

H&M Group

Sustainability Performance Report 2019



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About this report

How to use our 2019 sustainability reporting

Our reporting includes:

- This **standalone Sustainability Performance Report**, with information about our strategy, goals, programmes, and performance data.
- **Interactive web content** — explore these web pages to see how we bring our strategy to life across our entire value chain.
- **External reporting initiatives** — Global Reporting Initiative (GRI) and UN Guiding Principles (UNGPs) [indexes](#), and Task Force on Climate-Related Financial Disclosures (TCFD) in our [Annual Report](#).
- **Supporting web content** containing more detailed information on specific sustainability issues. Find links to relevant content from this report.
- Our [Annual Report](#), which includes sustainability related content.

At H&M Group, we are working to ensure a sustainable fashion industry for all. Open reporting on our progress and challenges, and pushing for greater transparency industrywide, contribute to our achieving this goal. Through our nine brands we have connections to millions of people, communities and businesses around the world. Together, we can tackle some of the most significant challenges facing our industry, society and planet.

Our annual sustainability performance report provides a frank account of our sustainability efforts over the past year. This report summarises our goals, strategies, challenges, activities and performance. It highlights progress, as well as learnings and challenges.

We are part of an industry that faces significant environmental and social challenges. We see great opportunities to meet these challenges, but this requires major transformation. We're exploring new business models, innovating with new materials and processes and collaborating with others to re-invent

the fashion industry. And we believe that by taking a lead wherever we can and embedding sustainability throughout our culture, values and business, we will create a better customer offer for all our brands. We are proud of the journey we are on, but appreciate that there is a lot more work to do and much to learn.

We hope our new streamlined reporting approach will help our many stakeholders and partners learn about our journey. Together we can reinvent the fashion industry.

Read more about how we determine our [material sustainability issues](#).

Letter from our CEO

When I was recently offered the opportunity to take on the role as CEO, I already had a clear mission for our sustainability work – to put it at the heart of how we operate and develop the group. Having once been Head of Sustainability in this company, I know the importance of environmental protection, people empowerment and industry transparency to build a sustainable business. These areas are not only close to my heart but very much part of my business perspective.

To put sustainability at the core of our business is a big opportunity to accelerate the pace of change. We need to transform our business moving forward – to secure that we continue to be successful in the future, but also to serve a greater purpose as a company. In order to build a sustainable future, we will have to find new ways. It will require us to rethink how we operate. We will have to develop new technologies, new business models, new processes and a new type of customer relations.

At H&M Group, we are continually working to make our business model more sustainable to secure long-term growth and, at the same time, make a

positive contribution to the world. To us, this means creating decent and meaningful jobs and promoting inclusiveness and diversity. It means becoming climate positive throughout our entire value chain by 2040, as well as achieving circularity.

Accelerating our agenda to become a circular business is one of our key focuses. We don't have all the answers ourselves, but by teaming up with – and investing in – pioneering companies that develop ground-breaking technologies, such as Re:newcell or Infinited Fiber Company, we can scale innovations and reinvent fashion together.

I'm confident that our close collaborations with organisations such as the Ellen McArthur Foundation, WWF, IndustriAll, the UN Global Compact and many others will continue to inspire us, help us find even more solutions to transform ourselves and share best practice with both partners and competitors.

As we finalise this report, the spread of COVID-19 is affecting people, communities and businesses all over the world. Now, more than ever before, we are pulling together as one team, supporting each other and the communities around us as much as we can –

while working to secure our business through these challenging times. We don't yet know the full extent to which this crisis will impact our business and wider society. Being in the eye of the storm, it can be difficult to picture what the world will look like after everything has settled. But the recent development also shows us that the transformation journey we are on is crucial for us to remain relevant in the long-run and beyond a crisis like this one. Our challenges may be complex, but the high ambitions and solid work described in the following pages keep me inspired and positive about the future.



Helena Helmersson
CEO, H&M Group

About H&M Group

H&M Group in 2019

Our business is about making fashion and design accessible to everyone in a sustainable way. This is reflected in all our brands.

H&M Group includes nine brands: H&M, COS, Weekday, Monki, H&M Home, & Other Stories, ARKET and Afound — as well as Sellpy, which we bought a majority stake in during 2019. Our brands offer customers a variety of fashion, design and services that enable people to be inspired and to express their own personal style, making it easier to live in a more circular way. While each brand has its own specific DNA, they are all committed to making fashion more sustainable.

Our physical stores and integrated digital channels reach customers around the world. Our global reach is strengthened by around 180,000 colleagues, operating in both sales and production markets. We're connected to millions of people, communities, ecosystems and other businesses.

795
million in-store and 93 million
online transactions for H&M
brand alone.

232.8
billion SEK net sales.

5,076
stores* in 74 markets and
e-commerce in 51 markets.

*Includes 272 franchise stores.

H&M Foundation

H&M Foundation is a non-profit global foundation with a mission to act as a catalyst for positive change and to improve living conditions by investing in people, communities and innovative ideas.

Through partnerships across the world, the H&M Foundation aims to accelerate the progress needed to reach the UN Sustainable Development Goals by 2030. The foundation is privately funded by the Stefan Persson family, founders and main owners of the H&M Group. Since 2013, the family has donated 1.5 billion Swedish Krona (\$200 million/€163 million).

Learn more in H&M Foundation's annual report, A Catalyst for Change.

Our supply chain

Our supply chain is diverse and global — including manufacturing facilities, cotton producers, yarn makers, transport and service providers, and many more. Supply chain management, particularly for our commercial goods suppliers, is crucial to our sustainability efforts and has historically been where we have had a major impact.

Across the supply chain, our influence is the strongest where our relationships are closest. This is why we work with partners who share our values and our commitment to positive environmental and social impact. It's essential we have the same ambitions and mindset to ensure compliance with our standards, drive performance and impact.

Supply chains are changing. For example, automated systems are becoming more common, materials are easier to trace back to their original source, and increasing levels of migration present new challenges to employers. The pace of global change makes it more important than ever for us to engage openly with our suppliers and work with them to create a circular and climate positive supply chain, that provides fair jobs to thousands of people.

Explore our [interactive supplier map](#).

Read more about our approach to [supply chain management](#).

757

commercial product suppliers.*

1,712

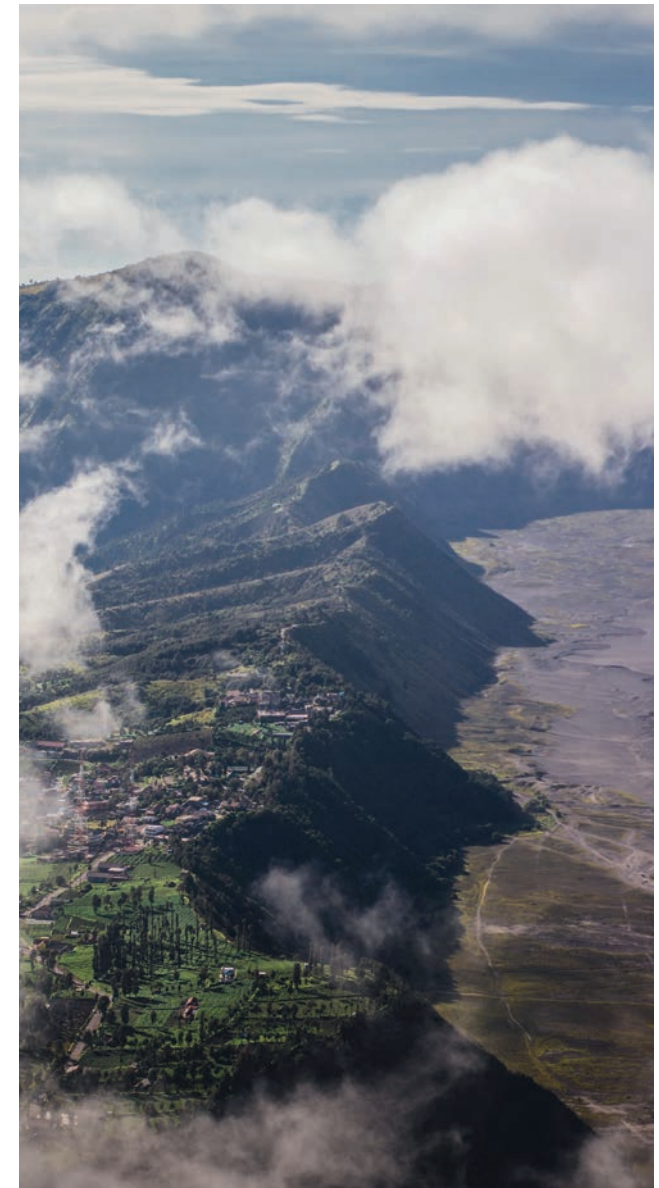
manufacturing factories and final product processing units.**

1.6

million people employed by supplier factories.

*Includes commercial products suppliers for H&M Group brands, and their manufacturing factories and final product processing units. Includes apparel, footwear, accessories, home interior, furniture and beauty. This scope is smaller than figures reported in previous years, which included some non-commercial goods and branded suppliers. We are working on verifying complete lists of our suppliers for future disclosure.

** As of December 2019.

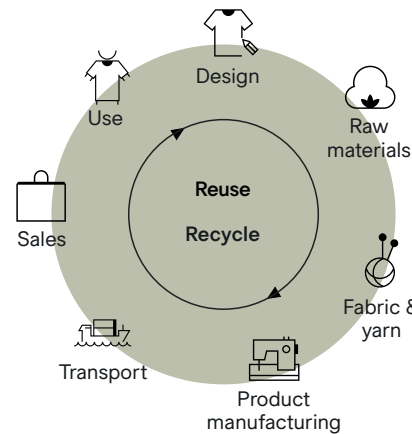


Our value chain impacts

The social, environmental and economic impact of our value chain is significant and far-reaching, and we want this impact to be positive. We have an opportunity to use our size and scale to make our value chain — and our entire industry — more sustainable. The first step to driving change is to understand the impact and influence we have at each stage.

Every choice we make has the potential to drive positive change and innovation in every part of our value chain — which includes all stages of our business from product design through to customer use.

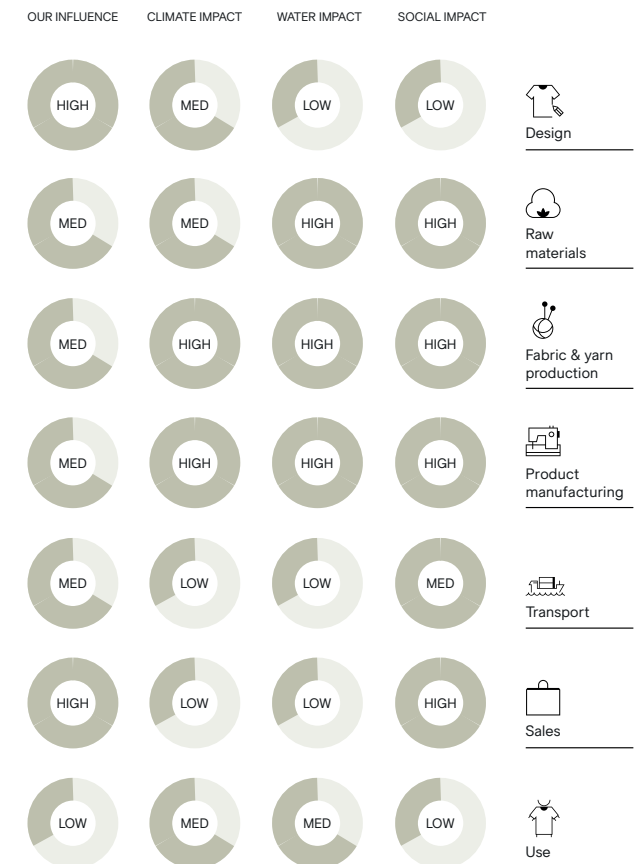
H&M Group value chain



Social impact: refers to H&M Group's identified salient human rights issues, as well as our contribution to positive impact on people across our value chain through job creation, new and innovative products and services, how we communicate, and the way we do business.

Climate impact: refers to greenhouse gas emissions in each part of our value chain, taking account of the type and amount of energy used, and opportunities to reduce emissions as we work towards our climate positive goal.

Water impact: refers to the impacts of the water we use and discharge in each part of our value chain, taking account of the volume and sources of water, water quality, and opportunities for recycling.



External recognition

Benchmarking, indexes and rankings

CDP. H&M Group is included in the CDP's [2019 A List](#), which recognises companies considered to be pioneers for action on climate change, water and deforestation. Of the 6,800 companies scored in 2019, just 2% made the A List, with H&M Group receiving particular recognition for our climate work.

Dow Jones Sustainability index. H&M Group has been included in the [Dow Jones Sustainability World Index](#) for the seventh year in a row. We are proud to have reached Gold Status, which means that our total score was the highest in our industry category. We are also listed on the Dow Jones European Index this year. In the 2019 assessment, we reached the highest possible score for product quality and recall management, as well as environmental reporting. We also reached the highest scores in our industry for human rights (94/100), packaging (90/100) and supply chain management (92/100).

Fashion Transparency Index. We were ranked in the top five in Fashion Revolution's [Fashion Transparency Index](#), scoring 61% (highest score 64%).

FTSE4Good. H&M Group has been independently assessed according to the [FTSE4Good](#) criteria and has again this year satisfied requirements to become a constituent of the FTSE4Good Index Series. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria and are positioned to capitalise on the benefits of responsible business practice.

Global 100 Index. H&M Group is ranked 27th in the 2019 Corporate Knights [Global 100 Index](#) of the world's most sustainable corporations, and second in our industry.

Platform Living Wage. In the [Platform Living Wage 2019 Garment Sector Review](#), H&M Group is ranked as leading in four categories: policy, integrating findings, tracking, and transparency.

Stand Earth. We were ranked third in [Stand Earth's 2019 assessment](#) of the climate commitments of 45 fashion brands.

Sustainable Cotton Ranking. H&M Group was ranked third in the 2019 [Sustainable Cotton Ranking](#).

Textile Exchange Corporate Fiber & Materials Benchmark programme. H&M Group was one of 16 leading companies out of the 170 analysed in the [Material Change Index](#) (MCI).

Walking the Talk Report. H&M Group is listed amongst the best performers in the 2019 [Walking the Talk Report](#), which analyses the sustainability communications and actions of Sweden's largest companies.

Awards

Corporate Responsibility Reporting Awards.

H&M Group was the winner of the Creativity in Communication category, and first runner-up in the Openness & Honesty, Relevance & Materiality, and Best Report categories.

Ethisphere® Institute: World's Most Ethical

Companies. H&M Group has been recognised for the ninth time by [Ethisphere® Institute](#) as one of the World's Most Ethical Companies.

PETA Vegan Fashion Award. H&M Group was given a Vegan Deco Award by [PETA](#) for its H&M Home's Conscious Patterned Cotton Rug, which is made of 100% recycled cotton and is part of our sustainable Conscious Collection.



Vision & strategy

From our very first day in 1947, our business has been about making fashion and the joy it can bring accessible to everyone — democratising what had previously been a privilege of the few.

Today, the world looks different. More people than ever before are enjoying decent incomes and good standards of living. We still want to make fashion accessible and enjoyable for all. But given the environmental and social pressures faced by our planet, we must change how we do that.

We have to challenge ourselves, question old assumptions, and reimagine what growth means. We must innovate not only materials and processes, but also business models and new ways for people to experience fashion and design. And we must keep people at the heart of our business by treating them fairly, supporting their rights, and celebrating their diverse talents and perspectives.

From the resources we use and increasingly reuse, to how we work with people and the expectations we set for our suppliers — everything we do forms

part of the social and environmental story of our products. We want to enable our customers to understand and be part of that story, so they can make informed choices and ultimately see more sustainable choices as the most desirable and attractive ones.

Our industry is redefining itself and evolving, and so are we. We've been working on the sustainability of our business for more than 20 years, and in 2017 we launched an ambitious new strategy to redefine our approach and aspirations. Since then, we have taken important steps to fully implement the strategy throughout our business, work towards the goals we have set as part of it, and take the actions needed to make change happen.

[Hear more](#) about our work from our Head of Sustainability.



Our vision

Our vision is to lead the change towards circular and climate positive fashion while being a fair and equal company.

We don't know exactly what the future holds. But we do know that fashion and the fashion industry will continue to change radically. Throughout this transformation, we see it as our role to use our size and scale to lead the way in creating a better industry that operates within planetary boundaries and creates genuine value for people. Strong actions today, collaboration and long-term investments in sustainable solutions will create opportunities that keep H&M Group relevant and competitive in our rapidly changing world.

To achieve this, there is still a lot of work ahead of us, and we might not always get it right first time. We'll continue to be transparent about our progress, our challenges, and the learnings we gain along the way.

Our sustainability strategy



Working for change

Our Change-Making Programme turns our vision and strategy into concrete actions through companywide goals, roadmaps, standards and follow-up methods. It enables our brands and functions to integrate our sustainability strategy across their businesses, by creating their own measurable sustainability goals and activities.

Sustainability is one of four metrics by which we judge our Group performance. Each central function and brand is measured against a set of sustainability indicators (KPIs), in the same way that we measure our performance against sales figures and customer satisfaction.

Read more about our [sustainability governance](#) structures and processes.

Our Change-Making Programme

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



Goals

Concrete goals at group, market and function level, owned by each market and function.



Roadmaps

Strategic plans, targets and actions for reaching goals.
Roadmaps for specific sustainability areas.



Standards & policies

A set of requirements to ensure H&M Group and our business partners operate in a sustainable way.



Methods & follow up

Processes, routines and methods to set goals and evaluate progress.



Culture and values

Stakeholder engagement

Our stakeholders are change-makers. Each of these groups plays a vital role in building a sustainable fashion industry:

Experts. We work with people and organisations to find solutions, gain expertise, address challenges collectively and raise industry standards. This group includes industry peers, [policy makers](#), academics and researchers, NGOs, innovators, investors, trade unions, and also a variety of multi-stakeholder initiatives such as the Ethical Trading Initiative and the Sustainable Apparel Coalition.

Business partners. Our business partners include all of our suppliers of commercial goods, non-commercial goods and services, as well as our franchise partners and providers of online platforms. The long-term relationships we build with our business partners enable us to challenge each other and work together to raise environmental and social standards across our industry.

Our colleagues. We empower our around 180,000 colleagues, who come from all over the world, to contribute their ideas, diverse perspectives and talents to fulfil our sustainability vision and goals.

Our customers. We aim to inspire our many customers all over the world to make sustainable choices that benefit them, the environment, people and communities, as well as contributing to our long-term business success.

Read about [how we engage with our stakeholders](#).

See a list of our key 2019 [external collaborations](#).

Well done but keep raising the bar, say stakeholders

In 2019, nearly 350 key stakeholders gave us frank feedback in our annual stakeholder survey. We are very proud that our stakeholders rank us as the leading company in our industry across all of our three strategy areas. But we're also happy to have clear feedback to provide more detailed information on how we plan to be climate positive by 2040 and to more clearly explain

our fair jobs, inclusion and diversity initiatives.

