



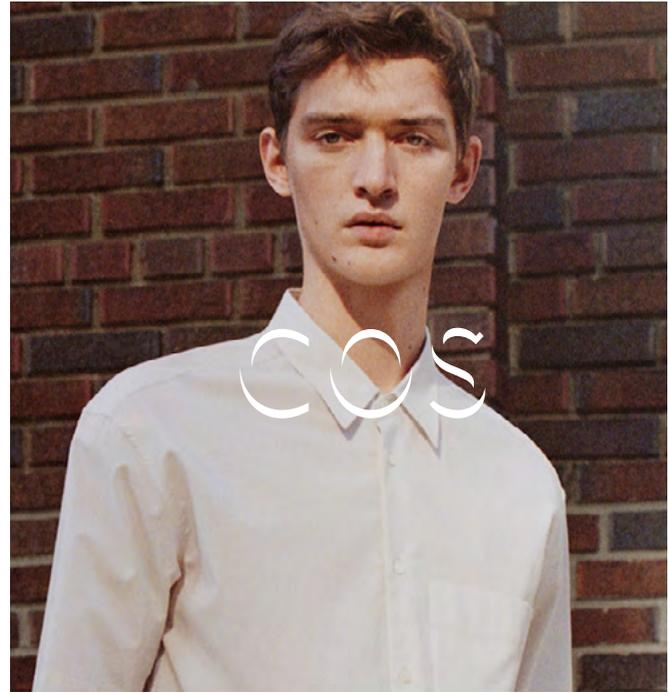
H&M

THE H&M GROUP
SUSTAINABILITY
REPORT 2016

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About the H&M group

Introduction

About us

H & M Hennes & Mauritz AB (publ) was founded in Sweden in 1947 and is quoted on Nasdaq Stockholm. The H&M group includes several clearly defined fashion brands, each with its own unique identity. We offer fashion from the brands H&M, COS, Monki, Weekday, & Other Stories and Cheap Monday, as well as homeware from H&M Home.

Through our brands, we want to inspire fashion fans around the world to dress in their own personal style. We are driven by a desire to always create the best offering for our customers – and to do so in a sustainable way.



223 billion
SEK sales including VAT.

64 markets on six
continents and e-commerce
in 35 markets.

4,351
stores globally,
all brands included.

The H&M group works
with **1,826** first tier
factories of which 508 are
based in EMEA and 1,318 in
Southeast Asia.



About the H&M group



WE ARE ONE TEAM



WE BELIEVE IN PEOPLE



ENTREPRENEURIAL SPIRIT



CONSTANT IMPROVEMENT



COST-CONSCIOUS



STRAIGHTFORWARD AND OPEN-MINDED



KEEP IT SIMPLE



THE H&M GROUP

Our shared values

Our shared values run like 'a red thread' through our company. They reflect the heart and soul of the H&M group and define what we stand for and how we act.

Around **75%** of the average number of employees are women and 25% are men.

Women hold **69%** and men 31% of the management positions.

Over **161,000** employees work for the H&M group today of whom 13,000 were new colleagues welcomed in 2016.



VISION & STRATEGY

COS.

Vision & Strategy

Message from our CEO

The H&M group makes affordable, good-quality and sustainable fashion available for many people, regardless of their income or where they live – that is our passion and our everyday work.

We believe sustainable fashion should be available for everyone. The idea is that people who enjoy fashion should be equally able to dress sustainably. However, to be able to continue to offer sustainable fashion to present and future generations in a world with growing populations and finite resources, both the H&M group and the industry must look for new ways of working. That is why we

are taking a circular approach to how fashion is made and used. That includes a more effective use of resources, support of innovations within recycling technologies as well as an increased use of existing or new sustainable materials. Our ongoing work to contribute to good working conditions for the people making our products is just as important.

Investing in sustainability issues such as these is a business opportunity – and vital for our future business success. But also, as stated in international guidelines such as the UN Guiding Principles on Business and Human Rights, it's part of our responsibility as a company. Corporations have a big responsibility to act in a way that helps to drive change, making their business economically, socially and environmentally sustainable.

Our sustainability work is built on three foundations. First, it's integrated into all parts of the business – in every single department and function and in all brands and markets. Sustainability is part of our company's DNA and values. ▶



Karl-Johan Persson, CEO.



Monki.

Vision & Strategy

▷ Secondly, we are convinced that a long-term way of working is the only way forward. As a result, we always take a long-term view instead of choosing short-term solutions that don't lead to lasting change. Finally, we have a collaborative mindset. As many of the challenges we are facing are systemic and industry-wide, we need to work with others. Our collaboration with brands, trade unions, NGOs, experts and scientists, business partners and civil society will continue – no matter if it's about recycling innovations, new sustainable materials or the work to improve working conditions for the people making our clothes.

This is why we very much welcome the collaborative focus within the UN Sustainable Development Goals (SDGs) and the SDG Agenda. Through our continued commitment to the United Nations Global Compact, we take shared responsibility for achieving positive change. Our sustainability priorities are aligned with the SDGs and aim to mobilise efforts to end poverty, fight inequalities and tackle climate change, see more on p. 117. The SDG Agenda provides a good framework when designing strategies going forward and finding new collaborations.



We contribute to several of the SDGs, for example, through our circular approach and efforts to close the loop on textiles (SDG 12). We are a member of the Ellen MacArthur Foundation's Circular Economy 100 to help accelerate the transition from a linear to a circular economy. From

“It has always been important to us to act in a way that makes it possible not just for the present but also future generations to enjoy fashion.”



a sustainability perspective, this transition is necessary. However, it requires more effective use of resources as well as innovations within recycling and materials. Garment collecting in our stores is one step on our circularity journey, inviting our customers to become part of the

solution and help expand the lifespan of garments and increase reuse or recycling of materials. The Global Change Award innovation challenge, initiated by the H&M Foundation in 2015, is another way of speeding up the development. It aims to find new ideas to help close the

Vision & Strategy

▷ loop on textiles. Because technology and innovations are key to reaching our vision of becoming circular, we are supporting this development through both investments and knowledge.

Our efforts to improve working conditions in the countries where our products are made is also in line with the SDG Agenda (SDG 8). We are committed to focusing our efforts on creating a well-functioning dialogue in the labour market since this is a precondition for achieving lasting improvements in working conditions for people. We are working to promote a dialogue where freedom of association is respected, where workers' representatives have a voice and where trade unions can negotiate and bargain collectively. These issues are also central in several of our collaborations, for example, within the Global Framework Agreement with IndustriALL and IF Metall which was converted into a permanent partnership in 2016.

The H&M group wants to contribute to structures and frameworks, to inspire, educate and bring the best from the Swedish labour market to countries like Bangladesh and Cambodia – but we will not be able to push development on our own. The countries and the people living



there should be in charge – but obviously with support from the H&M group and many others who want to continue their commitment in these countries in the long term.

It has always been important for us to act in a way that makes it possible not just for present but also future generations to enjoy fashion. However, along with the rest of the industry, we still have a long way to go. It is now time to lift our ambitions and push the boundaries again. I'm convinced that our new sustainability strategy presented in this report will take us closer towards our vision: to lead the change towards circular and renewable fashion while being a fair and equal company.

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

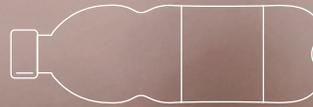
Vision & Strategy

Key facts & figures 2016

SUSTAINABLE COTTON* IN % OF TOTAL COTTON USE***



We renewed the Global Framework Agreement with IndustriALL and the Swedish union IF Metall.



We are the second largest user of recycled polyester in the world. In 2016, we used recycled polyester equivalent to more than 180 million PET bottles.



We are the biggest user of responsibly sourced down.

Source: Textile Exchange Preferred Fiber Market Report

TOTAL SHARE OF RECYCLED OR OTHER SUSTAINABLY SOURCED MATERIALS**/****



Since 2013, we have collected almost 39,000 tonnes of garments in H&M group stores, which is equivalent to 196 million t-shirts.



* Certified organic cotton, Better Cotton (BCI) or recycled cotton. ** Included are all materials classified as conscious materials, such as certified organic or recycled fabrics, as well as Better Cotton (BCI). *** Please note: Material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy. An independent assurance statement related to GRI 301-1 is provided on page 119. Deviations are due to rounding effects.

Vision & Strategy

Key facts & figures 2016

TONNES OF GARMENTS COLLECTED
IN H&M GROUP* STORES



140 supplier factories have implemented an improved wage management system.



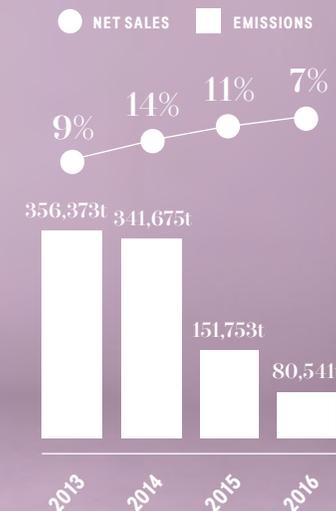
We are the world's biggest user of Better Cotton.

Source: Better Cotton Initiative (BCI)



96% of electricity used in our own operations comes from renewable sources.

TOTAL CO₂e EMISSIONS** COMPARED WITH PREVIOUS YEAR IN % (SCOPE 1+2) VS. GROWTH IN SALES (IN LOCAL CURRENCIES)



The factories where our suppliers make our products employ about 1.6 million people, 65% of whom are women.



* With the exception of our franchise markets. Other brands within H&M group (Weekday, Cheap Monday, Monki, & Other Stories) offer garment collection to customers as well. An independent assurance statement related to our tonnes of garments collected for reuse and recycling is provided on page 119. ** Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on supplier specific emission factors where available. For further details and data, please see our CDP Climate Change Investor Response 2016. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is provided on p. 119.

Vision & Strategy

Our vision

The H&M group has a strong history in sustainability. Ultimately, we want to make sure that fashion continues to be enjoyed today and for generations to come. But to create a truly sustainable fashion industry that is good for people, communities and the planet, we need to take our work to the next level. Our vision is therefore to use our size and scale to lead the change towards circular and renewable fashion while being a fair and equal company. This vision applies to every brand in the H&M group, all of which share the same passion for fashion and quality, as well as the ambition to serve our customers in a sustainable way.

Our world sustains and inspires us to create incredible things. But today, our environment and our society are facing some serious challenges. The rise in global temperatures is already affecting our climate, and the world needs to stay well below a 2°C increase to avoid increasingly damaging outcomes. According to the World Bank, we will soon face a global shortage of vital resources. For example, there is a projected 40% gap between water supply and demand by 2030,* and we are losing about 130,000 square kilometres – equivalent to 48 football fields every minute – of forest every year.**

Our global society is also facing serious challenges. Many people are already living in extreme poverty, and issues such as forced labour and discrimination prevent millions of people from living a good life.

These challenges are compounded by the size and growth of the world's population, which is set to increase from seven billion people today to about eight and a half billion by 2030*** – five billion of whom are predicted to move into the middle class.**** This growth and demographic shift will drive massive, unprecedented changes across our society



and industry. By preparing to meet this change in a sustainable way, businesses have an opportunity to flourish and create job opportunities for people around the world.

We believe that our industry needs to increase the pace of change in addressing these global environmental and social issues. The size, scale and global reach of the H&M group means we have a respon-

sibility – and an opportunity – to create this acceleration and facilitate the right collaborations for success. We believe in moving the whole market forward, for our own business and for other businesses that share our values.

Built on lessons learned from our Conscious Commitments, our new strategy will guide us in the next exciting phase of our journey towards real, sustainable

* worldbank.org ** worldwildlife.org *** esa.un.org ****According to the OECD (using their \$10–100 benchmark), the global middle class will reach nearly five billion by 2030, out of a world population of eight billion. See: oecd.org

Vision & Strategy

▷ fashion. It is built on our vision to use our size and scale to lead the change towards circular and renewable fashion while being a fair and equal company. This vision is built on three ambitions:

100% LEADING THE CHANGE

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

100% CIRCULAR & RENEWABLE

- A circular approach to how products are made and used
- Use only recycled or sustainably sourced materials
- Use only renewable energy in our value chain

100% FAIR & EQUAL

- Fair jobs for all
- Stewards for diversity and inclusiveness

Our commitment to 100% Leading the change will drive and accelerate our impact as we seek to fulfil our vision. To us, it is an ambition that can help set new standards, find innovative solutions and discover new ways of engaging our stakeholders to create a truly sustainable fashion industry.

Of course, it is important to recognise the business case that our vision represents.

Adopting a 100% Circular & Renewable approach to making and using fashion is an essential step to helping our business continue to thrive for the next decades and beyond. It's not just important, but a prerequisite for our growth and future success, just as it is for every other fashion brand.

When it comes to striving for 100% Fair & Equal, we want our business to benefit everyone it connects with, from empowering our customers to express their personality through fashion – wherever they are in the world – to the millions of people who work across our value chain. By building stronger, more rewarding connections with our customers, employees and suppliers, our business will benefit in many different ways.

Our new vision sets a high bar. Ultimately, it will help us create sustained and balanced growth that meets demand while also helping to improve our environment and society. However, although this vision is essential to the future of our business, we don't yet have all of the solutions in place for achieving our goals, many of which are breaking new ground. We know there is a significant journey ahead of us, but our vision gives us clear long-term focus and direction and provides the motivation we will need to succeed.

Our Sustainability Strategy



Vision & Strategy

Our strategy

Our strategy will allow us to fulfil our vision and take our sustainability work to the next level.

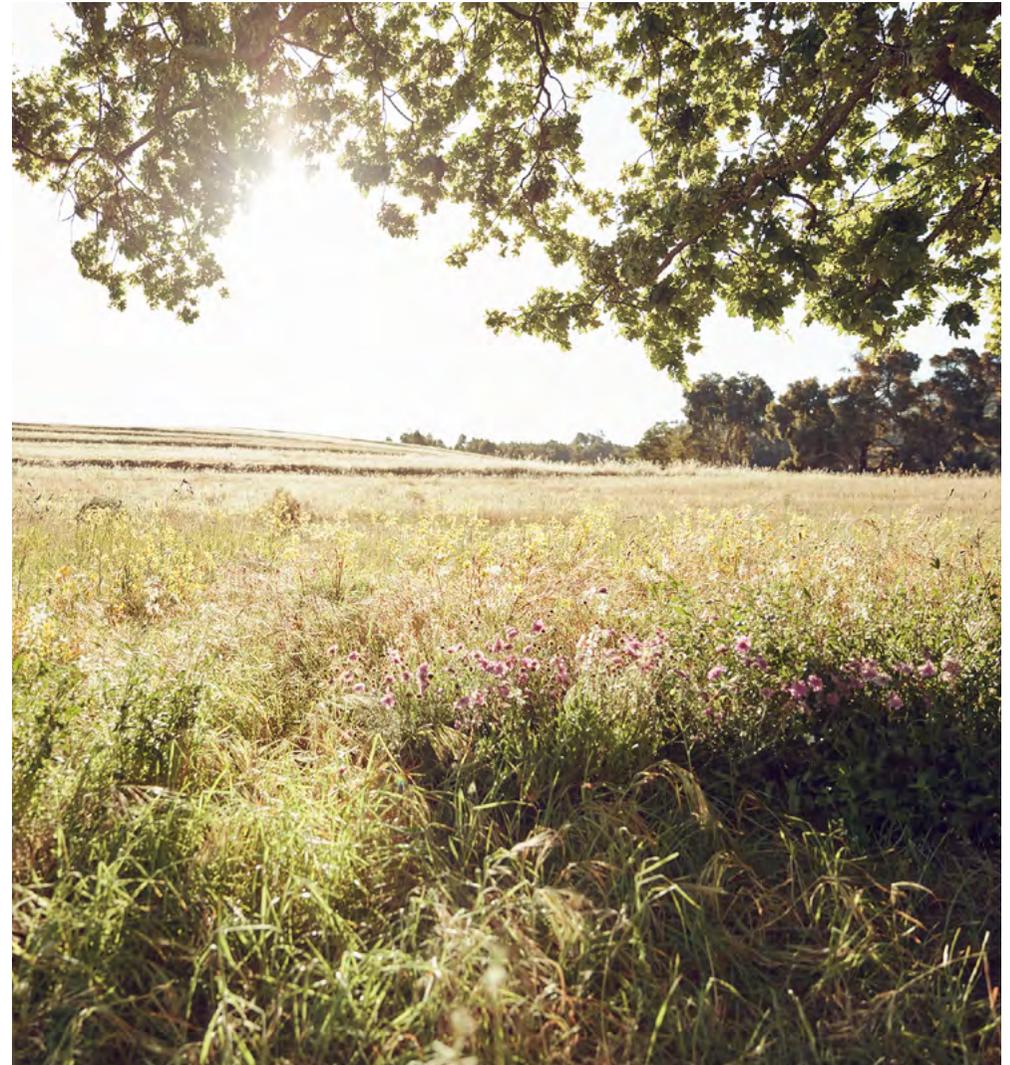
The H&M group has come a long way since our first sustainability strategy in 2009. In 2016, we reported on our seven Conscious Commitments for the last time. This year, we have started reporting on our new vision and strategy.

We have developed our new strategy in partnership with internal and external stakeholders and experts from across our value chain. We mapped and prioritised our human rights risks, and identified how we could leverage positive change by addressing these risks. And we used an inclusive and science-based process. Working with our partners, we defined our ambition areas as 100% Leading the change, 100% Circular & Renewable and 100% Fair & Equal. Each area is covered in an individual chapter in this report.

That said '100%' is not an exact goal – it demonstrates the scale of our ambition and our commitment to change, and creates a clear long-term direction and momentum at H&M group and across our industry that will lead to the best possible results.

At the heart of our sustainability work is our Change-Making Programme, which makes our strategy come to life. By bringing together all of the component parts of our strategy, including our goals, roadmaps, standards and methods, it integrates sustainability into every part of our business. Read more about the Change-Making Programme on page 17.

Underpinning all of this is our ongoing commitment to engage changemakers – the people from across our value chain who turn goals and ambitions into action and achievements. There is simply no way we will fulfil our vision without their help.



Vision & Strategy

Q&A with Anna Gedda, head of sustainability

Our vision for sustainability at the H&M group is ambitious. It imagines a whole new way of making and consuming fashion for the world. It's a vision that is built on the experience we have gained about what works and what doesn't.



Anna Gedda, head of sustainability at the H&M group, explains where the new strategy came from and how it will become a reality.

Why has the H&M group updated its sustainability strategy?

The H&M group has been committed to sustainability for a long time, and we are proud of what we have achieved so far. But the fashion industry is still facing big challenges and we need to rethink how fashion is made and used. We have the size, scale and ambition to help lead that change.

Sustainability is fundamental to the future of our business. Looking 20 or 30 years ahead, we need a strategy that will both help ensure that our planet has enough resources to go around and that enables us to use and produce those materials in a sustainable way.

Our new strategy is built on years of hard work and experiences of both successes and setbacks. But all of the original building blocks, such as setting long-term goals, collaboration and integrating sustainability in all of our business operations, are still there. Our

seven Conscious Commitments helped us achieve a lot, and our new vision and focus areas will take us even further.

What makes the H&M group's sustainability strategy unique?

Many things. First, our ambition. We want to lead the change towards a circular and renewable fashion industry while also being a fair and equal company. That is a huge commitment to make.

Second, the size of our business. We are one of the world's biggest fashion companies. This comes with both responsibility and opportunities as we have a unique reach and possibility to create change. Because of this, our sustainability ambitions won't just set our agenda, they will help drive change across the industry.

The third thing that makes our strategy unique is that it is about true sustainability. We are not here to outperform our competitors. It doesn't matter if we have the smallest carbon footprint compared to anyone else. Instead, we are using a scientific approach to find out where our planet needs us to be – in terms of our environmental and social impact – and then setting goals around that.

And finally, because there is simply

no way we will be able to reach these goals without getting our customers, employees, business partners and other stakeholders on board, our strategy is founded on the need for engagement and collaboration.

How can you continue to expand while also becoming more sustainable?

According to the UN, there will be 9.7 billion people living on this planet by 2050, with a rapidly growing middle class. We believe that all of these people should be able to access and afford clothes they love that are also sustainable – no matter where they live or how much money they have. To accomplish this, we have to grow our business sustainably and move towards a circular use of resources. That means making sure our growth is not linked to, or dependent on, similar growth in our resource use. It won't happen overnight, but we will get there.

Leadership is obviously a key element of the new strategy. Why is that?

Our size, scale and influence mean that we have both a responsibility to do the right thing and an opportunity to create real, lasting change. We have the ability to create large-scale impacts that few others have.

Vision & Strategy

▷ For me, being a leader means using this position to lead by example and break new ground. By testing new ideas or doing what others have not done before, we can pave the way and try new things. This will also hopefully lead others to follow our example or join us in our movement for change.

Of course, while being first gives you an advantage, it also means you are more likely to make mistakes. That's why it is important to remember that perfect is the enemy of good. Instead of putting brands off from taking the kind of bold steps we need, I hope that we can celebrate the milestones that take us closer to a more sustainable industry. I believe leadership deserves both scrutiny and encouragement, and I hope our efforts will attract both.

What does 100% mean?

Basically, '100%' is our ultimate ambition, and it will take us decades to achieve. Any company can say it wants to become circular, but unless we all aim for 100% we'll never fully get there. We want to be part of the solution and help advance science in this area, and to do that we need to be transparent about our ambitions. Our roadmap doesn't have

** Read more about Higg Index in the next chapter.*

all the answers on how we'll get there, but we do know you have to be bold to make things happen. For us, 100% is not necessarily an exact measurement, but a way to demonstrate our ambition and create action – both within our company and outside of it.

“Our size, scale and influence mean we have both a responsibility to do the right thing and an opportunity to create real lasting change.”

Which sustainability achievements are you most proud of from 2016?

I'm really proud of our ambition to become 100% Circular. It's a big, daring commitment, and I see it is an achievement to have made it. Obviously, it's the starting point for much more to come! Looking at the challenges around resource use that not only our, but all industries face, this marks such an important step towards a more sustainable way of making and enjoying fashion.

I'm also proud of the steps we've taken to become more transparent, in particular

the extent to which we've implemented and used the Higg Index* to evaluate our suppliers. The Higg Index exists to help businesses like ours get a clear picture of our environmental, social and labour impacts and identify areas for improvement. See more in the Standards &

Policies chapter on p. 99. It takes time to both create a universal standard and for it to be adopted industry-wide to work. No other brand of our size has made this kind of commitment to transparency yet, but we hope that by us using it, others will follow.

After a successful first year, we also extended our Global Framework Agreement to become a permanent collaboration with IndustriALL and the Swedish trade union IF Metall. We see this as a foundation for creating a well-functioning dialogue between our suppliers and local

trade unions, which is necessary for lasting improvements in all areas of working conditions, including fair living wages.

Finally, I would like to mention the work we're doing to engage our customers to be more sustainable. We need their help if we're going to reach our goals. For example, since we introduced our garment collecting initiative globally in 2013, we have gathered almost 39,000 tonnes of garments to give them a new life so nothing goes to waste. By showing them that sustainability is part of the H&M group's brands, we're changing their behaviour when it comes to caring for and disposing of clothes. Our objective is to make fashion sustainable and sustainability fashionable.

What does sustainability mean to you?

For me, it's very real and a big part of both my professional and private life. I have two young children and I want to know that I'm leaving them a better world to build their lives in. That means everything from taking care of how we use resources to helping people around the world enjoy good and healthy lives in a more fair and inclusive society. I'm really proud to be working for a company that wants to be part of making this change happen.

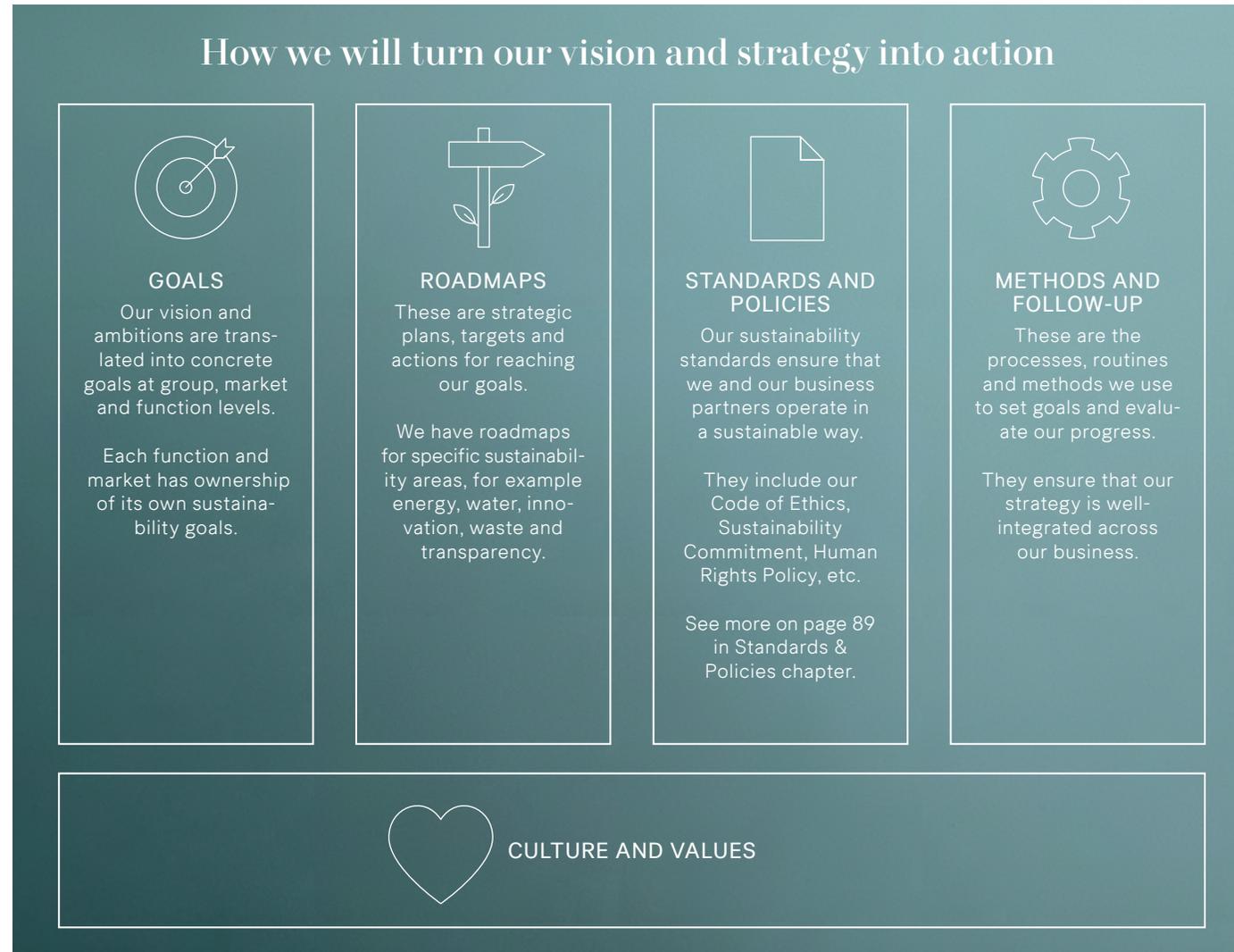
Vision & Strategy

Our Change-Making Programme: Turning our strategy into action

Our Change-Making Programme is the ‘nuts and bolts’ of how we turn our sustainability strategy into action and make our vision a reality.

The H&M group is a big, global and diverse fashion company and we recognise (perhaps more than most) that one size doesn’t fit all. The Change-Making Programme will allow us to integrate sustainability into our business by bringing our sustainability strategy to life in a systematic way across all of our functions, brands and countries. It makes sustainability a practical part of everyone’s daily working life. The programme brings together the goals, roadmaps, standards and follow-up methods we will need to work towards our vision while at the same time leaving room for locally-tailored implementation and activities.

NB: At the time of print, we are still defining some of the initial goals for our sustainability strategy. For the best results, goal-setting must be an ongoing process that works with the latest insights and information available and is supported by our internal functions and external stakeholders. By constantly improving our goals, we will stay aligned internally on fulfilling our vision. We anticipate all initial goals to be set throughout 2017 and onwards. Please see the interview on p. 18, for more information on our goal-setting process.



Vision & Strategy

Interview with Cecilia Strömblad Brännsten: Our science-based goal setting explained

What's your background and role at the H&M group?

I started out in the buying office at H&M in 2004. Five years ago, I moved to the Global Sustainability Department to work on circularity and sustainable materials as an expert in sustainable business. I am also the Global Project Manager for the garment collecting initiative.

How will the H&M group reach 100% circularity?

Reaching 100% circularity is an ambitious vision, and we don't have all the answers for getting there yet. We are currently working with internal and external stakeholders to set the goals, roadmaps and actions that will push us forwards on our journey. You will see many of these goals in this report, but some are not ready to share yet.

What's your role in the goal-setting process?

Together with my colleagues in the Global Sustainability Department, I lead the goal-setting process for 100% circularity. That means we set the direction and ambition level, and ensure we are on the right track from an environmental and business



Cecilia Strömblad Brännsten.

perspective. We also work to facilitate cross-functional goal setting – many of our targets will only be achieved if different functions across our business are aligned. To realise our vision, we also need to continuously revise our ambition level – and set new goals that push us forward.

Wherever possible, we follow a science-based approach to goal setting – we want to base every decision on facts and data. Currently, this approach is most valid for goals concerning climate change and water use, but we are taking an 'outside in' perspective to understand and thereby mitigate our local and global impact across all areas of action. It is also our job to continuously connect with our internal and external stakeholders to share progress and get further input.

Why is a science-based approach so critical?

Leading the change towards a circular fashion industry means running our business in a way that is in line with what our planet can afford. A science-based approach helps us collaboratively and transparently work with experts to define priorities and targets consistent with these planetary boundaries, see box on p. 37. It pushes us to increase our pace of innovation, make the big leaps that are necessary and set our long-term goals.

Much of the science in this area is still evolving. That means we need to keep exploring to find the best solutions for our business and the planet.

One example for how science helps our goal setting is our research project with the Stockholm Resilience Centre and the Ellen MacArthur Foundation. Together, we are working to identify what a circular fibre system within planetary boundaries could look like for the textile industry. The outcomes of this long-term project will influence what material-use goals we set for ourselves, and provide guidance for the whole textile industry.

How important is it to work with external stakeholders when it comes to goal setting?

I believe it's very important. Our external stakeholders inspire and challenge us, and push us in the right direction. When it comes to circularity, we have the privilege of working with some of the most influential stakeholders in the field including the Ellen MacArthur Foundation, the Stockholm Resilience Centre and the WWF.

Vision & Strategy

How we are organised

Our head of sustainability, reports directly to our CEO and has responsibility for the implementation of our sustainability strategy together with the Executive Management Team.

Twice a year, our CEO, CFO and head of sustainability review the progress made. With the same frequency, our head of sustainability reports performance against key sustainability indicators to our Board of Directors.

At our head office, our global sustainability department consists of more than 25 colleagues responsible for setting the strategic directions and ambition level, reviewing our progress, and supporting and advising all relevant departments on the development and implementation of our strategy.

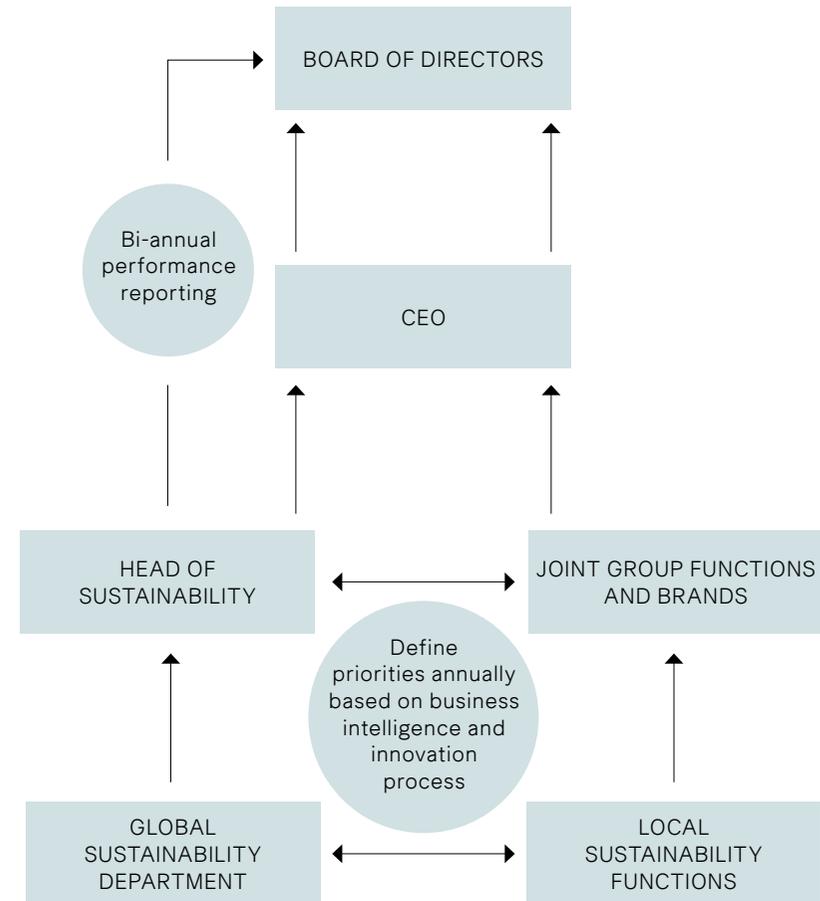
At the group functions and brands, we have approximately 15 colleagues. They have set specific sustainability goal and targets. Their performance is measured and follows the same procedure as for any other goal.

In our production markets, we have approximately 145 sustainability managers that operate from 21 local production offices around the world. They work directly with our commercial business partners to assess their performance against our Sustainability Commitment and support them in making improvements through capacity building programmes and activities.

In our sales markets, we have 35 sustainability managers who support the implementation of our strategy across all of our sales markets.

We have 220 colleagues globally who work with sustainability as their core task.

Organisational chart



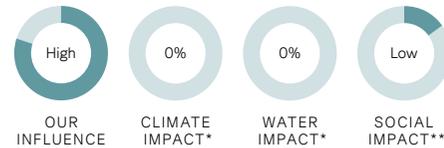
Vision & Strategy

Impacts along our value chain

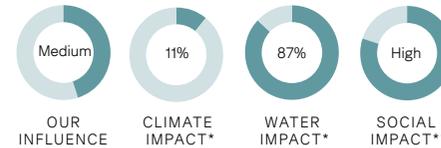
Our value chain is connected to countless people, communities, ecosystems and other businesses around the world – that is what it means to be part of the global economy. Our business’ social, environmental and economic impact is significant and far-reaching, and we want it to be as positive as possible.

This means creating positive change along our value chain – from the farms and factories that supply us to our millions of customers. We can do this in our own operations, but what about the parts of the value chain that lie outside of our direct control? Our strategy is grounded on the idea that we must use the size and scale of our business to leverage change and create maximum positive impact and minimum negative impact. One particular focus area is the protection and improvement of human rights along our value chain. This is explained in full in the Standards & Policies chapter on p. 92.

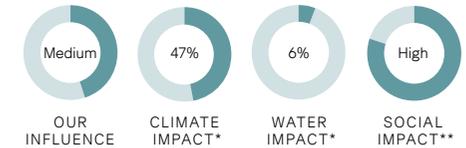
* See next page. ** See next page.



