

H&M Group

Sustainability Disclosure 2021



About this report

Sharing relevant and accountable information about our business practices, supply chain and products is important for tracking our progress and learnings towards a more sustainable future.

Our reporting includes several components:

- **An Annual and Sustainability Report** provides an overview of our financial and non-financial performance, including our Statutory Sustainability Report.
- This **Sustainability Disclosure** complements our Annual and Sustainability Report by providing additional detailed information about strategy, policies, goals, programmes and performance data. **Web content** offers further detail on specific sustainability issues, including our strategies and policies. Find links throughout this report.
- **Report Stories** showcase highlights from our work. Follow links across this report.
- **External reporting frameworks:** Global Reporting Initiative and UN Guiding Principles indexes, and Task Force on Climate-Related Financial Disclosures reporting in our Annual and Sustainability Report.

This report discloses our goals and performance for the financial year from 1 December 2020 to 30 November 2021. Read more about the scope of this report in How We Report.



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Our approach to sustainability

We are continuing to work towards our goal to make fashion and design accessible to the many, in a way that's good for people, the planet, our industry and our business. Our sustainability strategy guides us as we work to lead the change towards a circular and climate positive fashion industry while being a fair and equal company.

We achieved several milestones in 2021. We are now working to achieve net-zero greenhouse gas emissions,¹ as part of our climate positive approach. We previewed our new circular design tool, Circulator, and developed country-specific wage strategies in our production supply chain that consider national contexts and legal settings. The Covid-19 pandemic has continued to underline the importance of accelerating our sustainability agenda.

The way we report on sustainability has also progressed. This year, we published our first combined Annual and Sustainability Report, taking another step on our journey to integrate sustainability into every part of our business. Read our Annual and Sustainability Report for more detail on our sustainability vision and strategy and how it supports our business, and information on our sustainability governance.

Our sustainability strategy

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



LEADING THE CHANGE

- Scale innovation
- Promote transparency
- Engage and partner for industrywide progress



CIRCULAR AND CLIMATE POSITIVE

- Climate positive approach across our value chain, operating within planetary boundaries
- Net positive impact on biodiversity
- Circular ecosystem for our products, supply chains and customer journeys



FAIR AND EQUAL

- Fair jobs for all
- Inclusive and diverse workplaces and communities

¹⁾ Net-zero as defined by Science Based Targets initiative's Net-Zero Standard.

Our approach to sustainability

A message from our CEO

This year is the first year that we at the H&M group are integrating our annual and sustainability reports. This is an important step, but also a natural development since sustainability has been an integral part of our business for a long time.

To meet customers' ever-increasing expectations, we are continuing to develop the customer offering for all our unique brands by offering customers the best combination of fashion, quality, price and sustainability. Demand for good value and sustainable products is expected to grow and our customer offering is well positioned for this. Among other things, customers can today carry out repairs, rent clothes or buy and sell second-hand.

I would like to thank all colleagues in the group for their efforts over the past year. Our colleagues everywhere in the organisation have demonstrated great commitment and worked to meet customers' expectations despite the challenges, restrictions and lockdowns due to the pandemic. We are proud that our strong recovery continued in 2021 with much appreciated collections and products, continued customer focus and strong relations with our partners.



At the time of writing, however, we are deeply concerned about the course of events in Ukraine and our thoughts go out to all those affected. We are monitoring developments closely and doing all we can to help people as much as possible. H&M Group, the H&M Foundation and the Erling Persson Foundation have donated millions of kronor as well as clothing and other essentials to organisations such as UNCHR, Save the Children, the Red Cross and UNICEF. We join all those around the world who are calling for peace.

Helena Helmersson
CEO, H&M Group

Read the full CEO letter in our [Annual and Sustainability Report](#).

A message from our Head of Sustainability

I'm pleased to present the 2021 H&M Group Sustainability Disclosure, detailing our priorities, progress and learnings on key environmental and social issues over the past year. We share the growing sense of urgency with many around the world who recognise the fashion industry needs to move faster towards circularity and continue to work to develop a fairer, more transparent and traceable supply chain.

This year, we accelerated our net-zero ambitions and made progress in key areas such as material sourcing, inclusion and diversity, and circular design. We've partnered with others to test and scale circular materials, processes and business models, and to progress social protection and dialogue within our supply chain.



Looking ahead, we see collaboration as essential for finding solutions to the complex and interconnected challenges we face as an industry. We've come a long way, but we know there is much more to do to accelerate our transformation. We will continue to share our progress and learnings, and welcome collaboration and partnerships as we continue this journey

Leyla Ertur
Head of Sustainability, H&M Group

H&M Foundation

The H&M Foundation is an independent non-profit global foundation for public good, headquartered in Stockholm, Sweden. It is privately funded by the Stefan Persson family, founders and main owners of H&M Group. Founded to accelerate the realisation of the UN Sustainable Development Goals, H&M Foundation uses collaboration and innovation to co-create, fund and share solutions for the world's most urgent challenges.

Since 2013, the family has donated SEK 1.5 billion (USD 200 million) to the Foundation.

Learn more at [hmfoundation.com](#)

Our approach to sustainability

Key sustainability policies & standards

— Human Rights Policy

H&M Group

OUR OWN OPERATIONS

- Code of Ethics for Colleagues
- Whistleblowing Policy
- Global Grievance Policy
- Global Non-Discrimination and Non-Harassment Policy
- Global Policy on Diversity, Inclusiveness and Equality
 - Global Health and Safety Policy
 - Global Policy on HIV & AIDS
- Global Compensation and Benefits Policy
- Global Labour Relations Principles
 - 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



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 our Corporate Governance Report.

How we Lead the Change



We are committed to lead the change to a better fashion future. This mindset influences everything we do. We aim to lead by example, using our size and scale to create positive impact. Being a first mover is challenging — trying something new means a greater risk of failure — but we believe in investing in a business that meets growing customer interest in more sustainable products and lifestyles. Improving the sustainability performance of our value chain also improves the resilience of our business operations.

We amplify our positive impact by forming partnerships, participating in dialogue, and sharing progress and learnings. Our focus is on three areas: innovation, transparency, and engagement with stakeholders and policy makers.

Innovation

New materials, recycling technologies and business models that promote circularity, improve resource use and enhance customers' experience are needed to transform our business and the fashion industry. We identify, test and scale new solutions:

— Our Circular Innovation Lab supports early-stage innovations to evaluate new and more

sustainable materials and technologies, bridging the gap from proof-of-concept projects to pre-commercial projects all the way to commercial production.

— Through our investment arm, H&M CO:LAB, we invest in companies developing technologies and software that enable a circular and sustainable future.

— Our B2B service Treadler gives other fashion companies access to H&M Group's supply chain. This removes barriers to sustainable sourcing by sharing the benefits of our investments in circular product development, more sustainable production and logistics. In 2021, Treadler introduced a dashboard that lets clients monitor progress towards their sustainability goals.

— We test and use innovative business models to offer customers easier access to more sustainable lifestyles. For example, in Sweden our subscription-based service Singular Society gives members access to responsibly made, high-quality fashion at the price it costs to make.

— 68% of respondents to our annual stakeholder survey rate H&M Group as good or very good at innovation.

Find more about how innovation speeds transformation, online and throughout this report.

Competing to transform fashion

The sixth round of H&M Foundation's Global Change Awards launched in August 2021. This is the world's largest innovation challenge to transform the fashion industry. The 2022 Award seeks early-stage innovations contributing to a planet positive industry by addressing the earth's global commons: land, water, oceans, climate and biodiversity. Applications from more than 100 countries were submitted. Five winners will be announced in April, 2022.

In 2021, the H&M Foundation's Billion Dollar Collection campaign presented ten start-ups that could disrupt the fashion industry. Each company was showcased as a garment in a virtual fashion collection, with the price tag showing the investment needed to scale up their disruptive innovations.

Transparency

Communicating openly and honestly about our business is vital for building meaningful relationships with colleagues, customers, investors and others. Transparency alone does not improve sustainability performance, but creates accountability and comparability, pushing us to improve and encouraging others in our industry to do the same.



Transparency prompts change by:

- **Empowering informed choices.** Giving customers information on product and business sustainability so they can make informed decisions aligned with their values. Encouraging customers to adopt more sustainable behaviours by enabling and inspiring more sustainable actions.
- **Accelerating sustainable change.** Increasing transparency and traceability across our value chain to give us greater oversight and control of our impacts. Sharing accurate data on our performance to identify areas for improvement and create accountability and comparability within our industry.

As we continuously improve our data systems to help reach our ambition of a fully traceable and transparent supply chain, we're mindful of the ethical considerations around collecting and using data. We see the need for shared guidance on responsible data handling from policy makers and the development of strong public governance procedures. Our Privacy Policy shares how we process and protect personal data, and we apply our Responsible AI Checklist every time we initiate an artificial intelligence (AI) project to ensure relevant ethical questions are answered.

Progress: empowering informed choices

— In 2021, H&M was among the first fashion brands to launch the Sustainable Apparel Coalition's (SAC) Higg Index Sustainability Profile — a new on-product transparency tool sharing environmental performance scores for materials. Customers can view profiles on around 850 H&M products online in Europe and the United States. We continued our partnership with the SAC, a global multi-stakeholder non-profit alliance developing tools to standardise sustainability measurements — sitting on strategic councils and within working groups.

— H&M and H&M HOME online continue to offer customers on-product transparency information about product materials, factory locations, garment care and recycling options.

— We expanded MyStore, our store-led community programme that engages and educates customers and colleagues on local sustainability issues. We extended coverage to central Europe and India, with 140 stores participating.

— H&M completed the roll-out of its initiative to reward members with Conscious Points, for making more sustainable choices. The initiative empowers members to track their conscious choices, such as using our garment collecting initiative, bringing their own bag when shopping in store or choosing climate-smart delivery when shopping online. In 2021, H&M members completed over 45 million

Recognition for transparency

— H&M Group ranked second in Fashion Revolution's 2021 Fashion Transparency Index, scoring 68% (73% in 2020). We recognise that transparency shouldn't be seen as an end goal. Instead, it is a vital enabler to reach many of our long-term sustainability objectives.

— Our 2019 Sustainability Performance Report was named first runner-up in the honesty and transparency category at the 2021 Corporate Responsibility Reporting Awards.

— 71% of stakeholders rate H&M Group as good or very good for transparency. Read more in Stakeholder Engagement.

Transparency

conscious choices. H&M will continue developing this concept during 2022.

- H&M and COS tested sharing on-product lifecycle assessment (LCA) data with customers. Read what we found in Learnings.

Progress: accelerating sustainable change

- ARKET, COS, H&M, Monki, & Other Stories and Weekday completed the Higg Brand & Retail Module and took part in data verification for the programme. The scores will be available to SAC members, with the eventual goal to share publicly to enable comparison across brands.

- We continued assessing suppliers' social and environmental performance using the Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM). See Supply Chain Management for more detail.

- We joined the European Commission's Green Consumption Pledge Initiative, committing to disclose details of our work and performance on our circular and climate positive strategy.

- We're exploring opportunities to improve traceability of materials, enrolling in multiple projects aiming to find scalable solutions to this challenge. For example, we plan to scale our

TextileGenesis traceability programme to more materials during 2022. Additionally, together with Textile Exchange and TextileGenesis, we're piloting eTrackit, a digital certified chain of custody model to improve traceability of materials through the supply chain.

- Our H&M Group supplier list disclosed information about 1,519 tier 1 supplier factories, covering 99% of relevant production volume, and 394 tier 2 supplier factories, covering 71% of relevant production volume. COS, Monki and Weekday added supplier lists and ARKET added a sustainability fact sheet to their websites.

- We continued contributing to the EU Product Environmental Footprint Technical Secretariat, which is developing an EU-wide methodology to measure apparel and footwear product environmental footprints that could help substantiate sustainability claims.

Learnings

- Our work to communicate environmental impacts with customers taught us that they tend to find LCA information overwhelming. Sharing data this way is not scalable or comparable because it is too costly and time consuming. What we need is a unified industry approach to measuring and communicating product impact data.

- Our on-product transparency pilots show sharing product impact data with customers does not appear to impact customer behaviour in the short term, but builds trust and loyalty.

Future focus

- We'll continue improving on-product transparency to help customers better understand the impacts of our products. We'll keep supporting the development of the Higg Index Sustainability Profiles to improve sharing of comparable customer-facing sustainability scores together with the SAC. We plan to use the profiles for more products and brands, and are keen to see the scope of profiles extended, including to social impact categories. In 2022, we'll pilot the tool's expansion to tier 1 supplier factory scores.

- Securing a seamless flow of data between information systems remains a key challenge. We're developing a roadmap for our supply chain sustainability performance data to improve integration and accessibility.

Engaging with our stakeholders

We welcome open dialogue and collaboration with others within and outside our industry. Engaging with diverse perspectives challenges us to do better, accelerates innovation and supports our transparency efforts. Partnerships help us progress towards our sustainability ambitions faster than we could alone and have a positive impact beyond our own value chain.



Our stakeholders include:

- **Customers.** Our customers are the centre of our business. We continuously listen to learn their needs, understand their expectations and make more sustainable choices as easy and attractive as possible to them.
- **Colleagues.** Everyone at H&M Group has a role in achieving our sustainability ambitions. We welcome the diversity of perspectives, knowledge and experience contributed by our many colleagues around the world.
- **Business partners** — including suppliers of commercial and non-commercial goods and services, franchise partners and online platform channels. We work together to share expectations, address social and environmental challenges in our supply chain, and raise industry standards. We engage with our suppliers' employees either directly through anonymous worker surveys or via representative bodies such as trade unions.
- **Experts** — including peers, nongovernmental organisations, academics and researchers, innovators and multi-stakeholder initiatives. Together, we can tackle systemic challenges and have a positive impact beyond our business.

— **Policy makers** — including governments and international institutions. We work to raise and level the legislative playing field, support the development of the fashion industry and encourage governments and businesses to take shared responsibility for meeting complex challenges. Read more in [Engaging with Policy Makers](#).

— **Investors.** As a publicly listed company, we are accountable to our investors. We maintain two-way dialogue with them to share our progress, seek feedback and inform our sustainability strategy and reporting.

— **Communities.** We want to contribute to positive impacts, growth and development in the communities where our operations and suppliers are located, and the demographic communities that represent our customers and colleagues.

We regularly engage with our stakeholders using a range of channels. These include webinars and calls, partnership meetings, surveys and consultations, training programmes, our stakeholder newsletter, and regular updates during the Covid-19 crisis. Each year, we invite views on our sustainability performance and reporting via our anonymous stakeholder survey.

[Read more about our stakeholder engagement activities and external collaborations in 2021.](#)

Stakeholder feedback

In 2021, 96 stakeholders (a 15% response rate) participated in our stakeholder perception survey (96 in 2020; 350 in 2019). This year:

— 73% of respondents agree or strongly agree that H&M Group is taking the lead among fashion retailers for social and environmental sustainability (76% in 2020; 52% in 2019).

— 89% say they have good or very good experience interacting with us (92% in 2020; 71% in 2019).

— 77% say H&M Group is a company they can trust (75% in 2020; 55% in 2019).

Additional results relating to specific topics are shared in the relevant sections of this report.

Engaging with policy makers



Our public affairs work is an important enabler to address systemic issues and achieve policy developments needed to support meaningful growth in our industry.

We engage with governments on key environmental, social and business topics. The central team reports directly to our chief financial officer and sets the direction for teams in our retail and production markets. H&M Group is listed in the [EU Transparency Register](#).

Priority policy areas

We focus on the issues most relevant to our sustainability work and where we see greatest potential to contribute to positive change.

An important focus area is upcoming European Union (EU) and EU country-level legislation on transparency, circularity and other environmental and social issues. We also prioritise engaging with national and international policy and legislation that:

- Supports transition to a circular and climate positive fashion industry.
- Impacts social development in our production markets, with a focus on wages and social protection mechanisms.

— Enables stable, predictable development of the industry in our production markets to support equitable economic growth, in line with the Sustainable Development Goals.

- Promotes a free and sustainable trade agenda.
- Addresses the emerging artificial intelligence and digitalisation agenda.

We engage in international dialogue relevant to our sustainability ambitions, including through COP26, the International Labour Organization, the Organisation for Economic Co-operation and Development, the UN Framework Convention on Climate Change (UNFCCC), the UN Global Compact (UNG) Decent Work in Global Supply Chains Action Platform, the UNG CFO taskforce and the World Economic Forum.

We are members of multi-stakeholder platforms, including [ACT](#) (Action, Collaboration, Transformation), [AFIRM](#), [Business for Nature](#), [Global Fashion Agenda](#), the [Policy Hub — Circularities 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).

Governance), packaging, end-of-waste criteria for the textile industry, and the [EU taxonomy](#) for sustainable economic activities. Our CEO and our Head of Sustainability took part in high-level meetings with the EU Commission and EU Parliament on topics such as transparency and sustainable textiles.

— In several production markets, we advocated for transparent, inclusive minimum wage revisions and extended social protection mechanisms, either through policy conversations (for example, in Bangladesh and Indonesia) or working with our suppliers to ensure full enforcement of the law (for example, in Turkey).

— We engaged with national authorities to support reforms towards a cleaner energy mix, including in Bangladesh (on the revision of the Renewable Energy Policy), Cambodia, and Indonesia (together with CEIA – Clean Energy Investment Accelerator). In Turkey and Bangladesh we started a collaboration with United Nations Development Programme (UNDP) to understand the legal framework and advocate for the shift towards a climate positive industry.

Key 2021 activities

— We contributed in depth to EU consultations on the EU Textile Strategy, sustainable product initiative (including eco-design, circular business models and digital product passports), chemicals, due diligence (Sustainable Corporate

Performance highlights

Find highlights from across our 2021 sustainability work in this section, along with reporting on all our key performance indicators (KPIs).

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Highlights 2021

22%

absolute reduction in scope 1 & 2 CO₂e emissions and **9% absolute reduction** in scope 3 CO₂e emissions, compared with 2019 baseline — contributing to our target to reduce absolute scope 1,2 and 3 emissions by 56% by 2030.

Set the ambition to

design all our products for circularity by 2025,

in accordance with our new circular design tool — Circulator.

Tripled

the share of recycled materials used in our garments from **5.8%** to **17.9%**.

27.8%

reduction in plastic packaging.

23,253

employees received our Layers inclusion and diversity training.

62%

of worker representatives and **28%** of supervisors in our supply chain are female.