Overall, the results were encouraging:

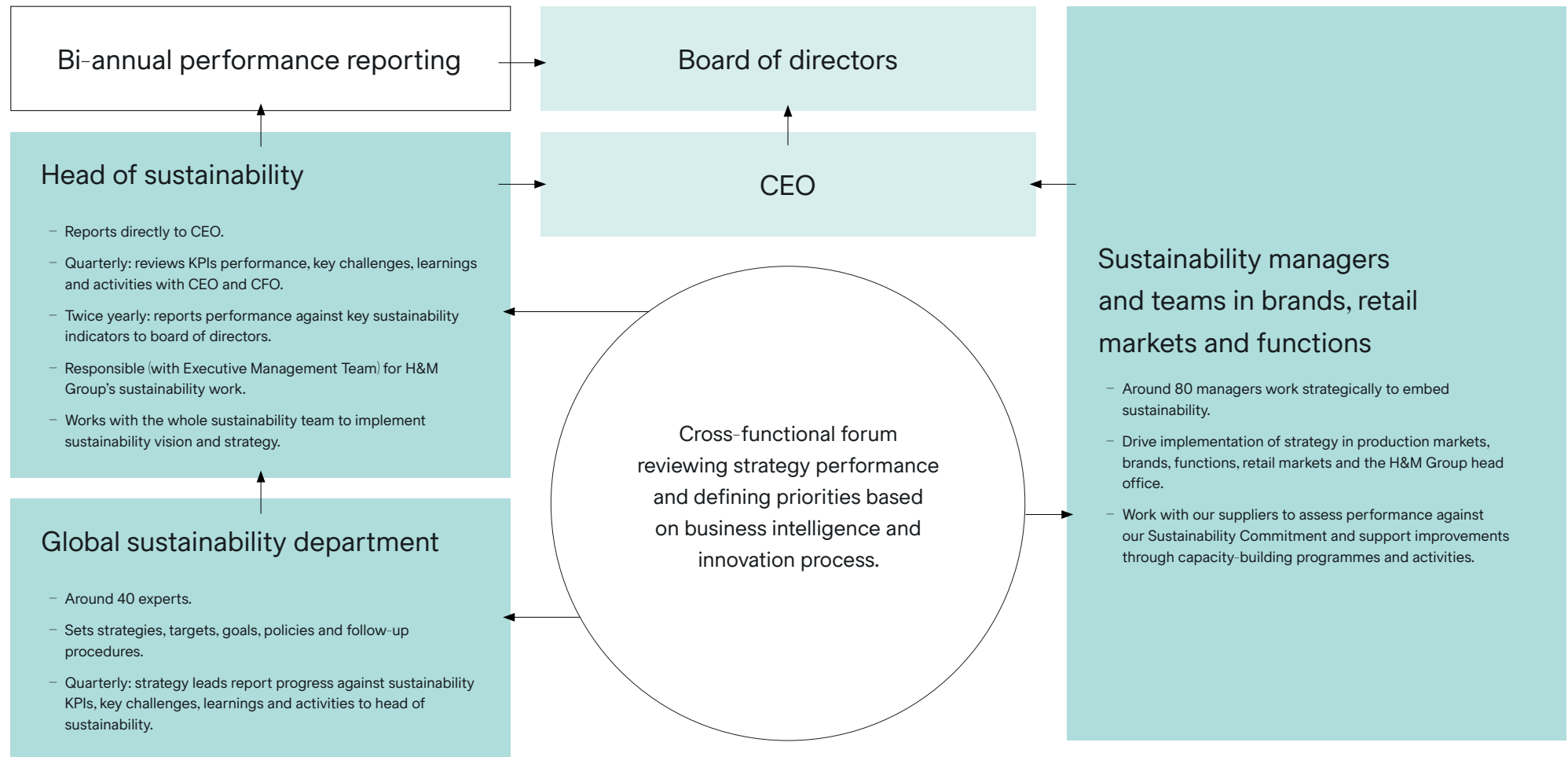
- 58% rate our drive for transparency as very good or good.
- 57% say the same about how we promote and scale innovation.
- 57% regard our work using only recycled or other sustainably sourced materials as industry-leading.
- 54% rate our work to take a circular

approach to making and using products as good or very good.

- 71% who are closely involved in our work for fair jobs, as well as inclusion and diversity, rate our performance as very good or good.

We are grateful for the valuable feedback and we appreciate that we have helpful direction and input for our work ahead.

Sustainability governance



Throughout the company, more than 240 people work with sustainability as their core task.

Leading the Change



Our 2019 highlights



Top 5

in Fashion Revolution's
Fashion Transparency
Index.

Frontrunner

in Changing Market's
responsible viscose
supplier ranking.

1,332

supplier factories, mills
and processing facilities
reported to the Higg
Index Facility Environment
Module.

Launched Circular Innovation Lab

to scale new materials and
processes.

23

supplier factories piloted
the Higg Index Facility
Social and Labor Module.

Provided H&M and
H&M Home customers
with factory and
sustainability
information
about products.

Our approach to Leading the Change

The fashion industry is changing for the better, but we think it can go much faster. Leading the Change is our commitment to catalyse and contribute to systemic progress on the industry's most pressing issues. It's an important driver of our other strategic ambitions: to become fully circular and climate positive while being a fair and equal company.

Creating sustainable change within a rapidly-evolving industry requires us to combine leading by example with partnerships and dialogue, so that we can achieve positive impacts in our own value chain while driving long-term industrywide progress.

We focus on three areas key to catalysing change:

- **Innovation.** Identifying and scaling new ways of working and solutions to complex social and environmental challenges.
- **Transparency.** Being open about how and with whom we do our business, our performance, and our remaining challenges, as well as disclosing more product details to our customers.
- **Rewarding sustainable actions.** Working with our customers, colleagues and suppliers to incentivise more sustainable behaviours.



How we engage with policy makers

Engaging with policy makers, in a transparent way, is an important part of our approach to Leading the Change. It enables us to lead systematic transformation for the whole fashion industry and beyond.

Our work includes engaging with national, regional and international policy makers. We also work with civil society, industry, and other organisations that participate in policy development. Our current memberships of trade associations and civil society organisations include Action, Collaboration, Transformation (ACT), and the Sustainable Apparel Coalition (SAC), among others.

Read more about how we engaged in public affairs activities in 2019 to further our [transparency aims](#), and our [Circular & Climate Positive](#) and [Fair & Equal](#) ambitions.

Innovation

Innovation is an essential catalyst for industrywide progress towards a sustainable model of consumption and fairer working practices. We're looking for new ways of operating, from energy and resource use, to design and materials, use and reuse, and the way we engage with our supply chain, customers and communities. Finding these solutions requires us to:

- Develop a companywide mindset that cultivates new ideas, by integrating innovation into our internal processes and systems.
- Test new ideas and innovations, and scale those that work.
- Work with others, including academics, experts, nongovernmental organisations, peers and start-ups, so that we can identify and develop solutions more quickly. Not everything we try will work. But our size enables us to develop the most promising innovations and roll them out globally, always with our customers' needs in mind.

Learn more about how we're [changing the way we do business](#) and catalysing change by [collaborating](#).

One key area of innovation for us is circularity. It's exciting to imagine a world where any product can be recycled, where materials come from unexpected sources like algae and agricultural waste, and where repair and reuse are part of what it means to be a customer at one of our brands.

We focus on:

- **New materials and processes.** Our new Circular Innovation Lab fills a gap between early stage start-ups and commercial production, testing new materials and production processes from initial concept to pre-industrial pilots. Projects cover commercial and non-commercial products, and the lab works closely with innovators to carry out proof of concept, produce prototypes and support trial orders. Read more about our focus on recycled or other sustainably sourced [materials](#).
- **New business models.** We explore products and services that prolong the life of clothes — for example repair, rental, resale and remanufacture. We start by testing new initiatives on a small scale so that we can learn what works and then deploy successful models more widely.

We innovate new applications of AI to enable more sustainable decision-making across our value chain — from design and resource use to customer experience and trend forecasting. Our internal Responsible AI Checklist ensures ethical questions are answered as we scale and stabilise new applications.

Our ambition to be a truly [fair and equal](#) company requires a different type of innovation — including collaborating with new partners to drive changes to working conditions or build knowledge and skills within our supply chain. For example, we're piloting a project with [social entrepreneurs](#) — enabling small-scale enterprises to supply products to H&M Group customers, while contributing to positive change within their own communities.

H&M Foundation

Find out more about the non-profit H&M Foundation's [Global Change Award](#) — one of the world's leading innovation challenges for circular fashion.

2019 progress & highlights

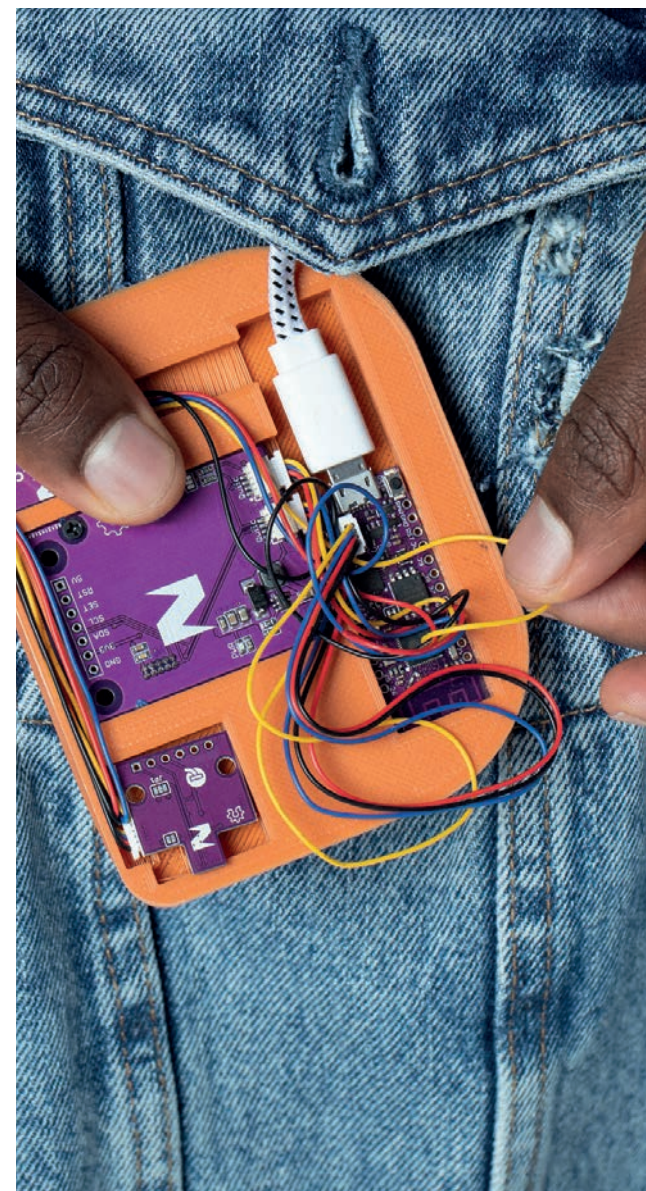
- We are launching our business-to-business service Treadler, which offers other textile and apparel retailers access to H&M Group's supply chain — including product development, sourcing, production and logistics. Treadler enables companies to benefit from our 70+ years of experience and long-term supplier partnerships, so that they can accelerate sustainable social and environmental change through their own value chains more quickly than might otherwise have been possible.
- Our Circular Innovation Lab led projects to pilot new sustainable materials such as the cellulosic fibre made by Infinited Fiber Company from recycled cotton textiles, a board material made by ECOR from recycled office paper, and Re:newcell's Circulose fibre — made from recycled cotton.
- We launched several pilots of new business models involving print-on-demand, customisation, repair, rental and re-commerce — to explore how we can maximise the life of our products and minimise waste. These include testing rental models and investing in Swedish web-based re-sell platform Sellpy.
- We developed new partnerships to contribute to our work on Responsible AI. For example,

we joined the European Commission's multi-stakeholder forum the European AI Alliance.

- To encourage the responsible application of innovations in artificial intelligence, we launched an Ethical AI Debate Club, with four events in 2019. The debates foster discussion about fictional AI dilemmas between H&M Group colleagues and stakeholders.

Learnings & future focus

- Bringing innovations to commercial scale can be challenging. We're aiming for solutions that are not only more sustainable but also solve problems for our customers. We will continue to focus on our customers' needs as we disrupt and reinvigorate traditional business models with more sustainable alternatives. We seek and welcome new partnerships to challenge and inspire us in our search for the most promising innovations.
- AI is evolving quickly, and we need to make sure we keep up with the pace of change to fully understand the implications of any new applications. We have begun a process of mapping AI-related risks and opportunities. We also started to measure the sustainability impacts of our current AI projects. We will report on these activities in future years.



Transparency

Transparency contributes to our sustainability vision in two important ways:

- **Enabling informed customer choice.** Connecting customers to the story behind our products, so they can make choices aligned with their values and be inspired to shop more sustainably.
- **Accelerating sustainable change in our industry.** Sharing our processes, plans and performance to identify joint challenges and synergies with our peers, and accelerate more sustainable practices.

Increased transparency can lead to closer external scrutiny and sometimes negative media coverage, because information is more visible. While this can act as a disincentive, we think transparency is necessary to drive the pace of change on issues such as climate and fair wages.

Trust takes time to earn and is easily lost. We hope that by consistently sharing information about our impacts, challenges, progress, business partners, and products, we can continue to build and maintain relationships with our many stakeholders based on open dialogue and mutual respect.

We remain committed to being open about

our challenges, performance and plans, and we encourage others to do the same.

Enabling informed customer choice

An important step towards increasing product transparency was the launch of our Product Transparency Solution in early 2019: H&M and H&M Home customers shopping online can see information about product materials, factory, and garment care or recycling options. We plan to expand coverage to include more information and more brands. Additionally, ARKET highlights more sustainable materials to customers and provides details on garment care and suppliers, including factory names.

This is a good start, but it doesn't give a simple indication of a product's sustainability to enable customers to make quick, well-informed choices. We're working to disclose more of our own product information in a simpler way, but we also need a common sustainability measurement and index across the fashion industry that provides consistent,

comparable and trustworthy information about every product.

H&M Group is a founding member of the [Sustainable Apparel Coalition](#) (SAC). Focus areas of this industrywide alliance include:

- **Development of the Higg Index.** A measurement of sustainability performance covering different environmental and social aspects for individual factories, soon to include brand and retailer level, enabling public comparability of performance.
- **Development of an industry standard on product transparency.** How to publicly disclose information that is credible and trusted is a complex and controversial issue and SAC's progress on transparency efforts has been delayed. By the end of 2020 — after ten years of development, engagement, and insights — SAC will announce plans to disclose sustainability performance transparently on products.

2019 progress & highlights

- We developed a new framework for our Transparency Strategy in dialogue with stakeholders. We started work on a new Transparency Policy to clarify our principles on disclosure and inspire others to follow — due for publication in 2020.
- We were ranked among the top five brands in Fashion Revolution's Fashion Transparency Index, increasing our score from 55% to 61% (highest score 64%).
- We continued working with SAC, sitting on the Transparency Working Group and the Board. Work in 2019 included agreement of a new SAC Strategic Plan and development of the Higg Brand and Retail Module — an assessment of individual brands' management systems, goals and sustainable operations.
- In 2019, we joined the EU Commission's project to develop a [product environmental footprint](#) for textiles and footwear. This three-year project will lead to a methodology to calculate product environmental impacts.
- In line with our Changing Markets Commitment, we have started to map and disclose [viscose and other man-made cellulosic fibre](#) suppliers involved in our product supply chain, to achieve

100% disclosure by 2020. We were ranked as a frontrunner in Changing Market's Roadmap to responsible viscose 2019 supplier [disclosure report](#).

- ARKET conducted a [cotton](#) traceability pilot to test the potential for increased disclosure of data on organic cotton sourcing.
- Our Head of AI Policy joined the academic reference group for a five-year project focused on the links between transparency and consumer trust.

Learnings & future focus

- We're learning that customers are increasingly looking for guidance on sustainable choices. For example, a [2019 report](#) led by SAC and co-funded by H&M Group highlights this link between transparency and trust. This provides further motivation for us to continue working towards disclosure of product and supplier data.
- The development of an industry standard Higg Index on product transparency has not been progressing this year, so we have focused on mobilising other likeminded members and brands within and in parallel to SAC to get the discussion back on the SAC agenda, and ensure resources are allocated to it. There is still more work to do. We will continue to make more data available

directly to our customers, while driving industry collaborations focused on improving transparency and supporting relevant legislation.

- We're publishing our responsible purchasing practices, and we will work towards making more business practices and methods public or open source in the coming year.
- We will start to use the Higg Brand and Retail module when it launches in 2020, and we aim for public disclosure of relevant data as soon as SAC allows.

Accelerating sustainable change in our industry

Supply chain disclosure and visibility of where our materials come from are vital enablers for a sustainable value chain with consistently high social standards. The more we know about our suppliers' performance — and that of their suppliers — the greater our ability to target improvements, collaborate across the industry and create long-term change.

We first made our supplier list public in 2013, and were one of the first fashion retailers to do so. This was a good starting point, but there is still more to do, particularly in the following areas:

- **Increasing the depth of disclosure.** Collect and share more information on supplier compliance and performance, going deeper into our supply chain.
- **Improving data quality.** Explore technological solutions to improve data quality and traceability, and work with suppliers to improve their data management systems.
- **Driving industrywide transparency.** Continue to be a driving force in industrywide work to create a single platform for sharing consistent, comparable data.

We are a signatory to the [Transparency Pledge](#), which aims to help the garment industry reach a common minimum standard for supply chain disclosures. We hope to see more brands committing to sign and disclose their supplier lists so we can collaborate more efficiently across the industry.

2019 progress & highlights

- We disclose our full apparel and footwear supplier list through the global database [Open Apparel Registry](#) and a list of suppliers in China through the China Institute of Public Affairs Blue Map. Download our [supplier list](#) and explore our own interactive supplier map, which includes:

- 1,712 manufacturers and their processing providers (dyeing, printing), covering 100% of relevant production volume.
- 366 component factories including fabric mills, fibre processors, spinners, tanneries, fabric dyeing and other processing facilities, covering 67% of relevant production volume.
- 1,125 of our suppliers' manufacturing factories and 207 mills, dyeing and printing factories used the Higg Index Facility Environment Module. 23 factories piloted the new Higg Index Facility Social and Labor Module.

want to reach full visibility of all our suppliers' own suppliers. We plan to introduce real-time updates to our supplier disclosure through our interactive supplier map in 2020.

Learnings & future focus

- Developing comparability across different brands — including an industrywide scoring and transparency plan for supplier data, so that more sustainable suppliers can be recognised and rewarded — is an ongoing challenge and a priority. We will continue working with SAC to drive the disclosure of supply chain data and Higg Index scores.
- We have developed a roadmap to increase disclosure of suppliers and their data. For example, we now disclose information on identified fibre processors, spinner, yarn and fabric mills, and have a goal of 100% disclosure of all dyeing and printing facilities in our supply chain by 2021. Eventually we

Rewarding sustainable actions

H&M Group connects with millions of people each year, presenting us with the opportunity and the responsibility to encourage and empower more sustainable behaviours. We use incentive and reward systems to engage people across our value chain, and to motivate them to make choices that contribute to positive impact:

- **Colleagues.** We encourage employees to be proactive in contributing to more sustainable workplaces and performing their jobs in a more sustainable way. We set sustainability goals at an executive level, as well as including relevant goals in our management evaluation process and across different levels and functions of our business.
- **Customers.** By increasing customer interest and rewarding certain behaviours, we can help them to make more sustainable choices. We offer our customers incentives for sustainable actions, for example through brand-led garment collection schemes.
- **Suppliers.** Through our Sustainable Impact Partnership Programme (SIPP), we reward high-

achieving suppliers with more orders, training opportunities and long-term contracts.

2019 progress & highlights

- Our brands continued to offer and expand garment collection services for customers.
- We extended our supply chain Sustainable Impact Partnership Programme (SIPP) to include more categories of suppliers.

Learnings & future focus

- We're still learning how to promote and reward sustainable actions for the greatest impact, but we must do more in this area. Our customers, colleagues, and suppliers are partners on our journey towards more sustainable business practice, and we're thinking about new and creative ways to incentivise behaviour change. For example, as well as financial rewards for garment collection, we're exploring other options for motivating customers to return unwanted items. This includes credits to contribute to positive

social change or community initiatives.

- Hello Member, a membership scheme offering exclusive benefits to participating H&M customers, facilitates sustainability-focused incentives and rewards such as access to clothes rental services. As the scheme grows, we'll look for more ways to engage members in our sustainability efforts.



Circular & Climate Positive



Our 2019 highlights



100%

of textile and leather supply chain enrolled in Zero Discharge of Hazardous Chemicals programme.

Part of CDP's
A List
for climate change action.

97%

of cotton organic, recycled or other sustainably sourced.

Testing
new business models,
including on-demand, repair, rental and recommerce options.

-10.1%

reduction in electricity intensity since 2017.

Launched innovative materials made from
pineapple leaf, algae & citrus peel.

Joined The
Microfibre Consortium
to develop ways to minimise fibre release.

29,005
tonnes of garments collected. That's over 145 million t-shirts.