OUR CHALLENGE Sustainability starts at the drawing board. We need to create fashion without compromising on design, quality, price or sustainability. Our choice of materials and our designs impact the environment and the people who make and wear our clothes. We can make our impact more positive, for example, by choosing sustainable materials and reducing what ends up on the cutting room floor.



OUR CHALLENGE Processing raw materials such as cotton is an area we must pay close attention to. It involves high water and chemical use, and it is often associated with poor working conditions. There is a potential risk of child and forced labour, and concerns around land rights issues (identified as salient human rights issues for us). There are also considerable traceability challenges as we do not always have full insight on where our conventional cotton comes from. Our choices matter, which is why we work to use raw materials as efficiently as possible, making and promoting sustainable raw material choices and working towards our 100% circular ambition.



OUR CHALLENGE When our business partners buy yarn and fabric, we need to consider water use (a salient human rights issue for us), chemical use, working conditions and greenhouse gas emissions. Generally speaking, we do not have direct business relationships with mills. Instead, we work with organisations such as Solidaridad and the Natural Resources Defence Council (NRDC) to help mills improve their performance. We have already integrated fabric and yarn mills that are involved in making about 56% of our products into our supplier assessment system.



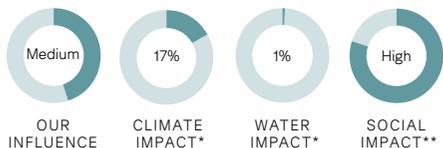
Vision & Strategy



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



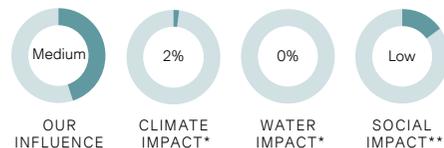
Product manufacturing



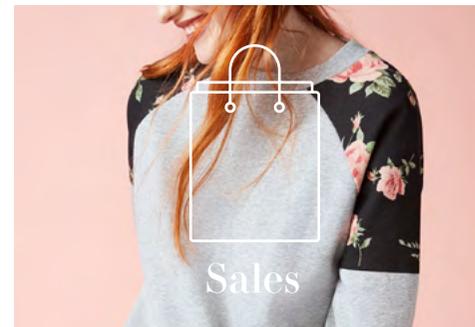
OUR CHALLENGE Over 1.6 million people work in the factories of our business partners, 65% of whom are women. Social security, wages, freedom of association and collective bargaining, health and safety, and working hours are all salient human rights issues. Our industry must ensure fair living wages, reductions in overtime and workplace safety to become socially sustainable.



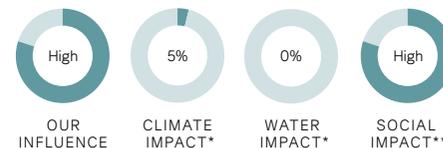
Transport



OUR CHALLENGE Transport represents approximately 2% of the greenhouse gas emissions in a garment's lifecycle. By choosing the right modes of transport, we can reduce this impact even further. And as an important customer of the transport companies we work with, we have the opportunity to influence their awareness and action on environmental issues as well.



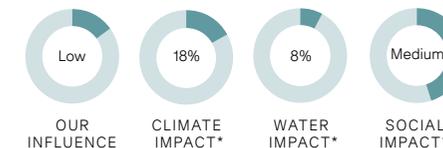
Sales



OUR CHALLENGE We have over 4,351 stores across 64 markets. As we grow, enter new markets and employ new people, we need to keep living up to our values and ensure an inspiring and healthy working environment. Discrimination and harassment are human rights issues and our internal policies, such as our Global Diversity, Inclusion and Equality Policy and Non-Harassment Policy, are vital to ensure a good workplace. Our customers rightfully expect good quality products and shopping experiences. As part of that, we need to ensure the privacy of their and our colleagues' data, and to advertise in a responsible way.



Use



OUR CHALLENGE Caring for clothes at home represents about 18% of the greenhouse gas emissions in a garment's life. Our challenge is to create affordable fashion that our customers will love from season to season and that is easy to care for in a low-impact way. We need to inspire our customers to be more conscious in the way they care for their garments and make it easy for them to not let fashion end up in landfills.

* Climate impacts are based on a scope 3 assessment made by Ecofys in 2016, based on 2014 data. Calculations in the footprint analysis are based on a combination of good quality H&M group data (2014 material usage) combined with best available public data sources on CO₂ emissions. We are working to further improve the calculations by using primary data from our main suppliers. The water footprint is based on the Water Footprint Network's methodology and includes green, blue and grey water footprints. Deviation from 100% due to rounding effects.** For more information about our social impact, see p. 114. A number of these issues related also to the H&M group's salient human rights issues, i.e. those human rights at risk of the most severe impact across our operations and supply chain.



H&M.



100% Leading the change

Overview

100% Leading the change			
TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
INNOVATION	To identify and promote innovative solutions and to use our size to take any breakthroughs to scale.	<ul style="list-style-type: none"> - Collaborated with Cradle-to-Cradle Products Innovation Institute to help support industry-wide demand and supply of sustainable materials. See also 100% Circular & Renewable chapter. - Provided Global Change Award winners with knowledge about the fashion industry and the supply chain to further strengthen their innovation ideas. - Donated 50% of the proceeds of our garment collecting initiative to the H&M Foundation for circular innovation that benefits the whole industry. See also 100% Circular & Renewable chapter. 	<ul style="list-style-type: none"> - Donated almost EUR 0.8 million to the H&M Foundation for circular innovation project from the total proceeds of the garment collecting initiative. See also 100% Circular & Renewable chapter p. 54.
DRIVE TRANSPARENCY	To promote transparency that drives positive change in the industry.	<ul style="list-style-type: none"> - Further expanded of our public supplier factory list to include more second tier factories. - Collaborated with SAC to build a Higg Index tool to measure the sustainability performance of apparel and footwear. - Adopted the Higg Index environment and social facility modules and integrated them in the SIPP. See more in Standards and Policies chapter on p. 100. - Participated in EU initiative to create a methodology for consumers to compare sustainability performance on the product level. - Cooperated with Control Union on a successful pilot traceability system for organic cotton and viscose. 	<ul style="list-style-type: none"> - The second factories included in the public factory list represent 56% of the H&M group's total business volume compared with 51% last year. - We were one of the first global companies to roll out the Higg Index to our business partners. - We rolled out our SIPP to all of our first tier and 56% of our second tier business partners.
REWARD SUSTAINABLE ACTIONS	To develop and use reward systems that can best create and accelerate progress towards our sustainability goals and vision.	<ul style="list-style-type: none"> - Further integrated our sustainability goals into our business goals. We have a follow-up process to create accountability and have made sustainability part of our management evaluation process. - Developed incentives for our customers to create positive behavioural change through the H&M Club and for those who recycle their clothes via our garment collection programme. - Continued working with our commercial business partners to raise environmental and social standards. We reward partners who maintain good sustainability performance with more orders and long-term commitment. 	



100% Leading the change

Introduction

We want to ensure that people can enjoy fashion today, and for generations to come. As we explain in our Vision & Strategy chapter, to accomplish this we need to change how fashion is currently made and used. This will require significant commitment and action from stakeholders across the fashion industry. Because of our unique size and position as a brand with a long-term commitment to sustainability, we see it as a responsibility – and an opportunity – to help drive this change. **100% Leading the change** is our commitment to act as a catalyst for change and help lead our industry forwards.

As leaders, we want to push boundaries and break new ground. Our role is to bring people and partners together to identify opportunities for new kinds of collaboration. On top of this, we aim to proactively seek out and share the innovative ideas and solutions that will move our industry forward. Our size and scale mean that we can accelerate change and speed

up progress towards a truly sustainable fashion industry. We want to lead by example.

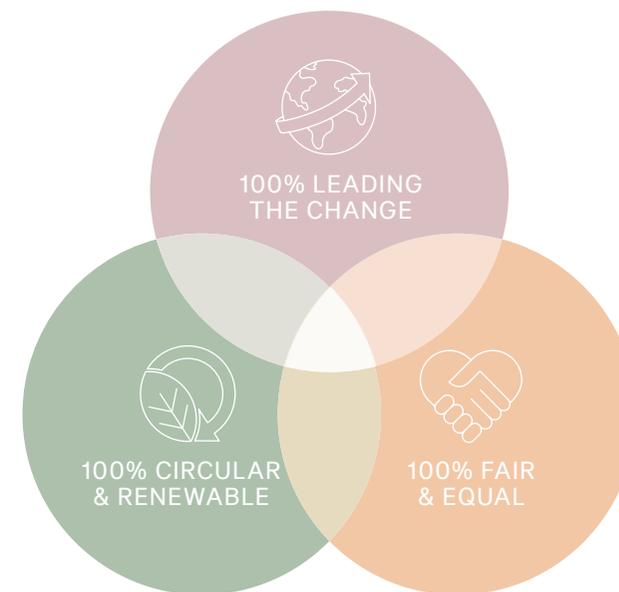
This leadership approach is core to our strategy and will empower us to fulfil our vision of a 100% Circular & Renewable and 100% Fair & Equal fashion industry.

“We need to change how fashion is currently made and used.”

To lead the fashion industry towards our sustainability vision, we have identified three key drivers that will accelerate progress: innovation, transparency and rewarding sustainable action. When we apply these drivers to our vision and goals, they help us accelerate change, empower and encourage our stakeholders (including our customers) in making sustainable choices and develop new solutions to complex challenges.

Collaboration is fundamental to successful leadership and the challenges we face are too great to solve alone. A full list of key collaborations is provided at the end of the 100% Circular & Renewable chapter and the 100% Fair & Equal chapter, all of which will help us ‘lead the change’.

Our three ambitions



Our sustainability strategy has three focus areas: 100% Leading the change, 100% Circular & Renewable and 100% Fair & Equal. Real, lasting change comes when we approach these areas in a holistic way and find areas of overlap. In particular, our approach to leadership must be applied to our work in 100% Circular & Renewable and 100% Fair & Equal.

One example of the effectiveness of this approach is our work on water stewardship. Working collaboratively with the WWF, our strategy addresses both the fair and equal issues around water (such as livelihoods and access) and the circular and renewable issues (such as wastewater, water basin levels and local environments). This has involved working with a full range of stakeholders, most significantly local communities, NGOs and governments. Our chapter on water stewardship goes into more depth on p. 51.



100% Leading the change

Promote and scale innovation

To achieve the kind of transformative change our industry needs, we must do more than make incremental improvements to how fashion is made and used. Instead, we need to take leaps. Innovation is the key to this and we have a unique opportunity to not only identify and promote innovation, but also use our size to take any breakthroughs to scale. Our goals are ambitious, so our approach must be, too.

We see innovation as a tool that can keep unlocking sustainable change over the long term. We are already aware of some major challenges to achieving our goals. For example, we need to find a way to sustainably recycle blended fibres and develop technologies that can capture carbon. We will continue to innovate to address these challenges. Looking ahead, we will inevitably encounter many more unpredictable challenges along our journey that will require solutions we do not yet have. By allocating resources now and by creating collaborative platforms for innovation – both internally and externally – we will build the skills and capacity to tackle these challenges as they arise.



H&M Studio S/S 2017

Our approach to innovation

- *We focus.* We target a clear area – such as becoming Climate Positive – and come up with a plan for getting there. Any gaps in the plan are where we focus our innovation resources.
- *We identify and promote* any promising innovations through ongoing dialogue with universities and research centres, through our supplier and business partnerships and through our connection with platforms like the Global Change Award.
- *We collaborate.* Through our extensive network of partners, we identify and facilitate the opportunities for collaborative innovation that will speed our progress towards our goals and, wherever possible, lead the way for the rest of the industry to do the same.
- *We scale.* The size of our business means we can take successful innovations to scale quickly, for example, by introducing new sustainable materials in our supply chain.

Alongside this, we also have CO:LAB, an internal investment team with a mission to promote entrepreneurship, explore and challenge the future of fashion and support the long-term growth of the H&M group. CO:LAB makes investments in sustainable fashion, innovative business models and technology enablers, and looks for companies with a strategic match to our business.



100% Leading the change

▷ Here are some examples of how we use this approach to help tackle our 100% Circular & Renewable ambition.

First, we focus on a challenge. We want to increase the lifespan of our garments, for example, by facilitating secondary use. In November 2015, we identified the potential of Sellpy, a Swedish start-up that offers an on-demand service to help people sell items they no longer use. We invested in Sellpy to help them develop and scale their sustainable retail concept – a new and exciting way to shop that aligns well with our own business concept of fashion and quality at the best price in a sustainable way.

We are also focusing on developing methods to recycle a much larger percentage of products, particularly garments. When a garment is no longer usable, recycling is usually the best option – ideally into products of the same or higher value. Because the technology doesn't exist for this to happen, we are working to increase the share of products that can be recycled by creating demand for further innovation, and by identifying and investing in several exciting ideas.

In 2016, our collaboration with the innovation company Worn Again saw some

promising technologies in development for textile-to-textile recycling. Similarly, our work with the Cradle-to-Cradle Products Innovation Institute is helping support industry-wide demand and supply of sustainable materials.

In addition to our own initiatives, the independent non-profit H&M Foundation aims to drive change throughout the industry. For example, the Global Change Award is one of the world's largest competitions for early-stage innovation, providing grants of EUR 1 million annually (see p. 26). The H&M Foundation receives the proceeds of our garment collecting initiative (almost EUR 0.8 million) for circular innovation. The H&M group also supports Global Change Award winners with knowledge about the fashion industry and the supply chain. This and more is covered in detail in our 100% Circular & Renewable chapter on p. 54.

Global Change Award

The Global Change Award is an innovation challenge initiated by the non-profit H&M Foundation in 2015. By catalysing green, truly ground-breaking ideas, the Global Change Award takes on one of the biggest challenges facing today's fashion industry – creating fashion for a growing population while improving its impact on the environment.

Each year, an expert panel annually selects five winners that share a grant of EUR 1 million and gain access to a one-year innovation accelerator provided by the H&M Foundation, Accenture and the KTH Royal Institute of Technology in Stockholm.

The global public is invited to distribute the EUR 1 million grant between the five innovations through an online vote. The result of the vote and the innovators are revealed at a grand award ceremony held in Stockholm in April. This is one of the world's biggest challenges for early-stage innovation and the first such initiative in the fashion industry.

The H&M Foundation introduced the challenge to speed up this process for the entire fashion industry and neither the H&M Foundation nor the H&M group claim any

equity or intellectual property rights in the innovations. The aim is to influence the fashion industry as a whole.

The H&M Foundation is a non-profit global foundation privately funded by the Stefan Persson family, founders and main owners of the H&M group. Since 2013, the family has donated 1.1 billion Swedish kronor (USD 154 million/EUR 123 million) to the Foundation.

The mission is to drive long lasting positive change and improve living conditions by investing in people, communities and innovative ideas. This is done through partnerships within four focus areas: Education, Water, Equality and Planet.

For further information, please visit hmfoundation.com.



H&M FOUNDATION



100% Leading the change

Drive transparency

As an important accelerator of change, transparency is key to building trust and credibility along our supply chain and empowering our customers to make more sustainable choices.

Transparency is about knowing how and where our products are made and being open and honest about it. Transparency allows us to hold ourselves and our suppliers accountable on issues such as human rights, fair jobs and environmental protection. And it means we can pinpoint priorities, take appropriate action and communicate with confidence and credibility about our progress. Greater transparency also makes it possible for our customers to make more sustainable choices, which is essential to driving and accelerating change.

Transparency is also critical to achieving our 100% Fair & Equal and 100% Circular & Renewable ambitions. For example, it helps us identify and favour suppliers who pay their employees a fair living wage, monitor and manage material and chemical use much more effectively, and communicate more clearly with our customers about the issues they care about.



Creating a more accountable and transparent supply chain

Transparency is a complex issue. Building a system for transparency along a fashion supply chain takes time and a lot of collaboration. It involves finding a way to track and store information about raw materials and then connecting it to specific products. The complexity of the industry makes this harder, as does the fact that neither we nor our competitors have a direct business relationship with many of our second and third tier suppliers. What's more, there is always some industry-wide tension around the balance between transparency and competitiveness.

However, we are serious about transparency and – despite the challenges – are making good progress towards it. We were the first fashion retailer to make our supplier list public (in 2013) and we are collecting more and more in-depth production information to share with our customers and other stakeholders. This includes information from factories that are subcontracted by our suppliers for specific tasks such as washing, embroidery and printing. In 2016, we continued to expand our public supplier factory list to include second tier factories. It now includes the fabric and yarn mills that made about 56% of our products in 2016.

We will continue to lead the change when it comes to transparency. However, we have learned that increased transparency typically also increases



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▷ external scrutiny and criticism. Despite this, we are committed to transparency because we believe it is what the industry needs. However, we also hope that it will become more valued in the future to encourage companies to be more open.

THE SUSTAINABLE APPAREL COALITION AND HIGG INDEX

The Sustainable Apparel Coalition (SAC) is an industry-wide alliance between stakeholders working towards sustainable production. As one of the founding members of the SAC, we share our commitment to drive transparency across the fashion industry with those partners who are most capable of creating change. For more information, see the interview with the CEO of the SAC on p. 30.

The Higg Index is the main output of the SAC. It's a suite of self-assessment and verification tools across three modules – brand, facility and product – that helps assess the sustainability performance of a brand, product, material or individ-

ual facility (such as a factory). The Higg Index measures environmental, social and labour impacts, presents a score and identifies areas for improvement. We were one of the first global fashion companies to roll out the facility module of the Higg Index to all of our first tier factories. We also rolled out the module to our second tier factories that represent 56% of the H&M group's total business volume. (The product module is not yet finished and we are using the brand module for internal purposes).

We hope that this will inspire other brands to follow suit – if we are all in the same system, we can create a universal standard to compare the sustainability of products, brands and suppliers using the same bar. This brings many advantages. Consumers can make sustainable choices more easily. Brands and suppliers can identify their strengths and development areas more easily and therefore focus on the right improvements. What's more, when a supplier only has

“We aim to drive supplier ownership, reward the extra mile and measure performance beyond compliance.”

to complete one assessment rather than meeting the demands of various individual brands, they free up resources for putting those improvements in practice.

We also score each supplier factory's sustainability performance through our own set of defined KPIs and Higg Index questions. We use the output of this to create our Sustainability Index (SI), which replaced our Code of Conduct Index in 2015. Currently, we use the SI to give us a broader view of the sustainability impacts and performance of our suppliers, therefore giving us greater visibility and insight.

Over the last few years, we have developed a supplier assessment programme called the SIPP – the Sustainable Impact Partnership Programme. This is based on the Higg Index facility module as well as our own KPIs (for now).

Through the SIPP, we aim to drive supplier ownership, reward the extra mile, measure performance beyond compliance and reflect that sustainability drives business performance. We explain the SIPP and its process and progress in more detail in the Standards & Policies chapter on p. 100.

Our ongoing progress towards greater transparency will help us improve our goal setting. As we collect more and better information about our impact and our supply chain, we will be able to set more ambitious and effective goals. For example, greater transparency will help us achieve our initial goal to have full traceability of all of our cotton by 2020.

“Our ongoing progress towards greater transparency will help us improve goal setting.”



100% Leading the change

Empowering our customers

At the other end of our value chain, one of our key transparency goals concerns communication with our customers. The Higg Index is a tool used to measure the sustainability performance of apparel and footwear. Not only will this drive sustainability performance across our entire industry, we ultimately want to translate it into a product labelling system that allows customers to benchmark products across brands. We support the SAC's vision of completing the consumer facing index by 2020.

In 2016, the H&M group collaborated with Control Union on a pilot traceability system for organic cotton and viscose. We developed a web-based system that allowed suppliers to record incoming and outgoing shipments and provide transaction records and a QR code for each one. Selected suppliers from all tiers were trained to use the system for this pilot, which enabled fibre to garment traceability. The pilot was a success and we now plan to scale up the system to cover the entire viscose supply chain over the next few years.



Case study: Environmental score labels on our footwear

Transparency is a key driver of progress. That's why we were excited to be part of a pilot programme that explored how to give customers more information about the lifecycle impact of products - in this instance, shoes. This included everything from the raw materials we use and how we transport our products to their potential use and disposal.

The European Commission piloted this initiative, which was then run by the Sustainable Apparel Coalition (SAC) and several

other brands including Nike, Adidas and Zara. Working together, we created a methodology to calculate the footprint from each shoe and a communication format that delivered clear, practical information. We want our customers to know that our products are made with care for the environment and allow them to compare sustainability performance - even between brands.

The new hang tag used a rating system from A to E, which was developed by the SAC, participating brands and independent experts. We entered four models of women's shoes into the pilot, all of which scored A or B.

The pilot finished in autumn 2016. Looking ahead, the SAC will use its findings to grow our shared understanding of how to assess the impact from products and how to communicate that impact in a way that informs our customers and drives sustainability across our industry. The European Commission will evaluate the results of the pilot in 2017 and then make a recommendation to the European Parliament.

“We want our customers to know that our products are made with care for the environment.”



100% Leading the change

Stakeholder interview with the Sustainable Apparel Coalition (SAC)

The Sustainable Apparel Coalition (SAC) is an alliance between members of the apparel, footwear and home textile industries. The H&M group was a founding member of the SAC and we share in its vision of a sustainable fashion industry that does not harm the environment and has a positive impact on the people and communities connected to it. We talked to Jason Kibbey, CEO, about the value of transparency for a more sustainable future of fashion.

Name Jason Kibbey
Title CEO
Organisation Sustainable Apparel Coalition (SAC)



How does the SAC improve the transparency and sustainability performance of brands and their suppliers?

The SAC's Higg Index measures the management and performance of clothing and footwear through the lens of the brand,

factory, products and materials. Each of these lenses generates a Higg sustainability score. While these scores are currently only used in a business-to-business context, eventually they will be available to all stakeholders including consumers.

When can we expect all of the social and environmental data to be publicly available?

According to our roadmap, all of this information will be available by 2020, if not before.

What are the biggest challenges to push for an even greater adoption of the Higg Index?

Getting an entire industry to use one assessment tool takes time and patience, but we're making good progress. Our members and their value chains have so far performed nearly 15,000 brand and facility assessments. All SAC members, which comprise nearly 40% of the industry, will be required to use the Higg Index.

What are you hoping to achieve in the next five years?

First, we want product-level transparency for apparel and footwear to become a reality for all stakeholders, including consumers. This will allow them to choose products according to their sustainability performance. And second, we want there to be measurable positive social and environmental impact in the apparel and footwear value chain.

What do you see as the H&M group's biggest sustainability challenges in the coming years?

The H&M group and all large retailers will have to find a way to continue to grow while dramatically reducing their environmental and social footprint. The solution is to become circular, but that's a big challenge.

“We want product-level transparency for apparel and footwear to become a reality.”



100% Leading the change

Reward sustainable actions

To fulfil our sustainability goals, we have to build sustainability into every decision taken at every step of our value chain from farmers and factory owners to our customers.

There is a lot of research out there into how to encourage sustainable mindsets and empower sustainable behaviour. We want people to do the right thing and believe they should be rewarded for positive behaviour. We know that incentives and reward systems can change behaviours for the better in the long term. This principle is true for all of our potential changemakers – from customers to suppliers.

Our approach is to reward sustainable actions and choices in a way that integrates sustainability into decision-making for our colleagues, customers and partners. For example, we choose and reward partners who share our values and are willing to work transparently with us to improve their social and environmental performance.



Colleagues from H&M in Taipei, Taiwan.

Developing reward systems

It is our ambition to develop and use reward systems that can best create and accelerate progress towards our sustainability goals and vision. We will use different reward systems for different groups and situations.

COLLEAGUES

We have integrated sustainability goals in our business goals. This forms part of our regular management evaluation process and it will

be followed up regularly to create accountability and to reward good performance.

We will encourage colleagues at all levels to contribute to change in the workplace and in their communities. This will involve a range of activities and strategies, some of which are still in development.

CUSTOMERS

We know that incentives create positive behavioural change so we will use them to inspire our customers

to love their clothes for longer and reuse and recycle wherever possible. We already reward customers who recycle their clothes via our garment collection initiative and through the H&M Club.

COMMERCIAL PARTNERS

We will work with our partners to raise environmental and social standards. Our Sustainable Impact Partnership Programme (SIPP), see p. 100, will help with this. We will reward partners who maintain a good sustainability performance and aspire to further improve it with more orders, training opportunities and more long-term contracts. In this way, we will support partners in raising environmental and social standards across the industry as a whole.





100% CIRCULAR & RENEWABLE



H&M

100% Circular & Renewable

Overview

100% Circular & Renewable			
TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
100% CIRCULAR			
STAGE A CIRCULAR DESIGN	To build circularity into the design process - To become circular* on 80% of the store concepts by 2025. <small>* As defined in the Circular Assessment Tool developed together with the Ellen MacArthur Foundation</small>	- Co-developed a tool to assess the circularity of our non-commercial goods in collaboration with the Ellen MacArthur Foundation. - Ran regular training for design and buying office on sustainable material use. - Our design and buying departments created Conscious Exclusive, C/O Cheap Monday Capsule Collection, Closed Loop 2016 collections - Launched Conscious Beauty line.	
	To use 100% recycled or other sustainably sourced materials* by 2030. <small>* H&M brand.</small>	- Collaborated with the Cradle to Cradle Production Innovation Institute: Fashion+ and the circular innovation working group. - Kicked off research project with the Ellen MacArthur Foundation and Stockholm Resilience Centre focusing on creating vision and a pathway a circular textile fibre industry within planetary boundaries. - Worked with the canopy style initiative, our man-made cellulose supply chain and internally to ensure fibre producer and brand compliance with our policy.	- 26% of our total materials were either recycled or sustainably sourced. - Second largest user of recycled polyester equivalent to 180 million PET bottles. - Second largest user of Tencell@Lyocel.
STAGE B OUR CHOICE OF MATERIALS	COTTON To use 100% cotton from sustainable sources* by 2020. <small>* Including certified organic, recycled and Better Cotton (BCI).</small>	- Commissioned a life cycle assessment study to understand the impact of closing the loop recycling on cotton. - One of the founding partners of Organic Cotton Accelerator Foundation, launched in 2016.	- The largest user of Better Cotton. - Second largest user of organic cotton. - 43% of our cotton comes from sustainable sources.* <small>* Certified organic cotton, Better Cotton (BCI), or recycled cotton.</small>
	ANIMAL-BASED MATERIALS To achieve full traceability of animal-derived materials and only source from responsible farms with good animal husbandry. - To use 100% Responsible Wool Standard (RWS) certified wool in our products by 2022. - To use 100% Responsible Down Standard (RDS) certified down by 2016. - To use only leather from known and well-managed sources that act on environmental, social and animal welfare issues.	- Supported the development and launch of the Responsible Wool Standard in a project led by the Textile Exchange. - Introduced the standard to our supply chain and established links down to the farm level. - Began integrating tanneries into sustainability assessments, covering social and environmental requirements.	- We are the largest user of Responsible Down Standards (RDS) certified down. - We source 100% RDS certified down as of January 2016. - 100% of our key second tier suppliers (or 70% of our product volume in wool) have been briefed on the new responsible wool standard. - Approx. 25% of our second tier spinners have completed the Content Claim Standard* (CCS) for RWS. <small>* The CCS is the chain of custody verification used for all Textile Exchange standards. It is used to verify wool through the entire supply chain.</small>



100% Circular & Renewable

100% Circular & Renewable

TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
100% CIRCULAR			
STAGE C SUSTAINABLE PRODUCTION PROCESSES	CHEMICALS To achieve zero discharge of hazardous chemicals, in any of the H&M group's production procedures by 2020.	<ul style="list-style-type: none"> - Received Green Screen hazard assessment training. - Engaged in the EU public consultation on the restriction of certain hazardous substances in textiles and clothing. - Hazardous Substance Control (HSC) training launched at suppliers. - Launched the environmental emission evaluator (E cube/BVE3) a measurement and monitoring tool from Bureau Veritas in 2016. 	<ul style="list-style-type: none"> - The H&M group became part of the ChemSec business group. - Ran a hazardous substances training pilot for 93 business partners in China, Bangladesh, Indonesia, India, and Turkey. - 29 business partners have joined the environmental emission evaluator (E cube/BVE3). - Awarded avant-garde grading in Greenpeace detox assessment.
	WATER To manage water responsibly across our value chain. To complete installation of water-efficient equipment in our own operations by 2020.	<ul style="list-style-type: none"> - Renewed partnership with the WWF for five more years. It now includes climate action in addition to water stewardship. - Continued updating our roadmap for water risk mitigation. - Worked with fabric mills involved in making about 56% of our products in our business partner assessment systems to improve their environmental footprint. - Moved the Taihu basin water stewardship programme in China from a pilot to a project. - Continued to work with the Sustainable Textile Water Initiative to improve water management in factories connected to our business. Continued to work with water saving programmes such as the Sustainable Textile Water Initiative to improve water management in factories. - All of our denim products are scored using Jeanologia's Environmental Impact Measurement tool. 	<ul style="list-style-type: none"> - 82% of business partner factories are in full compliance with wastewater quality requirements as defined by the BSR. - Together with business partners we used 2.3 million m³ less water due to our water saving programmes. - 8,234 workers were trained in four regions (Bangladesh, China, India and Turkey) by the STWI on water, energy and resource efficiency. - 75 factories participated in cleaner production programme i.e. STWI/PaCT in four regions. - Half of our denim products were ranked at highest level (green) using Jeanologia's tool. - 51% of H&M group stores, offices and warehouses have water-efficient equipment.
STAGE D PROLONGING THE LIFE-SPAN OF OUR PRODUCTS	CARE AND REPAIR To encourage customers to prolong the life-span of products.	<ul style="list-style-type: none"> - Launched extended garment care information online. 	<ul style="list-style-type: none"> - Clever care labels are now included on all of our textile products.
	REUSE AND RECYCLING To use materials from collected garments in our products.	<ul style="list-style-type: none"> - Continued to launch products and collections made in closed loop recycled and upcycled materials from collected garments. Both at H&M brand and Cheap Monday. 	
	GARMENT COLLECTING To increase the volume of collected garments to 25,000 tonnes per year by 2020.	<ul style="list-style-type: none"> - Beat our target to collect 1,000 tonnes of garments globally during the World Recycle Week campaign. - Donated surplus income from our H&M garment collection programme to the H&M Foundation, which invests in the HKRita and social projects. 	<ul style="list-style-type: none"> - Collected more than 15,888 tonnes of garments (29% increase from 2015). - Between 2013 and November 2016, we collected almost 39,000 tonnes of garments.
	STORE WASTE AND RECYCLING To have store waste and recycling systems for 100% of our stores.		<ul style="list-style-type: none"> - 71% of our stores have recycling systems, up from 61% last year.



100% Circular & Renewable

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TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
100% RENEWABLE			
CLIMATE POSITIVE	To become climate positive throughout our value chain by 2040.	- Initiated goal and strategy implementation throughout the organisation.	
	<p>WITHIN THE H&M GROUP</p> <ul style="list-style-type: none"> - To reduce energy use in our own operations by 25%* by 2030, with 2016 as a baseline. - To use 100% renewable electricity in our own operations. 	<p>ENERGY EFFICIENCY</p> <ul style="list-style-type: none"> - Updated our ambition to a new, more ambitious goal. This new goal means stores constructed in 2030 will be 40% less energy intense compared to stores constructed with the 2016 framework. <p>RENEWABLE ENERGY</p> <ul style="list-style-type: none"> - Added purchase of I-REC certificates. - Supported the construction of a wind park in Sweden through our GO2 engagement. (To be up and running in mid-2017). - Installed solar panels on some of our own buildings. This includes several distribution warehouses and one of our IT parks. We are looking at ways to expand this initiative. - Started collaboration with a Power Purchase Agreement (PPA) broker in US to initiate a long-term PPA. 	<p>ENERGY EFFICIENCY</p> <ul style="list-style-type: none"> - Electricity intensity (using less electricity per square meter sales area) has been reduced by 8% compared with 2007 baseline. <p>RENEWABLE ENERGY</p> <ul style="list-style-type: none"> - We source 96% of our electricity from renewable sources. This includes methods such as purchase of certificates recognised by GHG Protocol (GO, REC and I-REC) and our own generation of renewable electricity. - We have reduced our CO₂ emissions by 47% compared to previous year.
	<p>ACROSS OUR VALUE CHAIN</p> <ul style="list-style-type: none"> - To achieve a climate neutral supply chain (first and second tier) by 2030. Milestones on the way: - 20% of factories enrolled in an energy efficiency programme by 2018. - 30% greenhouse gases reduction per product by 2025 compared to 2017 baseline. - 100% of factories enrolled in an energy efficiency programme by 2025. 	<p>ENERGY EFFICIENCY</p> <ul style="list-style-type: none"> - Reduced GHG emissions through supplier energy efficiency programmes in Bangladesh, China, India and Turkey. (See results in the next text box). <p>RENEWABLE ENERGY</p> <ul style="list-style-type: none"> - Initiated renewable energy workshops in Bangladesh and India to support suppliers' investments in renewable energy. 	<p>Resource savings made on supplier level:</p> <ul style="list-style-type: none"> - nearly 30 million kWh - nearly 8 million tonnes natural gas - nearly 1,5 kilo tonnes coal <p>This is a total combined reduction of over 200 kilo tonnes greenhouse gases.**</p>

* Calculated as kWh/m² and opening hours ** All data has been verified and endorsed by our project partners STWI and International Finance Corporation (IFC). Independent consultants appointed by our project partners assessed, verified and reported the savings of every factory at the end of the project.

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Introduction

Our planet sustains us, but our global demand for resources is outstripping supply. Today, it would take 1.5 planets to support our lifestyles. If we continue along the same track, we will need the equivalent of 2.3 planets by 2050.* In part, this is because the global middle class is expected to increase by over three billion people in the next two decades, which will inevitably lead to an increase in consumer demand. And, like today, everyone will want clothes that keep them warm and dry as well as help them express who they are and what they stand for.

This is the job that fashion performs. Today, fashion is a huge, complex industry but at its core, it's still about turning raw materials (such as cotton grown on a farm) into products. Our customers buy the products they like, use them, and then dispose of them when the time is right.

This system is known as a linear model and it is the norm for nearly every other industry. But, looking ahead, this model is placing increasingly unsustainable demands on our world. It uses up too many natural resources, and does it in a way that disrupts our environment. If we want our industry (not to mention our planet) to survive and for people to

consume in a sustainable way, we must rethink how our products are made and enjoyed.

The solution is to bring about a global shift from a linear to a circular system. In a circular model, resources stay in use for as long as possible, before being recovered and regenerated into new products and materials. This is the only way our industry will be able to operate to its fullest potential, while staying within our planet's boundaries. See box on p. 37.

There is also a strong business case for the H&M group to make this shift. For example, the price of raw materials is



*footprintnetwork.org

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▷ predicted to rise as global shortages lead to greater competition.* Securing our own supply channels will help keep us profitable in the long-term. A circular approach will also help us build more efficiency into our current system and it will increase the value of our products, both because it removes the increasingly unpredictable cost of extracting resources and because it means we can reuse and upcycle products. While at the same time contribute to responsible consumption and production (SDG12), see more on p. 117. This will help keep us profitable in the long-term.