98%

of suppliers regard H&M Group as a fair business partner.

Contributed

SEK 180.4 million

to community investment initiatives, reaching 368,000 beneficiaries.

External assessments

Benchmarks

— **Baptist World Ethical Fashion Guide.** H&M Group achieved an A grade in the [2021 Ethical Fashion Guide](#), which recognises companies that put people and planet before profit, putting us in the top 20% of brands surveyed.

— **Dow Jones Sustainability Index.** H&M Group was included in the Dow Jones World Sustainability Index for the tenth year running. We ranked fifth in 2021, with a score of 68/100 (70/100 in 2020). We were also listed in the Dow Jones European Index.

— **Ecogain Biodiversity Index.** We were one of five Green Traffic Light recipients in the [Ecogain Biodiversity Index 2021](#), out of 240 companies, which recognises companies with biodiversity goals in line with science.

— **Fashion Transparency Index.** H&M Group ranked second in Fashion Revolution's [2021 Fashion Transparency Index](#), which assesses 250 fashion brands, with a score of 68% (73% in 2020). We are pleased that our efforts to increase transparency are recognised, but we know that transparency is no replacement for performance. We will continue to improve our practices.

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

— **Global Compact LEAD.** H&M Group was announced as a [Global Compact LEAD company](#), demonstrating our ongoing commitment to the United Nations Global Compact and its principles for responsible business.

— **InfluenceMap's A-List of Climate Policy Engagement.** We were identified as one of 15 corporate leaders advocating for ambitious climate policy in the [2021 A-List of Climate Policy Engagement](#).

— **Oxfam Australia Naughty or Nice List.** H&M Group was again included in [Oxfam Australia's tracker](#) of companies committed to ring-fencing labour costs and to paying living wages for garment workers.

— **Platform Living Wage Financials.** Our work on wages in our supply chain was rated as "advanced" in the [Platform Living Wage Financials 2021 Annual Report](#). We were the only member of the garment and footwear sector included in this category.

— Remake Fashion Accountability Report.

We ranked 11 in Remake's [2021 Fashion Accountability Report](#) that rates 60 fashion companies according to traceability, wages and wellbeing, commercial practices, materials, environmental justice and governance.

— **Stand Earth Fashion Scorecard.** H&M Group ranked in the top ten companies assessed by [Stand Earth's Fashion Scorecard 2021](#), an analysis of 47 fashion brands, with a C- score overall and an A+ for our public affairs work. While we're happy with our leadership position, we know that we have more work to do together with our industry.

— **Textile Exchange Corporate Fiber & Materials Benchmark.** H&M Group was recognised as one of 36 leading companies out of the 191 analysed in the [2020 Material Change Leaderboard](#). We were one of nine companies leading on material circularity and one of 13 companies leading on progress against the Sustainable Development Goals.

Awards

— **Corporate Responsibility Reporting Awards.** Our 2019 Sustainability Performance Report won the [Best Report](#) award this year. The report also came second place in the Openness and Honesty, Best Carbon Disclosure, and Creativity in Communications categories, and third place in Relevance and Materiality.



KPIs: Circular & Climate Positive

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

Circular & Climate Positive KPIs

	2018	2019	2020	2021	GOAL
Climate: % absolute reduction (scopes 1 and 2) in CO ₂ e emissions compared with 2019 baseline ^{1,2,3}	N/A	N/A	+17%	-22%	-56% by 2030
Climate: % absolute reduction (scope 3) in CO ₂ e emissions compared with 2019 baseline ^{1,3}	N/A	N/A	-14%	-9%	
Climate: % change in CO ₂ e emissions from own operations (scope 1 + 2) compared with previous year ³	-11%	+8%	+18%	-34%	-
Climate: % change in scope 3 CO ₂ e emissions compared with previous year ³	-	-3%	-14%	+6%	-
Climate: % change in electricity intensity in our stores (kwh/m ² per opening hour) compared with 2016 baseline ³	-8.2%	-10.1%	-17.0%	-16.8%	-25% by 2030 ⁴
Climate: % renewable electricity in own operations ³	96%	96%	90%	95%	100% by 2030
Water: % reduction in production water use (water intensive tier 1 and 2 suppliers) from 2017 baseline	N/A	-5.9%	-3.8%	-10.3%	-25% by 2022
Commercial goods: % of recycled or other more sustainably sourced materials total ³	56.6%	57.1%	64.5%	80.0%	100% by 2030
Commercial goods: % of other more sustainably sourced materials ³	55.2%	54.9%	58.7%	62.1%	-
Commercial goods: % of recycled materials ³	1.4%	2.2%	5.8%	17.9%	30% by 2025
Packaging: % of recycled or other more sustainably sourced materials ¹	-	-	89%	68%	100% by 2030
Chemicals: % of supplier factories compliant with ZDHC Manufacturing Restricted Substances List	N/A	80%	88%	95%	100% ⁵
Garment collecting initiatives: Tonnes of garments collected through garment collecting initiative ⁶	20,649	29,005	18,800	15,944	Annual increase

¹ New KPI added in 2021.

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 72 for an assurance statement relating to these data points. The limited assurance process included: all scope 1 and 2 emissions; scope 3 emissions from transportation and garment production; fuel consumption in our own operations; electricity intensity in our stores; renewable electricity; all cotton data (apart from in-conversion cotton); and data for our top three recycled materials.

⁴ This goal read 'by 2025' in our 2020 and 2019 sustainability reports. It should have read 'by 2030', as per our annual reports.

⁵ 100% ZDHC MRSLS compliance is proving challenging due to the variety and complexity of our supply chain. Due to this, we did not achieve our goal of 100% compliance by 2020 and continue to work towards full MRSLS compliance.

⁶ 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.

KPIs: Fair & Equal

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

	2018	2019	2020	2021	GOAL
Supply chain: % tier 1 supplier factories with trade union representation ¹	See footnote 2	See footnote 2	32%	37%	–
Supply chain: % tier 1 supplier factories with collective bargaining agreements ¹	See footnote 2	See footnote 2	18%	27%	–
Supply chain: % tier 1 supplier factories with digital payment solutions (bank account and/or mobile money)	See footnote 2	See footnote 2	82%	91%	–
Supply chain: % of workers in our tier 1 production supply chain that are female	See footnote 2	See footnote 2	63%	63%	–
Supply chain: % of supervisors in our tier 1 production supply chain that are female	See footnote 2	See footnote 2	24%	28%	Annual increase
Supply chain: % of worker representatives in our tier 1 production supply chain that are female	See footnote 2	See footnote 2	59%	62%	Annual increase
Supply chain: % of suppliers regarding H&M Group as a fair business partner ³	93%	96%	96%	98%	–
Own organisation: Overall People Engagement Pulses (PEP) employee engagement score (out of 100)	75	76	75	76	–
Own organisation: % of H&M Group employees agreeing with the statement “Diverse perspectives are valued at H&M Group” ⁴	See footnote 5	See footnote 5	See footnote 5	74%	Annual increase
Own organisation: % of H&M Group employees agreeing with the statement “I am treated with respect and dignity” ⁵	81%	82%	80%	83%	Annual increase
Own organisation: % of female employees ⁶	74%	76%	74%	74%	–
Own organisation: % of female employees in management positions ⁶	72%	69%	71%	71%	–
Own organisation: % of female employees on the board of directors ⁶	60%	67%	67%	55%	–
Own organisation: % of employees in brands that have received our Layers inclusion and diversity training	See footnote 6	See footnote 6	See footnote 6	15%	–
Own organisation: % of employees in functions that have received our Layers inclusion and diversity training	See footnote 6	See footnote 6	See footnote 6	66%	–
Own organisation: % of employees in markets that have received our Layers inclusion and diversity training	See footnote 6	See footnote 6	See footnote 6	21%	–
Community investment initiatives: total number of beneficiaries	See footnote 6	See footnote 6	See footnote 6	368,000	–
Community investment initiatives: total contributions	See footnote 6	See footnote 6	See footnote 6	SEK 180.4 million ⁷	–

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 due to the strategic decision to track progress in H&M Group's global production supply chain.
³ This KPI will change from next year as we integrate our supplier survey into the ACT purchasing practices assessment that runs every year. We believe that this change will reduce workload for our suppliers, providing a trusted platform for feedback.

⁴ 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.
⁵ New since 2018, replacing our previous KPI % of employees agreeing with the statement “people here are treated fairly regardless of age, ethnicity, sex, sexual orientation, disabilities”, as we made a shift to a new engagement survey platform.

⁶ New KPIs introduced in 2021 as we progress our inclusion and diversity ambitions, and begin tracking change in our community investment and engagement programmes.
⁷ Includes in-kind giving SEK 134.5 million, cash contributions SEK 38.8 million, management overheads SEK 6.3 million, employee volunteering SEK 0.8 million.

Circular & Climate Positive

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Our Circular & Climate Positive approach



Our business, our people and the communities where they live and work are reliant upon natural resources. In turn, the health of the planet depends upon how we use, protect and restore these resources. The actions we take now to preserve our shared environment lay the foundation for the business we want to become and must become for future generations — offering our customers more sustainable choices as part of a circular fashion ecosystem.

By reducing our impact on climate and nature, we also contribute to a more fair and equal society. Access to a safe, healthy and clean environment is a human right, while a thriving environment supports equity, economic development and wellbeing. Climate change is already exacerbating inequalities and conflicts, degrading ecosystems and impacting the availability of resources.

These interconnected issues of climate and nature — which include water, biodiversity and land use changes — are at the heart of our approach to reducing our environmental impact. We are determined to work within planetary boundaries and progress towards a sustainable fashion future.

Our ambition is to achieve net-zero CO₂e emissions by 2040,¹ taking a climate positive approach and having a net positive impact on biodiversity.² Becoming circular throughout our business is key to achieving these aims. How we make and use our products directly affects our carbon and water footprints and our impact on nature.

Tackling this complex set of issues requires us to collaborate with peers, experts and policy makers, for example, through our work with Business for Nature, the Ellen MacArthur Foundation, Global Fashion Agenda, Policy Hub, the Stockholm Resilience Centre and our partnership with WWF.

In 2021, we set new CO₂e emissions reduction goals to support our net-zero and climate positive ambitions. Compared to our 2019 baseline, we have reduced our absolute scope 1 and 2 emissions by 22% and our scope 3 emissions by 9%. We reduced production water use by 6.6% compared to last year. We engaged with the Science Based Targets Network to begin developing targets for nature and invested in projects focused on reducing the biodiversity impact of our material sourcing. We also continued our work with WWF to set context-specific (contextual) water targets and to develop our new 2030 Water Strategy.

See our Circular & Climate Positive KPIs from 2021.

H&M Foundation

In 2021, the H&M Foundation launched a new planet strategy — Planet Positive. The strategy addresses challenges within the entire earth system — including climate, water, ocean, biodiversity and land — and across every step of the fashion industry's value chain.

For our industry to become truly regenerative it is crucial to look beyond circularity. The H&M Foundation invests in new research and supports innovations with a planet positive focus. One example is the five-year Planet First partnership with the Hong Kong Research Institute of Textiles and Apparel (HKRITA), which aims to consider all aspects of earth's natural support systems.

¹) Net-zero as defined by the SBTi's Net-Zero Standard.
²) Our ambition to have a net positive impact on biodiversity is based on the definition of nature-positive in the naturepositive.org paper: A Nature Positive World: The Global Goal for Nature.

Climate Positive

The urgency of the climate crisis is now undeniable. The [sixth report from the Intergovernmental Panel on Climate Change \(IPCC\)](#) states that human-induced climate change already affects every inhabited region across the globe. Without steep greenhouse gas (GHG) emission reductions, the IPCC warns that warming of 1.5°C or even 2°C will be exceeded this century — with potentially catastrophic consequences for people and the planet.

We must accelerate our own progress to be part of the solution. Our work on climate is closely linked to our work on [water, biodiversity, resource use and circularity](#).

Our climate strategy

We take a climate positive approach throughout our value chain and beyond. To do this we will:

- Halve our emissions every decade.
- Achieve net-zero no later than 2040, using the Science Based Targets initiative's (SBTi) definition. We are revising our existing science-based targets to align with the SBTi's recently launched Net-Zero Standard. We have submitted a near-term SBT with a target year of 2030, and a long-term SBT to achieve net-zero by 2040, and we are currently awaiting approval of these by SBTi.

- Have a positive effect beyond our value chain, by engaging in public affairs and collaboration, and making financial commitments to reduce climate impacts beyond our value chain emissions.

To help us achieve net-zero, we introduced a new goal to **reduce our absolute scope 1, 2 and 3 emissions by 56% by 2030, from a 2019 baseline.¹** This overarching goal supersedes previous scope 3 goals, including our product goal. We also have a number of supporting targets focused on different aspects of our value chain:²

- From January 1, 2022, we will not onboard any new suppliers or supplier factories into our supply chain if they have on-site coal boilers in their factories — as part of a longer-term aim to phase out coal from our supply 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.

- By 2030, the electricity sourced in our supply chain will be 100% renewable.³

- By 2025, source 30% recycled materials.

There are additional goals attached to our [sustainability-linked bond](#), as well as year-on-year



targets and interim milestones as part of our Net-Zero Roadmap.

We focus on four priority activity areas to support these targets:

- **Energy efficiency.** Use as little energy as possible across the whole value chain — including in our own operations, logistics activities and throughout our supply chain.

- **Renewable energy.** Work to source 100% renewable electricity in our own operations, and engage with partners and suppliers to increase their use of renewable electricity, heat and steam. We are an [RE100 member company](#).

- **Circularity.** Our [circular ambition](#) and goals are integral to achieving our climate goals.

- **Carbon removals.** Find nature-based and engineered solutions for removing GHGs from the atmosphere. Future investments in carbon removals will primarily serve to neutralise our residual emissions in order to achieve net-zero value chain emissions.

¹) We chose 2019 as our baseline year, since the impact of the Covid-19 pandemic on our carbon emissions makes 2020 an inappropriate year against which to measure longer-term performance data. Emissions from the customer use phase are not included in the scope 3 part of this goal, to fully align with the target boundary requirements of the SBTi Net-Zero Standard.

²) We are revising our transport emissions target to align with our new absolute emissions goal.

³) Wherever renewable electricity is available for purchase (in rare cases, some markets do not have renewable electricity for sale).

Climate Positive

Our climate positive approach

	IMPACT AREA	ACTIONS	FRAMEWORKS AND PARTNERSHIPS	GOALS	AREAS TO DETERMINE IN 2022
ADDITIONAL ACTIONS TO MAXIMISE OUR POSITIVE CLIMATE IMPACT	Value chain and beyond ¹	4. ADVOCATE Advocate, engage and collaborate. Enable and inspire.	UNFCCC We Mean Business WWF		
	Value chain and beyond ¹	3. REMOVE CO ₂ & SECURE CARBON SINKS Remove and permanently store atmospheric CO ₂ . Secure carbon sinks to avoid emissions and biodiversity loss that arise from their degradation.	Science Based Targets initiative Net-Zero Standard	Achieve net-zero emissions ²	Set ambition for carbon sinks (e.g. tropical rainforest)
	Value chain	2. REDUCE Goals and performance are aligned with 1.5°C climate science.	Science Based Targets initiative Net-Zero Standard	56% emissions reduction by 2030 ²	Set separate reduction goal for emissions from customer use phase
GOALS AND PERFORMANCE	Value chain	1. ACCOUNT & DISCLOSE Secure and collect data. Measure, improve, assess and disclose.	CDP TCFD		
	Value chain				

1) For example, by engaging in public affairs and collaboration, and making financial commitments to reduce climate impacts beyond our value chain emissions. The definition of "beyond value chain mitigation" is a moving agenda, and we anticipate further definition to be included in the planned SBTi guidance later in 2022.

2) 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).

Climate Positive

To ensure progress at the speed required, we have launched initiatives to address a number of key challenges:

- **Changing internal behaviour.** We've set up internal carbon pricing to support our organisation to minimise carbon emissions when making decisions about which materials, production processes and modes of transport to use. Choices with higher emissions will impact a product's margin negatively. We set an initial carbon price in 2021, which we will increase over time to shift behaviour towards more sustainable buying decisions.

- **Prioritising action.** Our Climate Positive Roadmap tool forecasts future emissions scenarios for our full value chain and calculates the levers for greatest impact reduction, allowing us to prioritise where to invest.

- **Establishing a dedicated climate impact budget.** We have set up a green investment team with a single focus: financially support projects to reduce H&M Group's emissions throughout the value chain. The team will measure return on investment by emissions reductions, not financial gain.

- **Sourcing external financing.** Our EUR 500 million sustainability-linked bond provides external finance for carbon reduction activities.

 [Find out more about our sustainability-linked bond.](#)

Managing climate change risks

Since 2019, we've used the Task Force on Climate-related Financial Disclosures (TCFD) guidance to analyse and understand our key climate-related risks and opportunities.

Read our TCFD disclosure in our [Annual and Sustainability Report](#).

Collaboration is essential to tackling the global climate crisis. Climate is a main focus of our longstanding partnership with WWF. We engage with policy makers to develop legislation in support of a low carbon future — for example as part of the steering committee of the United Nations Framework Convention on Climate Change (UNFCCC) Fashion Industry Charter for Climate Action.

We also partner with peers to reduce emissions across shared transport supply chains. As well as being a signatory to the Arctic Shipping Corporate Pledge, we are members of BSR's Clean Cargo and Sustainable Air Freight Alliance, Green Freight Asia, Network for Transport Measures and The Pathways Coalition. We require sea transporters to register their environmental performance in the Clean Shipping Index or Clean Cargo Working Group for evaluation.

Read more about our approach to tackling climate change.

Progress: overall

- Our scope 1 and 2 emissions decreased by 22%, compared to our 2019 baseline (–34% compared to last year) and our scope 3 emissions decreased by 9%, compared to our 2019 baseline (+6% compared to last year). The scope 1 and 2 decrease is driven by purchase of renewable electricity certificates.

Decreases in our scope 3 emissions over time are led by a continued shift to more sustainable and recycled materials and reduction in air transport, as well as being influenced by Covid-related issues such as fluctuations in order volumes. The increase in scope 3 emissions compared to last year was largely due to a rebound in production and sales and related increases in product transportation, following the significant impact of the Covid-19 pandemic in 2020.

- We launched our internal carbon pricing programme, sustainability-linked bond and Climate Positive Roadmap tool, and we set up our new green investment team.

- To support development of a new Logistics Roadmap, we reviewed current climate impacts across our logistics activities. We will use the findings to develop a clear set of actions.