Our Circular & Climate Positive KPIs

KPI	2016	2017	2018	2019	GOAL
% change in net CO ₂ emissions from own operations (scope 1 + 2) compared with previous year, including renewables	-47%	-21%	-11%	+8%	Climate positive by 2040 at the latest
% change in electricity intensity (kwh/sqm per opening hour compared with 2016)	n/a	-2.7%	-8.2%	-10.1%	-25% by 2025 (2016 baseline)
% renewable electricity in own operations	96%	95	96%	96%	100% by 2030
% of water recycled out of total production water consumption	-	-	-	13%	15% by 2022
% of facilities in own operations with water-efficient equipment	51%	51%	64%	67%	100% by 2020
% of recycled or other sustainably sourced materials of total material sourced (commercial goods)	26%	35%	57%	57%	100% by 2030
% of recycled or other sustainably sourced cotton (certified organic, recycled or Better Cotton)	43%	59%	95%	97%	100% by 2020
Tonnes of garments collected through garment collecting initiative	15,888	17,771	20,649	29,005	25,000t per year by 2020
% of stores with recycling systems for main types of store waste	71%	64%	63%	62%	100%

Go to [Circular & Climate Positive data](#).

Details of specific goals are included within relevant sections of this chapter.

Becoming fully Circular & Climate Positive

The climate crisis and resource depletion are two of the biggest challenges facing the planet. A linear, unconstrained model of production and consumption is not sustainable, and we are determined to be proactive in moving our industry towards a better, circular way of working.

We focus on two critical areas:

- **Achieving full circularity.** Circular models optimise resources and minimise waste, so that resources stay in use for as long as possible before being recycled or repurposed. We are working to build circularity into every stage of our value chain — from design and production to customer use, reuse and recycling — and to source only sustainable, renewable and recycled resources. Our aim is to become fully circular. This is ambitious, but working towards a world without waste is essential for our planet and our business.
- **Becoming climate positive.** The climate crisis is the most urgent challenge faced by the world. We are determined to play our part in tackling carbon emissions, and our goal is to become climate positive by 2040. Our circular approach is an

important foundation to reach this goal, alongside working to cut energy use throughout our value chain, using renewable energy, and exploring natural and technological carbon sinks.

Fashion Pact

H&M Group joined other leading global fashion and textile companies to sign the [Fashion Pact](#) — presented to heads of state during the 2019 G7 meeting. This commits us to achieving practical objectives in areas related to the climate, biodiversity, and our oceans.

Increasing our focus on biodiversity

Our business relies on diverse ecosystems that provide critical services throughout our value chain, including crop pollination, maintaining soil and water quality, and treating and dispersing waste in our production processes. But our use of natural resources and our production processes can have a significant effect on these ecosystems.

We have developed a biodiversity strategy that defines the steps we need to take to reduce our impact and contribute to more resilient and healthy ecosystems. Our partnerships with [WWF](#) and [Business for Nature](#) will guide us on how to achieve a positive contribution through restoration and protection. And signing the Fashion Pact commits us to achieving several biodiversity-related objectives, including setting science-based targets to contribute to the protection and restoration of ecosystems.

Staying within planetary boundaries

Since 2016, we have collaborated with the [Ellen MacArthur Foundation](#) and the [Stockholm Resilience Centre](#) on a research project combining the principles of a circular economy with the science of planetary boundaries. The project is concluding in 2020, with the production of a framework that:

- Examines the current industry impacts on climate change and ocean acidification, loss of biodiversity, chemical pollution, and land and water use — to create a global baseline.
- Identifies areas for positive action focused on designing out waste and pollution, keeping materials in use, and regenerating natural systems.
- Provides the fashion industry with a global blueprint to reduce planetary pressures and contribute to net-positive gains.

We look forward to using the framework and sharing it with others, as we lead the change towards a circular fashion industry.

Working with policy makers

- We are a signatory to the [Fashion Industry Charter for Climate Action](#), initiated by the [United Nations Framework Convention on Climate Change](#) (UNFCCC). This enables us to partner with others in the fashion industry to tackle some of the biggest challenges of the climate crisis — including supply chain impacts, target setting and raw material sourcing. As signatories, we have committed to work with policy makers to develop legislation that contributes to a low-carbon future.
- The European Commission has identified circular economy in resource intensive industries as a key priority for the next five years. We are working with our peers to prepare for engagement with the European

Commission. One of the ways we engage is through the [Policy Hub](#) for Circular Economy in the Apparel and Footwear Industry. Its aim is to accelerate the circular economy agenda within the European Union.

- Vietnam's Direct Power Purchase Agreement (DPPA) mechanism will allow businesses in Vietnam to procure electricity directly from private firms producing renewable energy, enabling them to power operations from 100% renewable sources. We are working with energy providers, government ministries and industry representatives to help create an effective DPPA framework. We play an active role in the USAID-supported initiative to demonstrate the viability of large-scale solar production in Vietnam.



Our approach to climate & water

An average global temperature increase of more than 1.5°C from pre-industrial levels will have catastrophic consequences for people and nature. To stay within the 1.5°C trajectory, global carbon emissions must halve every 10 years. We recognise our shared responsibility and we are committed to playing our part in the transition to a low-carbon economy.

We focus on reducing our emissions by increasing energy efficiency, using renewable energy and moving towards full circularity. But we want to go further and become climate positive by no later than 2040. To achieve this, we need to use carbon sinks to remove more carbon from the atmosphere than our value chain creates.

The health of natural sinks, such as forests, are linked to climate change and how it affects water and biodiversity.

Water scarcity and poor water quality are already impacting communities and ecosystems in many parts of the world, and climate change is making the situation worse. Our industry needs water. We must do all we can to conserve it and keep it clean and usable. That's why we take a whole value chain

approach to reducing our water impacts.

We are determined to lead our sector towards sustainable energy and water use, by demonstrating positive, scalable solutions. Our partnership with WWF is an important base for this work, founded on the shared vision of a sustainable future for people and nature. As a consequence, we are expanding our focus on biodiversity, acknowledging the connection between our use of natural resources and the health of global ecosystems.



Climate positive

Go to our key [climate data](#).

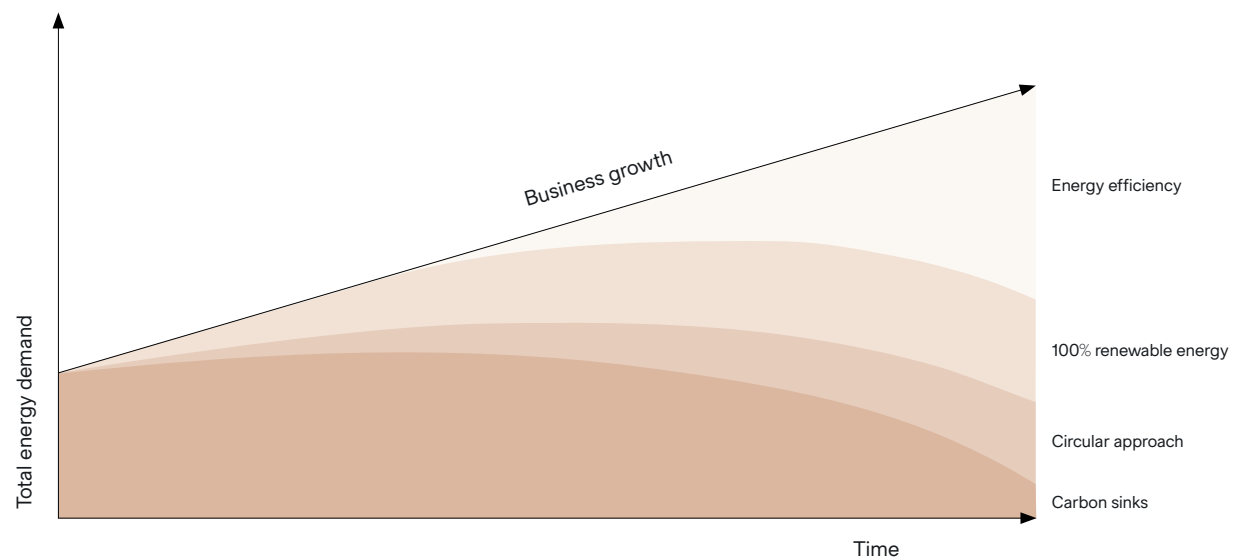
We aim to be a leader within our industry by achieving our climate positive goal and providing climate-smart products and services to our customers.

The [Science Based Targets initiative](#) (SBTi) has confirmed:

- Our combined scope 1 and 2 target and our scope 3 target are in line with a well-below 2°C trajectory:
 - Reduce scope 1 and 2 GHG emissions 40% by 2030 (2017 baseline).
 - Reduce scope 3 GHG emissions from purchased raw materials, fabric production and garments 59% per product by 2030 (2017 baseline).
- Our renewable electricity target in scope 2 is in line with a 1.5°C trajectory:
 - Source 100% renewable electricity by 2030.
- We understand we need to do more — we are working to ensure all our climate targets are

Climate positive value chain

We plan to reduce and decouple emissions from business growth through our four priority areas — energy efficiency, 100% renewable energy, our circular approach and carbon sinks — in order to achieve a climate positive value chain by 2040.



aligned with a 1.5°C trajectory. At COP25 in December 2019, we joined with several leading brands to communicate a shared definition of “[climate positive](#)”.

Climate risk analysis according to TCFD

During 2019, we performed a risk analysis according to the guidelines from TCFD (Task Force on Climate-related Financial Disclosures), to better understand our key climate-related risks and opportunities. Read our TCFD risk assessment in our [Annual Report](#).

Overall progress in 2019

Our goal is to become climate positive by 2040 at the latest. In 2019, we improved the accuracy of our emissions data by changing our calculation methodology, which impacts some of our figures.

Our net emissions have increased by 8% due to increased usage of natural gas and district heating in our own operations such as our warehouses. We continue to improve electricity efficiency in our stores, reaching a 10.1% reduction per square metre per opening hour compared with our 2016 baseline.

Our total scope 3 CO₂e emissions were 17,622 kilotonnes. This is a 4% increase from 2018, indicating that we have begun our journey to decouple growth of these emissions from our financial growth (6%).*

The subsequent sections explain our efforts to reduce direct and indirect emissions. Explore our emissions reduction journey [here](#).

Priority 1: Energy efficiency

We aim to be leaders in energy efficiency and use as little energy as possible across our entire value chain, focusing on our three main sources of emissions:

- **Stores.** The majority of H&M Group’s own electricity consumption happens at our stores. We are working to reduce store electricity intensity, including improving heating, ventilation, air conditioning (HVAC) and lighting systems.
- **Transport and distribution centres.** We work with transport companies to optimise routes and explore options for energy efficient vehicles. We monitor energy consumption at our own distribution centres and work to reduce this. Collaborating with others enables us to contribute to more systemic shifts. Our current memberships include: BSR’s [Clean Cargo](#),** [Green Freight Asia](#), and Network for Transport Measures’ [Pathways Coalition](#).
- **Suppliers.** We enrol suppliers in energy efficiency programmes to reduce the greenhouse gas (GHG) emissions per product. This is supported by our Production Organisation 2030 Climate Roadmap. We require suppliers to make efficiency

improvements and encourage them to work with local energy service companies and external experts to achieve this.

*We recalculated emissions data this year with new emission factors and consumer use percentages based on Sustainable Apparel Coalition HIGG methodology.
**Encompassing the Clean Shipping Network.



2019 progress & highlights

- We achieved a 10.1% decrease in electricity use per square metre at stores, compared to our 2016 baseline. This is largely due to ongoing efforts to improve energy efficiency, particularly through conversion to LED lighting.
- We set a new target to reduce absolute transport-related emissions by 30% by 2025, compared to a 2018 baseline.
- We worked actively to reduce our air freight emissions, leading to a decrease of approximately 36%. This contributed to our overall decrease in transport emissions to 500kt CO₂e in 2019 (587kt in 2018).
- We continued our collaboration with the [Pathways Coalition](#), which envisages fossil-free heavy commercial transport by 2050 or earlier, in line with the Paris Agreement. In 2019, the Coalition released two reports evaluating opportunities to shift to fossil-free transport options in Sweden and Germany.
- To show our commitment to avoiding Arctic transshipment and promoting precautionary Arctic shipping practices, we joined the [Arctic Shipping Corporate Pledge](#).
- We continued to roll out our supplier engagement strategy to 254 new suppliers, as well as working

with the Sustainable Apparel Coalition to evolve industry-wide engagement tools through the Higg Index. By the end of the year, 671 suppliers were enrolled in energy efficiency programmes. GHG emission reductions from our 2019 efficiency improvement projects are expected to reach 74,991 tonnes CO₂e.

Learnings & future focus

- As we increase the energy efficiency of our value chain, new opportunities are more difficult to find, particularly given the variation in fossil-free alternatives and approaches in different markets. In our supply chain, we need to look for more flexible ways to work with suppliers — in order to engage with and support them, and to finance climate-related actions. In our own operations, we are evaluating incentive models to support our long-term goals. We are also working to identify a method for measuring customer climate impact, to inform further goal setting for the product use phase of our value chain.

Priority 2: Renewable energy

Sourcing renewable energy is an important contributor to cutting our emissions. We focus on:

- **Operations.** As well as aiming to source 100% renewable electricity, we want to have more

impact by gradually raising the bar on what and how we buy. Read more about our evolving approach to [sourcing renewable electricity](#), including making the shift from largely relying on Environmental Attribute Certificates (EACs) towards a balanced portfolio of EACs, Power Purchase Agreements (PPAs), and rooftop solar photovoltaic. We are a member of [RE100](#), a group of businesses committed to using renewable energy.

- **Transport.** We work with transport companies and other partners to explore options for alternative fuels and BEV (battery electric vehicles), through our renewable fuel strategy.
- **Suppliers.** We aim to increase the share of renewable energy sourced by our supply chain every year. We work with suppliers and wider stakeholders to achieve this.

2019 progress & highlights

- 96% of electricity purchased for our own operations was renewable. The remainder includes electricity sourced in markets where certification has not been possible due to a lack of a certification scheme, available certificates, or pricing levels that are incompatible with our sourcing criteria. We see PPAs as one solution to contribute to this final 4%.



- We implemented last-mile delivery using electric, hybrid, and natural gas vehicles in some countries in Europe and began trialling bike and biogas truck delivery options in the Netherlands. We recognise that the climate impact of electric vehicles depends on the grid mix in relevant countries, but still see this as an important contribution in the transition to fossil-free transport.
- We supported Maersk — one of our transport suppliers — in the launch of its Carbon Neutral Ocean Product for shipping.
- We signed a memorandum of understanding with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) for the Project Development Programme (PDP) — to collaborate on rooftop solar projects with suppliers in five production markets, namely Bangladesh, Cambodia, Myanmar, Pakistan and Vietnam.
- We supported three suppliers in China and India to install rooftop solar panels with a total capacity of 4.3MWp.

Learnings & future focus

- We continued to work towards Power Purchase Agreements (PPAs) in support of large-scale renewables projects, but the process has proved more challenging and time consuming than expected. We are making progress and hope to

sign our first PPA in 2020.

- Acceleration of renewables uptake in the supply chain takes time and requires suppliers to be motivated to make changes that sometimes involve short-term costs. We are investigating solutions to this challenge, for example incentivisation through innovative financing models, educating suppliers on the benefits of renewable energy, and continuing to advocate for relevant policy incentives where possible. Collaboration with our competitors will become even more important.

Priority 3: Circularity

Moving towards a fully circular business is a key contributor to our climate positive goal. Read more about our [approach to circularity](#).

Priority 4: Technological & natural carbon sinks

Carbon sinks are systems or environments that absorb more carbon dioxide than they emit. They can be natural, such as forests, or technological — for example, a process that captures methane or other greenhouse gas, which can then be converted into usable products such as plastic or synthetic fibres. They will be an important contributor to achieving our carbon positive goal, as well as offering

opportunities to reduce greenhouse gases from outside our value chain.

This can be a challenging area in which to find scalable solutions. We continue to collaborate with others to find the right strategic approach and move solutions forward in two areas:

- **Natural carbon sinks.** Preserving and utilising existing nature-based mechanisms for absorbing greenhouse gases, for example by protecting valuable biomass (such as rainforests) and investing in sustainable agriculture.
- **Technological carbon sinks.** Exploring and developing technological innovations that absorb existing greenhouse gases and turn them into new products and materials.

2019 progress & highlights

- To help preserve the natural carbon sinks in the forests of Cambodia, we continued our partnership with French nongovernmental organisation Geres. The partnership explored the possibility of using rice husk briquettes as an alternative to firewood for fuel in the garment sector. The final report confirmed technical feasibility but highlighted the need for additional financial incentives to make the switch to briquettes a viable option.

Learnings & future focus

- We completed the pilot of the SCALE (Supply Chain Landscape approach) programme in the Eastern Plains Landscape (EPL) of Cambodia, in partnership with WWF. The aim was to explore a landscape investment approach to transforming the textile industry and energy supply chains. The project revealed challenges and opportunities for investing in natural carbon sinks, but we have decided not to continue our involvement in future stages of SCALE. More work to strengthen government policy on deforestation is needed to ensure such investments are viable, and the links between the EPL region and our own supply chain are not clear enough for us to continue participation. We will seek opportunities to invest in similar projects with a closer connection to our supply chain, and look forward to further collaborations with WWF as part of our continuing partnership.
- Progress in this area is an ongoing challenge, and we will continue to collaborate with others to explore stable long-term solutions for both natural and technological carbon sinks. We are working to formalise our carbon sinks strategy — to systematically investigate new opportunities, and advance the way we measure and follow-up opportunities.



Water

Go to our key [water data](#).

Water crises are in the top 10 [global risks](#), yet the fashion industry uses billions of cubic metres of water each year. This is not sustainable. We must accept responsibility as a sector for our water-related impacts and do all we can to minimise them. Water scarcity also has strong links to many other global social and environmental issues, including climate change, health, biodiversity, and human rights — and is recognised as one of our [salient human rights issues](#).

For more than a decade, we have worked to reduce water impacts across our value chain. Our water stewardship strategy addresses large-scale and local impacts. It focuses on water awareness throughout our value chain, impact measurement, water efficiency, stakeholder engagement, and working with policy makers to advocate for sustainable water management at basins. Learn more about our [water journey](#).

We deliver and measure progress towards our strategy using the following tools:

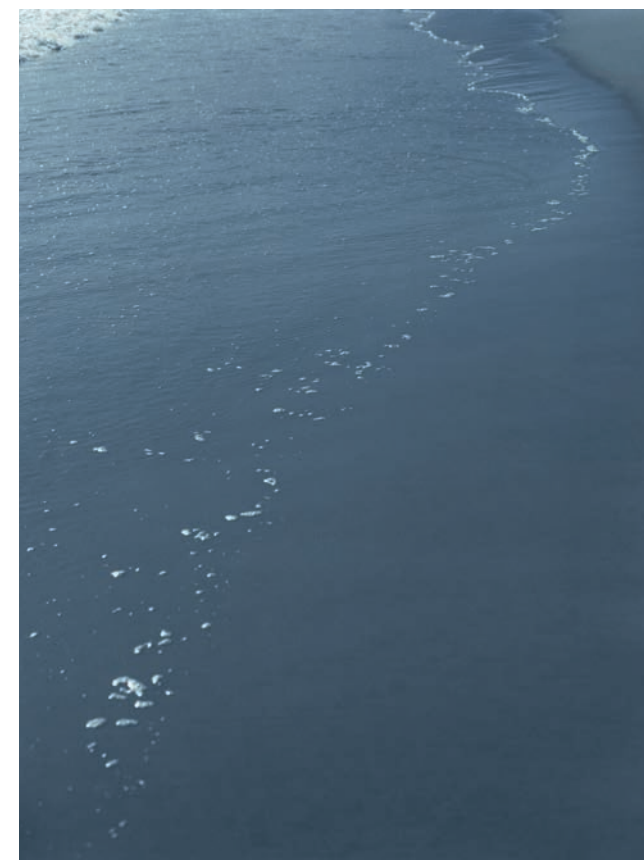
- **[Water roadmap 2018–2022](#)**. Our roadmap describes our goals and actions in the areas of water quantity, water quality, water circularity,

collective action and communication with suppliers.

- **Risk assessment**. We use WWF's [water risk filter](#) to assess the overall impact of water in our value chain.
- **Deployment of new recycling solutions**. We analyse feasibility and introduce new water recycling solutions for textile production processes to aid the recycling of wastewater.
- **Collaboration**. Water is a key focus of our [partnership with WWF](#), which began in 2011. We also work with industry groups to accelerate wider progress on water use and wastewater discharges. Examples include our work with [Zero Discharge of Hazardous Chemicals](#) (ZDHC) and alignment of our ambitions with the Sustainable Apparel Coalition (SAC) Higg Facility Environment Module.

