



H&M Group

Sustainability Disclosure 2022

About this report

Clear and transparent reporting is vital for creating accountability and monitoring our performance. We continue to integrate our financial and sustainability reporting while increasing levels of disclosure across a range of channels, to meet the diverse needs of our different stakeholders and external reporting requirements. We're committed to openly sharing our progress based on the best available data, and to improving our level of disclosure each year.

Our reporting comprises several components:

— Our **Annual and Sustainability Report** outlines our financial and non-financial performance in 2022, including our **Statutory Sustainability Report**.

— This **Sustainability Disclosure** complements the Annual and Sustainability Report by providing additional details about our strategy, goals, performance data and policies.

— A dedicated sustainability section of our corporate **website** offers a broad range of information on key topics, including our strategies and policies.

— **External reporting frameworks**, including Global Reporting Initiative and UN Guiding Principles **indexes**, are available on our website, and Task Force on Climate-related Financial

Disclosures reporting in our **Annual and Sustainability Report**.

— Our **Modern Slavery Statement** details our approach to human rights and due diligence in our business operations and supply chain, with a focus on our **Salient Human Rights Issues**.

This report covers the financial year from 1 December 2021 to 30 November 2022. Find more information on the scope of this report in **How We Report**.

H&M Foundation

The H&M Foundation is privately funded by the Stefan Persson family, founders and main owners of the H&M Group. The Foundation uses philanthropic resources to find, fund and facilitate disruptive innovations, initiatives and research that enable a socially inclusive and planet positive textile industry.

Since 2013, the family has donated SEK 1.7 billion (USD 219 million) to the Foundation.

Learn more at hmfoundation.com and read more about some of the Foundation's activities throughout this report.



Contents

Our approach to sustainability

| | |
|--|---|
| Our approach to sustainability | 4 |
| Key sustainability policies & standards | 7 |
| Some words & phrases used in this report | 8 |

How we lead change

| | |
|--|----|
| How we lead change | 10 |
| Our approach to leading change | 11 |
| Transparency | 13 |
| Engaging with our stakeholders for positive change | 15 |

2022 Highlights

| | |
|--|----|
| 2022 Highlights | 18 |
| External assessments | 19 |
| Circularity, Climate & Nature KPIs | 20 |
| Fair & Equal KPIs | 21 |

Circularity, Climate & Nature

| | |
|--|----|
| Our approach to Circularity, Climate & Nature .. | 23 |
|--|----|

Climate & nature

| | |
|-------------------------------|----|
| Climate | 26 |
| Biodiversity & land use | 32 |
| Water | 35 |
| Chemicals | 38 |

Resource use & circular impact

| | |
|--------------------------------------|----|
| Moving to a circular ecosystem | 40 |
|--------------------------------------|----|

Circular products

| | |
|--------------------------------------|----|
| — Design & assortment planning | 41 |
| — Material choice | 43 |
| — Microfibres | 48 |

| | |
|--|----|
| Circular supply chain | |
| — Resource optimisation & recirculation | 49 |
| — Production processes | 52 |
| Circular customer journey | |
| — Scaling customer-facing circular business models | 53 |

Circular products, supply chain & customer journey

| | |
|--|----|
| — Packaging | 56 |
| — Stores, distribution centres & offices | 58 |

Fair & Equal

| | |
|---|----|
| Our approach to being Fair & Equal | 61 |
| Respecting & advancing human rights | 63 |
| Social impact in our own operations | 65 |
| Social impact in our production supply chain .. | 67 |
| Inclusion & diversity | 77 |
| Community engagement | 81 |

Supply chain management

| | |
|-------------------------------|----|
| Supply chain management | 82 |
|-------------------------------|----|

How we report

| | |
|--|----|
| How we report | 86 |
| UN Sustainable Development Goals | 87 |
| Auditor's report | 88 |

Our approach to sustainability

Our industry continues to evolve to meet customer needs against the backdrop of increasingly urgent environmental crises and social inequity. We recognise the positive and negative impacts of our industry and our business, as well as the need and opportunity for a transformation to new ways of working that protect the rights of current and future generations.

We aim to grow our business in a way that decouples our financial growth and profitability from the use of finite natural resources, so that businesses and communities can thrive within planetary boundaries. In early 2022, we strengthened this ambition by introducing a goal to double our sales (from a 2021 baseline) while halving our greenhouse gas emissions¹ (from a 2019 baseline) by 2030.

United by our values, we have an ambition to lead the change towards a circular fashion industry with net-zero climate impact, while being a fair and equal company. We will continue to listen to our customers and meet them where they are, while inspiring them to develop a new relationship with fashion.

Read more about how we strive to lead the change, and our approach to circularity, climate and nature and being a fair and equal company at the beginning of these chapters. Read our Annual and Sustainability Report for more details on our business strategy and information on our sustainability governance.

1) Includes scopes 1, 2 and 3 GHG emissions, excluding indirect emissions from use of sold products.

Our sustainability strategy

We have a vision to lead the change towards achieving a circular fashion industry with net-zero climate impact, while being a fair and equal company.



LEAD THE CHANGE

- Scale innovation
- Promote transparency
- Collaborate for industrywide progress



SUPPORT A CIRCULAR FASHION INDUSTRY WITH NET-ZERO CLIMATE IMPACT

- Become net-zero across our value chain by 2040, operating within planetary boundaries
- Have a net positive impact on biodiversity
 - Scale circular models and systems for our products, supply chains and customer journeys



BE A FAIR AND EQUAL COMPANY

- Have a positive impact on all people across our value chain
- Support and promote inclusion and diversity in everything we do

RESPECT HUMAN RIGHTS

Our approach to sustainability

A message from our CEO

Looking back at 2022, it was a turbulent year marked by the war in Ukraine and our thoughts are with all the people affected by this devastating humanitarian crisis.

Throughout challenging external times, sustainability remains an integral part of our business. This is underlined by our 2030 goal, which combine targets for company growth and profit with reductions in greenhouse gas emissions.

To reach our ambitious climate goals of halving the group's greenhouse gas emissions by 2030 and achieving net-zero by 2040, we invest in projects to reduce greenhouse gas emissions throughout our whole value chain. During the year, our climate goals were verified by the Science Based Targets initiative and we established the Green Fashion Initiative to support our suppliers in replacing fossil fuels. We also signed long-term virtual power purchase agreements in the UK, Sweden and Spain to cover electricity consumption in our operations in a majority of European markets. This will not only help us reduce our greenhouse gas emissions, but also secure our energy prices.

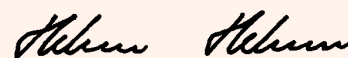
Investments in sustainability provide the group with long-term business opportunities. By building strategic partnerships with key stakeholders and growing in various innovative ways such as circular business models, we can grow our business in a way that decouples our financial growth and profitability from the use of finite natural resources. A good example of this is majority-owned, fast-growing Sellpy, which is already one of the biggest players in second-hand fashion in Europe.

Our investment arm CO:LAB is a way for us to explore new business models, and in addition to Sellpy we have invested in startups such as Smartex, Renewcell and Colorifix, to mention just a few. Our investments have in a short time created significant value, for example by improving the customer experience and enabling scaling and commercialisation of recycled and more sustainably sourced materials.

We will continue to make investments in new business models, materials and technologies that have the potential to drive radical shifts in how we make and remake our products, and how our customers can experience fashion. Alongside these efforts, we will keep working for increased levels of transparency to empower customers to make more informed decisions about the products they buy.

Looking ahead, our main focus is on continuing to invest in and develop our customer offering and shopping experience for our unique brands, so that we keep meeting and exceeding our customers' needs and expectations.

Despite the turbulent world around us, H&M Group stands strong with a wide customer base, a robust financial position, healthy cash flow and a well-balanced inventory. This is all thanks to the commitment from colleagues all around the world, who continue to build our company, stand true to our values and ensure we always realise the business idea that our founder laid the ground for 75 years ago — to deliver our customers unbeatable value with the best combination of fashion, quality, price and sustainability.



Helena Helmersson
CEO, H&M Group



Our approach to sustainability

A message from our Head of Sustainability

As the world faces significant and ongoing social, environmental and economic challenges, the actions we take to transform our business and our industry are more important than ever. Alongside others in our sector, we must continue to accelerate our efforts to reduce emissions in line with science and decouple our growth from resource use. As we make this journey, we must also contribute to a just transition for the millions who rely on the fashion industry for their livelihoods. I am convinced that brands placing sustainability at their core will be better prepared to meet the evolving requirements of customers and legislators, as well as making vital contributions to a better future for the people and the planet.

Our goal of net-zero greenhouse gas emissions by 2040, now verified by the Science Based Targets initiative, is a central part of this ambition and a foundation to our sustainability strategy. We are committed to reducing our climate impact in order to play our part in addressing the climate crisis, and have so far reached reductions of 8% in scopes 1 and 2 and 7% in scope 3 emissions from our 2019 baseline. To push ourselves further and faster, we are increasing efforts to decarbonise our

value chain — including investing in projects to support our suppliers in reducing their own emissions.

Developing the processes and infrastructure to scale circular options for our customers is an important lever to reach our climate goals. This year, our use of recycled materials accelerated, reaching 23% (up from 18%) and contributing to a total of 84% recycled or other more sustainably sourced materials in our collections. H&M also integrated an assortment from Sellpy into its website, as part of our effort to normalise second-hand shopping. You will find more examples and details on how we are putting our circularity ambition into action in this report.

Our efforts to positively impact the people involved in our value chain are equally as important as our actions to reduce our environmental footprint. We're continuing to work with our suppliers to improve social dialogue, gender equality and wages for their workers, as well as increasing the scope of our detailed supply chain wages disclosure. We recognise the deep interrelationship between people and the planet, building strong links to social impacts across our environmental strategies — including through our Water Strategy 2030 and our updated materials vision.

I hope you enjoy reading our 2022 Sustainability Disclosure, which marks our 20th year of sustainability reporting. We welcome open dialogue and collaboration on the road ahead to meet the many shared challenges of our industry and our world.



Leyla Ertur
Head of Sustainability, H&M Group



Key sustainability policies & standards

CROSS-CUTTING

- [Human Rights Policy](#)

H&M Group

OUR OWN OPERATIONS

- [Code of Ethics for Colleagues](#)
- [Whistleblowing Policy](#)
 - [Social Policies](#)
 - [Privacy Policy](#)
- [Responsible Marketing Guidelines](#)
- [Tax Policy](#)



OUR BUSINESS PARTNERS

- [Code of Ethics for Business Partners](#)
- [Sustainability Commitment](#)
 - [Child Labour Policy](#)
- [Migrant Worker Guidelines](#)
- [Home Working Policy](#)
- [Sandblasting Policy](#)



OUR MATERIALS AND PRODUCTS

- [Animal Welfare Policy](#)
- [Responsible Raw Material Sourcing Policy](#)
- [H&M Group Chemical Restrictions](#)

For more on H&M Group's policies and standards see the Corporate Governance Report within our [Annual and Sustainability Report](#).

Some words & phrases used in this report

Throughout this report we use certain words and phrases to describe our approach to addressing specific social and environmental issues. Here, we explain what we mean by these terms.

Circular and circularity are terms we use throughout this report in different contexts. We use them as high-level terms to describe activities aligned with the Ellen MacArthur Foundation's (EMF) [definition](#) of circular economy, which focuses on three principles: eliminate waste and pollution, circulate products and materials (at their highest value), and regenerate nature. More specifically, we support and aspire to the EMF [vision for a circular fashion industry](#), where products are designed to be used more, made to be made again, and made from safe and recycled or renewable inputs. Where we reference our **circular ecosystem**, we are referring to putting all these principles into practice through the way we operate our business and create our products, including:

— **Circular products:** Creating products that are made to last from safe, recycled, regenerative or other more sustainably sourced materials that can circulate multiple times.

— **Circular supply chains:** Building scalable systems that circulate products and materials for repair, reuse and recycling and use lower-impact production processes — such as dyeing, printing and finishing.

— **Circular customer journeys:** Providing convenient ways to engage in circular fashion where products are used more before being repaired, reused and recycled.

Customer-facing circular business models is an additional term we use to describe circular customer journeys. Circular business models can be in place throughout the entire ecosystem. When we talk about care, repair and reuse models, we frame them as customer-facing circular business models.

Fair compensation in our production supply chain refers to a wage that — in a regular work week, without overtime — is enough to meet the basic needs of employees and their families and provide some discretionary income. As a minimum, the wage should meet legal levels or applicable collective bargaining agreement levels — whichever is higher.



Some words & phrases used in this report

Our vision to **lead the change** means innovating, incubating and investing in scaling new materials, technologies and business models with the potential to decouple our business growth from resource use. It means trying to do things differently, daring to take the first step. It means sharing more data and working to improve the accuracy and comparability of industrywide disclosure. And finally, it means collaborating with others to change the way the industry works and create the legislative environment and infrastructure required for the fashion sector of the future.

More sustainably sourced, sourced in a more sustainable way or **more sustainable** describes materials or raw material production, processes, our overall operational activity, or that of our suppliers that have a reduced negative environmental impact compared to conventional alternatives. We base this assessment on various qualitative and quantitative comparative data sources including third-party lifecycle assessment (LCA) data, external benchmarks and assessments, supply chain assessment scores, and data on other KPIs. We further define more sustainably sourced for different materials in our [Material Categorisation](#), [Responsible Raw Material Sourcing Policy](#) and [Animal Welfare Policy](#).

Preferred transport options refers to modes of transport including 100% biofuel, electric and zero-emissions vehicles.¹

Regenerative agriculture is a concept we refer to in relation to raw material production. It is a holistic approach to agriculture that focuses on the interconnection of farming systems and nature. Regenerative farming practices can improve soil health and strengthen the resilience of farmers while also restoring natural habitats.

Responsible is one of the three pillars of our long-term material sourcing vision. In this context it means sourcing materials with the overall aim to respect human rights and reduce environmental impact while contributing to sustainable development in the countries where we source.² This is the foundation of all our sourcing decisions. The broader definition of what constitutes a **responsible company** is defined by international frameworks and for H&M Group it means understanding and taking action to address our impacts on people and the planet, supported by robust systems of governance and transparent external communications.

Reverse supply chain is a term for a system that brings used products, materials and production waste back into circulation either as second-hand products, or to be reused or recycled and diverted back into the production system as valuable resources.

- 1) A zero-emissions vehicle is one that does not emit exhaust gas or other pollutants when operational.
- 2) Our definition of responsible sourcing is based on the OECD Guidelines for Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights.



How we lead change

| | |
|---|----|
| Our approach to leading change | 11 |
| Transparency | 13 |
| Engaging with our stakeholders for positive change | 15 |



Our approach to leading change

We aim to use our size and scale to amplify the speed and impact of transformation in the fashion sector.

To us, **leading the change** means innovating, incubating and investing in scaling new materials, technologies and business models that have the potential to decouple our business growth from resource use. It means trying to do things differently, daring to take the first step. It means sharing more data and working to improve the accuracy and comparability of industrywide disclosure. And finally, it means collaborating with others to change the way the industry works and create the legislative environment and infrastructure required for the fashion sector of the future.

We focus on three areas: scaling innovation, promoting transparency, and collaborating with stakeholders and policymakers for industrywide progress.

Innovation

Innovative business models, materials and production processes that enable circularity and offer new experiences for customers have the potential to transform our industry. We identify and test many different solutions, and scale the most promising ones. Although some will fail, this approach means we accelerate discovery of innovations that can make a positive impact.

— We support early-stage innovations through to commercial production, accelerating integration of these innovations into our organisation and supply chain, through our Circular Innovation Lab. In 2022, we supported research from Karolinska Institutet and SLU (Swedish University of Agricultural Sciences) to scale production of a protein-based fibre that mimics spider silk.

— We explore new circular business models and other areas that research shows will be of strategic importance to our business through H&M Group Laboratory, an innovation hub within the Group. Read more about our work to scale customer-facing circular business models.

— We invest in innovative companies that enable a more circular future, supporting entrepreneurship in the fashion industry, through our investment arm, H&M CO:LAB.

— Our business ventures test and promote innovative ways of working. The membership-based brand Singular Society offers customers premium products at the price of what they cost to make. In 2022 we discontinued Treadler, a B2B service giving others access to H&M Group's supply chain, due to uncertainties in the world and slow growth. The venture generated valuable learnings that we will apply to future projects.

— Ongoing investment in our data systems and analytical tools will support us to make more informed sustainability decisions and accelerate progress towards our goals.

— We look for opportunities to reach new customer groups. For example, H&M Move launched in 2022, offering a wide range of 'movewear' designed to reduce barriers to sport and get everybody and every body moving.

— 55% of respondents to our annual stakeholder survey rate H&M Group as good or very good at innovation, telling us that we are strong in our initial support for innovations, but need to scale these faster.

Learn more about how innovation speeds transformation, online and in examples throughout this report.

H&M Foundation Global Change Awards

The seventh round of H&M Foundation's Global Change Awards launched in October 2022. This is one of the world's largest innovation challenges to transform the fashion industry. It highlights bright minds reinventing fashion and changing the way it is seen, worn and made. The aim is to find, support and scale disruptive ideas that can transform the fashion and textile industry and help protect our planet. The winners will be announced in June 2023.

Collaboration drives large-scale impact

An interview with Federica Marchionni, CEO of Global Fashion Agenda about how we're doing and what we can do better

Global Fashion Agenda (GFA) is a non-profit organisation that fosters industry collaboration on sustainability in fashion to accelerate impact.

What's your impression of H&M Group's efforts to create transparency for customers?

I strongly believe H&M Group strives to be open and transparent to increase customer awareness about its sustainability performance and to inspire the industry to do the same. But as a frontrunner, the company experiences greater scrutiny and risks. At the same time, elements of H&M Group's sustainability communication must be corrected, but I fully support its bravery to voluntarily disclose impact to help drive change.

What's your reflection on the criticism faced by H&M Group in 2022?

GFA took the criticism seriously and worked with H&M Group to understand the circumstances and the company's efforts to resolve the issues. We believe that H&M Group appreciates the importance of communicating accurate messages. The company wants to be as transparent as possible and has removed any potentially misleading product messaging.

What do we do well, what could we do better?

H&M Group excels in fostering collaboration to drive large-scale impact. The Group's pre-competitive mindset has helped form initiatives such as Circular Fashion Partnership and thought leadership publications like Fashion CEO Agenda. It has also demonstrated strong leadership within other multi-stakeholder initiatives, such as the Sustainable Apparel Coalition and ACT on Living Wages. By sharing knowledge and resources, H&M Group is stimulating greater supply chain transparency and traceability in the industry.

Moving forward, I hope the group avoids labelling specific collections or products in a way that could easily be misinterpreted. Instead, it should apply a holistic approach, demonstrating both social and environmental impact for products in a clear and substantiated way.

What challenges do fashion companies face in becoming more transparent?

Reliable data is crucial for transparency and to substantiate sustainability claims. Both critics and supporters of existing data platforms agree that there is a need for 'better data'. However, the growing expectation for collating 'perfect data' must not stall progress. Sustainability reporting

and evolving data tools are complex and 'perfect data' does not seem to be definable nor achievable before the 2030 deadline to reach the Paris Agreement's targets.

At present, there are no harmonised rules or guidelines for greenwashing accusations. They can be made and communicated broadly, prompting a proliferation of unsubstantiated allegations and diminishing the incentive for companies to be open about their efforts — leading to increased greenwashing and, for some, inaction.

How can the industry work together to create more transparency?

We need alliances to align on data gaps, increase understanding and develop better data. Companies should demonstrate their impact using the most robust data sources available. The industry must show leadership, demonstrate best practice and stay ahead of regulation on performance claims as well as data transparency and traceability. For this to happen, we need thorough discussions with regulators and law enforcers about harmonised development and interpretation of regulation.



Transparency

Together with peers and stakeholders, we have a long history of reporting our progress on sustainability — including tracing and disclosing details of our supply chains, and testing and piloting new ways of tracing materials and collecting and sharing data. These have been important steps to push the boundaries on transparency forward across our industry. But we want to take this further to meet increasing demands from our customers for clear, accurate and relevant information about our products, supply chain and business practices. Our aim is to create comparability to enable better choices — for our customers, as well as for ourselves and our industry. This is something we have worked towards for a number of years, continually testing different solutions. A lack of harmonised legislation and standardised approach to sustainability claims as well as an ongoing evolution of data and data systems have posed a challenge.

This year the fashion industry, including H&M Group, has faced increased scrutiny over sustainability claims, and we welcome the positive shift towards clearer guidance and increased transparency, which can only be achieved through improved data collection and traceability. Our intention is, and will continue to be, to provide transparent impact data to customers and stakeholders to incentivise and drive positive change in the industry.

Our focus remains on our two key objectives:

— **Empowering informed choices:** Giving customers the information they need about our business and products to make informed decisions.

— **Accelerating sustainable change:** Increasing transparency and traceability across our value chain, giving us greater control over our impacts and creating industry comparability.

Traceability is key to enabling greater transparency. Accurate data on raw materials and products is essential. We're committed to continually improving the comparability and quality of the data, systems and calculations we use, together with our partners and all relevant stakeholders. Mindful of the ethical considerations around collecting and using data, we share our approach to processing and protecting personal data through our [Privacy Notice](#).

Progress: empowering informed choices

— We support the Sustainable Apparel Coalition's (SAC's) work to develop shared, verified product impact data, as this is key to enabling comparability and informing customer choice. Our goal is to disclose transparent information

on individual products to drive positive change across the industry. The SAC temporarily paused the Higg Index Transparency Program to review and evolve due to criticism. We welcome further development of the Higg Index to improve the tools and accelerate industry progress.

— The Conscious programme rewarded customers for purchasing products with at least 50% more sustainably sourced materials, such as certified organic cotton and recycled polyester. Over the last ten years Conscious has played an important role in helping customers make more informed decisions. Evolving clarity in our sustainability communications led us to reconsider using the Conscious title — a decision that was hastened by recent external criticism and reinforced by emerging legislation. We welcome harmonised guidance as we take our next steps to improve the clarity of the information we provide to customers. For the products that previously qualified for using the Conscious title, we will now show additional information about the material composition more clearly. The H&M members points programme continues to empower members to take actions such as using our garment collecting initiative, bringing their own bag when shopping in store or choosing preferred transport options¹ when shopping online. We are working towards providing information about the material choices for all our products.

— H&M Group has been brand-certified against several Textile Exchange standards, using a chain-of-custody system that ensures all points in the supply chain are certified to make sustainability

claims about a product. This certification, independently verified by a third-party organisation, will help to validate the sustainability claims we share with customers about specific materials.

— We are contributing our expertise to the European Commission's Product Environmental Footprint (PEF) to create a framework for measuring the environmental impact of products.

Progress: accelerating sustainable change

— We scaled our traceability programme with TextileGenesis to several pilots using blockchain technology to trace textiles across the supply chain. This year, we rolled out the project for all man-made cellulosic fibres and recycled polyester and trained hundreds of suppliers across several countries. We initiated the process for tracing more than 200 million H&M Group pieces on the TextileGenesis platform, and approximately 44 million pieces have so far been fully traced.² In 2023, our ambition is to continue to accelerate and progress traceability in our full supply chain. This is crucial for us to reach our overall goals and ensure compliance.

— Together with Textile Exchange and Textile Genesis™ we continued testing eTrackit, which tracks a product's volumes of certified materials online via e-tokens. The technology is applicable for many different fibre types with third-party

¹ Including 100% biofuel, electric and zero-emissions vehicles.

² TextileGenesis™ creates article-level traceability from fibre to product using digital tokens (Fibercoins), ensuring there is no "double-counting" of materials. The mechanism enables reliable, real-time data and ensures verification of the origin of materials.

Transparency

verification, and we aim to use it to provide the verified data needed to confidently make product claims.

— All our brands completed the Higg Brand & Retail Module (BRM), and had their data verified. H&M publicly disclosed its scores for the first time and set a goal to increase its score by 2% this year in comparison to 2021. The brand achieved this, increasing its BRM environment score from 77.4% to 85.1% and its social score from 74.3% to 84.3%. See more detailed scores on page 19.

— We updated our transparency strategy, with a focus on further integrating transparent information about our products and materials into our customer communications. Long term, we're moving towards influencing and empowering our customers to make better choices and reduce their negative impact.

— We continued assessing our suppliers' social and environmental performance using the Higg Facility Environmental Module (FEM) and the Higg Facility Social and Labour Module (FSLM). Read more in Supply Chain Management.

— Our H&M Group supplier list disclosed information about 1,183 tier 1 supplier factories, covering 99% of relevant production volume, and 392 tier 2 supplier factories, covering 73% of relevant production volume. & Other Stories began publicly sharing its supplier list. Read more about H&M Group's supplier list data.

Recognition for transparency

— We ranked fourth in the Fashion Revolution's 2022 Transparency Index, with a score of 66% (68% in 2021). The index ranks 250 of the world's biggest fashion brands according to the information they disclose about their social and environmental policies, practices and impacts in their operations and supply chain.

— 50% of stakeholders rate H&M Group as good or very good for transparency, down from 71% last year — showing there is work to do to rebuild trust in our ambitions and actions. Read more in Engaging with Our Stakeholders.

— In 2021, we achieved Leadership Level in the SAC's membership by verifying and publicly disclosing environmental and social responsibility data for our operations and the majority of tier 1 and 2 suppliers.

Learnings

— For many years, our goal has been to drive transparency in the industry by using the latest available tools and technologies to track our progress and communicate openly with our customers. Trying new things involves greater risk, but is also essential to finding opportunities for improvement.

— Our industry still has a long way to go to meet expectations for information and data about products and their impacts. Industry alignment and collaboration are key to making progress, and we will continue to learn and contribute. We welcome harmonised methodologies for product claims in the EU, such as PEF.

— We are continuously working to improve our material integrity routines. In preparation for forthcoming regulations and legislation around sustainability claims we need to continue investing in competence development and improving internal data flows to ensure our product claims are as transparent and accurate as possible.

— Robust, automated data systems are required to replace our current approach, where technical and human errors are possible. Securing a seamless flow of data through our systems remains a major challenge and a priority.

— It's challenging to find on-product transparency solutions that are scalable for supply chains

across the whole industry. Starting small and scaling up gradually may be a better way forward.

Future focus

— We will continue to work towards tracing all fibre types by scaling existing initiatives and exploring new ones, and we already have pilots and scale-up plans in place for most material types. We are also working to connect fibre and material traceability with product traceability, to achieve a fully traceable value chain from raw material to customer.

— We welcome clearer guidance and harmonised legislation around making sustainability claims, harmonised across different markets. We will continue to engage and share our experience with stakeholders and policymakers on this issue.

— We will continue working with our suppliers and peers to encourage greater data disclosure and increase the comparability of data related to different materials, processes and projects.

— The transparency landscape is evolving quickly, alongside the expectations of what it means to be a leader in this area. We anticipate escalating scrutiny of our commitments and reporting in the coming years, alongside new legislation coming into place that all companies will need to adhere to. We remain firmly committed to learning, adapting and improving.

Engaging with our stakeholders for positive change

Collaboration between diverse stakeholders throughout the entire industry is crucial for accelerating and extending positive impact. By joining forces behind shared goals, we can build on our diverse strengths. Dialogue drives accountability and transparency. It also aids innovation and industrywide progress, as we learn from each other.

Our stakeholders represent or are themselves rights holders, and the actions we take as a business have the potential to impact their human rights positively or negatively. We regularly engage with our stakeholders to determine our most material issues and to update our salient human rights issues. Read more about our [materiality assessment process](#).

Our stakeholders

Our stakeholders include:

- **Customers.** Our customers are the core of our business, and we continuously strive to understand, meet and exceed their needs and expectations.
- **Colleagues.** Our colleagues around the world are our most important asset. They bring a wealth of diverse knowledge, experience and perspectives that enable creativity and innovation.

- **Supply chain workers and their representatives.** Our suppliers' workers are integral to the operation of our business. Anonymous supplier surveys and representative groups such as trade unions enable us to engage with this important stakeholder group.

- **Communities** — including the local communities where our stores, offices, suppliers and their representatives across our value chain are located, our customers and colleagues, and wider groups at risk of rights infringement. We strive to contribute to positive social and environmental impacts for each of these groups — either directly through our operations and by working with our suppliers, or through community investment activities.

- **Business partners** — including manufacturers, suppliers of commercial and non-commercial goods, service providers and franchise partners. Together we raise industry standards by sharing expectations and partnering to address environmental and social challenges.

- **Experts.** We collaborate with experts to develop ideas, tackle systemic challenges and create positive impacts beyond our business. These include peers, academics and researchers,

innovators, non-governmental organisations and multi-stakeholder initiatives.

- **Innovators.** Critical to tackling complex, systemic issues, we nurture and champion innovators who help solve industrywide challenges.

- **Challengers.** We welcome scrutiny from NGOs and others who bring useful criticism and drive accountability for our actions — pushing us and the industry to improve further.

- **Investors and analysts.** Being a publicly listed company means that we are accountable to our investors and our sustainability performance is tracked and assessed by analysts. We maintain a steady dialogue and integrate their feedback into our strategy and reporting.

- **Policymakers.** We engage with policymakers and international institutions to influence legislation in support of systemic and meaningful change. Read more about our [public affairs work](#).

We continually engage with all our stakeholders through various channels — including financial and sustainability reporting, our website, webinars and calls, focus groups, consultations and surveys, partnership meetings, interviews, training programmes, and our stakeholder newsletter. We also run an annual stakeholder survey via an online platform, inviting anonymous views on our sustainability performance and reporting.

Read more about our [external collaborations and how we engage with our stakeholders](#).

Stakeholder feedback

In 2022, 97 stakeholders (of around 800 invited), participated in our stakeholder perception survey (96 in both 2021 and 2020). This year:

- 72% of respondents agree or strongly agree that H&M Group is taking the lead among fashion retailers for social and environmental sustainability (73% in 2021; 76% in 2020).

- 90% say they have a good or very good experience in interacting with us (89% in 2021; 92% in 2020).

- 85% say H&M Group is a company they can trust (77% in 2021; 75% in 2020).

- We heard a strong wish from many of our stakeholders for increased interaction in person.

- We received feedback to provide further details on milestones and short-term actions to long-term goals, which is something we are very appreciative of and continue to work on.

On the occasion of 20 years of sustainability reporting, we took the opportunity to interview representatives of some of our most important stakeholders — read these on pages 12, 25, 39 and 62. We welcome our stakeholders' input on how we're doing and what we can do better.

Engaging with our stakeholders for positive change

Dialogue with policymakers

Our public affairs work focuses on enabling effective legislation that supports positive change in our industry. Increasing legal requirements and heightened scrutiny of the fashion industry help to level the playing field, alongside presenting opportunities for us and the wider sector to accelerate progress towards our sustainability goals.

Our approach is progressing from agenda setting and policy shaping to informing and reacting to emerging proposals. Helping policymakers to understand practical implications of new legislation is key to this process.

We're expanding our public affairs resources to help drive systemic change, led by a central public affairs team and supported by teams in our production and retail markets.

Priority policy areas

Our priority focus areas are those most relevant to our sustainability work that hold the most potential for positive impact:

— **Chemicals**, to further improve our progressive chemicals management and pro-actively drive for increased transparency about the content of chemicals.

— **Climate change**¹ — especially around Scope 3 greenhouse gas emissions, as these require a systemic change in the energy frameworks of our production countries — and **Circularity models**, in support of the transition to a circular economy. This is notably through advocacy for legislation supportive of Power Purchase Agreements and improved electricity grid connectivity in our markets of production, and through EU policies and legislations,² such as the [Energy Efficiency Directive \(EED\)](#), [Renewable Energy Directive \(RED\)](#), [EU strategy for sustainable and circular textiles](#), [Ecodesign for Sustainable Products Regulation \(ESPR\)](#), [Waste Shipment Regulation \(WSR\)](#), [Extended Producer Responsibility \(EPR\)](#), and [Waste Framework Directive \(WFD\)](#).

— **Data protection**, focusing on increasing legislation around cybersecurity and responsible use of data.

— **Governance, reporting and responsible business practices**. This includes but is not limited to supporting development of the [EU Taxonomy](#), [Corporate Sustainability Due Diligence Directive \(CSDDD\)](#), and [Corporate Sustainability Reporting Directive \(CSRD\)](#).

— **Impacts on nature**, including active involvement in the work leading up to the adoption of a new global agreement on nature at COP 15 and ongoing work through Business

1) We are committed to aligning all our climate change policy work with a 1.5 degree scenario.
2) Proposed and current.

for Nature, calling for mandatory disclosure of impacts and dependencies on nature by 2030.

— **Transparency and traceability**, to ensure the credibility of sustainability claims.

We participate in international discussions on our sustainability work, including [COP27](#), the [International Labour Organization](#), the [Organisation for Economic Co-operation and Development](#), the [UN Framework Convention on Climate Change \(UNFCCC\)](#), the [UN Global Compact \(UNGC\)](#) Decent Work in Global Supply Chains Action Platform, the [UNGC CFOs Coalition for the SDGs](#) and the [World Economic Forum \(WEF\)](#).

We are members of multi-stakeholder platforms, including [ACT \(Action, Collaboration, Transformation\)](#), [AFIRM](#), [Business for Nature](#), [CEIA \(Clean Energy Investment Accelerator\)](#), [ChemSec Business Group](#), [EuroCommerce](#), [Global Fashion Agenda](#), [ICC](#), [Industry Summit](#), the [Pathways Coalition](#), the [Policy Hub — Circularity for Apparel and Footwear](#), the [Sustainable Apparel Coalition](#), [Textile Exchange](#), the [UNFCCC Fashion Industry Charter for Climate Action](#), and [ZDHC \(Zero Discharge of Hazardous Chemicals\)](#).

Key 2022 activities

— We engaged with global policymakers to advocate for effective climate and circularity-related legislation. This included meetings between our CEO and the Minister of

Environment and Forestry from Indonesia as well as EU Commissioner for the Environment Virginijus Sinkevičius at [Stockholm+50](#). Our CEO and CFO contributed to high-level meetings with EU authorities on implementing the EU Textile Strategy. Our CEO also spoke at the WEF on our transition towards renewable energy and a [circular business model](#).

— We worked with governments in our production markets to support the development of social protection systems, including increased unemployment benefits for workers in Indonesia, improved pension systems in Cambodia, and the launch of a workplace injury insurance scheme trial in Bangladesh.

Future focus

— We are preparing to comply with new sustainability and reporting legislation while using dialogue as an opportunity to drive systemic progress. Continued integration of sustainability into finance and technology will further enable innovation and accelerate progress.

— We welcome policy developments enabling sustainable progress, such as accelerating the planning and construction of a new green power system in mainland China, increasing opportunities for renewable electricity in Indonesia thanks to collaboration with the national electricity company PLN, and the [I-REC](#) launch in Cambodia. But more is needed. We will continue to advocate to drive progress.