Planetary boundaries explained

A group of scientists* has developed a concept to help us understand the complex and interlinked ecological systems that sustain life on earth. Using this concept, the group has proposed a framework of nine 'planetary boundaries' that define a safe operating space for humanity. Each boundary is set at a 'safe' distance from a dangerous level or potential 'tipping point' and include, for example, fresh water use, biodiversity loss and species extinction, and climate change.

The scientist report that if we stay within these boundaries, life on earth has a good chance of continuing as usual. But if we cross them, we risk abrupt and irreversible environmental changes that could be very damaging or even catastrophic for society. Because of human activity, we have already crossed four out of nine boundaries, and we are in imminent danger of crossing others.



* This study was conducted by a group of earth system and environmental scientists led by Johan Rockström from the Stockholm Resilience Centre and Will Steffen from the Australian National University. For information see stockholmresilience.org

* mckinsey.com

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Our ambitions

At the H&M group, part of our sustainability strategy is to become 100% circular and renewable. By decoupling the growth of our business from our resource use, we can continue to provide good, fair jobs and sustainable products for millions of people for years to come. And we can help bring about a similar shift across the rest of our industry.

To achieve this, we are taking a holistic approach to becoming circular and renewable. This means rethinking how we design and make our products (including our water, chemical and energy use), what materials we choose, and how our customers use and dispose of them. This holistic approach also means finding ways to significantly reduce our climate impact. Our goal is to achieve a Climate Positive Value Chain – an entire value chain that creates a net positive impact on the climate by 2040. See more on p. 57.

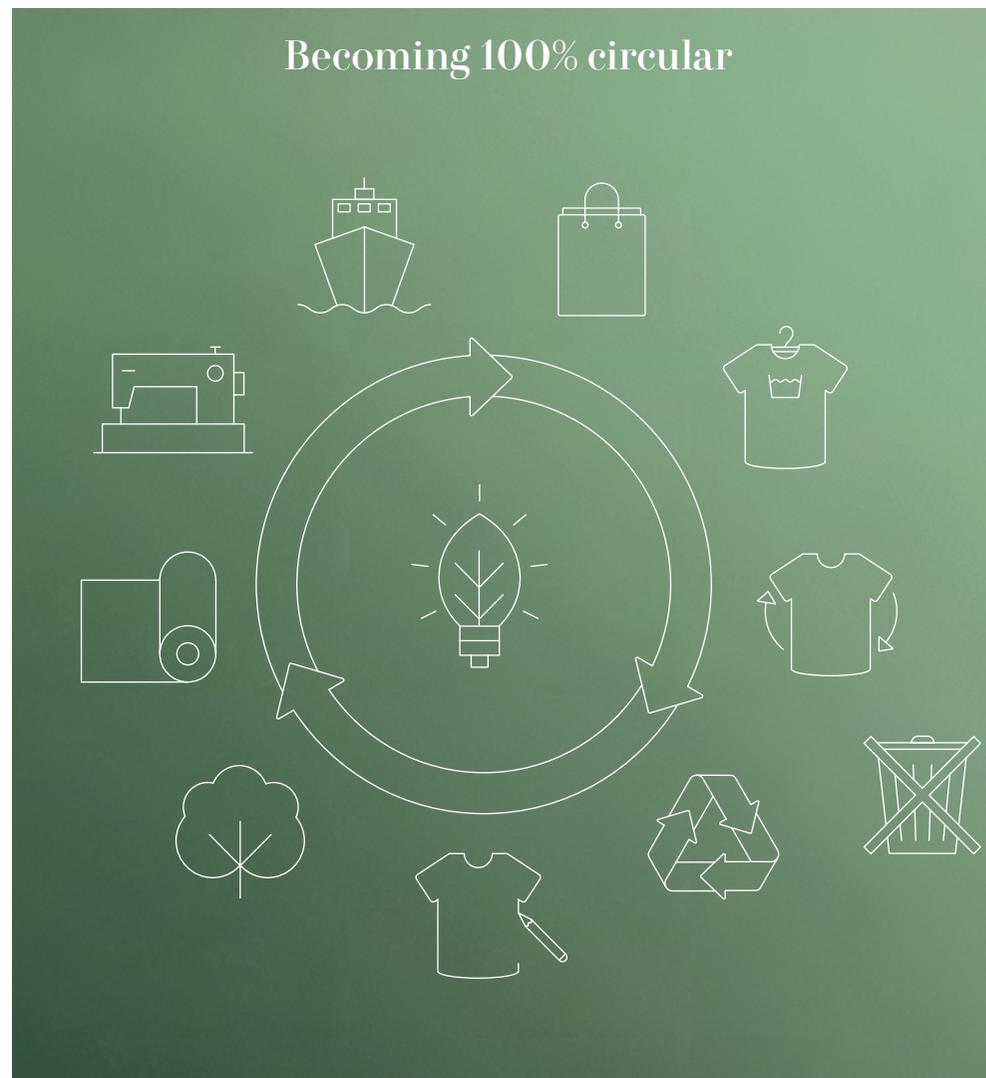
We also need to create new and stronger partnerships, and continue collaborating with stakeholders along our value chain – including our suppliers and our customers. Together, we will need to find innovative solutions to key challenges including how to fully recycle blended fabrics and how to help our suppliers access renewable energy and minimise their environmental foot-

print. Many of our key partnerships will help us address complex issues that connect to multiple focus areas. For example, our strategic collaboration with the WWF addresses both climate and water issues.

GOALS

As explained in our Vision & Strategy chapter, we are working with experts – both internally and externally – to set goals that keep pushing us towards 100% circularity and, wherever possible, we are following a science-based approach to define our targets and actions.

Goal-setting is an ongoing process. These goals represent the initial key milestones along the way to achieving our vision of 100% Circular & Renewable on a global group level.



100% Circular & Renewable

100% Circular

CIRCULAR DESIGN

- To become circular* on 80% of our store concepts by 2025.

OUR CHOICE OF MATERIALS

- To use 100 % recycled or other sustainably sourced materials** by 2030.
- To use 100% cotton from sustainable sources by 2020, including certified organic, recycled and Better Cotton (BCI).
- To use 100% Responsible Wool Standard (RWS) certified wool in our products by 2022.
- To use 100% Responsible Down Standard (RDS) certified down by 2016.

SUSTAINABLE PRODUCTION PROCESSES

- To achieve zero discharge, of hazardous chemicals in any of the H&M group's production procedures by 2020.
- To complete installation of water-efficient equipment in our own operations by 2020.

PROLONGING THE LIFE-SPAN OF OUR PRODUCTS

- To increase the collected volume of garments to reach 25,000 tonnes annually by 2020.
- To have store waste and recycling systems at 100% of our stores.



& Other Stories, Utrecht.

100% Renewable

CLIMATE POSITIVE

- To become climate positive throughout our value chain by 2040.

CLIMATE POSITIVE: WITHIN THE H&M GROUP

- To reduce electricity use in our stores by 25%*** by 2030.
- To use 100% renewable energy in our own operations.

CLIMATE POSITIVE: ACROSS OUR VALUE CHAIN

Climate neutral supply chain (first and second tier) by 2030, with the following key milestones:

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

* As defined in the Circular Assessment Tool which has been developed together with the Ellen MacArthur Foundation ** H&M brand, materials include certified organic, recycled and Better Cotton (BCI) *** Calculated as kWh/m² and opening hours with 2016 as a baseline.

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100% Circular

The vast majority of today's production models are linear and rely on a finite supply of natural resources. This is unsustainable for the long-term future of our planet – and for the future of our business.

To become 100% circular, we are taking a circular approach to how our products are made and used, and finding ways to use only recycled or sustainably sourced materials. This means building circularity into every stage of our value chain, including the products we make (both commercial and non-commercial), and the materials we use in our operations.



Becoming 100% circular



This is our circular approach to how our products are made and used. We have identified four stages to address: Stage A – Circular design, Stage B – Our choice of material, Stage C – Sustainable production processes and Stage D – Prolonging the lifespan of our products.

“A circular economy is restorative and regenerative by design and aims to keep products, components and materials at their highest utility and value at all times.”

ELLEN MACARTHUR FOUNDATION

100% Circular & Renewable

STAGE A Circular design



Great design is core to our business. We want to make sustainable, good-quality fashion accessible to as many people as possible. Design is an essential tool that allows us to do this. We have our own teams of designers, who create unique products that our customers love. To fulfil our vision, we need to build more circularity into the design process for our products, as well as for our stores and offices. This means we will look at how design can be used to expand product lifespan, for example, through greater durability and quality, as well as designs that allow for reuse and recyclability to decrease our environmental footprint.

Within our stores and offices, we want to increase circularity. To be able to achieve our goal, we will focus on material choices and design to make our non-commercial goods more efficient to use, reuse and recycle. Our focus will be on decreasing the overall landfill rate created by store rebuildt and closed. We offer sustaina-

ble fashion in all of our brands. For the H&M brand, these products are labelled with our Conscious label. This includes fashion basics as well as collections with high fashion content. These products are made using approved conscious materials and/or processes that are better from an environmental perspective (i.e. materials that are produced with less water, fewer chemicals, and with care for the soil and natural habitats, such as organic cotton), and verified as sustainable by a third party.

- In 2016, we have set an overall goal that at least 80% of our store concepts should be circular* by 2025. This goal is developed for non-commercial goods and included a roadmap with selected priorities leading to a circular approach. Together with the Ellen MacArthur Foundation, we have developed a tool to assess the circularity of our non-commercial goods, such as our store interiors. The tool will be used from 2017 onwards and aims to increase the sustainability of the non-commercial goods we buy. The tool will also support our dialogue with suppliers, helping us increase awareness of circularity in their products and processes.

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



H&M Conscious Beauty.

- We regularly train our design and buying office on sustainable material use. We have a specific Conscious Material Course that covers both the why and the how of our work with materials approved as 'conscious', as well as a company strategy for sustainable material use.

- Our design and buying departments created Conscious Exclusive, C/O Cheap

Monday Capsule Collection, Closed Loop 2016 collections. These collections are an example of how our design can be used to expand a product's lifespan or allow for reuse and recyclability.

- The H&M brand launched its new Conscious Beauty range of organically produced products for skin, hair and body in March 2016.

100% Circular & Renewable

Stakeholder interview with Cradle to Cradle Products Innovation Institute

Name Lewis Perkins
Title President
Organisation Cradle to Cradle Products Innovation Institute



What does Cradle to Cradle mean, and how does it connect to a circular economy?

The circular economy is based on the concept of keeping products – and their constituent materials – within a continuous, regenerative cycle of use and reuse. Cradle to Cradle design, and, in turn, the Cradle to Cradle certified product standard, offer a continuous improvement process for product design and manufacturing to help companies innovate and make materials and products for the circular economy.

What is Fashion+?

Fashion+ is a collective of brands, designers and suppliers who are working together to identify, optimise and innovate materi-

als for use in the fashion industry, verify those materials according to the Cradle to Cradle Certified product standard, then make those materials available for fashion industry use.

How does a product standard become a positive force for society and the environment?

By using Cradle to Cradle Certified for responsible product design, Fashion+ members are helping reduce demand for natural resources, ensuring the use of healthy materials, and bring about positive change in the way fashion is consumed.

What are the key Cradle to Cradle challenges for the fashion industry?

Identifying materials that meet Cradle to Cradle standards and can also deliver on aesthetics, performance and other qualities is one. Another is scaling the systems that can separate fibre types and upcycle them into new material streams.

What else can the H&M group to fulfil our vision to become 100% circular and renewable?

Continue to collaborate with our institute! And work with other brands to help drive material innovation and Cradle to Cradle standards more deeply across the entire supply chain.



Flowers made from H&M garments and H&M Home textiles by photographer Dan Tobin Smith and team.

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STAGE B Our choice of material



Choosing more recycled or sustainably sourced materials for our products is another vital step

to become 100% circular and close the loop on fashion. We have been working with recycled and sustainably sourced materials for many years. In the 90s, H&M sold one-off collections using organically grown cotton and in 2004, we began selling garments made from certified organic cotton in certain baby and children's garments. Today, we are one of the biggest users of recycled and sustainably sourced materials*, all of which are third-party certified.** According to the Textile Exchange Preferred Fiber Market Report, the H&M group is the world's second biggest user of organic cotton, recycled polyester and Lyocell and largest user of responsibly sourced down. According to the Better Cotton Initiative (BCI), we are the biggest user in volume of Better Cotton.

RECYCLED MATERIALS

Recycled material is made from a waste product, such as old textiles, production waste or used PET bottles. By using recycled material, we can reduce the amount of waste (e.g. old textiles) that go to landfill, the chemicals, energy and water used in raw material production. We use a wide range of recycled materials at the H&M group including recycled cotton, polyester, wool, cashmere and plastic. In the long term, we want to turn all products that can no longer be used into new materials and products. Today, this is not possible because the technology for recycling is limited. For this reason, the share of recycled materials in our products is still relatively small.

SUSTAINABLY SOURCED MATERIALS

Sustainably sourced textile materials can either be grown naturally or cultivated, but must also be renewable through natural processes within a reasonable amount of time. Sustainably sourced materials should also have the potential to be recycled. The sustainability profile of

sustainably sourced materials must be verified as better by a third party (e.g. through a Life Cycle Assessment report, [Higg MSI Tool](#), or [MADE-BY fibre benchmark](#)).

To accelerate our journey towards recycled or other sustainably sourced materials we are creating demand for solutions and working with innovators and scientists, including Worn Again, the HKRITA and the Circular Innovation Working Group that aim to close the loop and enable recycling of all types of textile fibres. See more on p. 43.

We use a wide range of sustainably sourced materials, including organic materials such as cotton, linen, hemp, jute and silk, Tencel®Lyocell and third-party certified down, rubber, wood, Better Cotton and wool.

Case study: The HK Research Institute of Textiles and Apparel (HKRITA)

In addition to the H&M group initiatives, the non-profit H&M Foundation and The Hong Kong Research Institute of Textiles and Apparel (HKRITA) have entered a four-year partnership to develop the required technologies to recycle blended textiles into new fabrics and yarns.

The technology will be licensed widely to ensure broad market access and maximum impact. Apparel and textile products made from blended materials account for a high proportion of all textiles and apparel in the market today. And yet no commercially viable separation, sorting or recycling technologies are available for many of the most popular materials, such as cotton and polyester blends.

This work is being financed through the surplus income from our garment collecting initiative.

H&M FOUNDATION



* textileexchange.org ** Depending on the type of sustainable materials, we are certified to a relevant sustainable material standard such as, OCS, GOTS, GRS, RCS, RDS, RWS, by a third party such as Control Union, Ecocert, ICEA, IMO.

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Choosing only recycled or other sustainably sourced materials

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

In 2016, 26% of our total materials fit this description. As we move towards our goal, we will focus on prioritising the use of recycled materials and complementing them with materials that have been sustainably sourced.

– We need to understand how to make better choices about the materials we use and understand their impact – from farm and factory to customer use. To get this insight, we used LCA** data when evaluating materials, together with third party verified data (such as the MadeBy fibre benchmark or the Higg Materials Sustainability Index***).

– We are collaborating with the Cradle to Cradle Products Innovation Institute on a project called Fashion+. This brings together brands, designers and suppliers to identify, optimise and innovate sustainable materials for use in the fashion industry, and then work to make them

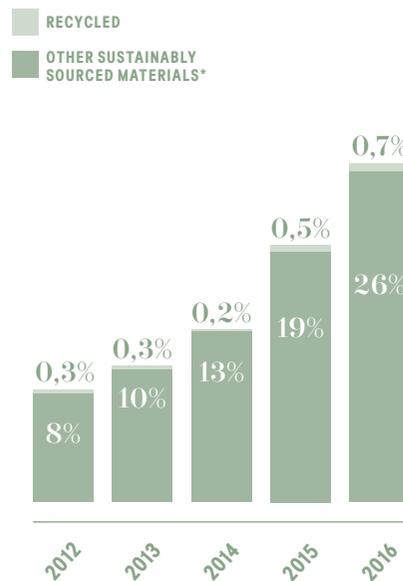
widely available. See more in the interview with the Institute on p. 42.

– In 2016, we also initiated a research project with the Ellen MacArthur Foundation and Stockholm Resilience Centre that looks at how a circular textile fibre industry can operate within planetary boundaries. This collaboration also supports our ambition to use a science-based approach in all our sustainability work.

– We are the second largest user of recycled polyester. In 2016, we used recycled polyester equivalent to more than 180 million PET bottles. Recycled polyester is made from PET – the same material as in clear plastic water bottles – and requires significantly fewer chemicals and less energy and water to make. Recycling these bottles also prevents them from going to landfill.

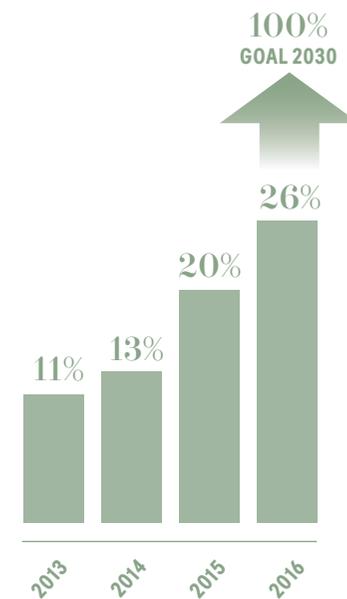
– We are the second largest user of Tencel®Lyocell (also known as Lyocell****). Lyocell is produced in a closed-loop system and has a lower environmental impact than other man-made cellulosic fibres. We use Tencel®Lyocell with a range of other recycled and

SHARE OF RECYCLED OR OTHER SUSTAINABLY SOURCED MATERIALS



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

TOTAL SHARE OF RECYCLED OR OTHER SUSTAINABLY SOURCED MATERIALS*



* Included are all materials classified as conscious materials, such as certified organic or recycled fabrics, as well as Better Cotton (BCI)

Please note: Material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy. An independent assurance statement related to GRI 301-1 is provided on page 119. Deviations are due to rounding effects.

*H&M brand. **LCA assesses the impact of a product at every stage of its life from raw material extraction to materials processing, manufacturing, distribution, use, repair and disposal. ***These benchmarking tools compare the environmental impact of different fibres used in the fashion industry and help brands make more sustainable choices. See for more information made-by.org and apparelcoalition.org. ****Tencel® is a brand owned by fibre manufacturer, Lenzing. The generic name for the material is Lyocell. The H&M group considers only Tencel® manufactured by Lenzing as a conscious material.

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▷ sustainably sourced materials in our products.

– Viscose is a man-made fibre typically made from tree pulp. We teamed up with the NGO Canopy and several other leading brands to ensure any viscose we buy (or similar fibres) does not contribute to the deforestation of ancient or endangered forests. During 2016 we have continued to work with the canopy style initiative, our man-made cellulosic supply chain and internally to ensure fibre producer and brand compliance with our policy to source all of our manmade cellulosic fibre and fabrics from forests that are neither ancient or endangered by the end of 2017.

COTTON

Our goal is to use 100% cotton from sustainable sources by 2020, including certified organic cotton, Better Cotton (BCI) or recycled cotton.

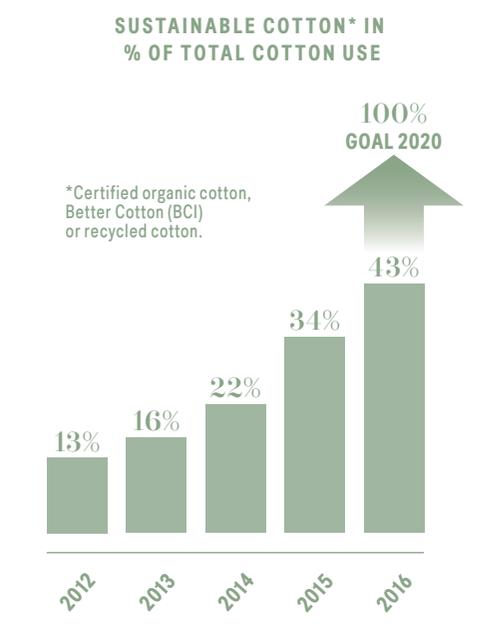
– In 2016, we commissioned a Life Cycle Assessment study to understand the impact of closing the loop by recycling cotton.* The study showed that by using recycled cotton fibre instead of virgin cotton fibre, we can reduce climate and

water impacts by 80–90% for the stages up to when the fibre is ready for spinning. Unfortunately, it is not currently possible to use more than 20% recycled cotton from collected garments in a product (because of quality issues), but we are investing in technology to overcome this challenge.

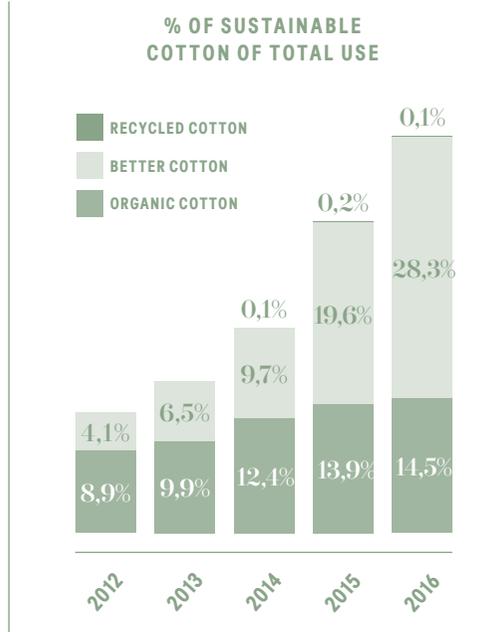
– The H&M group was one of the founding partners of the Organic Cotton Accelerator (OCA) which was launched in 2016. The OCA is a foundation created to accelerate the organic cotton market and find solutions to issues that the industry is facing. Organic cotton is grown without synthetic pesticides, fertilizers or genetically modified organisms (GMOs). By working together and by growing supply and demand, the OCA aims to create a prosperous organic cotton sector for all, from farmer to consumer.

> organiccottonaccelerator.org

– In terms of volume, we are the largest user of Better Cotton according to the BCI in 2016. Better Cotton is grown in a more sustainable way. This means using fewer chemicals, less water and working with farmers to provide education in ‘smarter farming’. Better Cotton provides



Please note: Material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy. An independent assurance statement related to GRI 301-1 is provided on page 119. Deviations are due to rounding effects.



a positive business case both for the farmer and for business. The BCI exists to improve global production of Better Cotton for the people who produce it, for the environment it grows in and for the future of the sector. The H&M group was one of the founding members of the BCI

in 2005. Today the BCI has 1.5 million licensed farmers and Better Cotton accounts for 11.9% of global cotton production.**

In partnership with external experts, we recently conducted a Life Cycle Assessment to compare the overall environmental impact of recycled cotton (gathered from garment collecting) and conventionally sourced cotton. The most relevant comparisons were between water footprint and climate impacts) bettercotton.org **BCI Annual Report 2015, see: bcianualreport.org

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▷ ANIMAL-BASED MATERIALS

Because we use some animal-based materials in our products, animal welfare is an important part of our sustainable sourcing strategy. We are committed to having a positive impact on animal welfare, both in our value chain and across the entire textile industry. Our long-term ambition is to achieve full traceability for all of our animal-derived materials and only source from responsible farms with good animal husbandry. For example, through our work with the Responsible Down Standard and the Responsible Wool Standard, we can ensure that we source these materials in a sustainable way. We are also actively looking for new, innovative non-animal alternatives.

Besides using animal-based materials in our products, we also believe that no animals should be used for testing of cosmetics, and we do not accept animal testing on any cosmetic products, either during production or on finished products

Down

– According to the Textile Exchange’s Preferred Fiber Market Report 2016,

the H&M group is the world’s largest user of down certified by the Responsible Down Standard (RDS).

– From January 2016, 100% of the down in our products has been RDS-certified.

Wool

– In 2016, we helped develop the Responsible Wool Standard in a project led by the Textile Exchange. We are now working to get RWS-certified wool into our supply chain. See case study p. 46.

– 100% of our key second tier suppliers (which covers 70% of our product volume in wool) have been briefed on the new responsible wool standard.

– Approximately 25% of our second tier spinners have completed the Content Claim Standard (CCS)* for RWS.

Leather

Together with the industry, we want to work towards a more transparent leather supply chain. Our long-term goal is to use only leather from known and well-managed sources that act on environmental, social

and animal welfare issues. Looking ahead, our work will now focus both on closer integration of leather tanneries into our supply chain management systems and improved material traceability and to collaborate with others to long-term secure the entire leather supply chain, all the way down to the farm level. In parallel, we will keep exploring innovative non-animal leather materials that have all the benefits of leather, but none of the risks.

– In 2016, we began integrating tanneries into our sustainability assessments, covering social and environmental requirements. All tanneries that supply the H&M group must comply with our chemical requirements.

Case study: Setting the standard for wool

Wool is an amazing fibre. It’s incredibly strong and insulating, and our customers love to wear it. It represents only about 1% of our total fibre use, but it is still important that we source it in a responsible way – and that we encourage other brands to do the same.

In 2014, after failing to find a global animal welfare standard for wool, we contacted the Textile Exchange to see if they were interested in leading the development of a global wool standard in collaboration with us, and other brands and stakeholders. Two years later, the Textile Exchange launched the Responsible Wool Standard (RWS) – the only global animal welfare standard developed specifically for wool.

The RWS aims to improve animal welfare, incentivise best practice and ensure full traceability in wool production. We are now working to get RWS-certified wool into our own supply chain. Our goal is to use 100% RWS-certified wool in all of our products by 2022.

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Stakeholder interview with the Textile Exchange

Name Anne Gillespie
Title Director of Industry Integrity
Organisation Textile Exchange



We spoke to Anne Gillespie, Director of Industry Integrity, about the Responsible Wool Standard (RWS) and the H&M group.

What are the most challenging animal welfare issues facing the fashion industry today?

Animal welfare issues exist in relation to all of the Five Freedoms* and the greatest risks vary depending on the type of animal and geographical region. The biggest challenge is to ensure that these Five Freedoms are being thoroughly and consistently met throughout the supply chain. Long, complex supply chains, multiple stakeholders and lack of transparency and traceability, make this challenge even harder.

How can a standard like the RWS help overcome these challenges?

*The Five Freedoms are recommendations on animal welfare set out by the World Organization for Animal Health (OIE) in their Animal Health Codes and the Farm Animal Welfare Committee (FAWC).

The RWS is a neutral, third-party standard that can be used by the entire industry to ensure that animal welfare needs are being consistently met. It also provides brands with a powerful way to communicate their expectations along their supply chain right back to the farms. Furthermore, it provides a global benchmark for best practice in both animal welfare and land management.

What role did the H&M group play developing the RWS?

The H&M group was the catalyst for the RWS to begin with, and is now the leader in its application. By making a strong and public commitment to use certified wool, the H&M group provides a clear goal for other brands, and sends a strong signal to farmers and the wool industry that this standard is important.

What would you like to see from the H&M group in the future in regards to animal welfare?

The H&M group already has a strong animal welfare policy. I would love to see the H&M group make third-party verification of the Five Freedoms and traceability a goal for all their fibres.



H&M Studio S/S 2017



H&M Studio S/S 2017



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STAGE C Sustainable production processes



To close the loop on fashion, we need all of our production processes to be sustainable. The third part of our journey to a 100% circular and renewable value chain involves looking at how we can further develop our work around sustainable production processes, including chemical management and water use.

Chemical management

Chemicals occur naturally in everything – water, air, soil and our bodies. They are a part of everyday life, and critical to every process on the planet. We use chemicals to make clothes and they are an important part of many garment production processes, such as washing and dyeing textiles. Some chemicals common to the fashion industry are known to be hazardous and risk harming our environment, customers and workers. Our goal is to lead the way towards zero discharge of hazardous chemicals in our

own supply chain and across the fashion industry.

One of the ways we are doing this is through our work with the Zero Discharge of Hazardous Chemicals group (ZDHC), which brings brands together to improve chemical management practices. Together with other committed ZDHC brands we are actively involved with a range of stakeholders (including governments, industry associations, NGOs, scientists and representatives from the chemical industry) to raise awareness of industry standards and work collaboratively for progress. For more information, visit:

> sustainability.hm.com

– In 2016, a team of H&M group chemists has undergone training in Green Screen hazard assessment, a robust and transparent scientific method of identifying chemicals of high concern and suggesting safer alternatives.

– The H&M group became part of the ChemSec* business group in 2016 – a collaboration between companies to inspire the industry to use fewer toxic chemicals. The collaboration develops effective corporate practice and, by sharing case

studies and success stories from its members, raises awareness across the industry and pushes for better legislation.

– Strong chemical legislation helps strengthen our message to our supply chain and stakeholders. During 2016, we were actively engaged in the EU public consultation** on the restriction of certain hazardous substances in textiles and clothing. We have also endorsed the restriction of the use of CMR (carcinogenic, mutagenic, or toxic for reproduction) substances in consumer products.

– In 2016, we ran a Hazardous Substances Control training pilot for 93 suppliers in China, Bangladesh, Indonesia, India and Turkey. We compared the assessment results before and after the training and saw a significant improvement in areas relating to chemical risk identification and chemical monitoring through technical information.

– The environmental emission evaluator (E cube/BVE3) is a measurement and monitoring tool from Bureau Veritas that was launched in 2016. It helps suppliers assess their performance and proactively improve their chemical usage and discharge performance. In 2016, we started

a pilot project at 29 suppliers in China, Bangladesh, Indonesia, India, Pakistan and Turkey to test the online version of this tool.

– We received an “AVANT-GARDE” grading in Greenpeace detox assessment in 2016, which means that we are a detox-committed company that is ahead in the field leading the industry towards a toxic-free future with credible timelines, concrete actions and on-the-ground implementation. For more information, visit:

> greenpeace.org

* chemsec.org ** Article 68(2) of Regulation EC No 1907/2006 (REACH)

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Water stewardship

As with other natural resources on this planet, our access to water is limited. Due to our increasingly water-intensive lifestyles and rapidly growing population, water management is crucial to maintain welfare and ecosystems. This is particularly true in areas already facing water risks – including South and subcontinental Asia, where many of our suppliers are based. Our two most significant water sources for our wet-process suppliers are located in areas with high water risk on the deltas of Brahmaputra (Bangladesh) and Yangtze (China).

To fulfil our vision of 100% circularity and renewability, we must take action to manage water responsibly across our value chain. We recognise that the biggest impacts come from outside of our own operations so, to be effective, we must take an integrated approach with local industries and decision makers.

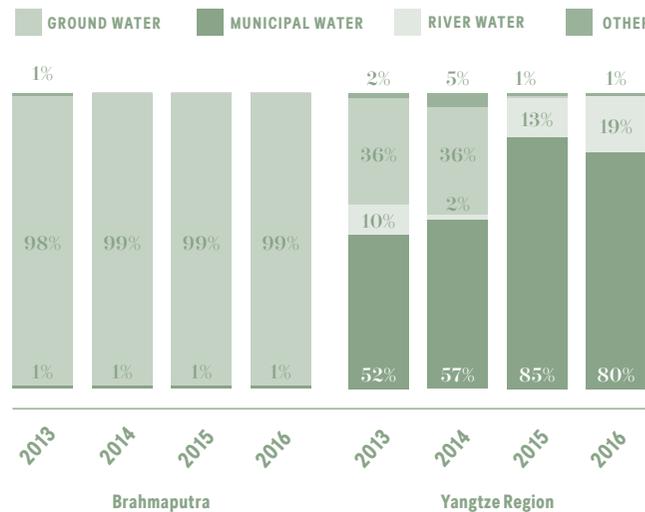
We have been collaborating with the WWF since 2011, and our partnership has played a fundamental role in our work on water stewardship issues along our value chain.

SHARE OF TOTAL WATER DISCHARGE BY DESTINATION 2016



Data is estimated based on data collected from wet processing units during 2015.

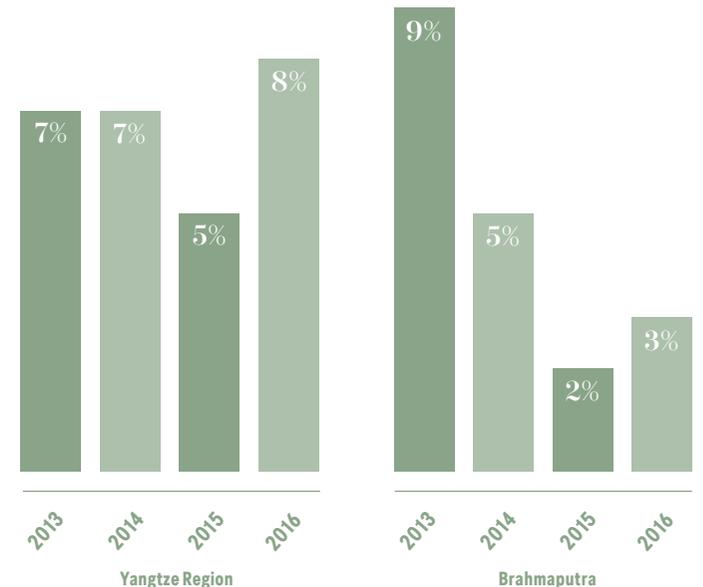
WATER WITHDRAWAL BY SOURCE IN SUPPLIER FACTORIES LOCATED IN BRAHMAPUTRA, BANGLADESH AND YANGTZE, CHINA



Data is estimated based on data collected from wet processing units during 2015.

“To fulfil our vision of 100% circularity and renewability, we must take action to manage water responsibly across our value chain.”

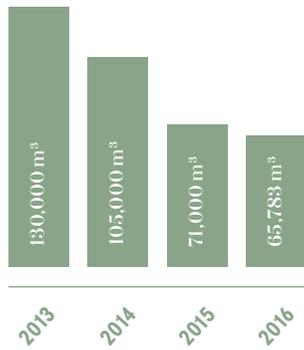
% OF USED WATER THAT IS RECYCLED



Data is estimated based on data collected from wet processing units during 2015.

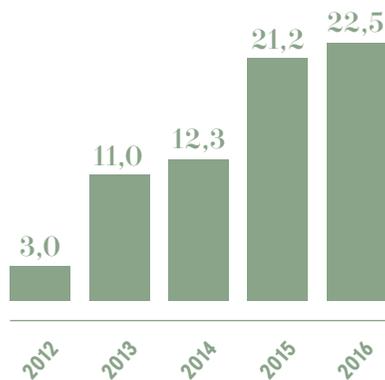
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▷ **AVERAGE YEARLY WATER WITHDRAWAL PER FACTORY IN WATER STRESSED AREAS (H&M PRODUCTION)**



Data is estimated based on data collected from wet processing units during 2015.

LITRES (MILLION) OF RAINWATER HARVESTED IN OWN OPERATIONS



OUR APPROACH

Most water strategies focus on how much water is used and disposed of. In contrast, our approach is connected to holistic water management on the basins level. This factors in the sources of water that are being drained (which accelerates water scarcity and decreases water quality), as well as the local impacts, such as depletion of fish stocks and threat to livelihoods. In collaboration with the WWF we are exploring the development of context based target settings. Furthermore, we have identified access to water as a salient human rights* issue, since water usage affects people and their livelihoods.