Our water management requirements for suppliers specify standards to ensure appropriate water management systems are implemented in our supply chain. This requirement has three levels: legal compliance; minimum requirements (including metering, and wastewater treatment functionality

and quality) and aspirational requirements (including best practices for reduction in use, quality improvements and increased circularity of water use).



2019 progress & highlights

- We have installed water-efficient equipment in 67% of our own stores. Our goal is to install water-efficient equipment across all of our own operations by 2020.
- Our suppliers achieved a reduction in production water usage of 7% compared to 2017 baseline.
- We supported WRG2030 to conduct a high-level assessment of groundwater sustainability in the Greater Dhaka Area (GDA) of Bangladesh. The findings will help to ensure impactful decisions for long-term planning of groundwater management in the basin, and should aid government development of relevant water conservation and management policies.
- We were one of 25 brands to meet with WWF in Turkey to commit to collective action for sustainability and cleaner production in the textile sector, with a particular focus on the Buyuk Menderes and Ergene regions. The project has so far led to the launch of a Guide for Cleaner Production in the Textile Sector, which ranks best practices in manufacturing and describes methods for implementing cleaner production.



Learnings & future focus

- Water is a local as well as a global issue, and we need to do more to understand our local water risks and contexts. We are working with WWF to do this and, by 2022, we will use this work to set basin-specific science-based water targets, while continuing to work towards our current water roadmap goals.
- The textile and apparel sector is water intensive, but there are opportunities for innovation in the manufacturing process to reduce water use and improve water recycling. We will continue to seek new solutions to test and scale within our supply chain. Partnerships and collaboration can enable us to find these new innovations, and are a vital path towards developing much-needed industrywide and cross-sector solutions.
- Water is not viewed as a valuable resource in many countries, which leads to it being under-priced and overused. We support initiatives — such as the Bangladesh government's Water Valuation Study — that seek to develop a realistic operational price for water, so that its true value can be factored into public and private sector plans and projects.

Our approach to circularity

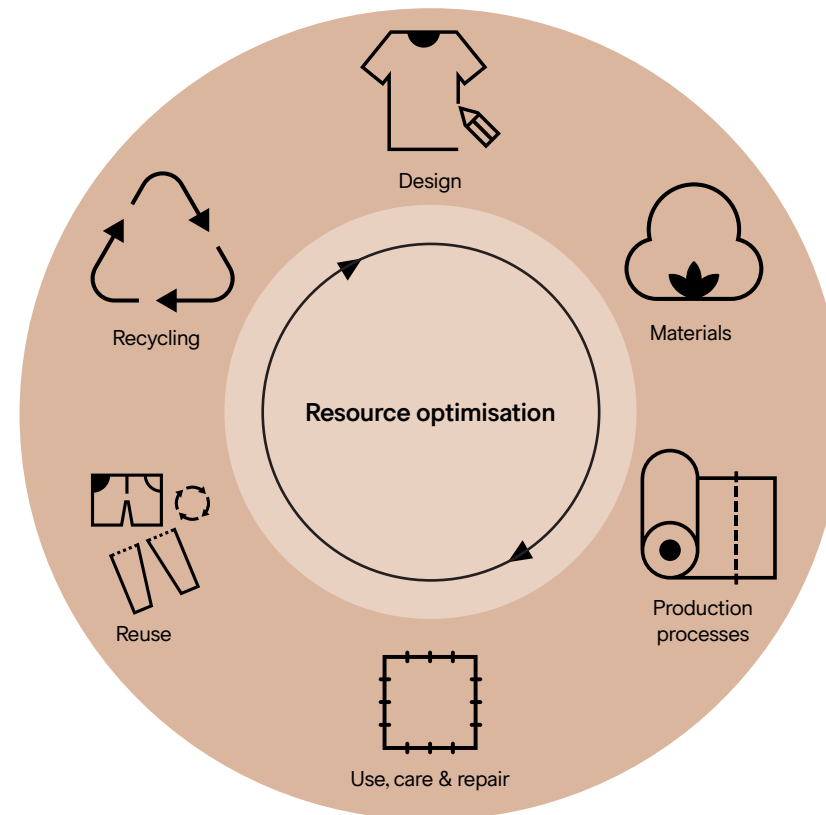
Our ambition is to become a fully circular business within our entire value chain. This means we move from a linear model – take, use, waste – to a circular model where we maximise resource use and reuse, and where nothing is wasted. This circular strategy applies to our products, as well as to our non-commercial goods such as packaging and items used in store interiors, offices and other buildings.

A circular business model, an aspiration in its own right, is fundamental to achieving our 2040 climate positive goal.

Innovation drives our circularity efforts. We're rethinking how products are made and used, and then reused. We are developing new ways to repair, repurpose and recycle goods wherever possible and encouraging our customers to join us on this journey.

Collaboration with others is vital to our success, as well as to the long-term sustainability of the entire industry. That's why we partner with organisations such as the [Ellen MacArthur Foundation](#) and its [Make Fashion Circular](#) initiative, and the [New Plastics Economy initiative](#). We seek to work with policy makers to create legislation that enables a circular fashion industry.

Our circular approach



Design

Design is our first opportunity to build circular principles into our value chain — including our products, packaging and buildings. It means designing with the end purpose in mind: building-in quality and durability, ensuring safe chemical input, assessing materials and production processes used, and maximising the life of each product. Every design decision affects how a product can be used, reused and recycled.

Each H&M Group brand has a team of designers responsible for setting the direction of their collections and products. To ensure a consistent approach, we are working to develop standardised circular principles for use throughout the design process. Our designers use artificial intelligence, data analysis programmes, and 3D visualisation to reduce production waste — saving materials, time and energy throughout the design process. Our virtual showrooms enable us to assess samples remotely, shortening lead times and avoiding unnecessary transportation of goods.

We work to ensure quality and durability for everything we make, guided by purpose of the product and always to maximise product life. Our global quality department works to improve product

quality for the H&M Group, and we are updating our groupwide quality and durability standards to connect them to our circular design strategy.

2019 progress & highlights

- We have started to formalise circular design principles for commercial goods, working initially with the H&M brand and Monki, as well as external partners such as the sustainable change agency [circular.fashion](#) and the Ellen MacArthur Foundation. Read more about our circular approach to [packaging](#) and [non-commercial goods](#).
- H&M and Weekday joined the Make Fashion Circular [Jeans Redesign](#) project, which provides specific guidelines for jeans manufacturing, based on the principles of a circular economy.
- Weekday partnered with start-up [unspun](#) and the H&M Group Laboratory (our in-house think tank) to develop [jeans made on-demand](#), which will reduce waste and ensure longevity by providing customers with custom-made products

- We continued to educate our product development teams in the use of 3D tools to accelerate the design process and reduce the need for physical samples.

Learnings & future focus

- Circular design is not only about optimising resource use — it includes maximising value for our customers. These will be our two constant aims as we finalise our circular design principles and supporting guidelines. Each H&M Group brand will tailor the principles in the context of their own unique design process.



Materials

Go to our key [materials data](#).

Material choice is central to the sustainability and circularity of all our products. Our goal is to source 100% recycled or other sustainably sourced materials by 2030. Our approach is supported by our [sourcing policies](#).

We evaluate and verify our materials by using:

- Third-party verified lifecycle assessment (LCA) data.
- External material benchmarks based on LCA data, such as the Sustainable Apparel Coalition's Material Sustainability Index.
- Credible third-party certification schemes, including organic and recycled standards, and material-specific verification initiatives.

Scalable recycling processes and commercially viable new materials can be challenging to find. We look for innovative new materials and processes to integrate into our value chain, including through:

- Collaborating with industry experts to identify, optimise, accelerate and promote sustainable materials.
- Investing in start-ups developing promising innovations through CO:LAB, our investment

arm. We made a new 2019 investment in [Infinited Fiber Company](#) and a follow-on investment in [Re:newcell](#). We also bought a majority stake in [Sellpy](#).

- Testing new materials and processes at our [Circular Innovation Lab](#).
- Working with previous winners of the H&M Foundation's [Global Change Award](#) to develop new materials and processes.
- Engaging with the H&M Foundation's [recycling programme](#) with the Hong Kong Research Institute of Textiles and Apparel ([HKRITA](#)) and European Union project [DEMETO](#) to accelerate improvements in recycling technology.

Overall progress in 2019

- In 2019, we achieved just over 57% recycled or other sustainably sourced materials. This is a slight increase from 2018. This year we increased the share of recycled content from 1.4% to 2.2%, reducing the proportion of new materials present in our products. We want to increase this further by scaling the use of recycled materials going forward. We also bought less cotton by volume,*

which reduced the proportion of this particular sustainably sourced material in our products. But we know we need to stay focused on making larger gains in future years to reach our goal of 100% recycled or other sustainably sourced materials by 2030 — for example by continuing to develop innovative textiles and working on scalable recycling solutions.

- The Textile Exchange's Corporate Fiber & Materials Benchmark programme includes the [Material Change Index](#) (MCI) which tracks the apparel, footwear and home textile sector's progress towards more sustainable materials sourcing, as well as alignment with the global Sustainable Development Goals and the transition to a circular economy. H&M Group was one of 16 leading companies out of the 170 analysed.
- H&M Group was ranked third in the 2019 Sustainable Cotton Ranking.

*The lower volume of cotton bought in 2019 was partly as a result of improved planning and forecasting, enabling us to better match the required amount of material to actual customer demand.

Recycled materials

Recycling gives used fabrics a new life as resources rather than being destroyed or landfilled. Recycled fibres reduce consumption of virgin raw materials, and lower the use of chemicals, energy and water. We use many recycled materials including cotton, polyester, wool, nylon, plastic, down and feathers, cashmere, and silver. We are always trying to maximise the recycled content of our collections, and to invest in new technologies to accelerate progress. For example, our ambition is to move away from all virgin polyester and only use recycled polyester by the latest 2030.

Read more about our effort to increase [product reuse and recycling](#).

2019 progress & highlights

— Our Circular Innovation Lab ran a pilot project with [Infinited Fiber Company](#), which led to a subsequent CO:LAB investment and to a first proof of concept of a sustainable cellulosic fibre made from recycled cotton textiles. Weekday created two [showcase pieces](#) with this cotton-like fabric made from used textiles. We are looking into how to scale this initiative.

— We always have products in our collections that contain recycled material. Highlights for 2019 include:

- **ARKET:** recycled nylon “Econyl” and recycled down.
- **H&M:** recycled cotton in denim products, and a range of recycled materials (e.g. polyester, wool, cashmere) in the Autumn 2019 Conscious Exclusive collection.
- **H&M Home:** various products, including recycled cotton and recycled polyester rugs.
- **Monki:** recycled polyamide and recycled polyester swimwear.
- **Weekday:** recycled cotton, cotton dye and polyester in the Recover collection, as well as recycled plastic sunglasses, and swimwear made from recycled polyamide and polyester.

Learnings & future focus

— Recycling technology is still not available at scale for most of our fibres or for blended fibres. We’ll continue to focus on investing and collaborating with start-ups, peers, and organisations such as

the [Hong Kong Research Institute of Textiles and Apparel](#) (HKRITA) to accelerate progress in this area.

H&M Foundation

Find out more about the non-profit H&M Foundation’s [recycling programme](#) with the Hong Kong Research Institute of Textiles and Apparel.



Sustainably sourced materials

We seek to source only materials sourced in a way that does not harm the environment or undermine human rights. We take a progressive approach to sustainable sourcing, evaluating materials regularly to adapt to the latest scientific understanding. We aim to source materials that have the potential to be recycled or regenerated for use in closed-loop systems. Read our full definition of “[sustainably sourced](#)”.

Cotton

Cotton is a natural, renewable and biodegradable fibre, but it is also chemical- and water-intensive and can present risks of forced labour and child labour. We joined the [Better Cotton Initiative](#) (BCI) in 2010, to contribute to making cotton production more socially and environmentally sustainable. Since then we have been working to ensure all our cotton is sourced more sustainably — either through the BCI, recycled, or organic. Read more about our [cotton journey](#).

We are close to achieving our goal of 100% recycled, organic or sustainably sourced cotton by 2020, and we're now working to continue raising the bar for sustainable cotton. We won't source conventional cotton for collections from

2020 onwards.

The market for organic cotton is currently under-developed, and as a founding member of the [Organic Cotton Accelerator](#) (OCA), we work to further strengthen the supply, demand and integrity of organic cotton. Learn more about our work with [cotton](#).

2019 progress & highlights

- We reached 97% recycled or other sustainably sourced cotton.
- Our sourcing of BCI cotton contributed to an estimated:
 - 32.7 billion gallons of water saved.*
 - 80,000kg pesticides avoided.
 - 42.6 million USD additional profit for BCI farmers.**
- We started work on our new cotton strategy and roadmap, with a focus on increasing our recycled cotton share, finding alternatives to virgin cotton and continually working towards stronger industry standards for both organic and BCI cotton.

— ARKET moved to 100% organic cotton for its jeans, and worked with [Oritain](#) on a traceability pilot on yarn samples from one of its cotton suppliers.

Wood-based materials & man-made cellulosic fibres

Forests are the source of many important materials for our products and packaging, including wood, paper, board, and man-made cellulosic (MMC) fibres such as viscose and lyocell. Responsibly sourcing wood-based materials is essential to avoid contributing to the rapid destruction of some of the world's most precious ecosystems.

Our Material Ethics Policy obliges us to avoid wood-based materials from:

- Forests with threatened high-conservation values.
- Forest areas that have been illegally harvested, or where traditional or civil rights have been violated.
- Natural forests cleared for plantations or other uses.

*Water savings relate to blue water use (irrigation). This relates to farmer inputs, and no other forms of water use.

**BCI farmers experience profit increases for a variety of reasons, most commonly due to increased yields and/or optimised use of inputs (such as irrigation water, pesticides or synthetic fertiliser).

MMC fibres — made by dissolving wood pulp — are an important group of materials for our products, but there is more work to do to ensure a sustainable supply chain. Through the [CanopyStyle](#) initiative, we work with Canopy and almost 200 brands from our industry to:

- Eliminate MMC fibres sourced from ancient or endangered forests.
- Support the development of next-generation fibres from sources such as agricultural residues and recycled textiles.

We have signed the [Roadmap](#) towards responsible viscose and modal fibre manufacturing along with others in our industry.

2019 progress & highlights

- Together with other brands and in line with the goals of the new [Zero Discharge of Hazardous Chemicals](#) (ZDHC) and Canopy collaboration, we have committed to supporting only producers of viscose and other MMC fibres found to have good environmental practices, such as closed-loop processing of water and chemicals. We worked with the [MMCF Brand Round Table Group](#) to develop a self-assessment questionnaire for our viscose producers, to help us progress towards our MMC fibre goals.
- Since January 2019, we've have been part of a

WWF project in Borneo, Indonesia. The goal is to strengthen local communities to produce and market responsible rattan products and connect to our supply chain. Using rattan, a climbing vine-like palm that needs trees to grow, creates business opportunities for people, whilst conserving the forest and benefiting biodiversity. The project is currently planned to run to November 2020.

- Following our 2017 CO:LAB investment, we continued work to support [Re:newcell](#) to develop its Circulose fibre — made from recycled cotton — launching the first product using this breakthrough technology in early 2020.

Wool

Because of its unique properties, wool is an important fibre for many of our brands, but its production can be associated with unsustainable or unethical practices.

As part of the [Responsible Cashmere Roundtable](#), we continue to support the reduction of social and environmental impacts of cashmere production in Mongolia. We are investigating innovative alternatives to virgin cashmere as well as increasing the share of recycled cashmere in our products.

2019 progress & highlights

- We have now phased out mohair from our

Our materials goals

Our goal is to source 100% recycled or other sustainably sourced materials by 2030.

- **Cotton.** 100% recycled, certified organic or sustainably sourced cotton by 2020.
- **Wood-based materials.** By the end of 2025, all wood used in our products and packaging will be made of Forest Stewardship Council (FSC) certified materials, or fibres from alternative sources such as agricultural residues and post-consumer textiles.
- **MMC fibres.** By 2025, we will only use producers of viscose and other MMC fibres found to have good environmental practices, such as closed-loop processing of water and chemicals.
- **Wool.** By 2022, we will only source our virgin wool from farms certified to the Responsible Wool Standard (RWS).
- **Leather.** By 2025, all our animal-based leather will be chrome-free and originate from more responsible sources.

products. In 2019, we began to phase out conventional cashmere. In 2020, we will start sourcing cashmere through Aid by Trade Foundation's new [Good Cashmere](#) standard, which includes criteria for animal welfare, social criteria and ecological sustainability.

- We increased our use of RWS compliant wool to 11.6% and will scale up our sourcing of RWS certified wool towards our 2022 goal.
- 100% of our wool supply chain has been briefed on the new RWS.

Leather

We aim to source animal-derived leather used in our products only from sources that proactively address environmental, social and animal welfare impacts — including phasing out chromium in the leather we source. Collaboration with the industry enables us to work towards a more responsible leather supply chain with higher levels of traceability. We are part of the [Responsible Leather Round Table](#) and the [Leather Working Group](#) — including its animal welfare subgroup. We are integrating tanneries into our supply chain sustainability assessments.

Due to the sustainability challenges associated with all stages of the leather value chain, we look for alternatives to leather where possible, including

plant-based and other bio-based materials — for example Piñatex® (see right).

2019 progress & highlights

- Approximately 57% of our footwear, bags and belts were produced with chrome-free tanned leather (including full vegetable tanned leather and metal free leather).
- Due to the high risk of indirectly contributing to deforestation of the Amazon rainforest, we decided to stop sourcing hides and leather from Brazil in 2019. We are improving traceability in the leather supply chain. We are also pushing for more reliable systems that provide detailed information about leather origin, and help us to source from more responsible suppliers and farms.

Other sustainably sourced materials

All the virgin down in our products comes from farms that are [Responsible Down Standard](#) (RDS) certified. We invest in and seek out other sustainably sourced materials derived from natural materials. For example, we are members of [EFFECTIVE](#),* an EU-funded multi-national research project developing bio-based polyamide (nylon) fibres to replace synthetic oil-based materials.

2019 progress & highlights

- New sustainable materials launched through our collections include:
 - **BLOOM™**: flexible foam partly made from algae biomass (ARKET and H&M).
 - **Orange Fiber®**: made from citrus peel left over from juice production (H&M).
 - **Piñatex®**: made from pineapple leaf fibres, a by-product of agricultural processes (& Other Stories and H&M).
- & Other Stories launched a jewellery collection in collaboration with designer Mia Larsson, using discarded oyster shells to create unique pieces.

Learnings & future focus

- The commercialisation of new materials is challenging and we need to work harder to find viable solutions for scaling recycled and other sustainably sourced materials. We will continue to prototype and test promising innovations through our partnerships, investments, and Circular Innovation Lab.

*This project has received funding from the Bio-Based Industries Joint Undertaking (JU) under grant agreement No 792195. The JU receives support from the European Union's Horizon 2020 research and innovation programme and the Bio-Based Industries Consortium.

Microfibres

When synthetic fabrics are washed, they release tiny fibres — microfibres — into water systems, which eventually end up in oceans. There, these tiny plastic particles disturb natural ecosystems and enter the food chain. This is a significant issue for the fashion industry. Each year approximately half a million tonnes of microfibres enter the ocean from clothes washing at both the production stage and during customer use.

We are committed to researching and addressing the issue of microfibres through each stage of our value chain, including:

- Designing yarns and fabrics to minimise microfibre shedding, and seeking alternative materials.
- Investigating new production processes and requirements to minimise shedding.
- Providing customers with repair services and microfibre-reducing laundry bags, as well as supporting the development of laundry machine filter systems.
- Developing technologies to enable reuse and recycling.

We are part of the [MinShed](#) project led by Swedish

research group [RISE](#). The project helps the textile industry design clothes made of synthetic fabrics that don't emit microplastics. As signatories to the [Fashion Pact](#), we are committed to reducing our impacts on oceans. Read more about our [microfibres work](#).

2019 progress & highlights

- We joined [The Microfibre Consortium](#) (TMC) as associate members. TMC facilitates the development of practical solutions for the textile industry to minimise microfibre release across the product lifecycle.
- We initiated a 24-month research project — A Management Tool for Microplastics from Textile Production Process — together with the Hong Kong Research Institute of Textiles and Apparel (HKRITA). This project studies the release of microplastics, and their management in textile manufacturing processes.
- We continued to roll out laundry bags that specialise in filtering microfibres to reduce their release into water systems — these are currently offered by ARKET and H&M.