Performance highlights

| | |
|---|----|
| 2022 Highlights..... | 18 |
| External assessments..... | 19 |
| Circularity, Climate & Nature KPIs..... | 20 |
| Fair & Equal KPIs..... | 21 |



2022 Highlights

7%

absolute reduction in scope 3 GHG emissions^{1,2} and **8% absolute reduction** in scope 1 & 2 GHG emissions,³ compared with 2019 baseline — contributing to our target to reduce absolute scope 1, 2 and 3 emissions by 56% by 2030.

84%

recycled or other more sustainably sourced materials in our commercial goods.

Reached more than

414,000

supply chain workers with activities and training on **gender-based violence and sexual harassment** (GBVH).

23%

recycled materials in our commercial goods, up from 18% in 2021 and taking us closer to our goal of 30% by 2025.

Launched a new

Water Strategy 2030

and **reduced relative water consumption** per product by **38%** compared to a 2017 baseline.⁴

Our 2020 Sustainability Performance Report was **second runner-up for the Best Report** and **winner for Relevance & Materiality** in the Corporate Responsibility Reporting Awards.

Established the

Green Fashion Initiative

to support suppliers in replacing fossil fuels. As of January 2023, we have 17 approved projects with a potential annual reduction of 50,000 tonnes CO₂e in H&M Group's supply chain, and an additional reduction of approximately 140,000 tonnes beyond our own value chain.

42%

of our tier 1 supplier factories have trade union representation (37% in 2021) and **34%** have collective bargaining agreements in place (27% in 2021), despite the challenges faced by unions.

H&M integrated an assortment from **Sellpy** into its website in Sweden and Germany, to help normalise **second-hand shopping**.

44%

absolute reduction of plastic packaging compared to 2018 baseline, achieving our plastic reduction target ahead of time.

Contributed

SEK 114.2 million

to community investment initiatives, reaching **745,517 beneficiaries**.

We have signed **power purchase agreements** in the UK, Sweden, and Spain to cover electricity consumption in our own operations in a majority of European markets.

1) Excluding use-phase emissions. 2) Compared to last year this is a decrease of 248 kilotonnes driven by decreased stock-in-trade as well as increased energy efficiency, share of renewable energy, and share of recycled material. 3) Compared to last year this is an increase of 9,270 tonnes CO₂e, which is primarily due to us not procuring renewable energy certificates in Russia as we wind down our business in the country, and to some degree sourcing challenges in a few other markets. 4) Driven by a 21% water recycling rate and 21% improvement in relative water efficiency.

External assessments

Benchmarks

— **The Business of Fashion Sustainability Index.** H&M Group ranked fourth in Business of Fashion’s 2022 benchmark, with five points more than last year. We ranked first for waste, joint second for materials, and joint third for workers’ rights.

— **CDP.** H&M Group achieved CDP scores of A- in the Climate module and B- in the Water module. Our CDP Forest score increased to B- for Cattle products, B for Timber, and C for Palm Oil.

— **Dow Jones Sustainability Index.** H&M Group was included in the Dow Jones Sustainability World Index for the 11th year running. In 2022, we reached a score of 61/100 (68/100 in 2021), with highest possible or best in class scores in several areas including approach to anti-competitive practices, supplier risk management measures, materiality disclosure, climate-related management strategies, environmental reporting, social reporting, and human rights assessment. We were also listed in the Dow Jones European Index and included in the S&P Global Sustainability Yearbook.

— **Fashion Transparency Index.** H&M Group ranked fourth out of 250 fashion brands and retailers reviewed by Fashion Revolution’s 2022 Fashion Transparency Index, with a score of

66% (68% in 2021). While we are pleased with our position, it shows we still have more work to do in this area. Our focus will be on further strengthening data and disclosure especially around the “know, show & fix” section, which requires further details about risk identification, action planning, grievances and remediation.

— **FTSE4Good.** H&M Group was a constituent of the FTSE4Good Index Series, which helps investors identify companies demonstrating strong environmental, social and governance standards.

— **Higg Brand & Retail Module (BRM).** H&M publicly disclosed its scores for the first time and had them verified. This year, H&M’s BRM environment score increased from 77.4% to 85.1% and its social score increased from 74.3% to 84.3%. See detailed scores right.

— **Platform Living Wage Financials.** Our work on wages in our supply chain was rated as “advanced” in the Platform Living Wage Financials 2022 Annual Report. We were one of only two members of the garment and footwear sector included in this category, and our work on data collection and impact on the ground were highlighted as best practice. We aim to further improve by disclosing more about our remedy and grievance mechanisms.

— **Stand Earth Fashion Scorecard.** H&M Group ranked first in the Stand.earth Fossil Free Fashion Scorecard 2023, an analysis of 43 fashion brands, with a B- score overall and an A+ for our public affairs work.

— **Textile Exchange Corporate Fiber & Materials Benchmark.** H&M Group was recognised as one of 47 leading companies out of 292 analysed in the 2021 Material Change Leaderboard. We were one of 16 companies identified as leading on circularity and one of 17 companies identified as leading on progress towards achievement of the Sustainable Development Goals.

— **Zero Discharge of Hazardous Chemicals (ZDHC) Brands to Zero assessment.** H&M Group was one of eight brands awarded Aspirational Level for our leadership in implementation of chemical management in our supply chain.

Awards

— **Corporate Responsibility Reporting Awards.** Our 2020 Sustainability Performance Report was second runner-up for the Best Report and winner for Relevance & Materiality this year. The report was also first runner-up for the Best Carbon Disclosure Report, second runner-up for Creativity in Communications, and fourth runner-up for Openness & Honesty.



2022 H&M Higg Brand & Retail Module scores

| CATEGORY | ENVIRONMENT | SOCIAL |
|------------------------|-------------|--------|
| Management systems | 100% | 95.7% |
| Brand | 81.9% | 78.6% |
| Stores | 80.0% | 92.3% |
| Operations & Logistics | 78.6% | 70.8% |

Circularity, Climate & Nature KPIs

Details of specific goals and additional data, including the reasons for changes in performance this year, are included within relevant sections of the [Circularity, Climate & Nature chapter](#).

| Circularity, Climate & Nature KPIs ¹ | 2019 | 2020 | 2021 | 2022 | GOAL |
|--|----------------|----------------|----------------|----------------|-----------------|
| Climate: % absolute reduction (scope 1 and 2) in GHG emissions compared with 2019 baseline ^{2,3} | - | +15% | -22% | -8% | -56% by 2030 |
| Climate: % absolute reduction (scope 3, excluding use phase) in GHG emissions compared with 2019 baseline ³ | - | -8% | -3% | -7% | -56% by 2030 |
| Climate: % change in GHG emissions from own operations (scope 1 and 2) compared with previous year ^{3,4} | +8% | +15% | -32% | +18% | Monitor |
| Climate: % change in scope 3 GHG emissions compared with previous year ³ | -3% | -8% | +5% | -4% | Monitor |
| Climate: % change in electricity intensity in our stores (kwh/m ² per opening hour) compared with 2016 baseline ^{3,5} | -10% | -17% | -17% | -23% | -25% by 2030 |
| Climate: % renewable electricity in own operations ³ | 96% | 90% | 95% | 92% | 100% by 2030 |
| Water: % reduction in production water use (water intensive tier 1 and 2 suppliers) from 2017 baseline ^{6,7} | -6% | -4% | -14% | -21% | -25% by 2022 |
| Water: % of water recycled out of total production water consumption | 13% | 18% | 21% | 21% | 15% by 2022 |
| Water: % change in absolute total freshwater use (2022 baseline) ⁸ | See footnote 8 | See footnote 8 | See footnote 8 | See footnote 8 | -30% by 2030 |
| Commercial goods: % of recycled or other more sustainably sourced materials total ³ | 57% | 65% | 80% | 84% | 100% by 2030 |
| Commercial goods: % of other more sustainably sourced materials ³ | 55% | 59% | 62% | 61% | Monitor |
| Commercial goods: % of recycled materials ³ | 2% | 6% | 18% | 23% | 30% by 2025 |
| Packaging: % of recycled or other more sustainably sourced materials ⁹ | - | - | 68% | 85% | 100% by 2030 |
| Packaging: % reduction in plastic packaging from 2018 baseline | - | -24% | -28% | -44% | 25% by 2025 |
| Chemicals: % of supplier factories compliant with ZDHC Manufacturing Restricted Substances List | 80% | 88% | 95% | 97% | 100% |
| Garment collecting initiative: Tonnes of garments collected through garment collecting initiative ¹⁰ | 29,005 | 18,800 | 15,944 | 14,768 | Annual increase |

1) We are not reporting against our % change in packaging this year, since we are in the process of revising the goal and our circular packaging strategy, including a new baseline figure.
 2) Scope 1 and 2 are direct and indirect emissions of greenhouse gases from H&M Group's own operations, e.g. stores, distribution centres and offices.
 3) See [page 88](#) for an assurance statement relating to these data points. The limited assurance process included: energy use, energy efficiency in stores, emissions from our own operations (scope 1 and 2); emissions from transportation, raw materials, garment manufacturing and fabric production (scope 3); and all cotton and synthetics data, including our top three recycled materials (cotton, polyester, polyamide).

4) During 2022 we have identified that the conversion factor in our system for natural gas reported in therms was incorrect. Therefore we have underreported scope 1 emissions with 2072 tCO₂e 2019, 1541 tCO₂e 2020, and 3408 tCO₂e 2021.
 5) In 2021 we upgraded our system for registering store opening hours precisely during the period when many stores' opening hours were impacted by Covid-19-related lockdowns. For this reason, and with staff safety as our top priority, some of the irregularities in 2021 store opening hours were not recorded, which in turn decreased the 2021 energy efficiency KPI for those stores.
 6) 2022 data based on Q1 to Q3. 2021 data restated as -14% for the full year — in last year's report we stated -10.3% based on Q1 to Q3 2021. From next year, we will move to reporting against our new Water Strategy 2030 goals, based on 2022 baseline data.

7) Includes a total of 440 manufacturing, fabric dyeing and printing suppliers in both tier 1 and tier 2 with water-intensive wet production, based on Q1-Q3 2022 performance data, reported by factory and calculated using weighted averages for litre per kg of dyed knitted fabric, litre per metre of woven/denim fabric, and litre per unit of product washed.
 8) New KPI added in 2022, in preparation for reporting from 2023 onwards.
 9) In 2022 we continued to improve data management systems and the traceability process to secure certified packaging. To align with the 2021 improved methodology to capture FSC certifications, data for 2020 is removed.
 10) Our garment collecting initiative was disrupted by the Covid-19 pandemic for part of the year in 2020 and for the full year in 2021. Since March 2022 our garment collecting has been paused in Ukraine, Russia and Belarus.

Fair & Equal KPIs

Details of specific goals and additional data, including the reasons for changes in performance this year, are included within relevant sections of the [Fair & Equal chapter](#).

| Fair & Equal KPIs | 2019 | 2020 | 2021 | 2022 | GOAL |
|---|----------------|----------------|-------------------|--------------------------------|-----------------|
| Supply chain: % tier 1 supplier factories with trade union representation ¹ | See footnote 2 | 32% | 37% | 42% | Monitor |
| Supply chain: % tier 1 supplier factories with collective bargaining agreements ¹ | See footnote 2 | 18% | 27% | 34% | Monitor |
| Supply chain: % tier 1 supplier factories with digital payment solutions (bank account and/or mobile money) | See footnote 2 | 82% | 91% | 87% | Monitor |
| Supply chain: % of workers in our tier 1 production supply chain that are female | See footnote 2 | 63% | 63% | 62% | Monitor |
| Supply chain: % of supervisors in our tier 1 production supply chain that are female | See footnote 2 | 24% | 28% | 27% | Annual increase |
| Supply chain: % of worker representatives in our tier 1 production supply chain that are female | See footnote 2 | 59% | 62% | 63% | Annual increase |
| Supply chain: % of tier 1 production supply chain factories with Health and Safety Committees in place ³ | See footnote 3 | See footnote 3 | See footnote 3 | 98% | Monitor |
| Supply chain: % of suppliers regarding H&M Group as a fair business partner ⁴ | 96% | 96% | 98% | 89% | Monitor |
| Own organisation: Overall People Engagement Pulses (PEP) employee engagement score (out of 100) | 76 | 75 | 76 | 76 | Monitor |
| Own organisation: % of H&M Group employees agreeing with the statement “Diverse perspectives are valued at H&M Group” ⁵ | See footnote 5 | See footnote 5 | 74% | 76% | Annual increase |
| Own organisation: % of H&M Group employees agreeing with the statement “I am treated with respect and dignity” | 82% | 80% | 83% | 84% | Annual increase |
| Own operations: % of female employees | 76% | 74% | 74% | 75% | Monitor |
| Own operations: % of female employees in management positions | 69% | 71% | 71% | 75% | Monitor |
| Own operations: % of female employees on the board of directors ⁶ | 67% | 67% | 55% | 55% | Monitor |
| Own organisation: % of employees in brands that have received our Layers inclusion and diversity training ⁸ | See footnote 7 | See footnote 7 | 15% | 22% | Monitor |
| Own organisation: % of employees in functions that have received our Layers inclusion and diversity training | See footnote 7 | See footnote 7 | 66% | 71% | Monitor |
| Community investment initiatives: total number of beneficiaries | See footnote 7 | See footnote 7 | 368,000 | 745,517 | Monitor |
| Community investment initiatives: total contributions | See footnote 7 | See footnote 7 | SEK 180.4 million | SEK 114.2 million ⁹ | Monitor |

1) Applicable legal standards include: the ILO core conventions: C87 Freedom of Association and Protection of the Right to Organize Convention, 1948; C98 Right to Organize and Collective Bargaining Convention, 1949. Where these standards have not yet been ratified, following Social & Labor Convergence Program verification guidelines, we referred to the national applicable legislation in force.

2) New KPI introduced in 2020.

3) New KPI introduced in 2022.

4) This KPI was due to change this year as we integrate our supplier survey into the ACT purchasing practices assessment. The ACT assessment had switched to a two-yearly cycle, so we did not make this change this year.

5) New since 2021, replacing our previous KPI % of H&M Group employees agreeing with the statement “I feel comfortable being myself at work”, as we updated our employee engagement survey platform.

6) Includes directors elected by AGM as well as employee representatives. Does not include deputies of employee representatives.

7) New KPI introduced in 2021.

8) In 2022, we removed the separate KPI for Layers training in markets, since there is such a high degree of overlap with the data from brands. Includes in-kind giving SEK 50.3 million, cash contributions SEK 52.7 million, management overheads SEK 9.0 million, employee volunteering SEK 2.1 million.

Circularity, Climate & Nature

Our approach to Circularity, Climate & Nature.. 23

Climate & nature

Climate..... 26

Biodiversity & land use..... 32

Water 35

Chemicals 38

Resource use & circular impact

Moving to a circular ecosystem 40

Circular products

— Design & assortment planning41

— Material choice..... 43

— Microfibres..... 48

Circular supply chain

— Resource optimisation & recirculation 49

— Production processes 52

Circular customer journey

— Scaling customer-facing circular

business models..... 53

Circular products, supply chain &

customer journey

— Packaging 56

— Stores, distribution centres & offices 58

Our approach to Circularity, Climate & Nature

The pace of climate change and biodiversity loss are accelerating, putting pressure on already fragile ecosystems and communities. The way in which we — as individuals and organisations — use resources and the speed at which they are consumed contributes to both these issues, as well as affecting communities and livelihoods. The interconnection between people and the planet is clearer than ever, as existing inequities and threats to human rights are exacerbated by resource depletion and environmental change.

As a global fashion company, we must step up to take responsibility for our part in creating and tackling these issues. We see an urgent imperative and a huge opportunity to continue changing how we operate and to partner with others in our industry to accelerate systemic progress.

We're working to make significant reductions in greenhouse gas (GHG) emissions this decade across our value chain, reduce our absolute water consumption, ensure wastewater quality, and contribute to the [global targets](#) to have a positive impact on nature. Supporting a circular economy and moving to a [circular ecosystem](#) — where resources are kept in use for as long as possible — are key levers to achieving these aims and to decoupling our business growth from

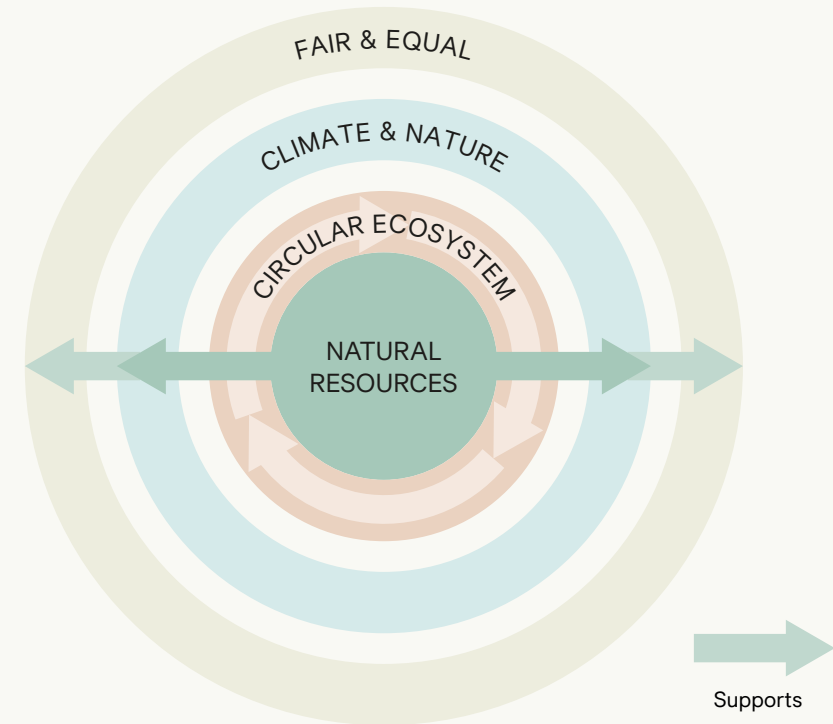
resource use. We focus on developing [circular products](#), using recycled and [more sustainably sourced materials](#), enabling [circular supply chains](#), and scaling reuse, remake and recycling of our products.

Making these changes will have implications for the people across H&M Group's value chain. We're exploring what a [circular, net-zero fashion future will mean for people and jobs](#), so we can enable a just transition by supporting a workforce that is prepared for the evolution of the industry and stands to benefit from it.

Making and tracking large-scale, systemic progress requires:

— **Fit-for-purpose data, data systems, measurement and calculations.** The entire fashion industry needs to work towards consistent, comparable data and accounting methodologies — to aid transparency, avoid the risk of false claims, and track impact effectively. We're investing in improving our own data and working with our suppliers and peers to promote wider uptake of common approaches and consistent reporting.

Operating within the planetary boundaries, driving holistic impact



Our resource use, production, consumption and use of products have a direct impact on people and planet.

Read more in the International Resource Panel report [Making Climate Targets Achievable](#).

The fashion industry needs to transition from a linear use of resources to a system that

recirculates resources and reduces negative social and environmental impacts.

We are in the process of investigating where and how circularity and a net-zero industry will have an impact on people and communities, and how we can work to drive holistic positive impact during the transition.

Our approach to Circularity, Climate & Nature

— **Collaboration and innovation.** Tackling these complex and interconnected issues requires dialogue and a shared commitment to progress. We collaborate with peers and experts, for example through our work with the Ellen MacArthur Foundation (EMF), Fashion Pact, Global Fashion Agenda, Policy Hub, WWF, and the United Nations Framework Convention on Climate Change (UNFCCC). We're also deepening our work with policymakers to help shape a legislative environment that will support a net-zero, circular industry that contributes to reversing the loss of nature.

See our 2022 Circularity, Climate & Nature KPIs.

H&M Foundation

H&M Foundation's planet strategy addresses challenges within the entire earth system and across every step of the fashion industry's value chain. The aim is to speed up meaningful solutions that can regenerate, replenish and create conditions for more life, which can help protect living conditions for people globally.

The Planet First program partnership between H&M Foundation and Hong Kong Research Institute of Textiles and Apparel (HKRITA) aims to find technologies and solutions that consider all aspects of earth's natural support systems. For example, the Carbon Looper project has led to a method of treating cotton textiles that makes the surface of the fabric capture carbon dioxide from the surrounding air. Garments capturing CO₂ are now worn by staff at Fotografiska, Stockholm.



CLIMATE & NATURE

Climate targets ‘send a vital signal’

An interview with Rachel Kitchin, Corporate Climate Campaigner at Stand.earth about how we’re doing and what we can do better

What is your overall impression of H&M Group’s climate strategy and how we are driving the climate agenda to reduce emissions?

H&M Group has clearly set an agenda to be a leader among the biggest fashion brands to decarbonise its supply chains and shift towards renewable energy. Its impact on the industry’s climate agenda is evident in the targets being set by umbrella groups like the UN Fashion Charter for Climate Action. As one of the most influential fashion brands on the planet, H&M Group has a unique opportunity and important responsibility to evolve beyond fossil fuels and spread new business models that prioritise durable and sustainably made apparel, and promote repair, resale and, as a last resort, recycling, to build a new circular economy.

What do you see as highlights of H&M Group’s climate strategy?

The highlight of H&M Group’s climate strategy is the commitment it has shown by setting two significant and meaningful targets towards decarbonising its supply chain. H&M Group was one of the first major global brands to target 100% renewable electricity in its supply chain

by 2030, and to set a clear timeline to phase out coal-fired boilers among all suppliers. Phasing out fossil fuel energy is key to driving the decarbonisation of the garment industry, and H&M Group’s near-term target should send a vital signal to others in the industry that they have the responsibility and the ability to drive a clean energy transition.

What should be the next steps to leverage the climate strategy?

H&M Group has set adequate climate targets, which is important, but it now needs to be clear and transparent about the actions it is taking to meet those targets, its successes, and its failures. That means full transparency in its supply chain to tier 4, to encourage accountability on raw material sourcing and transparent data on key environmental targets, including thermal coal phase-out to ensure accountability to energy targets.

As a large customer of shipping cargo, H&M Group should also begin to address its transportation emissions now, by committing to cleaner fuels where available, while signalling its commitment to a zero-emissions transportation future by joining First Movers, for example.

Beyond decarbonising, H&M Group can help kick-start the transition away from extractive models by growing its raw materials commitment from “more sustainable” to “organic or regenerative”. In that new model, longer-term and net-positive farming methods support biodiversity and help communities prosper, while phasing out fabrics made from fossil fuels.



Climate

The climate crisis is affecting communities, natural systems and organisations globally, exacerbating existing human rights issues and inequities. The people and ecosystems least equipped to cope are being hit the hardest by environmental changes.

We have a responsibility as a large company to rapidly reduce our own climate impact as far as possible. However, focusing only on our value chain is not going to be enough. Recognising this, we must also invest in and make contributions to

much needed climate action beyond our value chain to enable both H&M Group and the global economy to achieve net-zero in the coming decades.

Our climate work is closely linked to our efforts to reduce impacts on water resources, biodiversity and land use, as well as our efforts to support human rights such as health, livelihoods, land rights and access to water.

Our climate strategy

Our long-term ambition is to reach net-zero as defined by the Science Based Targets initiative's (SBTi) net-zero standard. This standard focuses on reducing GHG emissions before balancing out any minor remaining emissions that cannot be avoided, using permanent¹ carbon dioxide removals.

We disclose against the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations which highlight the risks climate change poses to our company and suppliers, giving us the opportunity to allocate funds and plan strategically to address these challenges.

Central to reducing our GHG emissions are our efforts to decouple resource use from business

1) Permanent carbon dioxide removals for use under the net-zero standard are currently being defined by the SBTi, but will likely mean those that have a durability of >1000 years.

growth. We're working to reduce our dependency on new resources while finding ways to generate growth through customer offerings such as rental, reuse and recycling, and using recycled and other more sustainably sourced materials — to support a circular, net-zero fashion industry.

To help scale and accelerate climate action within our industry and beyond, we advocate for ambitious renewable energy policies in the countries where we operate. In addition, to enable impactful collaboration, we engage with stakeholders within and outside our industry.

Action within our value chain

Our groupwide climate goals are to **reduce our absolute scope 1 and 2 GHG emissions by 56% and our absolute scope 3 GHG emissions by 56%² by 2030, against a 2019 baseline**. Our longer-term goal is to **reach net-zero by 2040**.³ Our emissions reduction goals were verified in 2022 by the SBTi.

We have several supporting targets focused on different aspects of our value chain:

- By 2030, achieve a 25% reduction in electricity intensity in our stores, from a 2016 baseline.
- By 2030, source 100% renewable electricity in our own operations.

2) Excluding indirect GHG emissions from use of sold products. During the year we have been engaging with the SBTi to identify a credible mitigation approach that would enable setting a high integrity target for use-phase emissions. We will continue to engage with the SBTi but also aim to engage other stakeholders to build wider consensus on the topic of setting reduction targets for indirect use-phase emissions.
3) Target boundary includes 100% of scope 1 and 2 emissions, and 100% of minimum boundary scope 3 emissions (which excludes indirect emissions from use of sold products).

— By 2030, the electricity sourced in our supply chain will be 100% renewable.

— By 2025, source 30% recycled materials.

To reach these targets, we focus on:

— **Energy efficiency:** Minimising our energy use across our whole value chain — including our own operations and logistics activities and throughout our supply chain.

— **Renewable energy:** Working to source 100% renewable electricity in our own operations and engaging with partners and suppliers to push for their increased use of renewable electricity, heat and steam. We're an RE100 member company. We stopped onboarding new suppliers with coal boilers in January 2022.

— **Circularity:** Investing in and scaling more circular systems across our business — including our products, supply chains and customer journeys.

Internal carbon pricing supports our teams to reduce GHG emissions from materials, production processes and modes of transport.

Action beyond our value chain

We want to enable an ambitious climate agenda both within our industry and globally, by advocating and engaging in policy that limits the temperature rise to 1.5°C. Hence, we engage with policymakers to develop and support legislation that enables accelerated decarbonisation of our value chain — for example, through our



Climate

Our climate action framework

| | IMPACT AREA | ACTIONS |
|---|-------------------------------------|---|
| ADDITIONAL ACTIONS FOR WIDER AND ACCELERATED CHANGE | Value chain and beyond ¹ | <p>4. ADVOCATE</p> <p>Advocate, engage and collaborate. Enable and inspire.</p> |
| | Value chain and beyond ¹ | <p>3. REMOVE AND PROTECT</p> <p>Remove and permanently store atmospheric CO₂. Protect existing carbon sinks to avoid emissions and biodiversity loss that arise from their degradation.</p> |
| GOALS AND PERFORMANCE | Value chain | <p>2. REDUCE</p> <p>Goals and performance are aligned with 1.5°C climate science.</p> |
| FOUNDATION | Value chain | <p>1. MEASURE AND DISCLOSE</p> <p>Secure and collect data. Measure, improve, assess and disclose.</p> |

1) For example, by engaging in public affairs and collaboration, and making financial commitments to reduce climate impacts beyond our value chain emissions. The Science Based Targets initiative (SBTI) will provide more clarity around beyond value chain mitigation in guidance expected to be published in 2023.

Financing GHG emissions reductions

Together with our suppliers, we are making significant efforts to phase out coal and other fossil fuels in our supply chain. The total 2022 spend on decarbonisation — including, for example, energy efficiency investments in our stores, supporting our suppliers to phase out coal, and increasing the share of more sustainably sourced materials — was approximately SEK 2.6 billion. These investments include:

- Our Green Fashion Initiative, which makes funding available to supplying factories to invest in the technologies and processes needed to reduce energy demand and replace fossil fuels.
- The Fashion Climate Fund by Apparel Impact Institute. H&M Group is a lead contributor to this fund designed to drive collective action to tackle fashion’s supply chain GHG emissions.
- Our Sustainable Supplier Facility — in partnership with Guidehouse, H&M Group is developing a facility to enable brands to co-invest in supplier decarbonisation.

We measure return on these investments in GHG emissions reductions, not financial gain.

In 2021, we issued a EUR 500 million sustainability-linked bond with the aim of financing, among other things, an accelerated transition to recycled materials and reduction of GHG emissions (scope 1, 2 and 3) in our supply chain — for example through the Green Fashion Initiative (see [page 28](#)). The bond was 7.6 times oversubscribed and the interest rate is tied to how well we succeed at achieving the targets for recycled materials and GHG emissions reduction.

Climate

membership of the steering committee of the [Fashion Industry Charter for Climate Action](#) under the [UNFCCC](#), which we use to encourage trade associations and industry groups to support policies aligned with the Paris Agreement.

The only way we can create rapid change at scale is to work together with others. Climate is a key focus of our partnership with WWF, including through membership of the [WWF Climate Business Network](#). We also work with a range of partners to reduce emissions across supply chains and transportation. We are a lead funder of the [Aii Fashion Climate Fund](#) to decarbonise fashion industry supply chains, and a member of the [LEO coalition](#), which explores the viability of biofuels for shipping. We are part of [The Pathways Coalition](#), [Smart Freight Centre's Clean Cargo](#) and the [BSR's Sustainable Air Freight Alliance](#), [Green Freight Asia](#), and [Network for Transport Measures](#). We require sea transporters to register their environmental performance in the [Clean Shipping Index](#) or [Clean Cargo Smart Freight Centre](#) and we are a signatory to the [Arctic Shipping Corporate Pledge](#).

We take a dual approach of delivering on science-based emission reduction targets while making meaningful contributions outside our value chain, supporting the global goal to limit temperature increase to 1.5°C. This year we entered into long-term partnerships in two areas where increased financing of climate and nature action is urgently needed — see [page 31](#).

Progress: overall

— Our absolute scope 1 and 2 GHG emissions decreased by 8% compared to our 2019 baseline. Compared to last year, this is an increase of 9,270 tonnes CO₂e, which is primarily due to us not procuring renewable energy certificates in Russia as we wind down our business in the country, and to some degree sourcing challenges in a few other markets.

— Our absolute scope 3 GHG emissions (excluding use-phase emissions) decreased by 7% compared to our 2019 baseline. Compared to last year, this is a decrease of 248 kilotonnes driven by decreased stock-in-trade as well as increased energy efficiency, share of renewable energy, and share of recycled material.

— Supplier factories reporting use of on-site coal boilers dropped to 70¹ (91 in 2021) due to factors including our phase-out of on-site coal, changes in our supplier base, local policy, and H&M Group pushing for increased electrification of steam production. We are working closely with supplier partners and local stakeholders in our production countries to accelerate total substitution of coal, as well as financially supporting suppliers to transition to solar PV, solar thermal and thermal energy from agricultural residues. This will make a significant contribution to reaching our absolute GHG emissions reduction goal.

1) Based on Q3 data.

— We established the Green Fashion Initiative to support our suppliers in replacing fossil fuels. As of January 2023, we have 17 approved projects with a potential annual reduction of 50,000 tonnes CO₂e in H&M Group's supply chain, and an additional reduction of approximately 140,000 tonnes beyond our own value chain.

— We provided trainings on setting science-based targets to our suppliers and other textile companies WWF is engaged with across Bangladesh, Cambodia, mainland China, India, Indonesia, Pakistan, Turkey and Vietnam.²

— In our 2022 stakeholder survey, 40% of stakeholders rate our climate work as good or very good. Read more in [Engaging with Our Stakeholders](#).

— Our new logistics roadmap is aligned with the group's GHG reduction targets. We created frameworks for the design and construction of future distribution centres, focusing on our employees' wellbeing as well as reducing pollution and waste, using renewable energy and supporting biodiversity (see [page 33](#)).

Progress: updated data and calculation methods

— This year, we have aligned our climate reporting period with our financial year — December to

2) Including three half-day training sessions, three webinars and two train-the-trainer sessions.

November — to prepare for upcoming legislation and to make it easier to compare the results with our financial performance.

— We are continuously working to improve our data availability and quality to be able to estimate our GHG emission results as accurately as possible. This year we have updated the calculation method for transport to achieve a higher level of granularity, and we have plans to further accelerate this approach for multiple emission categories in the coming year.

— All of these changes have been applied to historical results, both in absolute figures and reductions between years. This can be seen in the results for 2021, where progress since the baseline (2021 vs 2019, total scope 3 GHG emissions including use-phase) is now approximately -6%, compared to the -9% previously reported in the 2021 report. See [pages 29-30](#) for details of our scope 3 emissions including and excluding use-phase.

— As we make further improvements on the data and method, we will continue to update our historical results and our 2019 baseline, but our target to reduce absolute GHG emissions 56% by 2030 will always remain.

Read more about [how we calculate our emissions data](#).

Climate

Our GHG emissions data

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

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

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

Read more about [how we calculate our emissions data](#).

Progress: energy efficiency in our operations & supply chain

— We reached a 23% reduction in electricity intensity in our stores per square metre and opening hour from a 2016 baseline. Approximately 72% of our stores (excluding mainland China and Russia) and 75% of our offices now have an LED retrofit programme completed.¹ We're currently working on a plan to systematically retrofit efficient heating, ventilation and air conditioning systems.

— Our in-house supply chain efficiency experts performed 51 on-site evaluations and planned energy efficiency measures. The assessments revealed energy efficiency improvement potential of nearly a fifth in tier 1 facilities and over a quarter in tier 2. Examples of actions already taken as a result of these assessments include replacement of air compressors, implementing heat recovery from air compressors, and digital monitoring and control of steam boilers.

