mapping aspects and creating a gross list

On a yearly basis, we review our gross list of aspects based on an analysis of external standards, such as the GRI Standard topic list, legislation, investor and NGO questionnaires, peer reviews, business intelligence, lifecycle assessment results, stakeholder dialogues and stakeholder reports, and media coverage. The gross list has been checked against GRI's Sustainability Context and Stakeholder Inclusiveness tests most recently in 2016.

2. Prioritisation: Scoring and prioritising topics**

To prioritise the most material topics from this gross list, we scored the different aspects in regards to their frequency raised by stakeholders and their significance for economic, environmental and social impacts. Both categories were

broken down into a number of different categories, such as frequency raised by key defined sustainability stakeholders and experts (weighted x3), frequency featured in media (weighted x1) and frequency raised in key sustainability benchmarks, rankings and indices (weighted x1) as well as social and environmental impacts (weighted x1) and importance to business strategy (weighted x2). Scores were given by at least two internal experts per category and were based on lifecycle assessment (LCA) data and existing strategy documents.

Additionally, we selected at least one representative from each of our key stakeholder groups (which includes customers, colleagues, communities, suppliers and their employees, industry peers, NGOs, IGOs, policymakers and investors). Eleven stakeholder representatives were asked to provide feedback on this materiality matrix.

Such full-on materiality assessments were conducted in 2013 and 2016, with reviews conducted in all other years since.

3. Regular review of our materiality matrix with key stakeholders*

We review our materiality matrix on an

annual basis. This can mean conducting a full materiality analysis (as conducted in 2013 and 2016) as described in 1 & 2 or a review of previous year's matrix considering feedback received.