- We collaborated with policy makers to catalyse systemic change, including joining the UNFCCC Race to Zero and engaging in COP26.

- In our 2021 stakeholder survey, 50% of respondents rate our climate positive work as good or very good.

Climate Positive

CO₂e emissions^{1,2,3,4}

	2018	2019	2020	2021	% CHANGE FROM 2019	GOAL
Total Scope 1 CO ₂ e emissions (tonnes)	13,363	14,990	13,587	12,684	-15%	-56% by 2030 (2019 baseline)
Total Scope 2 CO ₂ e emissions, including renewables (tonnes)	46,429	49,455	61,725	37,394	-24%	-56% by 2030 (2019 baseline)
Total Scope 1 & 2 CO ₂ e emissions, including renewables (tonnes)	59,793	64,444	75,322	50,078	-22%	-56% by 2030 (2019 baseline)
Total Scope 3 CO ₂ e emissions (kilotonnes) ¹	See footnote 1	8,497	7,334	7,742	-9%	-56% by 2030 (2019 baseline)

¹ In 2021, we continued work to improve the accuracy of our emissions data. This has led to some changes to our reported emissions for previous years. For example, scope 1 and 2 emissions data for 2020 and earlier did not historically include district heating (scope 2) and natural gas (scope 1) for stores in Germany. We have therefore restated scope 1 and 2 figures this year to include these additional emissions. 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](#).

² See page 72 for an assurance statement relating to these data points. The limited assurance process included all scope 1 and 2 emissions.

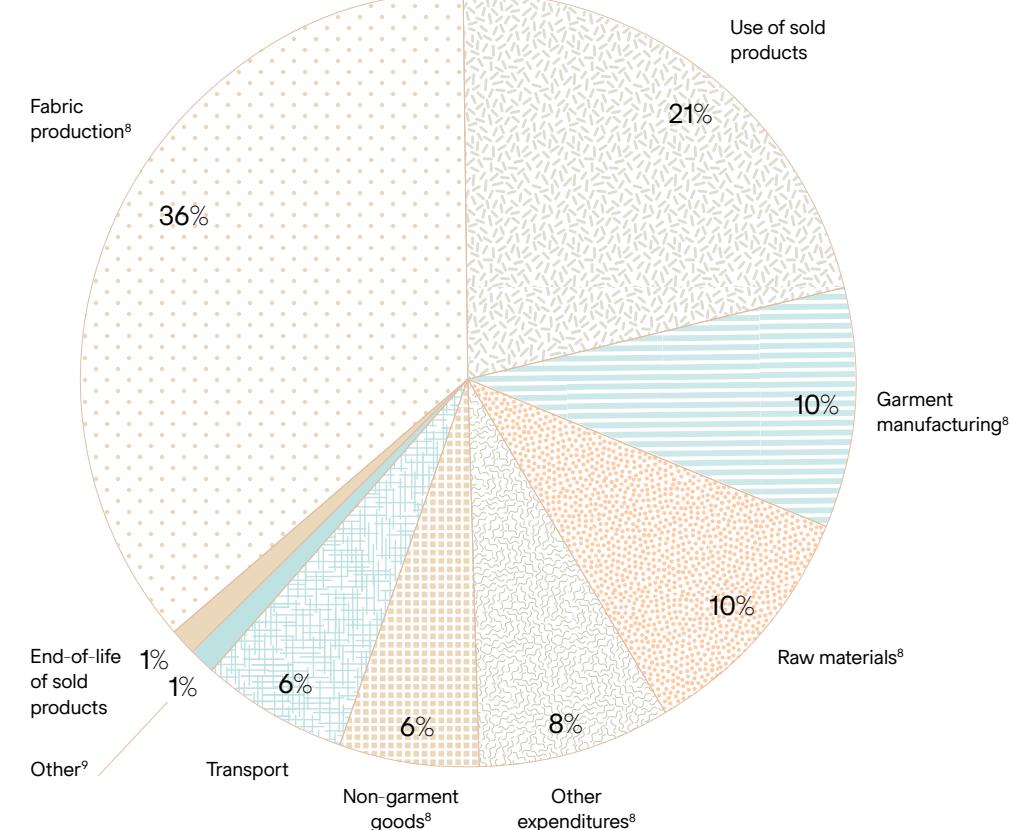
³ We use a shifted reporting year for energy and GHG emissions, covering the period September–August. Our GHG emissions accounting and reporting are aligned with the GHG Protocol. Scope 2 emissions under the market-based approach are equal to 50,078 tonnes CO₂e. Under the location-based approach (using grid average emission factors), scope 2 emissions were 50,710 tonnes.

For further details and data, please see our CDP climate change investor response 2021. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

⁴ 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 includes both actuals and estimations, where estimations are made if store actuals are not received within the reporting deadline; estimates are based on previous consumption, opening hours and store area; 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 is included in emission factors for materials. Scope 1 and 2 emissions factors: electricity — based on IEA data from CO₂ Emissions from Fuel Combustion © OECD/IEA 2020, as modified by UL E&S; fuels — Department for Business, Energy & Industrial Strategy (BEIS), 2021. Scope 3 emissions factors: raw material and fabric production — Higg MSI; garment production — electricity based on IEA data from CO₂ Emissions from Fuel Combustion © OECD/IEA 2020, as modified by UL E&S; fuels — 2018 update; other expenditures — Defra, 2014, indirect emissions from the supply chain; transport by rail, air, shipping, truck — emissions factors provided by Conologic and NTM 2019.

Scope 3 CO₂e emissions^{5,6,7}



⁵ See page 72 for an assurance statement relating to these data points. The limited assurance process included scope 3 emissions from transportation and garment production.

⁶ Figures based on 2020 data. 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, 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. Figures do not add up to 100% due to rounding.

⁷ GHG Protocol category 1: purchased products.

⁸ Includes multiple small categories such as employee commuting, investments and business travel.

Climate Positive

Energy use in our own operations¹

	2018	2019	2020	2021	GOAL
% renewable electricity in own operations	96%	96%	90%	95%	100% by 2030
Energy use within our own operations (gigajoules), of which: ²	6,186,278	6,229,012	5,408,859	4,963,650	–
– Building diesel	4,355	7,693	9,954	2,101	–
– Direct heating	134,801	175,691	214,990	146,647	–
– Electricity ³	5,841,296	5,820,887	4,974,565	4,566,459	–
– Building natural gas, oil and others	205,826	224,472	209,349	248,443	–
Electricity use reduction per square metre and opening hour (2016 baseline, in comparable stores)	-8.2%	-10.1%	-17.0%	-16.8%	-25% by 2030 ⁴

Transport and business travel emissions^{1,5}

	2018	2019	2020	2021
CO ₂ e emissions in kilotonnes from transport and business travel	587	500	442	478

1) See page 72 for an assurance statement relating to these data points.
 2) In 2021, we continued work to improve the accuracy of our emissions data. This has led to some changes to our reported emissions for previous years (for example, see footnote 1 on page 22). 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](#).
 3) Energy related to electricity-based cooling consumption is included.

4) There was an error in our 2019 and 2020 Sustainability Reports, where the end year for this goal was incorrectly stated as 2025.
 5) Reported scope 3 emissions include goods transport and distribution, and business travel. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

Emission scopes (based on GHG Protocol)

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

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

Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities 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.

Our emissions data

In 2021, we continued work to improve the accuracy of our emissions data. This has led to some changes to our reported emissions for previous years. Read more about our [updated emissions data](#).

Progress: energy efficiency

— We reached a 16.8% reduction in electricity intensity in our stores per square metre and opening hour, from a 2016 baseline. As this KPI is based on opening hours, Covid-19 and store shutdowns continued to impact our performance. We retrofitted LED lighting in around 720 stores and started retrofitting efficient heating, ventilation and air conditioning systems across multiple markets.

— Our transport and business travel emissions increased by 6% to 478 kilotonnes CO₂e, including a reduction in air freight emissions of 32%.⁶ The overall increase was primarily due to a rebound in production and sales and related increases in product transportation, following the significant impact of the Covid-19 pandemic in 2020.

— We are moving from a focus on the number of suppliers enrolled in energy efficiency programmes to focus on impact. We launched our supply chain energy efficiency team, starting with four in-house consultants in four countries.

They work with our most impactful suppliers — the 20% of suppliers that contribute 80% of emissions — and those with whom we have the closest business relationships. Our aim is to create an industrywide guidance platform on effective energy efficiency activities for suppliers.

6) During this year's data evaluation process we have identified historically insufficient routines in regards of locking and finalising transport related data within set timeframes and deadlines. In 2022, we will reevaluate reported transport emissions and update accordingly. However, we do not expect significant changes to the historic data reported.

Climate Positive

Progress: renewable electricity, heat & fuel

- From January 1, 2022, we will not onboard any new suppliers or supplier factories into our supply chain if they have on-site coal boilers in their factories — as part of a longer-term aim to phase out coal from our supply chain.
- 95% of electricity purchased for our operations was renewable (90% in 2020).
- 5 of our distribution centres installed solar panels, with a combined peak capacity of 1,375 MWh.
- Climate-smart delivery solutions are now available in 34 markets.¹ Continued integration of online and physical sales is changing our logistics activities, and we've been implementing last-mile delivery using electric vehicles as part of the solution. We recognise that the climate impact of electric vehicles depends on the grid mix in relevant countries, but still see these as an important contribution towards fossil-free transport.
- We continued to engage in the LEO Coalition research project led by Maersk. The coalition started testing different lignin types for LEO fuel — a potential near-carbon-neutral biofuel for shipping.

- We collaborated with suppliers to implement renewable electricity and heat projects. For example:
 - In India, 2 of our suppliers achieved 100% renewable electricity supply through a combination of onsite generation and energy trading.
 - 75% of H&M HOME suppliers have installed onsite renewable electricity sources.
 - Approximately 60% of COS garments produced in Turkey — 18% of global COS garment production — were produced using renewable electricity.²
 - In Indonesia, we collaborated with HSBC, WWF and the World Resources Institute on a project to address barriers to transitioning to biomass boilers. In Cambodia, we launched an app to enable traceability of boiler feedstock and we aim for Cambodia to be our first production country to use 100% biomass boilers.

Progress: circularity

- Read about our progress towards building a circular business in [Our Circular Ecosystem](#).

¹⁾ Climate-smart refers to transport initiatives that have lower CO₂ emissions compared to standard diesel road transport.
²⁾ During the period September 2020 to August 2021.



Progress: carbon removals

- Read about our investments in regenerative agriculture projects, as part of our [Biodiversity](#) work.

Learnings

- Continuing to move from estimated data towards real supplier data is essential to improving our [scope 3 emissions reporting accuracy](#). But we've found several challenges, such as reliable data provision — particularly where volumes of business with different suppliers change month to month — and ensuring we have the capacity to discuss data with suppliers where needed. Digital solutions that enable easy data sharing are key to overcoming these challenges.

- We continue to see the value of engaging with policy makers at a local level to influence and align with climate-related policies.

Future focus

- We will accelerate our focus on supply chain emissions reductions through investments, incentives and support systems, while continuing to explore options for long-term carbon removals projects.

- We will continue to improve our emissions data systems. Our Business Tech function will help develop data analysis systems for the supplier factory level, and we will work to improve transport emissions data by partnering with the [Global Logistics Emissions Council](#) to find a global standard for accurately measuring logistics emissions.

Biodiversity

Biodiversity is a foundation for healthy ecosystems and communities. It's also interconnected with our business. The virgin natural materials in our products depend upon fertile soil and healthy forests. And our entire value chain — particularly our raw material sourcing — has the potential to impact biodiversity.

The ongoing loss of biodiversity is a systemic risk that threatens the future prosperity of our industry and the survival of humanity. Average wildlife populations have decreased by more than two-thirds in the past 50 years,¹ and transformative change is needed to reverse this trend. Shifting from wasteful models of resource use based on extraction towards a circular, regenerative economy is essential to restoring biodiversity and supporting thriving communities.

We have a responsibility to avoid or reduce our impact on biodiversity by preserving and enhancing the natural world — for the sake of current and future generations and to ensure the resilience of our own business and supply chains. **Our ambition is to have a net positive impact on biodiversity by:**

- Working to prevent and reduce our overall impact on the biodiversity and natural ecosystems touched by our value chain.

¹⁾ WWF Living Planet Report 2020.

- Supporting the protection and restoration of biodiversity and natural ecosystems in line with scientific advice.

We are developing targets and actions to support this ambition, in line with the ARRRT (Avoid, Reduce, Restore & Regenerate, Transform) framework. Our work on biodiversity has strong links with our existing goals and activities on climate, water, materials, circularity and resource use, and chemicals. We are working to source more materials farmed with regenerative practices. These practices aim to improve environmental wellbeing by increasing soil fertility, biodiversity, soil carbon sequestration, water retention and cleanliness, while contributing to community resilience and livelihoods.

Ongoing international efforts to develop global biodiversity goals and reporting frameworks have been delayed due to Covid-19. We remain engaged in these conversations and we are part of the [Taskforce on Nature-related Financial Disclosures](#) forum. We contribute to positive impact beyond our own business through our commitment to [Business for Nature](#) and [The Fashion Pact](#), our ongoing partnership with [WWF](#) and our participation in the [International Platform for Insetting](#).

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



Biodiversity

Progress

— To accelerate progress towards our biodiversity ambition, H&M Group is a [Science Based Targets Network \(SBTN\) Corporate Engagement Program](#) participant, pledging alignment with SBTN's goals and vision, and contributing advice and end-user insights to the development of SBTN methods and tools.

— We have started to map our full value chain using the SBTN method and will use findings to set targets reducing our impact on nature, based on prioritisation of our current impacts.

— We invested in initiatives targeting our highest-impact areas of raw material production:

— Through our partnership with WWF, we started a project in the Satpura-Pench wildlife corridor in central India, supporting smallholder cotton farmers to adopt regenerative farming practices. The project aims to directly improve soil and pollinator biodiversity and help farmers build sustainable incomes, while also improving the local landscape to support larger species such as tigers. This year we began a small pilot with 150 farmers, and plan to scale this up to reach more than 6,000 farmers over the next four years.

— As a Fashion Pact Signatory, we were able to join the Transforming Fashion for Nature project, funded by the Global Environment

Facility in partnership with Conservation International, through which we will analyse the land, biodiversity and ecosystem impacts of our leather supply chain in Argentina, aligned with the SBTN framework.

— We started a project with WWF in South Africa, in the location where the newest National Park in the country is being established. The project aims to engage 70 communal smallholders and 10 large commercial sheep farmers in working towards regenerative wool production that improves biodiversity and social development.

— Read more about our work on cotton, man-made cellulosic fibres and other materials.

— We were one of five recipients of a Green Traffic Light in the [Ecogain Biodiversity Index 2021](#), out of 240 companies assessed. This recognition is given to companies aiming to reach at least no net loss of biodiversity by 2030, although the requirements will be adjusted as global goals develop.

— We supported the science-policy interface for biodiversity by continuing to sponsor the [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services \(IPBES\)](#).

— To encourage systemic action on biodiversity, we contributed to an Ellen MacArthur Foundation [study](#) on how the circular economy can tackle biodiversity loss and we shared our approach to protecting nature at IPBES and [International Union for Conservation of Nature \(IUCN\)](#) events. During COP15, we called for governments to deliver a meaningful and actionable Global Biodiversity Framework by signing the [Business for Nature Letter from CEOs to Heads of State](#).

— We support and provide advisory input to WWF's global Biodiversity Stewardship Programme through our partnership with WWF.

Learnings

— Like many companies, we are in the early stages of learning how to measure our impact and dependency on nature, with the ambition to set biodiversity targets. Ongoing efforts to develop global goals, methods and standards will help guide us.

— To achieve our ambition of a net positive impact on biodiversity, we have learned that we need to work in a variety of ways to reach scalability — both by joining existing initiatives and developing material-specific projects tailored to our own business and supply chain.

— The climate crisis and nature loss are two sides of the same coin — we cannot tackle one without the other. The regenerative agriculture projects

we've started are an example of our commitment to address these issues. In the coming year we will start supporting the protection of existing carbon sinks (e.g. tropical rainforest) and their associated biodiversity values.

Future focus

— While we finish work to assess our impact and dependency on nature in line with the SBTN method, we have already started, and will continue, working on initial KPIs for biodiversity to support our net positive ambition. We see this as an iterative process, as we improve data collection and understanding of our impacts.

— We will continue to collaborate and work through cross-sectoral platforms in an effort to advance shared standards and learning on biodiversity.

— We will invest in projects connected to our most impactful raw materials, with the aim to shift to regenerative practices and enhance local biodiversity. We will also continue to select materials and processes that decrease our impact on nature.

Water

Water availability is the global issue most impacted by the climate crisis.¹ Existing pressures on water resources are accelerated by climate change, placing ecosystems at high risk of water scarcity under further stress and exacerbating existing water access inequalities.

Risks to water availability impact our value chain, which is reliant on water for production processes. Access to clean, safe water is also a fundamental human right. Globally, 771 million people don't have access to clean water close to home,² and 31% of schools do not have clean water.³

We have a duty to use water responsibly and help safeguard water quality, accessibility and availability, especially in areas of high water risk.

We work towards reducing negative impact on water through improvements in our supply chain and enable others to do the same. Our [Water Stewardship Strategy and Water Roadmap 2018–2022](#) guide our approach and actions. We use WWF's [Water Risk Filter](#) to assess risks in our operations and supply chain. Our water management requirements for suppliers include minimum and aspirational requirements on water use, quality and management.

¹⁾ Based on the sixth report from the IPCC.

²⁾ WHO/UNICEF Joint Monitoring Programme 2021.

³⁾ WHO/UNICEF Joint Monitoring Programme 2020: Drinking water, sanitation and hygiene in schools: Global baseline report.

Water is a key focus for our [partnership with WWF](#). We also collaborate with organisations such as the [2030 Water Resources Group \(2030 WRG\)](#). We align our reporting with the [Sustainable Apparel Coalition](#) and [Zero Discharge of Hazardous Chemicals](#).