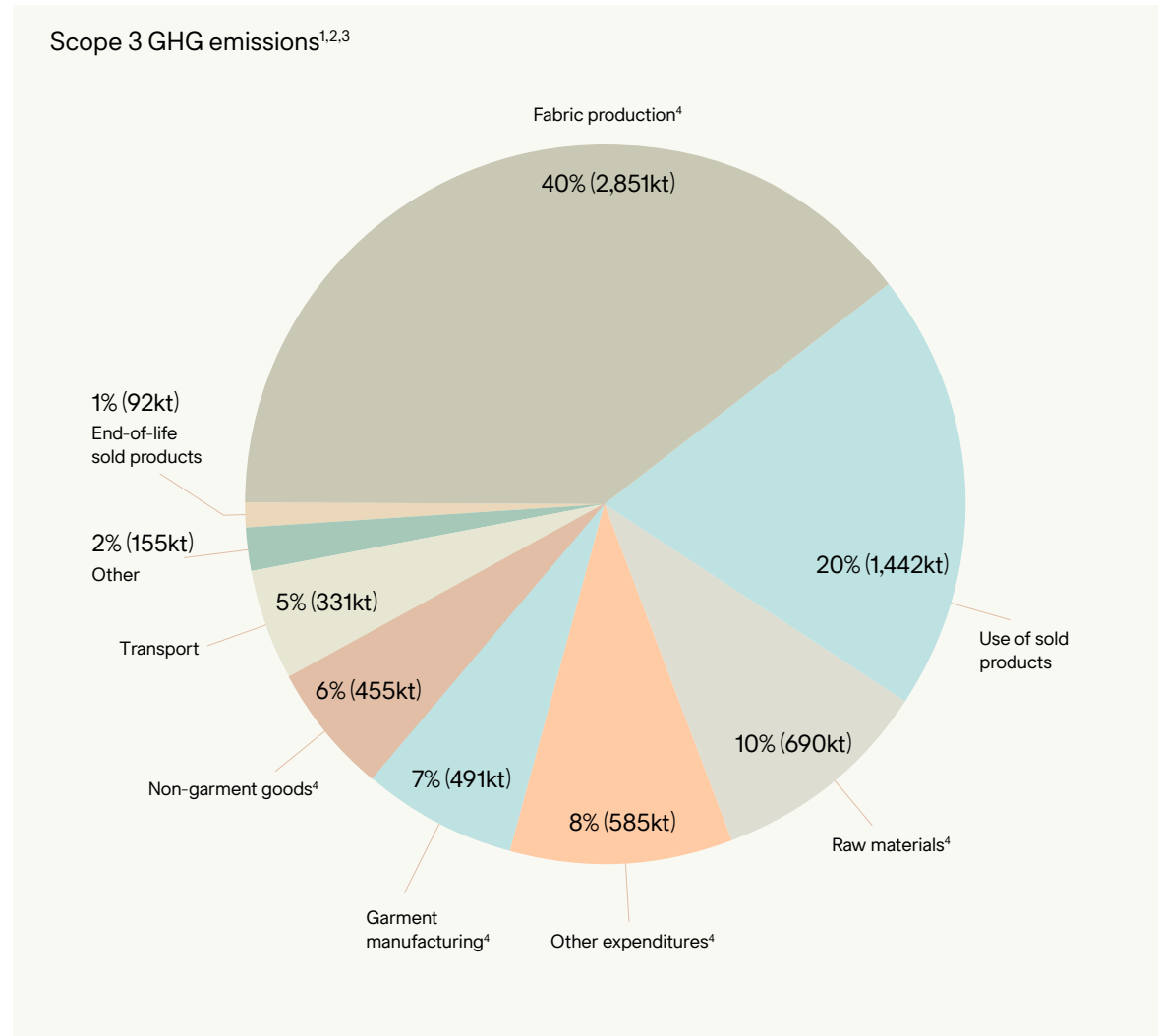
1) In 2021, we upgraded our system for registering store opening hours precisely during the period when many stores' opening hours were impacted by Covid-19-related lockdowns. For this reason, and with staff safety as our top priority, some of the irregularities in 2021 store opening hours were not recorded, which in turn decreased the 2021 energy efficiency KPI for those stores.

| GHG emissions ^{2,3,4,5} | 2019 | | | | 2020 | | | | 2021 | | | | 2022 | | | | % CHANGE FROM 2021 | % CHANGE FROM BASELINE YEAR | GOAL |
|---|--------|--------|--------------------|--------|------|------|------|------|------|------|------|------|------|------|------|------------------|--------------------|------------------------------|------|
| | 2019 | 2020 | 2021 | 2022 | 2019 | 2020 | 2021 | 2022 | 2019 | 2020 | 2021 | 2022 | 2019 | 2020 | 2021 | 2022 | | | |
| Total scope 1 emissions (tonnes CO ₂ e) | 17,062 | 15,128 | 16,092 | 13,899 | | | | | | | | | | | | -14 | -19 | - | |
| Total scope 2 emissions, including renewables (tonnes CO ₂ e) | 48,733 | 60,607 | 35,339 | 46,803 | | | | | | | | | | | | +32 ⁶ | -4 | - | |
| Total scope 1& 2 emissions, including renewables (tonnes CO ₂ e) | 65,796 | 75,735 | 51,431 | 60,701 | | | | | | | | | | | | +18 ⁶ | -8 | -56% by 2030 (2019 baseline) | |
| Scope 3 emissions (kilotonnes CO ₂ e) under our science-based target (excluding use-phase emissions) | 6,102 | 5,605 | 5,899 ⁷ | 5,651 | | | | | | | | | | | | -3 | -7 | -56% by 2030 (2019 baseline) | |
| Total scope 3 emissions (kilotonnes CO ₂ e) including use-phase emissions | 7,973 | 7,109 | 7,525 | 7,093 | | | | | | | | | | | | - | - | - | |

2) In 2022, we updated our emissions calculations, including historic data — see page 28. Read more about our data calculations.
 3) See page 88 for an assurance statement relating to these data points. The limited assurance process included: emissions from our own operations (scope 1 and 2) and emissions from transportation, raw materials, garment manufacturing and fabric production (scope 3).
 4) We have changed the reporting year for energy data and GHG emissions to align with our financial year. Our GHG emissions accounting and reporting are aligned with the GHG Protocol. Scope 2 emissions under the market-based approach are equal to 46,803 tonnes CO₂e. Under the location-based approach (using grid average emission factors), scope 2 emissions were 465,059 tonnes. For further details and data, please see our CDP climate change investor response 2022. GHG emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).
 5) Scope 1 emissions are all direct emissions from our own operations; scope 2 represents indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations; scope 3 includes other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in scope 2, outsourced activities, and waste disposal. Includes emissions related to raw materials, fabric production, garment manufacturing, non-garment/non-commercial goods, and customer electricity usage. Scope 1 and 2 limitations and comments: only stores open for the full quarter are included; company cars and refrigerant leakage are not included; electricity consumption for HVAC operated by landlord not included; electricity consumption includes both actuals and estimations, where estimations are made if actuals are not received within the reporting deadline; for stores estimates are based on current average of opening hours and store area, for other facilities estimates are based on previous consumption; includes market-based emissions from electricity.

Scope 3 limitations and comments: franchise emissions are calculated based on electricity intensity from comparable markets; capital goods, upstream leased assets, downstream leased assets, and processing of sold products are not included; upstream transportation between suppliers, e.g. yarn spinner and fabric producer, are included in emission factors for materials. To align with the Science Based Targets initiative's requirements, the customer use phase is not included in the scope 3 goal. We will set a separate goal for the customer use phase. Scope 1 and 2 emissions factors: electricity — based on IEA data from GHG Emissions from Fuel Combustion © OECD/IEA 2020, www.iea.org/statistics, licence www.iea.org/t&c; as modified by UL E&S; fuels — Department for Business, Energy & Industrial Strategy (BEIS), 2021 https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021. Scope 3 emissions factors: raw material and fabric production — Higg MSI; garment production — electricity based on IEA data from GHG Emissions from Fuel Combustion © OECD/IEA 2020, www.iea.org/statistics, licence www.iea.org/t&c, as modified by UL E&S; fuels — 2018 update https://www.epa.gov/climateleadership/center-corporate-climate-leadership-ghg-emission-factors-hub; other expenditures — Defra, 2014, Indirect emissions from the supply chain; transport by rail, air, shipping, truck — emissions factors provided by Conlogic and NTM 2019.
 6) The increase in scope 1 and 2 emissions compared to last year was largely a result of the reduction in the share of renewable electricity purchased in 2022. This is primarily due to us not purchasing renewable electricity certificates in Russia, and to some degree sourcing challenges in a few other markets.
 7) Since the release of the previous report, we have changed the reporting period, to better match the financial reporting. We are also continuously improving our calculation method and strengthening our emissions data. When these changes are made, we also update historical data. This has led to a smaller decrease between 2019-2021 than previously reported, mainly due to the base years emissions being lower than before, rather than the emissions in 2021 being higher.

Climate



1) See page 88 for an assurance statement relating to these data points. The limited assurance process included emissions from transportation, raw materials, garment manufacturing and fabric production (scope 3). Categories are based on GHG Protocol. Number of products/spend is multiplied by approximate LCA-based conversion factors. Calculations in the footprint analysis are based on a combination of high-quality H&M Group data and the best available public data sources on CO₂e emissions.

2) using conservative assumptions. We have updated our emissions data to enable comparability between years, following improvements in data analysis — read more above. Other emissions include business travel, employee commuting, franchises, fuel- and energy-related activities, and waste generated in operations.
 3) Figures do not add up to 100% due to rounding.
 4) GHG Protocol category 1: purchased products.

| | 2019 | 2020 | 2021 | 2022 | GOAL |
|--|-----------|-----------|-----------|------------------|----------------------------|
| % Renewable electricity in our own operations | 96% | 90% | 95% | 92% ⁶ | 100% by 2030 |
| Energy use within our own operations (gigajoules), of which: ⁷ | 6,456,290 | 5,170,934 | 4,992,908 | 4,980,547 | — |
| District heating (GJ) | 187,230 | 258,458 | 110,290 | 91,008 | — |
| Electricity (GJ) ⁸ | 5,976,174 | 4,640,590 | 4,573,647 | 4,616,563 | — |
| Building diesel, natural gas, oil and others (GJ) | 292,885 | 271,886 | 308,971 | 272,975 | — |
| Electricity use reduction per square metre and opening hour (2016 baseline, in comparable stores) ⁹ | -10% | -17% | -17% | -23% | -25% by 2030 ¹⁰ |

5) See page 88 for an assurance statement relating to these data points. The limited assurance process included energy use and energy efficiency in stores.
 6) The increase in scope 1 and 2 emissions compared to last year was largely a result of the reduction in the share of renewable electricity purchased in 2022. This is primarily due to us not purchasing renewable electricity certificates in Russia, and to some degree sourcing challenges in a few other markets.
 7) In 2022, we continued work to improve the accuracy of our emissions data. We will continue to be transparent about how we calculate our emissions, learning and adapting our approach as methods improve. Read more about our [emissions calculations](#).
 8) Energy related to electricity-based cooling consumption is included.
 9) In 2021 we upgraded our system for registering store opening hours precisely during the period when many stores' opening hours were impacted by Covid-19-related lockdowns. For this reason, and with staff safety as our top priority, some of the irregularities in 2021 store opening hours were not recorded, which in turn decreased the 2021 energy efficiency KPI for those stores.
 10) There was an error in our 2019 and 2020 Sustainability Reports, where the end year for this goal was incorrectly stated as 2025.

[Find more detailed information and data on our website.](#)

Climate

Progress: renewable energy in our operations & supply chain

— 92% of electricity purchased for our operations was renewable (95% in 2021). The change from last year was largely a result of the reduction in the share of renewable electricity purchased in 2022. This is primarily due to us not purchasing renewable electricity certificates in Russia, and to some degree sourcing challenges in a few other markets.

— This year, H&M Group signed Sweden's largest solar power purchase agreement (PPA). The construction of the Swedish solar park will commence in 2023, and it will supply H&M Group with long-term renewable electricity at a fixed price. This adds to the previous agreements in the UK and Spain. Altogether we have now secured a capacity of 200MW of renewable electricity, which will result in an indicative annual output of 300GWh. By entering into purchase agreements like these, we are helping to increase the amount of renewable electricity available.

Progress: transport & logistics

— Our transport GHG emissions reduced from 360 to 331 kilotonnes CO₂e, including a 51% reduction in air freight emissions.¹

— We are working on a preferred fuel strategy for transports and holding discussions and trials with innovative fuel technology companies and vehicle manufacturers.

— We remain part of the LEO coalition, which explores the viability of different innovative fuels to reduce GHG emissions.

— We use electric vehicles for the last mile of delivery in several regions. We used preferred transport options — including 100% biofuel, electric and zero emissions vehicles — for 9% of the distance travelled by truck during Q2 and Q3 2022. From the end of 2022, all online customer orders in the Netherlands will be delivered using 100% preferred transport options.

Progress: action on climate & nature beyond our value chain²

— We joined the LEAF (Lowering Emissions by Accelerating Forest Finance) Coalition. The purpose of this public-private initiative is to mobilise large-scale financing to countries committed to making ambitious reductions in tropical deforestation. Urgently ending tropical deforestation is a crucial part of meeting the global climate goal, while also supporting sustainable development and protecting biodiversity. To date, LEAF Coalition has mobilised

more than \$1.5 billion in results-based payment commitments.

— We entered into our first contract for permanent carbon dioxide removal (CDR),³ via a multi-year agreement with Climeworks using direct air capture and storage. Scaling up the emerging carbon dioxide removal market is essential to enable both H&M Group and the global economy to achieve net-zero in the coming decades, and we are seeking additional collaborations in this area.

Learnings

— Calculating accurate GHG emissions data is complex. We're continually working on improving data quality and calculation methods.

— From working on our green investments we've learned that in addition to security of business and financial support, supplier factories benefit from increased knowledge about decarbonisation and inspiration to implement GHG emissions reduction strategies. Supporting suppliers' switch from gas and coal to electrical power will be key to lowering emissions long term, partly due to the lack of renewable substitutes for traditional fossil fuels in many regions.

Future focus

— We'll continue to prioritise finding suppliers who align with our goals and steering existing suppliers towards lower GHG emissions, supported by investments and insights from our green investments.

— Our ongoing work to scale circular business models and increase operational efficiency will support progress towards our climate goals.

— We are working on targets for supply chain energy efficiency. Improving our supply chain data quality and calculation methodology will be key to enabling further emissions reduction actions.

— We will continue working to influence policymakers, to enable impactful action on climate change such as scaling renewable energy through PPAs. This will also have effects beyond our own value chain.

1) We have changed systems for calculating emissions for international freight to improve granularity and internal control. We have therefore recalculated historic emissions for international freight.

2) Before defining an overall ambition on beyond value chain mitigation, we will await the SBTi's guidance, expected to be published in 2023.

3) Permanent carbon dioxide removals for use under the net-zero standard are currently being defined by the SBTi, but will likely mean those that have a durability of >1000 years.

Biodiversity & land use

Thriving ecosystems are essential for the long-term health of our planet. The pace of biodiversity loss threatens the security of our industry, which relies on fertile soil, robust forests, quality air and water, resilience against fires and flooding and healthy pollinators to produce natural materials.

We are continuing to analyse our impact on biodiversity and nature guided by the [Science Based Targets Network \(SBTN\)](#) methodology, with the aim to set science-based targets and disclose our impacts in line with the [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#) framework.

Our ambition is to have a net positive impact on biodiversity, in line with the Avoid, Reduce, Restore, Regenerate, Transform (ARRRT) framework and in support of the global [targets](#) agreed at COP15. To achieve this we:

— **Shift our material sourcing.** Our aims are for 100% of our materials to be recycled or sourced in a [more sustainable](#) way by 2030. We are also committed to only source Responsible Wool Standard-certified (RWS) wool, and FSC certified wood, paper and man-made cellulosic fibres (MMCF) by the end of 2025. We already source 100% cotton from recycled, organic and other [more sustainable](#) sources and only source viscose from suppliers ranked green in the [Canopy Hot Button Report](#).

— **Increase the recycled content of our products** to help reduce the impact on biodiversity associated with sourcing virgin materials and reduce the amount of land we make use of. We are making progress towards our goals to source 30% of our materials overall and 100% of our polyester from recycled sources by 2025.

— **Scale customer-facing circular business models** that enable customers to prolong the life of their garments — for example through repair, rental, resell and recycling [services](#).

— **Work to match supply to demand**, adjusting our assortment levels with the support of artificial intelligence.

— **Invest in regenerative and transformative agriculture and conservation projects** and follow our sourcing materials roadmap — contributing to community wellbeing and prosperity while restoring natural habitats (see table on [page 33](#)).

Collaboration — with governments, NGOs, peers within and outside our sector, and local communities — is essential to make progress on measuring impacts and setting targets for biodiversity. For example:



— Through our partnership with [WWF](#) we address environmental impacts across our value chain, and we are an active supporter of WWF's global Biodiversity Stewardship Programme, providing funding and advisory input — including, for example, for the development of the Biodiversity Risk Filter.

— We are part of the Strategic Advisory Group of Business for Nature, a coalition of large businesses and financial institutions calling for mandatory disclosure of impacts and dependencies on nature by 2030.

— Our Fashion Pact membership supports our work to reduce impacts on nature.

— We sponsor the [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services \(IPBES\)](#).

Read more about our [memberships and collaborations](#).

We also reduce our overall impact on biodiversity and natural ecosystems by reducing GHG emissions through our [climate](#) work, working towards zero discharge of [hazardous chemicals](#), and collaborating with stakeholders and communities on shared [water](#) challenges.

We disclose additional details on our biodiversity, climate, forests and water impacts, progress and mitigation plans through the CDP, and we also report impacts through the Dow Jones Sustainability Index and the Textile Exchange Corporate Fiber and Materials Benchmark.

Read more about our approach to [biodiversity and land use](#).

Biodiversity & land use

Progress

— We increased our share of recycled or other more sustainably sourced materials to 84%, including 23% recycled materials. We are introducing regenerative farming practices as part of our materials roadmap, including already placing orders for regenerative cotton in 2023 — see right. The scaling of our traceability work is a key enabler for ongoing action to improve our sourcing choices.

— We are working to decouple resource use from business growth by testing and scaling circular customer offerings — read more on page 53.

— To aid the estimation of value chain environmental footprints, we're contributing to the regular reviews of SBTN's framework for creating science-based targets to assess impacts and dependencies on nature. As part of our Fashion Pact membership, we participated in the Transforming Fashion for Nature project analysing the land, biodiversity and ecosystem impacts of our leather supply chain in Argentina in line with the SBTN framework.

— We worked with the Textile Exchange's Leather Impact Accelerator (LIA) to devise a framework for best practices in leather supply chains and prevent deforestation practices in supplier farms.

Regenerative and/or transformative projects for key materials

| PROJECT | COLLABORATORS | AIMS AND (WHERE RELEVANT) STATUS UPDATE | YEAR STARTED | DURATION (YEARS) |
|--|---|--|--------------|------------------|
| COTTON | | | | |
| RegenAgri — India | Amiha Agro | Source 500 tonnes of RegenAgri certified regenerative organic fibre from the first crop cycle 2022-23. Support 450+ farmers to develop regenerative practices across a total 600+ hectares of landholding. | 2022 | 3 |
| REEVA (Regenerative, Ecologically and Economically Viable Agriculture) — India | WWF | Support 6,000 farmers to adopt regenerative practices by 2025. In 2022, the project started with 150 regenerative plots and provided training sessions to 3,000 farmers. | 2021 | 5 |
| ROC (Regenerative Organic Certified) — India | ASA (Ploughman Agro Private Limited), Suminter India Organics PVT Ltd | Source 350+ tonnes of <u>ROA</u> Bronze-certified regenerative organic fibre from the first crop cycle 2022-23. Support 1,200+ farmers to develop regenerative practices. | 2022 | 3 |
| RPLC (Regenerative Production Landscape Collaborative) — India | Laudes Foundation, IDH The Sustainable Trade Initiative, WWF India | Reach 120,000 farmers and bring 100,000 hectares under regenerative agricultural practices by 2026. | 2022 | 5 |
| WOOL | | | | |
| Biodiversity Restoration and Regenerative Land Management Project — South Africa | BKB & Textile Exchange | Introduce regenerative practices at over 500,000 hectares, support land conservation and restoration, monitor outcomes on 500 hectares of land and deliver training to 1,000 BKB farmers. | 2022 | 3 |
| WWF Wool — South Africa | WWF | Create resource efficient, climate resilient agriculture and regenerative livestock grazing by enabling 70 smallholders and 10 commercial sheep farmers, covering a total of 10,000 hectares, to use <u>regenerative agriculture</u> practices by 2025. By the end of 2022, 3 large-scale commercial farmers and 39 communal farmers had joined the project. | 2022 | 4 |
| LEATHER | | | | |
| Leather Impact Accelerator — Brazil | Textile Exchange & The Fashion Pact | Support cattle farmers to stop deforestation and collectively build the supply of <u>deforestation- and conversion-free (DCF) leather</u> . | 2022 | 1 |
| RATTAN | | | | |
| Forest Restoration and Enhancement — Indonesia | WWF | Reforest 50 hectares of land and enrich 300 hectares in a wildlife corridor that is critical for orangutans and can provide sustainable livelihoods for local communities through rattan production. | 2022 | 3 |

Biodiversity & land use

— In 2022, 87% of the paper and cardboard in our packaging was from recycled or more sustainably sourced materials, and we aim to reach 100% by 2025. We only use MMCF from suppliers ranked green in the Canopy Hot Button Report, who have a low risk of sourcing from ancient and endangered forests.

— Our CDP Forest score increased to B- for Cattle products, B for Timber, and C for Palm Oil.

— Guided by our assessment of the biodiversity impacts of our raw material sourcing to determine priority materials and locations, we have developed range of projects to support regenerative and transformative agricultural practices. See page 33 for more details.

— Our updated Environmental Site Assessments for potential new distribution centre sites include a review of protected areas or landscapes, ecological sites and potential nesting or roosting areas. In addition, our construction framework requires vegetation selection to focus on native plant species or those well-adapted to the local climate, so that they can self-sustain with natural precipitation. Any timber or timer-based products used for construction must be reclaimed, recycled or certified by FSC, PEFC or SFI.

— In partnership with WWF Cambodia, we launched the WoodAI smartphone app, which enables identification of wood species using a smartphone and a macro lens at the factory gate.

This allows suppliers to quickly verify the type of wood entering their factories and thereby avoid the use of wood from species that could only have come from natural forests.

— Our CEO and other H&M Group sustainability leaders spoke on panels at the UN's Stockholm+50 about solutions for climate, nature and pollution. Our CEO also spoke at a high-level event on nature during the World Economic Forum Davos 2022 meeting.

— We hosted a Business and Biodiversity Action Roundtable event associated with the Stockholm +50 environmental conference with WWF and Inter IKEA Group — bringing together more than 30 businesses from across the world to discuss the role of the private sector in protecting and improving biodiversity.

— We were one of the first of 500 businesses and financial institutions to sign the Business for Nature statement calling on negotiators at COP15 to make assessment and disclosure about impacts on nature mandatory. We supported the campaign in the media and spoke on behalf of Business for Nature at talks in preparation for COP15.

Learnings

— Finding the best local setup for intervention projects is complex and requires suitable farmers and crops, and the right legislative environment to enable lasting positive social and environmental

impact. For future projects more time will be allocated for these steps.

— Traceability is key for us to fully understand our impact on the ground. Secondary data will only take us so far, but sourcing from trustable geographical locations is key for our impact assessment and future science-based targets. This emphasises the need to continue extending our traceability work and to partner with stakeholders that can help us achieve traceability down to farm level.

— Development of global goals, alongside clear expectations from governments to define common ambitions and progress, will enable us to make progress more quickly with our partners when the agenda, scope and timeline are shared.

Future focus

— As part of our long-term materials vision, we will set a strategy for regenerative sourcing, alongside tracking the impact of and learning from our current regenerative projects.

— We will continue to analyse our impact on nature and integrate biodiversity and nature into our organisational decision-making. We are mapping our full value chain using the method set out by the SBTN and aim to set science-based targets to reduce our impact. We will continue providing input to the development of the SBTN guidance.



— We aim to pilot disclosing against the TNFD draft framework, which recommends that companies assess and prioritise financial risks related to nature across the supply chain.

— We aim to make time-bound commitments in 2023 on no-deforestation and sourcing leather responsibly.

Water

We can no longer view floods, droughts and rising sea levels as being separate from climate change. A recent reassessment of the planetary boundary for freshwater indicates that we have crossed the safe zone limit, risking deforestation and soil degradation as moisture levels change. Without quality water, life-threatening preventable diseases proliferate and natural systems degrade — risks that are worsened by the effects of climate change.

The fashion industry uses significant volumes of water, being reliant on water for production processes and growing raw materials — H&M Group is no exception. This year, devastating floods in Pakistan displaced millions of people and destroyed half of the country’s cotton crops, putting pressure on cotton availability. It is essential for government, brands and other stakeholders to collaborate within a basin or catchment area to tackle water challenges at facilities and in local communities to mitigate and prevent further disasters. We must use less water and contribute to increased quality and availability of this vital resource to help protect all life on earth.

We achieved almost all the goals in our Water Roadmap 2018-2022, which focused on improving water quality, efficiency, and recycling at the facility level. During the Covid-19 pandemic many of our supplier factories had to run machines at

very low capacity due to closures and production fluctuation. We met or came very close to meeting our targets despite this unforeseen challenge.

The results we achieved together with our business partners and stakeholders have encouraged us to aim even higher. As we set out new ambition in our Water Strategy 2030, we are shifting away from relative water efficiency to absolute water use reduction, to clearly decouple growth from resource use. Our long-term aim is to expand our scope beyond tier 1 and 2 facilities to cover other water intensive parts of our value chain, such as fibre production and customer use phase.

Progress

— We launched our Water Strategy 2030, which we developed with input from brands, NGOs, water experts and key suppliers in each region.

— We have achieved a 21% water recycling rate and 21% improvement in water efficiency in our supply chain, compared to a 2017 baseline. This equates to a combined overall 38% total water consumption reduction — close to our 40% goal, despite the challenges of regaining momentum in the wake of the Covid-19 pandemic. In addition, 49% of our facilities now harvest rainwater, against our goal of 50%.



Water Strategy 2030

[Read more](#) about our new strategy, including additional 2027 and 2029 targets.

| FOCUS AREA | 2025 TARGETS - FOR ALL BASINS | 2030 GOALS |
|--------------------------------------|---|--|
| Scarcity | 10% reduction in absolute total freshwater use against an averaged 2022 baseline. | 30% reduction in absolute total freshwater extraction and consumptive use in our supply chain against a 2022 baseline. |
| Quality | Facilities with direct discharge meet prioritised ZDHC Conventional Parameters — Foundational Level. Facilities with indirect discharge meet receiving authority requirements for pollution load and wastewater volume. | All wastewater produced in the supply chain is treated in a way that the receiving water body is not adversely affected due to the discharged effluent. Our business partners continue to disclose discharged water quality performance publicly on a regular basis. |
| Governance | Facilities will identify and understand their water-related challenge, their ability to influence beyond their boundaries and their current and future shared water challenge. ¹ | H&M Group together with our business partners has strengthened water-related governance in all relevant regions/basins. |
| WASH (water, sanitation and hygiene) | % of H&M Group supplier employees with unrestricted and free access to WASH facilities in the workplace — target to be confirmed. ² | Contribute to the majority of the population within high-risk basins where our suppliers are located having sufficient, affordable, accessible, climate resilient WASH that is acceptable to the people using it. |
| Flooding & climate induced disaster | Facilities include flooding within their environmental strategy, aimed at identifying and mitigating flood-related risks within their site premises. | Together with our business partners, co-develop and execute a programme that contributes to the reduction of local flooding risks (including other extreme climate events) within flood impacted regions. |

1) Based on the definition of shared water challenge in the AWS Water Stewardship Standard: a water-related issue, concern or threat shared by the site and one or more stakeholders within the catchment(s). Examples include physical water scarcity, deteriorating water quality and regulatory restrictions on water allocation.

2) Actual target will be set after analysing the supply chain performance with 2022 Higg Facility Social and Labour Module (FSLM) data.

Water

— 90% of supplier factories with on-site effluent treatment plant (ETP) functionality assessments achieved green grade — missing our goal of 100% — and 98% had discharge water quality that is ZDHC wastewater compliant.

— We updated our Sustainability Index to take account of absolute freshwater reduction and water efficiency in line with our new targets to better reward the performance of our business partners.

— We set new process-specific benchmarks for different textile processes and materials so that suppliers can compare water usage for specific methods with best-in-class performance.

— The H&M Group and WWF partnership supported WWF's 2022 series on Apparel & Textile clusters to encourage the fashion industry to move beyond owned operations and think holistically about water issues. Eau Courant: Water Stewardship in Apparel & Textiles discusses water impacts and dependencies throughout the value chain, while Avant-Garde: Water risks and opportunities unpacks how water risks affect apparel and textile clusters.

— In Bangladesh, we started a pilot with WaterAid Sweden to assess the current WASH (water, sanitation, and hygiene) performance in our supply chain and develop an action framework for our WASH ambition at the facility and community level.

— We were one of the first businesses to commit to the World Business Council for Sustainable Development (WBCSD)'s Wastewater Zero commitment to eliminate wastewater pollution to improve biodiversity, mitigate and adapt to climate change and enhance water security.

— We started a new collaboration in Bangladesh with Alliance for Water Stewardship (AWS). Together with other brands, we will equip suppliers and their stakeholders with the knowledge, skills and networks they need to better understand their own water use and impacts, and how to work together to solve shared water challenges.

Learnings

— To improve effluent treatment plant (ETP) functionality, we will engage third-party companies for ETP assessments in India, Bangladesh and Turkey, raise our minimum requirement level to green grading, and add more requirements to our foundational compliance level on wastewater quality.

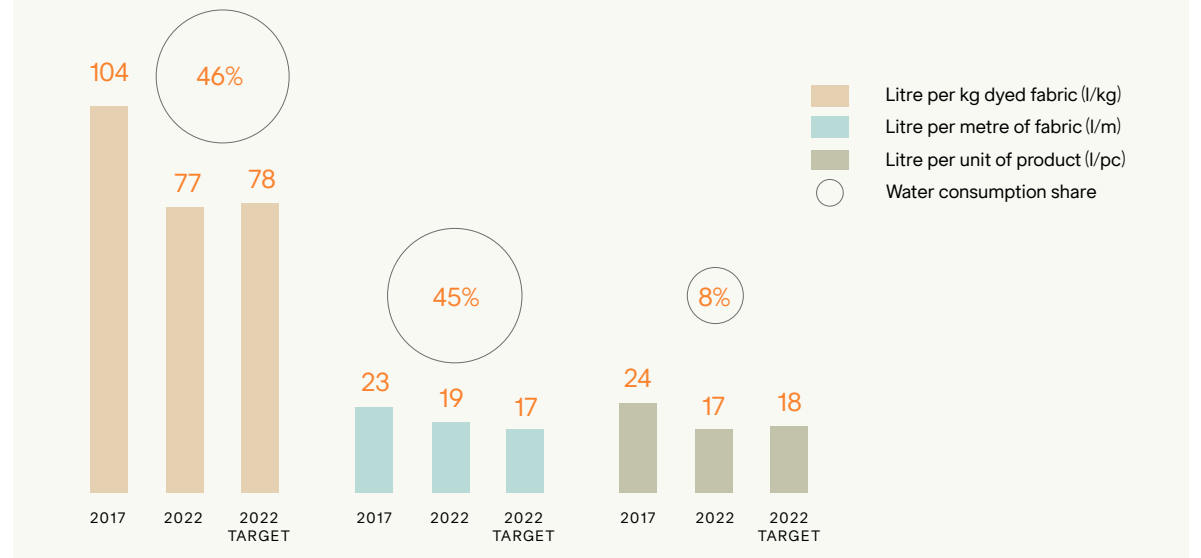
— Feedback on our Water Strategy 2030 highlighted the difficulty of obtaining accurate and comparable data to track performance. We're focusing on developing data systems to help suppliers align with our 2030 water ambitions.

| Key water performance data | 2019 | 2020 | 2021 | 2022 | GOAL |
|--|------|------|------|------|----------------------|
| Reduction of production water usage compared to 2017 baseline (l/kg, l/pc, l/m) – see bar chart below ¹ | -6% | -4% | -14% | -21% | -25% |
| ETP functionality assessments achieving green grade ² | 91% | 95% | 88% | 90% | 100% |
| ETP discharged water quality that is ZDHC wastewater compliant (Foundation Level) | 93% | 96% | 98% | 98% | 100% |
| Water recycled out of total production water consumption | 13% | 18% | 21% | 21% | 15% (Exceeded early) |

1) Includes a total of 440 manufacturing, fabric dyeing and printing suppliers in both tier 1 and tier 2 with water-intensive wet production, based on Q1-Q3 2022 performance data, reported by factory and calculated using weighted averages for litre per kg of dyed knitted

2) Based on Annual Water Quality Survey 2022 for 320 facilities with on-site ETP and zero liquid discharge. Data reported in Dec 2022.

Change in relative production water efficiency



Water

— The fashion industry is still centred on water efficiency rather than water reduction, which is not enough to undo the crossing of the freshwater planetary boundary. Broader engagement within the sector is needed to provide a more cohesive approach to water action. This includes water stewardship action at the basin level which is inclusive and scalable, as well as better metrics and tools to measure water impact.

Future focus

— As part of our new strategy, we are refining our water efficiency programme to focus on process-related benchmarks, enabling suppliers to gauge progress and prioritise action. We will also co-develop programmes with suppliers to strengthen local water governance.

— With Support from WaterAid Sweden, we have analysed the current WASH indicators in FSLM and identified the gaps and areas for improvement.

— We will continue to closely observe the development of Science Based Targets on freshwater. We provided feedback during the development process and urged the [SBTN](#) to formulate guidance focused on apparel and textile production.

— To ensure greater comparability and to drive progress, we would like to convert our process-specific benchmarks for different textile processes into an industry standard — we will explore potential collaborations to achieve this.

— We would like to collaborate more to better understand the water-related risks and responses for producing raw materials such as cotton.



Chemicals

Progressive chemical management is essential to [circular business models](#) and reducing our products' impacts on climate and nature. Our [Chemical Management Roadmap](#) commits us to safe and traceable chemicals in our value chain through strategic collaborations with [AFIRM](#) (Apparel and Footwear International Restricted Substance List Management Group), [ZDHC](#) (Zero Discharge of Hazardous Chemicals) and [ChemSec Business Group](#).

Our [Chemical Restrictions](#) include the [AFIRM Restricted Substances List](#) and the [ZDHC Manufacturing Restricted Substances List 2.0 \(MRSL\)](#), and commit us to phasing out additional potentially harmful substances. We require our textile and leather suppliers to implement the [ZDHC Wastewater Guidelines](#) and [Chemical Management System](#).

To ensure we choose safe chemical substitutions, we use third-party hazard-assessed chemicals such as [Screened Chemistry](#) certified¹ chemicals where possible. Transparent information about chemical content is a prerequisite for conducting hazard assessments, and we believe that chemical regulations should incentivise this level of information.

Progress

— We were one of eight brands awarded “aspirational level” during the annual assessment of ZDHC’s [Brands to Zero leader programme](#).

— 619 of our suppliers² (99%) are enrolled in the ZDHC programme, achieving MRSL compliance of 97% for chemical input (95% in 2021)³ and 99.96% for wastewater (99.9% in 2021).⁴ We work closely with enrolled suppliers to increase use of chemicals from ZDHC Gateway — an online industry database of ZDHC MRSL-compliant chemicals. In 2022, 88% of chemicals used were assured via ZDHC Gateway. We are working together with ZDHC and the industry to bring the remaining chemicals into ZDHC Gateway — this has proved to be challenging due to supply chain segmentation in various regions.

— Supporting capacity building of our supply chain chemical management systems, 237 suppliers are enrolled in ZDHC’s Supplier to Zero programme and 136 suppliers have undergone ZDHC Chemical Management System Technical Industry Guide training.

- 2) Scope covers wet processing units or heavy chemical use units in our textile and leather supply chain.
- 3) Compliance tracked using the third-party tools BVE3, CleanChain and Bhive.
- 4) Collective raw data from API transfer from ZDHC Gateway database.