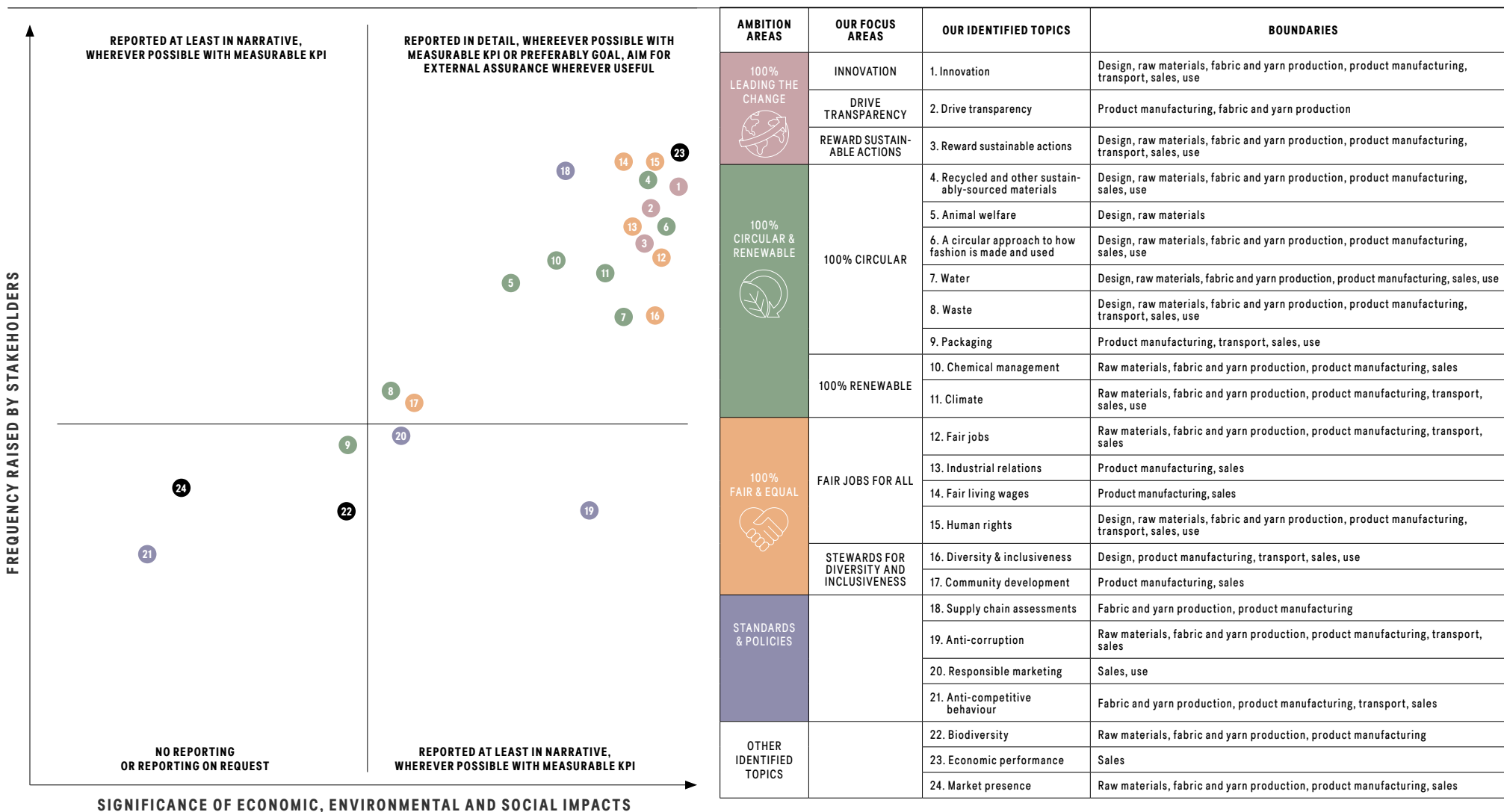
REVIEW OF MATERIALITY MATRIX IN 2017

In spring 2017, we launched our updated sustainability strategy, which has been developed in close cooperation with several external and internal key stakeholders, partners and experts. In connection to this, we arranged a large-scale stakeholder meeting inviting over 300 representatives from our stakeholder communities to a full day of workshops and discussions, including feedback on our report and the focus areas chosen in our strategy.

Additionally, we have introduced a standardised stakeholder survey. The survey was developed together with [Business for Social Responsibility \(BSR\)](#), which also conducted the 2017 survey. The survey assesses both the quality of our stakeholder engagement work as well as feedback on our strategy and performance towards it. The feedback we received widely confirmed our materiality matrix, with some adjustments made, such as an increased focus on diversity & inclusiveness.

*Please find an independently-verified assurance statement on defining report content and topic Boundaries GRI 102-46 on pg 97 ** Please find an independently verified assurance statement on list of material topics GRI 102-47 on pg 97.

Materiality matrix



Our salient human rights issues

H&M group conducted a thorough process of identifying its salient human rights issues in 2015. Salient human rights issues are the human rights at risk of the most severe negative impact because of our operations and supply chain. This process supplements our materiality analysis in the area of human rights, with an understanding of risk to people.

We started out by defining who we impact through our business activities throughout our value chain, especially recognising those who potentially are more vulnerable and hence are more at risk, such as migrant workers, women and children. The result of this mapping was a list of both potential and actual human rights impacts. From this list, we identified those which were salient by applying two criteria: the severity of the potential impact and the likelihood that this impact will occur.

Consultations regarding the method and input to the identified salient human rights issues were held (both internally and externally) with almost 100 people. Internally, consultations were held through workshops and dialogues on all levels of the company and across functions. Externally, consultations were held with experts, organisations, academia and local stakeholders.

This process does not only guide us on the human rights issues relevant to report on according to the UNGP's Reporting Framework, it also informs our strategies and work to address these issues going forward. To ensure our list of salient human

rights issues remains relevant, we will review these issues annually, and the full process, including input from external stakeholders, will be conducted approximately every three years, or more frequently if necessary. While we take steps to mitigate all risks, salience guides us in what to focus on within human rights and hence informs our strategies and work.

The most recent review took place at the end of 2017 and resulted in slightly adjusted definitions on, for example, social security, highlighting that we refer to social security linked to employment. We also expanded child labour to the broader children's rights due to the various ways our activities directly and indirectly impact children, while still recognising child labour as an issue of great severity.

Identification, prevention and remediation of our salient human rights issues are found throughout the report. They are also referenced in our annual update of salient issues presented on page 92.