Progress

- We continued our work with WWF to set context-specific (contextual) water targets and develop our new 2030 Water Strategy. Together, we identified the contextual water conditions for over 1,100 of our suppliers, including issues such as external governance, WASH (water, sanitation and hygiene), quality, water scarcity, flooding and extreme climate-induced events. We are using the findings to develop targets for each supplier site that align water performance with relevant water challenges.
- To share learnings from our work with WWF, we co-published two guides: [Contextual Water Targets](#) and [Putting Water Strategy into Context](#), for companies looking to begin or currently engaged in similar exercises.
- The Covid-19 pandemic continued to affect suppliers' water performance:

— Due to reduced demand for orders during the pandemic, many factories had to run machines at very low production capacity without being able to achieve equivalent water use reductions. This impacted progress toward our water consumption reduction goal — we achieved a 10.3% reduction in production water use from a 2017 baseline and a 6.6% reduction compared to last year, making it unlikely we will meet our goal of **-25% by 2022**.

— Partial operation or closure of factories also affect wastewater treatment plant performance, many of which require a continuous flow of wastewater to continue working effectively. We continued to share guidance on wastewater treatment care, from the German development agency GIZ, with all our business partners. In 2021, 88% of supplier factories with on-site effluent treatment plant (ETP) functionality assessments achieved green grade and 98% had discharge water quality that is Zero Discharge of Hazardous Chemicals wastewater compliant.

— We paused or delayed dialogue with suppliers on investments in new technology or equipment to improve water use.

— Where possible, we continued to partner with our suppliers to deploy water efficiency measures. For example, H&M HOME implemented a water efficiency project with suppliers in India, achieving 35–40% reduction in water use.

— We worked with suppliers in Bangladesh to expand water recycling in denim washing facilities,



Water

and 34 suppliers now have these facilities in place. Globally, 21% of production water is being recycled and 43% of factories in the H&M Group supply chain have rainwater harvesting systems, where this is feasible.

- We integrated water efficiency and recycling KPIs into our supplier Sustainability Index, making a direct link between supplier water performance and our purchasing decisions.

Learnings

- Our work on contextual water targets has shown there is sometimes disconnection between available data and what our teams know is happening on the ground. This highlights the importance of engaging with our colleagues and business partners to understand real-time risks.

- The impacts of Covid-19 emphasised the need to plan for significant unexpected events, so that we are always prepared to support suppliers to continue making progress with water use, regardless of circumstances. This includes preparing for climate change induced disasters or events that can have unprecedented impact like the Covid-19 pandemic.

- Contextual water strategies set the stage for future science-based water targets, so it is important we work now to maximise data quality and comparability. Gathering granular-level water

data is currently a challenge and makes industry benchmarking difficult. Progress will require collaboration with peers and experts.

Future focus

- We are developing a standardised method of water benchmarking for H&M Group suppliers. As a first step, we engaged with an industry-leading expert to look at our water efficiency data for each step in the manufacturing process, so we can identify the most impactful parts of our production processes and focus on these first. The reviewer noted the strong level of transparency across our supplier water data and suggested potential actions including maximum water use caps, efficiency-related bonus schemes, communication of low-water use products and technology advice for suppliers.

- We will finalise our new Water Strategy, based on our work with WWF on contextual water targets and learnings from our existing roadmap. This will include setting new goals focused on outcomes. For example, we'll move from goals on production water recycling and store equipment efficiency to adopt a more challenging freshwater consumption reduction goal in line with our circular ambition and to stay within planetary boundaries.

Key water performance data

	2018	2019	2020	2021	2022 GOAL
Reduction of production water usage compared to 2017 baseline (l/kg, l/m ²) — see bar chart below	—	-5.9%	-3.8%	-10.3%	-25%
Effluent Treatment Plant (ETP) functionality assessments achieving green grade ²	93%	91%	95%	88%	100%
ETP discharged water quality that is Zero Discharge of Hazardous Chemicals wastewater compliant (Foundation Level)	87%	93%	96%	98%	100%
Water recycled out of total production water consumption ³	—	13%	17.6%	21%	15% (achieved early)

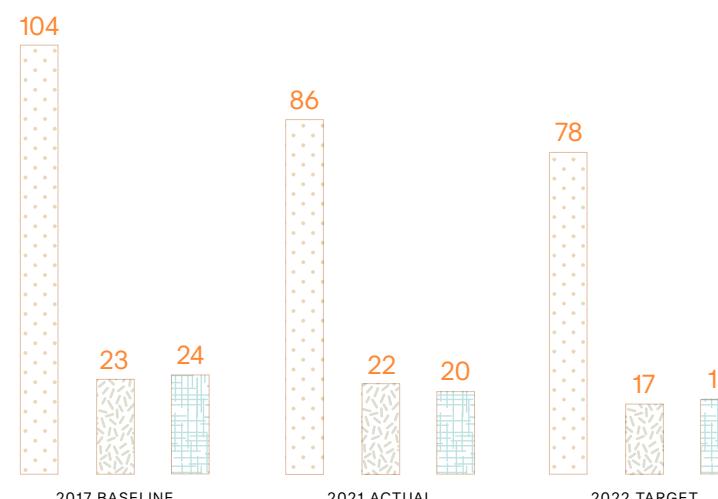
- 1) Includes manufacturing, fabric dyeing and printing suppliers in both tier 1 and tier 2 with water intensive wet production, based on performance data, reported by factory and calculated using weighted averages for litre per kg of dyed knitted fabric, litre per metre of woven/denim fabric, and litre per unit of product washed. We have updated our weighted average efficiency calculation this year by factoring in the water consumption for specific products, how much of each product is produced, and the water consumed by factory.
- 2) 26 supplier factories (10%) with on-site ETP were approved as suppliers recently and they are in a two-year timeline to improve their grade to green. 6 supplier factories (2%) are yet to achieve the required level of functionality.
- 3) Based on Q1-Q3 performance data.

country, region and globally. This gives us a more accurate picture of water efficiency improvement and has led to changes in our historic performance data.

2) 26 supplier factories (10%) with on-site ETP were approved as suppliers recently and they are in a two-year timeline to improve their grade to green. 6 supplier factories (2%) are yet to achieve the required level of functionality.

3) Based on Q1-Q3 performance data.

Change in production water efficiency



- Litre per kg dyed fabric (l/kg)
- Litre per metre of fabric (l/m)
- Litre per unit of product (l/pc)

Our circular ecosystem

Resources such as healthy soil and forests are being depleted faster than they regenerate. We're transforming how we operate to optimise our use of resources — playing our part in the urgent need to protect nature and reduce our climate impact, while building a resilient and efficient business.

H&M Group is transitioning to a circular ecosystem. This ecosystem transforms how we design and create our products and systems, work with suppliers and partners, and interact with customers. It supports the Ellen MacArthur Foundation's vision for a circular economy where design eliminates waste and pollution, circulates products and materials (at their highest value) and regenerates nature. We focus on three, interconnected areas:

- **Circular products.** Creating products that are made to last, from safe, recycled and sustainably sourced input that can circulate multiple times.
- **Circular supply chains.** Fuelling systems that circulate products and support circular production processes and material flows.
- **Circular customer journeys.** Providing accessible ways to experience and engage in circular fashion where products are used more, repaired, reused and recycled.

Our work towards circularity is crucial for achieving our climate and biodiversity ambitions. It presents the opportunity for our business to create meaningful, long-lasting engagements with customers as they repair, reuse and resell products. We're also mindful of what a shift to circularity will mean for the future of employment in the fashion industry.

In 2021, we took meaningful steps towards becoming more circular — although we know there is still much work ahead. We tripled the volume of recycled materials used in our garments and confirmed the ambition for all our products to be designed for circularity by 2025 — supported by our new circular design tool Circulator. We launched a blueprint for a circular fashion industry within planetary boundaries, the product of a three-year research project by the Stockholm Resilience Centre together with the Ellen MacArthur Foundation, funded by H&M Group. This will guide our work and hopefully inspire peers. In our stakeholder survey, 56% of respondents rated our circularity work as good or very good.

See our Circular KPIs and highlights from 2021.

 [Find out more about our approach to circular fashion.](#)

Our circular 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

Design is our first opportunity to enable more circular products. **We aim to design all our products for circularity¹ by 2025.** We are starting with the products we produce and our packaging, as well as interior products and stores, before extending to our entire business, including offices and distribution centres.

Our commercial product teams are led by H&M Group's circular product development tool — Circulator — which aligns with the Ellen MacArthur Foundation's circular economy vision. It guides us to create products from safe and recycled or renewable inputs, designed to be used more, and made to be made again.

Circulator assists our product teams to prioritise durability and recyclability according to a product's purpose, and to select the appropriate level of durability for a product's use.

Circular design is an important enabler for circular business models and is a crucial part of reducing resource use, which will help us meet our climate and biodiversity goals. Our teams use tools such as our Material Categorisation to inform the selection of materials.

Progress: circular product design

- We set an aim to design all our products for circularity¹ by 2025. To illustrate our belief in the need for an industrywide shift towards circularity, we called for circular product design requirements in the European Union.

- The majority of our brands began testing our Circulator prototype, which we publicly launched in November 2021. The tool supports teams to measure the circular potential of products, providing a circular product score that considers the materials and design strategies chosen in relation to a product's purpose. In 2021, we began Circulator training for our management teams and in 2022 the training will reach all our product development teams.  [Find out more about Circulator](#).

- The majority of our brands continued testing and using 3D design tools to decrease physical samples. And we are working to improve efficiency of pattern making — see Optimising Resource Use.



- Our brands launched collections designed for circularity:

- H&M presented the first collection using an early version of the Circulator tool, as part of its Innovation Collection, while Monki released a collection in early 2021 testing out the Circulator Guide.

- H&M, Monki and Weekday joined with others in our industry to advance the Ellen MacArthur Foundations' Jeans Redesign guidelines. H&M released a ladieswear collection following the guidelines in 2021. Further collections are in development for 2022.

Learnings

- We have had a steep learning curve on the complexity of circular design, which can be quite subjective and has many trade-offs. As we see the industry narrative on circular design evolving, we are increasingly convinced there is no one size fits all with circular design. We need to take a differentiated approach and begin to understand the nuanced needs of circular design depending on product purpose.

- To strengthen the role of durability in the design stage, we worked to incorporate product and material lifespan information into our Circulator tool. With Delft University, we confirmed that refinements to Circulator enable selection of the best level of durability for different product purposes. We learnt that it's crucial to also consider non-physical durability, such as emotional attachment to products.

Future focus

- We will work towards using Circulator to create all our products. To fast track the transition to a circular economy, we will continue sharing our learnings with the industry and will regularly update the Circulator Guide to share our latest learnings. We hope by sharing the Circulator tool, we will support industry acceleration to a circular model.

- We will continue to engage with European Union (EU) policy makers on legislative proposals for the EU Sustainable Product Initiative and EU Ecodesign Directive.

¹⁾ In accordance with our Circulator tool.

CIRCULAR PRODUCTS:

Material choice

The fashion industry depends on materials to create its products. These can be natural materials such as cotton, wood and wool, or synthetic options such as polyester and polyamide. All materials have an impact on our planet, from their production, use and, ultimately, end of life and disposal.

To reduce our environmental impact, we aim 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](#).

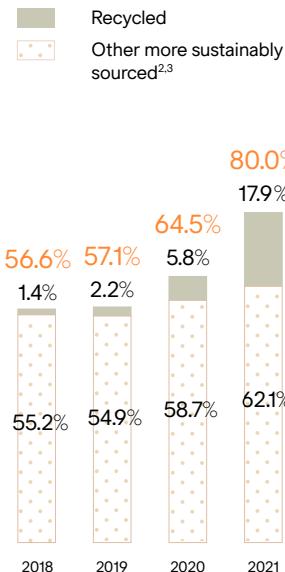
We prioritise work on the materials we use the most or that have the greatest potential environmental or social impact. For all materials, our [Responsible Raw Material Sourcing Policy](#) guides our approach. Our material selection is informed by third-party lifecycle assessment data and benchmarks — such as the Sustainable Apparel Coalition's Materials Sustainability Index and Textile Exchange's guidelines on [Preferred Fiber & Materials](#) — and verified by third-party certification schemes, where applicable. We work with supply chain partners to improve traceability and transparency.

Achieving our circular ambitions requires us to accelerate development of new materials and recycling innovations. We innovate together with our brands, the Circular Innovation Lab, our H&M CO:LAB investment arm, inventors of sustainable materials and processes including winners of H&M Foundation's [Global Change Award](#), and industry experts.

Progress: overall

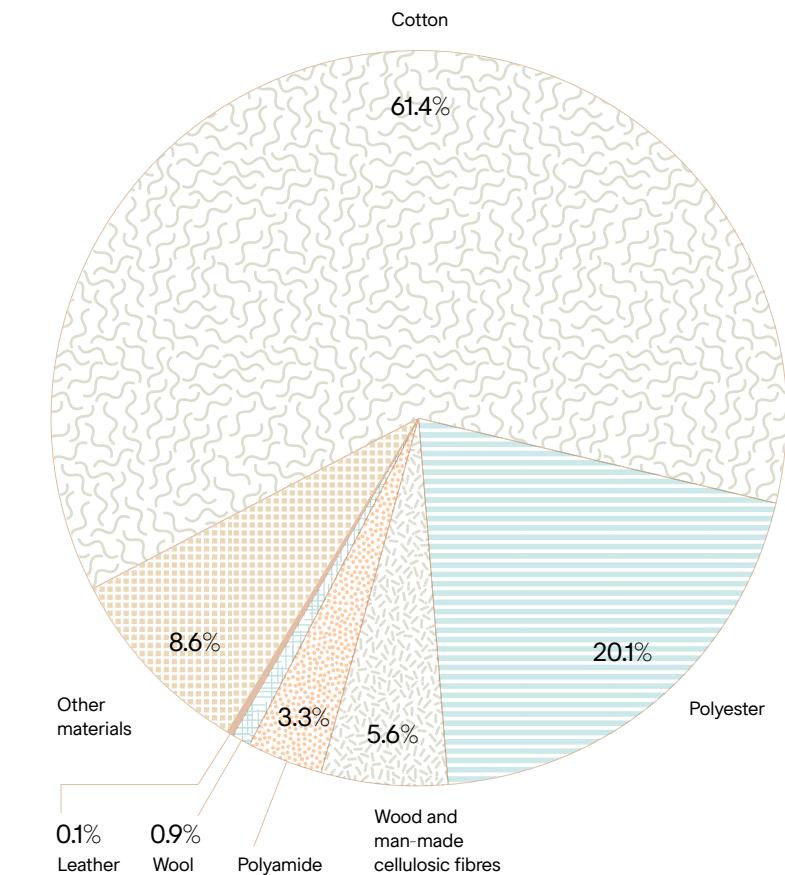
- We achieved 80.0% recycled or other more sustainably sourced materials, including tripling the share of recycled materials to 17.9% (largely due to increased volumes of recycled cotton and polyester), making good progress towards our 2030 goal.
- We established a new internal Material organisation to accelerate our sustainable materials strategy. The organisation will work closely with our assortments teams to scale up innovations and sustainable material sourcing across H&M Group.
- The Textile Exchange's 2020 [Material Change Insights Report](#) identified H&M Group as one of 36 leading companies pioneering industry

% recycled or other more sustainably sourced materials¹



2025 goal: 30% recycled
2030 goal: 100% recycled or more sustainably sourced

Our materials basket¹



¹ Based on season 3 and season 4 data for 2021. 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 policies such as the use of external standard schemes to secure more sustainable sourcing.

³ See page 72 for an assurance statement relating to these data points. The limited assurance process included all cotton data (apart from in-conversion cotton) and data for our top three recycled materials.

Material choice

transformation, out of 191 analysed. We were one of nine companies leading on material circularity.

— We increased transparency by publishing the detail of the materials used in our products — see our [materials basket](#).

Progress: cotton

— In 2020, we achieved our goal to source 100% more sustainably sourced cotton (recycled, organic and other more sustainably sourced cotton).¹ We will continue to strengthen our criteria for more sustainably sourced cotton, with a greater focus on increasing use of recycled, regenerative and organic cotton, and innovative alternatives.

— To support more cotton farmers to transition to organic practices and accelerate capacity building in the organic cotton sector, we expanded our use of “in-conversion” cotton. In-conversion cotton is the output from farms that are in process of getting organic certification. In 2021, we sourced in-conversion cotton from 2,000 farmers.

— As part of our increased focus on regenerative farming practices, we launched a [project with 150 smallholder cotton farmers](#) and WWF in India. We plan to reach more than 6,000 farmers.

— In collaboration with the Circular Innovation Lab, COS tested [Materra™](#), a new way to grow cotton that increases yields and fibre quality,

while minimising water and pesticide use as well as carbon footprint. The systems are optimised for developing regions facing climate volatility. H&M Group’s Circular Innovation Lab is working with technology company Materra to set up an R&D farm in India in early 2022. The aim is to optimise Materra’s hydroponic cotton farming system to local conditions. The project will run for two years and generate valuable information to enable a scale-up of more sustainable cotton supply chains using Materra’s technology.

— In 2021, our sourcing of other more sustainably sourced cotton contributed to:²

- 30 billion gallons of water being saved.³
- 73,287 kilograms of pesticides being avoided.
- USD 59 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 2020-2021 crop season resulted in:

- 14,000 farmers involved in organic cotton projects.
- USD 1.28 million in premiums received by farmers, supporting investment in organic farming.
- 100% procurement by H&M Group brands of committed volumes.



% of total cotton that is recycled, organic, or other more sustainably sourced^{1,4}

█ Recycled cotton
█ Organic cotton
█ Other more sustainably sourced cotton¹



Goal: Continue sourcing 100% recycled, organic, in-conversion or BCI certified cotton.

¹⁾ 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.

²⁾ Figures relate to use of BCI cotton.

³⁾ Water savings relate to blue water use (irrigation). This relates to farmer inputs, and no other forms of water use.

⁴⁾ See page 72 for an assurance statement relating to these data points. The limited assurance process included all cotton data (apart from in-conversion cotton) and data for our top three recycled materials.

Material choice

Progress: wood & man-made cellulosic (MMC) fibres

- We continued working towards our goals and commitments:
 - **By end of 2025, source responsible viscose in line with our commitment to the Changing Markets roadmap.**
 - **By end of 2025, all wood and paper used in our products and packaging will be made of Forest Stewardship Council (FSC) certified or recycled materials.**
 - **By end of 2025, we aim to only source MMC fibres 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 MMC fibre producers must be verified as low risk by the CanopyStyle audit.
 - These goals are part of our commitment to **zero deforestation in our supply chain by the end of 2025**. Learn more in our Responsible Raw Material Sourcing Policy and Roadmap for MMC fibres.
 - 78% wood in our packaging is FSC-certified. Find further packaging data in Packaging.