— We are supporting and helping to shape the methodology of the aspirational level of ZDHC’s new Chemicals to Zero framework. This will enable the industry to choose chemicals that are safer and more resource efficient.

— We continued substitution projects that go beyond legislation, including using safer alternatives to potassium permanganate (used to distress denim) for 100% of denim products (79% in 2021), with the goal to achieve 100% by 2023. We increased our scope to substitute more high-priority endocrine-disrupting chemicals — substances that interfere with hormone systems.

— We scaled the use of Screened Chemistry throughout our supply chain, achieving 3% use at the end of 2022. We continue to push for more avenues for chemical hazard assessment together with others in our industry — focusing on denim, where there is greater availability of Screened Chemistry.

— We began an industry collaboration to establish a common MRSL for hardline products, such as furniture and decorative items, to restrict use of hazardous chemicals in these supply chains.

— Together with [ChemSec](#) and peers, we sent a [joint letter](#) to the EU commission about chemical transparency, which led to a meeting with the EU Commissioner for the Environment Virginijus Sinkevičius about how to incentivise chemical suppliers to share full information on chemical content.

Learnings

— We are exploring synergies between chemicals management and other impact areas such as water, energy, raw materials and biodiversity. This year we began investigating opportunities to reduce chemical use by mapping best practices, such as process chemicals recovery. We learnt that there is a lack of reliable baseline data for the quantity of chemicals in our value chain.

— There is work to be done in our industry to make production processes more resource efficient in terms of chemical use. We continued our work to investigate ways to optimise production processes in Bangladesh, India and Pakistan.

Future focus

— We intend to set a goal for reducing the quantity of chemicals used in our supply chain. The first step is to review our current data and set a baseline.

— We will continue to advocate for global harmonisation of chemical hazard classification and improved information requirements on chemical content to enable safe chemical substitution.

1) Certified by ToxServices and Scivera.

RESOURCE USE & CIRCULAR IMPACT

Transition to circular economy requires systemic changes

An interview with Laura Balmond, Fashion Lead at the Ellen MacArthur Foundation about how we're doing and what we can do better

How is H&M Group helping to drive transformation of the fashion industry?

Firstly, by its ambition level. H&M Group was one of the first organisations to set an ambitious vision for a change towards a circular economy. This has set a clear direction of travel for the organisation. It has also built an investment pipeline for innovation that is well respected by other peers in the industry, and a circular design tool that can increase product lifespans and improve recyclability.

It has also trialled a wide range of circular economy solutions, from sourcing materials from recycled content, to exploring business models such as rental, repair and customisation. The Jeans Redesign, an EMF initiative, led to multiple H&M Group brands demonstrating that it is possible to design desirable products in line with circular economy principles.

What do you see as the biggest challenges facing the industry when it comes to moving to a circular business model?

The entire system needs to transform. Firstly, supply chains are optimised for one-way delivery of items. Making the economics of circular business models work will require economic ways to collect, sort and circulate items between users. Initially, there will need to be investment in setting up a supply network to enable this.

Linked to this, legislation and regulations need to keep up with the changing environment. For example, regulations on the classification and movement of 'waste' can prevent movement of used items and make scaling across borders difficult.

Businesses will also have to redefine how they measure success, as performance metrics are based on the linear model. Once an organisation aligns its business strategy and performance indicators with the outcomes of a circular economy, delivering on these will become easier.

Similarly, customer incentives are largely designed around linear sales growth. If indicators and incentives are left unchanged, even when circular business models are put in place, they might not reduce production and resource use, or achieve the related positive environmental outcomes.

Can we do more together to speed up the transition to a circular economy?

Absolutely, and collaboration is key. No one organisation can fundamentally change the system alone. Finding ways for ambitious collaboration and engaging all actors in the value chain on the biggest challenges to progress will speed up the transition to a circular economy.

Circular economy is now firmly on the agenda within the fashion industry, yet the transition will take time as well as investment in infrastructure and innovation. Concerted and ambitious action towards our vision of a circular economy for fashion is needed by both businesses as well as policymakers.



Moving to a circular ecosystem

We're committed to using resources responsibly — to reduce our environmental impact and protect natural systems, and to support interconnected human rights such as land rights, livelihoods, and access to water. Shifting to a circular ecosystem is the key to decoupling our business growth from resource use. There is still a long way to go on this journey — for H&M Group and our peers — and we recognise the need for systemic change across the fashion industry and our business.

To guide our approach, we align with the Ellen MacArthur Foundation (EMF) definition of the circular economy, which focuses on three key principles:

- Eliminate waste and pollution
- Circulate products and materials (at their highest value)
- Regenerate nature

We also support and aspire to the EMF vision for a circular fashion industry, where products are designed to be used more, made to be made again, and made from safe and recycled or renewable inputs.

We're working to continually make progress towards this vision by investing in and scaling more circular systems across our business. We focus on three interconnected areas:

- **Circular products:** Creating products that are made to last from safe, recycled, regenerative or other more sustainably sourced materials that can circulate multiple times.
- **Circular supply chains:** Building scalable systems that circulate products and materials for repair, reuse and recycling and use lower-impact production processes— such as dyeing, printing and finishing.
- **Circular customer journeys:** Providing convenient ways to engage in circular fashion where products are used more before being repaired, reused and recycled.

A circular fashion ecosystem

We focus on integrating circularity across our entire ecosystem by building on the synergies and interconnections of all parts of our value chain.



CIRCULAR PRODUCTS

Design & assortment planning

Together with assortment planning, design is an important first step to developing more [circular products](#). It influences every phase of production, from material selection to processing, and determines the potential for recyclability and durability. It is therefore crucial for [optimising resource use and enabling circular business models](#), supporting progress towards our climate and nature goals.

We aim to design all our products for circularity¹ by 2025. We are testing and developing tools and methods to enable this, including our [circular product development tool and guide, Circulator](#), which guides our commercial product teams and supports the Ellen MacArthur Foundation's (EMF) [Vision for a circular economy for fashion](#). Our rapid journey towards circular design and the evolving industry landscape has led to many learnings and challenges, and we remain focused on accessing and improving the circular potential of our products towards 2025 and beyond — read more on [page 42](#).

Circulator makes predictive assessments on aspects such as durability, recyclability, and the environmental footprint of materials and

processes, so that our product development teams can make informed choices and balance potential trade-offs. We focus on designing for product purpose, recognising that a product's use is context-dependent, which requires varying resource intensity and design strategies to fulfil its intended function and enable product recirculation.

Our designers are also guided by our [Material Categorisation](#) and our quality standards. We use wash tests (minimum five washes) to capture and review any significant changes for all our products, along with colour fastness and strength tests — such as tear strength, tensile strength, abrasion, and seam slippage.

Progress

— We have further tested and developed Circulator. The latest version adds production processes and trims to the frameworks — including prints, dyeing, buttons and zips — with more being added continually.

— We developed Circulator Academy — an internal training programme introducing the circular economy and guidance on [circular design](#). We established a forum with ambassadors

from business units and each brand along with a network of trainers to boost engagement and ensure local ownership. In addition, all designers and pattern makers were trained in our 3D tools.

— We have continued to focus on designing for product purpose, moving from subjective assessment of a product's intended use to a more data-driven model. We worked to raise understanding with policymakers on the need to design for product purpose and the opportunities within upcoming EU legislation on ecodesign to optimise resource use and current technical trade-offs between durability and recyclability.

— We conducted a research pilot by using the [Seam app](#) to gather data on customer use of garments — for which there is currently little data available. Customers in Sweden logged the use of garments in their wardrobe over time, which could inform our product purpose categorisation.

— To enable understanding and comparison of the [circular](#) potential of different fabrics early in product development, we developed an internal tool to complement Circulator.

— We are working with industry peers including ASOS, BESTSELLER and Zalando in the Circular Design Consortium. Initial priorities were to align approaches and agree terminology. Now we will expand the scope of work to drive further impact and scale. Our work with external reviewers, such as the Ellen MacArthur Foundation and [Circular.Fashion](#), supports the quality of our circular design work.

— We are working to increase our pattern efficiency by supporting product teams to share their methods and improve practices. To encourage further waste reduction, we developed an internal report to enable the whole organisation to track our progress on fabric consumption and efficiency at Group, brand and department levels.

— To understand the longevity of our products and prepare for forthcoming EU initiatives, we ran a durability project, testing a significant share of our core materials and products. This includes colour fastness and strength tests, and investigating the longevity of products after numerous washes, beyond our minimum requirements. These findings will inform the development of our durability strategy ahead.

— H&M developed a quality scorecard for selected garment groups in its menswear collection. The scorecard sets requirements on aspects such as number of washes a garment can withstand and other quality aspects. The accompanying product quality dashboard uses a range of data sources to determine factors impacting quality, and is supported by supplier training to share H&M's ambitions and expectations.

— Our brands launched collections designed to be more [circular](#):

— H&M's [Let's Make Better Denim](#) collection and Monki's [first denim collection designed for circularity](#) were released, both following EMF's [Jeans Redesign guidelines](#). Weekday is scaling use of the guidelines across its assortment,

1) In accordance with our Circulator tool.

Design & assortment planning

including approximately 40% of its SS23 denim.

– & Other Stories launched its first capsule collection exploring design for [circularity](#), Monki launched a [black dresses collection](#), and H&M launched its [Cherish Waste](#) and [Metaverse](#) collections — all designed using Circulator.

– H&M launched a collection for newborns, which achieved [Cradle2Cradle Gold certification](#). The garments and accessories are designed for a long life, with adjustable ‘room to grow’ features.

Learnings

— There are challenges with securing early-stage data that enables Circulator’s predictive assessment, and we are exploring how to update our way of working to address this.

— Integrating [circular](#) design at scale is a long process that requires a mindset shift to design for product purpose and consider the entire product journey when developing products. It entails cross-functional collaboration from many different stakeholder groups. Integration also requires a strong understanding of the value of circular design for transitioning to a more [circular](#) business and reaching our goals on climate and nature.

— To fully integrate [circular](#) design principles, we need to develop new KPIs and metrics not wholly based on financial performance.

— A key challenge is the current lack of industry definitions on [circular](#) design. Industrywide collaboration and knowledge exchange is crucial to develop a shared understanding of circular design principles, together with policymakers.

— Creating garments from mono rather than blended materials increases their recyclability but presents some challenges. For example, cellulosic threads have limited strength and longer production times. We are learning about and adapting to these challenges with continuous innovation and collaboration with sorters, recyclers and suppliers.

Future focus

— We will continue to test, develop and onboard further teams to our circularity-aligned tools to use for all commercial product types — beyond our garments. We will increase the proportion of products designed using Circulator, continuously improving the tool and [circularity](#) of our products as we learn, as data improves and as industry definitions become more established.

— Industrywide collaboration will continue to accelerate our progress.

Assortment planning

Accurate planning and quantification of our product assortments is a central enabler for reducing our environmental impact and transforming to a more [circular](#) business. By using data and 3D tools, we can better curate our assortment, match supply to demand, reduce the need for physical samples, and accelerate development time. In 2022:

— We expanded the use of AI in our supply chain, enabling us to increase data accuracy and precision, leading to reduced stock and production volumes.

– We continued to roll out Movebox, our AI tool that facilitates the redistribution of products to locations where there is demand.

– We continued to roll out our AI models for Pre-Season Demand & Supply Planning. As part of the Assortment Quantification (ASQ) initiative, we launched a machine learning model that predicts the rate of return for online orders based on article attributes, replacing the traditional logic of predicting returns by department. We have used initial learnings from the model to improve precision on our buying levels

for different garment sizes, and we have begun development towards scaling.

— We started a scaled roll-out of our 3D visual assortment planning tool, while further expanding and optimising the tool by enhancing data management, automations, processes and standards.

— We began piloting a programme that would enable our customers to give early feedback on design, and another designed to automate buying on long-lasting products.

— Our brands tested on-demand business models, for example Monki launched its [digital print-on-demand shop](#) and H&M produced its first on-demand customisable puffer jacket.

Initial learnings from on-demand offerings include the need for change in customer behaviour — as many are used to the convenience of a pre-designed product over customised models — and the need for testing and scaling different infrastructure in localised production units. Our innovation and AI teams will continue to support our increased focus on demand-driven planning and stock productivity.

Read more about how we are working to [improve resource efficiency](#) and [enabling products to be loved for longer](#).

CIRCULAR PRODUCTS

Material choice

Our industry is heavily reliant on materials. That's why choosing, creating demand for, and innovating materials with lower negative impact — alongside reducing overall resource use and decoupling it from business growth — are key to our strategy.

All material choices have an impact on climate, nature and people, whether they are natural fibres like wool and cotton, or synthetic materials such as polyester or polyamide. Choosing the right materials for our products and packaging can accelerate our climate and circularity goals and is integral to securing responsible, traceable and transparent supply chains. Our long-term materials vision (see box) sets an ambition and direction towards recycled, regenerative and responsible materials.

Our aim is for **100% of our materials to be either recycled or sourced in a more sustainable way by 2030**, including **30% recycled materials by 2025**. Read more about how we define more sustainably sourced for different materials in our Material Categorisation, Responsible Raw Material Sourcing Policy and Animal Welfare Policy.

Our material choices are guided by our policies and strategies, by guidance from the Sustainable Apparel Coalition and Textile Exchange, and by

third-party life cycle assessments (LCAs) where relevant. We're working to increase traceability across all our key materials.

To meet our ambitions for a circular, regenerative fashion future, we invest in, develop and scale new materials, regenerative practices, recycling innovations, technology and infrastructure.

We achieve this by partnering with industry experts and innovators including winners of H&M Foundation's Global Change Award — alongside our brands, our Circular Innovation Lab and our H&M CO:LAB investment arm.

Progress: overall

— We achieved 84% recycled or other more sustainably sourced materials, compared to 80% in 2021. This progress towards our 100% goal is largely due to an increase in the use of recycled materials such as cotton and polyester.

— We continued or launched several projects to help scale regenerative sources of different fibres — read more in the Biodiversity section.

— The Textile Exchange 2021 Material Change Insights Report identified H&M Group as one of 47 overall leaders, one of 17 SDG leaders, and one of 16 circularity leaders (of 292 companies analysed).

% recycled or other more sustainably sourced materials^{1,2,3}

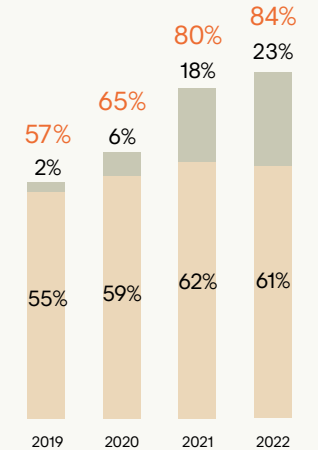
Goals

By 2025: 30% recycled

By 2030: 100% recycled or more sustainably sourced

Recycled
Other more sustainably sourced

- 1) Based on season 5 and season 6 data for 2022. Includes all shell materials — does not include materials used as filling, lining or trims on garments.
- 2) Not all more sustainably sourced materials can be naturally grown or cultivated, i.e. minerals or stones. In these instances, we set up material-specific requirements to secure more sustainable sourcing.
- 3) See page 88 for an assurance statement relating to these data points. The limited assurance process included all cotton and synthetics data, including our top three recycled materials (cotton, polyester, polyamide).



Our materials vision

Working with materials is an ongoing process requiring a progressive approach. Materials need to be evaluated regularly to make sure we consider the latest science, best practices, and knowledge — and to respond to shifting materials markets caused by global events, societal and environmental change. In line with this, we have defined our long-term materials vision to **move towards a resilient and circular materials sector that stays within planetary boundaries, enhances livelihoods and thrives on innovations**.

Our vision ahead is built on three pillars: recycled, regenerative and responsible.

— **Recycled:** prioritise post-consumer closed-loop recycled materials that have the potential to be reused and recycled again.

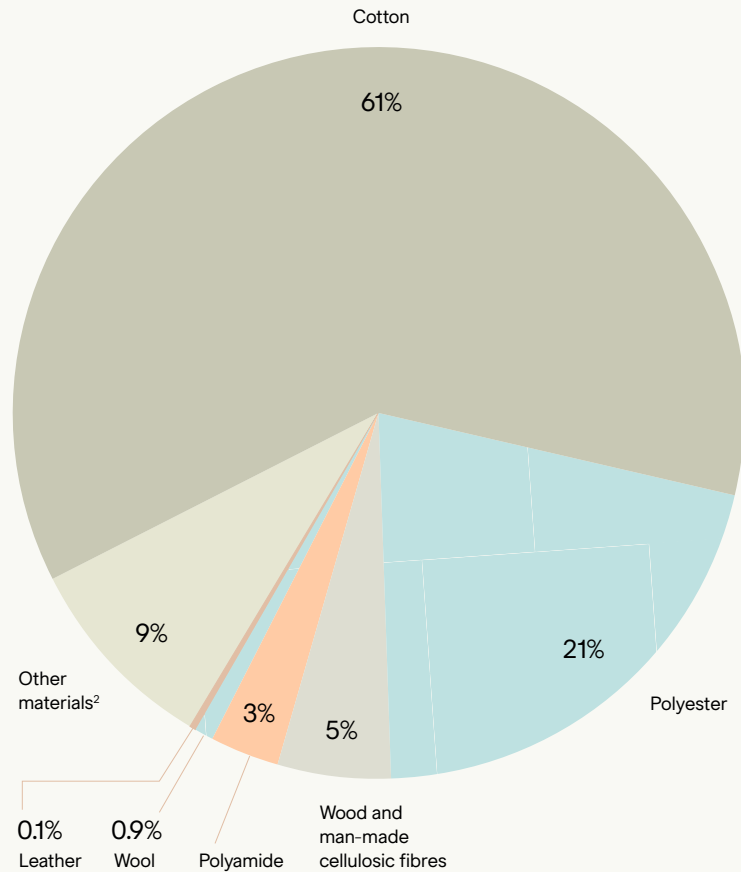
— **Regenerative:** use key virgin raw materials produced using regenerative agricultural practices that help improve soil health, and enhance livelihoods and ecosystems.

— **Responsible:** source materials with the overall aim to reduce environmental impact, respect human rights and protect animal welfare. This is the foundation of all our sourcing decisions. Our approach to responsible sourcing takes account of Organisation for Economic Co-operation and Development (OECD) guidance and the UN Guiding Principles on Business and Human Rights, and will support our alignment with evolving regulations on human rights and the environment.

Material choice

Our materials basket¹

Our 2022 share of polyester was slightly higher than in 2021 due to an increase in use of recycled polyester. Our share of wood and man-made cellulosic fibres decreased slightly. Other figures remain relatively stable compared to 2021.



1) Based on season 5 and season 6 data for 2022. Includes all shell materials — does not include materials used as filling, lining or trims on garments.
 2) Includes materials such as acrylic, linen, jute, elastane and metals.

Progress: cotton

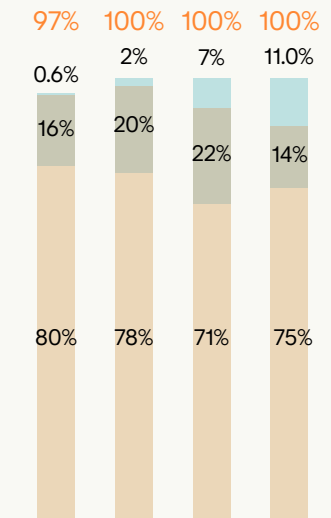
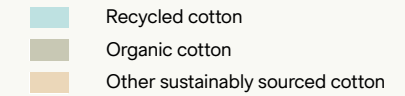
— In 2022, we continued sourcing 100% more sustainably sourced cotton (recycled, organic and other more sustainably sourced cotton).³ This includes a 4% increase in both recycled cotton and other more sustainably sourced cotton, and an equivalent decrease in our use of organic cotton.

— We developed a long-term vision and 2030 roadmap for cotton, aligned with our overall material vision. Our focus areas are scaling recycled and regenerative cotton, ongoing investment in innovations to increase the fibre length, quality and durability of recycled cotton, testing and scaling cotton alternatives, supporting livelihoods and gender equality in cotton communities, and increasing traceability. To support scaling of regenerative crops and increase the volumes we can source, we partnered on several regenerative cotton projects (see table on [page 33](#)).

— To accelerate transition to organic production, we continued to expand our use of “in-conversion” cotton.

3) Other more sustainably sourced cotton includes cotton sourced through the Better Cotton Initiative (BCI), in-conversion organic cotton, regenerative cotton, and cotton from other innovative sources.

% of total cotton that is recycled, organic, or other more sustainably sourced^{3,4}



Goal

Continue sourcing 100% recycled, organic or other sustainably sourced cotton.

4) See [page 88](#) for an assurance statement relating to these data points. The limited assurance process included all cotton and synthetics data, including our top three recycled materials (cotton, polyester, polyamide).

Material choice

— In 2022, our sourcing of BCI cotton contributed to:¹

– 31 billion gallons of water being saved.²

– 74,500 kilograms of pesticides being avoided.

– USD 57 million additional profit for farmers.

— H&M Group's support for projects with the [Organic Cotton Accelerator](#) and other organic cotton initiatives in India during the 2021-2022 crop season resulted in:

– 13,410 farmers involved in organic cotton projects.

– USD 1.73 million in premiums received by farmers, supporting investment in organic farming.

– 100% procurement by H&M Group brands of committed volumes.

— We continued working with [Materra](#)[™] on a new way to grow cotton that has the potential to increase yields and fibre quality, while minimising water and pesticide use. Our Circular Innovation Lab worked with Materra to set up a pilot in India, with the first crop yield harvested at the end of 2022 for use by COS. The farm is testing ten

Indian varieties of cotton for yield and quality to optimise future outputs and is also collecting lifecycle analysis data for comparison with conventional cotton. In 2023, the farm will run R&D on [circular](#) closed-loop systems to collect and reuse excess resources such as material, nutrients, water, and production equipment.

Progress: synthetic materials

— We're committed to phasing out virgin polyester as we work towards our goal to **source 100% recycled polyester by 2025**. In 2022, 74% of our polyester was from recycled sources, which have a significantly lower GHG emissions footprint than conventional sources. We are working to increasingly move towards textile-to-textile recycled polyester.

— We began scaling our use of textile-to-textile recycled polyester and plan to double it next year. We are also exploring scalable automated sorting techniques and chemical recycling to increase availability.

— We worked with Textile Genesis to improve the traceability of recycled polyester.

Progress: wood-based & man-made cellulosic fibres (MMCF)

— We developed a long-term vision and 2030 roadmap for MMCF. It focuses on scaling our use of next generation feedstock, prioritising

textile-to-textile recycled feedstock and increasing recycling infrastructure. Our new roadmap supports our goals and commitments:

– **By end of 2025, we aim to only source MMCF from FSC-certified sources, or replace them with next-generation fibres from sources such as agricultural residues and pre- and post-consumer textiles.** This supplements our requirement that MMCF producers must be verified as low risk by the CanopyStyle audit. Since 2020 we have only sourced viscose from suppliers ranked green in the [Canopy Hot Button Report](#).

– **By end of 2025, source viscose in line with our commitment to the [Changing Markets roadmap](#).**

– **By the end of 2025, all wood and wood-based material used in our products and packaging will come from either responsibly managed forests certified to FSC or made of recycled material.**

– Land rights and indigenous rights issues can be a concern in relation to our forest-derived fibres and products, and these goals support our efforts to prevent or mitigate human rights violations.

— We are working with TextileGenesis to explore options for embedding traceability within MMCF supply chains.

— We scaled use of innovative MMCF:

– Our Circular Innovation Lab and ARKET produced a capsule collection with [SPINNOVA](#)[®] — made with an innovative natural fibre produced in Finland from certified wood. Creating the fibre involves minimal water use and GHG emissions and results in zero waste. Used as an alternative to cotton, SPINNOVA[®] fibres have the potential to be recycled repeatedly without loss of quality.

– H&M Group and H&M CO:LAB continued to support [Renewcell](#) to scale production of Circulose[®] — an MMCF made from recycled cotton waste. H&M CO:LAB also supported [Infinited Fiber Company](#) to scale [Infinna](#)[™] — an MMCF from regenerated cotton waste — through the building of the company's first commercial plant in Finland. We tested use of Infinna through our involvement in the European Union project [New Cotton](#).³

– Weekday made use of [Södra pulp](#) — a fully traceable, certified wood pulp.

– We continued to support the development and testing of [TreeToTextile](#)'s fibre sourced from sustainably managed forests, with

1) Figures relate to use of BCI cotton, based on comparison with farmers using conventional practices in the same location.
2) Water savings relate to blue water use (irrigation). This relates to farmer inputs, and no other forms of water use.

3) The New Cotton project has received funding from the European Union's Horizon 2020 Research and Innovation Programme under grant agreement no. 101000559.

Material choice

predicted reductions in energy, and chemical use compared to conventional viscose.¹

— H&M HOME started making bed linen from Lenzing™ Ecovero and Eastman Naia™ — traceable bio-based cellulosic fibre, sourced from responsibly managed and certified pine and eucalyptus forests and plantations.

Progress: wool, cashmere, down, mohair & other animal fibres

— 57% (44% in 2021) of our wool was Responsible Wool Standard (RWS) compliant — marking progress towards our **2025 goal to only source virgin wool from RWS-certified farms.**

— 99% (95% in 2021) of our cashmere was Good Cashmere Standard (GCS) compliant — close to meeting our **2025 goal to source all virgin cashmere from GCS-certified farms.**

— 100% (100% in 2021) of our mohair was Responsible Mohair Standard (RMS) compliant — upholding our commitment to **only buy from RMS-certified farms.**

— 100% (100% in 2021) of our virgin down was Responsible Down Standard (RDS) compliant — maintaining our requirement of **only sourcing from RDS-certified farms** since 2016.

1) Supporting assessment data available at <https://treetotextile.com/sustainability>.

— We partnered on two regenerative wool projects (see table on [page 33](#)) as we are exploring the potential to scale regenerative practices in wool production.

Progress: leather

— We developed a long-term vision and 2030 roadmap for leather, with a focus on increasing traceability and working to make the leather supply chain more responsible — from the tannery level all the way upstream to the farms.

— 75% (51% in 2021) of all leather products were produced with chrome-free tanned leather, including vegetable-tanned leather and metal-free leather. Our 2025 goal is for **all our virgin leather to be chrome-free.**

— We joined the Leather Working Group (LWG) traceability task force and tested the LWG’s new social assessment tools to identify risks connected to the leather supply chain. 100% of our tanneries in Asia comply with Leather Working Group environmental best practice guidelines.

— We are one of a few brands that financially supports a three-year pilot project through the Textile Exchange’s Leather Impact Accelerator (LIA) programme. The aim of the pilot is to trial “impact incentives” in the leather supply chain of Brazil, by recognising and rewarding cattle farmers with better practices in place — focusing on deforestation- and conversion-free (DCF) leather, as well as animal welfare at farm level.

Recycled and more sustainable material sourcing^{2,3,4}

| | 2019 | 2020 | 2021 | 2022 | GOAL |
|---|------------------|------|------|------|---|
| Materials from recycled sources, as a percentage of all materials ² | 2% | 6% | 18% | 23% | 30% by 2025 |
| Recycled polyester as a percentage of all polyester | 8% | 21% | 64% | 74% | 100% by 2025 |
| Responsible Wool Standard-certified (RWS) wool as a percentage of all wool | 12% | 12% | 44% | 57% | 100% RWS certified, or from recycled or regenerated sources by 2025 |
| Good Cashmere Standard-certified (GCS) cashmere as a percentage of all cashmere | N/A ³ | 13% | 95% | 99% | 100% GCS certified, or from recycled or regenerated sources by 2025 |
| Responsible Mohair Standard-certified mohair as a percentage of all mohair | N/A ⁴ | 100% | 100% | 100% | Maintain 100% |
| Responsible Down Standard-certified down as a percentage of all down | 100% | 100% | 100% | 100% | Maintain 100% |
| Chrome-free, animal-based leather as a percentage of all leather | 40% | 44% | 51% | 75% | 100% by 2025 |

2) See [page 88](#) for an assurance statement relating to these data points. The limited assurance process included all cotton and synthetics data, including our top three recycled materials (cotton, polyester, polyamide).

3) Standard adopted in 2020.
4) We stopped sourcing mohair in mid-2018 due to PETA revealing systematic animal abuse in May 2018. The Textile Exchange launched the Responsible Mohair Standard in 2020, at which point we began sourcing mohair certified to this standard.

Material choice

— We participated in LIA’s social working group to develop a benchmark standard for responsible leather supply processing from slaughterhouses to tanneries, with a focus on decent work and forced labour.

— To improve traceability in our leather supply chain we started mapping suppliers by testing a digital platform and physical tracer. We began by tracking data from slaughterhouse level and will then go back to farm level, with the aim of scaling up this process across our leather supply chain.

— We continued testing the use of bio-based leather alternatives. For example, H&M worked with our Circular Innovation Lab to use plant-based Mirum® from Natural Fiber Welding in a new collection.

Progress: other recycled & innovative materials

— 23% (18% in 2021) of our materials were from recycled sources, in support of our 2025 goal that 30% of our total materials will be from recycled sources.

— To demonstrate the potential for recycling blended fibres, one of our Indonesian suppliers piloted a Green Machine, owned by Hong Kong Research Institute of Textiles and Apparel (HKRITA). The machine separates polyester and cotton blended waste material to produce polyester fibres and cellulose powder. The

supplier will use their own and other companies’ production waste as feedstock for the process. Read more about how we recirculate production waste.

— Our brands produced several collections made from recycled materials. For example, H&M now uses recycled sequins. & Other Stories used recycled mulberry silk made from cutting waste in production for a capsule collection, as well as recycled sterling silver collected from household waste in Denmark through urban mining — a process of recovering precious metals from discarded waste and turning them into new items.

— Our brands tested and scaled innovative materials, including:

— Newlight AirCarbon: Carbon-capturing biomaterial made by natural microorganisms found in the ocean, used by H&M.

— Bananatex®: A durable technical fabric made from banana plants, used by COS.

— Kapok: A cotton-like fibre from the fruit of the Kapok tree, used by ARKET.

— Resortecs Smart Stitch™: Dissolvable sewing thread, used by H&M.

— Sorona®: A plant-based fibre that offers an alternative to polyester filling in padded jackets, used by ARKET.

— H&M CO:LAB supported new products launched with Ambercycle™ (recycled textiles) and Sheertex® (‘unbreakable’ hosiery), and made a first investment in Fairbrics — which uses a novel process to create the components of polyester from waste CO₂.

— Our Circular Innovation Lab worked on proof-of-concept projects with Keel Labs, following investment from H&M CO:LAB.

Learnings

— There is a need for better and more accurate environmental impact data in the industry. We have reached out to our material suppliers to encourage them to share their data directly with initiatives such as the Sustainable Apparel Coalition’s Materials Sustainability Index.

— Traceability is essential to be able to measure real impact, steer and track sourcing, and mitigate risks — read more about our progress on traceability.

— Systemic shifts at industry level are key to scaling recycled materials. Innovation in recycled fibres has expanded rapidly across all fibre groups, but commercial scale-up remains slow due to technology and financing gaps, and sometimes due to legislative barriers to resource recirculation. There is also a clear need to connect sort and collect systems with the emerging capacity for recycling.

— Our work with regenerative agriculture projects shows the potential for impact, but significant investment is needed develop regenerative practices at scale.

— Many standard holders and certification bodies are updating or developing approaches to strengthen human rights due diligence at the raw material level, to align with international guidelines and evolving regulation. This will require new ways of working and increased collaboration across the sector.

Future focus

— We will continue to prioritise and scale recycled materials, by investing in developing closed-loop recycling feedstock capacity and through our public affairs work to advocate for a favourable legislative environment.

— Improving the collection and quality of impact data resulting from our sourcing practices is an ongoing focus.

— We will develop a plan for scaling regenerative agricultural practices for key materials.

— We will continue to engage with standards holders and other key partners, to identify how best to integrate respect for human rights through material standards and collaboration.

CIRCULAR PRODUCTS

Microfibres

As textiles are washed during production or by customers, fibre fragmentation can occur and release tiny microfibres, including natural and synthetic fibres. These fibres end up in waterways and pollute habitats. An increasing focus on microfibre pollution is highlighting the problem and we are taking action to find solutions.

We're developing a groupwide Microfibres Roadmap to formalise our current approach, which includes:

- Choose and design yarns and fabrics that minimise microfibre shedding.
- Research new production processes and requirements to minimise shedding.
- Offer microplastic-reducing laundry bags to customers and support the development of laundry machine filter systems.
- Improve technologies that enable reuse and recycling.

We are developing our roadmap according to The Microfibre Consortium (TMC) 2030 Commitment — a global commitment to work towards zero impact on nature from textile fibre fragmentation by 2030.

Progress

- We joined the TMC advisory board and are exploring how we can best implement the TMC commitment. So far, we have contributed with fabric-level testing, using the test method developed by TMC.
- To help shape draft legislation, we developed a position paper on microfibres, highlighting the importance of a holistic approach that is both science-based and collaborative. The paper stresses the need for legislation to cover all relevant stages of the product life cycle, support and recognise ongoing industry research, and take a step-by-step risk-based approach based on common methodology. We also used the position paper to advocate for a full impact assessment of potential policy measures to ensure effective regulation, and to highlight the importance of addressing the issue in a collaborative and harmonised manner worldwide.

— We have three research projects under way with the Hong Kong Research Institute of Textiles and Apparel (HKRITA). These are focused on understanding the levels of fibre fragmentation for different materials during production, cleaning microfibres from wastewater using soundwaves, and researching the use of bacteria to degrade microfibres in effluent treatment plants.

— We partnered with Forum for the Future (FFTF) to support its Tackling Microfibres at Source research project. We also worked with FFTF to deliver capacity-building workshops with our suppliers — primarily fabric manufacturers — exploring challenges and solutions for fibre fragmentation.