Update on salient issues 2017

ISSUE	DEFINITION	WHERE IN THE VALUE CHAIN VIOLATIONS ARE MORE LIKELY	UPDATE 2017
FAIR LIVING WAGE	A wage level covering workers and their families' basic needs and that provides some discretionary income.	Mainly in the supply chain.	Fair living wage (see pg 63).
HEALTH & SAFETY	Facilities and working conditions that ensure the wellbeing and safety of workers, employees and customers.	In the supply chain and internal operations.	Supply chain management (see pg 59-67, 74-78). Bangladesh Accord (see pg 67). Health and safety (see pg 57, 67, 80-84).
FORCED LABOUR	All work or services which are exacted from any person under the menace of any penalty and for which the said person has not offered himself/herself voluntarily (ILO Convention 29).	Potential risk in the supply chain, often linked to particular raw materials and specific processes but also a potential risk connected to internal operations, for example in connection to staff outsourcing.	Sustainability commitment/SIPP risk assessment (see pg 82-84). <u>Modern slavery</u> .
DISCRIMINATION AND HARASSMENT	In hiring and/or in the workplace, discrimination: unfair or humiliating treatment on the grounds of gender, sexual orientation, race, colour, age, pregnancy, marital or social status, religion, political opinion, nationality, ethnic origin, disease or disability. Harassment; humiliating or corporal punishment or subject to physical, sexual, psychological or verbal harassment or abuse.	A risk throughout the value chain and heightened risk for vulnerable groups, such as women and migrant workers.	Internal policies, updates (see pg 80). Supply chain management (see pg 59-67, 74-78).
CHILDREN'S RIGHTS	The rights of children as per the UN Convention on the Rights of the Child (UNCRC), which sets out the civil, political, economic, social, health and cultural rights of children. Child labour is defined as work that deprives children of their childhood, their potential and their dignity, and that is harmful to their physical and mental development (UN CRC, CRBP, ILO Conventions).	Children are directly and indirectly impacted by business activities throughout the value chain. Child labour is a potential risk in the supply chain, but more prominent upstream the value chain.	Mica strategy update (see pg 66). Myanmar collaboration CCRC SR (see pg 66). Better Cotton Initiative (see pg 36). <u>Modern slavery</u> .
FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING	A person's right to join, and/or form, organisations of his/her own choosing and to bargain collectively (ILO Convention 87, 98, 135, 154).	Mainly in the supply chain but also relevant for own operations.	Industrial relations production (see pg 60). Employee relations (see pg 57).
SOCIAL SECURITY	Social security involves access to health care and income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a main income earner.	Mainly an obligation belonging to the responsibility of the State as defined by the UN Guiding Principles, but relevant especially in supply chain countries and some retail markets where a lack of legal frameworks or institutional capacity sufficiently addressing this issue is common.	Advocacy (see pg 62). Cambodia, fixed duration contracts (see pg 67). Turkey, Syrian refugees (see pg 67). <u>Modern slavery</u> .
WORKING HOURS	Working hours that comply with national law, ILO Conventions or collective agreement, whichever affords the greater protection of the worker. Connected to the worker's right to health and family life.	Mainly in the supply chain countries.	Sustainability commitment/SIPP (see pg 82-85). Fair living wage (see pg 63).
ACCESS TO WATER	Safe water and enough supply, accessible and affordable for personal and domestic use.	Communities in the value chain in both production and retail markets.	Water strategy (see pg 40). Chemical management (see pg 39)
LAND RIGHTS	Land is an issue that directly impacts the enjoyment of a number of human rights as land is a source of livelihood, central to economic rights and also often tied to social and cultural rights. How land is used is also a related issue. Disputes over land can be a cause of conflict and sometimes involve illegal displacement of people.	Potential risk in the supply chain linked to raw materials and locations of industrial and commercial facilities.	Proactively protecting land rights (see pg 81 in H&M group Sustainability Report 2016).

UN Sustainable Development Goals

The **UN's Sustainability Development Goals (SDGs)** and the **2030 Agenda for Sustainable Development** call for world-wide action amongst governments, business and civil society to address social and economic challenges. We welcome this collaborative approach and, as you can see below, our sustainability strategy is well aligned with the SDGs.