— We began requesting that our largest viscose producers share data through the Textile Exchange's new MMC fibre transparency dashboard, enabling us to track our progress against the Roadmap towards responsible viscose and modal fibre manufacturing.

— To make it possible to achieve our 2025 MMC goal, we worked to increase availability of MMC fibres that meet our requirements:

— As part of our five-year partnership with Renewcell, we planned how to scale production of its Circulose® material in 2022 to meet our brands' future needs. In 2021, nine styles across various brands and assortments used Circulose®, an MMC fibre made from recycled cotton waste and developed through support from our H&M CO:LAB investment arm.

— Following further investment from H&M CO:LAB, Infinitex Fibre Company is scaling up to move closer to commercial volumes. This will expand production of Infinna™, an MMC fibre from regenerated cotton waste first tested by Weekday in collaboration with the Circular Innovation Lab in 2021.

— We signed the Fashion Forever Green Pact, an FSC initiative to promote responsible sourcing of MMC fibres. Through this, we are collaborating to improve supply chain traceability, which is fundamental to knowing that all our virgin MMC fibres

originate from FSC-certified sources by the end of 2025.

— H&M Group's Circular Innovation Lab have worked with SPINNOVA® and the first products using their low impact recyclable fibre made of certified wood will be launched in spring 2022.

— TreeToTextile, part-owned by the H&M group, continued upscaling production of its low cost, 100% traceable cellulosic fibre, sourced from sustainably managed forests.

— 100% (100% in 2020) of our virgin down was Responsible Down Standard (RDS) compliant — maintaining our record of **only sourcing from RDS-certified farms** since 2016.

— We continued participating in the Textile Exchange's Responsible Animal Fibers Roundtable, which focuses on the animal welfare and environmental impacts of animal fibre production. We are also closely following the development of Textile Exchange's Climate+ strategy, which aligns with our environmental and social strategies.

— H&M highlighted innovative animal-substitute fabrics through its Co-Exist Story Collection, a completely vegan collection approved by People for the Ethical Treatment of Animals (PETA).

Progress: animal-based fibres

— 43.6% (12.1% in 2020) of our wool was Responsible Wool Standard (RWS) compliant — marking progress towards our goal to, **by end of 2025, only source virgin wool from RWS-certified farms**.

— 95% (13% in 2020) of our cashmere was Good Cashmere Standard (GCS) compliant — meaning we are quickly progressing towards our goal to, **by end of 2025, source all virgin cashmere from GCS-certified farms**.

— 100% (100% in 2020) of our mohair was Responsible Mohair Standard (RMS) compliant or from recycled sources — continuing our commitment to **only buy from RMS-certified farms**.



Material choice

Progress: leather

— 50.7% (44% in 2020) of all leather products were produced with chrome-free tanned leather, including vegetable tanned leather and metal-free leather. **By end of 2025, we aim for all our animal-based leather to be chrome-free.**

— By reducing supply chain complexity, we can better focus on collaborating with tanneries on sustainable practices. 100% of our tanneries in Asia comply with Leather Working Group environmental best practice guidelines. After simplifying our leather supply chain during 2020 to include only 40–50 tanneries, we started exploring solutions to extend traceability beyond the tanneries, eventually back to farm level.

— We continue to engage in Textile Exchange's Responsible Leather Round Table to help reduce the environmental impact at farm level, as well as advance animal welfare and fair treatment of workers.

— We maintained our search for bio-based leather alternatives. For example, H&M used Desserto, a leather alternative partly made from cactus. H&M Group's Circular Innovation Lab has worked with Natural Fiber Welding and the first products using their material MIRUM® will be launched in spring 2022. MIRUM is an all-natural, plant-based material using renewable resources to create a plastic-free alternative to leather.

Progress: recycled & innovative materials

— 17.9% (5.8% in 2020) of our materials were from recycled sources — as we work towards our goal that **by 2025, 30% of our total materials will be from recycled sources**. This is the result of large increases in our use of recycled cotton and polyester — two materials for which recycling technology is available at scale. [Find out more about how we're scaling use of recycled materials.](#)

— 63.7% of our polyester is from recycled sources (according to the Higg Materials Sustainability Index), which have a significantly lower carbon footprint than conventional sources. We have set a new goal to phase out virgin polyester and source **100% recycled polyester by 2025**, in support of Textile Exchange's Recycled Polyester Challenge. This marks an important milestone on our journey towards 100% recycled or other more sustainably sourced materials by 2030. We continued to examine the possibility of recycling post-consumer polyester textiles using scalable, automated sorting techniques and chemical recycling.

Recycled and more sustainable material sourcing

	2019	2020	2021	Goal
Materials from recycled sources, as a percentage of all materials ¹	2.2%	5.8%	17.9%	30% by 2025
Recycled polyester as a percentage of all polyester	8.3%	20.8%	63.7%	100% by 2025
Responsible Wool Standard-certified (RWS) wool as a percentage of all wool	11.6%	12.1%	43.6%	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 ²	13%	95.0%	100% GCS certified, or from recycled or regenerated sources by 2025
Responsible Mohair Standard-certified mohair as a percentage of all mohair	N/A ³	100%	100%	Maintain 100%
Responsible Down Standard-certified down as a percentage of all down	100%	100%	100%	Maintain 100%
Chrome-free, animal-based leather as a percentage of all leather	40%	44%	50.7%	100% by 2025

¹ See page 72 for an assurance statement relating to these data points. The limited assurance process included data for our top three recycled materials.

² Standard adopted in 2020.
³ 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.

Material choice

— To accelerate the development of recycling technologies and use of more sustainable materials in Europe, we continued to engage in the European Union projects DEMETO,¹ EFFECTIVE² and New Cotton.³ The DEMETO project concluded in 2021, with the establishment of a demonstration plant in Italy. We have also worked on influencing policy — read more about our work on Public Affairs.

— Our brands expanded use of recycled materials. For example, 93% of polyester and polyamide used by Weekday in 2021 was recycled. H&M HOME grew its use of recycled cotton, aluminium and linen, with recycled content now forming 20% of its collections.

— We increased use of innovative materials, including:

— **Fairbrics**: The Circular Innovation Lab made the first garment using this potentially climate positive technology, which was worn by our CEO, Helena Helmersson at the Fashion CEO Agenda 2021. Fairbrics is a Global Change Award winner.

— **FLWRDWN™**: down-alternative made using hand-picked wildflowers and recycled biological materials, used by COS and H&M.

— **Liva Reviva**: viscose fibre made from pre-consumer textile waste and wood pulp, used by H&M HOME and Monki. In addition, & Other Stories and COS used Livaeco — made from fully traceable FSC certified fibres.

— **Made of Air**: scaled use of this plastic-like material partly made from biowaste in H&M's Science Innovation Stories collection, and began evaluating it for usage in H&M special collections accessories and as a potential replacement for material used in internal garment distribution system boxes.

— **Naia™ Renew**: fibre from sustainably sourced wood pulp and recycled waste plastics, used by ARKET and COS.

Learnings

— In order for us to become a circular business, long-term partnerships are vital for scaling availability of more sustainable and recycled materials. The development process can take several years before materials are ready to use across our brands. We need to be an active part in the transition journey towards more sustainably sourced materials such as those from organic and regenerative sources.



Future focus

— Increasing textile recycling is vital for securing our future sourcing of recycled materials. Our survey of more than 25 recycling companies around the world formed the basis of our material recyclability assessment at the design stage, so in future we can develop products that can be more easily recycled.

— While we use indexes such as the Sustainable Apparel Coalition's Materials Sustainability Index, Textile Exchange's guidelines on Preferred Fiber & Materials and certification to inform material selection, we recognise these tools are based on specific methodologies that may not cover all environmental and social considerations.

— We are working with FSC and our supply chain to solve the challenges with chain of custody in the MMC fibres supply chain to ensure we only source FSC certified fibres by the end of 2025.

— For virgin natural fibres, we will support use of regenerative agricultural techniques that improve farmers' livelihoods.

— We are closely following the development of Textile Exchange's Climate+ strategy, which aligns with our environmental and social strategies.

¹⁾ DEMETO receives funding from the European Union's framework programme for research and innovation horizon 2020/2014–2020 under grant agreement no. 768573.

²⁾ EFFECTIVE received funding from the Bio-based Industries Joint Undertaking (JU) under grant agreement no. 792195. The JU receives support from the European Union's Horizon 2020 Research and Innovation Programme and the Bio-based Industries Consortium.

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

CIRCULAR PRODUCTS:

Microfibres

Tiny fibres — microfibres — can be released when garments are washed during production and by customers. These fibres run into oceans, pollute habitats and can eventually end up in drinking water and food. Chemicals used to dye and treat products change how easily fibres degrade. Selecting materials and production processes that minimise microfibre shedding is therefore crucial to reducing the impact of the fashion industry on our planet.

We are committed to researching and addressing microfibre emissions, as we develop a groupwide Microfibres Roadmap.

Our approach includes:

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

Progress

— Microfibres are an industrywide problem and we collaborate to develop solutions. We signed [The Microfibre Consortium \(TMC\) 2030 Commitment](#), a global commitment to work towards zero impact on nature from textile fibre fragmentation by 2030. TMC members, including H&M Group, collaborated with research partners to develop a roadmap to achieve this commitment based on a common vision for the fashion industry.

— Our 24-month research project — A Management Tool for Microplastics from Textile Production Process — continued in partnership with the Hong Kong Research Institute of Textiles and Apparel (HKRITA). Restrictions due to Covid-19 disrupted planned tests of microfibre emissions at H&M supplier factories. Instead, the team worked to develop new concepts in the HKRITA laboratory, such as using soundwaves to separate microfibres from water.

Learnings

— While the problem with microfibres is not new, widespread awareness is. Our work with TMC



members and research experts demonstrates the need for a shared understanding of the issue, as a foundation for aligned action on this challenge. TMC provides a central hub through which understanding of individual materials and processes can be exchanged.

Future focus

— We will continue developing a groupwide roadmap for microfibres in line with the Microfibre Consortium 2030 commitment. To inform this roadmap, we are resuming testing microfibre emissions with HKRITA and our suppliers as Covid-19 restrictions ease. Learnings from this work will be shared with policy makers as H&M Group participates in consultations on potential legislation.

CIRCULAR SUPPLY CHAIN:

Optimising resource use

Today, offcuts and scraps generated in the production process or during product delivery are considered waste. Our vision is that the whole mindset of the fashion industry shifts to treat this waste as the valuable resource it is. Similarly, faulty clothes or pre-loved items that have reached the end of their time with our customers offer a wealth of materials that can be recovered, reused and eventually recycled into new products.

To proactively optimise resource use, we:

— Optimise supply to produce to demand. We increasingly apply predictive artificial intelligence (AI) to optimise the supply chain and match production with demand. We use multiple solutions for quick reactions to fashion trends, quantification, timing and allocation of products. This has led to even more relevant customer offering with more full price sales and fewer markdowns, as well as a more efficient use of resources.

— Support resource-efficient production. We work closely together with suppliers to use resources as efficiently as possible, guided by our Responsible Waste Management Guidelines. The

guidelines help us optimise use of fabric and other resources — decreasing resource use impact and reliance on natural resources as well as reducing financial costs.

— Put faulty products to good use. If a product is faulty, we reuse or recycle the materials wherever possible.

— Increase recycling. We work to improve and scale automatic sorting and efficient textile recycling.

We also work to optimise resource use at our stores, distribution centres and offices, during product delivery, and by maximising product life.

Progress: optimising supply

— We scaled use of AI and other tools to align production with demand. Our AI tool Movebox optimises supply by enabling redistribution of products to locations where there is demand. In 2021, we rolled out use of Movebox, which is now used by 60% of our sales markets (including franchise markets).



— We continued to work to ensure that no pre-consumer garments that could be used go to waste:

If a product isn't performing as planned, we prioritise selling it within our primary sales channels, before using the product within internal circular initiatives. Afound provides an additional channel to share garments with customers. Only once we've reviewed all internal uses, we find solutions via trusted business partners including charities and outlets. Some of the returns that cannot be resold via original sales channel are sold via online-sales platform Sellpy.

The Covid-19 pandemic and lockdowns resulted in massive changes in customer demand and behaviour, posing a challenge for our forecasts. Thanks to our systems to reassign stock to alternative sales channels as stores closed and customers increasingly shopped online, we were able to quickly adapt to maximise the sale of products already

made, while ensuring nothing that could be used goes to waste.

Progress: resource efficient production

— We tested our new Waste Recycling Strategy to learn how best to link fabric leftover from our orders with reuse and recycling. More than 50 of our tier 1 suppliers in five regions are participating in pilots with Reverse Resources and Circular Fashion Partnership, to segregate cutting waste before handing it onto recyclers.

— 240 patternmakers and product technologists across H&M Group received training in design software that calculates fabric consumption. As a result, we reduced fabric waste for our 20 biggest dress styles by 12%.

Optimising resource use

Progress: faulty products

- Where a product is faulty, we always look to reuse and recycling options first:
- 0.42% of our total product assortment was reused, repurposed or recycled (including charity donations) or recycled due to a fault (0.32% in 2020).
- 0.02% 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 (0.03% in 2020).

Progress: recycling

- We released a position paper, on waste as a resource, expressing our support for extended producer responsibility in the European Union and the creation of a secondary raw materials market for textiles.
- By joining Fashion for Good's 18-month Sorting for Circularity Project, we started a collaboration with other brands to scale recycling capacity in Europe.
- We continued collecting garments in-store, totalling 15,944 tonnes this year, to provide

feedstock for recycling. We are working to increase the availability of suitable feedstock.

Learnings

- Testing our Responsible Waste Management Guidelines shows the need for more localised recycling infrastructure. Developing this relies on investment and innovation in waste separation and recycling technology, and increasing the value of resources left over from production processes.

Future focus

- Through our 2021 pilots, we successfully utilised around 500 tonnes of textile waste from our garment production factories across most of the production countries, recycling this back into our products. Next year, we plan to scale this process, partnering with our suppliers and with a wider network of recyclers to increase traceability of material waste within the value chain and accelerate the uptake of new recycling technologies.

- Disruptions caused by the Covid-19 pandemic delayed projects such as Monki's expansion of innovative Green Machine mixed-fabric recycling technology. We will resume delayed projects as it becomes possible to safely do so.

Faulty products

	2019	2020	2021
Total product assortment reused (including charity donations) or recycled due to the products being faulty	0.41%	0.32%	0.42%
Total product assortment destroyed ¹	0.03%	0.03%	0.02%

¹ 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.



CIRCULAR SUPPLY CHAIN:

Materials processing

Raw materials, such as cotton and wool, undergo a series of processes to produce a fabric and finally a garment. This includes washing, dyeing and printing — using energy, chemicals and water. Lowering the impact of these processes is an important step towards our climate and circular ambitions. We're addressing five areas:

- **Chemicals.** Reduce use, increase reuse or regeneration, and use Screened Chemistry.
- **Energy.** Improve efficiency and reduce CO₂e 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 quality.

In 2021, we launched our printing roadmap. By 2030, our ambition is to maximise the use of processes that have significant savings in water, energy and chemicals. To achieve this, we will test and scale new techniques and technologies while working with our suppliers to ensure they follow our guidelines.

Our new business venture, [Creator Studio](#), offers on-demand B2B print services. This global platform for the merchandise industry allows external brands and content creators to utilise our lean production process and advanced made-to-order digital printing to reduce waste by matching supply to demand.

We're investing in new washing and dyeing innovations too. For example:

- Our brands use software installed at suppliers to track the use of low-impact washing — as defined by [Jeanologia's® Environmental Impact Measurement \(EIM\)](#). Currently, 100% of the denim Weekday and 98% of the denim Monki source is rated low impact, achieving a green score in the EIM.
- [Colorifix](#), a biotech company partly backed by H&M Group, uses microbiology to produce and fix pigments on textiles, significantly reducing the use of chemicals, water and energy compared to conventional technology. H&M used fabric dyed in this way in its [Colour Story Collection SS21](#).
- H&M CO:LAB invested in digital dyeing and finishing technology company, [Alchemie](#). In collaboration with Circular Innovation Lab, H&M piloted Alchemie's Endeavour™ waterless smart dyeing process, as well as [imogo's DigitalDyeing](#)®, in rental products at its rental outlets in Stockholm and Berlin.



CIRCULAR SUPPLY CHAIN:

Chemicals

We want to lead the change towards toxic-free fashion by 2030. Achieving this is critical to our circular ambition. Our [Chemical Management Roadmap](#) commits us to **zero discharge of hazardous chemicals and 100% safe and traceable chemicals**. Our progressive approach takes us beyond compliance to chemicals suitable for circular products.

Collaboration is key to achieving industrywide progress. We are members of the [AFIRM Group](#), [Zero Discharge of Hazardous Chemicals](#) (ZDHC) and ChemSec Business Group.

We follow the AFIRM [Restricted Substances List](#) and the ZDHC [Manufacturing Restricted Substances List 2.0](#) (MRSList), as well as the ZDHC Wastewater Guidelines and Chemical Management System. Our [H&M Group Chemical Restrictions](#) commit us to phasing out additional potentially harmful substances. We use the Screened Chemistry hazard-based scoring system (a third-party toxicological assessment) to identify safer chemicals.

Progress

- We engaged with peers and experts to pilot version 3 of the Screened Chemistry methodology, which includes prints and dyes. We mapped use of Screened Chemistry in our denim supply chain and will use the learnings to scale coverage with these suppliers.
- We were one of five brands (out of 30) awarded “aspirational level” during the annual assessment of ZDHC’s Brands to Zero [leader programme](#).
- 609 of our textile and leather suppliers (95%) are enrolled in the ZDHC programme, achieving 99.9% MRSList compliance for wastewater (99.9% in 2020) and 95% compliance for chemical input (88% in 2020).¹ Reaching and maintaining 100% enrolment is challenging due to the dynamic nature of our supply chain. 81% of chemicals used were assured to meet ZDHC requirements via the ZDHC Gateway, exceeding our goal of 60%.²
- Our aim is to accelerate progress towards circular manufacturing and sustainable chemistry by encouraging partnership and use of shared data. For example, we completed our work with IKEA and others on [chemical testing for recycled textiles](#).



— We engaged with [policy makers](#), including providing input to the [EU Chemicals Strategy](#) and publishing a position paper on safe-by-design [chemicals](#).

— We initiated a phase-out of high priority endocrine disrupting chemicals (EDCs)—substances that interfere with the hormonal system. We will continue phasing out all EDCs over the coming years.