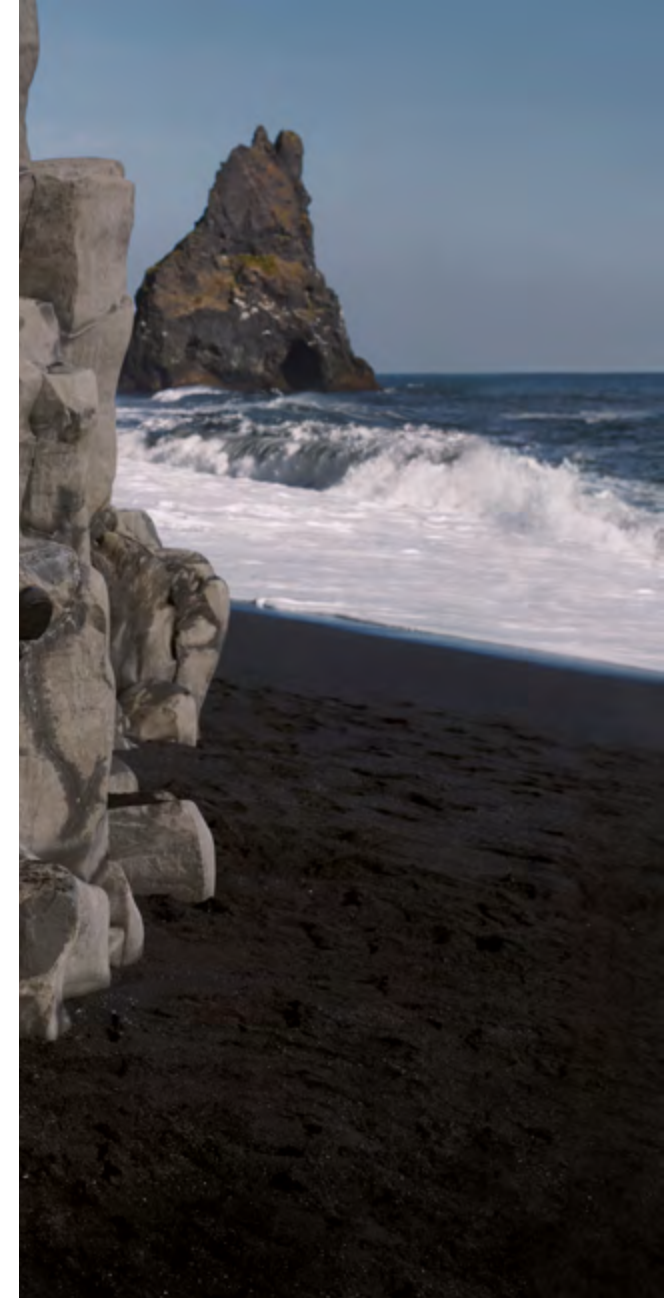
— ARKET and H&M continue to promote and sell laundry bags to help customers reduce microfibre shedding during laundry.

Learnings

— Uncertainties related to microfibres — including a lack of science-based methodology to measure shedding — highlight the need for collaborative efforts. For example, further research is required to understand the impacts of different environments and materials on fibre fragmentation, as well as the impact of chemicals.

Future focus

— We will continue to collaborate on research and set a vision and direction for our work to reduce fibre fragmentation, developing our roadmap in line with TMC 2030 Commitment.



CIRCULAR SUPPLY CHAIN

Resource optimisation & recirculation

The ability to optimise and recirculate resources again and again, maintaining quality and maximising value while minimising waste and impact, is a key step towards reaching a truly circular ecosystem. We see the offcuts generated during production, and clothes that are no longer in use or damaged, as resources. We're working to develop reverse supply chains that bring used products and production waste back into circulation either as second-hand products, or to be repurposed or recycled and diverted back into the production system as valuable feedstock.

Our waste management and resource recirculation strategy guides our groupwide approach to all resource flows throughout our own operations, supply chains and products. We focus on complying with laws and regulations and providing clearly defined policies, guidelines and responsibilities throughout our value chain. This enables us to minimise waste and negative impact, and to maximise value from different waste streams through reduction, repair, reuse as a product, reuse as material and recycling.

To optimise and circulate resources, we focus on:

— **Resource optimisation and recirculation in production:** Valuing production waste as a resource and focusing on maximising value from different waste streams to reduce impact. We are supporting our suppliers through our guidelines and instructions, and we are building systems and networks to reduce waste, optimise and circulate resources in our supply chain.

— **Resource optimisation and recirculation of products:** We focus on optimising supply to produce products according to demand, and bringing used products back into circulation — either as second-hand, reusable materials or through recycling. We ensure that products get used at their highest resource value. If a product isn't performing as planned, we prioritise selling it within our primary sales channels. A found provides an additional channel to share garments with customers. Only once we've reviewed all internal uses do we find solutions via trusted business partners including charities and outlets.

— **Giving faulty products a new life:** We prioritise repurposing or recycling.



Beyond our products, we work to increase resource recirculation in our own operations and packaging systems, as well as scaling customer-facing circular business models to help clothes stay in use for longer.

Progress: resource optimisation & recirculation in production

— We rolled out instructions to our garment suppliers on our requirement for the responsible handling, disposal, and management of production textile waste. This supports our suppliers to minimise and handle textile waste in the best way, and to maximise its value.

— Together with Global Change Award winner Reverse Resources, we worked with a digital tool that enables traceability of waste generation, so that it can be used as a resource for our products.

Based on our waste distribution hierarchy framework, we are also building a strategic network of recyclers to utilise the resources from our suppliers. We have trained our suppliers in efficient waste management and handling, to supply quality feedstock to our nominated recyclers. So far, 85 suppliers from five countries have participated in this initiative to divert the waste generated from our supply chain to use it as a resource for our products. Approximately 1.4 kilotonnes of collected waste was sent to our nominated recyclers in 2022.

— We participated in the Switch to Circular Economy (SWITCH2CE) value chains initiative, funded by the European Union and the Government of Finland, and led by the United Nations Industrial Development Organization (UNIDO). The overall objective of SWITCH2CE is to facilitate a fair and just transition to a circular economy via initiatives that are environmentally

Resource optimisation & recirculation



sustainable and improve the industry’s competitiveness through green innovation.

— We started a partnership with Global Startup Award Winner Smartex, using its innovative AI technology to identify faults during production. This helps us improve resource efficiency by avoiding unnecessary production of faulty yarn and fabric.

— COS launched the Beyond One Life capsule collection, crafted entirely from leftover fabrics from previous COS collections.

Progress: resource recirculation of products

— We continue to focus on maximising the use and the value of our products and to make sure that no products that could have a new life are wasted.

— To accelerate collection, sorting and recirculation of post-consumer textiles and products we have set up a new reverse supply chain team, which focuses on building scalable systems where the traditional supply chain ends, maximising product reuse, repurposing and recycling. We also continued with the existing garment collecting initiative in 2022, partnering with I:CO¹ to collect and sort garments.

— We participated alongside other brands in Fashion for Good’s Sorting for Circularity initiative,

an 18-month collaborative project to scale recycling capacity in Europe. Recommendations for brands include designing for recyclability and appropriate lifecycles, and prioritising mono-material products.

— We continued investing in recycling infrastructure to enable used fabrics and garments that cannot be reused to feed into making new materials.

— To help address the global challenge of textile waste ending up in places without reuse and recycling systems, we actively engaged in discussions to strengthen legislation, and increase scrutiny of data, reporting and follow-up. In the EU, we continued advocating for harmonised Extended Producer Responsibility (EPR) schemes and other waste policies that facilitate effective collection, sorting and recycling of textile waste. Read more about our public affairs work.

Progress: faulty products

— Where a product is faulty, we prioritise reuse and recycling:

– 0.64% of our total product assortment was reused, repurposed or recycled (including charity donations) due to a fault (0.66% in 2021).

– 0.05% of our total product assortment was destroyed (prioritising incineration for energy recovery) due to failure of chemical tests, contamination by mould (for example, during transportation), or when no viable recycling or downcycling solution was available (0.06% in 2021). We never destroy products that are safe to reuse or recycle.

— We enhanced our internal communication around product defects to ensure these are better detected. This includes improving the routines

| Faulty products ² | 2022 | | | |
|--|-------|-------|-------|-------|
| | 2019 | 2020 | 2021 | 2022 |
| Total product assortment reused (including charity donations) or recycled due to the products being faulty | 0.41% | 0.36% | 0.66% | 0.64% |
| Total product assortment destroyed ³ | 0.03% | 0.03% | 0.06% | 0.05% |

1) In 2023 we will work with Remondis for garment collection.
 2) In 2022, we revised the scope for these figures, leading to an update of historic data for 2021 and 2020. The 2019 figures have not been updated and are therefore not comparable to the figures for 2020 onwards.

3) Due to the products having failed certain chemical tests, being contaminated by mould (for example during transportation) or when there was no viable recycling or downcycling solution available. We prioritise incineration for energy recovery where possible.

Resource optimisation & recirculation

we have in place to carefully check returns at our distribution centres for any faults.

Learnings

— We're learning from our work to secure reverse supply chains for resource recirculation, including the need to engage even more closely on emerging EU legislation to ensure policy supports effective processes and infrastructure. There is complexity around waste regulations and infrastructure, and a need for more EU-harmonised waste regulations.

— We need to scale services that enable reuse of products before they end up at the collecting bin and sorting facility. We need to keep products closer to the user for longer and at their highest value.

— There is still a gap in scalable systems and technologies for sorting and recycling, especially for blended textiles. This makes the progress for us and the industry slower than we would have wished for.

— Putting our Responsible Waste Management Guidelines for production waste into practice has shown a clear need for more localised recycling infrastructure. Increased investment and innovation in waste separation and recycling technology are required to achieve this, alongside

widespread recognition of the value of resources left over from production.

— We're seeing increasing need to accelerate activities that enable textile-to-textile circulation around the globe and research alternatives to current textile options. This will require us to continue making investments in recycling technology, focusing on scaling up of pre- and post-consumer recycled materials and developing our reverse supply chains.

Future focus

— We will increase our focus on securing reverse supply chains and increasing resource recirculation. We will continue to support investments and scale technology, infrastructure and systems to sort, reuse and recycle textiles, supported by our public affairs work.

— In line with our holistic approach to circular and climate impact we're increasing our focus on jobs in a circular fashion industry.

— As legislation and compliance requirements for waste evolve, we will continue our dialogue with stakeholders and ensure compliance in all markets where we operate.



CIRCULAR SUPPLY CHAIN

Production processes

Processes such as washing, dyeing and printing use energy, chemicals and water. We're taking a holistic approach to improving our materials processing, collaborating to reduce impact at scale while contributing to our environmental goals. We want to see fully aligned industry tools for measuring the impact of production processes and scaling less impactful alternatives.

We focus on five areas:

- **Chemicals:** Reduce use, increase reuse or regeneration, and use third-party hazard-assessed chemistry such as [Screened Chemistry](#).
- **Energy:** Improve efficiency and reduce GHG emissions.
- **People:** Ensure proper use of personal protective equipment by workers, avoiding adverse health or safety effects.
- **Production waste:** Reduce waste and increase [recovery, reuse and recycling](#).
- **Water:** Reduce use, increase reuse and recycling for wastewater, reduce quantity and improve water quality.

Our printing roadmap sets the pathway towards our aim to maximise use of processes that have significant savings in water, energy and chemicals compared to current conventional practices. We're testing and scaling new techniques and technologies, alongside working with our suppliers to implement change.

Progress

- We are working with third-party consultants to set a methodology for collection of environmental impact data, set a baseline and verify data for conventional textile production technologies. This work is essential to enable comparison and measurement of progress, since there are currently no industrywide benchmarks or baselines. Better data will enable us to compare and identify processes with lower negative impacts in our five focus areas and share our knowledge with the industry.
- We conducted a project to identify chemicals substitutions with lower environmental impacts and other opportunities for process improvements.
- Our participation in a member expert team for textile wet processes with the Sustainable

Apparel Coalition [Higg Materials Sustainability Index](#) (SAC Higg MSI) supports our long-term objective to have fully aligned industry tools for measuring the impact of production processes.

— We continue to invest in new washing and dyeing innovations, supporting them to scale up, including:

- H&M CO:LAB continued to invest in [Colorifix](#), a biotech company that uses microbiology to produce and fix dye on textiles. The first large Colorifix bioreactor was installed in Portugal at the end of 2022. A number of our brands and assortments are ready to develop and place orders.
- Dyeing and finishing company [Alchemie](#), also receiving continued H&M CO:LAB investment, set up pilots in Taiwan and Turkey to showcase its process to our suppliers. The first bulk machine for polyester will be installed in the Taiwan Region at the end of the year.
- DigitalDyeing® innovator [Imogo](#) has been involved in several successful trials and is working with selected suppliers within our supply chain. One of our suppliers in Bangladesh has bought a machine that will be ready early in 2023.
- H&M continued developing and scaling projects with Alchemie, Colorifix and Imogo. The brand developed new partnerships with [Algaeing](#), which produces 100% biodegradable algae-based dyes and threads, and [Recycrom](#), which has developed a multi-purpose dye made from textile waste fibres.



Learnings

- There are no benchmarks or baselines for traditional textile production processes. Developing more accurate data for specific processes requires collaboration from different stakeholders to achieve this shared goal.
- Current investments in the industry to date have primarily been made for incremental, efficiency-focused initiatives, rather than implementing disruptive innovative technologies that are essential to meet goals around water, chemical and energy savings.

Future focus

- We will prioritise moving away from the highest impact processes step-by-step, towards processes that are better from an energy, water, chemicals and waste perspective.
- We will continue to evaluate and test new innovations, to understand their true potential as alternatives to current production processes.

CIRCULAR CUSTOMER JOURNEY

Scaling customer-facing circular business models

Our ambition to maximise product use and offer customer-facing circular business models at scale helps us build a resilient, customer-focused business. We are committed to developing long-term, meaningful relationships with customers as they engage in repair, rental and resell services, and we will continue to scale infrastructure to enable used products to have a new life through reuse as product, material or recycling. Reducing our resource dependency by maximising product use and recirculating resources will decouple our growth from resource use. This is crucial for reducing our environmental impact and fulfilling our climate and nature goals. These models must be firmly established in the mainstream for the much-needed industrywide shift and the change in customer behaviour to occur. We are mindful that products or services accessed via these models must replace products sold through the traditional linear model.

We focus on three areas to maximise product use:

— **Use, care and repair:** We encourage customers to explore their style and increase the use of their clothes, offering inspiration on how

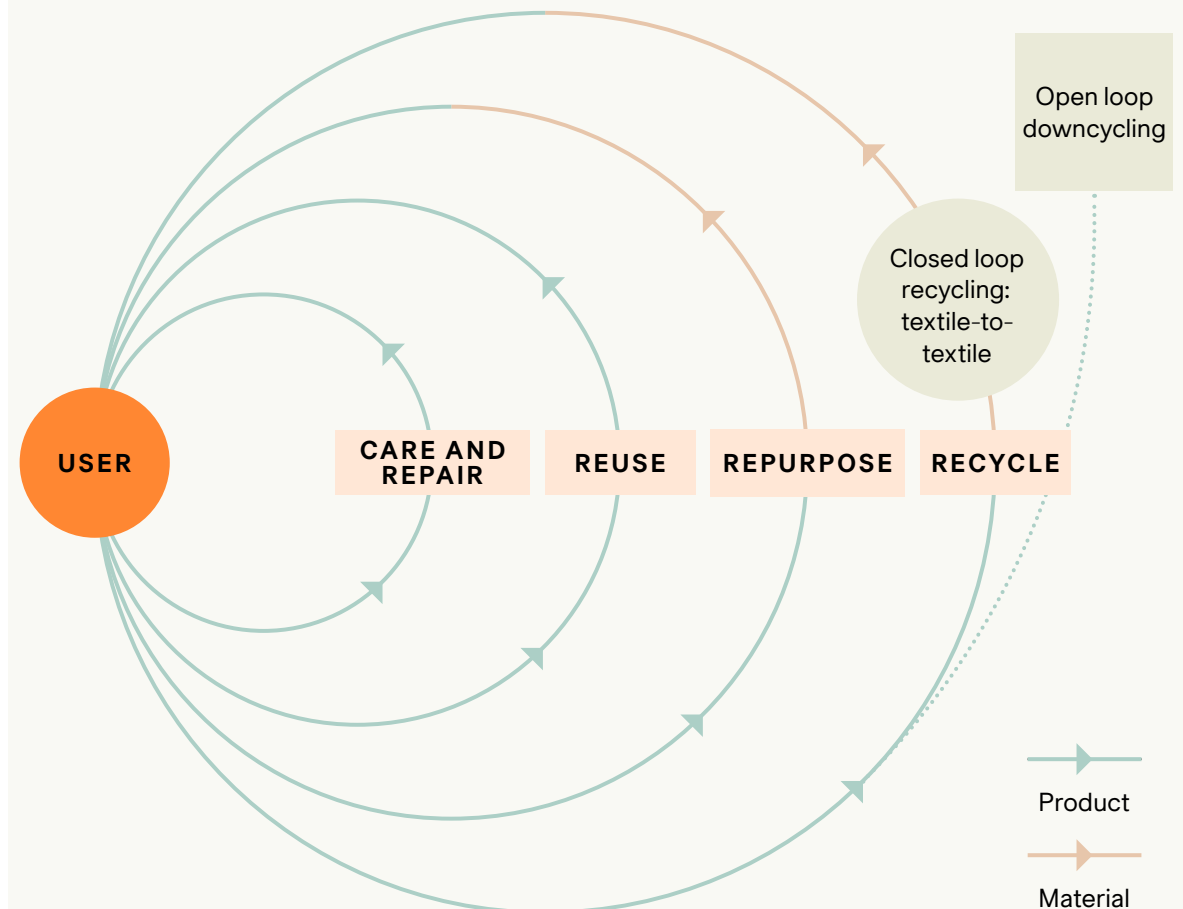
to prolong the life of their garments through care and repair initiatives.

— **Access:** We offer a range of rental and reuse services through which customers can experience fashion while enabling products to circulate. Our ambition is to mainstream and increase desire for second-hand fashion.

— **Collect:** We offer our in-store garment collecting programme worldwide to our customers. Our aim is to ensure the collected products are sorted for the most suitable outcome, be that reuse as product, reuse as material or recycling.

We have developed a position paper sharing our views on the potential for scaling customer-facing circular business models to enable product use extension and prevent waste. Our policy recommendations include: remove VAT on second-hand sales, support reuse and repair models before products become defined as waste, incentivise access to digital product data (e.g. via a Digital Product Passport), and standardise environmental impact measurement for new and reused products.

Customer-facing circular business models



Circular business models enable a product to circulate many times between users or customers. A product may be repaired, reused as a product (for example via a second-hand purchase), reused as materials and remade into

a new product, or recycled. Recycling can return materials to the fashion ecosystem (closed loop) or send them for use as resources in another industry (open loop).

Scaling customer-facing circular business models

Progress: use & care

— H&M Take Care concept is now offered in all global online markets to provide guidance and products to help customers care for their clothes.¹

— Through the online service My Closet we piloted a ‘digital wardrobe’ in India, providing our users with an overview of all their H&M purchases for ten years. This helped our customers to explore their style and offered inspiration on how to prolong the life and increase the use of their clothes.

— We are testing a digital wardrobe app in Sweden. Seam helps users to better use what they already own and to become more satisfied with their style. Through Seam, H&M Group receives post-purchase product data, supporting us to better plan and optimise collections as well as meeting future legal requirements.

Progress: repair

— H&M expanded its repair services this year, improving operations and customer experience. H&M Repair Stations are now operating in seven key cities across five markets.

— H&M started to repair faulty customer returns at the distribution centre in Milton Keynes to enable them to be resold.

— Within the new concept COS Full Circle, some of the garments collected are repaired for resale under the Restore label.

— Monki established a denim repair project, offering a limited collection of jeans that are embroidered after having minor tears during production.

— We ran a pilot project to sort and refurbish returned leather shoes from ARKET, & Other Stories, and COS.

Progress: access

— We continued to expand access to the resell platform Sellpy. More than eight million second-hand items were traded on the platform across 24 markets.

— H&M made it possible to buy second-hand garments from multiple brands alongside new H&M garments in Sweden and Germany — offering a new, integrated customer experience by incorporating a curated second-hand assortment from Sellpy into its website in Sweden and Germany. The solution aims to remove customer barriers, showing that second-hand products are just like a standard purchase.

— Our other brands led their own second-hand initiatives:

– Weekday ran curated second-hand offers in four stores in Sweden.

– Monki Pre-Loved is a second-hand area in two key stores in Stockholm running in collaboration with Sellpy and the Monki community — the customers can sell their garments through a consignment model.

– ARKET launched their ReARKET pilot in Gothenburg, enabling customers to buy and resell products.

– COS Resell is a pillar in the broader COS Circular Business Model strategy. Customers can upload and sell their pre-owned COS garments via the Resell platform in the UK and Germany, giving products a second life and supporting the brand’s circularity mission.

— Our brands also continued to test and scale rental services:

– & Other Stories partnered with rental marketplace HURR. UK Customers can rent a curated selection of & Other Stories collections on the HURR platform or at its pop-up in London.

– H&M expanded its rental service, which is now available in four stores: Stockholm, Amsterdam, Berlin and London and a launch in Antwerp is imminent.



1) Take Care products are available in selected markets.

Scaling customer-facing circular business models

– WEEKDAY continued its partnership with [Gemme Collective](#).

– H&M Home continued its ‘Rent a Christmas’ offers in four cities — Berlin, Paris, London and Stockholm — providing customers with the opportunity to hire festive decorations.

Progress: collect

— We gathered 14,768 tonnes of used products through our existing in-store garment collecting initiatives. During 2022 we continued to work with I:CO¹ to collect and sort garments, with 55% reused as a product, 15% reused as material, and 22% recycled to become products for other industries or made into new fibres. I:CO collaborated with partners to make use of the remaining 8% that, as a last resort, had to be disposed of another way, prioritising incineration for energy recovery and not sending textiles to landfill.

— COS scaled its Full Circle initiative to include a collection of pre-worn COS products that are repurposed or repaired for resale, with cleaning and restoration partner Bleckmann Renewal. Live in eight markets at the end of 2022, COS Full Circle prioritises fixing and repurposing clothes ahead of recycling.

Learnings

— Customer-facing circular business models are often labour intensive with low margins. We address this challenge and discuss how to incentivise a scalable transition in our position paper on circular business models as waste prevention.

— Selling products second-hand requires significant manual handling to prepare garments and input product details. Efficiency and profitability would improve with better access to product information, across brands and customers. A potential establishment of extended use traceability, where data is stored in a product’s digital ID, could be the enabler for this.

— Customers want to understand the impact of their purchases, yet there is currently no standardised way of measuring the GHG emissions or resource use impact of reuse and repair models compared to purchasing new products. This makes clear customer communication and claims a challenge — [read more about our approach to transparent customer communications](#).



Textiles collected in H&M Group stores²

| | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|---------------|
| | 29,005 tonnes | 18,800 tonnes | 15,944 tonnes | 14,768 tonnes |

2) Our garment collecting initiative was disrupted by the Covid-19 pandemic for part of the year in 2020 and for the full year in 2021. Since March 2022, our garment collecting has been paused in Ukraine, Russia and Belarus.

Future focus

— Sellpy is already one of the biggest providers of second-hand fashion in Europe. We will continue to scale its offerings to more markets, increasing the number of second-hand items traded and further decoupling our growth from resource use.

— We are continuing to explore and scale use, care, repair, rental and resale models, improving access and satisfaction for our customers based on our learnings. In the longer term, this will include increasing access to second-hand clothing by integrating it further into our customer journey.

1) From 2023 onwards, we will no longer work with I:CO.

CIRCULAR PRODUCTS, SUPPLY CHAIN & CUSTOMER JOURNEY

Packaging

Our products need to be protected during their journeys between our suppliers, distribution centres, stores and customers, to prevent damage and waste. We're committed to lowering the environmental impact of our packaging, guided by our [Circular Packaging Strategy](#) built on the Ellen MacArthur Foundation (EMF)'s key principles: eliminate waste and pollution, circulate products and materials (at their highest value), and regenerate nature. We prioritise areas where we are most likely to have the greatest impact, including reducing unnecessary and problematic packaging like hangers and plastic bags.

Our **key packaging goals** are:¹

— An absolute reduction in plastic packaging of 25% by 2025 (2018 baseline).

— Design 100% of packaging to be reusable and/or recyclable by 2025.

— Make 100% of packaging from recycled or other [more sustainably sourced](#) materials by 2030, with a preference for post-consumer recycled materials.

1) We are not reporting our overall % change in packaging volume (metric tonnes) this year, since we are in the process of revising this goal and our circular packaging strategy — including calculating a new baseline figure for the overall amount of packaging used.

— Reuse or recycle 100% of packaging from our own sites by 2025.

Read about our detailed [plastic packaging goals](#).

Our Circular Product Development Guideline, Material Guideline and Restricted Substances List for Packaging Suppliers support progress towards these goals. Driven by the goal to tackle plastic pollution, we're signatories of EMF's [Global Commitment](#) in collaboration with the UN Environment Programme — which has united more than 500 organisations behind a common vision of a circular economy for plastics — as well as [Fashion Pact](#). We endorse Canopy's [Pack4Good](#) initiative, which underscores our commitment to focus on responsibly sourced wood-based packaging, including recycled pulp, next generation fibres and FSC-certified sourced paper.

Progress

— Our 2022 priority was to complete the shift from single use plastic to reusable plastic or alternative materials — read more below. We achieved an absolute reduction in plastic packaging of 44% of plastic compared to our baseline year 2018. Of the remaining plastic we

use, 76% is recycled (55% post-consumer and 21% pre-consumer). We have therefore reached our plastic targets ahead of time, so will revise our circular packaging strategy — read more on [page 57](#).

— 92% of waste handled in H&M Group distribution centres was recycled or reused (92% in 2021).

— We partnered with [Virginia Tech University](#) to explore how to measure the impact of online packaging through a product Life Cycle Assessment.

— We have an ongoing dialogue with Canopy about how to switch our dependencies on virgin wood fibres to more recycled materials and next generation fibres, and are continuing to explore this.

— We are strengthening our IT solutions to improve packaging decisions in the product development stage as well as supporting our suppliers to reduce the material consumption for packaging. Where this is implemented, we have seen good progress on both resource reduction and cost savings.

— **Polybags.** We are taking steps to reduce, replace or remove unnecessary polybags throughout our supply chain. We shipped the first global collection using paper instead of single use plastic polybags for H&M Baby and H&M Men. We are also switching from virgin plastic to post-consumer recycled plastic for master polybags used in transportation. We will continue

to increase the share of post-consumer recycled plastic in our garment polybags.

— **Hangers.** In line with our [Chemical Roadmap](#) we aim to eliminate or replace all hangers made of polystyrene by the end of 2023. We are moving away from single use hangers and, in 2022, 26% of all our hangers were reused. We accelerated the industry's systemic shift to a circular model by collaborating with suppliers and collectors, and implementing the [Return to Source](#) model in more markets.

— **Transit (e-commerce and transport) packaging.** The major share of the packaging we use going forward will be transit packaging. For online packaging, we have worked to optimise the size and weight of the FSC-certified paper bag that replaced single-use plastic bags for all our brands and markets. For transport packaging, we're carrying out ongoing research and development to increase post-consumer recycled material and product durability. Our [reverse supply chains](#) work will help to secure end-to-end responsibility of these packaging types, ensuring packaging is reusable or recyclable.

— **Shopping bags in stores.** We saw an immediate 40% reduction in usage of in-store shopping bags following the introduction of bag charges.²

— **Materials.** We're working to improve the chain of custody for FSC-certified materials to have better control of the traceability process.

2) Reduced consumption of paper bags in store (-40% compared to 2019) is calculated for the countries (Colombia, Mexico, Spain and New Zealand) that started charging for bags in 2022.

Packaging

We are also redesigning traditional packaging, moving away from non-recyclable multilayer materials, achieving the same functionality with mono-materials.

Learnings

— Our collaboration with suppliers to maximise hanger reuse and recycling demonstrates how effective and impactful business-to-business partnerships can be in the shift to a more circular economy.

— Our work with Virginia Tech showed the complexity of measuring the environmental impact of online packaging. To evaluate the entire environmental footprint effectively, a Life Cycle Assessment needs to be complemented by methods to measure aspects such as material circulation and land use.

— There can be challenges and trade-offs in shifting from plastic to recycled or sustainably sourced paper packaging. Paper packaging might require higher volume and weight than plastic because thicker paper is needed for equivalent protection. Recycled paper is less durable than virgin paper so we will continue to work on finding strong recycled paper alternatives.

— Polybags have an important function, protecting products in distribution centres and in transit. Our challenge is to find and secure more sustainable alternatives — such as durable

recycled paper packaging — to serve the same purpose. We have started removing polybags from socks and aim to do so for other products once we find viable solutions.

Future focus

— We will revise our groupwide circular packaging strategy, set in 2018, as the landscape we are operating in has changed since then. We are shifting more towards selling online and selling interior products through H&M Home, which requires a different type of protection to garment circular packaging. We are also shifting from using single-use plastic to paper packaging, to support higher rates of recycling from our customers. We will update our strategy and revise our overall packaging reduction goals, our approach to plastics use and our recycled packaging targets.

— We will continue to explore reverse supply chains beyond our hangers programme, with a focus on designing packaging for circularity and collaborating with external stakeholders.

— As legislation and compliance requirements for packaging evolve, we will continue taking part in relevant conversations and ensure compliance in all markets where we operate.

| Packaging data ^{1,2} | 2019 ³ | 2020 | 2021 | 2022 | GOAL |
|---|---|---|---|---|--------------|
| Absolute plastic packaging reduction (from 2018 baseline) | N/A | -24% | -28% | -44% | |
| Design packaging to be reusable or recyclable⁴ | | | | | 100% by 2025 |
| – Plastic packaging that is reusable or recyclable ⁵ | N/A | 6% | 37% (28% recycled; 9% reused) | 57% (42% recycled; 15% reused) | |
| Make packaging from recycled or more sustainably sourced material, within which... | | | 68% | 85% | 100% by 2030 |
| – Packaging from recycled materials | N/A | 50% | 42% (13% pre-consumer; 29% post-consumer) | 66% (30% pre-consumer; 36% post-consumer) | |
| – Packaging from virgin FSC certified sources ⁶ | N/A | N/A | 26% | 19% | |
| Plastic from recycled materials | 65% (27% pre-consumer; 38% post-consumer) | 76% (64% pre-consumer; 12% post-consumer) | 43% (1% pre-consumer; 42% post-consumer) | 76% (21% pre-consumer; 55% post-consumer) | |
| Paper and cardboard in packaging from recycled or more sustainably sourced material, within which...⁷ | N/A | N/A | 78% | 87% | |
| – Virgin FSC-certified sources ⁶ | N/A | N/A | 35% | 23% | |
| – Recycled from certified sources | N/A | N/A | 43% | 64% | |

- 1) We're establishing the data systems needed to report progress on reusing or recycling all packaging waste from our own sites, and to measure the total volume of our packaging that is reusable or recyclable.
- 2) Some packaging within our value chain remains unreported due to a lack of comparable data, particularly for packaging purchased locally at distribution centres and transport packaging for store interiors. We are working to map all packaging across our network to continue improving our data and during 2023 we will revise our goals and baselines.
- 3) In 2020, we revised our 2018 baseline data for packaging due to improvements in data quality.
- 4) We will begin tracking total data once we have completed development of a digital design tool for circular packaging that will enable us to do so.
- 5) We used the recyclability assessment methodology part of the Global Commitment reporting to calculate for plastic packaging that is considered to be recycled at a global scale.
- 6) Packaging from virgin FSC-certified sources refers to the percentage of total packaging material from virgin FSC-certified sources. Virgin FSC-certified sources refers to the percentage of wood-based (paper and cardboard packaging) material from virgin FSC-certified sources.
- 7) In 2022 we continued to improve the data management system and the traceability process to secure certified packaging. To align with the 2021 improved methodology to capture FSC certifications, data for 2019 and 2020 is removed.

CIRCULAR PRODUCTS, SUPPLY CHAIN & CUSTOMER JOURNEY

Stores, distribution centres & offices

We strive to ensure that the stores, offices and distribution centres we use, though not all owned by us, are built, maintained and furnished in line with our circular and climate goals. Our Circular Built Environment Strategy helps to reduce our climate footprint. The strategy is built on the Ellen MacArthur Foundation's three key principles to eliminate waste and pollution, circulate products and materials (at their highest value), and regenerate nature. We prioritise the reduction, reuse, repair and recycling of our resources and focus on using recycled or other more sustainable materials.

Our goals are:

- Reduce GHG emissions from our operations by 56% by 2030 — as part of our wider emissions goal.
- Design 100% of interiors to be reusable, repairable or recyclable.
- Use only recycled or other more sustainably sourced materials by 2030.
- Reuse, repair or recycle all interiors by 2030.

We collaborate with our business partners and building owners to achieve these goals. Read more about our approach to the built environment.

Progress: reducing emissions

- We have identified H&M's top six key raw materials for interiors that help reduce GHG emissions through reuse. These are stone, steel, melamine, stainless steel, wood and aluminum. We are modelling how we can calculate and verify these emissions reductions. Based on these calculations, we've set a key milestone for store interior materials in 2023: to reduce emissions by 15% CO₂e/m² and to reuse 45% of interior materials (measured in kg/m²).
- We made progress towards extending our Circular Built Environment Strategy to distribution centres and offices, including launching a project with suppliers to measure the CO₂e of our office interiors.
- 75% of our offices globally are lit by LED, with a goal of 100%.



Stores, distribution centres & offices

— We updated our Circular Design Guideline for the built environment to use the same methodology as [Circulator](#), our commercial circular product design tool.

— For offices, we have prioritised optimising space with the end goal to reduce GHG emissions. At our H&M head office in Stockholm we reduced office space by 10%, completed LED retrofit for an area of 28,000 m², reused and refurbished existing furniture, and recycled furniture that was no longer functional. 63% of our Swedish office portfolio is third-party certified by LEED, BREEAM in Use or Miljöbyggnad and 10% of our global portfolio is third-party certified by either LEED or BREEAM.

Progress: recycled or other more sustainably sourced materials

— Our new construction frameworks for distribution centres include clear requirements for [more sustainably sourced](#) and recycled materials.

— We continued collaborating with [Really](#) to recycle textiles into products for our interiors. We face some challenges with the required minimum ordered quantities per colour so we're considering switching to using standard colours.

— Where possible we use Unilin's wood fibre-based boards containing 90-95% recycled content. Other board suppliers are encouraged

to work towards being able to offer products with lower negative impacts.

— Our brands started tracking progress on materials use. For example, COS launched its new store concept design in two stores, resulting in an average recycled material usage of 68%.

Progress: reuse, repair, recycle

— We established our Redesign project to reuse materials from closed stores, starting with one in-store test with a redesigned interior. A further six projects are confirmed for 2023.

— Our online sharing tool facilitates reuse of surplus store interiors. This year we also created a reuse tool to build in the scope for reuse into the design phase of new projects.

— COS is committed to using no new concrete products in interiors and is testing a flooring system that can easily be installed and removed for reuse.

Learnings

— We learned a lot from our collaboration with [Biomason](#), including the complexity in replacing a traditional floor tile with an alternative material that has the quality we require. Therefore, we have agreed to not continue with the partnership in its existing format. We are committed to finding a [more sustainable](#) floor product and will continue

to follow developments at Biomason as well as seeking out other innovative solutions.