CONTRIBUTION THROUGH PARTNERSHIPS

SDG2: Zero hunger
 SDG4: Quality education
 SDG9: Industry innovation and infrastructure
 SDG10: Reduced inequalities
 SDG16: Peace, justice and strong institutions
 SDG17: Partnership for the goals

INDIRECT INFLUENCE AND IMPACT

SDG1: No poverty
 SDG3: Good health and wellbeing
 SDG9: Innovation and infrastructure
 SDG11: Sustainable cities and communities
 SDG14: Life below water
 SDG15: Life on land

Our business activities contribute to the following SDGs



Engaging with our stakeholders

CUSTOMERS	COMMUNITIES	COLLEAGUES	SUPPLIERS	SUPPLY CHAIN EMPLOYEES AND THEIR REPRESENTATIVES	INDUSTRY PEERS	POLICYMAKERS	ACADEMIA & SCIENCE	NGOS, IGOs AND OTHER EXPERTS	INVESTORS
As a customer-focused company, understanding and meeting and exceeding the needs and demands of all our brands customers is at the core of everything we do.	Our aim is to contribute to the economic and societal development of the communities around us, be it our stores, offices or warehouses or the communities we touch in our value chain.	Our more than 171,000 colleagues are key to our success. We want all of them to feel proud of working for H&M group. Coming from all over the world, we share and work along the same corporate values.	Our suppliers are our valued business partners. Stable and long-term relations are key to mutual growth. Strengthening and enabling their ownership over their sustainability issues is important in enabling long-term sustainable development.	Our suppliers employ over 1.6 million people, most of them women in emerging markets. This provides a great opportunity to improve the livelihood of people, their families and communities. Making sure they have a voice in fair and constructive negotiations and industrial relations is a key element to our strategy.	Many challenges are best addressed collectively. We work with industry peers and even companies operating in other sectors to define industry standards and common responses to shared challenges.	H&M group, our value chain and our customers are subject to rules set by policymakers. Maintaining dialogue with them helps us to stay informed about, and sometimes to help shape, the legal and regulatory context in a responsible manner.	We follow a science-based approach as part of our sustainability strategy. Innovation is key to addressing some of our industry's greatest challenges and opportunities. Therefore, engaging with academia and science is vital to our continued strategy development and to meeting our ambitious goals.	NGOs are often expert advisers on standards and practices throughout our value chain. We rely on their expertise and independence to ensure that we meet the most up-to-date standards and to make us aware of any concerns. With many, we work in close collaboration and also implement partnerships.	H&M group is a publicly listed company. As such, we are accountable to our investors. We prioritise our most important investors in a direct dialogue wherever possible and integrate feedback we receive in our strategies and to inform our sustainability reporting, striving for the greatest possible transparency.
HOW WE ENGAGE									
<ul style="list-style-type: none"> - In-store customer interactions. - Customer service organisation. - Social media (for example, the H&M brand has over 24 million followers on Instagram and about 33 million on Facebook). - Market research (incl. surveys, focus groups, online community). - Consumer media. 	<ul style="list-style-type: none"> - Through community partners. - Interactions with local authorities. - Through NGO interaction (local & global). - Interactions with IGOs and governments. - Interviews with workers in supplier factories through our Full Audit Programme (FAP). 	<ul style="list-style-type: none"> - Our values. - We have an open-door policy, encouraging constant feedback. - Our day-to-day leadership and teamwork. - Global employee survey. - Training. - Internal communication channels. - Store or union representation in many markets. - European Works Council (EWC). - Dialogue facilitated through our global framework agreement with Union Network International (UNI). - Regular individual performance reviews. 	<ul style="list-style-type: none"> - Close relations and constant dialogue with our business partners through our local presence with offices in all major production locations. - Anonymous supplier surveys. - Supplier Relations Management system. - Individual meetings throughout partnership, performance reviews and joint capacity planning. - SIPP and verifications. - Training modules and capacity building. 	<ul style="list-style-type: none"> - Anonymous worker surveys. - Global Framework Agreement with IndustriAll Global Union. - Regular direct dialogue with local trade unions through our local offices in our production markets, including via National Monitoring Councils. - Social dialogue training and projects in various markets. - Interviews with workers in supplier factories as part of our SIPP verification programme. - MoUs with the International Labour Organisation (ILO), the Swedish trade union IF Metall, IndustriALL (ACT) and the Swedish development agency Sida. - Active participation in and support for Global Deal (theglobaldeal.com). 	<ul style="list-style-type: none"> - Multi-stakeholder initiatives such as the Ethical Trading Initiative (ETI), Sustainable Apparel Coalition (SAC) and Better Cotton Initiative (BCI). - Various regional and local initiatives such as Sector Roundtables. - Different forms of pre-competitive collaboration. - Individual meetings and dialogues. - External meetings or conferences. 	<ul style="list-style-type: none"> - Individual meetings and dialogues. - External meetings or conferences. - Participation in EU consultation processes or project (individually and through membership organisations such as Sustainable Apparel Coalition). - Through multi-stakeholder initiatives. 	<ul style="list-style-type: none"> - Direct dialogue on global or local level. - Through multi-stakeholder initiatives. - Input to strategy developments. - Specific events such as our 2017 "Change Makers Lab" and 2018 "Capital Markets Day". - Yearly stakeholder survey. - External meetings and conferences.. 	<ul style="list-style-type: none"> - Formal partnership. - Implementation partnerships. - Yearly stakeholder survey. - Direct dialogue on global or local level. - Through multistakeholder initiatives. - Input to strategy developments. - Specific events such as our 2017 "Change Makers Lab". - External meetings and conferences. 	<ul style="list-style-type: none"> - Annual General Meeting - Annual reports (financial and sustainability), quarterly reports and related press and telephone conferences. - Individual meetings and calls. - Specific events such as our 2017 "Change Makers Lab" and 2018 "Capital Markets Day". - External meetings and conferences. - Yearly stakeholder survey.