— We used safer alternatives to potassium permanganate (used to distress denim) for 79% of our denim products, with the goal to achieve 100% by 2023.

— Characterising and comparing chemicals’ properties can be a challenge. Screened Chemistry needs to be more widely adopted by the chemicals industry so brands can easily compare chemicals to identify best available options.

Future focus

- We will continue to pilot and scale use of Screened Chemistry, as well as engaging with policy makers on this topic.
- To progress use of safer chemicals in the non-textile supply chain, we will work towards common industry MRSLists for these supply chains and pilot digital chemical management tool [BVE3](#).

¹⁾ Compliance tracked using third-party tools CleanChain and BVE3.

²⁾ We are working to report the most meaningful metrics for chemicals performance and will therefore no longer report product compliance with H&M Group Chemical Restrictions.

CIRCULAR CUSTOMER JOURNEY:

Maximising product life & scaling circular business models

The future of fashion is circular. Instead of linear resource use — take, make, waste — we continue to develop ways of doing business that enable products to be used for longer and reused. We are working to provide accessible ways for customers to experience and engage in circular fashion and choose more sustainable options. Circular design, focusing on key qualities like durability and recyclability, is a major enabler for this shift.

Our ambition to maximise product life and offer circular business models at scale helps us build a resilient, customer-focused business. Expanding circular business models allows us to meet the growing demand for sustainable design and services, and to develop more long-term, meaningful relationships with customers as they use repair, rental and resell options.

Reducing our resource use by maximising product life and recirculating resources is crucial for reducing our environmental impact and fulfilling our climate and biodiversity goals. We are mindful that products or services accessed via these models must replace products sold through the traditional linear

retail model for an overall positive environmental impact.

We focus on three levers to maximise product life and scale circular business models via the circular customer journey:

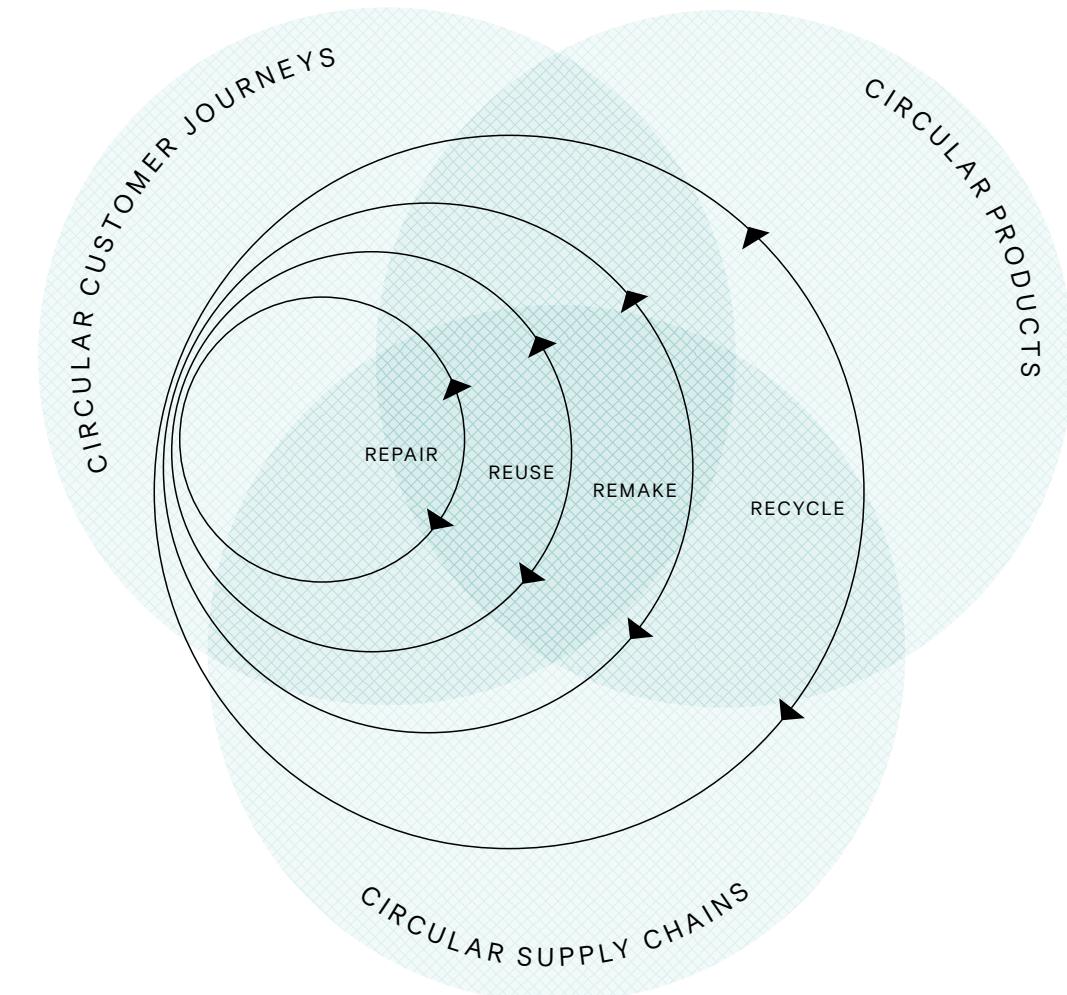
- **Use & care.** We encourage customers to love their fashion items for longer and extend the life of their fashion favourites through care and repair initiatives.
- **Access.** We offer a diverse range of access models through which customers can enjoy and experience fashion while keeping products in circulation.
- **Collect.** We support customers to access services to donate pre-loved products so these can be reused, remade, or recycled.

Progress: use & care

- H&M's Take Care initiative continued to offer customers in 46 markets ways to care, repair and customise their clothing. In 2021, the Take

Our circular ecosystem in action

We aim to keep products and resources in circulation through the multiple loops of our ecosystem, prioritising the inner loops where they retain the highest value.



Maximising product life & scaling circular business models

Care product range extended to 7 new markets, bringing the total to 17 markets. The brand offers repair services through 6 repair studios in 4 markets.

- To better connect post-consumer garments with repair services, COS launched a garment collecting initiative in Austria and Poland that prioritises fixing and repurposing clothes before recycling.

Progress: access

- Weekday expanded access to made-to-measure jeans to the public in its Götgatan store in Stockholm. The collaboration with unspun and H&M Group Laboratory offers the option to customise the fit and design of their jeans, which are then made to order.

- We expanded ways for customers to resell products:

- Customers in 24 markets can now shop second-hand garments through Sellpy, and customers in 4 markets can sell at Sellpy. H&M Group is a majority shareholder in Sellpy and H&M's website directs customers to Sellpy in 7 markets.

- H&M made it possible to buy second-hand garments from multiple brands alongside new H&M garments in Sweden from February

2022, offering a new, integrated customer experience by incorporating a curated second-hand assortment from Sellpy into its website.

- Customers in 3 markets can now buy and sell pre-owned clothes through our collaboration with business technology provider Reflaunt. H&M launched H&M Rewear in Canada, while COS offers COS Resell in Germany and the United Kingdom.

- Weekday launched Weekday Curated 2nd-hand in 3 cities in Sweden. The curated, in-store collection gives customers the chance to buy and sell pre-owned clothes offline.

- We expanded options to rent our products:

- Customers in 19 markets continued to rent kids' clothing through ARKET's collaboration with Circos.

- Selected H&M stores in Amsterdam, Berlin and Stockholm offer clothes rental services for specific collections.

- H&M HOME started offering rental for occasions and celebrations. Rent a Christmas offered customers the chance to loan festive decorations in 5 markets.

- Weekday and & Other Stories items are available on Gemme Collective in Sweden.



Maximising product life & scaling circular business models



Progress: collect

- Our post-consumer, in-store garment collecting initiative was disrupted for the whole year due to Covid-19. We gathered 15,944 tonnes of material (18,800 tonnes in 2020). The initiative collects post-consumer garments and home textiles for reuse and recycling, making it easier for consumers to recycle and demonstrating that these resources have value. We work with I:CO to collect and sort garments, with 50-60% sorted for re-wear and reuse and 35-45% recycled to become products for other industries or made into new fibres. We continued collaborating with partners to make use of the remaining 3-7% that, as a last resort, had to be disposed of another way, prioritising incineration for energy recovery and never sending textiles to landfill. For example, we're collaborating with [Really](#) to create new garment collecting boxes from recycled textiles. Read more about our efforts increase the share of [recycled textiles](#) we use, and [scale recycling technologies](#).
- ARKET's Patchwork Denim collection used vintage denim collected via the brand's recycling programme to create unique, circular pieces.
- We showcased new recycling technologies. For example, H&M ran events for customers in Sweden featuring its in-store Looop recycling machine. Looop was awarded the Design Grand Prix during the 2021 Cannes Lions International Festival of Creativity. Read more about our investments in new recycled [materials and technologies](#).

Garment collecting initiative

	2019	2020	2021
Textiles collected in H&M Group stores	29,005 tonnes	18,800 tonnes ¹	15,944 tonnes ¹

¹ 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.

Learnings

- It is becoming increasingly clear that for circular business models to help us reach our climate goals, there needs to be significant scaling and substitution of (rather than addition to) existing business models, as outlined in a [2021 EMF report](#).
- Taking the first steps from resell pilots towards a scalable solution has taught us a lot about some of the hurdles to overcome if we want to make resell a sustainable option at scale. We need to build solutions that can help close the gap between customer intentions and actions to shop more sustainably. The current lack of access to transparent, brand-agnostic product information makes it difficult to provide customers with consistent information.
- Weekday's made-to-measure jeans pilot saw fewer returns than for our regular, non-customised jeans, helping us step towards closer matching of production with sales. Now that we have piloted the made-to-measure jeans on demand production model, we will explore how to scale the offering.
- Our multi-brand online shop Itsapark has developed extensive knowledge of the sustainably driven fashion, beauty and lifestyle segment. To better leverage this expertise, Itsapark has been integrated into H&M brand and closed its customer facing operations. This will allow learnings from Itsapark to be implemented on a larger scale, increasing their impact.

Future focus

- We are developing internal performance indicators to manage expansion of circular business models at H&M Group. We plan to continue scaling resell, care, repair and other circular access models.
 - As we shift towards a more circular business model, we are mindful of what this will mean for the [future of employment](#) in the fashion industry.
- Read more about our work with [circular business models](#).

CIRCULAR PRODUCTS, SUPPLY CHAIN & CUSTOMER JOURNEY:

Stores, distribution centres & offices

Although our stores, offices and most distribution centres are owned by others, we work to ensure they are built, maintained and furnished in a circular way.

Our Circular Built Environment Strategy, created in collaboration with the [Ellen MacArthur Foundation](#) and its knowledge partner [ARUP](#), prioritises resource optimisation, helping to reduce our carbon footprint. The strategy guides us to use circular principles — reduce, reuse, repair and recycle — when we furnish stores, and to use only recycled or more sustainably sourced materials. We plan to extend this to distribution centres and offices.

Our goals for the buildings where we operate and the products and materials we use within them are:

- **Reduce CO₂e emissions from our operations by 56% by 2030 — as part of our wider emissions goal**

- **Design 100% of store interiors to be reusable, repairable or recyclable, starting from 2021**

- **Use only recycled or other more sustainably sourced materials by 2030, with preference for recycled content**

- **Reuse, repair or recycle all store interiors by 2030**

We collaborate with our business partners and building owners to achieve these goals. As a minimum we require interior and construction business partners to sign our [Sustainability Commitment](#) and comply with the [H&M Group Chemical Restrictions](#). All suppliers that produce interiors and other materials for our stores participate in our [supply chain management](#) programme.

We have tailored versions of our supplier [Sustainability Commitment](#) for construction suppliers and landlords.

Progress: reducing emissions

- Together with ARUP, we are assessing the lifecycle impacts and life expectancy of store formats. We also aim to establish a carbon

emission baseline (average kg CO₂e per m²) for H&M Group stores. These activities should give a clear picture of the climate impact and priority action areas for our stores.

Progress: product design

- We launched our Circular Design Guideline for the built environment at the end of 2021 to help us achieve our goal to design for reusability, repairability or recyclability. The aim is to use the same methodology as for our commercial products circular design guide and tool, [Circulator](#).

Progress: recycled & other more sustainably sourced materials

- Together with [Biomason](#), we developed an alternative to traditional floor tiles currently used in our stores, which will significantly reduce their climate impact. Lab tests to evaluate installation and wear and tear properties are scheduled for late 2021, with the hope to conduct in-store tests in 2022.

- As part of our work to increase use of recycled materials, we started using wood fibre-based boards from our supplier [Unilin](#) containing 80% recycled content.

- We started new partnerships to explore more sustainable concrete as a potential lower-carbon building material.

- We worked with [Really](#) to recycle textiles into construction materials.

Progress: reuse, repair, recycling

- We created an online sharing tool to ensure we reuse surplus store interiors. Currently, 31% of interior materials shared via the tool are reused.

- We launched our new Reuse & Recycling Guideline and Store Consolidation Guidelines.

- 92% of waste handled in H&M Group distribution centres was recycled or reused (92% in 2020).

Learnings

- As our e-commerce business grows, we will continue consolidating the number of stores. As well as reusing the interiors, we need to find ways to recycle them when they are not fit for reuse.

Future focus

- We will continue to increase use of recycled and more sustainably sourced materials in the buildings where we operate.

- We will embed our Circular Design Guideline across the business and continue using lifecycle analysis to guide our efforts to reduce carbon emissions.

CIRCULAR PRODUCTS, SUPPLY CHAIN & CUSTOMER JOURNEY:

Packaging

To prevent damage and waste, our products must be protected as they travel between our suppliers, distribution centres, stores and customers. We are committed to reduce the impact of our packaging as part of our focus on reducing resource use. Guided by our [Circular Packaging Strategy](#), we focus on addressing priority areas first where greatest impact can be achieved — like reducing unnecessary and problematic packaging, including plastic packaging.

Our Circular Product Development Guideline, Material Guideline and Restricted Substances List for Packaging support our teams to work towards our packaging goals:

- **Reduce packaging across our value chain 25% by 2025 (2018 baseline), including 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**

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

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

We're signed up to the Global Commitment of the [New Plastics Economy Initiative](#). As a [Fashion Pact Signatory](#), we've committed to reduce ocean pollution. And as part of Canopy's [Pack4Good](#), we look to use responsible paper and alternatives to paper packaging.

Progress

— Our total packaging volume increased by 4% compared to last year. This is primarily due to an increase in online sales, which require more packaging per product than in-store sales, as well as the shift from plastic packaging to paper packaging and the rebound in sales following the impact of the Covid-19 pandemic in 2020. Despite this increase, our plastic packaging volume decreased by 5% compared to 2020.

— **Hangers.** In 2021, 60% of hangers were recycled and 18% were reused. We plan to reuse or recycle all hangers by 2022, while increasing the share that is reused.



Packaging

— **Polybags.** We continued exploring more sustainable alternatives for transport polybags. There are multiple solutions to suit different demands and we are investigating how to apply them in a scalable way, including elimination, size optimisation, substituting materials and switching to a circular system. In 2021, we removed the garment polybags for our portfolio brands in several markets to improve the recycling rate by keeping them under our own control.

— **E-commerce packaging.** We continued rolling out our new FSC-certified paper e-commerce packaging system with H&M, scheduled for completion in 2022. We also researched how to apply a scalable circular business model for online packaging.

— **Materials.** With Canopy, we continued to drive innovation on paper packaging. We are investigating how to increase our share of post-consumer recycled paper and exploring next-generation paper products made from alternatives to wood and from recycled content, such as using agriculture waste to make paper in India.

Learnings

— Implementing a reusable approach for transport hangers is taking longer than expected due to challenges coordinating all our suppliers, stores and distribution centres globally. We are learning as we go, working across our markets to implement this system as soon possible.

— Finding a way to transition from plastic to post-consumer recycled paper packaging without compromising on protecting our products has been a challenge. Together with Canopy and their Pack4Good initiative, we plan to test ways to increase the durability of post-consumer recycled paper as one potential solution to this issue.

Future focus

— We will continue prioritising eliminating all unnecessary and problematic packaging, and shifting to easily recyclable packaging. We'll work with partners to increase the share of high quality post-consumer recycled material, focusing on paper. For the plastic we do use, we will develop a roadmap with brands and functions to phase out problematic polymers.

— We will complete development of a digital design tool for circular packaging.

Packaging data^{1,2}

	2019	2020	2021	GOAL
Reduce packaging across the value chain:				
– All packaging (reduction from 2018 baseline)	N/A	-14%	-10.3%	-25% by 2025 (2018 baseline ³)
– Plastic packaging (reduction from 2018 baseline)	N/A	-24%	-27.8%	
Design packaging to be reusable or recyclable:⁴				100% by 2025
– Plastic packaging that is reusable or recyclable	N/A	6%	47%	
Make packaging from recycled or other more sustainably sourced material, within which:				100% by 2030
– Packaging from recycled material	N/A	50% (25% post-consumer; 25% pre-consumer)	42% (29% post-consumer; 13% pre-consumer)	
– Plastic packaging from recycled material	65% (38% post-consumer; 27% pre-consumer)	76% (12% post-consumer; 64% pre-consumer)	43% (42% post-consumer; 1% pre-consumer)	
– Wood in packaging from Forest Stewardship Council certified sources	78% of paper	97% certified paper and cardboard	78% certified paper and cardboard ⁵	

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 collection processes.

3) In 2020, we revised our 2018 baseline data for packaging due to improvements in data quality.

4) We will begin tracking this data once we have completed development of a digital design tool for circular packaging which will enable us to do so.

5) We are updating our packaging data collection systems to improve traceability of certified Forest Stewardship Council and recycled materials. This has led to a reduction in the reported share of recycled or other more sustainably sourced materials in our packaging for this year.

Fair & Equal

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Our approach to being Fair & Equal



Our business is characterised by a fundamental respect for the individual. Everyone has the right to be treated equally with respect and dignity, feel empowered to develop and grow, and be who they want to be.

We constantly learn from the people and communities around us as we work to accelerate equality for all those impacted by our business and value chain — our customers and colleagues, our suppliers and their employees, and the communities where we operate.

Our shared values define who we are, what we stand for and how we act. They support our efforts to be a fair and equal company.

Our commitment to respect and advance **human rights** is the foundation of our approach. These includes labour rights, inclusion and diversity, and community rights such as access to clean water and a healthy environment. Increasingly, the climate crisis and environmental degradation are threatening these basic rights and freedoms, and exacerbating inequities.