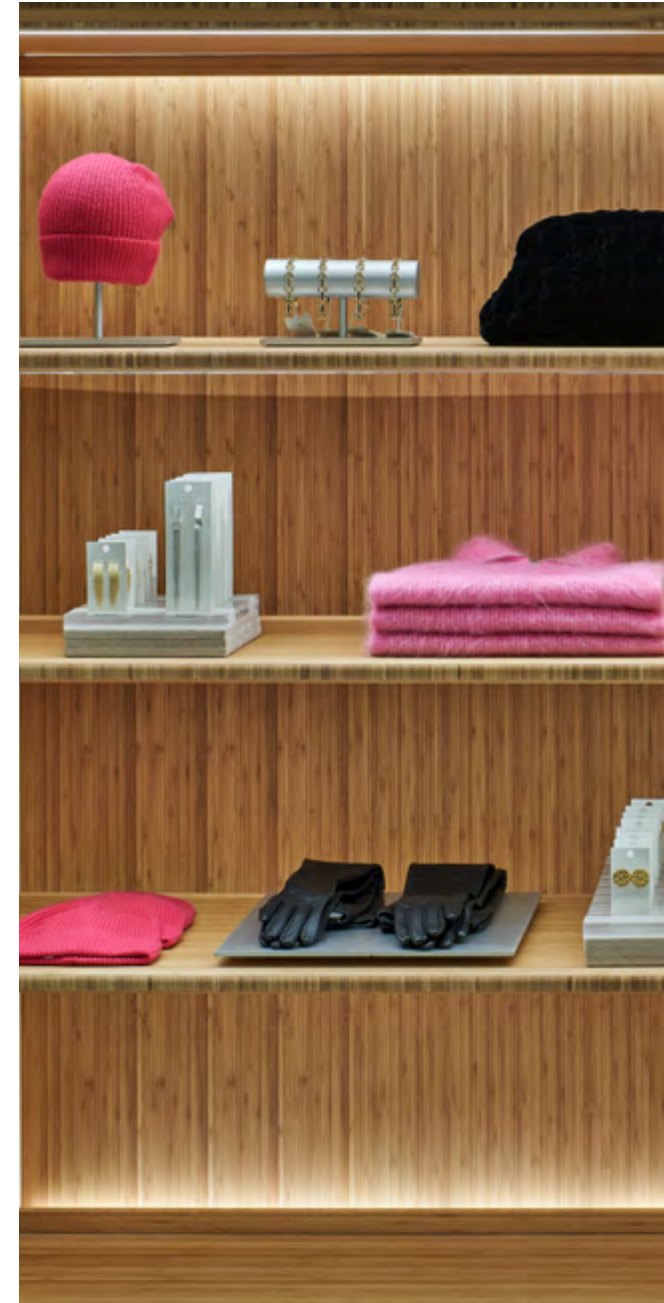
— Existing legislations do not support a circular way of working so reuse of interiors between stores and markets can be challenging, particularly when it comes to asset value transfer.

— Optimising office space and reusing or selling interior products, rather than sending them for recycling, has not only saved resources and avoided GHG emissions, but is also a profitable business case.

Future focus

— We have prioritised our strategic partnership with [IVL Swedish Environmental Research Institute](#) to build a climate impact analysis model for interior products. This will help us understand the CO₂e and resource reduction impact of materials — from the extraction of the raw material and material processing, until the material is ready to use for interior production, including logistics.

— We will continue reducing our office space, measured as m²/person, and increase the share of reused interiors.



Fair & Equal

| | |
|---|----|
| Our approach to being Fair & Equal..... | 61 |
| Respecting & advancing human rights..... | 63 |
| Social impact in our own operations..... | 65 |
| Social impact in our production supply chain .. | 67 |
| Inclusion & diversity | 77 |
| Community engagement | 81 |



Our approach to being Fair & Equal

Our business impacts people all over the world, and we want to ensure that impact is positive. We have a responsibility to respect and advance the rights of everyone involved in and affected by our business, guided by our shared values and our commitment to being a fair and equal company.

Human rights due diligence is the ongoing process we use to identify, prevent, mitigate and remedy potential and actual negative impact on people

and their human rights. It is the foundation of our approach to being a fair and equal company and ensuring the social perspective is included in our environmental programmes. We aim to support all human rights and we focus our efforts and strategies on our salient issues — those issues at greatest risk of significant impact from our business. Evolving contexts such as the war in Ukraine, ongoing environmental instability, and the aftermath of the Covid-19 pandemic escalate risks to human rights in specific regions or globally.

Rights holders impacted by our business include our employees, our customers, the workers in our supply chains, the communities where we operate, and specific communities of people at greater risk of inequity or human rights violations. We strive to respect and advance their rights through the following areas of work:

— **Social impact in our own operations and production supply chain.** Everyone should expect decent, meaningful jobs with fair compensation and benefits in safe, secure workplaces free from discrimination, with the right to freedom of association. Our work to deliver this — with a focus on our employees and people working in our production supply chain — is aligned with the International Labour Organization’s Fundamental Principles and Rights

at Work, and informed by its definition of decent work.

— **Inclusion and diversity.** We’re determined to create inclusive, diverse and equitable workplaces in our operations and production supply chain. Together with our brands, we promote diversity and equality through products and communication, and advance inclusion in our communities.

— **Community engagement.** We partner with others to improve social and environmental impacts on our stakeholders at a local level in the countries where we operate, and to advance the rights of wider communities.

— **Working towards a circular, net-zero fashion industry.** The state of the natural environment fundamentally affects people’s wellbeing and equitable access to essential resources. As we accelerate our journey and that of the sector towards a circular, net-zero future, it’s vital we consider the risks and opportunities related to human rights, so we can enable a holistic impact and a just transition to a resilient, thriving sector that supports people and the environment.

In our 2022 stakeholder survey, 36% of stakeholders rate our work on fair jobs as good or very good and 50% rate our work on inclusion and diversity as good or very good. Our overall employee engagement score in our People Engagement Pulses survey was 76 out of 100 (76 in 2021). 89% of suppliers regard H&M Group as a fair business partner.

See our Fair & Equal KPIs from 2022.

H&M Foundation

In 2022, H&M Foundation:

— Continued to support women garment workers in Bangladesh by launching Oporajita (“Undefeated”) — a multi-partner initiative taking a holistic approach to equip these women for a future defined by automation and digitalisation.

— Continued to support Saamuhika Shakti (“collective power”), a ten-partner initiative that aims to equip informal waste pickers in Bengaluru to lift themselves out of poverty. H&M Group extended the reach of Saamuhika Shakti through a stand-alone business partnership with social enterprise Hasiru Dala Innovations. Buttons containing plastic recovered from the streets of Bengaluru are now featured on garments worldwide.

— Partnered with Social Alpha to launch the second round of Techtonic — Innovations in Circular Economy in India as part of Saamuhika Shakti. This national challenge identifies local, disruptive innovations that improve waste management and integrate waste pickers in their value chains.

— Donated USD 100,000 each to Save the Children and the United Nations High Commissioner for Refugees to support relief efforts in Ukraine, and donated USD 250,000 to Red Cross/Red Crescent to support Pakistan flood relief.



A global, industrywide approach to workers' rights

An interview with Atle Høie, General Secretary at IndustriALL about how we're doing and what we can do better

Nine years ago, the first Global Framework Agreement (GFA) was signed by H&M Group, IndustriAll and IF Metall. What impact have you seen as a result?

Since the signing of the GFA, it is clear that industrial relations and workers' rights within the H&M Group global supply chain have improved. The joint agreement established a global dispute mechanism, a system of national monitoring committees (NMCs), and a pathway for workers to unionise and negotiate collective bargaining agreements at H&M Group supplier factories. The NMCs are key in supporting the dialogue between suppliers and trade unions when issues are not resolved in the factory level.

Other global brands have followed H&M Group's lead, having seen the value of directly engaging with IndustriALL and its affiliates to strengthen industrial relations.

How would you describe the challenges to building industrial relations that protect workers in the fashion industry?

The main challenge is the industry's business model, which with its supply chain dependency takes away the formal responsibility from the brands. In the fashion industry the brands have enormous influence on the terms being offered to workers, but since they are not the

direct employers of the workers they have no immediate contribution to the collective agreements. Other challenges are of course that the garment industry is labour intensive and located in poorer and less developed countries where industrial relations are still very immature.

What would you like to see more of from H&M Group and other actors to address these challenges?

As a leading player H&M Group must continue to set a good example in developing industrial relations, sound purchasing practices, and observation of good health and safety requirements with their suppliers. A global leader must take a firm stance when it comes to violations of international standards, the contents of the GFA, as well as the commitments made through the International Accord and ACT.

From governments we expect complete respect for the ILO conventions and support for organising and collective bargaining, which are key to create a more level playing field between employers, workers and brands.

Suppliers need a push to respect the same standards, but they are often squeezed between the price they get from brands and expectations from governments and workers. All parties must

work together to create a system where workers get good wages and working conditions and brands and suppliers still make money.

We work together on wages, health and safety, social protection, and in our own supply chain on gender-based violence and harassment (GBVH). How can we improve our collaboration to maximise our impact?

The collaboration has highlighted the importance of working together with other brands and global actors to solve systemic problems within the global supply chain that cannot be solved by one brand alone.

Further collaboration is needed to impact the business model of the global textile supply chain. Global stakeholders, but also brands individually should sign legally binding agreements with IndustriALL and its affiliates to guarantee improving conditions in the industry.



Respecting & advancing human rights

We are committed to respecting and safeguarding human rights across our entire value chain, led by the [UN Guiding Principles on Business and Human Rights](#) and the [OECD Guidelines for Multinational Enterprises](#). We aim to take a consistent approach to assessing, addressing and remedying our impact on people and the planet and we prioritise our most salient issues.

Our standpoint is detailed in our [Human Rights Policy](#), which clarifies and embeds our work to respect fundamental human rights in our operations. Our [Modern Slavery Statement](#) outlines how we work to prevent forced labour and child labour in our supply chains.

Heightened global unrest and new conflicts, such as the war in Ukraine, increase the risk of human rights violations in our business. We also recognise the interconnectedness between environmental issues — such as climate change, resource use and water scarcity — and social impacts affecting equity, health and livelihoods.

Our strategies and policies are focused on our [salient human rights issues](#) and we take a risk-based approach to human rights due diligence. We continually monitor and evaluate emerging concerns across our operations, supply chains

and communities, and adjust our priorities accordingly.

Our policies, impact and progress on these issues are detailed in various sections of this report, including [water](#), [material choice](#), [social impact in our own operations](#) and [production supply chain](#), [inclusion & diversity](#), [community impact](#), and [supply chain management](#).

It's vital that the many people we work, collaborate and exchange with are assured of their rights and have the ability to inform our work. [Engagement](#) with rights holders impacted by our business is therefore an important element of our operations.

We are unifying our corporate governance policies and centralised risk management systems, further integrating our human rights and environmental due diligence with corporate risk management processes. See more details about our work on [corporate risk management](#), [human rights](#) and [due diligence](#). We continue to embed due diligence across our operations and continuously seek to track and improve our impact.



Progress: human rights due diligence

— We made our [Sustainability Commitment for Business Partners](#) more pertinent to different operational contexts and experiences by tailoring it to different functions and groups — such as manufacturing, construction and facility services, landlords, warehouse operations and transport. These updated versions are being rolled out across H&M Group.

— For the third consecutive year, we involved our in-country teams from production, construction, cleaning and logistics in our annual human rights risk review process. Their engagement provides more granular input to our risk assessment, increases awareness of our policies, and further integrates our human rights practices across the organisation.

— As our business model becomes increasingly digital, we're focusing on strengthening rights and protections linked to privacy, data security and the responsible use of data.

Progress: trainings

— We provide ongoing trainings to help our colleagues understand and protect human rights:

– In 2022, 177 colleagues participated in training that raised their awareness of human rights.

– The International Organization for Migration ran supplementary sessions for our production suppliers and our warehouse operations staff in Italy, Poland, Portugal and Romania, on the responsible recruitment of refugees from Ukraine.

Respecting & advancing human rights

Progress: grievance mechanisms

- We expanded the scope of [Speak Up](#), our corporate complaints and grievance platform, to enable more external stakeholders to access it.
- Our updated Sustainability Commitment requires our suppliers and business partners to

ensure grievance mechanisms are in place in their operations and to actively engage in remediation processes.

- We continued to follow up on the functionality of grievance mechanisms throughout our [production supply chain](#).

Progress: supply chain management

- We worked across our supply chains to support human rights (read more in the [supply chain management](#) section):

- We assess risk levels to prioritise audits of our own and outsourced warehouse operations. In 2022, we undertook 34 on-site audits.

- We continued to collaborate with peers through the [EU Responsible Trucking Platform](#), to improve the working conditions of truck or lorry drivers and other road transport labourers.

- To strengthen our due diligence towards external brands, we continued to assess operational risk levels and adjust our collaboration and audits to brands' expertise and experience. We also developed a self-assessment guide for business partners as part of the onboarding process, supported by training.

- We worked with the Better Cotton Initiative, Textile Exchange and Leather Working Group to further embed human rights and support for livelihoods into their material standards and way of working.

Progress: protecting vulnerable groups

- We identified no cases of child labour in our tier 1 supply chain in 2022. We reviewed and updated our guidelines on child labour risks and remediation, and rolled out supporting training to internal teams and key suppliers. 33 colleagues were trained on child rights, child labour risks and remediation.

- In Turkey and Bangladesh, we are developing tailored childcare services for the children of workers in our supplier factories, to support their right to education and to enable greater gender equality in the workplace.

- We continue to focus on the [responsible recruitment of migrants](#) and seek to identify opportunities for them to access the labour market under fair terms. Read more in our [Modern Slavery Statement](#).

Progress: public affairs

- To drive systemic change in human rights legislation, we have grown our [public affairs](#)

function and increased our calls for progressive regulation.

Learnings

- Volatile economic and political contexts require quick and appropriate actions. We endeavour to act in a timely and effective manner to support human rights and our responses are guided by our ongoing risk analyses and due diligence processes.

- To be compliant with anticipated legislation, we need to further strengthen our due diligence and integrate it with standard business operations, document our processes, and harmonise data collection across the group.

Future focus

- We have, until now, focused our efforts primarily on own operations and tier 1 and tier 2 production suppliers, as well as on some elements of our raw material sourcing. Our intent is to strengthen our due diligence across our full production supply chain, covering all raw materials, as well as our service supply chains and our [circular business models](#).

- We aim to improve our understanding of environmental and human rights threats across our value chain to inform a more risk-based approach. This will provide more comprehensive risk and impact assessments and will guide preventive measures and mitigating actions.



Social impact in our own operations



All H&M Group colleagues should have good working conditions in safe and healthy environments. We strive to create and maintain workplaces that are fair, inclusive, equal and respectful. Based on learnings from our ever-changing business environment, we continue to explore new ways of working to encourage creativity and strengthen our culture. We focus on:

— **Health, safety & wellbeing.** We continually work to promote physical, mental, and social wellbeing throughout our operations. Established processes and routines, and close dialogue with internal stakeholders, help us identify and mitigate risks and challenges.

— **Professional & personal development.** We embrace a learning mindset where colleagues regularly give and receive feedback. Everyone is supported in defining their development goals and encouraged to engage in a wide range of learning opportunities to grow professionally and personally.

— **Employee relations & engagement.** We respect our employees' right to freedom of association and collective bargaining, and outline our commitments in our [Global Labour Relations Principles](#) and [Global Framework Agreement](#) with

[Union Network International](#). Engaging with our employees is crucial for our continued business success. All employees are invited to provide feedback on their experience of the workplace and suggest areas for improvement in our regular internal survey [People Engagement Pulses \(PEP\)](#).

— **Compensation & benefits.** Our [Global Compensation and Benefits Policy](#) guides our approach to remuneration and rewards. All employees working full-time or part-time, regardless of position, salary, and country, can benefit from [H&M Incentive Program \(HIP\)](#), a share-option scheme.¹ H&M Group employees get a discount when shopping in our stores and online, worldwide.

Progress: overall

— To provide a global, consistent approach as an employer, we are developing H&M Group Minimum Employment Standards guided by the [International Labour Organization](#) conventions. These will be launched worldwide in 2023.

— We are updating our social policies to align with evolving legislation and to ensure they are clear and easily understood.

Progress: health, safety & wellbeing

— We continued regular trainings on health and safety, including crisis management, in line with our [Global Health and Safety Policy](#). Our internal

¹⁾ Due to local legislation, HIP is currently not available in all countries and the payment regulations vary in a few markets.

Supporting colleagues affected by the war in Ukraine

As the war in Ukraine continues, our priority is to support all our impacted colleagues in a transparent, consistent, and respectful way.

Our stores in Ukraine are closed until further notice, and we continue to support our Ukraine-based employees in a number of ways. Many employees who have left the country have been offered job opportunities in other nearby markets where we operate, and we offer financial assistance to employees who are staying in Ukraine.

We paid salaries to our employees based in Russia throughout the decisions to pause all sales and, later, to wind down our business in the country. As the stores were closed step-by-step, employees received severance pay and career support in line with our procedures for [responsible business conduct](#).

Read more about our wider [response to the conflict](#).

Social impact in our own operations

newsletter, The Care Label, promotes mental health and wellbeing topics to all employees.

— 67% of respondents to our PEP survey agreed with the statement “I am able to successfully balance my work and personal life”, an increase from 65% in 2021.

Progress: professional & personal development

— We are piloting a learning experience platform that aims to customise trainings and offer tailored roadmaps for professional and personal development to all employees.

— Our 12-month H&M Group trainee programme for graduates is designed to attract talent from diverse backgrounds, experiences, education systems, and perspectives. The programme provides trainees with support from a mentor and manager as they rotate within our business units, contribute to projects, access trainings, and network with colleagues.

— The average training time per full time equivalent colleague was 10 hours.

— 67% of respondents to our PEP survey agreed “I have good opportunities to learn and grow”, up from 65% in 2021.

Progress: employee relations & engagement

— To meet our customers’ expectations and navigate the digital shift, we continued our store portfolio consolidation and business transformations. Through these processes we continued to take a responsible approach to supporting our colleagues. Our markets have taken a range of actions, including making managers and human resources available for regular phone calls and providing additional benefits or compensation to support transition.

— Together with Shift, we reviewed our existing grievance process, which enables all H&M Group colleagues to report breaches of our social policies or any other perceived misconduct. Following the review, we decided to integrate the process within our Speak Up channel.

— The overall employee engagement score in our PEP survey remained high at 76 out of 100, the same as in 2021.

— 81% of colleagues who responded to our PEP survey agreed with the statement “I feel empowered to take ownership about my work”, an increase from 80% in 2021.



Progress: compensation & benefits

— To increase equity and fairness in remuneration, we continue to implement our Generic Job Framework across all operations. This structure enables us to compare our compensation levels and benefits, both internally within our organisation and externally across markets.

— 67% of respondents to our PEP survey agreed with the statement “I feel satisfied with the recognition or praise I receive for my work”, up from 65% last year.

Learnings

— To respond quickly and efficiently to changing contexts around the world, and to meet our legal and operational requirements, we need to continue to align our internal processes, facilitate information flows and strengthen the global, connected approach to our business.

Future focus

— We will further harmonise our people processes to increase efficiency across brands, functions and regions. This shared approach will enable further development of, for example, our work on talent acquisition as well as rewards, including compensation, benefits, and pensions.

— To enable collaboration and communication across H&M Group, we continue to roll out the foundation for our new digital communication and collaboration platform, One Experience. By streamlining our communication channels, all colleagues in all parts of the business can stay informed and connected.

— We will continue to develop and implement the H&M Group Minimum Employment Standards globally in all our operations.

— Employee engagement remains a priority and we are developing a strategy to improve the coordination of various internal initiatives across H&M Group.

Social impact in our production supply chain



We are committed to being a good partner to our suppliers and to respecting and advancing the rights of their workers. With our tier 1 and 2 production supply chain alone spanning 34 countries and supporting more than 1.28 million workers, we have the opportunity to create positive impact for communities around the world.

We aim to ensure that human rights are respected and that social safeguards are in place across our production supply chain. We monitor risks and opportunities across our activities and prioritise actions that support the most vulnerable people in our value chain. These include migrant workers, refugees, workers in the informal sector, and particularly women within these groups.

We focus on:

— **Health, safety & wellbeing:** All workplaces should be safe and healthy environments. We work with our suppliers to assess workplace conditions and their workers' experience. We are a signatory to the International Accord for Health and Safety in the Textile and Garment Industry.

— **Social dialogue:** We support workers' freedom of association and expression. It is our view that continual workplace dialogue and engagement increase supply chain resilience and mitigate

risks. We defend democratically elected worker representation and encourage workers to know their rights.

— **Compensation, benefits & social protection:** Everyone should receive fair pay for their work¹ and we partner with suppliers to improve wages for workers, develop wage management systems in factories, and promote social protection frameworks that align with established international standards. Through collaboration with experts, industry peers, and governments, we endeavour to enhance compensation within our sector and across countries. Our Wage Strategy defines our pathway to improving workers' livelihoods.

— **Inclusion & diversity:** We seek to embed inclusivity across our whole value chain by treating people fairly and giving everyone access to the same opportunities. To achieve these ambitions, we created a Gender Equality Strategy to promote and support women workers,² as well as a roadmap focusing on migrant workers and refugees. Read more in Inclusion & Diversity and our Modern Slavery Statement.

We engage with partners around the world to accelerate social progress across our supply chain:

— As a member of Industry Summit, we collaborate with 13 other brands to exchange information and best practices on social and environmental issues such as gender equality,

capability building, joint remediation and supplier audits.

— Our Global Framework Agreement (GFA) with trade unions IndustriALL and IF Metall facilitates social dialogue in our supply chain and promotes workplace rights. National Monitoring Committees (NMCs)³ manage the agreement's implementation in local markets.

— We are part of the Action, Collaboration, Transformation (ACT) agreement between IndustriALL and global brands, which aims to deliver living wages through responsible purchasing practices and collective bargaining at industry level.

— We support the International Labour Organization's (ILO) Decent Work Agenda and work with decision makers to shape and enact progressive legislation. Read more about our public affairs work.

— We are members of Better Work's Advisory Committee where we help shape the programme's strategic direction and partnerships, and discuss key developments in global supply chains and labour standards.

— As a board member of the Sustainable Apparel Coalition, we are committed to increasing and harmonising data collection in factories and collating input from multiple stakeholders, as well as improving social conditions through the Social & Labor Convergence Project.

1) Read about how we define fair wages.

2) Our Gender Equality Strategy includes actions and measures focused on gender equity as mechanisms to reach our end goal of gender equality.

3) NMCs consist of H&M Group representatives working on the ground alongside national-level trade union representatives affiliated with IndustriALL.

Social impact in our production supply chain

Jobs in a circular, net-zero fashion industry

We are committed to adopting a holistic approach to our value chain and delivering positive impact for people and the planet in the transition towards a circular, net-zero fashion industry.

Building on our learnings from the Keeping Workers in the Loop project with BSR, we are working on a new roadmap to secure holistic circular, climate and social impact in an evolving garment industry.

We have identified opportunities to leverage our transition from a linear economy to a circular, net-zero one and are committed to ensuring that this will be a just transition for people across our value chain. Our holistic circular and climate impact priorities include upskilling and reskilling initiatives, securing high quality jobs, and implementing responsible business practices across our value chain.

We continue to help suppliers navigate the ongoing effects of the Covid-19 pandemic. New legislation on responsible business practices is being introduced in various markets and we are working with suppliers to adapt our operations to these recent standards and norms. Beyond the pandemic, rapid inflation is a growing concern for fair wages globally and we are attentive to the need for functional wage management systems to protect workers' livelihoods.

Progress: health, safety & wellbeing

— The International Accord for Health and Safety in the Textile and Garment Industry is now in place in Bangladesh and enforced by the Ready Made Garment Sustainability Council, with the aim that workers in the sector experience safe and healthy work environments. Following implementation in Bangladesh, we undertook a feasibility study to assess expansion into additional markets and have identified a number of countries where the scheme could be extended. In early 2023, we signed the new Pakistan Accord, which has an initial term of three years.

— We started tracking health and safety governance in our supply chain: 98% of tier 1 supplier factories have health and safety committees.

Progress: social dialogue

— We ran an industrial relations impact survey with our tier 1 suppliers, to monitor workplace dialogue and evaluate grievance mechanisms, using the United Nations Global Reporting Framework. Our goal is to enable our suppliers to become more independent and define their own pathways to greater functionality.

— The results identified several possible areas for improvement: better documentation of processes, including grievances and outcomes, and better information about routines, responsibilities and resources; increased inclusion of workers throughout disciplinary processes and grievance mechanism policies; and procedures that are grounded in human rights. These will shape our priorities for the coming years.

— The results also highlighted where programmes have had a positive impact. For example, 95% of facilities have grievance mechanisms that were created with worker representatives or trade union representatives. 91% of facilities use dialogue as the means to address and resolve grievances.

— Despite unionisation rates decreasing worldwide, particularly in our sector, rates in our factories have remained stable. 42% of our tier 1 supplier factories have trade union representation and 34% have collective bargaining agreements (CBAs) in place.



Social impact in our production supply chain

— Our five¹ NMCs in Bangladesh, Cambodia, India, Indonesia and Turkey cover more than 984,000 workers. Of the 34 issues raised with NMCs or other labour stakeholders in 2022 and carried over from 2021, 29 have been resolved (see table).

— Following NMC-led analysis of suppliers' CBAs, we used a benchmarking tool to compare the processes for setting up and managing CBAs to international labour standards, human rights protections and local laws. Results showed that while most reported CBAs are legitimate, they can be improved with supplemental gender-sensitive programmes and grievance mechanisms. These recommendations were shared with factory leaders and trade unions, who will lead on their implementation. Assessments were conducted across seven factories in Bangladesh, Turkey and India. We will include additional countries next year.

— We began the process of setting up an NMC in Pakistan and continued to invest in increasing NMC capacity and scale.

— We are shifting our activities from workplace dialogue programmes towards more holistic strategies focused on positive outcomes. Previously, we primarily focused on ensuring democratic elections of worker representatives. We now recognise the additional need to provide training and upskilling to representatives so that

they can better deliver on the role once elected. We aim to put these in place in the coming years.

— Workers are aware of the processes in place for grievance handling in 98% of in-scope tier 1 supplier factories, and 95% of factories have grievance mechanisms created through social dialogue between unions or worker representative structures and management. In 75% of factories, management reported reviewing grievances submitted and doing root cause analysis of issues raised — ensuring the mechanism is a source of continual learning.²

— As signatories to the ACT agreement, we support the negotiation of industrywide CBAs and believe these create better working conditions with higher wages and greater benefits for everyone. Together, we have progressed in our efforts to expand CBAs:

— In Cambodia, the Textile, Apparel, Footwear and Travel Association in Cambodia (TAFTAC) — formerly GMAC — and the trade union IndustriALL have started negotiations on a CBA with wage-related elements.

— In Turkey, ACT member brands have drafted an approach to facilitating a multi-employer CBA negotiation process.

1) We were no longer able to work within our NMC structure in Myanmar but we continued to collaborate with trade unions and other labour organisations in the country to resolve cases.

2) Figures are based on FSLM data provided by factory management and are not verified by worker surveys.



| Issues brought to National Committees in 2022 or carried over from 2021 | | | | |
|---|----------------------|----------------|------------------|----------------------|
| TOPIC | UNRESOLVED FROM 2021 | RAISED IN 2022 | RESOLVED IN 2022 | UNRESOLVED INTO 2023 |
| Compensation & benefits and severance payment | 6 | 8 | 14 | 0 |
| Discrimination & harassment | 3 | 0 | 3 | 0 |
| Freedom of association & collective bargaining agreements | 4 | 13 | 12 | 5 |
| Working hours | 0 | 0 | 0 | 0 |
| Forced labour and modern slavery | 0 | 0 | 0 | 0 |
| Social security | 0 | 0 | 0 | 0 |
| Total | 13 | 21 | 29 | 5 |

Social impact in our production supply chain

— The ACT purchasing practices survey has shifted to a two-year cycle so we will provide an update on our performance in next year's report. This year, our anonymous supplier survey (run internally by H&M Group) showed that 89.3% of suppliers regard H&M Group as a fair business partner.

— We took action to bolster social dialogue in our supply chain:

– We reviewed case handling routines and minimum requirement routines — read more in [Supply Chain Management](#). Working with H&M Group NMC members, we reiterated expectations and revised case handling procedures, including documentation and follow-through. All relevant data, such as number of cases and case resolutions, informs our risk management decisions and is included in quarterly reporting mechanisms.

– Seven colleagues participated in negotiation and mediation courses run by ILO and we have piloted an internal training programme on negotiation that is due to be rolled out more widely.

– 66 colleagues participated in training to improve case handling processes and experience.

Progress: compensation, benefits & social protection

— 87% of our tier 1 supplier factories have digital payment solutions for their workers.

— We made more than 99% of our payments to suppliers on time. On average suppliers get paid in around 15 days after invoicing and delivery of goods. This is partly a result of a favourable factoring arrangement negotiated by H&M Group on behalf of our suppliers. We continued to itemise labour costs for our orders by dividing production costs into different costing blocks such as material, labour and product treatments, like printing or washing. This costing calculation improves the visibility of labour costs and allows improved wages to be reflected in the prices we pay to our suppliers. More than 99% of our apparel orders are processed in this manner.¹

— We continued to enrol suppliers in our programme supporting implementation of factory-level wage management systems and focused our efforts on increasing functionality. In 2022, 41 additional factories joined the programme to improve wage levels and 42 units put in place a wage grid.

1) To enable differentiation of costing blocks, we rely on information from our suppliers. Previously, we have reported on the percentage of orders placed using a fact-based costing tool which has helped us to verify costs and separate labour costs. While this is one way of measuring, we have learnt that we need to explore additional methods to get the full picture. We will continue to work to further improve tracking of labour-cost ringfencing, working together with relevant stakeholders.

Average monthly wages (excluding overtime) at H&M Group supplier factories versus applicable minimum wages in key production markets^{2,3,4}

| COUNTRY | CURRENCY | MINIMUM WAGES 2021 | GROSS AVERAGE WAGES 2021 | DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2021 | MINIMUM WAGES 2022 | GROSS AVERAGE WAGES 2022 | DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2022 |
|----------------|----------|--------------------|--------------------------|---|--------------------|--------------------------|---|
| Bangladesh | USD | 94 | 133 | +42% | 90 | 134 | +50% |
| | BDT | 7,966 | 11,311 | | 8,098 | 12,106 | |
| Cambodia | USD | 209 | 278 | +33% | 211 | 293 | +39% |
| | KHR | 854,448 | 1,137,578 | | 860,324 | 1,193,535 | |
| Mainland China | USD | 281 | 564 | +101% | 298 | 574 | +93% |
| | CNY | 1,812 | 3,636 | | 1,977 | 3,823 | |
| India | USD | 120 | 141 | +18% | 120 | 148 | +23% |
| | INR | 8,842 | 10,404 | | 9,356 | 11,499 | |
| Indonesia | USD | 189 | 198 | +5% | 184 | 220 | +19% |
| | IDR | 2,699,846 | 2,838,075 | | 2,703,375 | 3,223,853 | |
| Myanmar | USD | 92 | 124 | +34% | 79 | 116 | +46% |
| | MMK | 147,570 | 198,182 | | 148,537 | 217,103 | |
| Pakistan | USD | 114 | 139 | +22% | 110 | 134 | +21% |
| | PKR | 18,685 | 22,820 | | 22,278 | 26,951 | |
| Turkey | USD | 408 | 536 | +31% | 352 | 436 | +24% |
| | TRY | 3,650 | 4,780 | | 5,666 | 7,012 | |
| Vietnam | USD | 152 | 323 | +112% | 156 | 338 | +117% |
| | VND | 3,483,539 | 7,399,035 | | 3,605,337 | 7,818,340 | |

2) 2022 data includes active and approved manufacturing (tier 1) suppliers for all commercial product types, and covers the time period 1 January–30 September 2022. 2021 data covers the time period 1 January–31 December 2021. As our supplier base changes over time, average wage data is not presented as a like-for-like analysis. All average wage data reflects weighted averages, taking account of the size of each factory and the number of workers. Minimum wage data also reflects weighted averages, taking account of any differences in minimum wage changes during the year, and between regions or states.

3) Currency conversions at turn of the month from UN Treasury Operational Rates of Exchange, based on weighted average of monthly result for 2022.

4) Real changes in wage data may be obscured by fluctuating exchange rates. Therefore, this year, we are publishing wage data both converted to USD and in the local currency in which they are paid. This increases accuracy and enables greater comparison of wages across markets.

Social impact in our production supply chain

— In response to last year's ACT-facilitated self-assessment on purchasing practices, we implemented the first of five purchasing practices trainings for buying and planning functions across our brands. 498 colleagues in relevant roles¹ completed training module 1, which covers H&M Group's role and commitments as a member of ACT as well as our responsibilities in improving working conditions across our supply chain. Four subsequent modules are being prepared for roll-out, with more focus on supplier relations — for example costing and planning, and payment terms.

— We improved our approach to exiting supplier relationships, following guidance in the [ACT Responsible Exit Policy](#) to minimise a termination's negative impact. This policy provides guidance on recommended steps, such as conducting a worker impact assessment, creating an exit plan in close dialogue with the supplier, and informing all stakeholders of plans, particularly trade unions or other labour organisations. We monitor and communicate developments and impact throughout the whole process, which can take up to 18 months.

— We updated our supplier Sustainability Index with a new wage KPI, directly linking supplier performance on worker wages to future business opportunities with us.

— The [Stockholm School of Economics and Ernst & Young](#) completed two separate studies on wage formation in India, commissioned by H&M Group. The studies found the local legislative and business environment was not conducive to driving minimum wage increases, and recommended H&M Group work with stakeholders to explore new platforms for collaboration and different pathways to facilitate wage improvements.

— As part of our ongoing effort to increase transparency, we added two countries — Pakistan and Vietnam — to our detailed wage data reporting and continue to gather and report year-on-year wage and worker representation data in this report and on our [website](#).

— We worked with wages expert [Professor Raymond Robertson](#) to update and improve our supplier wage survey² and further understand the skill and compensation levels of all workers. We expanded the scope of the survey to include suppliers in Pakistan, Vietnam, Cambodia and Europe, covering more than 1,300 production units. Initial findings indicate a statistically significant pay gap between men and women in most of our production countries. This seems to be driven primarily by the skill gap between genders, as men tend to be more skilled and hence benefit from higher wages. The findings from this research will inform our upcoming strategy to address our supply chain gender pay gap.

1) Business-, brand- and product-developers, controllers, buyers, merchandising teams, capacity teams, business governance teams and our sustainability team.

2) This survey is conducted in addition to our regular quarterly wage assessment.