CUSTOMERS	COMMUNITIES	COLLEAGUES	SUPPLIERS	SUPPLY CHAIN EMPLOYEES AND THEIR REPRESENTATIVES	INDUSTRY PEERS	POLICYMAKERS	ACADEMIA & SCIENCE	NGOS, IGOS AND OTHER EXPERTS	INVESTORS
KEY ISSUES									
<ul style="list-style-type: none"> - Product design. - Product quality and durability. - Product affordability. - New store locations and markets. - Supply chain working conditions. - Chemicals used in production processes. - Waste management. - Animal welfare. - Diversity and inclusiveness. 	<ul style="list-style-type: none"> - Community investments. - Employment opportunities and impacts on growth and development. - Environmental impact. - Community support (i.e. disaster relief or garment donations). 	<ul style="list-style-type: none"> - Job security and growth. - Pay and working conditions. - Equal opportunities. - Training and career progression. - Supply chain working conditions. - Sustainable materials. - Garment collecting and waste management. - Packaging. 	<ul style="list-style-type: none"> - Long-term relationships. - Order/capacity planning and business development. - Capacity building and skills transfer. - Compliance with our requirements. - Industrial relations and worker dialogue. 	<ul style="list-style-type: none"> - Job and development opportunities. - Working conditions in general, particularly wages and working hours and health and safety. - Skills development. - Freedom of associations, workplace dialogue and industrial relations. 	<ul style="list-style-type: none"> - Industry-wide social and environmental challenges, such as supply chain working conditions and environmental impacts. - Best practice in pre-competitive matters. - Legal and regulatory requirements. 	<ul style="list-style-type: none"> - Regulatory and legal compliance. - Local labour and environmental standards (particularly sustainable wage development, industrial relations and health and safety). - Product safety and quality standards. - Consumer and supply chain transparency. - Climate change (particularly availability of and legal framework for renewable electricity). - Specific local issues and challenges in various markets (such as so-called Sumangali schemes in Tamil Nadu (India), requirements for young workers in Myanmar or forced labour in cotton production in Uzbekistan or Turkmenistan). 	<ul style="list-style-type: none"> - Innovation for a circular economy. - Climate impacts and innovations. - Material innovations. - Research supporting fair living wage implementation and industrial relations. - Consumer behaviour. 	<ul style="list-style-type: none"> - Labour rights and supply chain working conditions, particularly wages for supply chain workers. - Social and economic development contribution. - Water and chemical management. - Environmental impacts. 	<ul style="list-style-type: none"> - Sales development. - Long-term profitability. - Expansion. - Innovation. - Sustainability matters in general.