Learnings & future focus

- Tools such as laundry bags do not provide a long-term solution to microfibre emissions. We know we need to continue to research new materials and processes that prevent shedding, rather than removing microfibres during the washing cycle. We closely monitor the development of potential alternatives to current synthetic fabrics, including biodegradable fibres.
- Collaborative approaches increase our understanding of microfibres and support broader industry alignment. We will continue to engage in projects and initiatives that contribute to limit and prevent microfibre emissions.

Chemicals

Go to our key [chemicals data](#).

Circular, toxic-free fashion requires safe chemicals. We are signatory members of the [Zero Discharge of Hazardous Chemicals](#) (ZDHC) programme and are active in all three workstreams — input, process and output. In 2011 we signed the ZDHC commitment to achieve zero discharge of hazardous chemicals from our textile and leather supply chains by 2020.

Reaching this goal demands that we ensure good chemical management in our production processes and use best in class chemicals. To identify safer alternatives we have adopted Screened Chemistry, a hazard-based scoring system. The development of shared industry tools and standards is essential to making progress — including a common Restricted Substances List (RSL) and Manufacturing Restricted Substances List (MRSL).

Our [chemical management roadmap](#) includes goals for zero discharge, 100% traceability, and 100% toxic free fashion.

Our memberships include:

- **AFIRM**: In 2020 we will adopt the AFIRM RSL.
- **The ChemSec Business Group**: Through this group, we share our learning experiences from the textile industry and gain deeper insights about

chemical management in other product categories such as toys, electronics and furniture.

- **POPFREE**: Our cosmetic chemist team participates in this project to phase out PFAS from cosmetics products. We reached this goal for the whole H&M Group cosmetic assortment in 2018.*
- **ZDHC**: (see above).

2019 progress and highlights

- 100% of our textile and leather supply chain (over 600 suppliers) are now enrolled in the ZDHC programme, achieving 80% compliance of the ZDHC MRSL.**
- Partnering with IKEA, we launched a [large-scale study](#) to review the chemical content in pre- and post-consumer textile recycling. With over 8,000 tests conducted, H&M Group will have a better opportunity to develop an action plan for the use of recycled textiles while meeting strict chemical and safety standards.
- We adopted ZDHC MRSL 2.0 and participated in setting the update process for this list to increase its robustness — it now includes input

from academia, NGOs, and chemical industry representatives, all with an equal say.

- We joined the new [ZDHC Safer Chemistry Task Team](#) — members will share Safer Chemistry approaches with aim of developing a common method.
- We received an award at the annual ZDHC event for being an active and leading organisation within ZDHC.

Learnings & future focus

- Dialogue across the fashion and chemical industries is key to progress. We will continue to share our tools and learnings with peers through ZDHC and other initiatives to achieve industry alignment.
- We've learned that achieving 100% MRSL compliance requires us to share this goal widely within our own organisation, beyond those with a sustainability role — this will be a key focus for us in the coming year.

*Financed by Vinnova, the Swedish Innovation Agency, and managed by RISE, Research Institutes of Sweden.

**Based on hazardous discharge and MRSL compliance tracked by a new monitoring tool (BVe3) developed with Bureau Veritas.

Packaging

Go to our key [packaging data](#).

A linear packaging model has a big impact on the environment, particularly when plastic is involved. We're shifting to a circular model, accounting for each part of the packaging value chain — design, materials, production, use, reuse, and recycling.

Our [circular packaging strategy](#) — developed in collaboration with the [Ellen MacArthur Foundation](#) — guides our approach and goals in four areas: packaging reduction, circular design, material choice, and reuse and recycling. Our packaging-specific restricted substances list (RSL) for suppliers restricts the use of potentially harmful chemicals in packing materials.

The increased global focus on avoiding single use plastic has provided a clear call to action. We are a signatory and a working group member of the [New Plastics Economy initiative](#) and [Global Commitment](#). We support the Canopy initiative [Pack4Good](#) — read our [commitment](#) — and have signed the Fashion Pact, which includes a focus on reducing ocean impacts from plastic pollution.

Our packaging goals

- Reduce packaging across the value chain by 25% by 2025 (2018 baseline).
- All packaging should be designed to be reusable, recyclable or compostable by 2025.
- 100% of packaging made from recycled or other sustainably sourced material by 2030, with a preference for recycled materials where possible.
- Reuse or recycle 100% of packaging waste from our own sites by 2025.

New Plastics Economy 2025 goals

- 100% reusable, recyclable, or compostable plastic packaging.
- Reduce plastic packaging by 25%.
- 25% post recycled plastic across all packaging used.
- Take action to eliminate all unnecessary and problematic plastic.
- Take action to move from single-use towards reuse models where relevant.



2019 progress & highlights

- We have collected [data](#) and set a baseline for all packaging and have begun measuring packaging circularity using a tool developed with the Ellen MacArthur Foundation.
- We started to develop a groupwide circular design guideline for all packaging.
- In collaboration with international design firm [IDEO](#), we are creating a sustainable, cost-conscious e-commerce packaging system, suitable for use by all our brands. Learn more [here](#).
- We eliminated plastic shopping bags and replaced them with 100% [Forest Stewardship Council](#) (FSC) certified paper bags. To reduce the overall number of bags used, we charge for the paper bags in many markets, and several of our brands offer reusable shopping bag alternatives.
- We started a project looking at how to reduce the usage of polybags, with the goal to fully eliminate them. We also began to pilot paper-based alternatives.
- In collaboration with Finnish start-up [RePack](#) and the H&M Group Laboratory, Weekday tested a new reusable packaging system for their print on-demand online shop. Customers get a discount

for returning their packaging via postal service or in-store drop off — the RePack is then cleaned and reused.

- Other brands all made progress by implementing a variety of packaging changes. For example, & Other Stories and ARKET offer in-store take back of their own packaging, and H&M eliminated plastic hangtags and hygiene stickers. Every H&M Group brand has set its own packaging roadmap based on our circular packaging strategy.

Learnings & future focus

- We're learning that a collaborative approach to achieving circular packaging is essential if we are to make progress as an industry. We'll continue to work with initiatives like the [New Plastics Economy Global Commitment](#) to track KPIs and build an effective, low impact packaging system for the fashion industry.
- We are focused on eliminating all problematic and unnecessary plastic by using alternative materials. We are accelerating our work with reuse models and working towards packaging that can be recycled at scale.



Circular built environment

Alongside circular products and packaging, we want our stores, distribution centres and offices to be built and run in a fully circular way. We're extending our approach to circular buildings into a comprehensive circular built environment strategy, which we expect to finalise in 2020. This will initially be applicable to our stores, with plans to extend coverage to our distribution centres and offices in the future.

We are evolving our approach to circular building by continuing to collaborate with our external partners such as the Ellen MacArthur Foundation and their built environment knowledge partner, advisory firm [Arup](#).

2019 progress & highlights

- We have integrated tools into our business system that allow us to assess the circularity of non-commercial goods,* suppliers, products and store formats — including gathering baseline circularity data for all suppliers and educating them in the use of the tools. All non-commercial goods designed and developed for H&M are now measured and designed according to circular principles. We plan to roll this out to other brands,

starting with all interior, visual and marketing products and suppliers.

- We delivered circular built environment training to relevant colleagues, with face-to-face workshops co-hosted with the Ellen MacArthur Foundation, and e-learning also provided by the Ellen MacArthur Foundation. Participants included architects and engineers working with all H&M Group brands, as well as buyers, project leaders, construction and management teams, and the packaging strategy network.
- We engaged all relevant business functions and brands in the continued effort to develop our circular built environment strategy.
- Both H&M and COS apply several circular principles to the design of new or refurbished stores. For example, the new COS Luxembourg store used bricks made from a minimum of 60% construction waste, resulting in the recycling of more than 8.9 tonnes of material.

Learnings & future focus

- To achieve a fully circular built environment, we need to be more innovative in our design, material choice, maintenance and building processes. Our priority is to test new materials, formats and layouts in a measurable way, feeding the learning into our emerging circular built environment strategy. We will continue to seek external expertise, as well as educating the people involved in our design, construction, and maintenance in circular economy principles and practicalities.
- The initial results from assessing the circularity of our supplier base have given us insights and understanding into the areas we need to prioritise and focus on going forward, including interior products and store programmes.

*Non-commercial goods include packaging and items used in store interiors, offices and other buildings.

Maximising product life

Go to our key [product data](#).

True circularity means a product is never thrown away, but is repaired, refurbished, reused as many times as possible, or — as a last resort — recycled into something new. Currently, more than 70% of clothes purchased globally are estimated to be landfilled or destroyed. This is unacceptable and unsustainable. We are determined to lead the industry towards a new way of doing business, where customers can feel good about their clothes and where no textiles end up as waste.

We test and scale new tools, processes, and services that make optimal use of the resources in our products — enabling customers to maximise product life and minimise waste. Learn more about some of our [innovative business models](#).

Product use & repair

Creating long-lasting products starts with [design](#) choices about fabric, construction, quality and durability. Once a customer owns one of our products, we want to empower them to care for and use it sustainably. This includes providing information about garment care and using the Clevercare label, which encourages lower wash temperatures and hang drying instead of tumble drying.

Our brands use a range of initiatives to prolong product life, including H&M's Take Care concept and new pilots offering customisation to customers — so they can keep their wardrobe up to date and be confident their clothes won't wear out.

2019 progress & highlights

— H&M launched Take Care inspiration and advice services [online](#) for digital markets where in-store services already exist, and expanded in-store services to Austria, Finland, and the Netherlands. In the Netherlands and Finland, the focus is on pop-up services and local collaborations. In Sweden, partnerships with social enterprises [Yalla Trappan](#) (Malmö) and [Yalla Hjällbo](#) (Gothenburg) offer sewing services to customers, while providing work to migrant workers and women who would otherwise find it challenging to access the job market. Also in 2019, H&M:

- Began removing plastic from the Take Care product range, which includes laundry products, sewing kits and patches.
- Tested different localised versions of Take Care repair and remake services, with the aim

of refining the concept to maximise customer uptake.

- We tested several initiatives to encourage customers to choose unique products they will want to keep for longer:
 - Monki continued their 'Jeanious hacks' series, which inspires customers to add a creative twist and give new life to their denim products.
 - In partnership with the H&M Group Laboratory, Weekday tested [custom-made denim](#), for delivery within two weeks, and a print-on-demand online workshop where customers choose a base product and print for delivery within 2–3 days.
 - We launched other made-on-demand pilots such as Datamade — a project using citywide data in Berlin to produce small batch collections using only available materials.
- Other initiatives from our brands included the launch of an alteration service at COS's Seoul store in South Korea, eco-friendly detergents from ARKET and Afound, and continuation of Monki's [Lazy Loop](#) initiative to promote product care.

Learnings & future focus

- There has been a greater demand for our repair and remake services than we anticipated. It's clear our customers appreciate our accessible, fashion-orientated, locally relevant offerings, and we need to do more to communicate the positive impact they can have by using Take Care and other services. We'll carry on working to make the concept of sustainable fashion feel inspiring as we further expand Take Care and other new business models to bring more options for maximising product life to our customers.

Product reuse & recycling

We explore models for product reuse that are commercially viable and that enable a single product to have multiple lives — including rental and recommerce. Through our partnership with I:CO we continue to focus on garment collection initiatives across our brands, providing customers with easy options for reusing and recycling clothes and shoes.

To increase the amount of recycled fabric that returns to our own collections, we invest and engage in solutions for scalable recycling, and we constantly work to increase the amount of textile-to-textile recycled materials in our products.

2019 progress & highlights

- Following a 2015 CO:LAB investment in Sellpy — a Swedish web-based re-sell platform — & Other Stories and Afound partnered with Sellpy to trial sale of a selection of pre-used products. To enable further scale-up of this approach, H&M Group (through CO:LAB) bought a majority stake in Sellpy during 2019. Weekday also tested a new re-commerce model in-store — this was successful and will be expanded to more stores in 2020.
- H&M launched a new flagship store in Stockholm, Sweden that includes trialling a small-scale rental service for Hello Member club members, featuring popular items from the Conscious Exclusive collections.
- COS partnered with market-leading platform Ycloset in China, offering subscriptions to rent clothes rather than buying new.
- Other initiatives from our brands included in-store swapping events and flea markets (Monki and Weekday), and in-store activities to highlight pre-loved items (& Other Stories, Afound, H&M).
- Brands expanded their garment collection services, including expansion to footwear (ARKET), increased in-store communications (H&M) and overall increases in volumes collected. Across all brands, we collected 29,005 tonnes of garments

— an increase of 40% from 2018, and reaching our goal of 25,000 tonnes annually a year early. Of the garments collected:

- 50–60% are sorted for re-wear or reuse.
- 35–45% are recycled to become products for other industries or made into new textile fibres.
- The remaining 3–7% that can't be reused or recycled are destroyed (prioritising incineration for energy recovery where possible). Sending textiles to landfill is not an option.

Learnings & future focus

- For meaningful impact, new business models must meet the growing demand from our customers with convenience and scale. Similarly, new processes such as sorting and recycling technologies and facilities have to be viable at scale for us to reach our ambition of full circularity. We think that our approach for testing new ideas and rolling out those that work is the right way to achieve sustainable change in both of these areas. We will continue to actively pursue promising collaborations and innovations to accelerate our journey towards becoming a fully circular business.

Minimising waste

Go to our [key waste data](#).

We imagine a circular future where the concept of waste is eliminated. We're not there yet, but we are making progress by focusing on four key areas:

- **Operational waste.** We aim to always reuse or recycle waste generated from our offices, stores and distribution centres, and to offer effective waste management and recycling facilities.
- **Production waste.** We are developing a strategy to better manage waste generated by our suppliers, focusing on reduction, reuse and recycling.
- **Faulty products.** We have a strict policy prohibiting destruction of any products that could be sold, used or recycled. If we know we cannot sell a product due to quality issues, we will give it to charity or recycle it. We never send clothes to landfill and only destroy them in very few cases,* where no other options are available.
- **Overstock.** We use predictive artificial intelligence tools to match demand with production as accurately as possible. We sell what we can in stores, if needed at a lower price. Where possible, we sell unsold items through Afound or use other external partners for reselling.

*Prioritising incineration for energy recovery where possible.

2019 progress & highlights

- 0.552% of our total product assortment was reused (including charity donations) or recycled due to the products being faulty (0.453% in 2018).
- 0.029% of our total product assortment was destroyed due to the products having failed certain chemical tests, were contaminated by mould, for example, during transportation, or when there was no viable recycling or downcycling solution available (0.052% in 2018).
- We initiated several pilot projects designed to avoid production waste and destruction of old or faulty products, including:
 - **Afound Objects.** A collection made from leftover materials and components from other H&M Group brands.
 - **COS Restore collection.** A selection of renewed previously damaged garments, in partnership with [The Renewal Workshop](#).
 - **H&M and Weekday.** Remanufacturing and sale of old stock, in partnership with the H&M Group Laboratory.

- 91.5% of waste handled in H&M Group distribution centres was recycled or reused.
- 62% of H&M Group stores have sufficient recycling systems in place.
- In partnership with H&M Foundation's [Global Change Award](#) winner [Reverse Resources](#), we began to map the production waste streams generated by our apparel supplier factories.

Learnings & future focus

- We are determined to find solutions to eliminate textile waste by scaling up promising pilot projects. For example, we have successfully trialled the removal of mould which can grow on fabrics in humid conditions during shipping. The next step is to look at how to roll the process out more widely. Projects like this take time, but could make a significant contribution to a circular fashion future.
- Our research will help us identify ways to reduce, reuse and recycle production waste, and in the coming year we will set specific milestones for managing production waste.

Key Circular & Climate Positive data

Climate

Key climate data	2016	2017	2018	2019
Total Scope 1 & 2 CO ₂ e emissions, including renewables (tonnes) ^{*****}	80,541	63,690	56,978	61,462
Energy use within our own operations (gigajoules), of which: ^{****}	5,219,718	5,893,266	6,186,278	6,229,012
Building diesel	3,241	3,791	4,355	7,963
Direct heating	43,347	98,921	134,801	175,691
Electricity ^{**}	4,995,002	5,575,996	5,841,296	5,820,887
Building natural gas, oil and others	178,128	214,558	205,826	224,472
Electricity use reduction per square metre and opening hour (2016 baseline, in comparable stores) ^{****}	n/a	-2.7%	-8.2%	-10.1%
CO ₂ e emissions in kilotonnes from transport and business travel ^{*****}	374	414	587	500
Suppliers enrolled in energy efficiency programmes	-	-	-	671
% renewable electricity in own operations ^{****}	96%	95%	96%	96%

^{*}Our GHG emissions accounting and reporting is aligned with the GHG protocol. Scope 2 emissions under the market-based approach is equal to 48,082 tonnes CO₂e. Under the location-based approach (using grid average emission factors), comparable to emission figures in our 2015, 2016, 2017 and 2018 reports, scope 2 emissions were 640,867 tonnes. For further details and data, please see our CDP Climate Change Investor Response 2019. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

^{**}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).

^{***}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).

^{****}An independent assurance statement related to this data is provided on page 83.

Emission scopes (from GHG Protocol)

Scope 1: All direct GHG emissions from our own operations.

Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations.

Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in Scope 2, outsourced activities, waste disposal. Includes emissions related to raw materials, fabric production, garment manufacturing, non-garment / non-commercial goods, and customer electricity usage.

Total Scope 1 & 2 CO₂e emissions, including renewables

Scope	2016	2017	2018	2019
Total Scope 1 CO ₂ e emissions, including renewables (tonnes)*	10,376	12,484	11,818	13,380
Total Scope 2 CO ₂ e emissions, including renewables (tonnes)*	70,165	51,206	45,160	48,082
Total Scope 1 & 2 CO ₂ e emissions, including renewables (tonnes)*	80,541	63,690	56,978	61,462

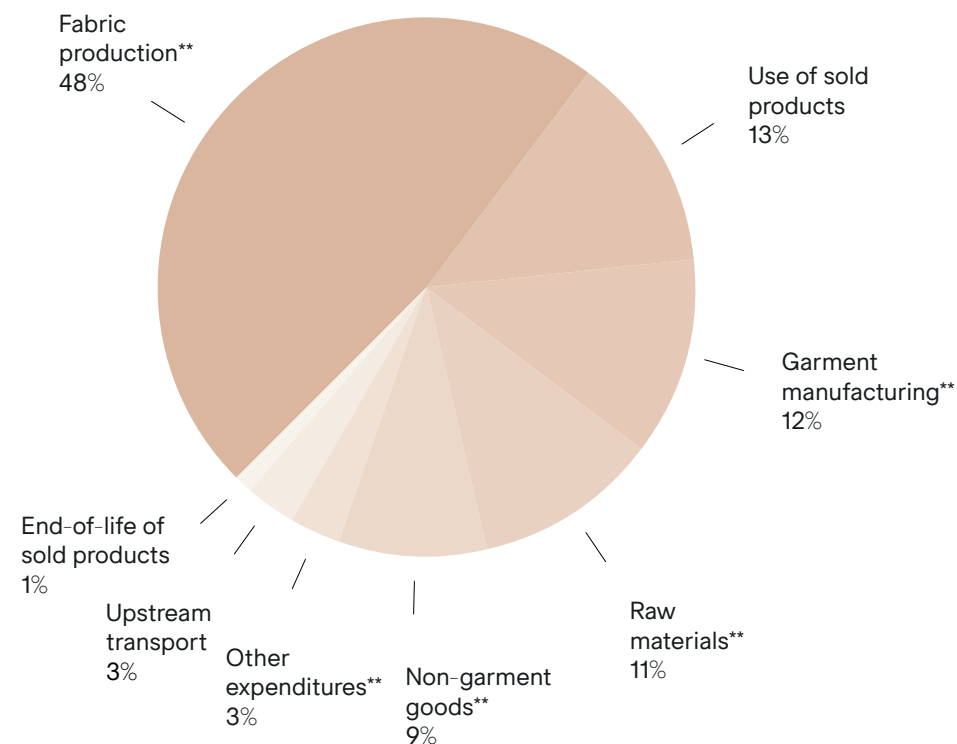
*An independent assurance statement related to this data is provided on page 83.