Outside of our operations, we are working with our suppliers and governments to create the change needed to manage water responsibly across our value chain. We are proactively engaging with a broad group of stakeholders that goes beyond our traditional areas of influence. One of our key aims is to strengthen water governance. This includes ensuring that regulations are properly monitored and enforced, that water-related government bodies have clear mandates and that businesses, farmers and community members are fully included in decision-making on water. For example, we are already acting on this in China, and, as representatives on the National Steering Board of

Bangladesh Water Multi-Stakeholder Partnership and partners of the 2030 Water Resources Group, we are trying to achieve similar action in Bangladesh. We are also supporting a WWF project in Turkey and looking at other areas where this kind of approach would be suitable.

The second largest water footprint in our value chain comes from customer use. We provide our customers with information on climate-friendly ways of caring for clothes, to empower them to use less water and change their habits in the long-term.

While our operational water impact is small compared to the lifecycle impact of our products, it still matters. For example, we are installing water-efficient equipment across our own operations, which will be completed by 2020 (see table on p. 52). We are also harvesting rain water and raising awareness amongst employees, and we are committed to continually improving the compliance rate of our suppliers when it comes to wastewater quality requirements.



* That is human rights at risk of the most severe impact across our operations and supply chain, and where our company therefore has a particular opportunity to leverage progress for related sustainable development goals.

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Our partnership with the WWF

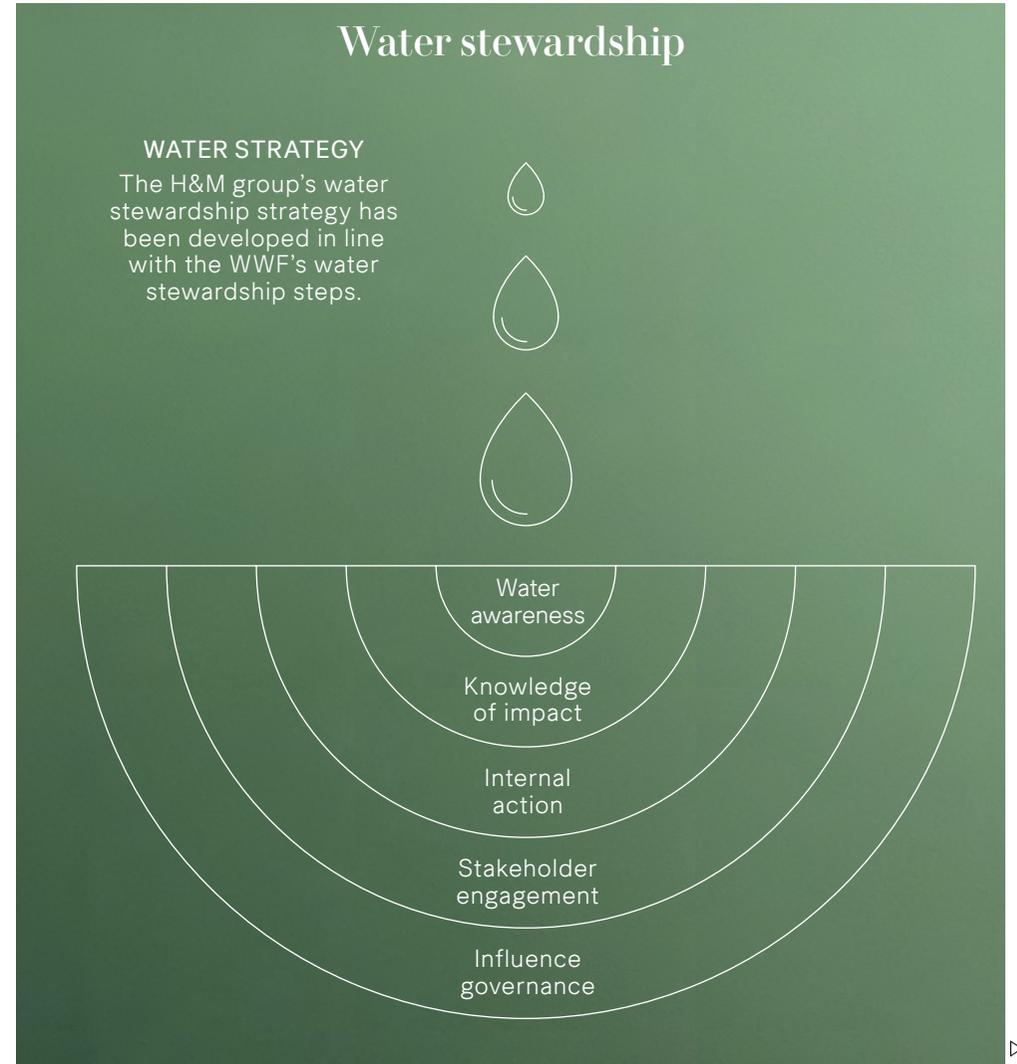
We have been collaborating with the WWF since 2011 on water stewardship issues along our value chain. This collaboration has been strengthened over the years. During this time we have developed a strategy for water stewardship that targets the following five key themes:

1. Building water awareness within the company, supplier factories and amongst our customers.
2. Measuring water impact and risk within our stores, warehouses and supplier factories.
3. Improving the use of water within our stores, warehouses and supplier factories.
4. Increased focus on collective action, for example, our river basin engagements in China.
5. Increased focus on government influence. We are currently scaling up the Industrial Park project from our previous partnership, as well as bringing in other brands, to further impact water use amongst suppliers in Industrial Parks in China.



Below are our water actions in 2016 along our value chain and within our own operations:

- At the beginning of 2016, we renewed our WWF partnership for another five years. It now also covers climate action and our influence over our industry's broader sustainability challenges.
- We are continuously working with partners to help our fabric producers improve their environmental footprint, which also includes water management and impact assessment data. In 2016, we worked with fabric mills involved in making 56% of our products (2015: 50%, 2014: 35%) in our supplier assessment systems.
- In China, we moved the water stewardship programme in the Taihu Basin from a pilot into a project. This is a collaboration that proactively engages stakeholders to improve basin governance. For example, we are engaging with the government on the need to address water challenges with improved legislation.
- We continued to work with the Sustainable Textile Water Initiative (STWI) to



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▷ implement sustainability guidelines that will improve water practices in factories connected to our business. Together with our business partners the combined result of our water saving programmes has saved 2.3 million m³ water.

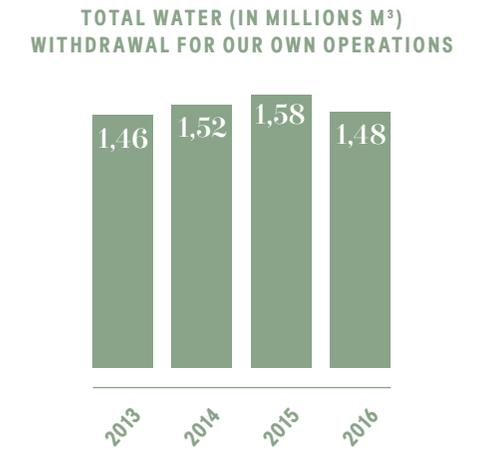
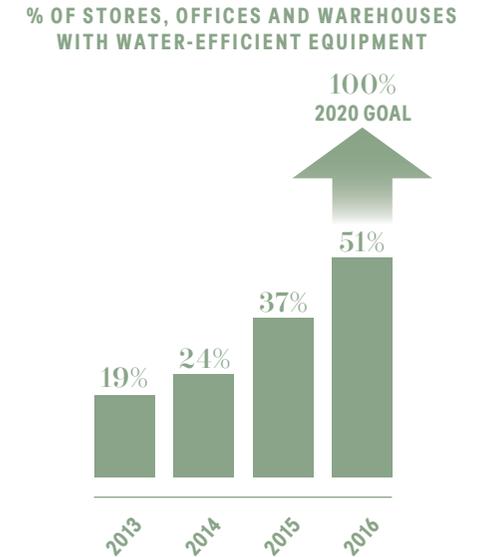
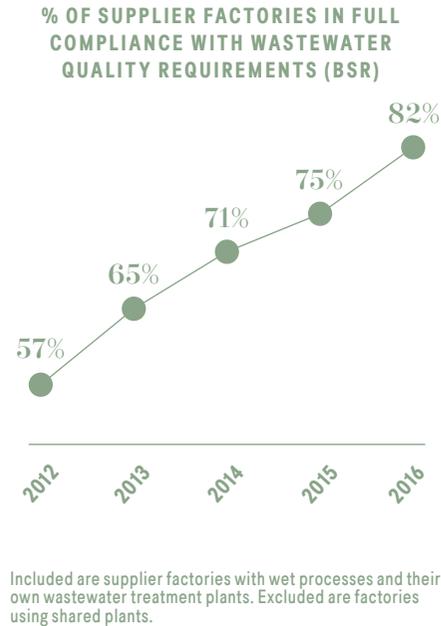
– A total of 8,234 workers were trained in four regions (Bangladesh, China, India and Turkey) by the STWI on water, energy and resource efficiency.

– A total of 75 factories participated in our cleaner production programme through STWI and PaCT partnerships in four regions. The cleaner production programme aim is to reduce environmental impacts that result from traditional practices in textile wet processing, particularly excessive groundwater extraction and surface water pollution. It also includes energy and chemical use. See more on [PaCT](#) and [SWTI](#).

– In 2016, 82% of our supplier factories were in compliance with the BSR requirements (see graph). We apply the Business for Social Responsibility (BSR) Water Group’s quality definitions, which in many locations go well beyond legal requirements. We have included these standards in our Sustainability Commitment with the aim to reach full compliance.

– Since 2015, we have scored all of our denim products using Jeanologia’s Environmental Impact Measurement tool. This third-party tool helps us and our suppliers measure, set targets and reduce water, energy and chemical use in our denim production. About half of all our denim products reached the highest ‘green’ level in 2016, which means that they used a maximum of 35 litres of water per garment during the treatment processes.

– 51% of H&M group stores, offices and warehouses have water-efficient equipment installed. We aim to install water-efficient equipment across all of our operations by 2020.



“Water management is crucial to main welfare and ecosystems.”

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STAGE D Prolonging the lifespan of our products



A large part of the environmental impact of a product comes from its 'use phase'. For the H&M group, it is important to ensure our products that are used for as long as possible, and that our customers can care for them in a sustainable way. Our aim is to avoid waste wherever possible and minimise what goes to landfill. In the long term, we are working hard to find a solution for reusing and recycling all textile fibres for new use.

There are a number of ways we can influence our customers to act more sustainably while using and disposing of our products. This includes providing information about long-life care, encouraging customers to use products for longer, and empowering them to reuse and recycle rather than throw away.

CARE AND REPAIR

We help our customers look after their clothes in a way that makes them last

longer and that has a lower impact on the environment:

- All of our garments have the Clever Care label included in their washing instructions. This label provides information on how our customers can reduce the environmental impact of our products after the garments leave our stores, for example by washing at lower temperatures and by hang drying instead of using a tumble dryer. For more information, visit:

> clevercare.info



- In 2016, we have also launched an extended garment care information page online. This information helps customers care for their clothes in a way that makes them last longer, including making simple repairs and washing less.

REUSE AND RECYCLING

We want to use more materials from the garments we collect in our products. We work in several different areas when it comes to the reusing and recycling our products. Through our garment collecting initiative, we collect unwanted clothes

from our customers and give them a new life through reuse or recycling.

- We have invested in the Swedish start-up Sellpy, which offers an on-demand service that helps people sell clothes and other items online.
- We make and sell products using post consumer textile waste and we both have regular products and special collections made from collected garments in our assortment. For example, the H&M brands Close the Loop collection launched in September 2016. We also upcycle second hand garments into new ones with the Cheap Monday Capsule collection.

GARMENT COLLECTING

Garment collection is an easy and accessible solution to decrease textile waste and save precious natural resources that works for customers and for our business. Our garment collecting initiative is made possible through our global partnership with I:CO a solutions provider for clothing and shoes reuse and recycling. The H&M brand started collecting old clothes and home textiles, from any brand and in any conditions, for reuse and recycling on a global scale in 2013 in its stores around the world, from any brand and in any condition.* Our & Other Stories brand also collects product waste in store. See case study on p. 54.

- We have developed and set a new goal for garment collecting in 2016. Our new goal is to increase collected volumes to reach 25,000 tonnes annually by 2020. In 2016, we collected 15,888 tonnes of garments (a 29% increase from 2015 and a 107% increase from 2014). Between the start of the initiative and November 2016, we collected more than 39,000 tonnes of garments.

- In April 2016, we ran a campaign called World Recycle Week, and beat our target to collect 1,000 tonnes of garments globally in a single week. The initiative >

* With the exception of our franchise markets. Other brands within H&M group (Weekday, Cheap Monday, Monki, & Other Stories) offer garment collection to customers now as well.

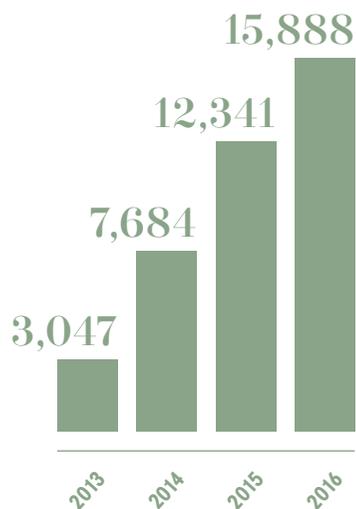
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▷ allowed us to speak directly with our customers about how they dispose of their clothes and raise awareness about why avoiding landfill through reuse and recycling is important and necessary. This is just one part of the puzzle to reduce the amount of clothing that end up in landfill.

– We continued to donate all of the surplus income from our garment collection programme to the H&M Foundation, which split it between projects focused on equality and inclusion of marginalised groups, and recycling research with the Hong Kong Research Institute of Textiles and Apparel (HKRITA). Between 2013 and November 2016, we collected almost 39,000 tonnes, which resulted in donations of EUR 780,000. Examples of these include:

- The social projects, initiated by the H&M Foundation focus on improving equality and inclusion of people in marginalised groups. In addition, for each kg of textiles that the H&M group collects, EUR 0.02 will be donated to a local charity organisation – Charity Star.

TONNES OF GARMENTS COLLECTED IN H&M GROUP* STORES



* With the exception of our franchise markets. Other brands within H&M group (Weekday, Cheap Monday, Monki, & Other Stories) offer garment collection to customers as well. Please find an independent assurance statement related to our tonnes of garment collected for reuse and recycling on page 119.

- The H&M Foundation has also partnered with HKRITA to develop technologies for recycling clothes made from textile blends into like-new fibres. See case study on p. 43.

STORE WASTE AND RECYCLING

Being 100% circular also means addressing our own store waste and recycling. While much of the waste generated in our stores is sent to our warehouses and recycled from there, we want to make sure that the remaining waste is handled in the best possible way. We are focusing our efforts on the most common types of waste-cardboard, plastic and paper.

Much depends on existing recycling systems in the country or region where our stores are located. While these can pose challenges locally, over the last year we further increased the share of stores that have recycling systems for these types of waste to 71% (2015: 61%, 2014: 58%, 2013: 47%).

Our aim is to further increase this share and ultimately reach 100%.

Case study: Beauty recycling at & Other Stories



We maintain a sustainable approach across our beauty products. For example, customers can recycle & Other Stories beauty packaging by returning any beauty containers to our stores. The packaging is sorted directly in the store and then taken on to the nearest recycling station.

We use standard packaging for the H&M group's beauty products and use of paper to a minimum by printing all necessary information on product boxes instead of on a separate folder.

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100% Renewable

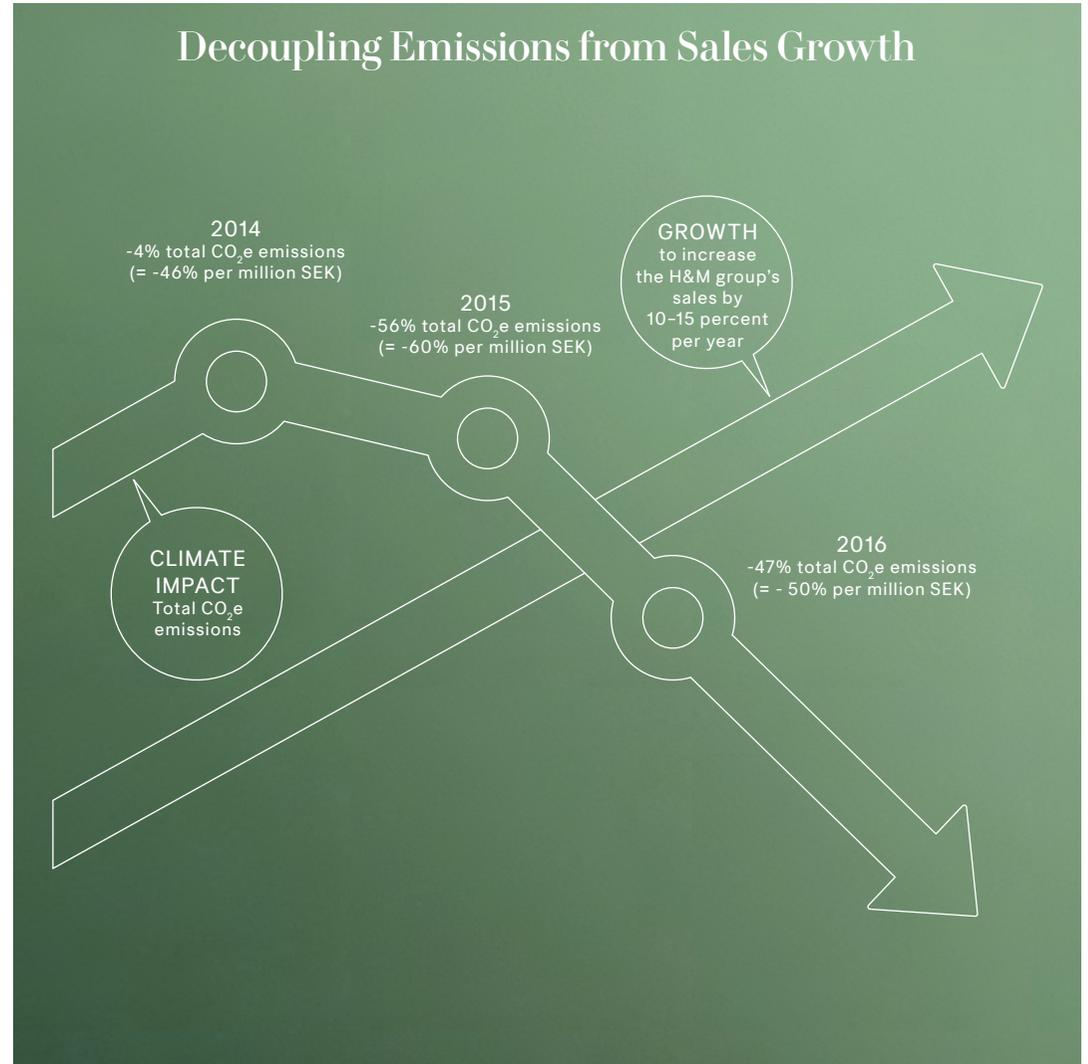
The science is clear: climate change is happening, and it's happening because of humans. Most climate experts (as well as governments, businesses and NGOs) agree that the release of greenhouse gases is causing global temperatures to rise. Unchecked, this change will lead to disastrous outcomes, including a dramatic rise in sea levels and an increase in the number and severity of extreme weather events.

In December 2015, countries from around the world gathered in Paris for COP21* and agreed that to avoid this threat, we must do whatever it takes to limit global warming to 2 degrees Celsius or preferably well below that. Most governments have now submitted their climate plans but despite unprecedented levels of commitment and mobilisation they are not enough. We have to do more to keep our climate stable.

As a large business with a unique scale and reach, we have a responsibility to go beyond simply cutting our emissions. We have to work to meet the needs of the planet. This means setting an example in our own operations, driving change along our value chain, and help leading our entire industry towards its transformation. We can only achieve a 100% circular model if the system is powered by sustainable, renewable energy.

“We can only achieve 100% circular model if the system is powered by sustainable, renewable energy.”

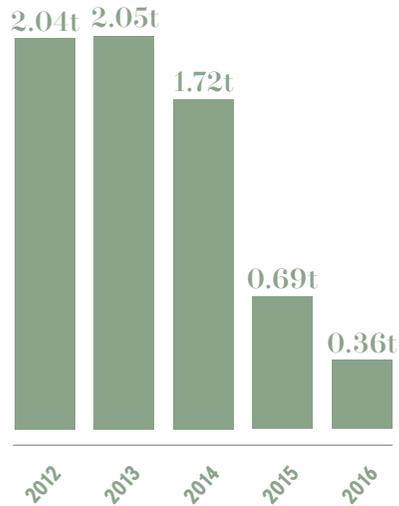
* The 21st Conference of the Parties for the UN's Convention on Climate Change.



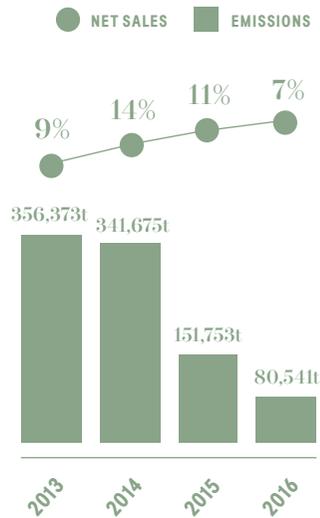
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In 2016, we reduced our emissions further by 47% compared to 2015.

CARBON EMISSIONS PER MILLION SEK SALES TURNOVER INCL VAT (CONSTANT EXCHANGE RATE)



TOTAL CO₂e EMISSIONS* TO PREVIOUS YEAR IN % (SCOPE 1+2) VS. GROWTH IN SALES (IN LOCAL CURRENCIES)



* Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on supplier specific emission factors where available. For further details and data, please see our CDP Climate Change Investor Response 2016. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is included here on p. 119.



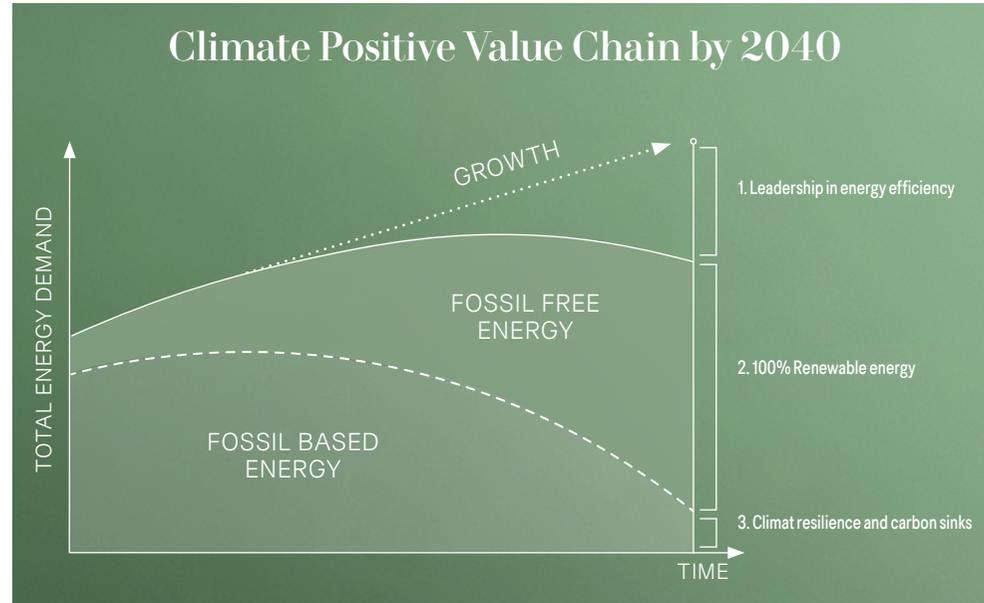
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Becoming Climate Positive

The H&M group is committed to a Climate Positive Value Chain by 2040.

Climate change is a key challenge for any industry, including fashion. To address it, we need to change the way products are produced and enjoyed. We want to support this transformation by making our value chain climate positive – all the way from cotton farms to our customers’ washing machines. This means removing more greenhouse gas emissions from the atmosphere than our value chain is responsible for – making it climate positive.

We have been involved with a number of expert scientific organisations to develop our strategy. With the help of the WWF Climate Savers, we have gained insight and expertise empowering us to design our long-term strategy. Using a science-based approach, we have established short-term milestones that address our own operations and value chain. The strategy contains three key priorities to achieve a climate positive value chain by 2040 at the latest.



PRIORITY 1 Leadership in Energy Efficiency

We are committed to reducing the needs for energy across our value chain. This includes the energy need all the way from when the raw material is produced to our customers when caring for the products.

PRIORITY 2 100% Renewable Energy

We are committed to maximizing the use of renewable and sustainable energy throughout our value chain. We want

to support the transition into renewable energy for the whole world by using renewable energy ourselves and helping our suppliers and customers to transition to fossil free energy.

PRIORITY 3 Climate Resilience and Carbon Sinks

We aim to strengthen the planet’s natural systems to support stability in its ecosystems and climate. We need to identify operative measures to reduce existing greenhouse gases in the atmosphere to

ensure we are decreasing the pressure on global warming. Our ambition is to reduce more greenhouse gases than our value chain is responsible for.

To achieve this, we need to address many challenges along the way, such as worldwide access to viable renewable energy and innovation that enables the efficient uptake of CO₂. This will require collaboration. We will only succeed if we engage all participants along our value chain, from governments and suppliers to our colleagues and customers. Within our supply chain, our goal is to achieve a climate neutral supply chain for first tier and second tier suppliers by 2030. This will require both energy efficiency and a transition to renewable energy.

We are encouraging and empowering our suppliers to become more energy efficient and use renewable energy. Ultimately, we want to pave the way towards a truly sustainable fashion industry and demonstrate that climate positive fashion is possible.

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Stakeholder interview WWF – Global Partner

Name Manuel Pulgar-Vidal
Title Leader, WWF’s Climate & Energy Practice



Why has the WWF teamed up with the H&M group to address climate change?

Businesses influence the world. The WWF seeks to transform businesses into leaders of the low-carbon economy and ensure they become part of the solution. The H&M group is the second largest fashion retailer in the world, and has great potential to address both its own direct environmental impacts, and to realise positive change within its value chain and the clothing industry. It can lead by example within the sector and the business community.

How has the WWF supported the H&M group in developing its Climate Positive Strategy?

The H&M group wanted to develop a long-term climate positive strategy for

their value chain. We helped them create a 2040 strategy and the pathways to achieve it. We also helped define short-term milestones under the WWF’s Climate Savers programme. Together, we developed ambitious science-based targets for the H&M group’s emissions until 2020. We are committed to developing their renewable energy portfolio, engagement activities on climate and energy policy, and 2020 milestones on addressing impacts with the value chain.

What are the most challenging aspects of implementing the Climate Positive strategy?

The H&M group has committed to reduce more greenhouse gas emissions than they are responsible for by 2040. This is hugely ambitious, especially considering the scale and complexity of their value chain. The most challenging aspect is therefore also within the value chain. For example, how to ensure that the H&M group’s suppliers adopt similar ambitions, how to influence customer behaviour, how to address impacts related to material needs and recycling of garments. These will all take capacity building, awareness raising, inno-

vative approaches and overall collaboration across the H&M group’s value chain.

How can this partnership create scalable change? What importance does the H&M group’s strategy have in the industry?

Leading by example is precisely what the WWF expects from its business partners. The H&M group has fully met this challenge through its new climate strategy. Because the partnership addresses all the relevant climate aspects and focuses on both long- and short-term, the H&M group can lead the way in showing the industry what can and should be done to address climate impacts. Ambitious action always spurs on the sector.

What is unique about this partnership, and where will it be going in the next five years?

This is a transformational partnership, and aims to bring long-term sustainable change to the H&M group and the fashion industry. Because the partnership’s work spans several sustainability areas (water, climate and strategic decisions), it enables us to take a more holistic approach to

address challenges and opportunities. Combining the H&M group’s size with the WWF’s global network of sustainability experts creates a strong platform for bringing that change on.

Looking ahead, I hope our partnership will inspire other brands to address their water and climate challenges – both on their own and in collaboration with others. I expect the partnership will have influenced the fashion sector in other important sustainability areas, such as future business models, landscape approaches for raw material sourcing and collaboration with other industries and customers to create a more sustainable society.

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Leadership in energy efficiency

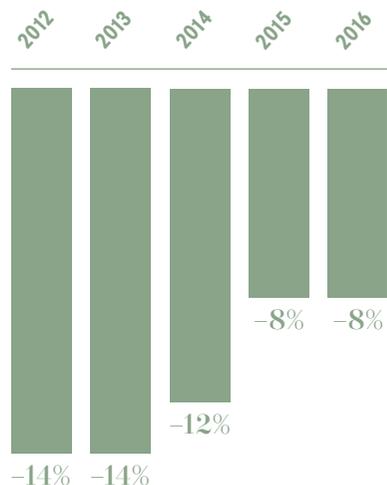
Energy efficiency is a critical yet simple concept, the optimizing of output from the smallest necessary energy input. The principle of energy efficiency must be applied across our entire value chain.

WITHIN THE H&M GROUP

We are committed to using less electricity per square metre of sales area, also referred to as 'electricity intensity'. So far, we have reduced this by 8.3% against a 2007 baseline. Our original goal was to achieve a 20% reduction by 2020, but to strengthen our overall ambition to become Climate Positive throughout our value chain by 2040, we have now raised this to a 25% reduction by 2030 (with 2016 as a new baseline). This means we will reduce a further 25% beyond our current reductions.*

– To meet this goal, we have allocated more resources to improve our ways of working, identify strategic opportunities and take appropriate action. This includes continuing to work with store rebuilds, and investing in new technolo-

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



*Energy intensity in 2007 was 190.39 kWh/m². Please find an independent assurance statement related to GRI 302-3 on p. 119.

ENERGY USE IN GIGAJOULES	2012	2013	2014	2015	2016
Building diesel	5,215	403	3,586	716	3,241
District heating	61,894	67,901	68,208	44,953	43,347
Electricity**	3,195,689	3,402,762	3,804,291	4,399,990	4,995,002
Building natural gas, oil and others	184,606	252,124	155,937	161,959	178,128
TOTAL	3,447,404	3,723,190	4,032,022	4,607,618	5,219,718

**Energy related to electricity based cooling consumption is included. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 302-1 is included here see page 119.

gies for lighting, heating, ventilation and air-conditioning (HVAC) systems.

By 2030, every store we construct will use 40% less energy per square metre than the stores we construct today.

ACROSS OUR VALUE CHAIN

Using less energy for more output is a fundamental part of our strategy and again, something that can be applied across our entire value chain. Within our supply chain we have committed to achieving a climate neutral supply chain for first tier and second tier suppliers by 2030. This includes both energy efficiency and transition into renewable energy. This commitment includes milestones such as:

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

– Through supplier energy efficiency programmes in Bangladesh, China, India and Turkey we have reduced greenhouse gases emissions. During 2016, our suppliers achieved savings of nearly 30 million kWh as a result of our improvement programmes. These programmes have also supported savings of nearly 8 million tonnes of natural gas and 1.5 kilo tonnes of coal. Combined, this adds up to over 200 kilo tonnes fewer greenhouse gases emitted, which is equivalent to almost 30,000 homes' total electricity use for a year.**

– We are also working to reduce the energy used in our logistics, transport and warehouses. For example, we have a goal to ensure that 100% of our transport service providers (TSPs) are controlled by environmental programmes.

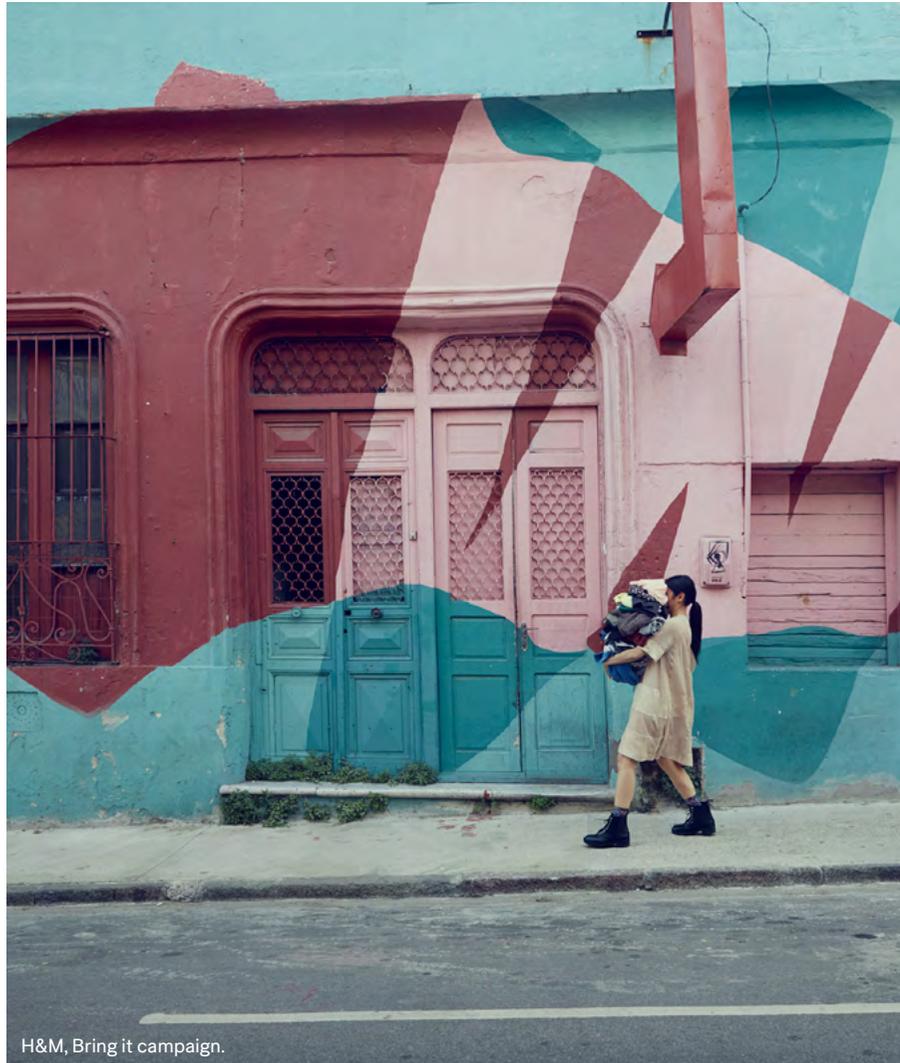
* This new KPI also includes opening hours to allow for better internal benchmarking. ** See epa.gov. All data has been verified and endorsed by our project partners STWI and International Finance Corporation (IFC). Independent consultants appointed by our project partners assessed, verified and reported the savings of every factory at the end of the project.

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▷ For land-based transport, we use SmartWay in North America and our own programme* in Europe. For shipping, our TSPs must be part of the Clean Shipping Project. These programmes allow us to measure and monitor the performance of our TSPs, and therefore set targets for improvement.

– We can also help our customers be more energy efficient in how they care for the garments they buy from us. Since 2014, all of our garments have the Clever Care label included in their washing instructions, which encourages decisions that use less energy and water. We also have information on our website to help customers care for their clothes in a less impactful way. Thanks to customers using our garment collecting initiative, we can also increase the share of recycled materials in our products which enables energy savings in our material processes. However, we know we must do more to help our customers use less energy when caring for our products.

* The programme is part of CERES – the Conscious Energy & REsource System, which measures the CO₂ emissions and waste from our operations (office, production, logistics, stores, etc).



Case study: More IT, less impact.