Key collaborations

- Accord on Fire and Building Safety In Bangladesh (The Accord)
- ACT (Action, Collaboration, Transformation)
- Afirm Group
- Better Cotton Initiative (BCI)
- Better Work
- Canopy
- Chemsec Business Group
- Circular Fibres Initiative
- Cradle To Cradle Products Innovation Institute
- Ellen MacArthur Foundation
- Ethical Trading Initiative (ETI)
- Fair Wage Network (FWN)
- Global Fashion Agenda
- Humane Society International (HSI)
- I:CO
- ILO
- IndustriALL/IF Metall
- Mistra Future Fashion
- Organic Cotton Accelerator (OCA)
- Shift
- Sida
- Social & Labour Convergence Project (SLCP)
- Solidaridad
- Stockholm Resilience Centre (SRC)
- Sustainable Apparel Coalition (SAC)
- Sweden Textile Water Initiative (STWI)
- Textile Exchange
- The Global Deal
- UN Global Compact (UNGC)
- UNI Global Union
- WWF
- Zero Discharge of Hazardous Chemicals (ZDHC)

For more information about the above listed collaborations and memberships please visit sustainability.hm.com



Auditor's report

TO H & M HENNES & MAURITZ AB

We have been engaged by the management of H & M Hennes & Mauritz AB (H&M group) to perform a limited assurance engagement on the information in H&M's group's Sustainability Report 2017 with regards to the following indicators referred to in the GRI index that can be found in the 'GRI index 2017':

– Identified material topics and boundaries (Disclosures 102-46, 102-47), pg 88–92.

– Stakeholder engagement (Disclosure 102-40, 102-42, 102-43, 102-44), pg 89, 94–95.

– Energy: Energy consumption within the organisation (Disclosure 302-1), pg 49. Energy intensity (Disclosure 302-3), pg 48. Percentage of renewable energy (AF21), pg 48–50.

– Emissions: Direct (scope 1) GHG emissions (Disclosure 305-1), pg 48, 52. Energy indirect (scope 2) GHG emissions (Disclosure 305-2), pg 48, 52. Other indirect (scope 3) GHG emissions (Disclosure 305-3), pg 52.

– Materials: Materials used by weight or volume (Disclosure 301-1), pg 36.

Tons of garments collected for reuse and recycling, pg 45.

– Anti-corruption: Confirmed incidents of corruption and actions taken (Disclosure 205-3), pg. 80, 84.

– H&M group Sustainability Report 2017 covers the period 1 December 2017 – 30 November 2018.

MANAGEMENT'S RESPONSIBILITY

The Management of H&M group is responsible for preparing and presenting H&M group Sustainability Report 2017 in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Standards.

As discussed in the section "How we report", on page 88 in H&M group Sustainability Report 2017, greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the above-specified indicators in H&M group Sustainability Report

2017 based on the limited assurance procedures we have performed. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, nor assume responsibility to anyone else, except to H&M group for our work, for the limited assurance report, or for the conclusion that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. The ISAE 3000 standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters have come to our attention that would cause us to believe that the above-specified information in H&M group Sustainability Report 2017 has not been prepared, in all material respects, in accordance with the reporting criteria.

A limited assurance engagement is provided only on the information disclosed in H&M group Sustainability Report 2017, not on information linked to and disclosed on other web pages. The

presented information in H&M group Sustainability Report 2017 is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by H&M group. This independent limited assurance report should not be used on its own as a basis for interpreting H&M group's performance in relation to its principles of corporate responsibility.

Our review procedures are designed to obtain limited assurance on whether the above-specified indicators are presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative, in all material respects. A limited assurance engagement consists of making inquiries, primary of persons responsible for the preparation of H&M group Sustainability Report 2017 and applying analytical and other evidence gathering procedures, as appropriate. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly

maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Management as described above. We consider these criteria suitable for the preparation of H&M group Sustainability Report 2017. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below

CONCLUSION

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information regarding the above-specified indicators in H&M group Sustainability Report 2017 has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, 10 April 2018
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Charlotte Söderlund
Authorised Public Accountant



Get in touch

If you have any questions about the report, need help locating specific information or want to find out the latest on our sustainability work including our strategy, goals, standards and policies, please contact:

giorgina.waltier@hm.com or
kristina.grewin@hm.com.

We appreciate your feedback.



H&M group employees shooting company values film in 2016.



THANK YOU