Informed by our commitment to human rights and our identified salient human rights issues, we

commit to focus our efforts to be a fair and equal company on:

- **Fair jobs for all.** We support decent, meaningful jobs with fair compensation and benefits in safe, secure workplaces free from discrimination, where everyone has the right to freedom of association. Our standards are informed by the International Labour Organization's definition of decent work and relevant conventions and recommendations.

- **Inclusion & diversity.** We work to enable inclusive, diverse and equitable workplaces. We promote diversity and equality through products and communication, and advance inclusion in our communities.

In 2021, we progressed work in our production supply chain to drive fair and competitive wage increases, and we continued to strengthen our human rights due diligence processes across our value chain.

In our 2021 stakeholder survey, 44% of respondents 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 (75 in 2020). In our annual supplier survey, which suppliers respond to anonymously, 98% of our suppliers said they consider H&M Group to be a fair business partner (96% in 2020).

See our Fair & Equal KPIs from 2021.

H&M Foundation

In 2021, the H&M Foundation:

- Partnered with Social Alpha to launch Techtonic — Innovations in Waste Management in India — a national challenge to identify local, disruptive innovations that improve waste management and the livelihoods of waste pickers.

- Continued to support female garment workers in Bangladesh, launching two pilot projects. The first equips workers with skills for higher-level managerial and machine-operator roles. The second identifies solutions for improving global competitiveness of the Bangladesh readymade garment sector and enhancing the livelihoods of women garment workers.

- Became a founding partner and investor in the Resilience Fund for Women in Global Value Chains — uniting investors with women-led organisations and funds to create systemic change that improves opportunities for women in a way that best fits their communities.

Respecting & advancing human rights

Our commitment to respect and advance internationally recognised human rights is a foundation for everything we do.

We base our approach on the [UN Guiding Principles on Business and Human Rights](#) and communicate our commitment via our [Human Rights Policy](#). Ten years on from the launch of the UN Guiding Principles, our focus on upholding the rights of colleagues, workers in our supply chain, customers and communities remains constant. We adjust our work in response to internal and external trends and events, such as the Covid-19 pandemic, environmental and political instability and shifts in working practices and digitalisation.

Our human rights due diligence is risk-based and applies across our operations, supply chains and communities. We regularly review our actual or potential human rights risk and focus on priority risks: [our salient human rights issues](#). We report on progress and data in relevant sections of this report — including [water](#), [fair jobs in our operations](#) and [supply chain](#), and [inclusion & diversity](#). We pay special attention to vulnerable groups such as [children](#) and [migrant workers](#). Our [supply chain management](#) programme is an important

mechanism for assessing and addressing human rights issues in our manufacturing supply chains.

Read more about our approach to [human rights and due diligence](#).

We work with the [Ethical Trading Initiative](#) and [Shift](#) to progress our approach to human rights. We also partner with local human rights focused organisations to gain a deeper understanding of specific contexts and risks — for example [Better Work](#), the [International Organization for Migration](#), the [Mekong Club](#) and the [Myanmar Centre for Responsible Business](#).

Progress

- We strengthened integration of human rights governance and due diligence in our business by:
 - Developing a human rights network across our operational and supply chain functions and activities. Participants share learnings, develop joint action plans and adjust human rights due diligence activities relevant to their operational context and to drive integration within their function.

- Launching our [Speak Up](#) grievance channel for colleagues and business partners as part of our new Ethics Portal.

- Fine-tuning and expanding our yearly review of human rights risks across regions and functions, to inform our regular review of salient issues.

- We delivered human rights trainings across our functions:

- Together with Shift, we delivered deep-dive trainings with colleagues responsible for ongoing human rights due diligence, including sessions on taking action, and remedy and grievance.

- Our global Materials team received training on environmental and human rights due diligence and labour risks, to inform an ongoing risk review process related to our material strategies.

- The [International Organization for Migration](#) provided training on forced labour to 41 colleagues and 298 supplier factories, with a total of 517 participants.

- Key colleagues in the H&M marketing and communication team participated in training on child rights led by [UNICEF](#).

- We stayed closely engaged with emerging mandatory due diligence legislation, for example the [EU Sustainable Corporate Governance initiative](#).

Learnings

- Unprecedented situations in our own operations and supply chains this year, including war and civil unrest, underscored the importance of enhanced due diligence in conflict affected regions. There is often no simple or single answer for the most responsible course of action. We learnt the value of acting quickly to ensure the safety of and assist our colleagues, our suppliers and their workers. Regular engagement with key stakeholders, trade unions and employers was essential to take care of our business and the workers who make our products.

- We continued to learn about the limitations of corporate due diligence in solving issues that are political in nature. Stakeholder engagement, collaboration and public affairs work are vital levers for tackling some of the more complex and structural issues.

Future focus

- We will continue to deepen integration of due diligence across our business. Ensuring shared responsibility and continuing training, support and cross-functional collaboration are important aspects of this ongoing work.

- As regulation evolves we will review and update documentation of our work, and expand reporting.

Respecting & advancing human rights

A focus on child rights

This year we expanded our efforts to promote child rights within and beyond our supply chain

In the context of an increasingly digital world, we partnered with UNICEF to review our Responsible Artificial Intelligence (AI) framework from a child rights perspective. As a result, we developed AI for Children guidance. We also engaged with our marketing team on child rights, leading to an update of our Responsible Marketing Guidelines.

To spotlight the voices of children making the world a better place, H&M launched the Role Models campaign, showing age is no barrier to changing the world. The campaign engaged approximately 34,000 children, as well as raising SEK 2 million for UNICEF through sales of t-shirts featuring inspirational quotes from the Role Models.

The UN declared 2021 International Year for the Elimination of Child Labour. We remain committed to uphold the Children's Rights and Business Principles, which includes not accepting child labour in our supply chain.

As in 2019 and 2020, we identified no cases of child labour in our tier 1 supply chain in 2021. We updated our Child Labour Policy, including clarifying responsibilities for H&M Group and our business partners. We added reference to child

labour and forced labour risks in our Responsible Raw Material Sourcing Policy. Also in 2021:

- We analysed our key materials to identify gaps in existing strategies for parts of our supply chain where there is a heightened risk of child labour or forced labour.
- On World Day Against Child Labour, we communicated with all colleagues to raise awareness of the issue of child labour by sharing our commitment and actions.
- We continued our membership of the Centre for Children's Rights and Business and joined other brands and retailers in committing to the Centre's Joint Action Pledge to eliminate child labour. We also ran a programme to support migrant workers with children in Mainland China — read more in Inclusion & Diversity.

As we work to become a circular business, we recognise the need for collaboration to ensure no child labour occurs within new recycling- and reuse-focused supply chains. We will continue to work to uphold child rights throughout our value chain, including through our own marketing and sales activities.



Inclusion & diversity

Growing inequalities and unequal access to opportunities around the world, exacerbated by the global pandemic, emphasise the need for inclusive business. We're committed to being part of the solution, working to promote and improve diversity, equity and inclusion for everyone in our value chain. **By 2025, we aim for our workplaces to be more inclusive and diverse, to leverage our diversity for better business, and to use our business to advance inclusion in our communities.**

To achieve this, we focus on:

- **Internal diversity & equality.** Improve internal awareness of inclusion and unconscious bias, offer fair and equal employment opportunities and ensure diverse representation in teams and leadership.
- **Promoting diversity & equality.** Together with our brands, encourage inclusion and celebrate diversity and equality through products and communications.
- **Inclusion.** Advance inclusion of people in the societies we are part of through global and local initiatives.
- **Transparency.** Clearly communicate our strategy and progress to create accountability, pushing us and others to do better.

Our approach is informed by our [Human Rights Policy](#), [Sustainability Commitment](#), and other [social policies](#).

Progress: internal diversity & equality

- We set specific targets to improve diversity across our business. Brands and markets have set inclusion and diversity (I&D) commitments and action plans. We're working to publicly disclose these plans and have extended the timeline — [read more in Learnings](#).
- We are developing and piloting a tool to help us better understand our inclusion, equity and diversity performance. Our goal is for the tool to help monitor our progress and inform future actions.
- We're building a network of internal I&D teams to engage colleagues and progress our 2025 ambitions:
 - We formed a central I&D team of colleagues with experience across business functions. The team reports to the Head of People and Organisational Development and supports our brands and functions with expertise to further embed and extend our groupwide I&D actions.
- Newly formed I&D councils, networks and advisory groups at our brands, functions and markets are activating a localised approach to I&D. Our production function formed I&D peer committees to progress its new diversity targets, and our United States (US) market is developing colleague resource groups (CRGs) — groups of colleagues reflecting a specific dimension of diversity (but open to anyone) who help shape I&D strategy locally. CRGs are also being piloted in other parts of our business.
- Our new Colleague Peer Forum provides a Group-level platform for 40 colleagues from across our business to collaborate and feed back on I&D initiatives, including to the executive management team.
- We updated our approach to talent acquisition to ensure we assess candidates fairly, mitigate bias and promote diversity.



For example, we make sure that we advertise jobs on a range of platforms to target candidates with different perspectives.

- We disclosed [demographic data](#) for Group operations in the US.
- In 2021, 74% of H&M Group colleagues were female and 71% of management positions were held by female colleagues (2020: 74%, 71%). Our board of directors had a 55%:45% (female:male) gender split (67%:33% in 2020).¹
- According to our annual H&M Group colleague survey, People Engagement Pulses, 83% of respondents agree with the statement "I am treated with respect and dignity", and 74% with the statement "Diverse perspectives are valued at H&M Group".

¹⁾ Includes directors elected by AGM as well as employee representatives.

Inclusion & diversity

Inclusion & diversity training at H&M Group

COLLEAGUES PARTICIPATING IN ONE OR MORE TRAININGS

	2020	2021
Layers I&D training, number of colleagues	4,152 ¹	23,253 ²
– % of colleagues in brands	–	15%
– % of colleagues in functions	–	66%
– % of colleagues in markets	–	21%
Unconscious bias training ³	13,713	56,618
Mindful cultural representation training	72	0 ⁴
Legal and ethical aspects of product development training ⁵	98	286
Total participants in one or more trainings since 2018	24,335	70,331
Total participants in Layers since 2018	7,725	31,005

¹ Includes six markets.² Includes all brands, functions and markets.³ Data is for colleagues who have accessed the training on our internal learning system.⁴ Trainings were paused during 2021 while the programme was updated, with re-launch in a digital format planned for 2022.⁵ This was called 'Product and Print Policy training' in the 2020 report.

— We continued internal trainings to build awareness and capacity on I&D issues (see table). To complement trainings, we offered regular digital drop-ins where colleagues can ask questions to I&D experts. For example, they can seek guidance on creative decisions. Learnings are continuously integrated into our practices.

—  [Find out more about how we design clothes to fit all shapes and sizes.](#)

— We joined the steering committee and working group of the [World Economic Forum Partnering for Racial Justice in Business](#) initiative, aiming to build equitable workplaces with a focus on under-represented racial and ethnic identities.

— Our International Women's Day celebrations raised awareness and supported charities empowering women. H&M lent its social media platforms to UN Women, Monki launched an initiative called '[Speak up, take space!](#)' as part of its partnership with [PLAN International](#), while the & Other Stories #mygrandmamyicon Instagram campaign raised money for [CARE](#).

— We showed our support for the LGBTQIA+ community:

— H&M celebrated Pride by launching the [Beyond the Rainbow](#) campaign to support the [United Nations Free & Equal](#) campaign, a global initiative for LGBTQIA+ equality. This campaign is not linked to a collection or product — instead it provides a platform for voices and stories from the LGBTQIA+ community, including our colleagues, and encourages others to share their own stories.

— COS donated 100% of the proceeds of its Pride t-shirt capsule collection to local charity partners, including [Kaleidoscope Trust](#)

Progress: promote diversity & equality

— Together with our brands, we joined a three-year partnership with the [Unstereotype Alliance](#) (UA) — a platform seeking to eradicate harmful gender-based stereotypes in marketing, advertising and communications. To achieve this, we've set a plan focusing on assessing our marketing campaigns against UA's scoring system, implementing trainings for creative roles and updating our creative processes.

— Our brands continued to promote diversity and equality:

— Weekday began a long-term partnership with [Civil Right Defenders](#) (CRD), donating 100% of the proceeds of its Studio Made collaborations to CRD during 2021.

— Our brands embraced real bodies. Monki continued its #nofilter underwear campaign featuring untouched photos of models.

Inclusion & diversity

- a human rights charity campaigning for LGBTQIA+ people.
- Monki's Head Office was re-certified by RFSL, the Swedish Federation for Lesbian, Gay, Bisexual and Transgender Rights.



- & Other Stories hosted a local artist takeover at its US stores, showcasing different perspectives and experiences from the LGBTQIA+ community through art, and donated to the United Nations Free & Equal campaign.

Progress: inclusion

- We continued our work with the [TENT Partnership for Refugees](#):

— As part of our commitment to responsible recruitment of 2,000 refugees within our Turkey supply chain by 2025, 710 refugees were employed in our supply chain. The Covid-19 pandemic meant we continued to focus on supporting those already employed to keep their jobs, rather than on scaling the programme.

— We joined the TENT [initiative](#) providing professional mentoring for refugee women in Europe to help them gain employment. We have committed to mentor 50 women across Germany, the Netherlands and Italy over a three-year period. Collectively, the TENT Partnership aims to mentor 1,250 refugee women during the period.

— We continued a health and wellbeing project in Indonesia to empower women in our supply chain, in partnership with the [United Nations Population Fund](#) and others. The project currently reaches more than 45,000 workers with trainings on

Number of workers in our tier 1 production supply chain in 2021

	2020 FEMALE (%)	2021 FEMALE (%)	2021 FEMALE ¹	2021 MALE ¹
Workers	63%	63%	677,000	398,000
Supervisors	24%	28%	18,000	46,000
Worker representatives	59%	62%	6,000	4,000

topics including reproductive health, malnutrition and gender-based violence. We aim to enrol 100% of production factories by 2025.

— In Indonesia, we took part in a workplace inclusion project for workers with disabilities, together with Better Work and [USAID Mitra Kunci](#). 17 factories are currently enrolled, with the aim to cover 100% of our production factories by 2025.

— H&M South Africa continued its partnership with [Clothes to Good](#) (CTG), helping women — particularly mothers of children with disabilities — out of poverty. CTG's micro-business programme empowers 108 women to run successful clothing businesses in their communities. Women receive training on financial literacy and sales, as well as ongoing mentoring and support.

Progress: supply chain inclusion & diversity

— We launched our production supply chain [Women's Empowerment Strategy](#), developed in partnership with Plan International in 2020. Our ambitions and supporting goals and KPIs focus on health & safety, career and development, representation and equal pay. To further understand the situation for women in our supply chain and ensure impactful actions to increase skill levels of women and decrease gender pay gaps, we conducted a survey with over 700 tier 1 suppliers in Bangladesh, Indonesia, Mainland China and Turkey.

— We reward suppliers for increasing their ratio of female supervisors through our supplier relationship management system. This year this incentivised our suppliers in Bangladesh to increase the ratio of female supervisors from 6% to 10%.

¹ To the nearest thousand.

Inclusion & diversity

- 10 supplier factories in India participated in a programme to prevent sexual harassment run by Swasti, reaching 13,500 workers.
- 27 H&M Group supplier factories are enrolled in the GEAR project in Bangladesh, which promotes female leadership. In 2021, 156 women workers were trained, contributing to 87 women workers being promoted.
- We continued to partner with the International Organization for Migration (IOM) on a country-by-country approach to reducing risks of forced labour for migrant workers, as we work towards our goal of no recruitment fees in our supply chain by 2025. Our Migrant Workers Fair Recruitment and Treatment Guidelines and annual Modern Slavery Statement communicate our approach and progress. Also in 2021:
 - We ran internal and supplier training with IOM and continued a joint project to improve inclusion of migrant workers in our supply chain.
 - Our logistics function mapped our last-mile delivery operations to better understand the use of labour brokers and presence of vulnerable groups including migrant workers. We also continued our engagement with the EU Responsible Trucking Platform.
 - We recognised the challenge of seafarers stuck on boats because of Covid-19 lockdowns. All our shipping partners are Neptune

Declaration signatories and we followed up regularly to assess progress, including crew changes and wellbeing.

— In partnership with the Centre for Child Rights and Business, we ran a programme in 8 supplier factories in Mainland China to support migrant workers with children. Forty onsite training sessions were delivered to more than 1,900 parent workers, benefiting approximately 2,900 children, and with a worker satisfaction rate of 90%.

Progress: transparency

- We added transparency and communication as a focus area of our I&D strategy, highlighting the importance of sharing progress and staying accountable to our colleagues, customers and other stakeholders.
- We are increasing our participation in indexes and benchmarks to broaden how we share our I&D performance. We were among 35 apparel companies ranked in the World Benchmarking Alliance Gender Equality Benchmark based on publicly available information and data. Our position in the benchmark (17) showed we need to publicly disclose more about the work we're doing. We will also make a submission to the 2022 Bloomberg Gender-Equality Index.

Learnings

- We underestimated the complexity of legal and ethical considerations related to collecting, aggregating and disclosing demographic and personal data. This has prolonged the timeline to disclose our action plans for our markets and brands. The development of our internal I&D Index, closer collaboration with our compliance experts and additional resources within our central I&D team will support this process internally going forward.
- We need a consistent cross-sectoral approach to collecting I&D data. Implementing a compliant and harmonised global data collection approach is one of the objectives of the World Economic Forum Partnering for Racial Justice in Business, of which we are a member.
- Improving the detail, quality and frequency of the information we share about our I&D work must be a top priority. Reporting on our strategy and performance helps us stay accountable, enabling us to track progress against our I&D strategy and meet stakeholders' expectations.

Future focus

- Our customers, colleagues and investors increasingly expect us to share our progress related to inclusion, diversity and equity. As we continue to implement our I&D strategy, we aim to proactively communicate our performance and impact.
- We will continue developing local targets for all areas of our I&D strategy. This process is central to reaching our ambitions and improving our level of transparency.
- We are developing a KPI to incentivise suppliers to decrease the gender pay gap.
- We have raised awareness of fair and inclusive recruitment of migrant workers among all relevant production markets and colleagues. We will now build a roadmap for strengthening recruitment systems in priority countries and with high-risk suppliers to reach our 2025 goal of no recruitment fees.