The H&M group's IT department is part of our operations and it is connected to stores, offices and data centres in more than 70 countries around the world. Our IT demands grow according to our business growth (data storage grows even faster) and historically, the environmental impact of our IT has followed this growth.

Energy savings within IT such as from cash register systems, server centres and PCs, are an example of how growth can be decoupled from resource use. In the past five years, annual IT-related energy use has fallen by more than a third, despite the H&M group's substantial expansion.

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Renewable Energy

Renewable energy is an essential component of cutting global carbon emissions.

WITHIN THE H&M GROUP

Our goal is to source 100% of our total energy in our own operations (scope 1 and 2) from renewable sources. We currently source 96% of our electricity from renewable sources, compared with 78% in 2015. This sourcing includes methods such as purchasing of certificates recognised by the GHG Protocol and generating our own renewable electricity. We use various certification schemes* to purchase renewable energy, depending on where and how we buy it. We are also exploring ways to build capacity for new sources of renewable energy ourselves

– We have invested in GO2, an innovative project that builds on the system of Guarantees of Origin, and bundles the cost of our renewable energy usage with a contribution to new renewable energy supply. The H&M group’s engagement with GO2 in 2015 and 2016 has helped make possible the construction of a new wind park in Sweden. The Tågeröd Wind Power Plant is expected to generate 16,000 to 18,000 MWh per year.

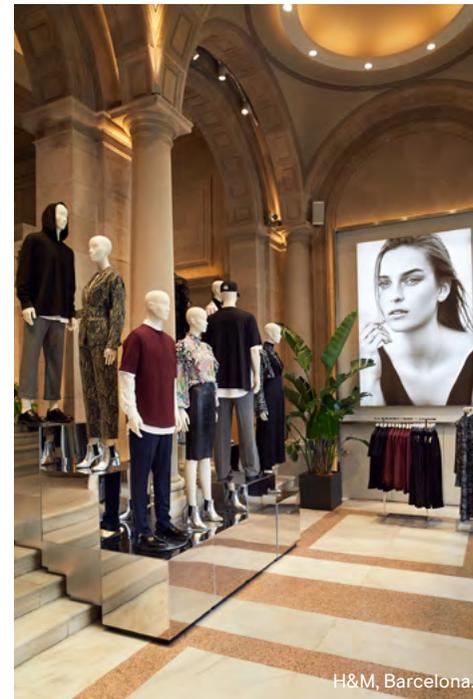
* These include Guarantees of Origin (GO), Renewable Energy Certificates (REC) and International Renewable Energy Certificates (I-REC) purchases.

– We have installed solar panels on some of our own buildings, including some of our distribution warehouses and one of our IT parks. We are continuing to explore how we can put additional solar panels on more of our buildings.

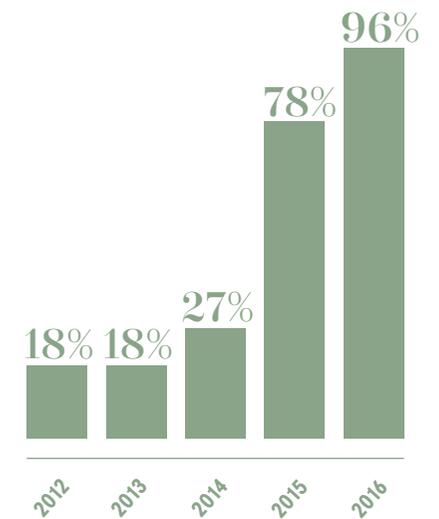
– We are working with a partner in the US to identify potential Power Purchase Agreement (PPA) opportunities, which would allow us to effectively finance renewable generation projects.

ACROSS OUR VALUE CHAIN

We are encouraging and empowering our business partners to use renewable energy. Although some partners already do, many find access to viable renewable energy limited particularly in new markets. We believe the more renewable energy the better, so we are working closely with stakeholders – including government bodies – to push for progress. For example, we have conducted workshops with our suppliers and government representatives in Bangladesh and India to push for renewable energy and identify possible ways forward.



% OF RENEWABLES IN OUR TOTAL ELECTRICITY USE



Please find an independent assurance statement related to AF21 on p. 119.

“Renewable energy is an essential component of cutting global carbon emissions.”

100% Circular & Renewable

Climate resilience and carbon sinks

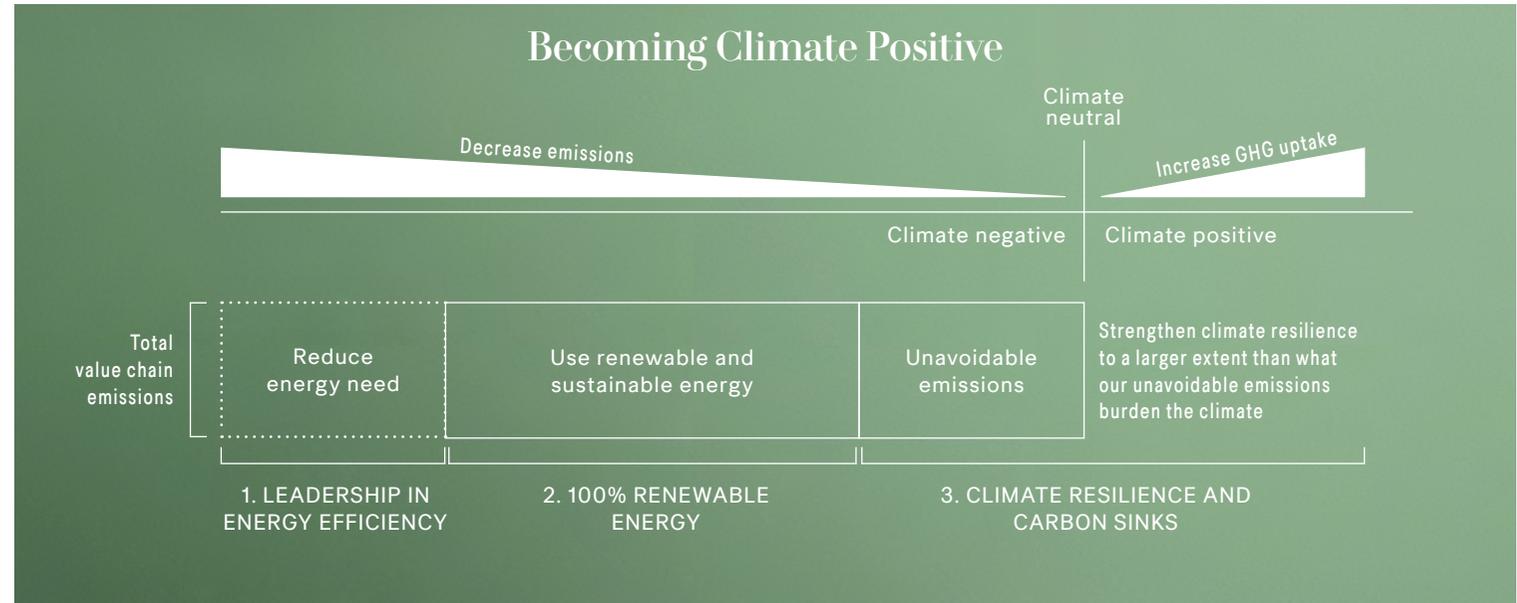
We are committed to fully eliminating greenhouse gas emissions from our own operations. However, in our value chain there will still be unavoidable emissions* despite focusing hard on energy efficiency and renewable energy. This is why we will also engage in climate resilience activities to absorb both the emissions that we are responsible for across our value chain and beyond to become Climate Positive.

Our approach is to support mechanisms that reduce existing emissions while strengthening climate resilience.** This is an area that we need to further develop and push forward in collaboration with experts. Currently, we are exploring opportunities in three areas:

1. Natural carbon sinks – nature’s existing mechanisms to absorb greenhouse gases. This could include programmes that protect valuable biomass such as rainforests or investments in more sustainable agriculture.

- 2. Technological carbon sinks – technological innovations to absorb existing greenhouse gases with the aim of turning them into new products and materials.
- 3. Reductions outside of our value chain – engagement activities that reduce greenhouse gases coming from sources unrelated to our value chain

Becoming Climate Positive



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

for our chances to stay within the 2°C limitation.

* Unavoidable emissions are the remaining greenhouse gas emissions we create, even after a focused increase in energy efficiency and transition to renewable energy. These can include emissions from fossil-based household electricity when customers wash their clothes. ** Resilience is the planet’s natural long-term system to handle tension in order to keep the climate and ecosystems stable. For an ecosystem, such as a forest it can be the capacity to endure storms, fires or pollution. For a farmer, resilience can be tolerating pest outbreaks or climate change. Resilience is the system capacity to withstand stress and changes as well as the ability to develop essential functionality. In the long term, this means the ability to adapt. More knowledge about for example, how biodiversity and innovation can strengthen climate resilience is increasingly important to mitigate tension and manage the changes already taking place due to climate change.

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Our climate impact

According to the Greenhouse Gas Protocol, emissions can be categorised into three groups: scopes 1, 2 and 3. Scope 1 covers ‘direct’ emissions, which are defined as emissions that we – the H&M group – either own or have direct control over. Scope 2 covers ‘indirect’ emissions, from the consumption of purchased electricity. Purchased electricity is defined as electricity that is bought or otherwise brought into the organisational boundary of the company. By looking at our value chain, we can see that our own operations as a business represent a small proportion of our total emissions. We can address our scope 1 and 2 emissions through energy efficiency measures and investments in renewable energy.

A typical scope 3 emission comes from anything outside of our operations that we have indirect control over. This includes our suppliers and the producers of raw materials used in our products, as well as emissions from the use of our products, for example when our customers use washing machines.

As with many companies, the majority of the H&M group’s greenhouse gas emis-

sions are scope 3, which means they lie outside of our own operations. To tackle this, we have carried out a thorough materiality analysis to identify the emission ‘hot spots’ along our value chain. Considering the complexity of our value chain, this type of analysis requires some assumptions for example, how many times an average T-shirt is washed in different regions of the world. To this end, we are working intensively to build systems that improve the collection and accuracy of sustainability data from our suppliers.

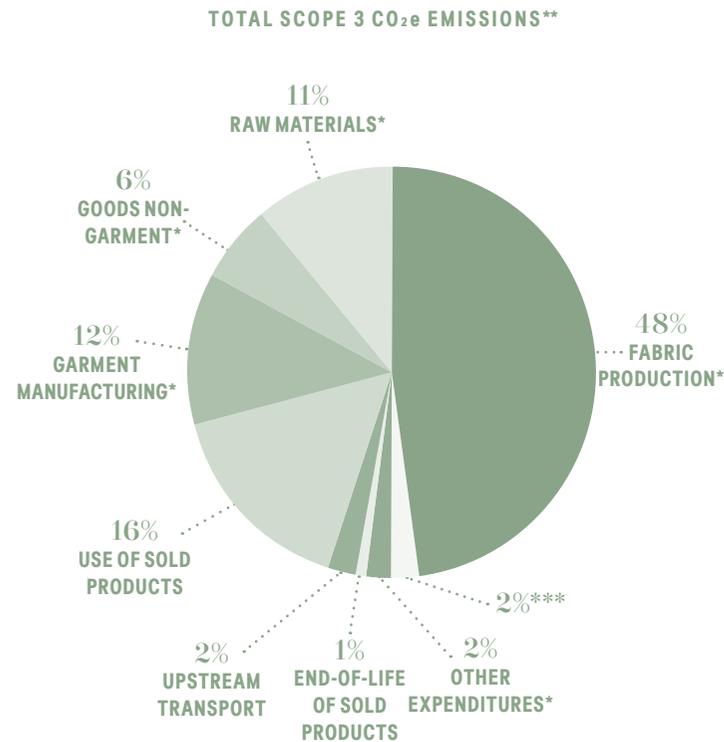
The main sources of greenhouse gas emissions in our value chain are fabric production, product manufacturing and use of sold products (that is, products that are used and cared for). This insight enables us to work strategically to decrease scope 3 emissions and report on our progress.* We intend to share what we have learned because we want our work to help drive change across the industry.



H&M.

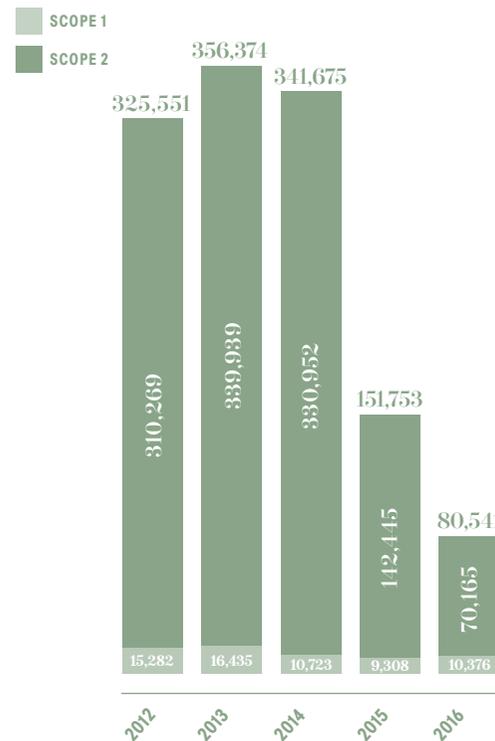
*Climate impacts are based on a scope 3 assessment done by Ecofys in 2016, based on 2014 data. The categories are based on GHG Protocol. Calculations in the footprint analysis are based on calculations on a combination of good quality H&M group (2014 material usage) data combined with best available public data sources on CO₂ emissions, using conservative assumptions. We are working to further improve the calculations by using primary data from our main suppliers.

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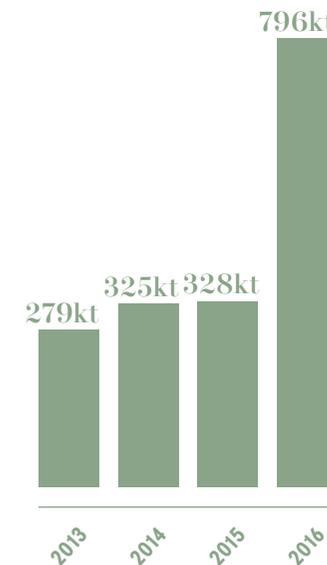
*GHG Protocol Category 1: Purchased products **Climate impacts are based on a Scope 3 assessment done by Ecofys in 2016, based on 2014 data. The categories are based on GHG Protocol. Calculations in the footprint analysis are based on calculations on a combination of high quality H&M group data combined with best available public data sources on CO₂ emissions, using conservative assumptions. We are working to further improve the calculations by using primary data from our main suppliers. Deviation from 100% due to rounding effects. ***Including fuel & energy related activities (0,3%), Employee commuting (0,2%), Business travel (0,01%), Waste generated in in operations (0,4%), franchises were not included in the study.

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



****Our GHG emissions accounting and reporting is aligned with the GHG Protocol. Reported CO₂e emissions are based on supplier specific emission factors where available. For further details and data, please see our CDP Climate Change Investor Response 2016. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is included here on p. 119.

SCOPE 3: CO₂e EMISSIONS IN KILO TONNES, INCL. ENERGY USE, TRANSPORT, DISTRIBUTION AND BUSINESS TRAVEL



Please find an independent assurance statement related to GRI 305-3 on p. 119. Reported scope 3 emissions include energy use, goods transport and distribution, and business travel. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). Increase mainly due to more accurate data collection and validation from our transport providers, and a slight increase in air transportation. Emission data from previous years were likely underreported and actual historic emission data is unavailable.

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Key collaborations

BETTER COTTON INITIATIVE (BCI)

The BCI is a multi-stakeholder initiative that aims to promote measurable improvements in the environmental and social impacts of cotton production. We are one of the founders of BCI, and one of the biggest user and financial contributors among retailer members.

CANOPY

Canopy works with the forest industry's biggest customers and their suppliers to develop business solutions that protect the world's ancient and endangered forest.



We work with them to ensure our viscose does not contribute to the deforestation of ancient or endangered forests.

CHEMSEC BUSINESS GROUP

The H&M group is part of the ChemSec business group – a collaboration between companies to inspire progress and push for legislation in the reduction in the use of toxic chemicals.

CRADLE TO CRADLE PRODUCTS INNOVATION INSTITUTE

We are partner in the Cradle to Cradle Fashion+ collective, along with several other brands, designers and suppliers. Together, we are working to improve the sustainability and circularity of materials used in the fashion industry, see interview with the Institute on page 42.

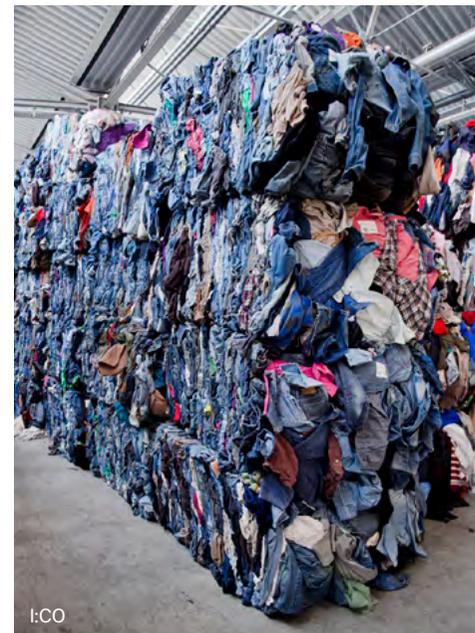
ELLEN MACARTHUR FOUNDATION (EMF)

As a Global Partner of the Ellen MacArthur Foundation (a key organisation in support of circular economic systems), we are working together to explore further opportunities to apply circular economy principles.

HUMANE SOCIETY INTERNATIONAL (HSI)

The HSI is a global animal protection

organisation. It is crucial we work together to protect animal welfare across our industry. Through a collective approach – both with Humane Society International and other stakeholders – we can push our industry forward.



I:CO

I:CO is a global service provider that collaborates with the H&M group to collect the garments from our garment collecting initiative in our stores.

ORGANIC COTTON ACCELERATOR (OCA)

The H&M group was as a founding member of the Organic Cotton Accelerator (OCA) and is actively involved in further strengthening the supply, demand and the integrity of organic cotton. The OCA's mission is to build a fair, robust organic cotton market that promotes transparency and traceability, and makes it easier for farmers to switch to organic production.

MISTRA FUTURE FASHION

The H&M group is a member of the Mistra Future Fashion programme – a research programme that has a 'system perspective' on the fashion industry. Its vision is to close the loop on fashion and enable a systemic change in the Swedish fashion industry.

STOCKHOLM RESILIENCE CENTRE (SRC)

The Stockholm Resilience Centre researches how to improve social-ecological systems, in particular their ability to deal with change and continue to develop. As part of our research project with the EMF, we are working with the SRC to find a way to create a circular fiber system that works within planetary boundaries.

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▷ SWEDEN TEXTILE WATER INITIATIVE (STWI)

In 2010, the H&M group joined other major Swedish textile and leather brands and the Stockholm International Water Institute (SIWI) to launch the Sweden Textile Water Initiative. The aim of the collective was to gain a better understanding of the water challenges facing the industry and to find the right mechanisms to address them.

TEXTILE EXCHANGE

Textile Exchange is a global nonprofit organisation that works closely with all sectors of the textile supply chain to find the best ways to minimize the industry's negative impacts on water, soil, air, animals and people. The H&M group has been a member of Textile Exchange since 2004.

WORN AGAIN

We have a partnership with the innovation company Worn Again to develop promising technologies for textile-to-textile recycling.

WWF

Our long-term partnership with the WWF enables us to take on a more holistic approach to address broader challenges and opportunities, going beyond water to also include climate and stra-

tegic dialogue. Starting from 2017 this partnership is now also including membership in the WWF Climate Savers.

ZERO DISCHARGE OF HAZARDOUS CHEMICALS (ZDHC)

The H&M group is detox-committed and an active part of the ZDHC group. This programme takes a holistic approach to tackling the issue of hazardous chemicals in the global textile and footwear value chain. Together with other ZDHC brands, we are engaging with diverse stakeholders to raise the awareness of industry standards and work collaboratively for change.



The C/O Cheap Monday Capsule Collection.





Close the Loop.

100% Fair & Equal

Overview

100% Fair & Equal

TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
FAIR JOBS FOR ALL WITHIN THE H&M GROUP	<p>To make sure we have the right people on board and in the right positions.</p> <p>To offer all of our employees the opportunity to grow and develop in their roles and emphasise training towards this.</p> <p>To promote a values-driven way of working and empower all employees to be ambassadors for these values in their work.</p> <p>To provide a solid foundation of fair, sustainable and attractive working conditions for all of our employees.</p>	<ul style="list-style-type: none"> - Committed to ensuring that all colleagues have an annual dialogue discussion about how they performed, what else they can develop in their career and other opportunities in the H&M group. - Implemented the H&M group Global Compensation and Benefit Policy. - Developed an enhanced and updated Global Health and Safety Policy. - Organised and ran a Global Safety Week to contribute to our safety culture. - Developed a Global Labour Relations Policy and training for the H&M group. Actively participated in numerous global forums to discuss specific issues with our social partners. 	<ul style="list-style-type: none"> - Using our Global Employee survey, we asked our employees how we could improve dialogue discussions with them and received some useful feedback. - Developed a new Health & Safety Environment Good Practice bank. - Developed a Global Labour Relations training programme for the H&M group.
FAIR JOBS FOR ALL WITHIN OUR SUPPLY CHAIN	<p>To contribute to well-functioning industrial relations in our sourcing markets and for all of our business partners to pay their employees a fair living wage.</p>	<ul style="list-style-type: none"> - Renewed the IndustriAll Global Framework Agreement. - Continued our collaboration with ACT towards industry-wide collective bargaining. During 2016, the initiative established the ACT Foundation and appointed an executive director. 	<ul style="list-style-type: none"> - Set up five monitoring committees. See map on p. 78.
	<p>To ensure democratically-elected worker representation at business partners producing 50% of H&M group's product volume by 2018.</p>	<ul style="list-style-type: none"> - Continued to scale up industrial relations project and workplace dialogue in existing markets. - Started a new industrial relations project in Ethiopia. 	<ul style="list-style-type: none"> - See map on p. 78 for more details. - 290 factories received workplace dialogue training, which represents 42% of our total product volume.*
	<p>To ensure improved wage management systems supporting fair living wages at business partners producing 50% of H&M group's product volume by 2018.</p>	<ul style="list-style-type: none"> - Scaled up wage management system in existing markets. - Expanded wage management systems to business partners in Indonesia, India and Turkey. 	<ul style="list-style-type: none"> - See map on p. 78 for more details. - 140 factories using Fair Wage method, which represents 29% of our total product volume.*
	<p>To reach 100% remediation and enrol all new factories in the Bangladesh Accord.</p>	<ul style="list-style-type: none"> - Made remediation progress data that can be followed up on a monthly basis publicly available on our website. - Arranged a business partner summit in spring 2016 to which all Bangladeshi business partners were invited to discuss the Accord and share best practice. 	<ul style="list-style-type: none"> - 81% of our outstanding issues were remediated in December 2016 compared with 61% in March 2016.
	<p>To ensure 90% of our business partners regard the H&M group as a fair business partner by 2018.</p>	<ul style="list-style-type: none"> - Launched an updated strategy on purchasing practices internally to ensure a consistent way to engage with our business partners in a fair and transparent way. 	<ul style="list-style-type: none"> - 83% of our business partners regard the H&M group as a fair business partner.

* This KPI currently shows factories that received the H&M group's workplace dialogue training. When the system support for the SIPP is fully implemented, we will be able to show data on share of product volume with democratically-elected worker representation from our complete factory base.



100% Fair & Equal

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TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
<p>FAIR JOBS FOR ALL WITHIN OUR SUPPLY CHAIN</p>	<p>To continually identify, address and remediate human rights impacts in our value chain.</p>	<ul style="list-style-type: none"> - Addressed social security issues in Turkey and Cambodia. - Engaged in the Amsterdam Coalition (AMCO) to prevent and mitigate the harmful impacts of working in the spinning mill industry in South India. - Arranged internal training on modern slavery and forced labour in collaboration with the ETI. In connection with the training, we also conducted an internal gap analysis of modern slavery to identify areas for improvement. - Updated risk assessment for new and existing materials to further integrate human rights perspective. - Conducted an assessment on mica in cosmetic products to support our ongoing strategy development and approach to mica and the likely risk of child labour associated with mica production in India. - Proactively protected land rights in Myanmar and Ethiopia and conducted a cotton supply chain study in Ethiopia. 	<ul style="list-style-type: none"> - 25 employees from various business functions and global and local sustainability employees received modern slavery and forced labour training in collaboration with the ETI.
<p>DIVERSITY & INCLUSIVENESS</p>	<p>To make sure all of the jobs created through our business activities are accessible to all and reflect the diverse mix of people in the world around us.</p> <p>To ensure all employees are treated fairly and equally and have equal opportunities to develop.</p> <p>To positively influence people and communities by promoting everyone's right to be and express who they are.</p>	<p>WITHIN THE H&M GROUP</p> <ul style="list-style-type: none"> - Updated and implemented our Anti-Discrimination and Harassment Policy, as well as our Diversity and Inclusiveness Policy. - Offered internships to refugees in specific markets in collaboration with Save the Children. - Promoted equal opportunities for retail workers in India. - Ran campaigns on promoting diversity and inclusiveness (incl. For Every Victory and Monkifesto). <p>WITHIN OUR OWN SUPPLY CHAIN</p> <ul style="list-style-type: none"> - All of our commercial business partners must have a policy for recruitment that guards against anti-discrimination, harassment and abuse in the workplace. - Promoted equal opportunities for women by providing certified skills training through our continued support to the Centre of Excellence in Bangladesh. 	<ul style="list-style-type: none"> - Gender split in Board of Directors is 50:50. - Employee survey result showed that 90% of employees agreed with the statement "People here are treated fairly regardless of age, ethnicity, sex, sexual orientation and disabilities." - Share of females amongst all colleagues is 75%. Share of females in management positions is 69%. - Enterprise Based Training (EBT) in 2015 and 2016 - a total of 3,411 workers received certification.

100% Fair & Equal

Introduction

At the H&M group, we act on our 100% Fair & Equal ambition in two focus areas: fair jobs for all and being stewards for diversity and inclusiveness.

Fair jobs are important because employment is one of the best ways for people to grow as individuals and professionals. In addition, providing stable employment with fair compensation helps lift people out of poverty. The need for good, fair jobs is already significant and growing fast. It is estimated that globally, we will need over 600 million new jobs by 2030.**

Our stewardship of diversity and inclusiveness is also a critical part of our 100% Fair & Equal ambition. For example, when women and girls enjoy the same access to opportunities as men and boys, communities flourish and the economy grows. According to a recent McKinsey report,*** a ‘full-potential’ scenario in which women participate in the economy identically to men would add up to \$28 trillion (26%) to the annual global GDP by 2025 compared with a business-as-usual scenario. This impact is roughly equivalent to the size of the combined US and Chinese economies today.

* ilo.org ** oxfam.org *** mckinsey.com



Monkifesto.



100% Fair & Equal

Human rights

Fair jobs are inextricably linked to human rights, from the fundamental right to the food, health and housing that an income should provide to the right to freedom of association and collective bargaining.

Human rights also recognise the fundamentals: everyone's equal value and equal entitlement to full enjoyment of their rights. Advancing diversity and inclusiveness is therefore important to actively strive for and promote through business. The UN Guiding Principles on Business and Human Rights sets the global standard of what businesses must do to embed respect for human rights

“A company’s single greatest opportunity to contribute to the ‘people part’ of sustainable development lies in advancing respect for the human rights of workers and communities affected by their business.”

CAROLINE REES, PRESIDENT OF SHIFT. Read the full interview on p. 96.

throughout their operations and business relationships.

Our focus on 100% Fair & Equal means ensuring that our values and respect for human rights are upheld and promoted within our own company and across our supply chain as well as fair and equal treatment for everyone connected to our business. We want to use our influence to advance respect for human rights, be a force for positive change in the communities we touch and have a positive impact on people's lives across our industry. In return, this will make our business more resilient, productive and relevant to our stakeholders and as a result build loyalty with employees, customers and business partners.

Our ambitions

At the macro level, the H&M group has two broad commitments: to offer fair jobs and to be stewards for diversity and inclusiveness. We understand that the regions we operate in will have different challenges, so we must take local context into account as we develop our strategy and roadmaps.

We will continue our efforts to ensure fair jobs for our colleagues, the people employed by our business partners and the people employed throughout our value chain. This means employment where every employee is treated with respect and where everyone's equal value is recognised. No matter if it's about our colleagues at H&M group or employees at the suppliers making our products. It also means fair compensation, a safe and healthy workplace, an environment free from discrimination and respect for every employee's voice, including the right to freedom of association and collective bargaining.

The H&M group is also continuing to make diversity and inclusiveness a natural part of our business. Being a steward means actively preventing discrimination in the workplace, influencing the

“The H&M group is committed to providing fair jobs with fair compensation and to being stewards for diversity and inclusion.”

communities we touch – including our customers – by promoting our values and sponsoring inclusion. It is about recognizing, respecting and embracing people's differences and advancing their ability to contribute and develop. We work actively to achieve a diverse workforce where all employees enjoy equal opportunities for professional development. We also work to promote diverse and inclusive ideals through how and what we communicate with our customers and other stakeholders in our society.

100% Fair & Equal

Fair jobs for all: Within the H&M group

The H&M group is one of the biggest fashion companies in the world. We want everyone who works for us to know that their career is full of potential. We support and encourage a love of fashion, design and business amongst employees, and welcome ideas and feedback. With our many unique brands all over the world, we always strive to be a fair and equal employer.

Our diversity makes us strong. It creates an inclusive and welcoming workplace in which everyone's individuality is highly valued. We believe that when a diverse mix of people come together and share their knowledge, experience and ideas, it inspires and attracts talented people from all over the world.

Culture is important to the H&M group. We believe that you can have fun while achieving great results. Our shared values bring us together and guide us in our daily work; they are a part of who we are, what we stand for, and how we act. They help create an open, dynamic and down-to-earth company culture where anything is possible. Every H&M group employee is part of leading the change towards a sustainable future of fashion and design.

* See about.hm.com

In our Global Employee Strategy, we strive to create a workplace that attracts the talent that we need for our continued success. That is a place with endless possibilities to grow and where employees make a conscious choice to stay. A place that is transparent and trustworthy, fair and equal. A place where our company values are the red thread in everything we do.

OUR COMMITMENT TO CREATING FAIR JOBS IS BUILT ON FOUR FOUNDATIONS

1. We make sure we have the right people on board and in the right positions. We do this through how we attract, recruit and induct employees.
2. We offer all of employees the opportunity to grow and develop in their roles, and we emphasise leadership training towards this. We enable development through business growth, internal recruitment and training opportunities.
3. We promote a values-driven way of working and expect all employees to be ambassadors for these values in their work. Our shared values (outlined in 'the H&M way'*) are the starting point for how we do business and how we interact with the world around us. Our strong company



Employees behind the scenes during the 2016 production of the H&M group's corporate values film.

culture gives us a competitive advantage and ensures a sustainable way of working.

4. We provide a solid foundation of fair and attractive working conditions. These

include fair labour standards, health and safety standards, fair and competitive compensation, a comprehensive grievance procedure and a cooperative workplace dialogue.

100% Fair & Equal

POLICY DEVELOPMENT

– In 2016, we implemented the H&M group Global Compensation and Benefit Policy, which aims to secure equal pay for equal work based on local context and fair wage practices. We communicated the new policy to employees in all markets. Function Managers and HR Managers will use the policy to identify gaps to becoming compliant and create an action plan, time frame and follow-ups.

– We developed a Global Health & Safety Policy during 2016 that was launched in January 2017. The new policy is an upgrade to our existing Safety Policy and will help establish a strong health and safety culture across our operations. In 2016, we completed another successful Global Safety Week and received strong engagement from employees via a ‘safety selfie’ activity. This group-wide initiative helps to contribute to our safety culture.

Global Safety Week will become Global Health & Safety Week in 2017 in line with the global HR department’s launch of the new Group Health & Safety Policy.

– To clarify our position on Labour Relations, we developed a new Global Labour Relations Policy that was launched in early 2017. This clarifies our commitment towards neutrality, freedom of association and collective bargaining, and educates employees on how to have a workplace dialogue with local partners.

TRAINING

– We gathered 150 examples of ‘good practice’ health and safety initiatives from across our company around the world. These examples make up the foundations of our new Health & Safety Environment Good Practice Bank, which we will launch in 2017 and maintain going forward. The Good Practice Bank

“We want everyone who works for us to know that their career is full of potential.”



exists for local managers to search through and learn from.

WORKPLACE DIALOGUE AND LABOUR RELATIONS

– We actively participate in numerous global and local forums to discuss specific issues related to the H&M group with our social partners and employee representatives. These opportunities provide a way for all employees to contribute to the development of the workplace to achieve a fair, open and inclusive work environment. Our global meetings include our well-established European Works Council (representatives from 12 different countries who are H&M employees). In addition, we have ongoing dialogue with UNI Global Union on an annual basis.

“Our shared values bring us together and guide us in our daily work: they are a part of who we are, what we stand for, and how we act.”



100% Fair & Equal

Fair jobs for all: Within our supply chain

Our responsibility extends to all of the people who contribute to the success of the H&M group. This includes the workers at our suppliers' factories, who play such an important role in our company.

We want everyone who works within the fashion supply chain to have fair and decent jobs. That means a workplace that respects workers' voices and their right to freedom of association and collective bargaining, is safe and healthy, provides a fair living wage, offers career opportunities through the recognition of skill and experience and that treats workers with respect while recognising their equal value.

Creating fair jobs leads to countless positive impacts along our supply chain. Fair jobs are a material issue for us and are part of our commitment to creating a sustainable fashion industry. Fair jobs are also the best way for us to make sure

the markets we source from remain stable and productive, even in the face of other global challenges such as climate change and economic uncertainty. What's more, fair jobs reflect people's human rights and enable their advancement in line with the UN's Sustainable Development Goals. See more in How We Report on p. 117.

Obviously, how we partner and manage our suppliers is fundamental to achieving change in this area. For example, through our assessment approach (using our Supplier Impact Partnership Programme), we enable, promote and reward good performance from our suppliers – beyond the minimum requirements of standard audits. We measure performance on issues such as health and safety, overtime, wages, use of energy, water and chemicals. Improving these issues creates a collective impact, which will eventually lead to last-

ing, systemic change within the factories and the communities around them.

We know from experience that creating systemic change around these issues is not easy – a complex problem rarely has a simple solution. Discrete or isolated programmes do not work; instead, we must work towards a similarly holistic collection of solutions and collaborate with others to tackle the challenges in our industry. In December 2016, H&M hosted a conference on these issues in Myanmar, with over 100 industry professionals in attendance. The Fair and Equal conference saw discussion on how to provide fair jobs, protect human rights and strengthen freedom of association along the value chain.

Our industrial relations and wage programmes involve innovative collaborations between the International Labour Organisation (ILO), the Swedish International Development Agency (Sida), the Swedish trade union IF Metall, and the IndustriALL Global Union and within ACT where we collaborate with other brands and IndustriALL.

GOALS

All of our actions for 100% Fair & Equal are connected to our ambitions and global group goals. The goals included in this chapter apply to the H&M group on a global level. As explained in our Vision & Strategy chapter (see p. 17), goal setting is an ongoing process that continuously adapts to our progress and external factors.