Our 2019 scope 3 emissions data

In 2019, we improved the accuracy of our emissions data by changing our calculation methodology, to align with the Sustainable Apparel Coalition Higg Index. We expect these upgrades to continue over the coming years. To ensure emissions are comparable year-on-year we will update our baseline accordingly. We expect further updates of LCA-data, emission factors and more real data. We will continue to be transparent on how we calculate, learn and adapt our approach as methods improve. [Read more](#) about our reporting scope and data.

Scope 3 CO₂e emissions*

Total (kilotonnes) 17,662, of which % comes from:



*Figures based on 2018 data. Categories are based on GHG Protocol. Number of products/spend is multiplied by approximate life-cycle assessment based conversion factors. Calculations in the footprint analysis are based on a combination of high-quality H&M group data and the best available public data sources on CO₂ emissions, using conservative assumptions. We have updated our emissions data to enable comparability between years, following improvements in data analysis – read more above. Other emissions include business travel, employee commuting, franchises, fuel & energy related activities, and waste generated in operations. When rounded, these other emissions make up 0% of total scope 3 emissions for 2019.

**GHG Protocol Category 1: Purchased products.

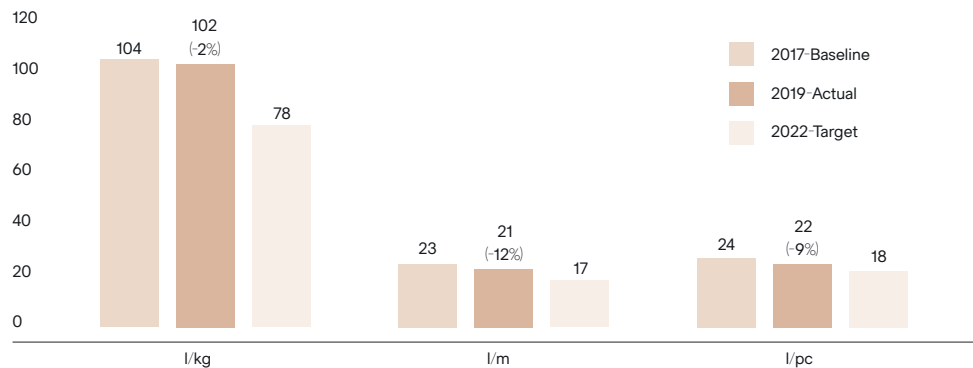
Water

Key water data	2018	2019	2022 Goal
Reduction of production water usage compared to 2017 baseline (l/kg, l/pc, l/m)* — see bar chart below	–	7%	25%
Effluent Treatment Plant (ETP) functionality assessments achieving green grade	93%	91%**	100%
ETP discharged water quality that is Zero Discharge of Hazardous Chemicals wastewater compliant (Foundation Level)	87%	93%	100%
Water recycled out of total production water consumption	–	13%	15%

*Manufacturing, fabric dyeing and printing suppliers with water intensive wet production.

**In 2019, 16 facilities in India become “Zero Liquid Discharge” and are now out of scope. 31 new units were added in 2019, 18 of which have a yellow grade ETP. These units have two years to achieve a green grade.

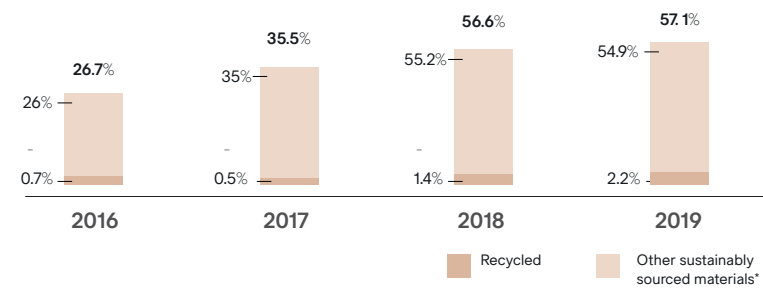
Change in production water efficiency*



*Includes manufacturing, fabric dyeing and printing suppliers with water intensive wet production. Based on performance data, reported by facility and calculated using weighted averages.

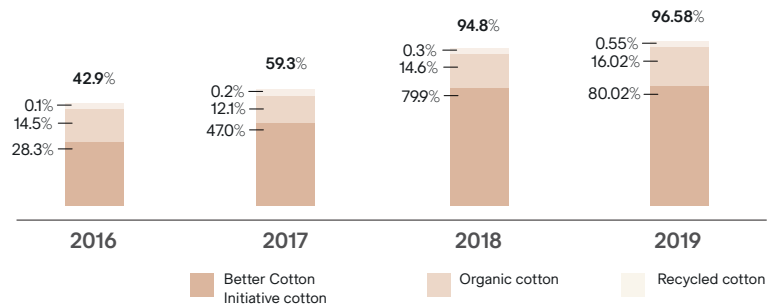
Materials

% recycled or other sustainably sourced materials



*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.

% sustainable cotton, by source*



*An independent assurance statement related to this data is provided on page 83.

Materials

- Equivalent number of PET bottles used in our recycled polyester: 537 million (325 million in 2018).
- 57% animal-based leather chrome-free (goal 100% by 2025).
- 11.6% virgin wool sourced from farms certified to Responsible Wool Standard.
- 100% wool suppliers briefed on Responsible Wool Standard.

Chemicals

- 100% of textile and leather supply chain (over 600 suppliers) enrolled in the Zero Discharge of Hazardous Chemicals (ZDHC) programme, achieving 80% compliance with the ZDHC Manufacturing Restricted Substances List.
- 99% H&M Group Chemical Restrictions product compliance.

Packaging

Baseline figures from 2018 data:

- 84% recycled or other sustainably sourced packaging materials.
- 78% paper used in packaging is FSC certified.

- 22% post-consumer recycled packaging across all packaging used.
- 65% post-consumer recycled plastic across all plastic packaging used.
- 21% pre-consumer recycled packaging.

Maximising product life

- 29,005 tonnes of textiles collected in H&M Group stores (20,649 in 2018), equivalent to more than 145 million t-shirts.*

Minimising waste

- 0.552% of our total product assortment was reused (including charity donations) or recycled due to the products being faulty (0.453% in 2018).
- 0.029% of our total product assortment was destroyed** (0.052% in 2018).
- 57,004 tonnes of waste handled in H&M Group distribution centres, of which 91.5% was recycled or reused.
- 62% of H&M Group stores have sufficient recycling systems in place.

Standards, codes and policies

Animal Welfare and Material Ethics Policy.

Describes our standards for responsible sourcing, to ensure the raw materials used in our products are produced in a way that respects human rights and animal welfare. Read about our sourcing of [materials](#).

H&M Group Chemical Restrictions. Based on the precautionary principle, lists of hazardous substances and risky materials whose use is prohibited in production and / or whose presence is restricted in final products. Read about our [approach to chemicals](#).

Sustainability Commitment. Outlines our basic requirements and expectations for H&M Group suppliers and business partners. Signing our Sustainability Commitment is mandatory for any supplier or business partner entering a business relationship with H&M Group.

Read more about how we work with [standards, codes and policies](#).

*Please find an independent assurance statement related to our tonnes of garment collected for reuse and recycling on page 83.

**Due to the products having failed certain chemical tests, being contaminated by mould (for example during transportation), or when there was no viable recycling or downcycling solution available.

Fair & Equal



Our 2019 highlights



1.1+ million
supply chain workers
reached by industrial
relations and workplace
dialogue programmes.

Overall employee
engagement score
76/100.

3,600
employees have
completed our new
inclusion & diversity
training.

~900,000
supply chain workers
benefit from improved
Wage Management
Systems.

Partnered with
**International
Organization
for Migration**
to secure fair recruitment
for migrant workers.

5,500+
supply chain workers
in Myanmar trained on
gender equality by ILO's
Garment Industry Project.

Our Fair & Equal KPIs

KPI	2016	2017	2018	2019
Supply chain: Number of supplier factories implementing improved Wage Management Systems (% of production volume covered)	140 (29%)	227 (40%)	500 (67%)	804 (88%)
Supply chain: Number of supplier factories that have implemented democratically-elected worker representation (% of production volume covered)	290 (42%)	458 (52%)	594 (73%)	898 (85%)
Supply chain: % of suppliers regarding H&M Group as a fair business partner	83%	94%	93%	96%
Own organisation: Overall People Engagement Pulses (PEP) employee engagement score (out of 100)	n/a	n/a	75	76
Own organisation: % of H&M Group employees agreeing with the statement "I feel comfortable being myself at work"**	n/a	n/a	83%	84%
Own organisation: % of H&M Group employees agreeing with the statement "I am treated with respect and dignity"***	n/a	n/a	81%	82%

*New baseline replacing our previous KPI % of employees agreeing with the statement "People here are treated fairly regardless of age, ethnicity, sex, sexual orientation, disabilities", as we made a shift to a new engagement survey platform.

Go to [Fair & Equal data](#).

Our approach to being Fair & Equal

Economic growth and decent job creation is essential for stability and shared prosperity. Although large numbers of people move out of poverty every year, some countries still experience stagnating wage levels and rising inequalities. Achieving genuinely sustainable development requires inclusive growth and equality, where the basic human rights of all people are fully supported and respected.

We believe that by using our influence, size and scale we can contribute to a fairer and more equal world for the benefit of our business and people across our value chain. By taking a proactive approach and ensuring our values and commitment to human rights are reflected in the way we do business, we can positively impact the lives of millions of people.

We live this approach by focusing on:

- **Fair jobs for all:** decent and meaningful jobs offering safe and healthy workplaces, fair income, predictable employment, professional and personal development, and a work environment free from discrimination, where everyone feels

respected and is encouraged to make their voices heard.

- **Inclusion and diversity:** being inclusive and promoting diversity in all aspects of our business and across our value chain. This includes providing inclusive and equal employment opportunities, supporting diverse workplaces, promoting diversity through our products and communication, and advancing the inclusion of people in the societies we are part of.

Fair jobs, inclusion and diversity are also good for business. These are all aspects of open and vibrant societies, supporting economic growth and stable markets. By providing fair and meaningful jobs we enhance our ability to attract and retain talent; and by being inclusive and leveraging our diversity we can deliver better results and stay relevant to our customers. It is also simply the right thing to do.



Working with policy makers

Through our updated partnership with the International Labour Organization (ILO), we established joint national committees in key production markets to engage with policy makers and governments for the effective implementation of the ILO Decent Work agenda.

Together with Better Work — a flagship initiative of ILO and the International Finance Corporation (IFC) — we seek to influence policy makers and decision makers to build national industry plans, which can drive both the improvement of working conditions and the productivity and profitability of suppliers in Cambodia, Indonesia, and Vietnam.

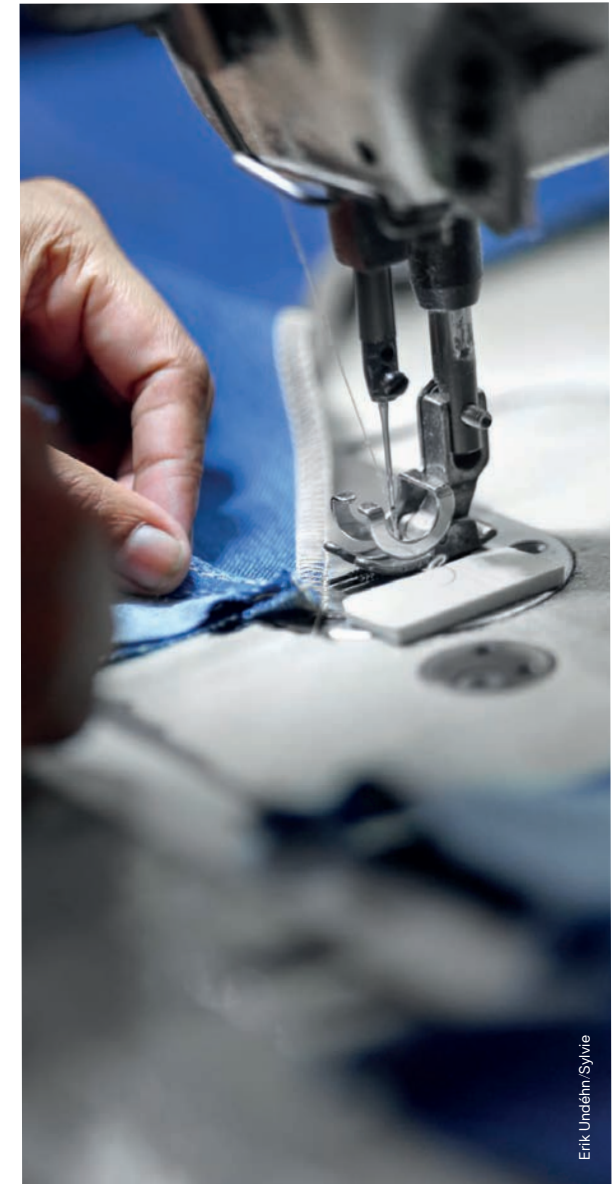
Through our work with Action, Collaboration, Transformation (ACT), we engage in public advocacy for legal frameworks that enable and facilitate collective bargaining agreements at the industry level in Bangladesh, Cambodia, Myanmar, Turkey and Vietnam.

In Ethiopia, we engaged with the ministry of labour for better enforcement of the country's labour laws. We also collaborated with Sida and ILO to build the capacity of regional labour bureaus. So far, 250 labour inspectors

have participated in trainings, leading to 57 factory inspections.

Also in Ethiopia, our engagement with the government has contributed to the development of directives for the formation of a Minimum Wage Board, and we will continue to engage in open dialogue with policy makers to advocate for progress towards a minimum wage.

In Cambodia, we support the ongoing development of the Arbitration Council. We are pursuing the development of alternative dispute resolution mechanisms that can provide effective schemes for the industry here.



Erik Undén/Sylvie

Human rights

Our company is built on the contribution of millions of people. Respect and support for human rights is our most basic responsibility. It is engrained in our culture and values, and is essential for the sustainability of our business.

Our [Human Rights Policy](#) — guided by the [UN Guiding Principles on Business and Human Rights](#) (UNGPs) — describes our approach. We identify and manage any human rights risks in our operations and supply chain using the following steps:

— **Due diligence.** We systematically conduct due diligence to identify, address and report on human rights-related risks or impacts during relevant assessment processes — including risk management processes, internal audits, business partner assessments, stakeholder engagement, grievance handling and internal trainings. Read more about our [supplier assessment process and outcomes](#). Our [Sustainability Commitment](#) is the basis for our risk management to secure human rights and good working conditions in our supply chain, and is implemented through our [Sustainable Impact Partnership Programme](#).

- **Human rights management.** Our structured approach to human rights management is based on ongoing due diligence and an up-to-date review of our [salient human rights issues](#). We apply our due diligence to countries, materials, processes and products.
- **Training.** We provide in-depth human rights training across our business, tailoring the content for different functions and roles. All our human rights training includes a basic introduction to human rights, an outline of our responsibilities in line with the UNGPs, and an explanation of our due diligence and management processes.
- **Incident management.** We handle human rights incidents at supplier factories in line with our overall supply chain management processes, including issuing [Letters of Concern](#) in response to non-compliance. In many countries where we operate, certain human rights issues are systemic. Tackling these requires collaboration with other actors in the market, as well as through our public affairs work.

Our salient human rights issues are linked to those with the most potential for severe negative impact

in our operations and supply chain. These include issues fundamental for fair and inclusive jobs, such as a living wage, health and safety, freedom of association and collective bargaining. They also include human rights issues that require increased attention in a more digitalised world, for example non-discrimination.

We regularly review this list of issues to ensure it is current. Read more about our review process and our [salient human rights issues](#). When working with our salient issues, special attention is given to vulnerable groups such as migrant workers and children.

Child rights

Our [Child Labour Policy](#) confirms our commitment that factories producing for H&M Group remain free from child labour. We continually monitor compliance and investigate and remediate any suspected cases of child labour. In 2019, we identified no cases of child labour in our supply chain.

We recognise the importance of strengthening children's rights by also understanding what indirectly affects them, for example:

- By improving wages, our suppliers help to ensure a sustainable income for parents, so that children with working parents feel the benefit.
- Partnering with the [Centre for Child Rights and Corporate Social Responsibility](#) (CCR CSR) in Myanmar to improve and develop young workers' [life skills](#) in one of our suppliers' factories.

Forced labour

Forced labour is a risk we take very seriously. We identify and address risks of forced labour through our due diligence process and describe this work in our annual [Modern Slavery Statement](#). Migrant workers can be particularly vulnerable to the risks of forced labour, and our new [Migrant Workers Fair Recruitment and Treatment Guidelines](#) directly address the risks.

2019 progress & highlights

- We reviewed and updated our salient human rights issues with internal and external stakeholders.
- We delivered human rights trainings and workshops to 178 global and regional managers in construction, expansion, logistics, and sustainability teams. Content included due diligence processes, salient issues and migrant workers/modern slavery issues as one focus area.
- We developed a checklist to help avoid human

rights issues arising from artificial intelligence (AI) application development and procurement. The European Union General Data Protection Regulation is fully rolled out across our operations to secure personal data protection, and we continue to develop our digital ethics approach by applying a human rights perspective to new projects and applications as they arise. Read more about our [work with AI](#).

- Our new [Migrant Workers Fair Recruitment and Treatment Guidelines](#) highlight key requirements around fee payments and contracts, freedom of movement, dignity and respect, as well as prohibiting business partners (including suppliers and labour agencies) from withholding employee documents such as passports.
- We launched a new partnership with the [International Organization for Migration](#) (IOM) to take a country-by-country approach to targeting and reducing risks of forced labour for migrant workers.
- Our work with Amsterdam Coalition (AMCO) on responsible sourcing from India continued. AMCO officially launched an industry platform for responsible business conduct with Indian textile businesses and the OECD's Responsible Business Conduct unit. The next step is for the OECD to conduct a baseline assessment in consultation with Indian business, government and workers.

- We continued to participate in the multi-stakeholder [Responsible Mica Initiative](#) to work towards responsible mica mining in India — in particular the prevention of child labour. Progress in 2019 included mapping the mica supply chain, followed by developing and implementing responsible workplace standards at processors and mines.

Learnings & future focus

- To maintain awareness of human rights risks across our business we plan to roll out further trainings, including to regional and local management at various functions.
- We are doing more work to embed our human rights due diligence process within our supply chain, including fine tuning our risk assessment and integrating this into procurement processes.
- Digitalisation has dramatically increased the complexity and volume of organisational data and data on individuals. We've begun assessing human rights issues linked to data protection and privacy, including a focus on personal data management, and a sustainability perspective in application of artificial intelligence and digital ethics.

Our approach to fair jobs for all

H&M Group directly employs around 180,000 people and contributes to 1.6 million jobs in our product supply chain. We want all of these jobs to be decent and meaningful, enabling people to develop professionally and to thrive. We take a consistent approach to the definition of a fair job across our entire value chain, based on the International Labour Organization definition of decent work. This means ensuring a healthy, safe and inclusive workplace, where every employee can contribute. This approach applies to our own operations and our supply chains.



The future of work

As the world changes and our business transforms, we must continue to adapt to remain competitive and relevant. We're exploring what the future of work might look like — including the implications of shifting demographics and ways of working, migration, sustainability and technological innovation. We must anticipate and respond to these trends to prepare our business and people for the uncertainties and opportunities that lie ahead.

Fair jobs in our own operations

Health & safety

We are committed to creating healthy and safe workplaces that contribute to the wellbeing of our employees and customers. We take a proactive approach to identifying health and safety risks — including through trainings and by providing grievance channels where colleagues can raise concerns and flag issues.

Our company values

We are one team

We believe in people

Entrepreneurial spirit

Constant improvement

Cost-conscious

Straightforward and open-minded

Keep it simple

2019 progress & highlights

- According to our annual H&M Group employee survey — People Engagement Pulses (PEP) — 85% of respondents agree with the statement “I feel safe at my workplace”.
- Our annual Global Health & Safety Week aims to raise health and safety awareness among H&M Group colleagues through a series of locally-adaptable activities and trainings. In 2019, the focus was on aligning health and safety awareness between functions, across brands, and with other businesses in local markets.

Professional & personal development

We want everyone working for H&M Group to realise their full potential — in terms of their skills and achievements, as well as their contribution to our culture and community. We place a strong emphasis on embedding our values and leadership expectations throughout the business.

Daily feedback is an important part of development and is central to our culture. Managers and employees also meet annually to set career and development goals, and to agree on milestones.