— The Bangladesh government launched a pilot to ensure workers in the garment sector and their families receive income in the case of permanent disability or death linked to work accidents or diseases. We collaborated with ILO and [GIZ](#) on creation of the employment injury scheme and are one of seven brands that have committed to financing it for up to five years. We'll continue to encourage industry members to join the scheme and are monitoring the development of the associated legislation to ensure it promotes decent working conditions and rights.

Learnings

— We aim to further leverage our data collection to gauge wage management system and workplace dialogue programme functionality and impact, not just their existence. This approach will require industrywide support and involvement.

Future focus

— We will focus on improving NMC functionality as part of our [Global Framework Agreement](#) with trade unions [IndustriALL](#) and [IF Metall](#). We've

hired a provider to evaluate our NMCs, using an assessment that was co-created by all Framework parties, and will use the findings to strengthen workplace dialogue and case handling. This will be supported by ongoing annual reviews and improvements.

— To encourage self-led learning, we've created an information platform with resources such as e-modules, videos and case studies, on topics such as wage issues, the gender pay gap, gender-based violence and our ways of working. This freely accessible platform enables us to promote our values to harder-to-reach audiences within our supplier base.

— Our supply chain workforce has an important role to play in our transition from a linear to circular economy. We will take account of the priorities identified by our research so far, as we develop our roadmap to secure holistic circular, climate and social impact.

Social impact in our production supply chain



Detailed wage & worker data for 2022¹

In 2022, we continued to monitor the wages paid to workers by our suppliers' factories. In this section, we present this data for the first nine months of the calendar year.

Our commitment is to contribute to the full enforcement of statutory minimum wages and the wage levels agreed through collective bargaining, while at the same time supporting an increase of wages over time. Alongside average wage data, we present available data about the number of workers employed in suppliers' factories for the first nine months of the year.

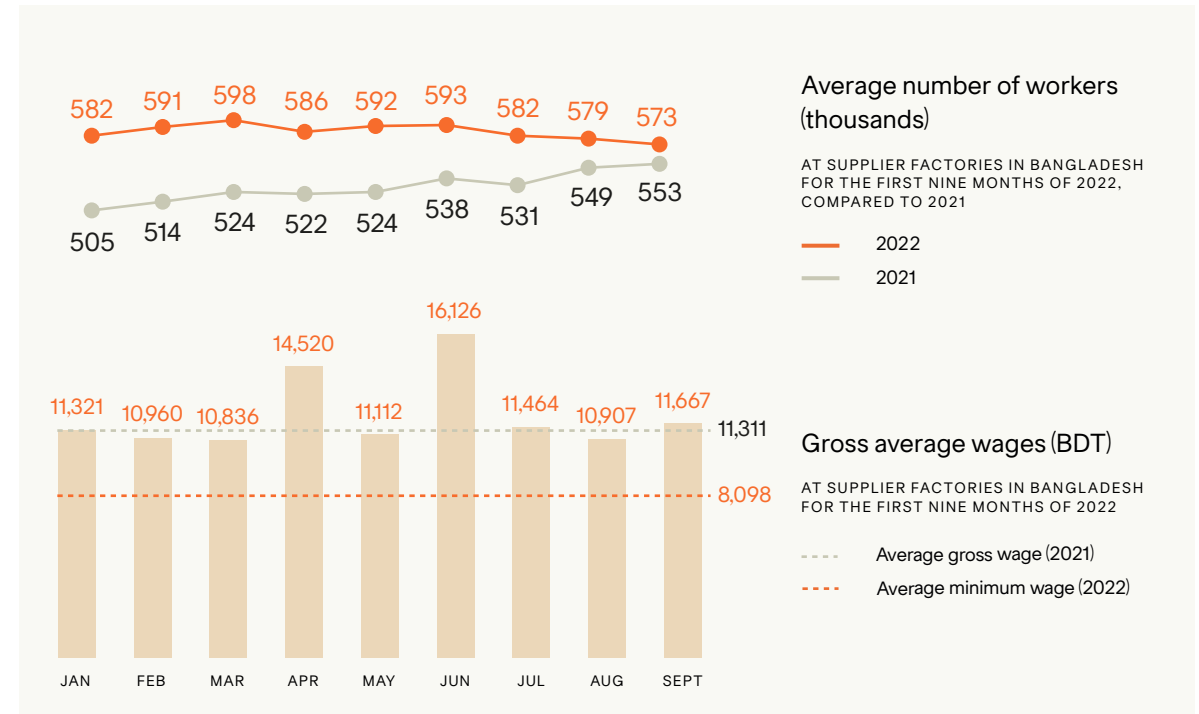
We share data for nine months rather than the full year as we collect the data directly from suppliers and the most recent data is in the process of being verified at the time of reporting. This year, we added Pakistan and Vietnam to our detailed wage and worker data reporting.

¹⁾ Worker data covers workers at manufacturing (tier 1) factories for all commercial product types that have shared complete worker datapoints with H&M Group for the equivalent months in 2022 and 2021.

Bangladesh

Average wages in Bangladesh increased compared to 2021, with minor fluctuations throughout the first nine months of the year. Peaks occurred in April and June, related to festival bonuses provided in line with national holidays and included in payments for these respective months. These bonuses were included in the months of May and July in 2021.

The number of tier 1 supplier workers increased in the first half of the year, as markets returned to pre-Covid levels. There was a minor decrease in business volume during the third quarter, as the Bangladesh garment industry saw the impact of global economic instability. As a consequence, supplier employment numbers decreased slightly due to shrinking labour demand.



Social impact in our production supply chain

Cambodia

Supplier operations in Cambodia continued their recovery from the aftermath of the Covid-19 pandemic and saw a growing gross average wage for the first nine months of 2022 compared to the same time in 2021. There was no Covid-related suspension to factory production, and as a result wage levels and production hours remained consistent. The statutory minimum wage in Cambodia was increased by the Government

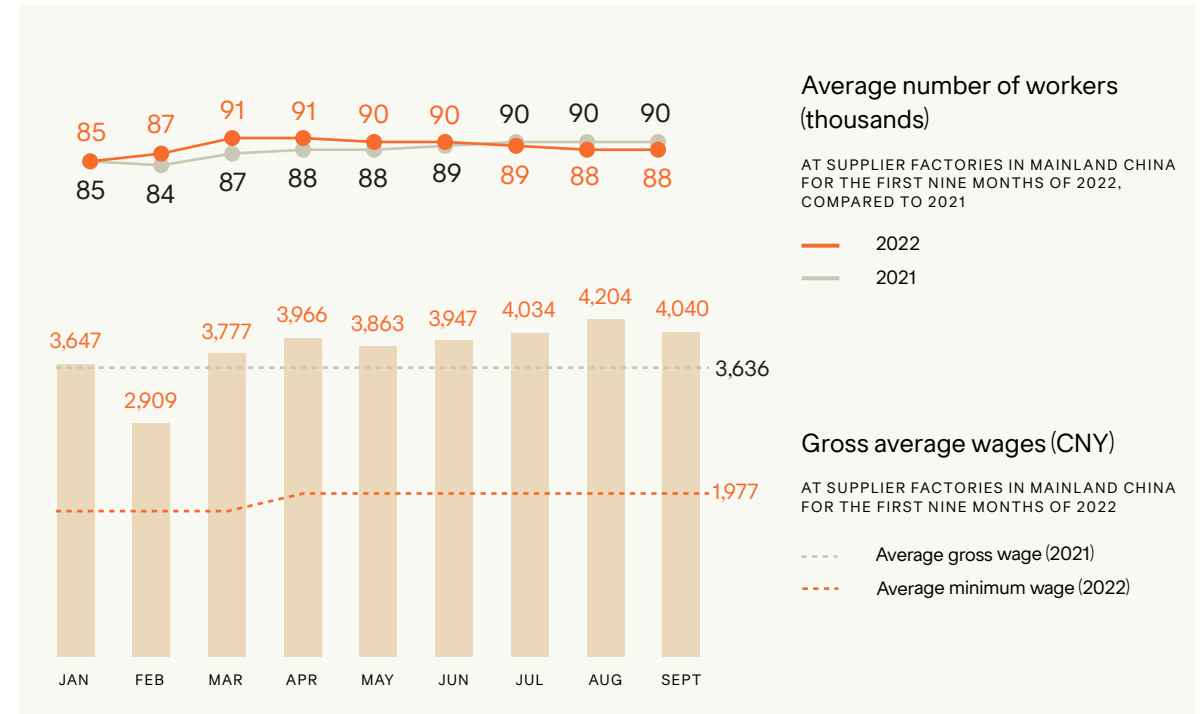
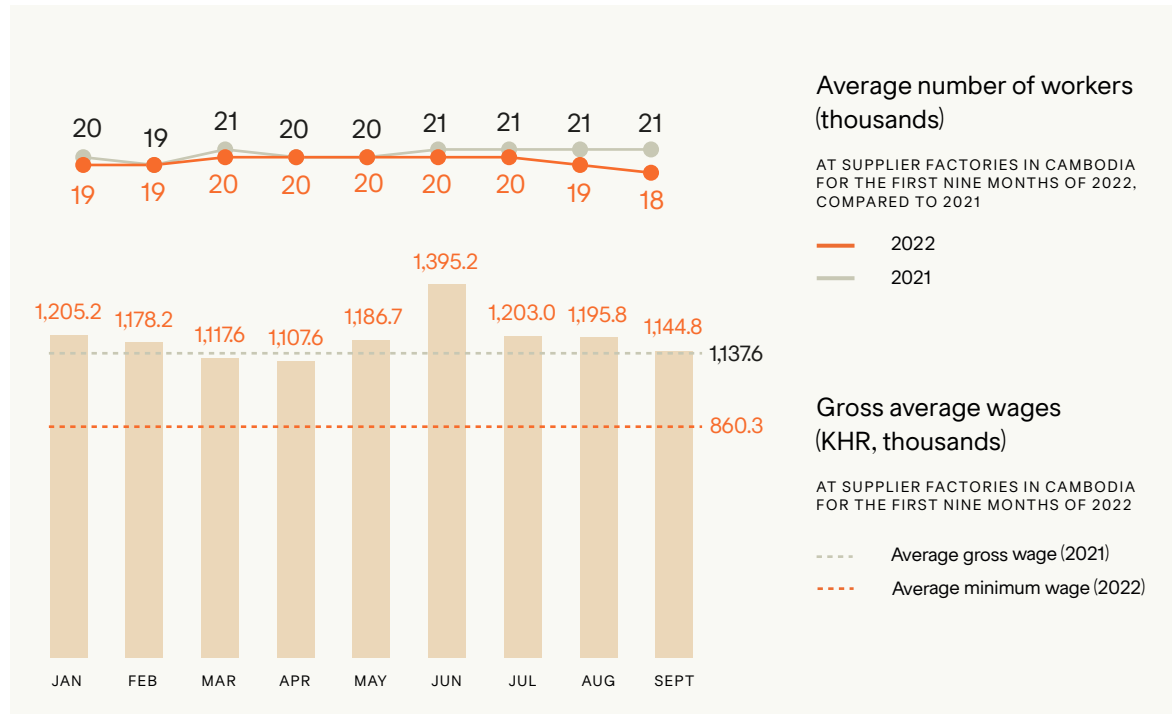
on 1 January 2022. Wages spiked in June due to eligible workers receiving half-year seniority indemnity payment.

The number of tier 1 supplier workers recovered since 2021, and were on par with the previous year during the first six months of 2022. The third quarter, however, saw a moderate decrease in the number of workers, as product demands adjusted due to inflation and geopolitical challenges, and began to be felt by suppliers.

Mainland China

In 2022, average gross wages in mainland China showed a positive trend, except for a dip in worked hours and wages in February as a result of the annual Chinese New Year Holiday, which is consistent with previous years. Despite the social and economic effects of the Covid-19 motivated partial lockdowns during parts of the year, gross wages were marginally higher than that in 2021.

Similarly, the number of workers at mainland China tier 1 suppliers rose consistently during the period. Overall worker numbers were higher compared to 2021, with total employment levels showing fluctuations dependent on business patterns.



Social impact in our production supply chain

India

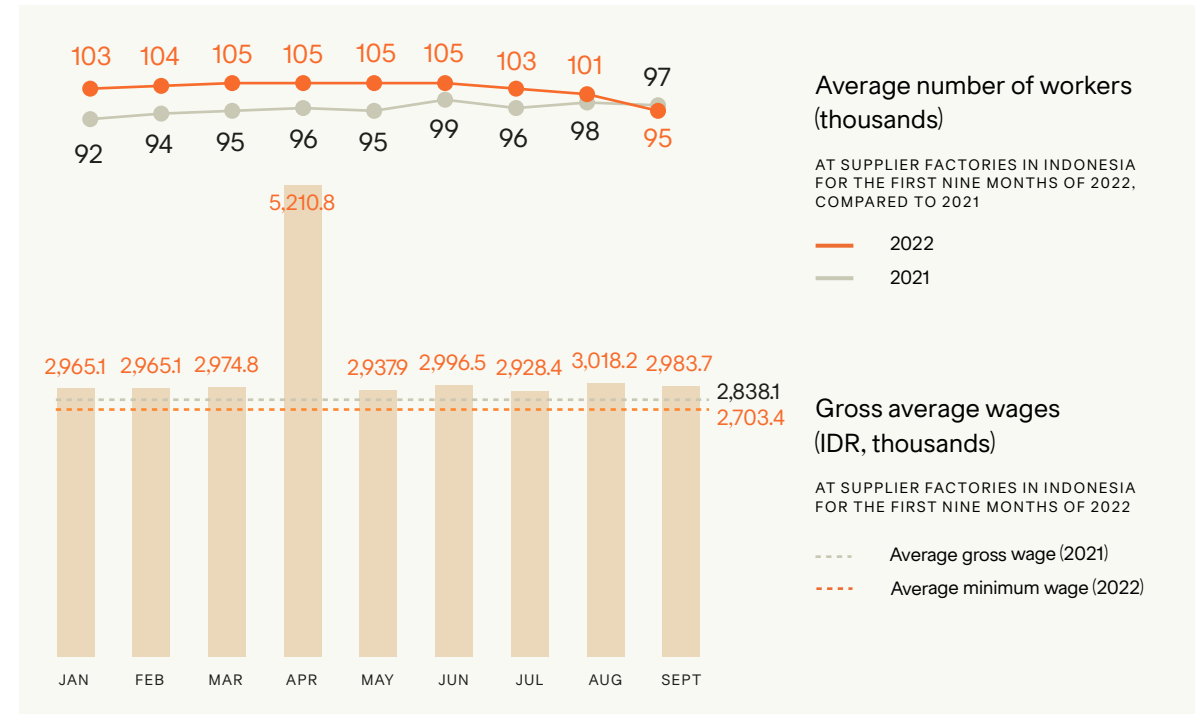
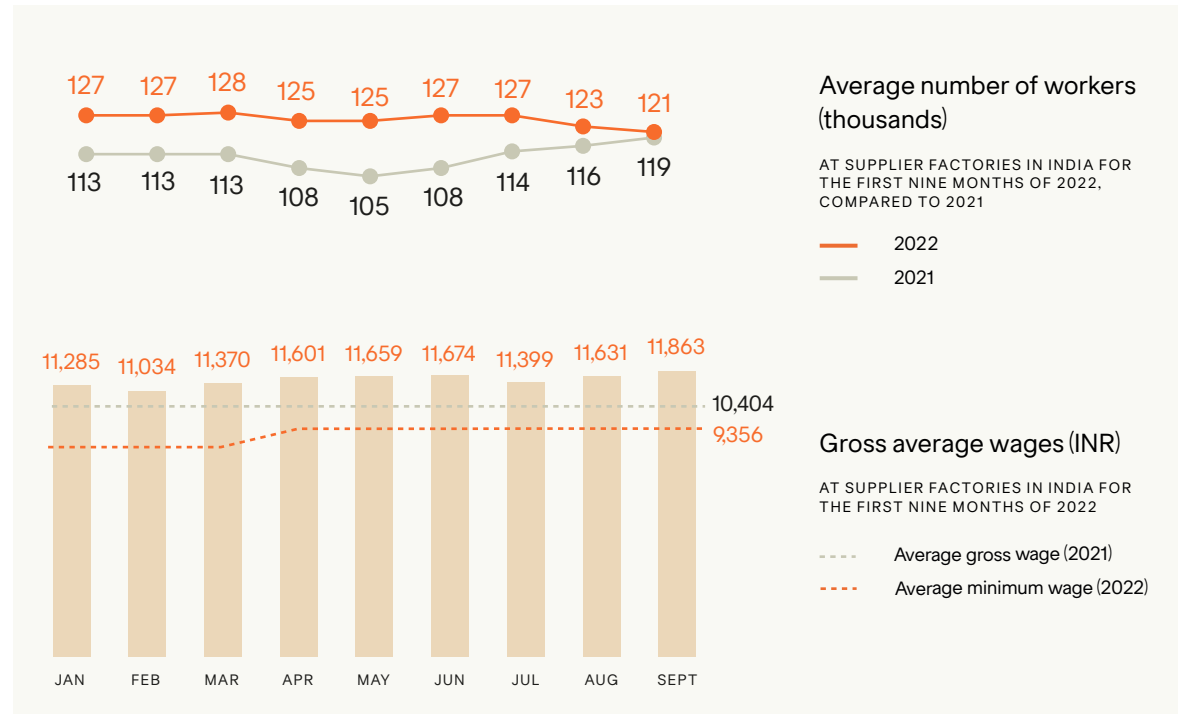
India's recovery from the impacts of Covid-19 continued and average monthly wages were consistently higher than the equivalent reporting period in 2021. There were Covid-19 associated disruptions between the end of March and mid-May in 2021, whereas suppliers saw consistent and improved levels of worked hours and remuneration during the first nine months of 2022. In addition, the national minimum wage was revised by the Indian Government in 2022, with a general average increase of 5%.

Improved conditions also contributed to higher employment levels. The number of tier 1 supplier workers remained stable during the first nine months of 2022, after workforce numbers that had been impacted by the pandemic showed recovery at the beginning of the year. Re-employment was further supported by the Central Government of India's decision to extend its financial support in order to generate new formal employment for people who had lost their jobs during the Covid-19 pandemic.

Indonesia

The minimum wage in Indonesia was increased by 1.09% from 01 January 2022, with district and city wages calculated using formulas based on the national revision. Average wages among suppliers rose slightly compared to 2021. April saw a significant peak in workers' pay, due to the mandatory Eid festival bonus pay out.

Compared to 2021, the average number of workers increased significantly over the reporting period. The last two months, however, saw a slight decrease in employment numbers due to lower demands throughout the industry causing a slowdown in worker recruitment.



Social impact in our production supply chain

Myanmar

Production in Myanmar in 2022 experienced a limited impact from Covid-19, with improved wage levels and increased production hours as a result. The number of tier 1 supplier workers recovered from the previous year, with workforce numbers totalling well beyond 2021 levels.

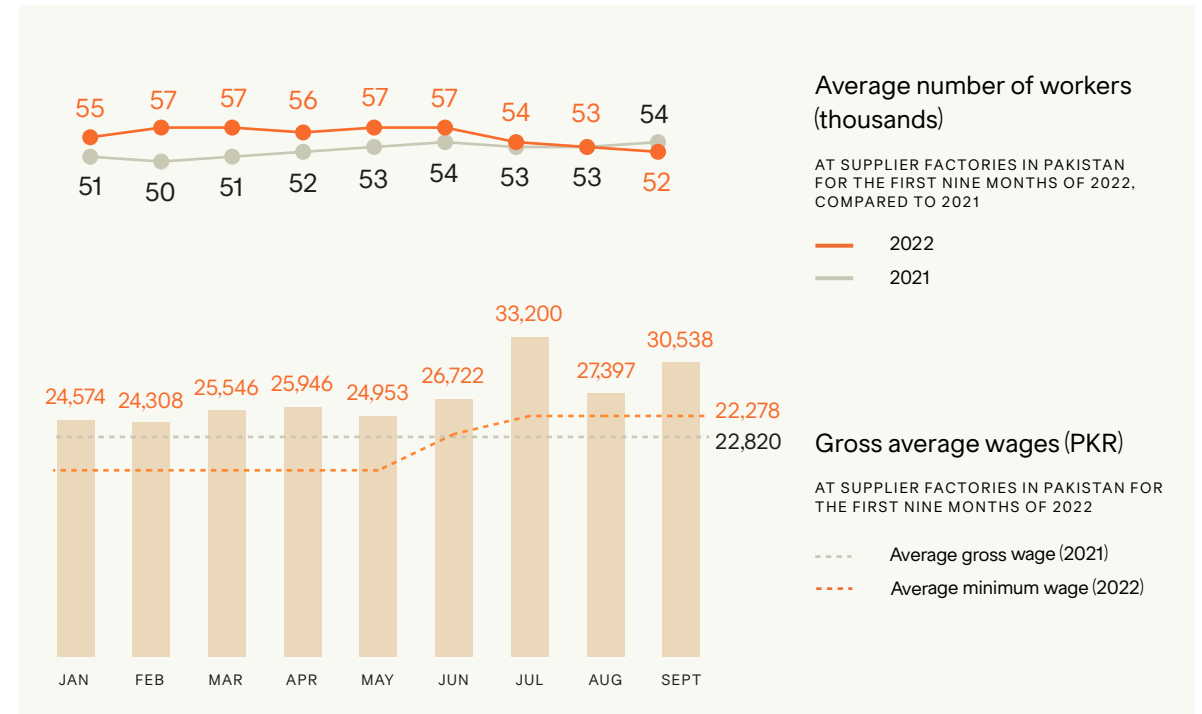
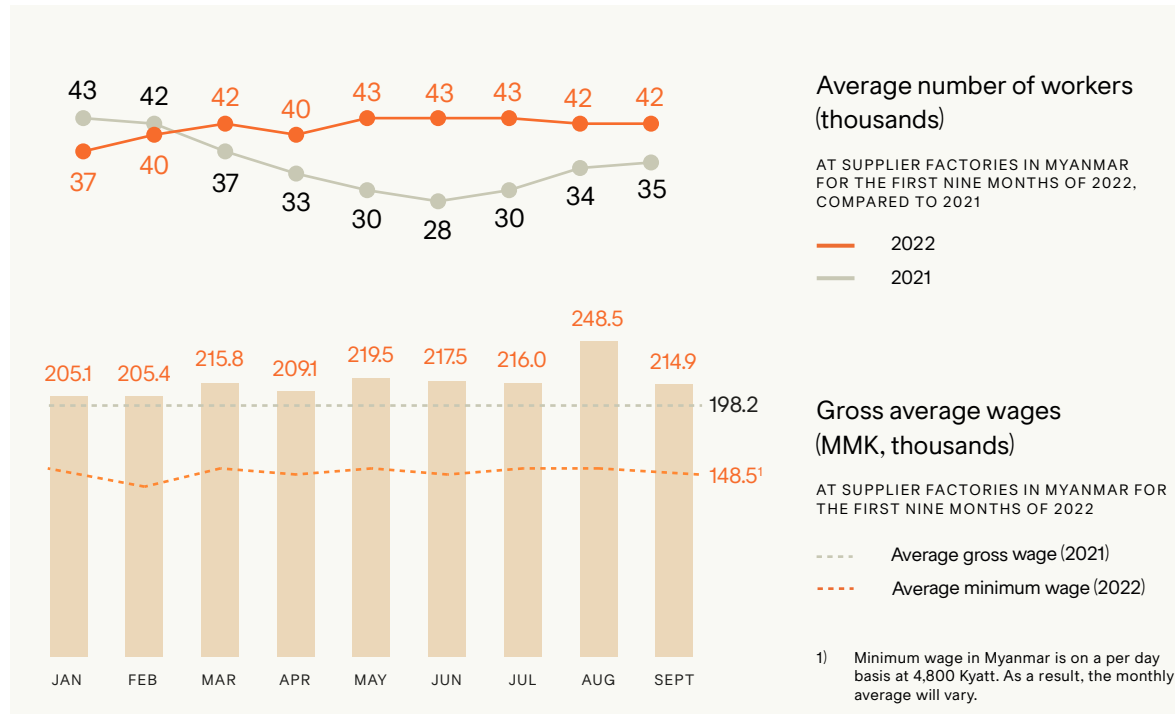
Control measures on exchange rates were imposed in May 2022, but currency depreciation and inflation remain major challenges for the

country's economy — with implications for businesses and workers in the country. The minimum wage has not been adjusted since 2018.

Pakistan

For the first nine months of 2022, year-on-year gross average wages increased, as the industry bounced back from the Covid-19 pandemic. This increase was most significant following the revision of the statutory minimum wage across Pakistan, which was raised to PKR 25,000. A minor dip in average wages was recorded in May as a result of Eid celebration and harvest activities, which decreased workers' attendance and declined production (a trend observed every year).

An overall increase can be seen in the total number of workers for the period in 2022 compared to 2021, with a small monthly variation. The trend in decreasing numbers of workers in quarter three was mainly caused by suppliers experiencing a decline in demand followed the global economic downturn.

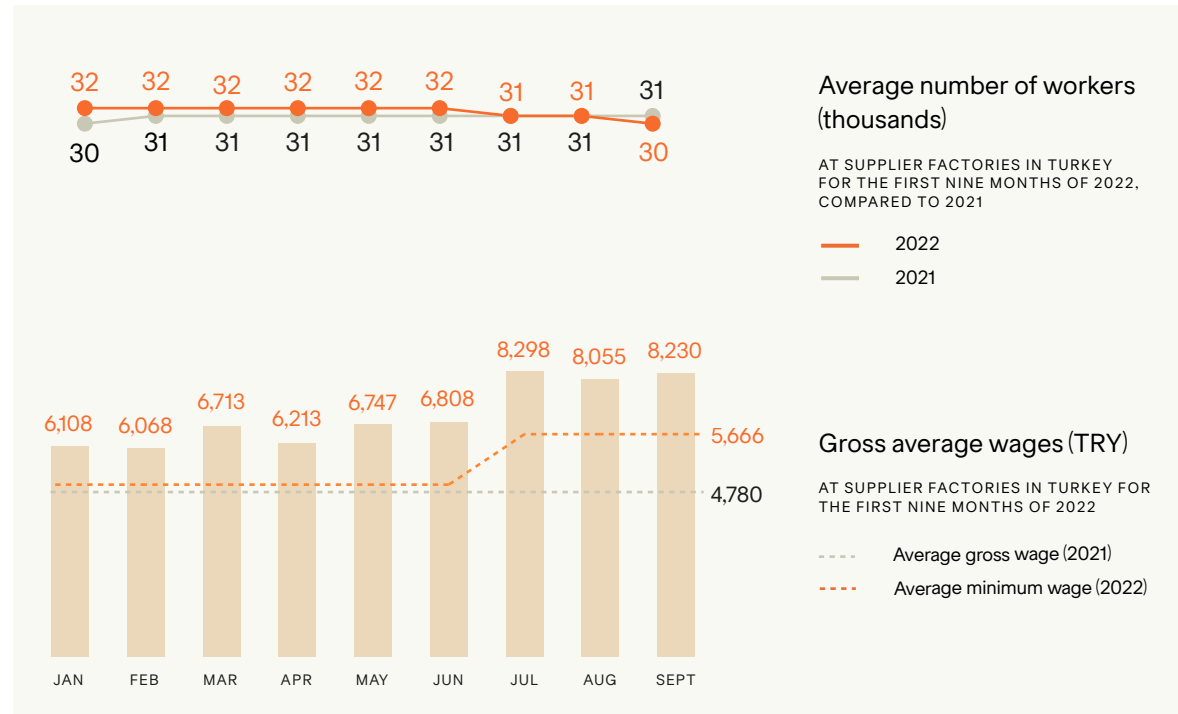


Social impact in our production supply chain

Turkey

In 2022, Turkey experienced a difficult economic period, with inflation rates of around 80%, reduced currency rates and an export sector heavily affected by the Russian attack on Ukraine. Because of the devaluation of the lira, the Turkish Government decided to increase the statutory minimum wage twice during the year, by 40% in January 2022 (not visible in the graph) and by an additional 29.3% in July. Consequently, wage trends in the country were directly affected.

Despite the economic challenges, employment levels remained consistent with pre-pandemic levels during the reporting period, with a significantly higher average than during 2021. Due to the current economic outlook, however, there is a trend of decreasing worker numbers during quarter three.

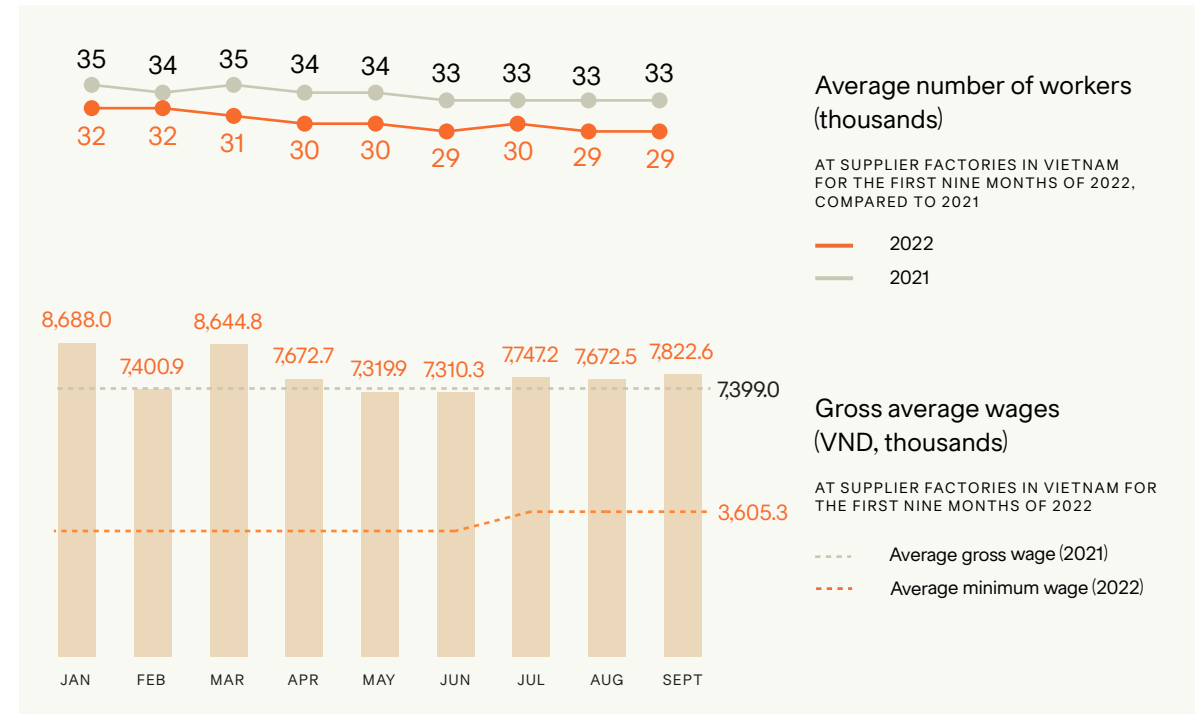


Vietnam

Vietnam recorded similar year-on-year patterns of average wages among suppliers during the nine months reported, but with slightly higher numbers in 2022. The Covid-19 pandemic and related lockdowns that impacted the industry in previous years did not recur. Wage levels in June and July 2021 were inflated by Covid-19 related subsidies to maintain operations during local lockdowns — these subsidies have since been stopped, with wages returning to normal levels as a result. Statutory minimum wage covering four regional

minimum wages regulated by the government increased by approximately 6% in July 2022. The increase varied depending on the living expenses in respective regions. There was a slight decrease in wages in February as a result of the Tet holiday, which decreased workers' attendance (a trend observed every year).

There was a downward trend in the number of workers during the year. This was mainly due to factories facing hiring challenges in an effort to mitigate worker changes due to a severe worker shortage in the Vietnamese labour market.



Inclusion & diversity



Growing disparities around the world continue to drive unequal access to opportunities. We address these challenges by actively working to increase inclusivity and embed inclusion and diversity (I&D) in our culture, operations and communities. We seek to leverage diversity as a driver of business growth and an enabler of [human rights](#) and equity across our value chain. By 2025, we aim for our workplaces to be more inclusive and diverse, to leverage our diversity for greater success, and to use our business to advance inclusion in our communities.

Our strategy focuses on:

— **Internal diversity and equality:** Identifying and implementing best practices — such as frameworks, trainings, assessments and initiatives on inclusion, diversity, equality and equity — to nurture diversity and grow an inclusive culture.

— **Promoting diversity and equality:** Contributing to just and equal societies by engaging with peers, being vocal about our work and learnings, and demonstrating our values through products and communications.

— **Inclusion:** Fostering open, safe, and tolerant societies by supporting vulnerable populations and promoting equal opportunities.

— **Supply chain inclusion and diversity:** Supporting and encouraging our suppliers to take ownership of and drive progress on gender equality and other inclusion and diversity issues.

— **Transparency:** Sharing our goals, strategies and progress widely and being accountable for our actions and their impact.

Details of our commitments can be found in our [H&M Group Human Rights Policy](#), [Sustainability Commitment](#) and [global social policies](#).

Progress: internal diversity & equality

— Our new global I&D dashboard tracks key indicators, which help us identify relevant actions and set local targets to monitor our progress. Local initiatives can include training completion rates, gender pay assessments, talent acquisition processes, and increasing equitable representation within the workforce across gender, age and ethnicity or nationality.

— Our colleagues represent 174 nationalities, with leaders who manage people representing 96 nationalities.¹

— Our workforce spans across several generations: Generation Z: 25.7%; Millennials: 61.2%; Generation X: 11.4%; and Baby Boomers: 1.7%.¹

1) Does not include colleagues in Germany. Gen Z refers to those born in 1997-2015, Millennials 1981-1996, Gen X 1965-1980, and Baby boomers 1946-1964.

— Our male to female staff ratio is 25%:75%. We recognise gender is not binary and that gender dimensions exist between and beyond male and female identities. We are exploring how we can adapt our systems to be more inclusive of all genders, while also complying with local laws and regulations. In the meantime, we will continue to report on the data we currently have available.

— Our Colleague Resource Groups Council (an evolution of the Colleague Peer Forum) is a new groupwide platform that provides a framework for engagement on I&D issues. We aim to strengthen internal dialogue on I&D with input from colleague-led groups, focusing on enhanced cooperation and collaboration to foster diverse and inclusive workplaces. In 2022, the Council defined its short- and long-term ambitions and held two meetings.

— We continue to run our LEAD (Learn, Educate, Accelerate, Develop) programme in the US to help store managers from historically underrepresented populations access leadership positions. The initiative includes mentoring, leadership training and peer networking. In 2022, 27 colleagues participated in the programme, up from 20 in 2021.

— In 2022, 75% of management positions were held by female colleagues (2021: 71%) and our board of directors had a 55%:45% (female:male) gender split,² the same as in 2021.

2) Includes directors elected by AGM as well as employee representatives. Does not include deputies of employee representatives.