Our goals for 100% Fair & Equal are:

- To ensure democratically-elected worker representation at business partners producing 50% of H&M group's product volume by 2018.
- To ensure improved wage management systems supporting fair living wages at business partners producing 50% of H&M group's product volume by 2018.*
- To reach 100% remediation and enrol new factories in the Bangladesh Accord Inspection Programme by 2018.
- To have 90% of our suppliers regard the H&M group as a fair business partner by 2018.

“We want everyone who works within the fashion supply chain to have fair and decent jobs.”

* We have decided to measure and report on our goal by 'percentage of product volume' instead of 'number of strategic business partners'. This gives a better and more relevant picture on how we measure progress towards our long-term ambitions of well-functioning industrial relations throughout our supply chain, and for every worker to earn a fair living wage. During the ongoing implementation, we have decided to redirect our focus for the 2018 milestones to countries and suppliers based on local needs, business priorities and where we can scale up fast and effectively while still maintaining the initial scope of impact.

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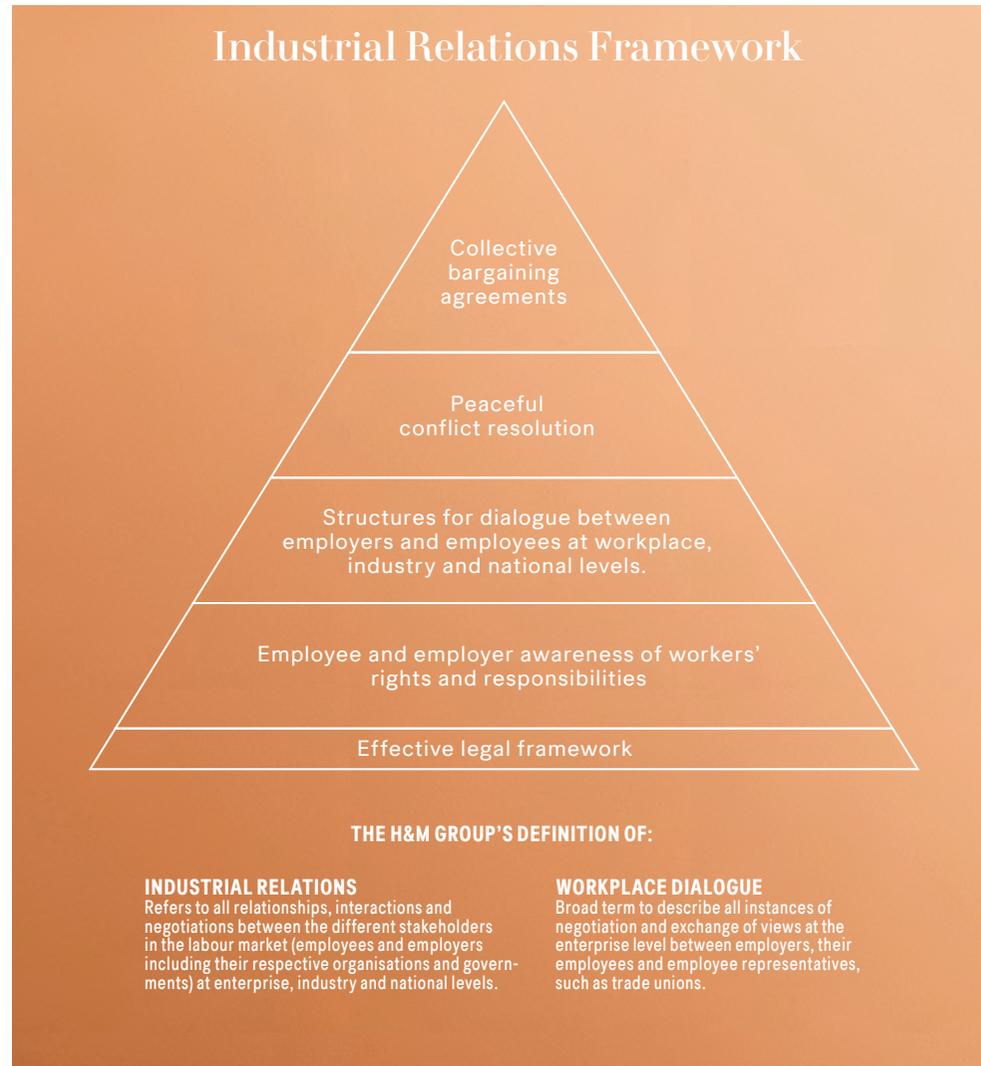
Our Industrial Relations Strategy

We believe that well-functioning industrial relations and collective bargaining are the ultimate keys to achieving our fair jobs ambitions. However, many of these markets lack sufficient systems to, for example, enable employers and worker representatives to negotiate their wages collectively – the legislation may not exist, or a supplier may use inadequate structures for workplace dialogue. Our aim is therefore to contribute to well-functioning industrial relations and workplace dialogue in our sourcing markets.

In countries where unionisation is restricted by law or where systems are insufficient, we work, for example, to empower workers by raising their awareness about their rights at work, to train our suppliers and to support the estab-

lishment of democratic employee representation. In time, these should create the foundations for effective collective bargaining systems.

We are working on several different levels to achieve our goals, most significantly with our supplier factories, as well as on the industry and government levels. And, as shown in the Industrial Relations Framework diagram, we must have certain foundations in place to achieve well-functioning industrial relations. We have been working on these issues for two decades and have made considerable headway, but there is still important work to do.



Our aim is to contribute to well-functioning industrial relations in our sourcing markets.

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Our Fair Living Wage Strategy

The H&M group wants suppliers to offer their employees good working conditions, including fair living wages. To us, this is indisputable and has led us to develop a global Fair Living Wage Strategy.* We want to help ensure fair living wages across the industry and in all of our sourcing markets, but the challenges along the way are complex. For example, many markets lack adequate wage setting processes on a national level. We believe that well-functioning industrial relations, including collective bargaining, are key to achieve fair living wages and improved working conditions.

Achieving systemic change requires a huge amount of collaboration between stakeholders such as governments, suppliers, brands and trade unions. For solutions to work, they must connect relevant stakeholders at the right time and in the right way – as shown in Fair Living Wage Strategy diagram. For example, because we share suppliers with many other retailers (and factory workers receive the same wage no matter which brand they are making products for), we must build partnerships with

other brands to drive sustainable change across the industry.

We also engage with governments and other partners to promote the required legal framework for enabling negotiations between employers and worker representatives. This involves regularly advocating stronger wage legislation in priority countries and meeting with ministers every year.

Another part of the puzzle is facilitating the democratic election of effective employee representation at factories through trade unions or worker committees (dependent on local context and choice of employees). Democratically-elected worker representatives are an essential component of functioning industrial relations, which also forms the base for fairly negotiated wages. By incentivising and enabling factories to create these systems, we can contribute to the building blocks for peaceful conflict resolution and collective bargaining.

It is also important for factories to implement improved wage management systems. The H&M group is currently using the Fair Wage method, which aims



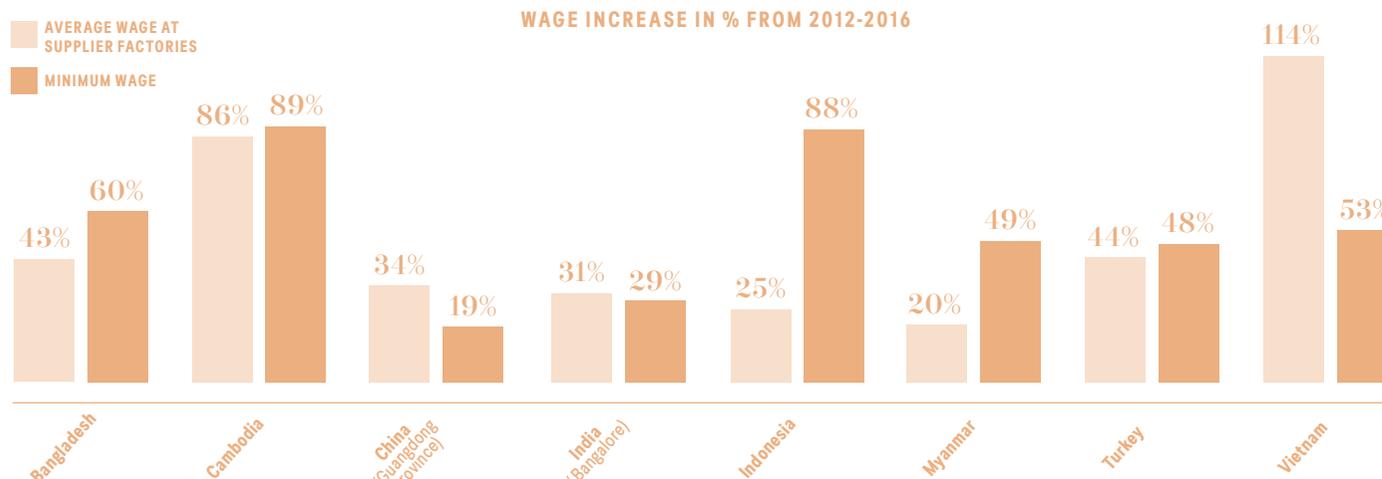
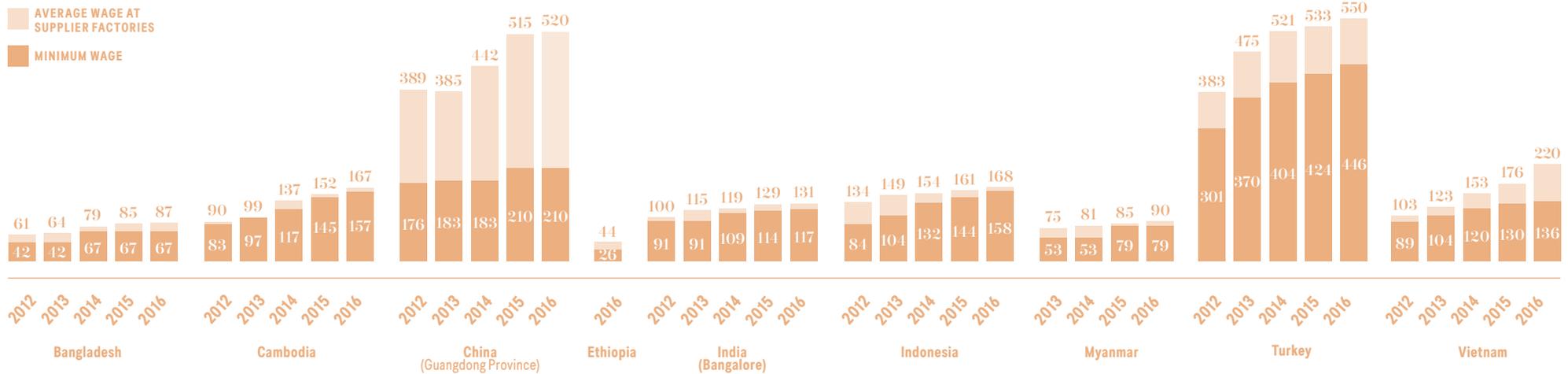
to create management systems in which workers know what wages they are entitled to (including overtime compensation and benefits), as well as ensuring they are paid according to their skills, experience and performance. We also need to ensure

that our own purchasing practices support our suppliers in implementing fair living wages. Our practices should make it possible to fulfil our business idea and give long-term benefits to workers, suppliers, customers and the environment.

*Our definition of a fair living wage is a wage which satisfies the basic needs of employees and their families and provides some discretionary income such as savings. It should be revised annually, and negotiated with democratically elected worker representatives. ** See footnote on page 74.

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AVERAGE MONTHLY WAGES AT H&M GROUP SUPPLIER FACTORIES VS. APPLICABLE MINIMUM WAGES IN SELECTED COUNTRIES IN USD*



“The H&M group wants suppliers to offer their employees good working conditions, including fair living wages.”

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

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Industrial relations, workplace dialogue and wage management programmes

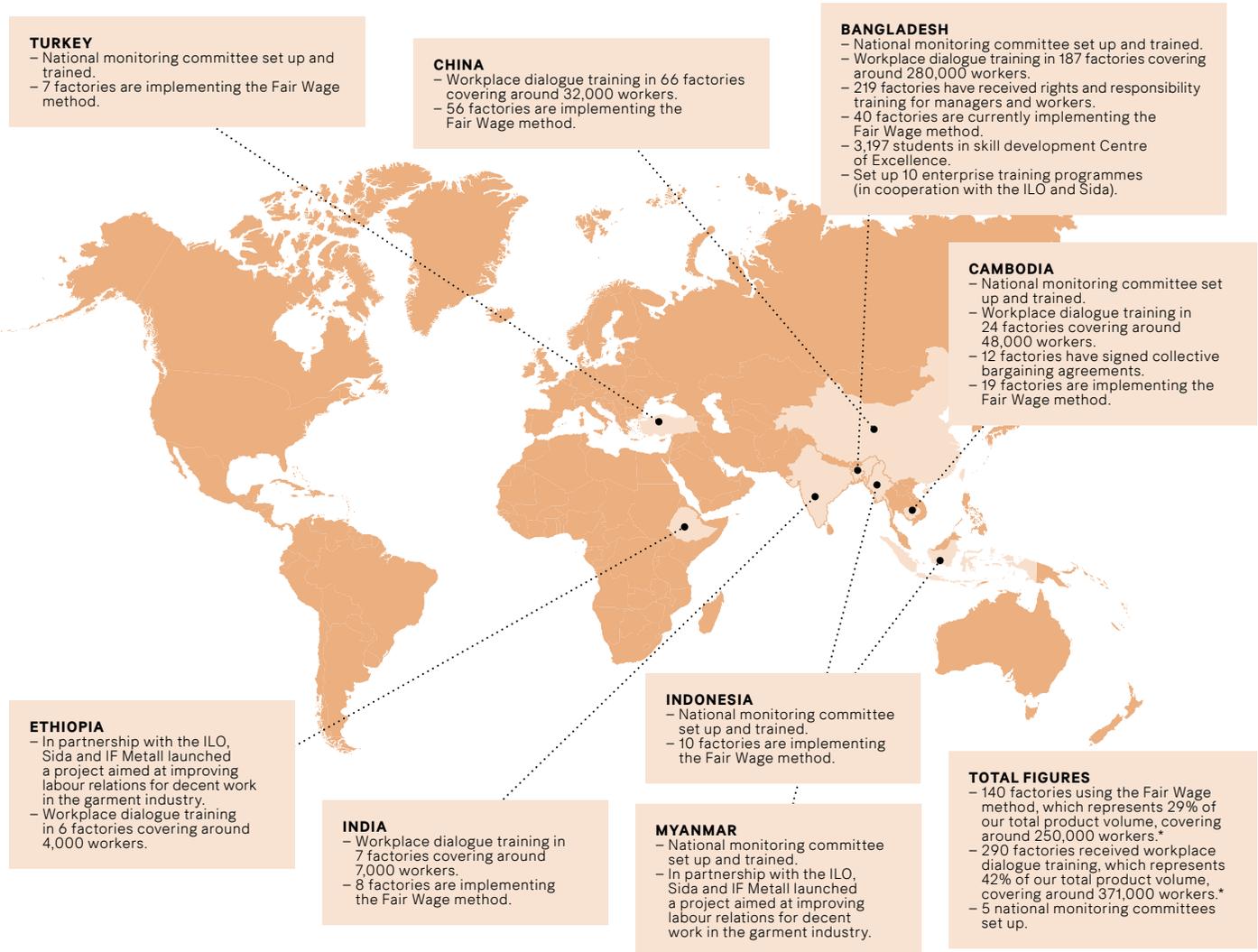
This map summarises some of our most impactful actions for our industrial relations, workplace dialogue and wage management programme ambitions.

In 2016, we continued to scale up our industrial relations and workplace dialogue programmes, reaching 290 factories compared with 132 in 2015. We also introduced a programme in Ethiopia for six factories, covering 4,000 workers. In 2017, we plan to expand this to cover Indonesia, Turkey and Myanmar.

In 2016, we scaled up the implementation of the Fair Wage method reaching a total of 140 compared with 68 last year. We introduced and implemented the Fair Wage method to three new markets: Indonesia, India and Turkey. In 2017, we plan to include Myanmar.

The scale up of these programmes represents important milestones towards our overall goal that by 2018, business partners representing 50% of the H&M group's production volume should have improved wage management systems and democratically-elected worker representation.

**This KPI currently shows factories that received the H&M group's work-place dialogue training. When the system support for the SIPP is fully implemented, we will be able to show data on share of product volume with democratically-elected worker representation from our complete factory base.*





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Interview with Mi Qiaoyun, a worker representative

Name Mi Qiaoyun

Title Worker representative in China at Suzhou Wanli Knitting Factory.

In China, freedom of association is restricted by law, which is why we are focusing our efforts in China on well-functioning worker participatory committees.

Could you tell us a bit about yourself?

My name is Mi Qiaoyun. I'm 34 years old and I have worked in the linking department for nine years. For the last four years, I have also been a worker representative.

What does your role as a worker representative involve?

There are seven other elected worker representatives at my factory. Our job is to open up dialogue between employees and managers. To do that, I talk to my colleagues about any problems they have, and take any I can't solve to our quarterly meetings with the factory management team. Together, we try to find solutions that work for everyone, and we follow up to make sure everyone is happy.

How do you enjoy being a worker representative?

Being a worker representative makes me happy and proud. It feels good to have been elected twice by my colleagues, and I have lots of training opportunities to develop my communication skills and learn from external service providers. I want to do my job as well as possible, and I want to make sure the dialogue between managers and workers leads to a better factory.

What successes have you and your fellow representatives had?

Most of the problems shared by our colleagues are about salary levels, the salary system and welfare issues – like the food in the canteen. Through our worker representative process, we have started to improve the canteen food. There are now more dishes to choose from and they taste better. We have also agreed on a future balanced wage structure to make sure everyone starts receiving a fair wage.

IMPROVING INDUSTRIAL RELATIONS

In 2016, we renewed the Global Framework Agreement (GFA) with IndustriALL and IF Metall. The GFA is founded on the belief that collaboration and a well-functioning dialogue between the parties on the labour market is necessary for lasting improvements to workers' lives, for stable production markets and ultimately, for a mature textile industry. The goal is industrial relations that respect freedom of association, give worker representatives a voice and enable trade unions to negotiate collectively.

So far, our collaboration within the GFA has been positive. It has led to setting up and training national monitoring committees in Bangladesh, Cambodia, Indonesia, Myanmar and Turkey. These national monitoring committees consist of representatives from IndustriALL's affiliated trade unions and the H&M group and are responsible for the on-the-ground implementation of the GFA. That means they support suppliers and local trade unions to negotiate and solve conflicts peacefully and in good faith on the factory level. The committees therefore contribute to well-functioning workplace dialogue and industrial relations in the countries where we source our products.*

* See industriall-union.org for more detailed case studies.

IMPROVING PURCHASING PRACTICES

In 2016, we had the internal launch of our updated strategy on purchasing practices. This helps ensure we consistently engage with our business partners in a fair and transparent way. We recognise that our buying practices affect the ability of our suppliers to provide decent pay and conditions for their workers. This is why we constantly look for ways to improve purchasing practices and prioritise our actions according to feedback from suppliers and other stakeholders. Highlights of our work include:

- We are working to make our measurement of capacity as accurate as possible. This helps improve planning and order placement processes and helps our suppliers use their capacity better. By ensuring capacity is not overbooked, we reduce the risk of excessive overtime and strengthen our long-term partnerships and commitments with specific suppliers.

We want to create the right incentives by promoting competition based on productivity, product quality, delivery time and other value-adding factors rather than on wages. To do this, we are working to get a fuller picture of the costing

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▷ breakdown of each product and increase the transparency of this between ourselves and suppliers. Wage cost is one key part in our costing method, and by refining the method and isolating the wage component further, together with improved capacity measures, we can better account for wage increases and reflect that in the negotiations process in a fair and transparent way.

ENGAGING WITH ACT

We continue to engage in ACT (Action Collaboration Transformation), an initiative that brings international brands, retailers and IndustriALL Global Union together to address the issue of a living wages. ACT supports collective bargaining as one way to improve wages in the industry alongside purchasing practices and manufacturing standards.

During 2016, the initiative established the ACT Foundation and appointed an executive director. This will further strengthen the initiative as it continues to support and facilitate the consultative process towards industry bargaining in targeted countries.

ADDRESSING SOCIAL SECURITY

The H&M group continued to address issues regarding social security, which include the risk to workers' rights

through the use of short-term contracts or the failure to issue a working permit.

For example, we are currently tackling the misuse of limited fixed-duration contracts in Cambodia. When workers are on open-ended undetermined-duration contracts (UDCs), it improves their access to social security and decreases the barriers for workers to exercise the right to organise and form unions. We wanted to adopt a constructive approach that could bring about sustainable change on this issue, and in 2016, we engaged Solidarity Centre, a labour rights organisation, to develop a training plan. Through this, suppliers and trade unions will be trained in Cambodian labour law and the advantages of UDCs.

We also took action on social security issues in Turkey. Together with other members of the Ethical Trading Initiative (ETI), we lobbied for improved work permit processes in this country, which were adopted in January 2016 and ensure refugees are entitled to the same conditions and social security as Turkish workers.

ADDRESSING FORCED LABOUR

Forced labour is identified as a salient human rights issue that continues to constitute an actual and potential risk

throughout our value chain. We have several risk assessment processes to ensure we continuously identify where these risks may occur and whether they have been adequately addressed.

Apart from the initiatives already running, we took additional steps to address forced labour in the value chain in 2016, see more on p. 114. This included engaging in the Amsterdam Coalition, an initiative between major global brands and retailers that is supported by the OECD. The coalition aims to help prevent and mitigate harmful impacts on workers in the spinning mill industry in South India, particularly in Tamil Nadu. Comprehensive information about the steps taken to address forced labour in our value chain can be found in our [Modern Slavery Statement](#).

We also arranged internal training on modern slavery and forced labour. This was provided to about 25 employees from various business functions and to global and local sustainability staff. The training was organised in collaboration with the ETI.

ADDRESSING CHILD LABOUR

Child labour is a salient human rights issue. Today, it is rare to find any work-

ers below the statutory minimum age in our suppliers' factories. We have taken a clear stance against all use of child labour for many years. It is a minimum requirement for all factories producing for the H&M group, and we continuously monitor compliance.

In 2016, we updated our risk assessment for new and existing raw materials to further integrate the human rights risk perspective, including the risk of child labour. The risk of child labour in our value chain is known to be connected to raw materials.

We also continued to make sure our Child Labor Policy was implemented, and engaged in initiatives that strengthened children's rights. See [Modern Slavery Statement](#) for more details. If we discover any person below the minimum age working in any of our business partner's factories, we have a clear policy in place that guides us to act in the best interests of the child. This can include ensuring the individual enrolls in school, compensation to the family for the lost income and partnering with civil society organisations. For more information on our policies [here](#).

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▷ We conducted an assessment on mica – an ingredient most commonly found in cosmetic products – to support our ongoing strategy development on the risks of child labour associated with its production in India.

We also entered a collaboration with the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) in a project to prevent child labour and protect young workers in our supplier factories in Myanmar. The programme provides training in child labour awareness, prevention and remediation in the workplace, as well as effective child protection at work and in the community. The training is for both managers and workers, and has so far reached 309 management staff and 660 workers. The CCR CSR also produced a baseline report and a final report from this project.

ADVANCING THE BANGLADESH ACCORD

We were amongst the first companies to sign the Bangladesh Accord with the aim to help improve fire and building safety in the textile industry in Bangladesh. We are actively engaged with the Accord team, and have been on the steering committee since day one. We are also closely engaged with all of our suppliers

to support them and follow up on their progress. During 2016, we made remediation progress data publicly available on our website. For more information, see: about.hm.com. We arranged a supplier summit in the spring 2016 to which all Bangladeshi suppliers were invited to discuss the Accord and share best practices.

> bangladeshaccord.org

Case study: Proactively protecting land rights

Land is a source of livelihood for many people; it is central to economic rights and often tied to social and cultural rights. Land is therefore an issue that impacts directly on many human rights.

Disputes over land can be a cause of conflict and dispute. Forcibly evicting or displacing people from their land without free, prior and informed consent to allow for large-scale development or business constitutes land grabbing. This carries the risk of severe violations of human rights. In certain countries where land grabbing occurs, there is a risk (albeit a small one) that our value chain could be connected to this issue. A lack of material traceability and ownership from suppliers can make it difficult to identify and address this problem.

We always conduct an initial risk assessment for a country we're considering entering. In recent years, we have identified land rights and land grabbing issues in Myanmar and Ethiopia. Because we decided to enter both of these markets, we introduced measures to ensure that our suppliers were (and remain) uncon-

nected to land issues. We apply these measures for any new suppliers. In Ethiopia, we ran additional studies to help us get a clear picture of our value chain in this country and inform our strategy going forward.

Land rights and land grabbing are often related to raw material production. In collaboration with the Dutch government, we are currently exploring the possibility to use locally-sourced raw materials in our supply chain in Ethiopia. To this end, we have set up a collaboration with Solidaridad, an international network development organisation, and the Ethiopian Cotton Producers Ginners and Exporters Association to research and develop a report detailing the key sustainability issues in Ethiopia's cotton sector.

The report provides practical guidance for the H&M group and the Dutch and Ethiopian governments, and will form the basis of our sustainable strategy in Ethiopia.

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Stewards for diversity and inclusiveness

We believe in the equal value of every individual. As an employer we represent, and as an influencer we connect with, a hugely diverse collection of people. We want to challenge prejudice wherever we find it and wherever possible, help move our global culture away from restrictive stereotypes and harmful norms. It is part of who we are. And to us it is simply the right thing to do.

Our most direct area of influence is as a business that creates jobs. Jobs are the foundation for individuals to create livelihoods, for communities to develop and for economies to grow. However, prejudice and discrimination can prevent people from accessing the labour market. As a global employer with a significant platform, we can promote and work for inclusion by demonstrating everybody's equal value. Our vision is that the jobs created through our business activities are accessible to all, and reflect the diverse mix of people in the world around us.

This position is particularly relevant when it comes to gender. Of the 75 million people employed by the garment industry, the majority are female. Through

our suppliers, our business contributes to job opportunities for around 1.6 million people, of whom about 65% are female. For many women around the world, a job within the garment industry is an important first step to accessing formal employment that provides improved job security, skills and financial independence.

Unfortunately, there is still a lot of work to do to make sure that men and women are treated equally in the workplace and have equal access to opportunities. Our guiding principle is 'equal pay for work of equal value' (across all inequality issues, not just gender), for both our internal operations and at our suppliers. We work actively to detect cases of wage discrimination and duly ensure they are corrected, including the gender dimension in the Wage Management System implemented in our supply chain.

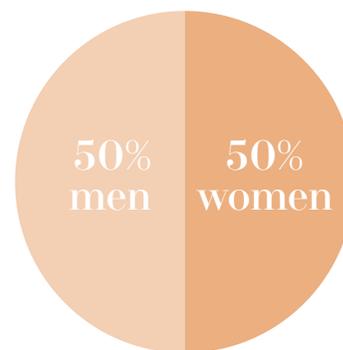
Part of the challenge involves empowering women to express and defend their interests with the view to reducing gender inequality in the workplace. One way we are working to overcome this is through our collaboration with Sida and the ILO, and our support of democratically-elected

SHARE OF FEMALES AMONGST ALL* COLLEAGUES VS. MANAGEMENT POSITIONS

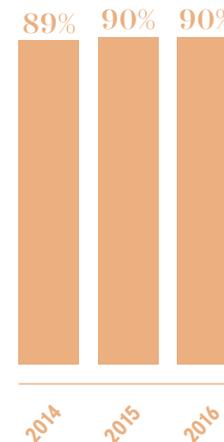


*Average number of employees

BOARD OF DIRECTORS GENDER SPLIT 2016



% OF EMPLOYEES AGREEING WITH THE STATEMENT THAT "PEOPLE HERE ARE TREATED FAIRLY REGARDLESS OF AGE, SEX, ETHNICITY, SEXUAL ORIENTATION AND DISABILITIES"



Source: Global Employee Survey 2016

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▷ worker representatives. It seems to us that gender-related issues are more likely to be raised by women. Given the share of women in the garment supply chain and that 38% of the elected worker representatives are women, we believe that a system of elected worker representatives will mean more women start representing women. In turn, this will lead to gender-related issues being addressed or recognised in workplace dialogue in the workplace.

Of course, inequality is not just about gender – discrimination comes in many shapes and sizes. Every person who connects with our brands should feel represented and welcome. We are a global business that values diversity and we want this to be clear to everyone who connects with us. Establishing this reputation is grounded in how we run our business, but extends far beyond. As a large global business, we can take a stand for these values in the way we choose to advertise our products and promote our brands.

Our vision is to positively influence people and communities by promoting everyone’s right to be, and express, who they are.

Case study: Increasing opportunities for women in India

The H&M group wants all of its employees to have the same opportunities to grow and develop. Amongst other things, this means offering equal working conditions. However, in certain countries where we operate, women do not have the same access to the labour market as men. In India, the retail sector has lower participation from women. H&M is therefore working to increase women’s opportunities to take part in working life and build a career.

The local legislation for working hours for women in most Indian cities means they can only work after a certain time in the morning or before a certain time in the evening. By offering safe transport to and from work at these times and proactively working together with local legislative authorities, H&M has been granted exemptions from these rules.

“The benefits that H&M offers mean that we women can work freely and choose working hours without having to be afraid,” says Niki Pandey, department manager at the H&M store in Connaught Place, New Delhi. H&M also has an indirect influence on women’s career opportunities by enabling



Niki Pandey, far right, with the team.

greater work-life balance. We offer paid parental leave to new fathers in the initial period after a child is born, in addition to statutory maternity leave, as well as sickness insurance in connection with pregnancy and childbirth. At the recruitment stage, we have targeted initiatives to encourage as many women as possible to apply.

The initiative in India is an example of how the H&M group’s social policies are put into practice. These include the Global Policy on

Diversity, Inclusiveness and Equality and the Global Non-Discrimination and Non-Harassment Policy. They encompass all of the group’s employees and aim to ensure a workplace where respect for human rights has the highest priority and there is zero tolerance of any kind of discrimination. The H&M group’s social policies are based on UN and ILO conventions, amongst other things, and have their origins in the H&M group’s shared values. See more in the Standards & Policies chapter on p. 107.

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Within the H&M group

– During 2016, we updated our Global Non-Discrimination and Non-Harassment Policy and our Global Policy on Diversity, Inclusiveness and Equality. Our main focus was to implement the updated policies and increase awareness and shared understanding around expectations.

– We have taken steps to make sure we provide equal access to opportunities for men and women working in retail in India. In particular, this includes providing safe transportation home in the evenings so that women can legally work late, which in turn opens up development opportunities. See more in our case study on p. 83.

– To prevent the exploitation of refugees by suppliers and service providers, we are actively monitoring the situation in all risk markets. As a company that provides jobs, we can also help the situation by providing opportunities for vulnerable groups to access the labour market. In response to the ongoing refugee crisis in Europe and to promote integration, we decided to offer internships for refugees in specific markets. We have initiated a collaboration with Save the Children to develop training to ensure our mentors

are adequately prepared to understand the challenges a refugee may face when in their new country.



Caitlyn Jenner, For Every Victory.

– During 2016, we brought attention to the values of equality, diversity and inclusiveness using various marketing campaigns and collections, such as For Every Victory and Monkifesto. Our advertising policy is clear: rather than promoting a specific ideal, we want to show a representative variety of styles and individuals.



Monkifesto.

In our supply chain

– In 2016, we replaced our Code of Conduct with our Sustainability Commitment. This included a revision of our requirements for business partners. One of the new requirements is that all suppliers must have a policy for recruitment that prevents discrimination, harassment and abuse in the workplace. We constantly monitor and measure the performance of how factories monitor and manage these policies. See more in the Standards & Policies chapter on p. 99.

– Through a long-term collaboration with the ILO and Sida, we support training and skills development opportunities through the Centre of Excellence for the Apparel Industry in Bangladesh. The project is showing promising results with a more structured certification of skills, a growing availability of Enterprise Based Training (EBT) and – in 2015 and 2016 – a total of 4,083 workers who received skills certification. This recognition of competencies opens the door to better positions and higher salaries; as well as better productivity at workplace. It also helps workers, especially women, to re-enter the workforce at the same or higher level should they leave for any reason.

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Key collaborations

THE ACCORD ON FIRE AND BUILDING SAFETY IN BANGLADESH (THE ACCORD)

The Accord is a legally-binding agreement between global brands, retailers and trade unions designed to build a safe and healthy Bangladeshi Ready Made Garment (RMG) Industry. With this commitment together with other companies, trade unions, employer organisations and the Government of Bangladesh, we are able to influence and contribute to safe and healthy working conditions in the textile industry in the country.



ACT (ACTION, COLLABORATION, TRANSFORMATION)

ACT is an initiative between international brands, retailers and the IndustriALL Global Union to address the issue of living wages in the textile and garment supply chain. ACT aims to improve wages in the industry by establishing collective bargaining in key garment and textile sourcing countries, supported by world-class manufacturing standards and responsible purchasing practices.

AMCO (AMSTERDAM COALITION)

This is an initiative of major global brands and retailers that aims to contribute towards the prevention and mitigation of harmful impacts on the workers in the spinning mill industry in South India, particularly in Tamil Nadu. The OECD is supporting this initiative and providing technical assistance as part of its sector work on due diligence and responsible business conduct within the garment and footwear sector.

BETTER WORK

The International Labour Organization (ILO) started the Better Work programme with the aim of bringing employees and employers together to find solutions to workers' issues and ensure a sustainable labour market. We collab-



orate on in-country programmes that include assessments, training, advocacy and research that change policies, attitudes and behaviour.

ETHICAL TRADING INITIATIVE (ETI)

We were accepted as a full ETI member in 2016 after two years as a foundation stage member. The ETI is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights

around the globe. It offers a platform for collaborating with peers and stakeholders to collectively and strategically address concerns and issues in our supply chain.

FAIR WAGE NETWORK (FWN)

The FWN is our partner and service provider to support the implementation of wage management systems in our supply chain. The Fair Wage method was developed by the Fair Wage Network ▶

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and exists to improve wage management systems, to create more regular wage adjustments and to enhance communication and workplace dialogue between management and worker representatives.

INDUSTRIALL/IF METALL

Under the GFA with IndustriALL/IF Metall and the partnership agreements, we have increased resources and commitment to improving industrial relations and workplace dialogue to ensure that freedom of association is respected, work-

ers' representatives have a voice and trade unions can negotiate collectively. We have also worked to ensure that IndustriALL and IF Metall are key partners in the project carried out under partnership agreements with the ILO and Sida.

ILO

We partner with the ILO to improve global, national and enterprise labour relations; strengthening legal frameworks and institutional capacities for labour inspection and dispute resolution; and supporting the formulation of sound policies for strengthening workplace dialogue and wages.

Sida

The Swedish International Development cooperation Agency (Sida) is a government agency with a mission to reduce poverty. In 2014, Sida and the H&M group signed a memorandum of understanding that focuses on supporting decent jobs and sustainable development opportunities with respect for human rights, both at a programme level and policy level depending on the country and region.