We offer:

- **Training.** Our training platform — GROW — provides every H&M Group employee with access to a comprehensive set of online materials, as well as access to trainings and workshops tailored to specific subjects and requirements.
- **New opportunities.** Our internal careers site enables H&M Group employees to browse new opportunities matched to their interests and aspirations.
- **Mentoring and coaching.** We offer mentoring and coaching to support employee development.

Employee relations

We believe that a constructive workplace dialogue built on communication, trust and respect is critical to our commitment to being a responsible employer. It is through the sharing of thoughts, ideas,

information and knowledge that we can create working conditions that benefit our employees and our business.

To confirm our respect and support for the fundamental human rights in all H&M Group workplaces, including freedom of association and collective bargaining, we signed a global framework agreement with [Union Network International](#) (UNI) in 2004.

Our annual People Engagement Pulses (PEP) survey enables employees to share feedback and identifies areas where we can improve.

All workplaces within H&M Group have a local grievance procedure based on local legislation and our global Grievance policy. If a grievance can't be settled through the local procedure, any employee can turn to a global point of contact for further support.

2019 progress & highlights

- Our overall People Engagement Pulses (PEP) employee engagement score was 76 out of 100, compared to 75 in 2018.
- We shared our new Labour Relations Principles with human resources teams across our sales markets, production offices and logistics, so that they can communicate the principles with all H&M Group colleagues. The principles aim to strengthen working relationships between

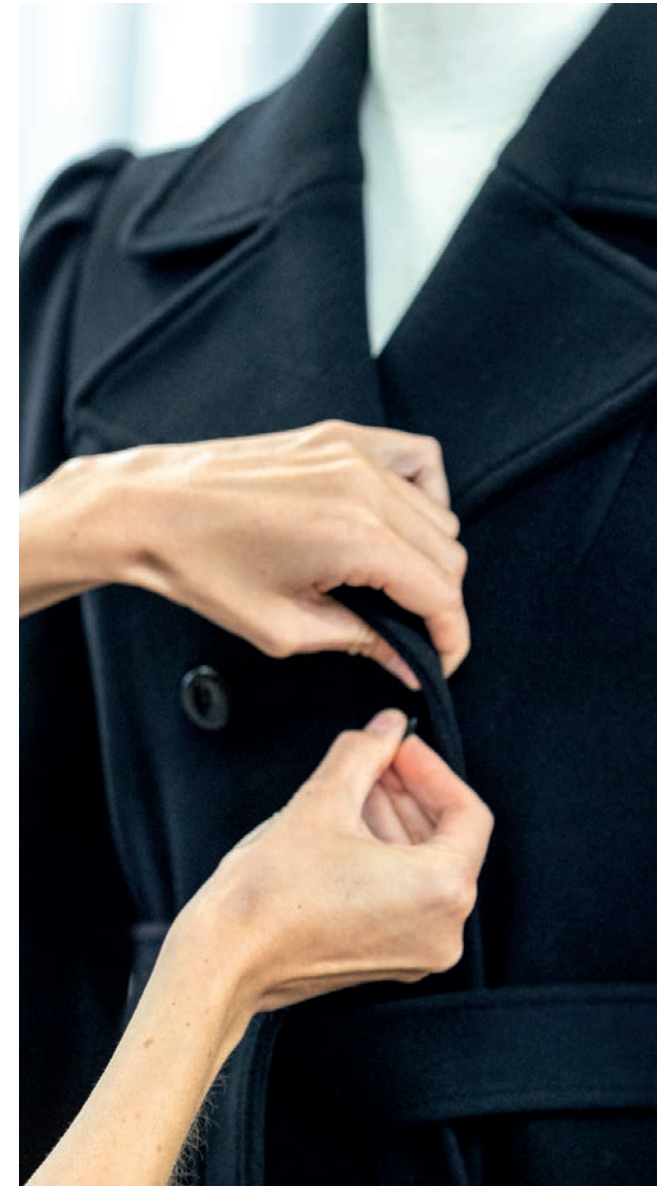
H&M Group employees, managers, worker representatives, and relevant external stakeholders.

Compensation & benefits

We aim to provide every person working for H&M Group with fair and competitive compensation for the work they do.

The H&M Incentive Programme (HIP) applies to everyone employed part-time or full-time by H&M Group, regardless of country, position and salary. It provides incremental investments in H&M Group shares, with employees receiving funds when they reach the age of 62, whether or not they still work for the company.* Additionally, employees receive discounts in H&M Group stores worldwide.

*In some markets, employees can receive the first part of their funds once they have worked for H&M Group for ten years. Payment regulations vary in some markets.



Fair jobs in our production supply chain

Go to our key [fair jobs data](#).

The fashion industry relies on a diverse supply chain, which provides employment for around 60 million people, mostly women. For many, these jobs are their first formal employment, offering an income and the opportunity to support themselves and their families — and ultimately contribute to social development and economic growth.

But much of the textile and apparel manufacturing industry is in countries where labour laws and labour market institutions are still developing and do not conform to international standards. This presents the challenge of consistently ensuring good working conditions, improved wages, worker representation and development opportunities.

We aim to play a proactive role in ensuring the rights of workers in our supply chain are upheld, as well as advocating for wider changes in labour practices to enable systemic progress. We want to be a force for positive change, by creating good jobs and working conditions.

Together with our suppliers, we continually work to develop and improve our production supply chain, while collaborating with a range of stakeholders

to push for regulatory improvements and higher industry standards.

Health & safety

Open dialogue between workers and management, and getting workers involved in decision-making, are fundamental to securing high safety standards. Health and safety is a key area of focus for supplier audits and for our Sustainable Impact Partnership Programme ([SIPP](#)).

We were one of the first companies to sign the [Bangladesh Accord](#), which was set up in May 2013 to help improve fire and building safety in the textile industry in Bangladesh. We have been a member of the steering committee since the beginning, helping to oversee the transition of the Accord to a national regulatory body — the Ready-Made Garment Sustainability Council (RSC).

2019 progress & highlights

— Transition of the Bangladesh Accord to the RSC has progressed and is due to be finalised early in 2020. The RSC — which includes industry, brands and trade unions — will focus on workplace safety, industrial relations, skills development, and environmental standards. Our suppliers in Bangladesh have remediated 98% of fire and building safety issues as defined by the Bangladesh Accord, and any new supplier will not be approved unless they fulfil these requirements. The majority of our supplier factories are already enlisted in the Accord safety committee and safety training programme.



Workplace dialogue

We think everyone has the right to be heard. Employees who have a voice and can influence their workplace are far more likely to enjoy good working conditions. We support the right to freedom of association and collective bargaining in our supply chain. We work with our suppliers to enable democratically-elected worker representation and to establish open dialogue between workers and management.

Many of the markets where our supply chain operates lack the necessary systems to enable well-functioning industrial relations. We are working to make open dialogue and worker representation a reality across our entire supply chain by focusing on three areas:

— **Making sure workers are empowered.** Our local production office (PO) teams work to facilitate stronger relationships between factory employees and management using a range of industrial relations programmes — including raising awareness of rights and obligations, and providing training on the democratic election of worker representatives. We support the presence of worker representatives, trade unions and workers' committees as an important route to addressing social issues, negotiating wages, and improving overall relations at factories.

- **Building industry collaborations.** It's essential that we work with peers, trade unions and other partners to progress the agreements and strategies required for sustainable industrywide change. Our Global Framework Agreement (GFA) with trade unions IndustriALL and IF Metall focuses on the right to freedom of association and collective bargaining across many of our production markets. Its purpose is to strengthen industrial relations and enable peaceful conflict resolution in our global supply chain. Through the GFA we have set up National Monitoring Committees (NMCs) in Bangladesh, Cambodia, India, Indonesia, Myanmar and Turkey. The NMCs oversee implementation of the GFA and local collaboration to support good industrial relations.
- **Engaging with governments.** To secure good industrial relations permanently and systemically requires appropriate legal and institutional frameworks. Through our [public affairs](#) work, we partner with peers and other organisations to engage with governments and policy makers. Our main focus is to support implementation of the International Labour Organization's (ILO) [Decent Work Agenda](#).

2019 progress & highlights

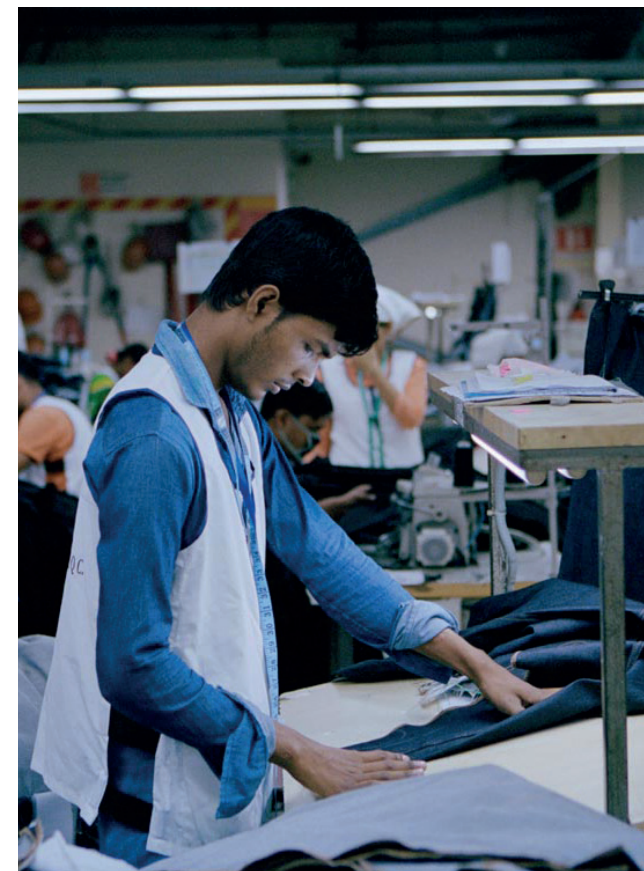
- Our industrial relations and workplace dialogue programmes reached 898 factories and more than 1.1 million workers in 2019 (2018: 594 and 840,000), including at factories in China, Bangladesh, Cambodia, India, Indonesia, Turkey, Ethiopia, Myanmar, Pakistan and Vietnam.
- Factories producing 85% of our product volume implemented processes for democratically-elected worker representation.
- We set up a new NMC covering the Bangalore and New Delhi region of India. The NMCs in Bangladesh, Cambodia, Indonesia, Myanmar and Turkey delivered trainings and seminars together with IndustriALL affiliated trade unions, on topics including conflict resolution, negotiation and effective communication. In Bangladesh, we used insights from worker engagement via the NMC to learn about any wage discrepancies and to guide any necessary wage revisions.
- We now have six national monitoring committees (NMCs) covering more than 764,000 workers. Of the 27 issues raised with NMCs in 2019, 22 have been resolved – see next page for an example. The relevant NMCs are continuing to work on the unresolved issues, and we will report further on the status of these cases in 2020.

- One of the first activities under our new partnership agreement with ILO was to set up new national committees — in Bangladesh, Cambodia, China, Ethiopia, India, Indonesia, Myanmar and Turkey — to engage with policy makers and governments on industry topics and issues in our production organisation markets.
- We started a pilot project with Better Work, to deliver cultural integration training at supplier factories in Ethiopia, with the aim that managers and local workers will avoid conflict resulting from any cultural differences. So far, 130 workers have participated in the training. Our work with ILO and Sida in Ethiopia has catalysed the development of a similar programme involving more partners and a broader scope.

Learnings & future focus

- We've made progress implementing workplace dialogue programmes across our supply chain in recent years, and we want to build on what we've learned. We are evaluating the work done so far, and in 2020 will focus on maintaining high quality representation and systems that support ongoing dialogue.
- Success requires collaboration and trust between employers and employees, particularly in locations where social dialogue is not the norm. We will

continue to focus on programmes that help to build and maintain this trust. We can amplify the impact of our efforts by seeking expert input and broader collaboration, and by combining policy-level work with on-the-ground capacity building and engagement.



Resolving a working hours issue in Myanmar

In 2018, workers at one supplier's factory in Myanmar held a strike in relation to working conditions and wages. This was followed by a period of two days of extra overtime until 9pm, with no option for workers to refuse.

More than 60% of the approximately 700 workers at the factory belong to a union — an Institute of Workplace and Facilities Management affiliated BLO (basic labour organisation). The BLO informed the National Monitoring Committee (NMC) of the overtime issue, which they had been unable to prevent despite the earlier strike. This was one of 27 cases brought to our NMCs globally for resolution in 2019.

In liaison with H&M Group, the NMC proposed a meeting between BLO representatives and factory management. Trust between the parties was already low as a result of the strike, making it difficult to find a constructive way forward.

The NMC facilitated a second meeting, which involved NMC members, BLO and factory management. The discussions helped to identify a lack of routines and procedures for overtime requests from the company to the workers in a lawful and respectful manner — for example not giving notification to workers in good time and on a voluntary basis. The agreement resulted in new procedures and routines for overtime requests, as well as a plan to engage BLO executives in future production planning processes. The case was resolved within four days of the issue being notified to the NMC.

Compensation & benefits

Central to our approach to fair jobs is the idea that people working in factories in our supply chain are provided with equal and competitive compensation and benefits for equal work. Our long-term vision is to improve wage management systems in suppliers' factories throughout our supply chain, which should provide enough income to fund the costs of a basic but decent standard of living for workers and their families.

Since 2013, our [Fair Living Wage Strategy](#) has guided our approach to working towards improved wages for all textile workers in our supply chain. We exceeded all the [2018 goals](#) set out in the strategy, but there is more work to do.

Our strategy ensures we stay focused on key enabling factors for improving wages in our own supply chain and beyond:

- **Understanding and improving wage management systems.** To make changes, we must understand the components of a textile worker's take home wage and how they can be influenced. Government legislation sets minimum wages, and we support individual suppliers and factories to improve their wage management systems, including introducing evaluation systems that enable individual wage settings. We encourage suppliers to be transparent towards their workers



about wages in relation to different tasks, roles, experience levels, and on how wages are affected by improving skills and/or performance. Increased transparency can improve worker motivation, retention and productivity. Read more about how we work with [Wage Management Systems](#).

- **Industry collaboration.** We are a member of [Action, Collaboration, Transformation \(ACT\)](#) — a ground-breaking coalition between 22 brands and the global trade union IndustriALL — which aims to achieve living wages for workers in the garment, textile and footwear industry through collective bargaining at industry level. In signing the ACT [Memorandum of Understanding](#), we commit — among other things — to ensuring our purchasing practices facilitate the payment of a living wage.
- **Ensuring appropriate purchasing practices.** Our practices set our approach to capacity planning, timely payments, and other factors that can contribute to a supplier's ability to pay the true cost of labour. For example, we require suppliers to share the cost components that contribute to a product's price, including the proportion that relates to labour costs. We ring-fence the labour cost when negotiating on product prices with suppliers.

Functional wage management systems include:

- Proper and correct payment of wages in line with contracts, regulations and collective bargaining.
- Human resources policies and processes to ensure competitiveness and motivation.
- A progressive, coherent pay system that rewards workers based on measurable factors such as skills, education, performance and experience.
- Mechanisms for worker involvement in decision-making, including negotiations of wage and payment structures.

2019 progress & highlights

- Our work to improve workers' wages has so far reached 804 factories and approximately 900,000 workers in ten countries — see 2019 [wage data](#) and online [map](#) for more detail.
- Having adopted the five [global commitments](#) on purchasing practices shared by all ACT members in 2017, this year we committed to the ACT [accountability and monitoring framework](#). Our

progress against the five commitments will be measured annually from 2020 onwards.

- In our annual supplier survey, which suppliers respond to anonymously, 96% of our suppliers said they consider H&M Group to be a fair business partner, compared to 93% in 2018.
- [Better Work](#) has adopted our wage management system approach and is piloting its implementation in Indonesia. In addition, [Solidaridad](#) is piloting the wage management system approach at factories in China.
- We engaged in an information sharing session with [investors via Platform Living Wage Financials](#) — an alliance of 13 financial institutions that encourages and monitors investee companies to address the non-payment of living wages in global supply chains.
- We have been working to improve the financial literacy of young people and other workers in our supply chain in Turkey to help them manage their money more effectively. We partner with Visa, UNDP and [Habitat](#) to provide peer-led training in budget and debt management, financial services, pensions and investments. In 2019, the programme trained 3,790 workers, 62% of whom were women.
- In Bangladesh, we joined a collaboration of international brands participating in a programme to scale digital wage payment, led by the [Better](#)

Than Cash Alliance and BSR. Increasing the availability of digital rather than cash-based systems can improve access to banking services and enhance financial independence, particularly for women. Our aim is that digital payments will be available at all our manufacturing supplier units in Bangladesh by the end of 2020.

Learnings & future focus

— The Ethical Trading Initiative (ETI) performed a third-party evaluation of our Fair Living Wage Strategy in 2018 and concluded that the strategy demonstrated leadership on a difficult issue and can deliver wage growth over time. We therefore plan to keep the components of our current approach to improving wages through: workplace dialogue, improved wage management systems, industry-level collective bargaining agreements and improved purchasing practices. We need a deeper understanding of local cultural, economic and legal circumstances that might influence our approach, so we plan to develop market-specific wage strategies and focus on developing partnerships with relevant national stakeholders. We are determined to promote a good system for proper wage setting, through collective bargaining agreements and advocating for sustainable minimum wage setting mechanisms.

- The ETI report confirmed that we have underestimated the magnitude of the challenge involved in each component of our strategy. Many factors are beyond our control, and to see substantial change we need to continue collaborating with other brands, stakeholders and industries. In the past we've focused on enrolling factories in our wage management system and workplace dialogue programmes. Going forward we will focus more on reviewing relevant data to secure impact. We will continue to evolve our strategy during 2020, seeking advice and insights from experts in this field to ensure we have the best possible roadmap for continuing our work on improving wages.
- Workers participating in the financial literacy programme in Turkey have given positive feedback
 - citing the value of learning about saving strategies and budgeting. We plan to continue this programme and look for further opportunities for partnerships to build essential skills and knowledge in our supply chain.



Inclusion & diversity

Go to our key [inclusion & diversity data](#).

As a values-driven company, it's crucial to be inclusive in all parts of our business — in our own operations, in our supply chain, through our products, and not least in all the communities we operate in. We value different perspectives. They enable greater knowledge, keep us challenging assumptions, and spark new ideas. Being inclusive and diverse keeps us relevant to our customers, our colleagues, and the world.

Definitions of diversity vary depending on location, the team and individuals involved — each with their own identity and experiences. We want to embrace all definitions and be a truly inclusive company, combining a global approach with knowledge, recognition and appreciation of local contexts.

We can advance inclusion and promote diversity in many ways. Here are our focus areas for our inclusion & diversity (I&D) work:

- **Internal diversity:** improving internal awareness of inclusion, diversity and unconscious bias, ensuring diversity in our organisation, and offering fair and equal opportunities in employment.
- **Gender equality:** across our value chain, with a specific focus in our supply chain.

- **Promote diversity:** through our brands, encouraging inclusion and celebrating diversity through our design, products, marketing and communication.
- **Inclusion:** advancing inclusion of people in the societies we are part of through our global and local engagement and initiatives.

This reflects our 2025 ambitions:

- Our workplaces are inclusive and diverse.
- We leverage our diversity for better business.
- We use our business to advance inclusion in our communities.

2019 progress & highlights: Internal diversity

- We delivered a range of trainings:
 - Since 2018, 2,500 people across sales and operations, buying, assortment, design and print took part in comprehensive trainings on I&D aspects — including legal issues — related to our updated Product and Print Policy. In addition, we've formed a reference group of

H&M Foundation

Find out more about the non-profit H&M Foundation's [work with CARE](#), enabling women in low-income communities to develop and grow their businesses.



people from a diverse range of backgrounds to give input on prints, symbols and slogans from a cultural, religious and ethical perspective.

- We continued to roll out Layers — our comprehensive training on inclusion, diversity and unconscious bias aimed to raise awareness and encourage intentional goal setting and actions. We have reached approximately 3,600 colleagues since the training was launched in March 2018 (1,000 in 2019).
- & Other Stories developed in-depth internal training materials to raise awareness of cultural appropriation and how to avoid it — especially targeting creatives such as designers, pattern makers, and marketing professionals. The training has been held with 200 employees.
- We reviewed all our social policies, training and recruitment materials from an inclusion & diversity perspective to ensure alignment with our updated strategy.
- In 2019, 76% of all H&M Group employees were female and 69% of management positions were filled by female employees (2018: 74%, 72%). Our Board of Directors was represented by a 67%:33% (female:male) gender split.
- According to our annual H&M Group employee engagement survey, People Engagement Pulses (PEP), 84% of respondents agree with the

statement “I feel comfortable being myself at work” (83% in 2018). 82% of respondents agree with the statement “I am treated with respect and dignity” (81% in 2018).