Inclusion & diversity

— In the US, we are asking our colleagues for voluntary and anonymous input on self-identification preferences. The purpose is to support our culture of inclusion, increase awareness and allyship, unlock diverse perspectives, and to measure and track our progress on I&D goals. In our annual People Engagement Pulses H&M Group colleague survey, 84% of respondents agreed with the statement

“I am treated with respect and dignity” (83% in 2021) and 76% agreed with the statement “Diverse perspectives are valued at H&M Group” (74% in 2021).

— We developed a framework to embed I&D trainings into our wider learning and development offering. The comprehensive programmes are tailored to colleagues’ individual roles, covering

topics such as unconscious bias and mindful representations of cultures. This year, we rolled out Beyond the Binaries — a learning experience on LGBTQIA+ history and rights — and are assessing the need for additional leadership training.

Progress: promote diversity & equality

— Our ongoing partnership with the Unstereotype Alliance (UA) works to address stereotypes in marketing, through trainings and evaluation. An internal working group enables colleagues from all our brands to exchange views on challenges and partake in the UA masterclass on different perspectives.

— Colleagues in the US can request financial support from our internal One Team Fund when they face natural disasters or personal hardships, such as accessing out-of-state abortion care. We continue to monitor access to safe abortion in the country and are regularly assessing the need for additional actions.

— We joined the World Economic Forum’s (WEF) Global Parity Alliance to contribute to accelerating progress on diversity, inclusion and equity by highlighting and spreading best practice.

— We maintained our engagement in the WEF Alliance on Racial Justice. In 2022 the initiative finalised a racial equity self-assessment tool

which will enable organisations to identify gaps within their operations.

— We observe growing restrictions to human rights, particularly LGBTQIA+ and women’s rights, in certain markets. We are monitoring and identifying potential opportunities to create fairer outcomes at local levels.

— Our brands continued to promote diversity and equality. H&M HOME collaborated with Special Needs Empowerment Hub (SNEH) to empower women in India to earn their own income by learning a craft. Since 2021, Monki has been working with Body Dismorphic Disorder Foundation (BDDF) to raise awareness and call for greater transparency on altered images in social media.

— Our new H&M Move brand is designed to celebrate movement and remove barriers to sport for all body types.

— Our brands also led a variety of LGBTQIA+ celebrations. Monki partnered with Polyester Zine to run the 2nd edition of the Queer Creative Fund. & Other Stories invited five local LGBTQIA+ artists to exhibit their work in five stores and donated to UN Human Rights’ Free & Equal campaign calling for LGBTQIA+ equality. Weekday hosted queer art magazine Container Love’s #VisibleLove exhibition in selected stores across Europe.

— We began trialling new approaches to better cater to our non-binary customers and improve

| Inclusion & diversity training at H&M Group | | | |
|--|--------------------|---------------------|---------------------|
| COLLEAGUES PARTICIPATING IN ONE OR MORE TRAININGS | 2020 | 2021 | 2022 |
| Layers I&D training, number of colleagues | 4,152 ¹ | 23,253 ² | 21,476 ² |
| % of colleagues in brands (cumulative) ³ | - | 15% | 22% |
| % of colleagues in functions (cumulative) | - | 66% | 71% |
| Unconscious bias training ⁴ | 13,713 | 56,618 | 36,192 |
| Mindful cultural representation training | 72 | 0 ⁵ | 114 |
| Legal and ethical aspects of product development training ⁶ | 98 | 286 | 65 |
| Total participants in one or more trainings since 2018 (cumulative) | 24,335 | 70,331 | 106,523 |
| Total participants in Layers since 2018 (cumulative) | 7,725 | 31,005 | 52,481 |

1) Includes six markets.

2) Includes all brands, functions and markets.

3) In 2022, we removed the separate KPI for Layers training in markets, since there is such a high degree of overlap with the data from brands.

4) Data is for colleagues who have accessed the training on our internal learning system.

5) Trainings were paused during 2021 while the programme was updated and re-launched in a digital format in 2022.

6) This was called ‘Product and Print Policy training’ in the 2020 report.

Inclusion & diversity

their in-store experience. In Germany, we piloted a gender-fluid shopping experience to respond to customers’ demands for greater representation and inclusive collections. The project included consulting our H&M club members, creating gender-free merchandising, and curating assortments.

Progress: inclusion

— We continued working with the [TENT Partnership for Refugees](#) on their initiative to help women refugees in Europe access employment opportunities through professional mentoring. Currently we are offering this mentorship opportunity to colleagues in Germany and Italy and we have run a small pilot in Sweden. Six refugees have started the programme in Germany with four and two refugees completing the programme in Italy and Sweden respectively. The roll-out of the initiative in the Netherlands has been delayed.

— In response to the war in Ukraine, colleagues from neighbouring countries donated stock, funds, personal items, food and hygiene products for refugees. Stores have partnered with local organisations to raise awareness and facilitate refugee integration, in addition to supporting Ukraine-based associations. H&M Group worked with the [International Organization for Migration \(IOM\)](#) to enable the safe hiring of refugees from the country and are encouraging suppliers to employ refugees by sharing information and support.

— H&M South Africa and [Clothes to Good’s \(CTG\)](#) micro-business programme to lift women out of poverty is supporting 108 women, just over half of whom are mothers with disabled children. Through CTG, we have employed six people with disabilities in our distribution centre in Johannesburg.

— H&M US continues to support [Buy From a Black Woman \(BFABW\)](#), a US charity empowering Black women business owners. This year, H&M used its channels and stores to highlight Black women-owned businesses, provided a donation to BFABW, and sponsored their accelerator programme to help the businesses grow. The brand also covered costs for colleagues to join the BFABW online directory and network.

Progress: supply chain inclusion & diversity

We’re improving our approach to preventing, detecting and handling cases of gender-based violence and sexual harassment (GBVH) in our supply chain. Together with [Jane Pillinger \(Ph.D\)](#), a global expert on gender equality and gender-based violence at work, we conducted trainings and workshops for our employees with social sustainability roles in our production supply chain — to raise awareness and provide supporting tools for suppliers to prevent GBVH and handle grievances.

| Workers in our tier 1 production supply chain (to the nearest 1,000) | | | | |
|--|-----------------|-----------------|-------------|-----------|
| | 2021 FEMALE (%) | 2022 FEMALE (%) | 2022 FEMALE | 2022 MALE |
| Workers | 63% | 62% | 715,000 | 441,000 |
| Supervisors | 28% | 27% | 19,000 | 52,000 |
| Worker representatives | 62% | 63% | 6,200 | 3,600 |

— We surpassed our goal of doubling the number of factories involved in our refugee initiative in Turkey. We initially planned to scale from 20 to 40 factories and now have 58 participating factories. We have identified several factors that make it difficult for suppliers to commit to the scheme, such as the pandemic’s aftermath and ongoing political tensions. This is likely to limit the number of refugees supported by this initiative and may hinder our success in reaching our objective of 2,000 refugees employed cumulatively by 2025. 750 refugees have been employed in our supply chain in Turkey since the start of this initiative in 2016.

— Building on the training of H&M Group colleagues, we are creating a guideline together with [IndustriAll](#) and [Jane Pillinger](#) to help suppliers detect, prevent and manage GBVH cases. This will be rolled out to suppliers during 2023. Our joint work is reported as good practice in the [Global Deal \(OECD/ILO\) Flagship Report 2022](#).

— Almost 3,400 workers and 1,200 managers and supervisors across 386 factories participated in various gender equality related trainings and activities.

— Activities and trainings on preventing sexual harassment and gender-based violence have in 2022 alone reached more than 414,000 workers.

— We rolled out our [Women’s Career and Development](#) programme to cover 36 production units in Turkey. The scheme aims to increase the number of female supervisors and in 2022, the share of female supervisors, in these production units in Turkey, grew from 27% to 46%.

— We are working with [UN Women India](#) to prevent gender-based violence and harassment (GBVH) in the state of Tamil Nadu. Together with local and global partners, we aim to identify and implement locally owned safety solutions for women and address GBVH at the community level.

Inclusion & diversity

— Our health and wellbeing project in Indonesia continues to empower women in our supply chain through trainings on wealth, reproductive health, malnutrition and gender-based violence. Working together with the [United Nations Population Fund \(UNFPA\)](#), we reached 2,200 workers and enrolled 7 production units in 2022. The programme has engaged 47,200 workers since 2019.

— COS defined and published its own [Gender Equality Strategy](#), based on the H&M Group production supply chain Gender Equality Strategy.

— & Other Stories also used the H&M Group strategy to define its own Gender Equality Strategy, including goals and performance metrics, and has communicated these to its tier 1 suppliers. It is the best performing brand on the proportion of female supervisors in its supply chain, with 56% of female supervisors, compared to 39% across the group.

— We started working with [UNICEF](#) and 13 suppliers in Bangladesh to upgrade the childcare facilities for the workers' children.

— We partnered with [Better Work](#) and [USAID Mitra Kunci](#) to enrol more workers with disabilities in our suppliers' factories in Indonesia. In 2022, 525 workers with a disability were hired and we enrolled five additional supplier factories in the project.

— In Bangladesh, we've tailored GEAR project trainings on female leadership to better respond

to workers' needs and have broadened the scope to include gender equality. 105 workers, 84 managers and supervisors, and 21 factories were engaged in 2022.

— We strengthened our approach to addressing the gender pay and skill gap in the supply chain and have hired wages expert [Professor Raymond Robertson](#) to advise us. For more information, see [Social Impact in our Production Supply Chain](#).

Progress: transparency

— We provided data and information to the 2022 [Bloomberg Gender-Equality Index](#), which aims to bring transparency to gender-related practices by providing stakeholders with more in-depth data on policies, processes and actions.

— We rolled out our I&D dashboard across our operations. This tool will support and guide local decision-making and priorities going forward.

Learnings

— We have a clear ambition for inclusion and diversity across the H&M Group. Our current challenge lies in the need for continuous implementation and the provision of support to markets and functions with different levels of maturity and expertise.

— In an increasingly polarised world, we see varying acceptance of our inclusion and diversity values. As some countries broaden rights and



societal diversity, others implement restrictive laws and limit pluralism. In some markets, legal constraints can reduce our ability to roll out trainings and ensure that all can benefit from our commitment to I&D. We are constantly exploring how we can best contribute to public dialogue on these issues and help influence policies and attitudes in accordance with our values.

— Hybrid and digital working during the pandemic opened up the potential for more diversity, while returning to the office strengthens our culture and relationships. We are keen to continue leveraging both ways of working to remove practical barriers and strengthen internal diversity.

Future focus

— To further increase transparency, we will share more information on our I&D efforts, results and learnings. We aim to participate in additional rankings and benchmarks and engage with more peer groups to accelerate organisational and

collective change as well as meet stakeholder expectations.

— We will explore how we can advance supplier and business partner diversity. We want to encourage our partners to recognise inclusion and diversity as core business strengths and to embrace strategies that embed them in their operations.

— Following our implementation of processes that more systematically gather, aggregate and analyse data through our I&D Insights Dashboard, we will continue to explore how to use this data-driven approach to improve I&D.

— To promote women's empowerment among suppliers, we now score suppliers on three dimensions: ratio of women employed, ratio of women supervisors, and gender pay gap. We believe this will encourage suppliers to focus on gender equality and deliver progress.

Community engagement

We have an opportunity to support and champion people beyond our value chain, especially in times of global uncertainty, conflict and environmental crises. Our objective is to empower communities to create positive change for people and the planet.

We engage in the communities outside our value chain where we and our suppliers operate, supporting marginalised, underprivileged and vulnerable groups of people as well as initiatives with a focus on climate and nature. Read more about how we work with communities connected to our value chain through our work on [inclusion & diversity \(I&D\)](#), [human rights](#), [social impact in our production supply chain](#), [water](#) and [biodiversity](#).

Our contributions include donations, paid employee volunteering, and partnerships with NGOs such as [WWF](#), the [TENT Partnership for Refugees](#), the [United Nations Children’s Fund \(UNICEF\)](#), the [United Nations High Commissioner for Refugees \(UNHCR\)](#) and many more. To accelerate our efforts, we partner with [Business for Societal Impact \(B4SI\)](#), the global standard in measuring and managing social impact.

Progress

— We contributed SEK 114.2 million¹ to community investment initiatives, reaching 745,517 beneficiaries.

— Our community engagement programme [My Store](#) expanded, engaging customers and colleagues on local sustainability issues. Now all countries in the Central Europe region within the H&M brand are participating, in addition to Spain and India, with 80% of the initiatives focusing on I&D in underprivileged groups. 207 stores currently participate.

— Following the start of the war in Ukraine, H&M Group split a EUR 1.5 million donation equally to our long-standing partners [UNICEF](#) and [UNHCR](#). We also donated 150,836 garments to UNHCR. Our customers donated SEK 10,972,927 in stores and online, in collaboration with our payment service provider ADYEN. Due to large demand in other regions of the world, we also donated 190,513 pieces of clothing to UNHCR for people in South Sudan.

— COS launched a programme that pays up to eight hours of volunteering time annually for colleagues working over 20 hours a week.

Learnings

— Boosting employee involvement in the local community is important for employee satisfaction: our employees engaged in [My Store](#) showed 5% higher [People Engagement Pulses \(PEP\)](#) survey scores than those not involved.²

Future focus

— We will continue to expand [My Store](#) to create positive change at a local level.

— Our social community initiatives will continue to focus on I&D, and our environmental community activities on climate and nature. We aim to provide continuous support as well as ad hoc relief when disasters occur.

| Community engagement results | | | |
|---|----------------|-------------------|-------------------|
| COMMUNITY ENGAGEMENT INITIATIVES | 2020 | 2021 | 2022 |
| Total number of beneficiaries ³ | See footnote 3 | 368,000 | 745,517 |
| Total contributions ¹ | See footnote 3 | SEK 180.4 million | SEK 114.2 million |
| Total in-kind giving | See footnote 3 | SEK 134.5 million | SEK 50.3 million |
| Total cash contributions | See footnote 3 | SEK 38.8 million | SEK 52.7 million |
| Total management overheads | See footnote 3 | SEK 6.3 million | SEK 9.0 million |
| Total employee volunteering | See footnote 3 | SEK 0.8 million | SEK 2.1 million |
| Total number of collaboration partners ⁴ | See footnote 4 | See footnote 4 | 137 |
| Total number of colleagues engaged | See footnote 4 | See footnote 4 | 12,763 |
| Total number of customers engaged | See footnote 4 | See footnote 4 | 717,019 |

1) Includes in-kind giving SEK 50.3 million, cash contributions SEK 52.7 million, management overheads SEK 9.0 million, employee volunteering SEK 2.1 million.
 2) Based on data from PEP respondents in Germany, where [My Store](#) has been running the longest.
 3) New KPIs introduced in 2021 as we progress our inclusion and diversity ambitions and begin tracking change in our community investment and engagement programmes.
 4) New KPIs introduced in 2022 as we begin tracking change in our partnerships and colleague and customer engagement.

Supply chain management

We're committed to raising the standards in our industry by working with our suppliers to improve environmental and social performance. We choose suppliers who share our values, building long-term partnerships.

Our work is focused on our production supply chain, where we have the biggest impact, and we require all our suppliers and business partners to comply with our [Sustainability Commitment](#) and [Code of Ethics](#). We work with suppliers to go beyond the minimum legal requirements, with the aim to create lasting social and environmental change throughout our supply chain.

We gauge compliance and performance using our [Sustainable Impact Partnership Programme](#) (SIPP). Through SIPP we ensure all suppliers meet our minimum requirements, and we support our tier 1 and 2 suppliers to raise standards and take ownership of their sustainability goals. SIPP includes:

— **Minimum requirements:** Assessment of all new suppliers, with ongoing follow-up checks.

— **Self-assessment and verification:** Self-assessment using industrywide tools including the [Sustainable Apparel Coalition's](#) (SAC) Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM), verified by a third party.

— **Capacity building:** Support for suppliers to identify priority areas and set goals.

— **Grievance mechanisms and worker voice:** Ensuring opportunities for workers to report concerns and have their voices heard.

— **Dealing with incidents:** Recording and investigating potential incidents. Issuing a letter of concern and requiring a corrective action plan for all non-compliance cases, and engaging with suppliers on remediation actions — for example changes to policies and processes, training, and other relevant actions.

Progress: supplier relationships

— Our updated minimum requirements now prevent onboarding of new suppliers who use coal boilers, alongside other updates to ensure alignment with FEM & FSLM. We have also committed to phase out suppliers who allow recruitment fees for migrant workers by 2025.

— To extend our supply chain management approach we continued trialling the extension of Higg Index coverage to our tier 2 production suppliers.

— Read about our 2022 work to support [human rights](#) across our supply chains.

Defining our supply chain

We often use the term “supply chain” to talk about all the suppliers that contribute to our business. We actually work with several different supply chains, including our:

— **Production supply chain:** Suppliers that contribute to making the apparel, footwear, homeware and beauty products we sell through our brands.

— **External brands:** The supply chains of external brands sold through our sales channels.

— **Non-commercial goods (NCG) production supply chain:** Suppliers that produce goods we use in our stores or marketing materials, such as tables, hangers, mannequins, etc.

— **Services supply chain:** Suppliers that provide services such as landlords, cleaning, construction, warehouse operations and transportation.

— **Other supply chains & business partners:** Such as administration, business services, procurement and communication and marketing services.

We have historically focused largely on our production supply chain as this is where we have the biggest impact. We are increasingly working more closely with our other supply chains, taking the same systematic approach to identifying the most significant risks to human rights and addressing them through partnership and continuous improvement. Read more about our progress in safeguarding [human rights](#) with wider supply chains.

Our supply chain also has different levels or “tiers” that materials pass through during production. We group suppliers into tiers based on their role in production. Sometimes there is overlap between the tiers, where multiple suppliers can be involved in the same production stage. We work most closely with tier 1 and 2 suppliers:

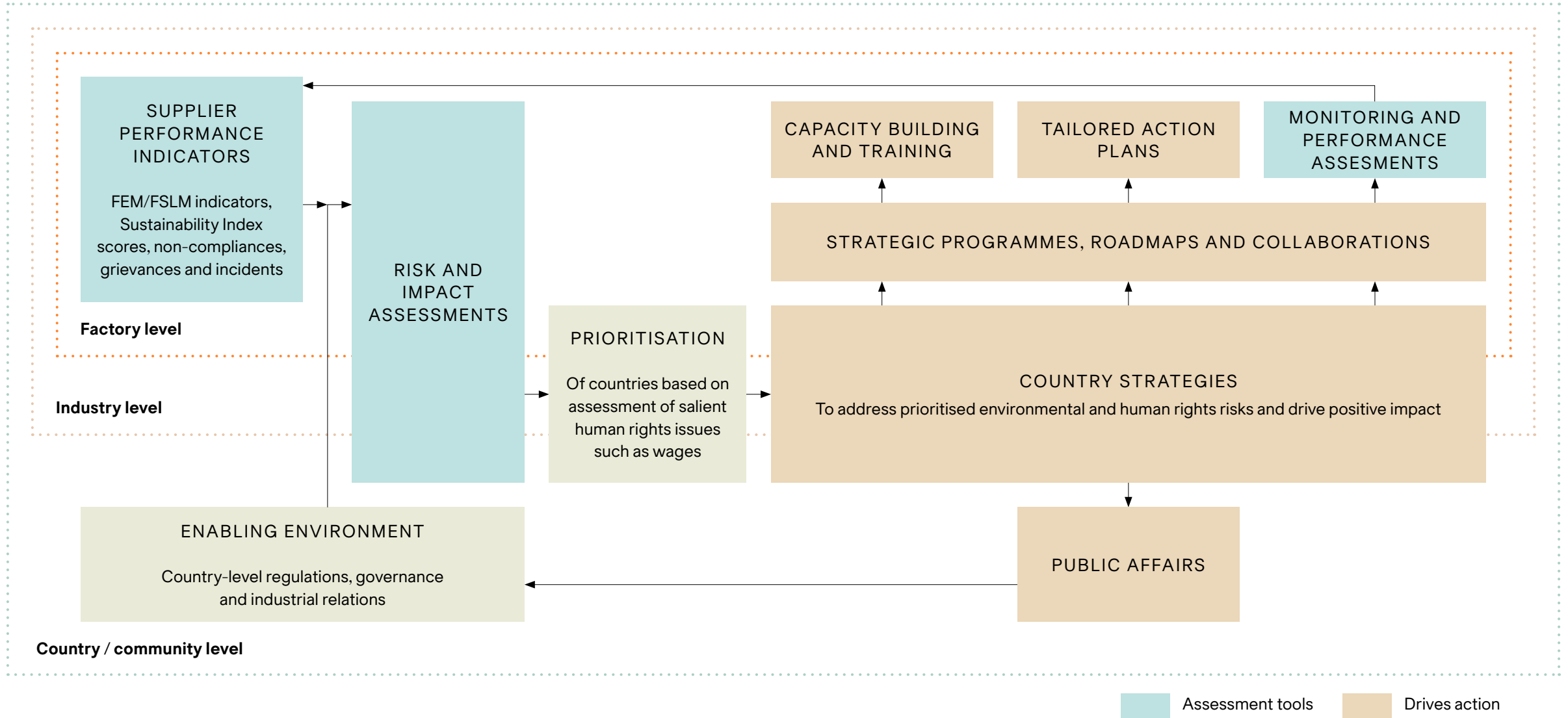
— **Tier 1:** Includes manufacturing suppliers and subcontracted factories, who make products by cutting, sewing and processing.

— **Tier 2:** Primarily suppliers who provide the fabrics, yarns and trims for products, including spinning, tanning, weaving, fabric dyeing and printing factories.

Read more about our [supplier tiers](#).

Supply chain management

Our supply chain management ecosystem



Supply chain management

Progress: industry tools & standards

— We continued contributing to the development of the Social & Labour Convergence Program (SLCP) tool — the assessment tool for FSLM. As an FSLM strategic council member, we provided ongoing input on development of a new SLCP assessment tool and a common scoring system for Higg FSLM. We are advocating for a move towards impact-based scoring rather than compliance checks.

— The SAC temporarily paused the Higg Index Transparency Program for further review due to external criticism. Read more about our work to progress industrywide [transparency](#).

Progress: supplier assessment & performance

— We continued a mix of onsite and offsite assessments and verifications for SIPP, Higg FEM and Higg FSLM, in line with local Covid-19 restrictions. See table for FEM and FSLM participation and verification results.

— 100% of tier 1 supplier factories and 100% of tier 2 dyeing and printing factories implemented SIPP. 100% of NCG suppliers and 100% of their factories implemented SIPP.

— The average FEM score across participating supplier factories was 64 out of 100. We plan to use the FSLM industry scoring tool when it is ready.

— 111 suppliers reported minimum requirement non-compliances across tier 1 (88) and 2 (23) suppliers, leading to:

- 128 minimum requirement non-compliance cases — 72 for social, 12 for environmental, and 25 for business practice issues.

- 57 letters of concern issued as part of our process to resolve human rights and environmental issues (see table on [page 85](#)).

- 4 terminations of business relationships with suppliers due to minimum requirement non-compliance issues.

— Investigated incidents of potential non-compliance with the Code of Ethics resulted in one written warning to a business partner.¹

1) See [page 88](#) for an assurance statement relating to this data point.

| Higg Index results | TIER 1 | | TIER 2 | |
|--------------------|--------------------|---------------------------|--------------------|---------------------------|
| | SUPPLIER FACTORIES | THIRD-PARTY VERIFICATIONS | SUPPLIER FACTORIES | THIRD-PARTY VERIFICATIONS |
| FEM | 858 (67)% | 99% | 509 (53)% | 99% |
| FSLM | 843 (66)% | 100% | 501 (52)% | 100% |

| FEM scores | 2019 | 2020 | 2021 | 2022 |
|---|------|------|------|------|
| Overall score (out of 100) ² | 47 | 52 | 57 | 64 |
| Based on the combined average for: | | | | |
| Environmental Management Systems | 52 | 59 | 70 | 78 |
| Energy use and greenhouse gas emissions | 75 | 82 | 87 | 91 |
| Water use | 62 | 73 | 76 | 82 |
| Wastewater | 51 | 59 | 67 | 74 |
| Waste management | 31 | 34 | 37 | 44 |
| Air emissions | 30 | 29 | 29 | 39 |
| Chemical management | 27 | 29 | 32 | 39 |

2) Average of all active, approved tier 1 and tier 2 factories that have a verified score, except 4 factories providing self-assessed result due to their high performance and low deviation between self-assessed and verified score in the past years. Scores are based on the previous year's data, e.g. the 2022 overall score is based on 2021 data.

Supply chain management

Learnings

— Developing industry tools and standards based on impacts rather than compliance checks will require work to fill gaps in data and increase visibility of issues on the ground. We are committed to working with our suppliers to improve the quality and reliability of the data we collect. We do, however, face some challenges such as accuracy of third-party data verifications, and we continue to give constant feedback to verification oversight organisations to address discrepancies, which should help us improve data quality for industry tools. Further improvements are likely to involve expanding the channels through which we gather data and compliance information, including working more with external auditors and using complementary tools such as grievance mechanisms.

Future focus

- We will continue to improve our Sustainability Index to better reflect and reward the sustainability performance of our suppliers.
- We will continue to extend Higg module participation with our suppliers, including working with peers to explore how best to assess tier 3 and 4 production suppliers.
- We plan to scale up the use of digital grievance mechanisms and worker voice surveys to mitigate and address supply chain risks that we see in

2023. This will include supplementing our current data with worker voice data to fully assess grievance mechanism functionality in line with the UN Guiding Principles. We will also increase the visibility of the data we gather on grievances and use this information to connect performance on grievance mechanisms with other social progress indicators — such as inclusion and diversity, health and safety, and wages.

Remediation in action

In 2022, the Bangladesh Garment and Industrial Workers Federation (BGIWF) raised allegations relating to one of our tier 1 supplier factories — including long-running issues with the formation of a union and the government registration process for workers at the factory.

Intervention by our National Monitoring Committee led to a memorandum of understanding between BGIWF and factory management, providing a foundation to improve industrial relations. The factory has since developed action plans that include dialogue with BGIWF on workers’ rights and responsibilities, working to establish a functional trade union, and training factory employees on handling workers’ issues.

Letters of concern issued to suppliers for non-compliance with minimum requirements¹

| ISSUE | LETTER OF CONCERN TOPICS | 2019 | 2020 | 2021 ² | 2022 |
|---|---|------|------|-------------------|------|
| Health & safety | Legal licences, emergency planning, fire safety | 18 | 3 | 2 | 10 |
| Child labour | Child labour | 0 | 0 | 0 | 0 |
| Fair living wage | Compensation, minimum wage, overtime compensation | 63 | 4 | 2 | 8 |
| Freedom of association & collective bargaining agreements | Worker involvement & communication | 7 | 2 | 2 | 0 |
| Social security, forced labour, modern slavery | Recruitment & hiring | 8 | 3 | 1 | 7 |
| Discrimination & harassment | Worker treatment & development | 2 | 0 | 1 | 0 |
| Access to water | Water use, wastewater | 7 | 4 | 7 | 7 |
| Environmental | Energy, chemicals | 4 | 1 | 4 | 0 |
| Other | Use of undeclared units, transparency | 24 | 11 | 19 | 25 |

1) Tier 1 supplier factories.
 2) In 2021, we began extracting minimum requirements non-compliance data from industry tools where the majority of cases were verified on-site by a third party. This resulted in significantly lower minimum

requirements for non-compliance cases, reiterating the importance of alternative due diligence approaches, including workplace dialogue and effective grievance channels for workers to raise issues.

How we report

Scope & data

Every year, H&M Group produces a sustainability performance report that discloses sustainability policies, targets, strategy, programmes and performance data for the global group operations of H & M Hennes & Mauritz AB (also called H&M Group in this report).

Our 2022 reporting comprises eight H&M Group brands (H&M, COS, Weekday, Monki, H&M HOME, & Other Stories, ARKET and Afound), in addition to subsidiaries that are either wholly or partially owned during the financial year from 1 December 2021 to 30 November 2022, unless declared otherwise. Find a full list of entities in our [Annual and Sustainability Report 2022](#).

We have further integrated our reporting to meet the increasing number of sustainability disclosure requirements. This Sustainability Disclosure complements our Annual and Sustainability Report, which includes our Corporate Governance Report, Statutory Sustainability Report and Financial reports. Supporting web content and reporting indexes provide additional information.

We continue to improve how we calculate and compare our scope 1, 2 and 3 emissions data. Read more about how we [calculate our emissions](#).

Frameworks

— **Global Reporting Initiative (GRI):** This report is prepared in accordance with the revised Universal GRI Standards. Download our [GRI index](#).

— **UN Guiding Principles (UNGP) Reporting Framework:** In 2015 we became one of the first companies to report on human rights in line with the UNGP Reporting Framework. We conduct regular reviews of [salient human rights issues](#) in our materiality assessment. Read about our [reporting approach](#) for more information.

— **Task Force on Climate-related Financial Disclosures (TCFD):** We have performed a climate risk analysis following the Task Force on Climate-Related Disclosure (TCFD) guidelines. Find further information in our [Annual and Sustainability Report](#).

— **UN Global Compact and CEO Water Mandate:** We are signatories to the UN Global Compact. Our annual sustainability reporting acts as our Communication on Progress for the UN Global Compact and CEO Water Mandate. We will disclose using the new UN Global Compact digital reporting system from 2023 onwards.

— **Modern Slavery Act:** We report in line with regulatory frameworks such as the UK Modern Slavery Act. See our [Modern Slavery Statement](#).

— Greater legislative attention on businesses' human rights commitments and due diligence is creating a growing assortment of reporting requirements. We report in accordance with relevant legislation, including policies developed by the European Union, Germany, Norway and the UK.

Our website offers more information on [how we report](#) and our [material issues](#). This includes our process for identifying and updating the most material topics and their boundaries.



UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) are a global call to action. They inform our approach to prioritising and tackling social, environmental and economic challenges. We are part of the Business Call

to Action, which aims to accelerate progress towards the SDGs. Here we present our contributions to the SDGs, both directly (through delivering our strategy), indirectly, and through partnerships.

Our relationship with the UN SDGs

| GOAL | DIRECT INFLUENCE THROUGH OUR STRATEGY | INDIRECT INFLUENCE THROUGH OUR STRATEGY | CONTRIBUTION THROUGH OUR PARTNERSHIPS | GOAL | DIRECT INFLUENCE THROUGH OUR STRATEGY | INDIRECT INFLUENCE THROUGH OUR STRATEGY | CONTRIBUTION THROUGH OUR PARTNERSHIPS |
|---|---|---|---------------------------------------|---|---|---|---------------------------------------|
|  1 No poverty | Fair & Equal | • | |  10 Reduced inequalities | Fair & Equal | | • |
|  2 Zero hunger | | • | • |  11 Sustainable cities & communities | | • | |
|  3 Good health & well-being | Fair & Equal | • | |  12 Responsible consumption & production | Leading the Change: Circularity, Climate & Nature | | • |
|  4 Quality education | | • | |  13 Climate action | Circularity, Climate & Nature | | • |
|  5 Gender equality | Fair & Equal | | • |  14 Life below water | Circularity, Climate & Nature | • | • |
|  6 Clean water & sanitation | Circularity, Climate & Nature | • | • |  15 Life on land | Circularity, Climate & Nature | • | • |
|  7 Affordable & clean energy | Circularity, Climate & Nature | | • |  16 Peace, justice and strong institutions | Fair & Equal | • | • |
|  8 Decent work & economic growth | Fair & Equal | | • |  17 Partnerships for the goals | Leading the Change: Circularity, Climate & Nature | • | • |
|  9 Industry, innovation and infrastructure | Leading the Change: Circularity, Climate & Nature | | • | | | | |

Auditor's report

Auditor's Assurance Report on specified sustainability information in H & M Group's Sustainability Disclosure 2022 report

To H & M Hennes & Mauritz AB, corporate identity number 556042-7220

Introduction

We have been engaged by the Board of Directors and Executive Management of H&M Hennes & Mauritz AB (H&M Group) to perform a limited assurance engagement on selected information, presented in the H&M Group's 'Sustainability Disclosure 2022 report', 'Material Issues 2022', 'Materiality Matrix 2022' and 'Stakeholder Engagement 2022' with regards to the below disclosures referred to in the GRI index that can be found in the 'GRI content index 2022'. Reporting principles can be found in 'How we Report 2022'.

— Approach to stakeholder engagement (Disclosure 2-29), reported in 'Stakeholder Engagement 2022', 'Material Issues 2022' and on pages 15-16 in the 'Sustainability Disclosure 2022 report'.

— Process to determine material topics and list of material topics (Disclosures 3.1, 3.2), reported

in 'Material Issues 2022', 'Materiality Matrix 2022', 'How we report 2022' and on pages 63 and 86-87 in the 'Sustainability Disclosure 2022 report'.

— Energy:

Energy consumption within the organization and percentage of renewable energy (Disclosure 302-1), page 30 in the 'Sustainability Disclosure 2022 report'. Energy intensity (Disclosure 302-3), page 30 in the 'Sustainability Disclosure 2022 report'.

— Emissions:

Direct (Scope 1) GHG emissions (Disclosure 305-1), page 29 in the 'Sustainability Disclosure 2022 report'. Energy indirect (Scope 2) GHG emissions (Disclosure 305-2), page 29 in the 'Sustainability Disclosure 2022 report'. Other indirect (Scope 3) GHG emissions, limited to transportation, materials, fabric production and garment manufacturing (part of Disclosure 305-3), page 30 in the 'Sustainability Disclosure 2022 report'.

— Materials:

Materials used by weight or volume, limited to cotton and synthetic materials including top 3 recycled materials (part of Disclosure 301-1), page 43-44 in the 'Sustainability Disclosure 2022 report'.

— Anti-corruption:

Confirmed incidents of non-compliance with the Code of Ethics and actions taken (part of Disclosure 205-3), reported on page 84 in the 'Sustainability Disclosure 2022 report'.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 86 in the Sustainability Disclosure 2022 report, and are the parts of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the auditor

Our responsibility is to express a conclusion on the above specified disclosures in the specified documents based on the limited assurance procedures we have performed. The selection of disclosures to be reviewed has been made by the management of H&M Group. Our engagement is limited to the above specified information, which does not include web-links, and is limited to historical information presented and does therefore not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 (revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies International Standard on Quality Management 1, which requires the firm to design,

Auditor's report

implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of H&M Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these 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, the conclusion of the procedures performed do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the above specified disclosures presented in the 'Sustainability Disclosure 2022 report'.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the information regarding the above specified disclosures in H&M Group's 'Sustainability Disclosure 2022 report', is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm 23 March 2023
Deloitte AB

Didrik Roos
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

H&M Group

Sustainability Disclosure 2022

If you have questions, need help locating information, or want to find the latest on our sustainability work including strategy, goals, standards and policies, please contact kelly.langpap@hm.com.

We appreciate your feedback.

Thank you.