Shift

An independent non-profit expert organisation that provides practical guidance

on the implementation of the UN Guiding Principles on Business and Human Rights. They support and help governments, businesses and their stakeholders put the UN Guiding Principles into practice. Shift supports us with their expertise (we participate in their business learning programme) and helps us improve in our human rights management approach.

THE GLOBAL DEAL

The Global Deal is an initiative that was launched by the Swedish Prime Minister



in cooperation with the OECD and the ILO in 2016 to address the challenges in the global labour markets through enhanced social dialogue. H&M is a partner of the Global Deal in line with our Fair Jobs and Industrial Relations strategy.

UNI GLOBAL UNION

Together with UNI Global, we have formed the H&M Alliance, an annual meeting intended to improve our workplace dialogue where neutrality, freedom of association and the right to collective bargaining are acknowledged and enforced.



STANDARDS & POLICIES

Cheap Monday.

Standards & Policies

Overview

Standards & Policies			
TOPICS	AMBITIONS & GOALS	ACTIONS 2016	ACHIEVEMENTS & RESULTS 2016
CODE OF ETHICS	To detect all violations of our Code of Ethics.	<ul style="list-style-type: none"> - Rollout of new dilemma workshop. - Launch of new e-learning training module. 	<ul style="list-style-type: none"> - 50% of concerned employees have taken the new e-learning training module. - 100% of all commercial goods business partners signed the Code of Ethics. - Investigated and closed 39 incidents of potential non-compliance. These led to action in 26 cases.
SUSTAINABILITY COMMITMENT	To move beyond compliance and promote sustainability performance at our business partners and further down in the supply chain.	<ul style="list-style-type: none"> - Launched and rolled out Sustainability Commitment to all of our business partners. - Extended rollout of the SIPP to our first tier business partners. - Extended rollout of the SIPP to selected second tier business partners. 	<ul style="list-style-type: none"> - 100% of all commercial business partners signed the Sustainability Commitment. - 100% of our first tier business partners have implemented the SIPP methodology. - Second tier business partners accounting for 56% of our production volumes have implemented the SIPP methodology. - 96% factories assessed before first order placement. - 1,194 minimum requirement assessment performed at first tier supplier. - 459 desktop validation. - 1,247 onsite validations. - 80% of the factories assessed according to the SIPP method.
HUMAN RIGHTS POLICY	To continuously ensure human rights are an integral part of relevant processes.	<ul style="list-style-type: none"> - Updated our HR due diligence process for existing production markets. - Updated risk assessment for new and existing materials to further integrate human rights perspective. - Conducted annual review of our salient issues. See more in How We Report chapter p. 113. - Conduct regular country risk assessment for potential new retail and production markets. 	<ul style="list-style-type: none"> - 100% of new retail markets (no new production markets) assessed for human rights and environmental risk and impact.
ANIMAL WELFARE AND MATERIAL ETHICS	To source animal-based raw materials in a way that meets tough requirements and that is fully traceable.	<ul style="list-style-type: none"> - Provided regular training to our internal and external stakeholders on our animal welfare policies. - Appointed a full-time manager that will promote, train and ensure compliance of our wool standards internally and with business partners throughout our value chain. - Introduced the standard to our supply chain, establishing relationships further down our supply chain including the farm level to make sure our supply chain is ready for RWS-certified wool. 	
CHEMICAL RESTRICTIONS	To guide and support our facilities to phase out restricted chemicals used in production (i.e. zero discharge of hazardous chemicals) by 2020.	<ul style="list-style-type: none"> - Conducted nearly 44,500 chemical tests together with our business partners to ensure compliance with our Restricted Substances List (RSL). 	
SECURITY POLICY	<p>The H&M group must be a place where customers and staff feel safe.</p> <p>To achieve a yearly compliance status of 85% for safety and security standards in our stores.</p>	<ul style="list-style-type: none"> - Measured our status by completing store audits in all stores/brands worldwide. - Developed a new, more comprehensive scoring system to calculate safety and security standards – still focusing on safety, loss prevention and information security. 	<ul style="list-style-type: none"> - Completed 8,930 safety and security store audits worldwide, reaching a compliance level of 85%. - Every store had at least one store audit.

Standards & Policies

Introduction

Our vision for a sustainable fashion industry guides everything we do. This vision is underpinned by our sustainability strategy, which defines the steps we need to take as an organisation to achieve our goals. Our sustainability standards and policies are an essential component because they communicate our operational framework and make sure we work in a sustainable way.

Our sustainability standards and policies help us avoid, mitigate or remediate negative impacts and enhance positive impact. This is particularly important in countries where laws and regulations fall short of our own standards and requirements. Whenever relevant and available, we refer and comply to international standards and widely-recognised initiatives related to the topic, such as ILO Conventions or the UN Guiding Principles on Business and Human Rights.

When we do business ‘the H&M way’ we do so ethically, honestly and responsibly, and we continually encourage our suppliers and other business partners to do the same.

Another important part of our management is the SIPP (our Supplier Impact Partnership Programme), which we use

to manage our supplier relationships and enable them to aspire to greater sustainability performance.

As well as guidance, these standards and policies also help us address material risks and opportunities in a consistent way. It is with our standards and policies that we are setting the bar and defining what kind of company we want to be.

For more information on our material issues and how we defined them, see p. 110. We have grouped the key sustainability standards and policies most material for this report into the areas below, see more on p. 112.

HOW WE DEVELOP OUR STANDARDS AND POLICIES

We have a set process in place for develop-

ing our standards and policies. First, we identify a need, risk or opportunity, which is done either via an internal or external source. We then develop a standard in response with the help and input of experts and relevant stakeholders from inside and outside our business. Next, we create an implementation plan for the new standard, as outlined in the section below. All of our standards are regularly reviewed and updated.

Occasionally, we work with partners to develop external standards, such as our collaboration with the Textile Exchange on the Responsible Wool Standard.



Standards & Policies

How we work with our standards and policies

We are continuously working to integrate new learning and develop our standards and policies. This helps us work in a sustainable way, reduces our negative impact and where possible, enhances our positive impact.

Whenever we implement a standard or policy, we create a tailored strategy for making sure it has been done so correctly and effectively. Our follow-up methods therefore vary per policy or standard. When we discover non-compliance, we take action; our response depends on the issue and severity of the breach.

The content of the sustainability standards and policies, except for the social policies described in this chapter, are owned by the Global Sustainability team who also coordinate different policies and oversee their implementation. The Global HR team is responsible for the social policies and oversees implementation and follow-up. It is the responsibility of relevant local business functions to follow up and take any required action. There is also a dedicated person for each standard/policy that is responsible for the implementation and updating the standard/policy whenever needed.

Another system that helps ensure our standards and policies are upheld is our grievance reporting mechanism. Internally, we have an open-door

principle that encourages employees to talk to managers to solve issues. We ensure every employee has access to a formal grievance procedure. Any grievances that cannot be solved locally are escalated to the senior management of the H&M group or raised through the global grievance email address.

We also have a whistleblowing system for anyone to report serious cases of corruption suspicions or violations of our business ethics.

We believe it is important to be accountable and transparent, so we report any findings through the right channels and to relevant stakeholders. All relevant information is shared through our sustainability report, which also includes our human rights reporting.



& Other Stories.

Standards & Policies

Our sustainability standards and policies overview



THE H&M GROUP

CODE OF ETHICS

OPERATIONS

- Tax Policy
- Advertising Policy
- Global Security Policy
- Privacy Policy
- Whistleblowing Policy

GLOBAL SOCIAL POLICIES (HR)

- Global Compensation and Benefits Policy
- Global Grievance Policy
- Global HIV&AIDS Policy
- Global Diversity, Inclusiveness and Equality Policy
- Global Non-Discrimination and Harassment Policy
- Global Health & Safety Policy
- Global Labour Relations Policy



BUSINESS PARTNERS

CODE OF ETHICS

SUSTAINABILITY COMMITMENT

CHILD LABOUR POLICY

MANUFACTURING RESTRICTED SUBSTANCES LIST (MRSL)

SANDBLASTING POLICY



MATERIALS/PRODUCTS

ANIMAL WELFARE AND MATERIAL ETHICS POLICY

RESTRICTED SUBSTANCES LIST (RSL)

PVC POLICY

COTTON BAN FOR UZBEKISTAN/ TURKMENISTAN BAN/SYRIA

HUMAN RIGHTS POLICY

We can group our main sustainability standards and policies into three 'categories': our own internal operations, our supply chain, and our products and material use. Our business activities connect with human rights in internal operations and across our value chain, either through business partners or in connection to the material and/or processes used to make our products. Below, we describe our main and most significant sustainability policies and standards. More can be found at [sustainability.hm.com](https://www.hm.com/sustainability).

Standards & Policies

Our Human Rights Policy



Our approach

Respect for human rights is a fundamental part of any successful business. Our business activities and decisions can impact people and their human rights both directly and indirectly, as well as positively and negatively.

These activities and decisions can include everything from the data integrity of customers and how we treat our employees to the raw materials in our products and working conditions in factories.

We have operations and suppliers in countries where serious human rights breaches may occur so we need to be proactive in our protection of them. We want our policies and standards to go beyond our formal, legal responsibilities for human rights to help ensure respect for human rights across our operations and value chain, leading to positive change for the communities and people we touch.

Our approach to human rights is based on the UN Guiding Principles on Business and Human Rights (UNGP) and the recognition that while states have a duty to protect human rights, companies have a responsibility to respect the same. Our Human Rights Policy applies to all entities within the H&M group.

Standards & Policies

Human rights due diligence

Our aim is to ensure that our human rights due diligence is conducted in a systematic and consistent manner and to continuously ensure that human rights is an integral part of relevant processes. This is an important part of our Human Rights Policy and meeting our responsibility to respect human rights in practice, as well as to ensure we act with accountability.

For the H&M group, human rights due diligence is the ongoing process to identify, address (which means to prevent, mitigate and/or remediate human rights risks and impacts connected to our business) and account for how we respect human rights in practice. We integrate multiple processes for our assessment of risks to human rights, for example, risk management and business partner due diligence. Other key components of our human rights management include stakeholder engagement, grievance handling, internal training and external reporting.



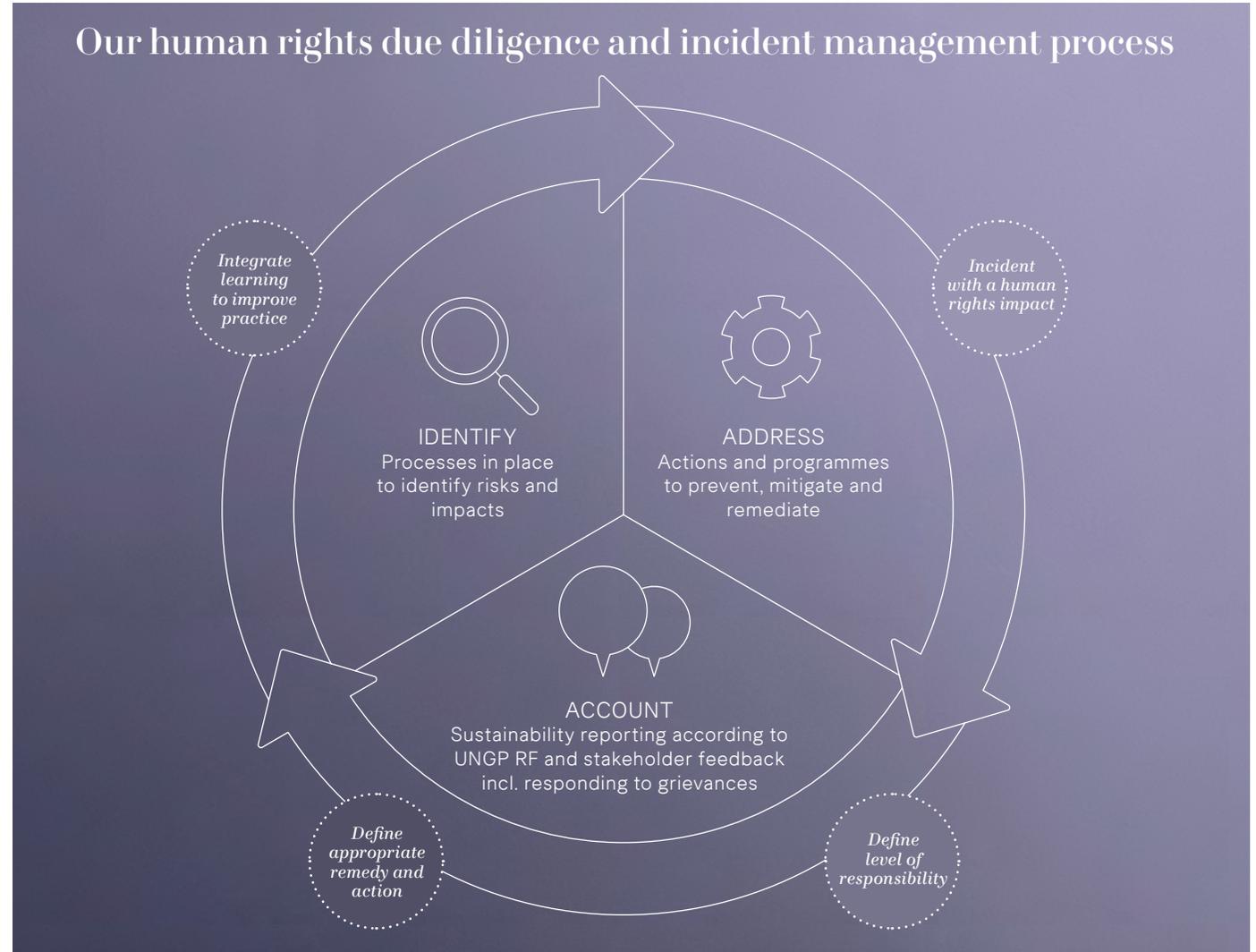
Key processes and activities integral to our human rights management include:

- Our process for identifying and reviewing our salient human rights issues.
- Our annual sustainability risk assessment, conducted by all business functions.
- Business partner due diligence prior to entering a new contract.
- Country sustainability risk assessment for both production and retail markets.*
- Supply chain management/ business partner follow-up through SIPP material/process/ product risk assessment.
- Incident-handling routines with integrated analysis according to the UNGPs.
- Our in-depth training on UNGPs and our Human Rights Policy.

* 100% of new retail markets opened in 2016 were assessed.

Standards & Policies

- ▷ In 2016, we updated our material risk assessment process to further ensure that the risk of human rights abuses connected to new and existing materials is identified and addressed. We also further systematised a method to identify and prioritise which human rights issues to address locally in our production markets. The intention is to ensure that local issues that are not currently part of our long-term goals and focus areas are still adequately addressed. This updated process will be put into practice in 2017.



Standards & Policies

Embedding respect for human rights

Embedding respect for human rights throughout our business activities is about continuously working to put our Human Rights Policy into practice. Our aim is to ensure that a human rights perspective is a natural, integral part of how we operate and make decisions across all business functions. Internal training is a key step in the process of increasing awareness and competence.

We run ongoing in-depth training on human rights, our responsibilities as per the UNGPs, human rights due diligence and handling of cases, situations and incidents with a human rights impact. We prioritise training for key positions and roles, for example, sustainability managers in our production markets and country managers, as well as key business functions such as sustainability department, HR and legal.



Mi Qiaoyun, worker representative in China at Suzhou Wanli Knitting Factory. Read her interview on p. 79

Identifying and addressing human rights breaches: Our incident management process

When we identify a case of human rights impact, we respond with our incident management routine. For situations with a human rights impact (that goes beyond what is dealt with through our Sustainability Commitment), we apply a systematic approach to analyse our responsibility according to the UNGPs and apply appropriate measures.* We make sure to integrate what we learn from analysing each situation into our practices going forward.

* See *How We Report* p. 114 for our salient issues overview and our modern slavery statement [here](#).

Standards & Policies

Stakeholder interview with Shift

Shift is a non-profit organisation that facilitates dialogue, builds capacity and develops new approaches with companies, governments, civil society organisations and international institutions to enable them to implement the UN Guiding Principles.

Name Caroline Rees
Title President
Organisation Shift



How are human rights connected to the UN's Sustainable Development Goals (SDGs)?

Human rights are about the basic dignity and equality of all human beings. They are at the heart of what sustainable development means for people. We cannot achieve the SDGs without respect for human rights.

Why should human rights be at the center of a business strategy to contribute to sustainable development and SDGs?

A company's single greatest opportunity to

contribute to the 'people part' of sustainable development lies in advancing respect for the human rights of workers and communities affected by their business.

What are some of the tangible outcomes from the companies that have reported according to the UNGP Reporting Framework since its launch in 2015?

These companies are providing meaningful explanations of how they understand human rights challenges as well as how they are tackling them and making improvements. The reporting process also helps them improve their management processes and stakeholder dialogue.

Are companies missing out on opportunities when they are mainly focusing on reducing the negative impacts?

When a company takes serious steps to tackle negative impacts in its supply chain it isn't just 'doing no harm'. It is realizing an

opportunity to empower people, lift them out of poverty or abuse and enable them to enjoy real development while reducing business risk at the same time.

What else can the H&M group do to increase our positive impact on human rights?

The key to wide-scale positive impact is two-fold: collaborating with others to address systemic human rights problems and scrutinizing the company's own business model and purchasing practices. The H&M group should continue to do both.



Standards & Policies

Our Code of Ethics

Corruption is a challenge in many of the markets where we operate. We have a strong anti-corruption programme in place, apply a zero-tolerance policy and take a proactive approach towards preventing corruption.

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

We set an expectation of mutual trust and transparency in all of our business relationships. Our Code of Ethics underpins this, as does building awareness, providing education and maintaining a no-gift policy. We accept no gifts of any form from any business partners, regardless of value. This keeps everyone objective when doing business on behalf of the H&M group. We have an open-door policy for reporting any violations of the Code of Ethics.

*All employees with the exception of our sales advisors. ** Please find an independent assurance statement related to GRI Standard disclosure 205-3 on p. 119.

We have had our Code of Ethics in place since 2003. In 2012, we updated it to clearly state that any kind of bribery (including facilitation payments) will always be addressed and may lead to the termination of our business relationship. By taking a firm line on refusing to accept any kind of contribution or bribery, we aim to encourage others in our markets to share our values. We are focusing on high-risk countries such as Cambodia, Bangladesh, India and Russia where we provide training and awareness building activities. High-risk countries are identified through our own assessments and through external sources such as the Transparency International's Global Corruption Perception index.

In 2016, we investigated and closed 39 incidents** of potential non-compliance (2015:33, 2014:30, 2013:36). These investigations led to action in 26 cases (2015:25, 2014:18, 2013:18) of which 11 were terminations and 15 were warnings. This included both colleagues and business partners. We currently have 11 open cases that are still under investigation. Investigations were conducted based on direct reports from our business partners and employees who made use of our

“By taking a firm line on refusing to accept any kind of contribution or bribery, we aim to encourage others in our markets to share our values.”



open-door policy, complaint procedure and whistleblowing instruments. Most of the cases concerned corruption, requests for money and personal favours as well

as conflicts of interest and theft. There were no public legal cases regarding corruption brought against the company or any employees in 2016.**

Standards & Policies



For employees

Our Code of Ethics (CoE) is the same around the world and is translated into all languages in the H&M group. It secures our position and makes it clear what we expect from employees when doing business on our behalf. It is mandatory for our Board of Directors and senior executives, as well as all employees in contact with business partners, in-house consultants and staff

from employment agencies (and similar) to sign our CoE. To maintain this process in a systematic way, signing the Code of Ethics is routine procedure when entering new employment contracts. The Code includes guidance on advantage (i.e. taking bribes or gifts), conflicts of interest, confidential information and company assets.

We also make it mandatory for employees who sign the CoE to undergo either

classroom or online training on the Code of Ethics. The training provides a deeper understanding of the Code, including how it relates to daily work and how it helps employees know how to act when representing the H&M group in a business context. To further extend this training, in 2016 we launched both a new e-learning module and a three-hour Dilemma Workshop. The latter involves hands-on practical examples of ethical dilemmas that managers, HR and purchasing staff could encounter. So far, we have trained about 25 ‘master trainers’, who will now train and support other trainers throughout our operations. Thus far, 50% of concerned employees have taken the new e-learning course.

We follow up on reported incidents thoroughly. If a violation is reported, the security department will start an investigation. Anyone who deliberately violates the Code of Ethics will receive a warning and can, in serious cases, lose their employment.

As above, we have a whistleblowing procedure in place whereby potential breaches can be reported confidentially, anonymously and without any risk of reprisal.

For business partners

All of our business partners sign our Code of Ethics. Partners include any business that supplies us with goods and/or services, acts on behalf of our business or has a collaboration with us. Partners include suppliers, vendors, consultants, landlords, agents, service providers and organisations. To date, 100% of our commercial goods suppliers, our biggest group of business partners, have signed our Code and received dedicated training.

We provide training on the Code of Ethics for all new commercial suppliers. This training focuses on our zero tolerance of bribery and corruption, gifts and hospitality as well our position on confidential information and compliance.

Standards & Policies

Our Sustainability Commitment

We launched our Sustainability Commitment (SC) on 1 February 2016. It replaced our Code of Conduct, which had been in place since 1997. With the SC, we want to take our work to support our business partners and their sustainability work to the next level. We want to move beyond compliance and promote sustainability performance at our suppliers and further down the supply chain. The SC is shared by all brands within the H&M group and everyone who has a business relationship with us must sign it if they want to start or continue working with us.*

Over the years, the scope of sustainability issues has grown and with that, so has our sustainability work. The Sustainability Commitment clearly communicates all of the areas we are committed to work on to make our supply chain more sustainable. It also expresses how the H&M group wants to work together with all of our business partners to advance sustainability when it comes to healthy workplaces, healthy ecosystems and animal welfare. We want to grow with business partners who share our values and are willing to work transparently with us to improve their social and environmental performance.

**We require all commercial business partners, both new and existing, to sign and comply with the SC. As of 1 February 2016, all new non-commercial and service business partners are required to sign the SC. Our existing long-term non-commercial business and service partners are required to sign the SC when they renew their contracts.*

Compliance with the law is fundamental for all businesses, but with our Sustainability Commitment we are saying 'it doesn't stop there'. To be successful in the future, we must continuously push beyond compliance to more aspirational improvements. That is why our SC has two levels of performance: fundamental and aspirational.

The fundamental level is the basic compliance level that we expect all business partners to meet. The aspirational level demonstrates where we want to go in the long term through constant improvements and shows that compliance with legal requirements is only the first step in creating a sustainable business. In our performance evaluation, we will reward business partners that commit to and meet their aspirations.

The three major focus areas of our Sustainability Commitment are:

- Healthy workplaces
- Healthy ecosystems
- Animal welfare

Our Sustainability Commitment is complemented by the SIPP, our Supplier Impact Partnership Programme. The SIPP supports suppliers in improving their sustainability performance and helps us monitor and measure suppliers' compliance against the fundamental and aspirational levels and assess the level of implementation of our Sustainability Commitment.



Standards & Policies

Supporting our business partners

The SIPP is our Sustainable Impact Partnership Programme. We started using it in 2015 to support our business partners to become more environmentally and socially sustainable. The SIPP represents a shift from a relationship that is focused on compliance to one that is about dialogue, collaboration and progress towards shared long-term goals. By working together, we can drive positive impact in the value chain.

We use the SIPP to assess the sustainability performance of our business partners and to identify ways to support them. The programme brings together our leadership principles of transparency, innovation and reward. It is designed to reward the extra mile, drive business partner ownership of sustainability, encourage performance beyond compliance and show how sustainability can drive business performance.

EMPOWERING BUSINESS PARTNERS
We want our business partners to take ownership of their sustainability per-

formance because we believe it is the best way to achieve long-lasting and sustainable change. The SIPP empowers our business partners to do this.

We use the SIPP to follow up on our business partners' implementation of both levels of our Sustainability Commitment – compliance and aspiration.* We share the expectations and guidance that will help our business partners aspire beyond meeting the requirements of local laws and international conventions.

When they 'take ownership', business partners set their own goals, priorities and focus areas. They provide us with self-assessment data and then act on the results. We work with them to identify areas where the H&M group can best provide support through, for example, capacity building and training.

Our business partners self-report through the SIPP and we validate the results and give them back to the part-

ner. This component of SIPP is closely linked with SAC's Higg facility modules. We were one of the first brands to incorporate the Higg facility modules** (both environmental and social) into our supply chain. The main advantage of this is that all brands can use them, so business partners only need to complete one assessment rather than several brand-specific ones. This makes factory assessments fairer and more comparable, regardless of the brand.

HOW WE WORK WITH THE SIPP

We use the SIPP to ensure a 'minimum requirement assessment', which we physically carry out before starting a relationship with a business partner, and then repeat when a facility is visited as part of our programme (see Becoming a H&M group business partner on p. 103).

A facility is approved after it meets the minimum requirement assessment.*** Its sustainability performance is then self-assessed annually. Its overall

96%
OF FACTORIES ASSESSED
BEFORE 1st ORDER PLACEMENT

1,194
MINIMUM REQUIREMENT
ASSESSMENTS PERFORMED AT
FIRST TIER MANUFACTURING AND
PROCESSING FACILITIES

459
DESKTOP VALIDATIONS

1,247
ONSITE VALIDATIONS

80%
OF FACTORIES ASSESSED
ACCORDING TO THE SIPP
METHOD 2016*

*Above numbers are until 30 November 2016 (our sustainability reporting period), however our annual assessment period only ended on 31 December 2016.

*Our Sustainability Commitment replaced our Code of Conduct in 2016 and is signed by all of our commercial business partners. **The Higg facility module is part of the Higg Index suite of self-assessment tools which also includes brands and product modules. The facility module is used by manufacturers to measure social and environmental performance in their facilities. ***Fundamental requirements' and 'minimum requirements' are similar, but not the same – the former expects a slightly higher level or performance than the latter. We will use the term 'minimum requirements' to be consistent throughout the rest of this report.

Standards & Policies

performance and country risk assessments, amongst other indicators, will help us to determine the level of validation that is needed for each factory. For high-risk and new business partners, we perform an onsite check at least once a year. If the business partner is low risk (i.e. they achieved a high score on the audit), a 'desktop validation' is usually sufficient. This involves checking data and paperwork for anomalies and inconsistencies. We assess each business partner's capacity to both manage their sustainability issues and track actual performance using environmental and social sustainability metrics.

We have rolled out the SIPP to all of our manufacturing and processing business partners. These units have performed self-assessments or joint assessments, and we have validated the results via desktop and/or onsite visits. For second tier suppliers, we have conducted joint assessments on the component units producing 56% of our production volume. These joint assessments are done with our business partners to educate and create ownership.

As described above, we use the Higg facility modules in our SIPP assessments. Although these modules are up and running, they are still in development. Therefore, for now, we include some of our own sustainability performance (KPI) questions in the assessment to provide a more comprehensive and balanced review.

OUR SUSTAINABILITY INDEX

One of the outputs of this assessment is our Sustainability Index (SI). Each factory is given an SI score between 0 and 100 (based on the Higg facility module and our own KPIs) and is then ranked according to their environmental and social sustainability performance.

Since we are currently updating this, we are unable to share aggregated SI scores in this year's report. However, as we receive scores, we will communicate and further integrate them into our purchasing decisions.

CAPACITY BUILDING THROUGH SIPP

Our presence and purpose in our suppliers' factories goes far beyond assessment. Through the SIPP, the H&M



Standards & Policies



group also provides capacity building, workshops, training and management systems analysis. Our suppliers are also in contact with other functions at our production offices such as our merchandising and quality departments.

Through these relationships, we encourage our suppliers to develop their own strategies and solutions to challenges, as well as providing incentives to shift impacts from negative to positive ones. This regular presence helps us build long-term mutually rewarding partnerships.

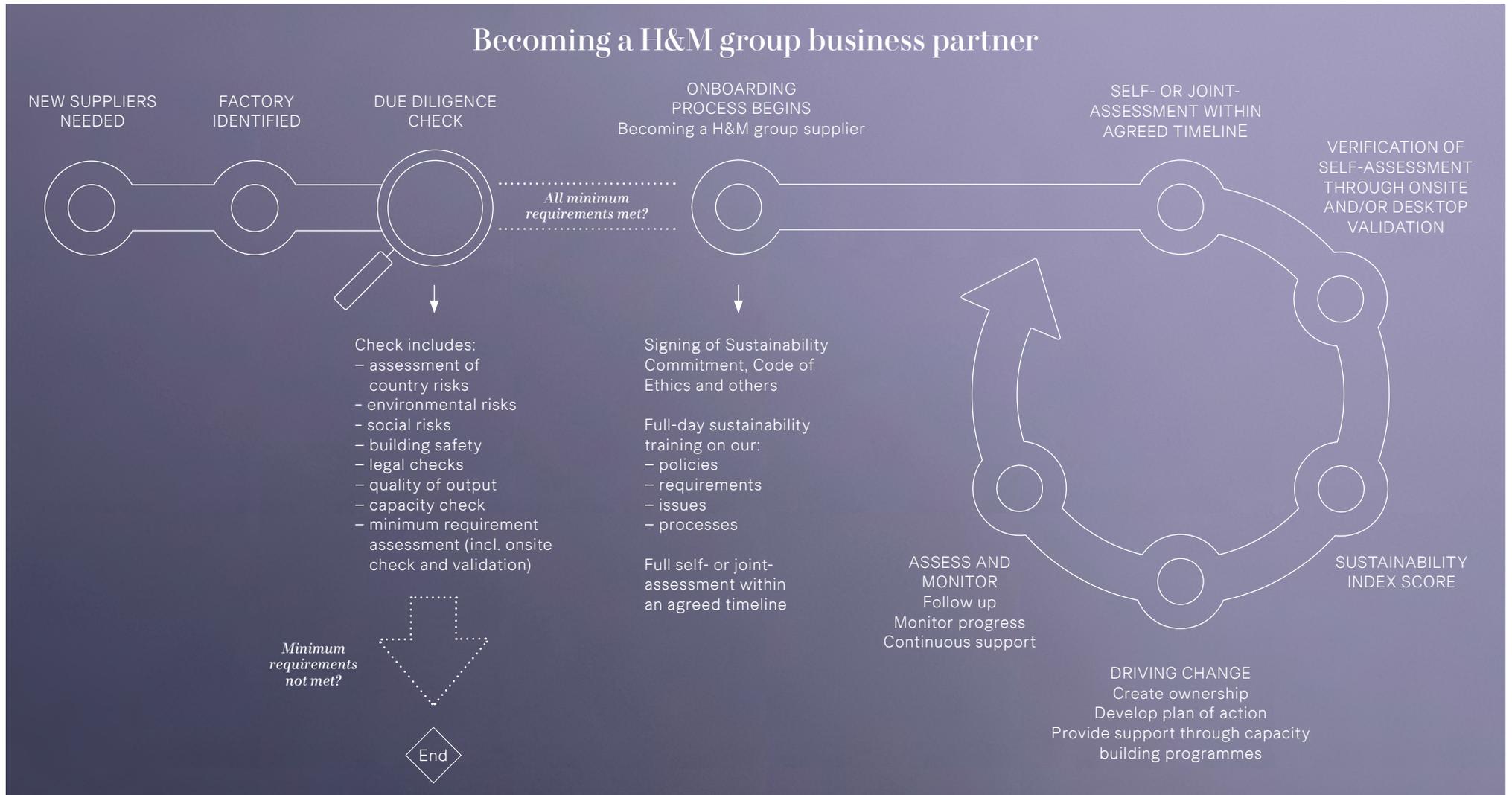
HOW WE REWARD OUR BUSINESS PARTNERS

We systematically reward suppliers with sustainability ambitions and good performance with long-term business commitments and growth opportunities. And we offer our best business partners strategic partnerships, which bring mutual benefits such as joint capacity planning up to five years in advance. We have over 3,000 of our colleagues in 21 production offices around the world maintaining close relations with our business partners. Their focus is on building strong, long-

term business partner relationships that are characterised by trust and transparency.



Standards & Policies



Standards & Policies

Stakeholder interview with our business partner



Lu Yue Hua.

Name Lu Yue Hua
Title General Manager
Organisation Suzhou Wanli Knitting Co., Ltd, a supplier to the H&M group

How long have you been a H&M group partner?

We started processing some partially prepared products back in 2000, so we've been working with the H&M group for 16 years. Today, between 70% and 80% of our total output is specifically produced for the H&M group brands.

What value does social dialogue bring to your factory?

Social dialogue facilitates communication between workers and managers and the H&M group has helped us see the value of this. Social dialogue leads to increased profit margins, customer satisfaction and happier, more productive and loyal employees. Through communication, we are learning how to solve problems together.

How has the H&M group supported you in achieving this?

The H&M group provided lots of training for our workers to help them understand their responsibilities and their rights, and how social dialogue can help them. The H&M group also arranged for third-party consultants to visit our factory and give onsite guidance. As a result, our workers have success-

fully elected worker representatives and know how to approach them with problems. In the long run, our factory will become more productive, which will increase our profits and drive down costs.

How do you think this will help you in the future?

The H&M group is helping us understand

the importance of sustainability and how social dialogue is a part of this. We have a growing understanding of sustainability issues and this approach is starting to spread throughout our factory. Although we make mistakes, we know the H&M group will help us understand how to correct them ourselves, so that we can continue to be partners for a long time.



Standards & Policies

Animal welfare and material ethics

We believe that animals are entitled to humane treatment and to having their basic needs met. Our Animal Welfare Policy outlines our responsibility to source animal-based raw materials in a way that meets tough requirements and is fully traceable. All of our suppliers must meet high standards of animal husbandry and fulfil our animal welfare requirements.

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

tionships further down our supply chain including the farm level to make sure our supply chain is ready for responsible wool standard certification.

We also train our suppliers in our animal welfare and material ethics policy – both as part of the onboarding process, and through refresher courses. We conduct random bi-monthly checks to ensure that compliance and traceability documentation is being collected and verified for each order.

“We believe that animals are entitled to humane treatment and to having their basic needs met.”



Standards & Policies

Chemical restrictions



Our chemical restrictions are, as a minimum, always based on the highest legal standard in any of our sales countries, as well as on information from authorities, NGOs and scientific reports. Our Restricted Substances List is one of the most comprehensive in the apparel industry.

We have separate restriction lists for our various product groups. These include packaging, apparel, cosmetic products, candles, aerosols and toys. Our Manufacturing Restricted Substances List (MRSL) focuses on chemical use in factories. The Restricted Substances List (RSL) is focused on chemicals found in finished products. We have conducted nearly 44,500 chemical tests together with our business partners to ensure compliance with our RSL.

In line with our ambition to implement a clean factory approach (i.e. zero discharge of hazardous chemicals) in our supply chain by 2020, we will guide and support our facilities in phasing out restricted chemicals used in production by setting up specific timelines.

When suppliers sign our Sustainability Commitment, they are also committing to comply with our chemical restrictions,



including our MRSL and RSL. This means it is the supplier's responsibility to assure compliance with our restrictions and we expect our suppliers to implement it into their supply chain and with subcontractors.

Read more on p. 48 and online [here](#). For more details on other sustainability policies and/or standards visit our website at sustainability.hm.com.

Standards & Policies

Social policies

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

Our social policies, such as our Global Policy on Diversity, Inclusiveness and Equality and our Global Non-Discrimination and Harassment Policy, are founded on our respect for human rights and on UN and ILO conventions, amongst others. They set the minimum expectations for the H&M group and complement our company values. These policies contain clear directions that help managers and employees to meet daily business needs, understand how to work and act towards business partners and create fair and equal working conditions in safe and healthy workplaces.