2019 progress & highlights: Promote diversity

- ARKET and H&M Home launched a pilot of We Care, a concept offering products made by social entrepreneurs that provide job opportunities for disadvantaged groups. Our ambition is to enable our customers to be change makers by contributing to job creation and positive change for people where it is much needed. The pilot project contributed to 558 jobs for social entrepreneurs in Africa and India.
- In partnership with PLAN International, Monki produced limited edition t-shirts to celebrate International Women’s Day and a mood ring to help contribute to PLAN’s work for gender equality.
- Monki also collaborated with O-zine — the first LGBTQ+ online magazine in Russia — by contributing to their International Women’s Day special.
- Following its 2018 My Body My Image campaign, Weekday’s 2019 swimwear campaign was created by artist Sara S. Boljak and her female collective of photographers, animators, make-up artists

and musicians.

2019 progress & highlights: Inclusion

- We joined the TENT Partnership for Refugees — a coalition of more than 100 companies making efforts to support refugees around the world. We joined to learn more about what more we can do to support refugees beyond our current initiatives. For example, H&M has run a buddy programme in Germany to encourage integration of refugees and excluded groups in the workplace.
- H&M South Africa partners with the organisation Clothes to Good to increase the inclusion of people with disabilities at one of our distribution centres. The programme provides skills development for people with disabilities and enables people working at the distribution centre to gain confidence in fully including people with disabilities in the workplace.
- Since our launch of retail in India, we have applied for permission from local authorities for all stores to extend working hours to enable hiring of women and ensure equal opportunities. Women colleagues working to 8pm or later and those starting at 6am are provided with safe transportation to and from work with a security guard. One of the transportation companies we

engage in this service employs female drivers for transportation of women. We also work with vocational schools and local organisations to recruit colleagues with fewer socio-economic opportunities and with special abilities. Currently an estimated 5% of our employees in India are recruited through these partnerships.

- We have committed to the responsible recruitment of foreign workers in our Turkey supply chain through a series of goals, engagement and initiatives. So far, 500 refugee workers have been recruited, with the aim to reach 2,000 by 2025.
- In Myanmar, we partnered with the International Labour Organization's Garment Industry Project (ILO-GIP) to deliver training and capacity building programmes on a range of topics — including training more than 5,500 workers in gender equality related issues, such as sexual reproductive health and prevention of sexual harassment. We also started a pilot project with the International Organization for Migration (IOM) to better understand risks and opportunities related to migrant and juvenile workers in our Myanmar supply chain.
- In Bangladesh, we initiated the Women Worker Progression Programme by collaborating with the IFC and Better Work Gender Equality and Returns (GEAR) initiative. We enrolled 13 factories in the programme, which aims to create career

progression opportunities for female sewing workers — enabling them to take supervisory roles following a tailored training programme.

- In Indonesia, we continued to support a project that enables people with disabilities to access work in our supply chain. Eight factories participate in the initiative, and 165 workers with disabilities have so far been hired.
- In partnership with the Desmond and Leah Tutu Legacy Foundation, we continued delivery of the Youth@Work programme, designed to combat youth unemployment in the Western Cape of South Africa. 40 young people aged 18–20 joined the programme, learning new skills related to a range of topics from financial literacy to leadership and critical thinking.
- COS continued its support of family and educational programmes at the Serpentine Galleries in London. The programme develops and delivers community and education-based projects for children, through local schools, community groups and onsite activities at the Serpentine Galleries.

Learnings & future focus

- We have used what we have learned about inclusion, diversity and unconscious bias over the past few years to develop our new overall inclusion

& diversity strategy. We remain focused on realising this strategy through actions, results, and social impact. One focus going forward is setting baselines for the key performance indicators we've defined for our 2025 ambitions. Another focus is to further develop our direction, scope and ambitions on gender equality and the inclusion of people.



Key Fair & Equal data

Compensation & benefits in our production supply chain

Average monthly wages (excluding overtime) at H&M Group factories versus applicable minimum wages in key production markets*

Production market	Min. wages 2018 (USD)**	Average wage (excl. overtime) 2018 (USD)**	Difference between average wages (excl. overtime) and min. wages 2018 (USD)**	Min. wages 2019 (USD)**	Average wage (excl. overtime) 2019 (USD)**	Difference between average wages (excl. overtime) and min. wages 2019 (USD)**
Bangladesh	71	100	41%	105	126	21%
Cambodia	187	229	22%	199	241	21%
China	243	398	63%	246	419	70%
India	107	142	33%	115	149	29%
Indonesia	148	171	16%	169	180	6%
Myanmar	95	108	14%	95	123	30%
Turkey	361	422	17%	455	580	27%

*2019 data includes active and approved manufacturing (tier 1) suppliers for all commercial product types, and covers the time period 1 January–30 September 2019. 2018 data includes tier 1 and tier 2 suppliers, and covers the time period 1 January–31 December 2018. All average wage data reflects weighted averages, taking account of the size of each factory and the number of workers. Minimum wage data also reflects weighted averages, taking account of any differences in minimum wage between regions or states.

**Currency conversions from Thomson Reuters Eikon based on annual average for 2019.

Change of calculation method for 2018 wage data

We have improved our calculation methodology for wages data this year, moving to weighted averages for all 2018 and 2019 data. Weighted averages take account of the size of each factory, based on the number of workers — the more workers in a particular factory, the more weight that factory's average wage will have in the overall average. See our [2018 Sustainability Report](#) for previous 2018 figures, which were calculated using simple averages for the time period 1 January–30 June 2018.

Workplace dialogue in our production supply chain

Issues brought to National Monitoring Committees in 2019

Issues brought to NMC	Resolved	Unresolved
Minimum wage revision/ severance pay	3	1
Discrimination & harassment	16	0
Freedom of association & collective bargaining agreements	2	4
Working hours	1	0
Total number	22	5

Standards, codes and policies

Human Rights Policy. States our commitment to respect human rights in our operations, value chain, and in the communities where we operate. Our commitment is reflected in operational policies and procedures.

Sustainability Commitment. Outlines our basic requirements and expectations for H&M Group suppliers and business partners. Signing our Sustainability Commitment is mandatory for any supplier or business partner entering a business relationship with H&M Group.

Global social policies. A range of policies relevant to aspects of our own operations, including discrimination, equality and labour relations. Supported by a grievance policy and procedure.

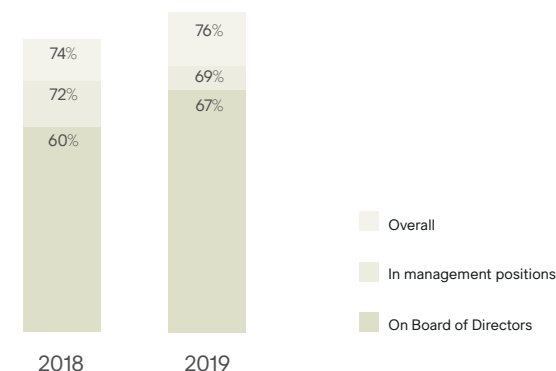
Code of Ethics (for business partners).

Sets the expectation of mutual trust and transparency in all our relationships with suppliers and other business partners. Supported by face-to-face training for all new commercial suppliers.

Read how we work with [standards, codes and policies](#).

Inclusion & diversity

% of female employees at H&M Group



3,600 H&M Group employees have participated in our new inclusion & diversity training programme since its launch in March 2018.

Supply chain management

Our approach

Our starting point is to select suppliers who share our mindset. This helps ensure we are working with business partners that meet or go beyond the minimum requirements of our Sustainability Commitment. We use a system of risk-based audits to monitor and maintain compliance with these requirements.

But we do not rely on audits alone to improve the sustainability performance of suppliers. Through our Sustainable Impact Partnership Programme (SIPP) we are building supplier capacity to deliver leading environmental and social practices.

Since 2016, we have rolled out SIPP to our suppliers, starting with producers of commercial goods. The programme goes beyond a simple compliance evaluation to include a broader sustainability assessment, encompassing management systems, performance over time, and leading practices. This gives us deeper insight into supplier performance and creates a positive

feedback loop of measurement, root cause analysis, capacity building, supplier ownership, and constant improvement. Read more about how we work with [SIPP and our Sustainability Commitment](#).



Standards, codes and policies

Code of Ethics (for business partners)

Sets the expectation of mutual trust and transparency in all our relationships with suppliers and other business partners. Supported by face-to-face training for all new commercial suppliers.

Sustainability Commitment. Outlines our basic requirements and expectations for H&M Group suppliers and business partners. Signing our Sustainability Commitment is mandatory for any supplier or business partner entering a business relationship with H&M Group.

Read more about how we work with [standards, codes and policies](#).

Sustainable Impact Partnership Programme activities

Minimum requirement compliance	Entry level minimum requirement verification for new suppliers. Ongoing minimum requirement checks.
Self-assessment & validation	Self-assessment, with reports feeding into our Sustainability Index score. This includes reporting to the Sustainable Apparel Coalition's (SAC) Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM) — we are currently the only brand to disclose our results. Validation of self-assessment results ranging from desktop validation for low-risk suppliers to onsite checks and third-party verification for high-risk suppliers.
Goal setting & capacity building	Development of focus areas and associated goals, led by suppliers where possible. Reward for suppliers who set ambitious goals and maintain performance — including more orders, training opportunities and long-term contracts. Identification of priority areas for capacity building, delivered through targeted support for specific suppliers or wider topic-based capacity building programmes.
Dealing with incidents	Logging and investigation of potential problems or incidents. Following up confirmed cases of minimum requirement non-compliance with a Letter of Concern and agreement of a corrective action plan — unsatisfactory resolution leads us to evaluate the ongoing relationship with the supplier in question.

2019 progress & highlights

- We expanded SIPP coverage to include more fabric printing and dyeing suppliers, as well as developing the SIPP method to broader sustainability assessment towards non-commercial goods (NCG) suppliers. The SIPP for NCG method will be launched in 2020.
- We continued our efforts to align SIPP with industry standards and tools by participating in the light operations launch of the [Social Labour Convergence Project](#). We aim to replace our own social assessment process with the SLCP assessment in all our manufacturing supplier facilities by 2022, once it's available in all markets.
- For environmental assessments, we increased use of independent third-party verification of the SAC Higg FEM. We continued within SAC's working groups to further support the potential for an industrywide assessment and verification system.
- Higg Index participation in 2019:
 - 1,125 of our suppliers' manufacturing factories used the Higg Index FEM, with 340 third-party verifications.
 - 207 mills, dyeing and printing factories used the Higg Index FEM, with 65 third-party verifications.

- 23 supplier factories enrolled in Higg FSLM self-assessments, with 12 third-party verifications.
- We performed 2,188 minimum requirements verifications across manufacturing, fabric printing and dyeing suppliers:
 - There were 160 minimum requirement cases — 98 for social, 25 for environmental and 37 for business practice issues.
 - We issued 129 Letters of Concern to resolve salient human rights issues (see page 79).
 - We terminated business relationships with 5 suppliers as a result of minimum requirement non-compliance issues.
 - We investigated and closed 28 incidents of potential non-compliance with the Code of Ethics (2018: 47, 2017: 41). These investigations led to terminations or written warnings to employees or business partners in 26 cases (2018: 25, 2017: 27).
- Also in 2019:
 - 100% of our suppliers have signed our Code of Ethics and Sustainability Commitment.
 - 100% of supplier manufacturing units implemented SIPP. 1,596 supplier units undertook SIPP social self-assessment, with 1,281 desktop or onsite validations.

Letters of concern issued to suppliers in relation to salient human rights issues*

Human rights issue	Letter of concern topic/s	2016	2017	2018	2019
Health & safety	Legal licences, emergency planning, fire safety	9	14	26	18
Child labour	Child labour	14	1	2	0
Fair living wage	Compensation, minimum wage, overtime compensation	13	35	39	63
Freedom of association & collective bargaining agreements	Worker involvement & communication	0	1	2	7
Social security, forced labour, modern slavery	Recruitment & hiring	11	8	8	8
Discrimination & harassment	Worker treatment & development	2	3	5	2
Access to water	Water use, waste water	10	5	7	7
Other	Use of undeclared units, transparency	62	36	33	24

*Manufacturing (tier 1) supplier units.



Supplier performance

Supplier factory Higg Index Facility Environment Module score (based on 2018 data): 47 out of 100,* compared to 40 in 2018 (based on 2017 data). Based on combined average scores for energy (75), water use (62), emissions (52), wastewater (51), waste management (31), air emissions (30), and chemicals (27).

We're working with industry peers to establish a score for the Higg Index Facility Social and Labor Module.

*Unverified average, including a mix of verified and non-verified data.

Learnings & future focus

- Industrywide change will happen most effectively and sustainably with a consistent approach to supply chain management. With adoption of tools such as the FEM and SLCP, the whole industry benefits from efficiencies. We will continue to coordinate with other (non-H&M Group) brands through SAC and other channels to work towards consistent industrywide methods.
- Now that we've undertaken a few iterations of the SIPP annual cycle, we are gaining the insight into supplier performance that we need to continue refocusing resources beyond compliance, and towards continuous improvement. We also see that SIPP strengthens the links between results and supplier incentivisation.
- The SAC third-party verification system has ramped up slowly, and with varied quality. We will continue to help develop the approach to verification and verification quality assurance, alongside using opportunities for third-party verification in our supply chain. We will also investigate ways to develop improvement plans more systematically.

How we report

Scope

H&M Group produces an annual sustainability performance report that covers 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). The report includes eight H & M Group brands (& Other Stories, Afound, ARKET, COS, H&M, H&M Home, Monki, Weekday), as well as its wholly- or partially-owned subsidiaries globally during our financial year from 1 December 2018 to 30 November 2019, unless stated otherwise. Data does not include Sellpy, which we bought a majority stake in partway through the financial year. See our [Annual Report 2019](#) for a full list of entities.

Our reporting includes this Sustainability Performance Report, interactive web content, reporting indexes, our Annual Report, and more detailed supporting web content.

Read more about [how we report](#).

Read more about our [material issues](#), including how we identify and update them, and the boundaries of each issue.

Frameworks

Global Reporting Initiative (GRI). We have prepared this report in accordance with the GRI Standards: Core Option. Download our detailed [GRI index](#).

UN Guiding Principles Reporting Framework. We were one of the first companies globally to report on human rights in line with the UN Guiding Principles Reporting Framework. Read about our approach [here](#). Our regular review of [salient human rights issues](#) complements our materiality assessment.

Task Force on Climate-Related Financial Disclosures (TCFD). Our risk assessment follows the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. See our [Annual Report](#) for more details.

UN Global Compact and CEO Water Mandate.

We are signatories to the UN Global Compact. Our annual sustainability report serves as our Communication on Progress (COP) for both the UN Global Compact and the CEO Water Mandate.

Our emissions data

We are continuously working on improving data quality and precision by replacing calculations based on secondary data, with primary data. As we gain visibility throughout our supply chain through collaboration with the Sustainable Apparel Coalition, scope 3 GHG emissions are adjusted to match the highest quality data and the most up to date assumptions in the industry. We will continue to be transparent on how we calculate, learn and adapt our approach as methods improve.

UN Sustainable Development Goals

The UN's Sustainable Development Goals (SDGs) and the 2030 Agenda for Sustainable Development call on governments, business and civil society to take action to address social, environmental and economic challenges. We believe this collaborative approach is essential. Here, we show our level of influence on each of the SDGs — directly (through delivery of our strategy), indirectly, and through partnerships.

Our relationship with the UN SDGs

Goal	Direct influence through our strategy	Indirect influence through our strategy	Contribution through partnerships
	-	•	
	-	•	•
	-	•	
	-	•	
	Fair & Equal		•
	Circular & Climate Positive		•

Goal	Direct influence through our strategy	Indirect influence through our strategy	Contribution through partnerships
	Circular & Climate Positive		•
	Fair & Equal		•
	Leading the Change, Circular & Climate Positive		•
	Fair & Equal		•
	-	•	
	Leading the Change, Circular & Climate Positive		•
	Circular & Climate Positive		•
	Circular & Climate Positive	•	•
	Circular & Climate Positive	•	•
	Fair & Equal	•	•
	Leading the Change, Circular & Climate Positive, Fair & Equal	•	•

Auditor's report

Auditor's Limited Assurance Report on specified sustainability information in H & M Hennes & Mauritz AB's 2019 group sustainability reporting

To H & M Hennes & Mauritz AB, Corp Id 556042-7220

We have been engaged by the management of H & M Hennes & Mauritz AB (H & M) to perform a limited assurance engagement on below specified information in H & M Group's 'Sustainability Performance Report 2019', 'Material Issues 2019', 'Materiality Matrix 2019', 'Stakeholder Engagement 2019', and the 'Annual Report 2019' with regards to the following indicators referred to in the GRI index that can be found in the 'GRI content index 2019': Reporting principles can be found in "Reporting Scope 2019".

- Identified material topics and boundaries (Disclosures 102-46, 102-47), reported in 'Material Issues 2019', 'Materiality Matrix 2019', 'Reporting Scope 2019' and on pages 61-62 and 81-82 in the 'Sustainability Performance Report 2019'.
- Stakeholder engagement (Disclosure 102-40, 102-42, 102-43, 102-44), reported in 'Stakeholder Engagement 2019', 'Material Issues 2019' and on page 13 in the 'Sustainability Performance Report 2019'.

— Energy:

Energy consumption within the organization (Disclosure 302-1), page 52 in the 'Sustainability Performance Report 2019'.

Energy intensity (Disclosure 302-3), page 52 in the 'Sustainability Performance Report 2019'.

Percentage of renewable energy (AF21), page 52 in the 'Sustainability Performance Report 2019'.

— Emissions:

Direct (Scope 1) GHG emissions (Disclosure 305-1), page 52-53 in the 'Sustainability Performance Report 2019'.

Energy indirect (Scope 2) GHG emissions (Disclosure 305-2), page 52-53 in the 'Sustainability Performance Report 2019'.

Other indirect (Scope 3) GHG emissions, limited to transportation (Disclosure 305-3), page 52 in the 'Sustainability Performance Report 2019'.

— Materials:

Materials used by weight or volume, limited to cotton (Disclosure 301-1), page 54 in the 'Sustainability Performance Report 2019'.

Tons of garments collected for reuse and recycling, page 55 in the 'Sustainability Performance Report 2019'.

— Anti-corruption:

Confirmed incidents of corruption and actions

taken (Disclosure 205-3), reported in the Annual Report page 51 and on page 78 in the 'Sustainability Performance Report 2019'.

The H & M Group Sustainability Report 2019 covers the period 1 December 2018 – 30 November 2019.

Management's responsibility

The Management of H & M is responsible for preparing and presenting H & M Hennes & Mauritz AB's 2019 group sustainability reporting 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 document 'Reporting Scope 2019', 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 the specified documents 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 for our work, for the limited assurance report, or for the conclusion that we have reached. Our review is limited to the above specified information, which does not include web-links, and to the historical information and does therefore not include future oriented information.

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 Hennes & Mauritz AB's 2019 group sustainability reporting 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 Hennes & Mauritz AB's 2019 group sustainability reporting specified above, and not on information linked to and disclosed on other web pages. The presented information in the H & M Hennes & Mauritz AB's 2019 group sustainability reporting is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by H & M. This independent limited assurance

report should not be used on its own as a basis for interpreting H & M'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 Hennes & Mauritz AB's 2019 group sustainability reporting 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 International Standards on Auditing and generally accepted auditing standards in Sweden. 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.

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. We are independent of H & M in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Our procedures are based on the criteria defined by the Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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 Hennes & Mauritz AB's 2019 group sustainability reporting has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, March 30, 2020
Ernst & Young AB

Åsa Lundvall, Authorized Public Accountant
Charlotte Söderlund, Authorized Public Accountant

Thank you

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:

Laura.Cars@hm.com

Nathalie.StjernfeldtGrumme@hm.com

We appreciate your feedback.

H&M Group

H&M

COS

WEEKDAY

MONKL

H&M HOME

& other Stories

ARKET

AFOUND

SELLPY