Our global policies set the minimum standard regardless of local legislation where we operate. Whatever gives the greatest protection for all colleagues is always the guiding principle.

Global Security Policy

The H&M group must be a place where customers and colleagues feel safe and our goal is to achieve a yearly compliance

status of at least **85% compliance** annually with safety and security in our stores.

The 2017 goal for the global store audit, which consists of safety, loss prevention and information security, is **85% compliance**. In 2016, we completed 8,930 store audits and the global store audit result was 85%. The safety area result of the global store audit was **87% compliance** across all stores and brands. We have identified employee training as the area with most opportunity to improve our compliance rates. Training our employees includes how to work safely, prevent losses and comply with local legal safety training demands and we are working with HR to improve this further in 2017.



Monki.



HOW WE REPORT

H&M Home.

How we report

Introduction

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

The H&M group's Sustainability Report is produced annually and covers our material sustainability strategies, challenges, activities, goals and performance for the global group operations of H&M Hennes & Mauritz AB (also called the H&M group in this report), including all its brands (H&M, H&M Home, COS, Weekday, Monki, Cheap Monday, & Other Stories), as well as its wholly- or partially-owned subsidiaries globally during our financial year from 1 December 2015 to 30 November 2016, unless stated otherwise. (For a full list of entities, please see our Annual Report 2016).

We aim to address key impacts (positive and negative) across our value chain, and this is reflected in our reporting wherever possible. Information limited in scope to only one of these brands or any other limitations or deviations in scope are clearly stated in the respective section of this report. Unless stated, franchise operations are not included. The report was reviewed by the highest executive management and external assurance has been performed for selected indicators (clearly marked where applicable, as well as in regards to materiality and stakeholder engagement). Additional stakeholder comments and interviews have been included throughout this report.

All data is collected by our sustainability team from the relevant functions within our organisation and from external parties such as suppliers or implementing partners. This data is always reviewed by our internal controlling team, relevant experts in our sustainability team and expert functions following a two-tier quality control principle. Any extrapolations or estimations are clearly indicated. The same goes for any changes in data methodologies or scope that may influence data comparability.

All data is based on the best possible systems that are currently available to us, and where applicable aligned with recognised standards. However, this needs to be seen in the light of continued improvements in data systems, methodologies and scientific uncertainties. For example, while our GHG emissions accounting and reporting is aligned with the GHG Protocol, the emission factors we use are from publicly available sources such as the International Energy Agency (IEA), the Network for Transport Measures (NTM), Reliable disclosure system for Europe (RE-DISS) and supplier specified emission factors. GHG emission data is subject

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

Our material reporting requires us to make assumptions on waste factors, weight per sizes, etc. We are continuously working to improve those aspects of reporting that may lead to minor updates in our yearly material consumption reporting. For this year, the material data has been restated due to the fact that historical data has been updated using a new, more detailed system. We are continuously working to improve our data systems and accuracy to report on material consumption.

Unless otherwise specified, all data concerning suppliers and supplier factories includes all suppliers

and factories that were active and approved for production during the reporting period. Factories included in our scope are first tier manufacturing or processing (i.e. washing or dyeing), factories that are owned or subcontracted by our suppliers, and, where stated, selected second tier suppliers and suppliers for non-commercial goods (such as store interior suppliers). The second tier suppliers we have selected so far are mostly fabric and yarn suppliers that account for about 56% of our products.

Monetary amounts are reported mainly in the currency of transaction (usually SEK). Additional currency values are conversions as approximate figures based on the conversion rate on 30 November 2016, unless stated otherwise.

Additional information is provided at sustainability.hm.com and in our financial and corporate governance reporting. Our most recent sustainability report was published in April 2016.

We are signatories to the UN Global Compact and our annual Sustainability Report also serves as our

How we report

▷ Communication on Progress (COP) for the UN Global Compact as well as the CEO Water Mandate.

GLOBAL REPORTING INITIATIVE (GRI)

This report is prepared in accordance with the GRI Standards: Core Option. We have additionally included material indicators from the pilot of the Apparel and Footwear Sector Supplement. The detailed GRI index can be found at hm.com/gri.

UN GUIDING PRINCIPLES REPORTING FRAMEWORK

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

Below, we set out our approach to assessing the materiality of sustainability issues for our business and how we

supplement this for human rights with the identification of our salient human rights issues, based on an understanding of risk to people. This process to define our salient human rights issues was comprehensively conducted in 2015 and included many internal and external stakeholders. Going forward, we plan to conduct this comprehensive process every third year, or as deemed necessary. Annually, we will review the relevance and definitions of the issues identified and discuss additional emerging issues.

PROCESS FOR IDENTIFYING THE MOST MATERIAL TOPICS AND THEIR BOUNDARIES*

During 2016, we aligned our materiality matrix with our new sustainability strategy. We developed this strategy in close dialogue with external and internal key stakeholders and updated our previous materiality matrix with key takeaways from this process. We reviewed scores provided for all relevant aspects and added several new aspects to our materiality assessment. In line with our strategic ambition to take a leadership position on sustainability, we also expanded the boundaries for some aspects. This scoring process to define the report content and the aspect boundaries from our 2016

Report was based on the following steps:

1. Identification: Mapping aspects and creating a gross list

We regularly update a gross list of aspects based on an analysis of external standards, such as the GRI Standard topic list, legislation, investor and NGO questionnaires, peer reviews, business intelligence, lifecycle assessment results, stakeholder dialogues and stakeholder reports, and media coverage. The gross list has been checked against GRI's Sustainability Context and Stakeholder Inclusiveness tests.

2. Prioritisation: Scoring and prioritising topics**

To prioritise the most material topics from this gross list, we scored the different aspects in regards to their influence on stakeholder assessment and decisions, and their significance for economic, environmental and social impacts. Both categories were broken down into a number of different categories, such as frequency raised by key stakeholders (weighted x3), frequency featured in media (weighted x1) and frequency raised in key sustainability benchmarks, rankings and indices (weighted x1) (to determine the influence on stakeholder assessment and deci-

sions), as well as social and environmental impacts (weighted x1) and importance to business strategy (weighted x2) (to determine the significance of economic, environmental and social impacts). Scores were given by at least two internal experts per category and were based on lifecycle assessment (LCA) data and existing strategy documents.

During 2016, we reviewed the gross list and added further aspects based on the analysis described under step 1, which were also in line with our new sustainability strategy. We reviewed previous scoring for several aspects based on feedback received from external and internal stakeholders as part of the development process of our new sustainability strategy. In this way, about 17 topics were identified as material. For the sake of user friendliness, these were thematically clustered into 26 focus areas and gathered in a materiality matrix on p. 112. In line with our new strategy, some material topics were re-grouped in these focus areas. Some new material focus areas were identified, and some previously identified ones underwent minor adjustments. The impact scoring and boundary descriptions were checked against the GRI's reasonability tests.

* Please find an independently verified assurance statement on defining report content and topic Boundaries GRI 102-46. ** Please find an independently verified assurance statement on list of material topics GRI 102-47 on p. 119.

How we report

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

We conducted a broad validation of our matrix and assessment process in 2013. We selected at least one representative from each of our key stakeholder groups (which includes customers, colleagues, communities, suppliers and their employees, industry peers, NGOs, IGOs, policymakers and investors). Eleven stakeholder representatives were asked to provide feedback on this materiality matrix. These organisations were chosen based on their expertise, their ability to make professional and critical judgements and on the coverage of aspects that were potentially material.

While updating our sustainability strategy, we also adjusted our materiality matrix based on feedback from internal as well as external stakeholders involved in this process. The feedback widely confirmed the material topics presented, and no topics were considered missing. Updated priority scoring of each of these topics resulted in some adjustments in the position of the scatter in relation to each other. This concerns for example the topics water or animal welfare. As a result of the feedback, both have now been moved upwards in the matrix.

*Please find an independently verified assurance statement on stakeholder engagement on GRI 102-40 and 102-44.

One new topic named ‘supply chain transparency’ has been added. Throughout this process, we have used the principles of defining report content in order to secure a robust process.

REVIEW OF MATERIALITY MATRIX IN 2016

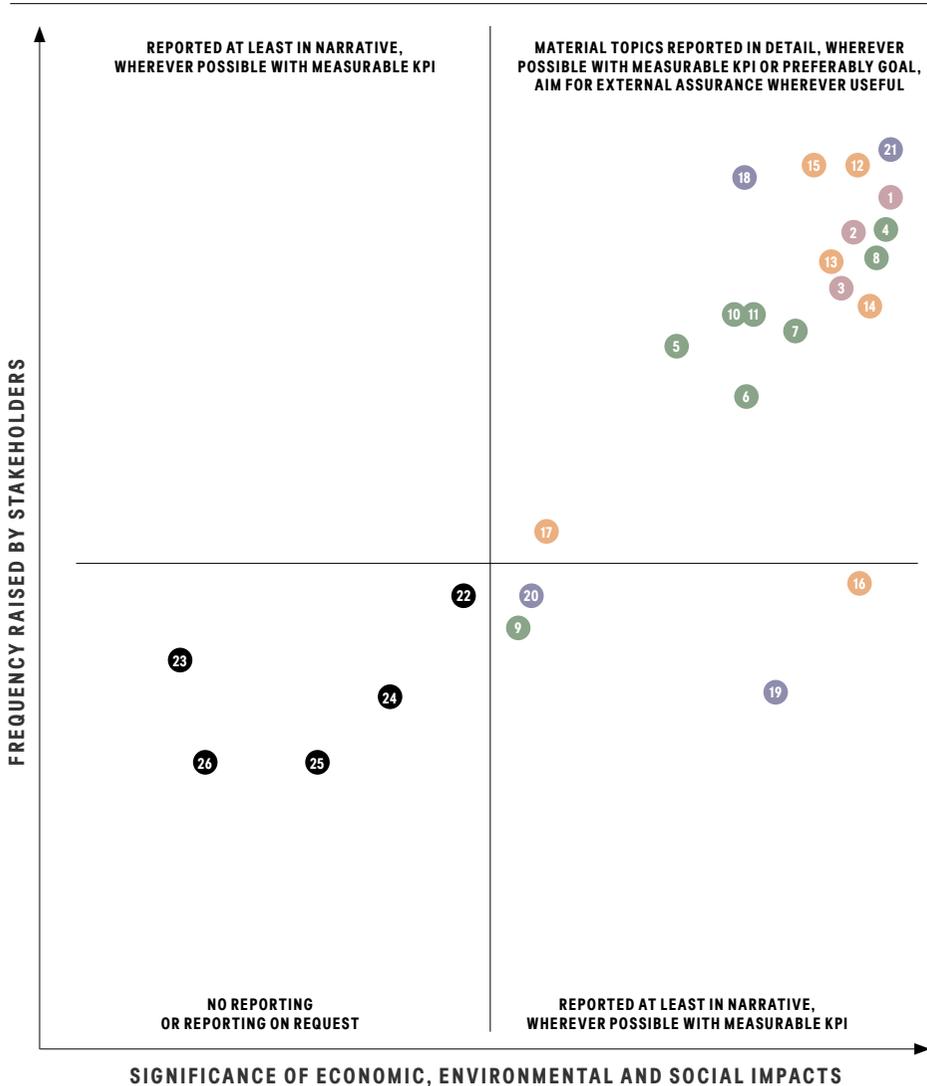
We gathered feedback on our 2015 sustainability report from various stakeholders. This included a review of the materiality matrix and no objections or concerns were raised. Through close, regular dialogue with our stakeholders, and as part of the process for developing our new sustainability strategy, we have incorporated additional forward-looking strategies and priorities into our matrix. For 2017, we plan to conduct more stakeholder surveys, helping us to further validate our materiality assessment and further integrate stakeholder feedback in our strategy development and decision-making processes.



Weekday.

How we report

Materiality matrix



AMBITION AREAS	OUR FOCUS AREAS	OUR IDENTIFIED TOPICS	GRI STANDARD & OWN DISCLOSURES REPORTED	
100% LEADING THE CHANGE	PROMOTE AND SCALE INNOVATION	1. Promote and scale innovation		
	DRIVE TRANSPARENCY	2. Supply chain transparency & traceability (incl. consumer access)	General disclosures (GRI 102), supplier environmental assessments (GRI 308), supplier social assessments (GRI 414), GRI-AF1-10	
	REWARD SUSTAINABLE ACTIONS	3. Reward sustainable actions amongst suppliers	Rewarding sustainable behaviour of business partners and customers	
100% CIRCULAR & RENEWABLE	100% CIRCULAR	4. Recycled and sustainably sourced materials	Materials (GRI 301), list of environmentally preferable materials used in apparel and footwear products (GRI-AF19)	
		5. Animal welfare	Animal welfare	
		6. Water	Water (GRI 303), wastewater quality (own disclosure)	
		7. Chemical management	Customer health & safety (GRI 416), practices to source safer alternative substances to those on the restricted substances list (GRI-AF19)	
		8. Garment collecting	Tonnes of garments collected for reuse and recycling (own disclosure)	
		9. Waste	Effluents and waste (GRI), recycling systems stores (own indicator)	
		10. Climate	Emissions (GRI 305)	
	11. Energy	Energy (GRI 302), Renewable energy (GRI-AF21)		
	100% FAIR & EQUAL	FAIR JOBS FOR ALL	12. Human rights	Human rights assessment (GRI 412), non-discrimination (GRI 406, UNGPRF), child labour (GRI 408, UNGPRF, GRI-AF12), forced or compulsory labor (GRI 409, UNGPRF), harassment (UNGPRF), actions to address gender discrimination and to provide opportunities for advancement of women workers (GRI-AF32), land rights (UNGPRF), supply chain workers health & safety (UNGPRF)
			13. Industrial relations	Freedom of association and collective bargaining (GRI 407, UNGPRF), percentage of workplaces where, in the absence of a trade union, there are worker-management committees (GRI-AF30)
14. Fair jobs			Employment (GRI 401), labour/management relations (GRI 402), occupational health & safety (GRI 403, UNGPRF), training and education (GRI 404), supplier social assessment (GRI 414), working hours policy (GRI-AF26), fire and building safety (own indicator)	
15. Fair living wages			Fair living wages in supply chain, policy and practices on wage deductions that are not mandated by law (GRI-AF25), worker representation (own disclosure)	
STEWARDS FOR DIVERSITY AND INCLUSIVENESS		16. Diversity & inclusiveness	Diversity and equal opportunity (GRI 405), non-discrimination (GRI 406, UNGPRF, GRI-AF32), maternity rights (GRI-AF11), gender discrimination (GRI-AF13)	
STANDARDS & POLICIES		17. Community development	Local communities (GRI 413)	
		18. Supply chain assessments	Supplier environmental assessment (GRI 308), supplier social assessment (GRI 414), human rights assessments (GRI 412, UNGPRF)	
		19. Anti-corruption	Anti-corruption (GRI 205), public policy (GRI 415)	
		20. Responsible marketing	Marketing and labelling (GRI 417)	
		21. Economic performance	Sales growth and profitability (own indicator)	
Other identified non-material topics 22. Packaging, 23. Market presence, 24. Biodiversity, 25. Env expenditure, 26. Anti-competitive behaviour				

How we report

Our salient human rights issues

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

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

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

tions were held with experts, organisations, academia and local stakeholders. This process does not only guide us on the human rights issues relevant to report on according to the UNGP's Reporting Framework, it also informs our strategies and work to address these issues going forward. To ensure our list of salient human rights issues remains relevant, we will review these issues annually, and the full process, including input from external stakeholders, will be conducted approximately every three years, or more frequently if necessary. While we take steps to mitigate all risks, salience guides us in what to focus on within human rights and hence informs our strategies and work.

The most recent review took place at the end of 2016 and resulted in slightly adjusted definitions on for example social security, highlighting that we refer to social security linked to employment. We also expanded child labour to the broader children's rights, due to the various ways our activities directly and indirectly impact children, while still recognising child labour as an issue of great severity.



How we report

Update on salient issues 2016

SALIENT HUMAN RIGHTS ISSUES	WHERE IN THE VALUE CHAIN THE ISSUE IS A MORE PROMINENT RISK	EXAMPLES OF ACTIONS 2016 AND WHERE TO FIND MORE INFORMATION
FAIR LIVING WAGE		
A wage level covering workers and their families' basic needs and provides some discretionary income.	Mainly in the supply chain.	We take a collaborative approach to improving wages in the garment industry and continued to drive and advance our Fair Living Wage strategy, see p. 76. Link to goals, actions and results in 2016, see pp. 68–69.
HEALTH AND SAFETY		
Working conditions that ensure the well-being and safety of workers and employees.	In the supply chain and internal operations.	Compliance figures and management system scores of SIPP (see link: sustainability.hm.com). Review, revision and update of our Global Health & Safety Policy, p. 73. Continued engagement in the Accord in Bangladesh, p. 81 and bangladeshaccord.org .
FORCED LABOUR		
All work or services that are exacted from any person under the menace of any penalty and for which the said person has not offered himself/herself voluntarily (ILO Convention 29)	Potential risk in the supply chain, often linked to specific raw materials and processes but also a potential risk connected to internal operations, for example, in connection to staff outsourcing.	Modern Slavery Statement for the financial year 2015/2016 (go to sustainability.hm.com for full statement). Continued engagement in the ETI initiative addressing exploitative labour practices in Tamil Nadu in India – especially targeting the Sumangali Scheme, see p. 80. Joined the AMCO, Amsterdam Coalition – an initiative to engage in addressing Sumangali Scheme in India, see p. 80. Conducted a modern slavery gap analysis (see link: Modern Slavery Statement). Updated our annual Production Human Rights Due Diligence Process, see p. 93. Updated our Material Risk Assessment for new and existing materials, see p. 80. Internal training on modern slavery held by the ETI, see p. 80. Continued ban on Uzbekistan, Turkmenistan and Syrian cotton, see p. 91. Continued engagement in the Better Cotton Initiative, see p. 48.
DISCRIMINATION AND HARASSMENT		
In hiring and/or in the workplace – Discrimination: unfair or humiliating treatment on the grounds of gender, sexual orientation, race, colour, age, pregnancy, marital or social status, religion, political opinion, nationality, ethnic origin, disease or disability. Harassment: humiliating or corporal punishment or subject to physical, sexual, psychological or verbal harassment or abuse.	A risk in the supply chain, where, for example women's rights are of great importance to recognise due to the large share of women in the garment industry. Also of great importance for own operations.	Updated our Global Diversity, Inclusiveness and Equality Policy. Introduced the minimum requirement on policy regarding anti-discrimination in recruitment and anti-discrimination/harassment/abuse for business partners of commercial goods. See p. 84 and our supplier compliance site .

How we report

Update on salient issues 2016

SALIENT HUMAN RIGHTS ISSUES	WHERE IN THE VALUE CHAIN THE ISSUE IS A MORE PROMINENT RISK	EXAMPLES OF ACTIONS 2016 AND WHERE TO FIND MORE INFORMATION
CHILDREN'S RIGHTS		
The rights of children as per the UN Convention on the Rights of the Child (UNCRC), which sets out the civil, political, economic, social, health and cultural rights of children. Child labour is defined as work that deprives children of their childhood, their potential and their dignity, and that is harmful to their physical and mental development (UN CRC, CRBP, ILO Conventions).	Children are directly and indirectly impacted by business activities throughout the value chain. Child labour is a potential risk in the supply chain, especially in connection to specific raw materials.	Myanmar project with CCR CSR on child labour, see p. 81. Continued engagement in the Better Cotton Initiative, BCI Link. Conducted a comprehensive assessment on mica in cosmetic products to support strategy development and our approach to mica and the likely risk of child labour associated with mica production in India, p. 81. Updated our Materials Risk Assessment for new and existing materials. See our Child Labour Policy .
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING		
A person's right to join, and/or form, organisations of his/her own choosing and to bargain collectively (ILO Convention 87, 98, 135, 154).	Mainly in the supply chain but also relevant for own operations.	We take a collaborative approach to achieving well-functioning industrial relations through a Global Framework Agreement with IndustriALL and IF Metall, which was renewed in 2016. Continued to drive and advance our Industrial Relations Strategy, including advocacy efforts in production markets like Bangladesh and Cambodia, see p. 75. We also have a Global Framework Agreement with UNI Global Union.
SOCIAL SECURITY		
Social security involves access to health care and income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a main income earner.	Mainly an obligation belonging to the responsibility of the State as defined by the UN Guiding Principles, but relevant especially in supply chain countries and some retail markets, where lack of legal frameworks or institutional capacity sufficiently addressing this issue is common.	Continued to address the issue of short-term contract in Cambodia to pave the way for undetermined duration contracts that will improve access and coverage of social security and increase the likelihood of workers organising and engaging in unions to negotiate conditions, see p. 80. Ensuring work permits for Syrian refugees in Turkey, entitling them to the same social security as Turkish workers, see p. 80.
WORKING HOURS		
Working hours that comply with national law, the ILO conventions or collective agreement, whichever affords the greater protection of the worker. Connected to the workers' right to health and family life.	Mainly in the supply chain countries due to high prevalence of overtime in the garment industry.	Continuously monitored through our supplier assessment programme SIPP and linked to, and addressed through, our Fair Living Wage strategies. See p. 76 and supplier compliance site for compliance figures and data.
ACCESS TO WATER		
Safe water and enough supply, accessible and affordable for personal and domestic use.	Communities in both production and retail markets.	Addressed through our work with water in our Water Stewardship programme, see p. 49. Apart from continuous implementation of this strategy, no further actions were taken in 2016.

How we report

Sustainable development goals

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

The nature of our business means we have the potential for both direct and indirect impact and influence on a wide range of SDGs. Progress towards our three ambitions will create the most obvious impact – as outlined below. However, our partnerships and other areas of influence such as advocacy will also contribute to progress towards certain goals.



How we report

Given our business activities, these are the key SDGs to which our sustainability strategy contributes.

5 GENDER EQUALITY
SDG5 - GENDER EQUALITY
 We want everyone connected to our business to have access to the same opportunities – man or woman, girl or boy. We're committed to making sure everyone in our business and supply chain is treated equally, and to drive positive change across the rest of the industry.

6 CLEAN WATER AND SANITATION
SDG6 - CLEAN WATER AND SANITATION
 In line with our 100% Circular & Renewable ambition, we must manage water responsibly across our value chain. We have been collaborating with the WWF since 2011 on water stewardship issues and are currently developing a new roadmap for our water goals and actions.

7 AFFORDABLE AND CLEAN ENERGY
SDG7 - AFFORDABLE AND CLEAN ENERGY
 Our commitment to renewable energy will build capacity and access, making it more available

to more people and businesses around the world. Our goal is to source 100% of our total energy in our own operations from renewable sources, to encourage and empower our suppliers to use renewable energy and to explore ways to build capacity for new sources of renewable energy ourselves.

8 DECENT WORK AND ECONOMIC GROWTH
SDG8 - DECENT WORK AND ECONOMIC GROWTH
 As a thriving, global business, we create jobs for millions of people around the world – a large percentage of whom are in developing markets. We will continue our efforts to ensure fair jobs for our colleagues, the people employed by our business partners and the people employed throughout our value chain.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
SDG12 - RESPONSIBLE CONSUMPTION AND PRODUCTION
 We are building circularity into our business in how we source, design and make our products, and how we dispose of our waste. With our vision of 100% circularity across our value chain, we are also empowering our partners and customers to adopt more sustainable patterns of consumption.



13 CLIMATE ACTION
SDG13 - CLIMATE ACTION
 We are eliminating fossil fuels from our operations and directly supporting the reduction of more greenhouse gases than our value chain emits. Our goal is to achieve a Climate Positive Value Chain by 2040 through a combination of energy efficiency, renewable energy and carbon sinking/offsetting.

17 PARTNERSHIPS FOR THE GOALS
SDG17 - PARTNERSHIP FOR THE GOALS
 Collaboration underpins our entire sustainability strategy. We are proactively seeking out and facilitating (often financially) the partnerships that will help solve the challenges we – and the rest of our industry – face.

How we report

Engaging with our stakeholders

CUSTOMERS	COMMUNITIES	COLLEAGUES	SUPPLIERS	SUPPLY CHAIN EMPLOYEES AND THEIR REPRESENTATIVES	INDUSTRY PEERS	POLICY-MAKERS	ACADEMIA & SCIENCE	NGOS AND IGOS	INVESTORS
<p>The H&M group is a customer-focused company. Understanding and meeting the needs of our customers is at the core of everything we do.</p>	<p>The H&M group is closely connected with communities around the world in which our stores, offices and warehouses are located, and those that host our supplier factories.</p>	<p>We want all employees to feel proud to work for the H&M group. Motivated and satisfied employees mean better customer interactions and a better and more productive workplace.</p>	<p>Our suppliers are our valued business partners. Stable and long-term relations are key to mutual growth. Strengthening and enabling their ownership over their sustainability issues is important in enabling long-term sustainable development.</p>	<p>Our suppliers employ over 1.6 million people, most of them women in emerging markets. This provides a great opportunity to improve the livelihood of workers, their families and communities. Hearing their voices is essential to our work – and even more so helping to systematically give them a voice in fair and constructive negotiations and social dialogue.</p>	<p>Many challenges are best addressed collectively. We work with industry peers and even companies operating in other sectors to define industry standards and common responses to shared challenges.</p>	<p>The H&M group and our suppliers are subject to rules set by policy-makers. Maintaining dialogue with them helps us to stay informed about, and sometimes to help shape, our legal and regulatory context.</p>	<p>We are striving to take a science-based approach as part of our sustainability strategy. Innovation is key to address some of our industry's greatest challenges and opportunities. Therefore, engaging with academia and science is vital to our continued strategy development and to meet our ambitious goals.</p>	<p>NGOs are expert advisers on standards and practices throughout our value chain. We rely on their expertise and independence to ensure that we meet the most up-to-date standards and to make us aware of any concerns.</p>	<p>The H&M group is a publicly listed company. As such, we are accountable to our investors. We prioritise our most important investors in a direct dialogue wherever possible and integrate feedback we receive in our strategies and to inform our sustainability reporting, striving for the greatest possible transparency.</p>
HOW WE ENGAGE									
<ul style="list-style-type: none"> - In-store customer interactions - Customer service organisation - Social media (for example, 28 million facebook fans) - Market research - Consumer media 	<ul style="list-style-type: none"> - Through community partners - Interactions with local authorities - Through NGO interaction (local + global) - Interactions with IGOS and governments - Interviews with workers in supplier factories 	<ul style="list-style-type: none"> - We have an open-door policy, encouraging constant feedback - Store or union representation in many markets - European Works Council (EWC) - Meetings facilitated through our global framework agreement with Union Network International (UNI) - Regular individual performance reviews - Employee surveys in some markets 	<ul style="list-style-type: none"> - Close relations and constant dialogue with our suppliers through our local presence with offices in all major production locations - Anonymous supplier surveys - Supplier Relations Management system - Individual meetings throughout a partnership, performance reviews and joint capacity planning - SIPP and verifications - Training modules and capacity building 	<ul style="list-style-type: none"> - Anonymous worker surveys - Global Framework Agreement with IndustriAll Global Union and IF Metall - Supplier survey - Regular direct dialogue with local trade unions - Interviews with workers in supplier factories - Partnership with ILO - MoU with Sida - Active support for Global Deal - Fair and Equal lab 	<ul style="list-style-type: none"> - Multi-stakeholder initiatives such as the Ethical Trading Initiative (ETI), Sustainable Apparel Coalition and Better Cotton Initiative - Various regional and local initiatives such as Sector Roundtables - Different forms of pre-competitive collaboration - Individual meetings and specific events such as dedicated "H&M Labs" 	<ul style="list-style-type: none"> - Individual meetings and specific meetings or conferences - Participation in EU consultation processes individually and through membership organisations such as Sustainable Apparel Coalition - Industry-wide meetings - Responses to official consultations - Specific collaboration forums such as the German "Textil-buendnis" 	<ul style="list-style-type: none"> - Individual meetings and specific events such as dedicated "H&M Labs" - Continuous consultations as part of our strategy development - Joint research projects 	<ul style="list-style-type: none"> - Wage advisory board - Regular meetings or ad hoc dialogue on global and local level - Specific programmes with global/local NGOs - Direct partnerships - Partnerships through membership organisations, like the Better Cotton Initiative 	<ul style="list-style-type: none"> - Annual General Meeting - Annual and quarterly reports and related press and telephone conferences - Monthly sales figures - Individual meetings and specific events such as dedicated "H&M Labs"
KEY ISSUES									
<ul style="list-style-type: none"> - Product design - Product quality and durability - Product affordability - New store locations and markets - Supply chain working conditions - Chemicals used in production processes - Green transport and waste management 	<ul style="list-style-type: none"> - Community investments - Employment opportunities and impacts on growth and development - Environmental impact - Community support (i.e. disaster relief or garment donations) 	<ul style="list-style-type: none"> - Job security and growth - Pay and working conditions - Equal opportunities - Training and career progression - Supply chain working conditions - Conscious Actions in store 	<ul style="list-style-type: none"> - Long-term relationships - Order/capacity planning - Capacity building and skills transfer - Compliance with our requirements - Workplace dialogue and worker involvement 	<ul style="list-style-type: none"> - Developing or advancing negotiation structures and skills - Developing worker representation structures in absence of functional industrial relation systems or absence of Freedom of Association - Helping to develop functional industrial relations system and strengthening Freedom of Association - Peaceful conflict resolution 	<ul style="list-style-type: none"> - Industry-wide social and environmental challenges, such as supply chain working conditions and environmental impacts - Best practice in pre-competitive matters - Legal and regulatory requirements 	<ul style="list-style-type: none"> - Regulatory and legal compliance - Local labour and environmental standards - Product safety and quality standards - Climate change - Specific local issues and challenges in various markets 	<ul style="list-style-type: none"> - Innovation for a circular economy - Climate impacts and innovations - Material innovations - Research supporting fair living wage implementation and industrial relations 	<ul style="list-style-type: none"> - Labour rights and supply chain working conditions, particularly wages for supply chain workers - Social and economic development contribution - Water and chemicals management - Environmental impacts 	<ul style="list-style-type: none"> - Sales development - Long-term profitability - Expansion

How we report

Auditor review statement

TO H & M HENNES & MAURITZ AB

We have been engaged by the management of H&M Hennes & Mauritz AB (H&M) to perform a limited assurance engagement on the information in H&M's group's Sustainability Report 2016 with regards to the following indicators referred to in the GRI index that can be found in the 'GRI index 2016':

- Identified material topics and boundaries (Disclosures 102-46, 102-47), pp. 110–112, 114–115.
- Stakeholder engagement (Disclosure 102-40, 102-42, 102-43, 102-44), p. 110, 111, 118.
- Energy: Energy consumption within the organisation (Disclosure 302-1), p. 59. Energy intensity (Disclosure 302-3), p. 59. Percentage of renewable energy (AF21), p. 61.
- Emissions: Direct (scope 1) GHG emissions (Disclosure 305-1), p. 64. Energy indirect (scope 2) GHG emissions (Disclosure 305-2), p. 64. Other indirect (scope 3) GHG emissions (Disclosure 305-3), p. 64.
- Materials: Materials used by weight or volume (Disclosure 301-1), pp. 44–45. Tons of garments collected for reuse and recycling, p. 54.

– Anti-corruption: Confirmed incidents of corruption and actions taken (Disclosure 205-3), p. 97.

The H&M group Sustainability Report 2016 covers the period 1 December 2015 – 30 November 2016.

MANAGEMENT'S RESPONSIBILITY

The Management of H&M group is responsible for preparing and presenting the H&M group Sustainability Report 2016 in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Standards. As discussed in the section "How we report", on p. 109 in the H&M group Sustainability Report 2016, 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 H&M group Sustainability Report 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.

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 the H&M group Sustainability Report 2016 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 the H&M group Sustainability Report, not on information linked to and disclosed on other web pages. The presented information in the H&M group Sustainability Report is to be considered in connection with

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

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

How we report

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

Our procedures are based on the criteria defined by the Management as described above. We consider these criteria suitable for the preparation of 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 the H&M group Sustainability Report has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, 4 April 2017
Ernst & Young AB

Åsa Lundvall
Authorised Public Accountant

Charlotte Söderlund
Authorised Public Accountant

How we report

Awards & recognition



Here are some of the indices, rankings and awards that assessed and recognised our sustainability performance.

- 2015 and 2016
World's Most Ethical Companies
- Dow Jones Sustainability Europe Index
- Dow Jones Sustainability World Index
- FTSE4Good
- Global 100 Most Sustainable Corporations
2015 and 2016
- Green Power Leadership Awards
- Green Ranking Global Top 100
- PETA's Libby Award as Most
Animal-Friendly Clothing Company 2015
- Corporate Register Reporting Award 2016
- Drapers Award 2016
- RobecoSAM's sustainability award for
Industry Mover in the retailing industry
- Sustainable Brand Index 2015

> hm.com/whatotherssay

Get in touch

Contact

Please send your questions or comments regarding this report to kaying.lau@hm.com or micaela.kokko@hm.com.

We appreciate your feedback.

More information

Because of our updated strategy, this year's sustainability report is in a new format compared with previous years. Most issues covered in previous reports are still included in this year's report, but while we have made every effort to make the content as accessible as possible, we appreciate some issues may be difficult to locate. A few issues have been removed because they were deemed not material enough to report on.

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, as well as success stories, please visit sustainability.hm.com



Appendix

Our KPI overview

Main sustainability KPIs for the H&M group

	KPI	GOAL	2014	2015	2016
100% CIRCULAR & RENEWABLE 	% recycled or other sustainably sourced material of total material use	100% by 2030	13%	20%	26%
	% of cotton from more sustainable sources	100% by 2020	22%	34%	43%
	Tonnes of garments collected through garment collecting initiative	25,000t per year by 2020	7,684t	12,341t	15,888t
	% of stores with recycling systems for main types of store waste	100%	58%	61%	71%
	% of facilities in own operations with water-efficient equipment	100% by 2020	24%	37%	51%
	% of business partner factories in compliance with wastewater quality requirements as defined by BSR	100%	71%	75%	82%
	% renewable electricity in own operations	100%	27%	78%	96%
	% change in CO ₂ emissions from own operations compared with previous year	Climate Positive by 2040	-4%	-56%	-47%
	% change in electricity efficiency (kwh/m ² compared to 2007)	-20% compared to 2007	-12%	-8%	-8%
100% FAIR & EQUAL 	No. of supplier factories using Fair Wage method (% of production volume)	50% by 2018	3	69	140 (29%)
	No. of supplier factories that have received workplace dialogue training (% of production volume*)	50% by 2018	-	132	191 (42%)
	% of business partners regarding the H&M group as a fair business partner	90% by 2018	76%	84%	83%
	% of employees agreeing with the statement "People here are treated fairly regardless of age, ethnicity, sex, sexual orientation and disabilities"	Increase	89%	90%	90%
STANDARDS & POLICIES	No. of confirmed cases of Code of Ethics violations	Detect all violations	18	25	26
	% of production volume of second tier supplier factories included in Sustainability Assessment (SIPP)	Increase	35%	51%	56%

* This KPI currently shows factories that received the H&M group's workplace dialogue training. When the system support for the SIPP is fully implemented, we will be able to show data on share of product volume with democratically-elected worker representation from our complete factory base.

H&M

THANK YOU