Fair jobs in our own operations

We aim to offer all H&M Group colleagues healthy, safe, fair and inclusive workplaces. We focus on:

- **Health, safety & wellbeing.** We proactively identify health and safety risks and act to address these, so we can offer our colleagues safe workplaces that support their wellbeing. We raise awareness through trainings and local health and safety campaigns.

- **Professional & personal development.** We want all our colleagues to be able to achieve their professional ambitions and make a difference. We encourage a culture of personal and professional development with regular feedback and an ongoing dialogue between managers, teams and team members. Individual development is also supported by our online training platform GROW and by everyone having access to our internal career site. Managers and their team members meet regularly to agree on career and development goals.

- **Employee relations & engagement.** We encourage constructive workplace dialogue built on trust and respect, and support colleagues to share their experiences and ideas. We respect every employee's right to freedom of association and collective bargaining, and communicate this principle through our Global Labour Relations Principles and Global Framework Agreement.

with Union Network International. All H&M Group workplaces have local grievance procedures, supported by our Global Grievance Policy. Colleagues can also use H&M Group's Speak Up channel for whistleblowing and raising concerns. Our annual People Engagement Pulses survey enables colleagues to share views on how it is to work at H&M Group and give ideas for improvement. Based on the results, managers and their teams work together to set action plans.

- **Compensation & benefits.** We are committed to providing our colleagues with fair, competitive compensation, guided by our Global Compensation and Benefits Policy. The H&M Incentive Program (HIP) provides incremental investments in H&M Group shares to every part- and full-time H&M Group employee, regardless of position and country of employment.¹ All employees receive discounts in H&M Group stores worldwide.

Progress: health, safety & wellbeing

- Throughout the Covid-19 pandemic, we have provided practical support and advice to our teams. This included enhanced health and safety guidelines and routines, and personal



protective equipment and training for those who could not work from home.

- We worked to support colleagues' mental health and wellbeing. Different markets, brands and functions offered a range of initiatives — for example, a global 24-hour helpline, access to free mental health services and counselling, mental health surveys, webinars and workshops.

- We began developing the "H&M Group at Work" model, exploring how we can meet the challenges and opportunities presented by new ways of working following the pandemic.

- 65% of respondents to our People Engagement Pulses (PEP) survey agreed with the statement "I am able to successfully balance my work and personal life" (new question for 2021).

- Our new global Meeting and Travel Policy is designed to support a healthy work-life balance, as well as reduce negative impacts on the environment, increase cost consciousness, optimise productivity and ensure compliance with travel regulations.

¹⁾ Co-workers receive funds when they reach the age of 62, whether or not they still work for the company. In some markets, co-workers can receive the first part of their funds once they have worked for H&M Group for ten years. Payment regulations vary in some markets.

Fair jobs in our own operations

Progress: professional & personal development

- We continued to run trainings remotely for colleagues working from home. The average training time per full time equivalent colleague was 6 hours.¹
- 65% of respondents to our PEP survey agreed with the statement “I have good opportunities to learn and grow” (new question for 2021).

Progress: employee relations & engagement

- To meet our customers' expectations and navigate the digital shift, we continued our store portfolio consolidation, i.e. closing or downsizing relevant stores. Through this process, and through the challenging times of the Covid-19 pandemic, we continued to take a responsible, sensitive approach to supporting our colleagues. Our markets have taken a range of actions, including making managers and human resources available for regular phone calls, providing additional benefits or compensation to support transition and offering app-based training to develop new skills.
- Our overall engagement score in our PEP survey was 76 out of 100 (75 in 2020).

— We investigated 19 incidents of potential colleague non-compliance with the Code of Ethics. These investigations led to 1 written warning and 5 terminations. Cases involving 5 colleagues remained open into 2022.²

— Our markets, brands and functions engaged with colleagues in a range of ways. For example, H&M launched the Circular and Climate Ideation Cup, offering colleagues the chance to share innovative ideas that contribute to our sustainability agenda.

— 80% of respondents to our PEP survey agreed with the statement “I feel empowered to take ownership about my work” (new question for 2021).

Progress: compensation & benefits

- Working with an independent external supplier, we evaluated and compared jobs within our organisation and used this to develop our Generic Job Framework. We use the framework to evaluate which jobs roles are equal and equivalent and make accurate salary comparisons.
- This year, SEK 224 million was allocated to the H&M Incentive Program.
- 65% of respondents to our PEP survey agreed with the statement “I feel satisfied with the

recognition or praise I receive for my work” (new question for 2021).

Learnings

— The trends towards flexible and digital working have been accelerated by the pandemic. To understand and learn from our colleagues post-Covid, we engaged with more than 2,000 of them to hear what they value. We concluded that our offices remain an important part of our unique culture and identity, and now hold a refreshed sense of purpose for collaboration, innovation and community. We have integrated these findings into our development our new “H&M Group at Work” model.

Future focus

- We are developing Global Employment Standards for H&M Group, based on international standards. This consistent approach will cover areas such as contracts, predictable work, sick leave, parental leave and employment protection.
- It is important colleagues know which grievance systems are in place and feel confident to use them. We are reviewing and strengthening our Global Grievance Policy and our assessment and remedy processes.
- We are exploring processes for engaging and involving our colleagues in company operations

even more. This could, for example, include establishing employee committees.

— To give all colleagues equal possibility to develop and grow, we are aiming to establish a learning experience platform (LXP) that provides easy access to personalised learning experiences and supports new ways of learning.

Fair jobs in our production supply chain



The clothing and textiles supply chain is complex, with many shared suppliers. Our own [tier 1 and 2 production supply chain](#) contributes to the employment of around one and a half million people in 24 countries.

It's our responsibility to respect and work to advance the human rights of the people working for our suppliers and ensure they know their rights. We collaborate to improve industrywide working conditions, particularly with respect to wages and worker representation. We take a risk-based approach, prioritising locations where we identify potential issues.

We focus on:

- **Health, safety & wellbeing.** Everyone has the right to a safe workplace, and health and safety is an important topic in our supplier assessments. We are a signatory to the new [International Accord for Health and Safety in the Textile and Garment Industry](#).

- **Social dialogue.** We support the right to freedom of association and believe that strong industrial relations contribute to resilient, stable supply chains and decent work. We work with suppliers to increase democratically elected worker representation and to empower workers to know their rights.

— Compensation, benefits & social protection.

We want to ensure all the workers in our supply chain are paid fairly¹ and are covered by a strong social protection system. We work with suppliers to improve wage management systems and we partner with peers, experts and governments to improve wages at the industry and country level. Our [Wage Strategy](#) guides our approach to improving workers' livelihoods.

- **Supply chain inclusion & diversity.** As most of the workers in our supply chain are women, we pay specific attention to gender equality, guided by our Women's Empowerment Strategy. To protect the rights of vulnerable groups such as migrant workers, [we identify and address risks](#) of forced labour in our supply chain and commit to the goal of **no recruitment fees in our supply chain by 2025**. Read more in [Inclusion & Diversity](#).

Collaboration is an important lever to help shape the industry we want and need in the future:

- Our Global Framework Agreement (GFA) with trade unions [IndustriALL](#) and [IF Metall](#) strengthens industrial relations and enables peaceful conflict resolution in our supply chain. National Monitoring Committees (NMCs)² oversee localised GFA implementation.

- We're members of the Industry Summit, a 15-brand collaboration that shares common approaches to topics such as supplier audits, joint remediation and gender equality.

Jobs in a circular fashion industry

We completed the Keeping Workers in the Loop project with [BSR](#) supported by the [Laudes Foundation](#). The project explored how employment opportunities and job quality could be impacted by the shift to circular fashion, taking account of macro developments like automation and climate disruption.

The final project [report](#) recommends further research on the impact of a circular transition on workers and skill requirements, and embedding worker representation into future governance and strategy development. We will incorporate findings from this research into our Fair Jobs approach and work to ensure we put all people who work with our products at the centre of our strategy for a circular fashion industry.

We advocate for skills development plans to be in line with a circular, low carbon fashion industry. For example, we contribute through the Global Fashion Agenda to the [EU Pact for Skills](#), a public-private forum to support workers during the green and digital transitions.

¹ Read about how we define fair wages.

² NMCs consist of H&M Group representatives working on the ground alongside national-level trade union representatives affiliated with IndustriALL.

Fair jobs in our production supply chain

Supporting our suppliers through Covid-19

In 2021, we:

- Engaged in Call to Action activities to support worker access to emergency funds, wage subsidies, severance pay and identification documents needed for vaccine access. We continue to work through the Call to Action to secure funding from financial institutions and donors and develop market-level strategic plans, to support suppliers and their workers.

- Increased options for supplier payments, to maintain financial liquidity. It's now possible for suppliers to receive payment approximately three days after sending an invoice to H&M Group. The supplier pays a financing cost to the bank to receive early payment, which is usually significantly lower than the cost of borrowing.

- Maintained our commitment to good order flow, avoiding cancellations of existing orders and paying for any material liabilities¹ where necessary. We increased focus on compliance for issues like severance pay, wage payments, and health and safety.

¹ The fabric a supplier has purchased in the expectation of making an H&M Group product that has not yet been used.

- As an Action, Collaboration, Transformation (ACT) member and a signatory to its Memorandum of Understanding, we commit to ensuring our purchasing practices support suppliers' ability to increase wages.

- We work with policy makers on progressive legislation and support the International Labour Organization's (ILO) Decent Work Agenda.

- As a Sustainable Apparel Coalition board member, we work to progress factory-level data assessment and verification across our industry — see our supply chain data.

- We engage peers to discuss and address supply chain wage issues, for example through our participation in the UN Global Compact Platform for Living Wages and Shift.

Progress: health, safety & wellbeing

- The transition of the Bangladesh Accord² to a national regulatory body in 2020 led to global trade union-led discussions on the need for an international accord on textile industry safety. We played a leading role in negotiations towards the new International Accord for Health and Safety in the Textile and Garment Industry. This agreement between brands and trade unions commits us

² Established in 2013 to improve fire and building safety in the textile industry in Bangladesh.

- to upholding the health and safety work already undertaken in Bangladesh and to expand similar country-specific programmes across our supply chain.

- Through our supply chain management programme, we worked with supplier factories to ensure implementation of all standard operating procedures relating to Covid-19 measures. We encouraged suppliers to implement health guidelines from trusted sources — including local governments, the World Health Organization and the ILO.

Progress: social dialogue

- 37% of our tier 1 supplier factories have trade union representation (32% in 2020) and 27% have collective bargaining agreements (CBAs) in place (18% in 2020).

- Our six National Monitoring Committees (NMCs) in Bangladesh, Cambodia, India, Indonesia, Myanmar and Turkey cover more than 1 million workers. Of the 46 issues raised with NMCs or other labour stakeholders in 2021 and carried over from 2020, 33 have been resolved (see table). The operations of the NMC in Myanmar have been affected by the current political situation in the country, while we maintain a close dialogue with global and local trade unions.

- We continued factory-level supplier evaluations and agreement of workplace

- dialogue improvement plans — assessing the functionality of the committees in place based on a tool we developed with Better Work. We also analysed grievance mechanisms in our supply chain. In Turkey, for example, we found 73% of all grievances in 2021 came from factories with workplace dialogue (WPD) programmes, which may mean that workers feel safe bringing forward concerns or that better systems are in place to capture grievances. Here, we also found there were on average 10% more female worker representatives in factories in our WPD programme compared to those not enrolled.

- Our NMCs analysed supplier CBAs in Bangladesh, Cambodia, Indonesia and Turkey. Outside Turkey, where CBAs are mandated by law, it was common for existing CBAs to lapse and not be renewed by the social partners, despite factory management and workers participating in capacity building programmes and trainings.

- To understand how supply chain workers feel about their working conditions, we launched a workers' voice survey in Bangladesh, Mainland China, India, Indonesia and Turkey. An independent third party gathered input from 10% of supplier factories in each country. We also launched a workers' voice survey and worker dialogue tool in all factories in Myanmar. These surveys are an important verifier of the data reported by suppliers and help us understand if our capacity building programmes have the desired impact on working conditions.

Fair jobs in our production supply chain

— Through our membership of ACT, we engaged with ongoing work to establish industrywide CBAs as a tool for enabling a sustainable rise in wages and benefits over time. Activities in 2021 included a study of options for CBAs from a legal perspective in Cambodia and Bangladesh, and developing tools to encourage better freedom of association across brands and suppliers in all ACT priority markets. In Myanmar a fast-track dispute resolution mechanism operated until October 2021, which was key to ensure workers' grievances were handled in a timely manner despite the unrest.

— In 2021, H&M Group staff and IndustriALL affiliated trade union NMC members completed an eight-module course with the ILO to support knowledge and skills related to social dialogue.

Progress: compensation, benefits & social protection

— Following an external review of our wages work in 2020, we've further developed our approach to increasing wages. We developed country-specific strategies that consider national contexts and legal settings, based on the six areas that drive impact on wages: wage management systems, productivity, social protection, statutory minimum wages, collective bargaining and industrial relations, alongside our own purchasing practices. We assess our

The benefits of workplace dialogue

Workplace dialogue is a foundation for good working conditions, higher wages and women's empowerment. Our wage strategy review last year showed workplace dialogue programmes and trade union representation positively impact wages.¹ And in Bangladesh, for example, we've found that factories with trade unions have higher levels of women engaged in grievances mechanisms.

NMCs play a key role in enabling dialogue. For example, this year, the Garment Labor Union, a member of our India NMC, filed a complaint alleging workers had been subjected to too high performance targets, non-payment of lockout² and overtime wages, forced overtime and workplace harassment. After factory management initially refused to discuss the situation with the union, NMC representatives met with managers and were able to facilitate an amicable resolution.

1) We found a statistically significant global average increase on wages of 5.5%, where trade unions are present.

2) Denial of employment or stoppage of work during a labour dispute.



Issues brought to National Monitoring Committees in 2021 or carried over from 2020³

	UNRESOLVED FROM 2020	RAISED IN 2021	RESOLVED IN 2021	UNRESOLVED INTO 2022
Compensation & benefits, and severance payment	1	25	20	6
Discrimination & harassment	1	9	7	3
Freedom of association & collective bargaining agreements	2	6	4	4
Working hours	0	0	0	0
Forced labour and modern slavery	0	1	1	0
Social security	0	1	1	0
Total	4	42	33	13

3) This year, we have included the categories of forced labour and modern slavery and social security. These were not reported against last year, since there were no cases raised in either of these categories in 2020.

Fair jobs in our production supply chain

level of influence and impact on each of these areas, making factory-, country- and industry-level interventions to drive fair and competitive wage increases.

— With our suppliers, we completed an industrywide self-assessment on purchasing practices, run by ACT. We averaged more than 4 out of 5 in most areas but performed lower on monitoring and evaluation of our purchasing practices — this means that suppliers are either not aware of our existing monitoring systems, or we need to strengthen and communicate what we do in this area. This will be a focus area for improving our purchasing practices in 2022.

— We made more than 99% of our supplier payments on time¹ and currently 68% of in scope orders are placed using the fact-based costing tool that enables us to ring-fence labour costs.²

— To facilitate monitoring and review of supply chain wage payments, we continued expanding digital payments in Bangladesh to match levels in other production countries. Digital payments are now available at 91% of our manufacturing supplier factories in Bangladesh, and at 91% of tier 1 supplier factories across all countries (82% in 2020).

— Wages expert Raymond Robertson reviewed our role in social protection programmes. He concluded that, although governments are best suited to provide comprehensive social protection programmes, H&M Group can

help build capacity and coalitions to increase awareness and support government action. We followed this up with an analysis of social protection legislation in each market, to identify where our advocacy efforts can be more impactful.

— We focused on priority wage and social protection issues in specific countries. For example, in Turkey, we strengthened checks on social protection contributions paid to workers. We committed to a project led by ILO and GIZ in Bangladesh to advocate for an interim solution for the employment injury scheme.

— In our annual anonymised supplier survey, 98% said they consider H&M Group to be a fair business partner (96% in 2020). From next year, we will integrate our supplier survey into the annual ACT purchasing practices assessment. We believe that this change will reduce workload for our suppliers, and provide a trusted platform for feedback.

— Should we need to stop working with a supplier factory, for example due to unresolvable non-compliances, we align with the ACT Responsible Exit Policy to alleviate potential adverse impacts on workers.

 **Find out more about fair jobs in our production supply chain.**

Average monthly wages (excluding overtime) at H&M Group supplier factories versus applicable minimum wages in key production markets^{3,4}

COUNTRY	MINIMUM WAGES 2020 (USD)	GROSS AVERAGE WAGES 2020 (USD)	DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2020 (USD)	MINIMUM WAGES 2021 (USD)	GROSS AVERAGE WAGES 2021 (USD)	DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2021 (USD)
Bangladesh	93	128	+38%	93	136	+46%
Cambodia	207	242	+17%	209	246	+18%
Mainland China	262	446	+70%	286	514	+80%
India	112	135	+21%	116 ⁵	143	+23%
Indonesia	186	189	+2%	193	201	+4%
Myanmar	109	143	+31%	109	139	+27%
Turkey	378	451	+19%	457	576	+26%

1) Reasons for late payment include system errors and non-compliant invoices.

2) The cost of a garment is divided into different costing blocks such as material, stitching, and labour cost. When we ring-fence the labour cost, we remove that part from the price negotiations so that the wages are never affected.

3) 2021 data includes active and approved manufacturing (tier 1) suppliers for all commercial product types, and covers the time period 1 January–30 June 2021. 2020 data covers the time period 1 January–31 December 2020. 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 between regions or states.

4) Currency conversions from Thomson Reuters Eikon based on annual average for 2021.

5) In April 2021, the minimum wage in India changed from USD 113 to USD 119.

Fair jobs in our production supply chain

Learnings

— Our review of workplace dialogue systems has shown that factory management and workers need further support in case handling and dispute resolution, focused on improving problem solving skills and documentation of case handling. Stronger dialogue structures often correlate with greater participation by women — this is an area we need to explore further as we seek to empower women in our supply chain.

— While the pilot workers' voice survey suggests only a small percentage of workers are worried about harassment and abuse, it also shows they do not speak up. In addition, many of the CBAs in our supply chain do not get renewed — especially in Bangladesh and Cambodia. We will focus on training our staff on harassment and abuse, as well as take a targeted training approach with suppliers in countries where this risk is especially high. NMCs will create their annual plans for 2022 based on the learnings from the CBA benchmarking tool.

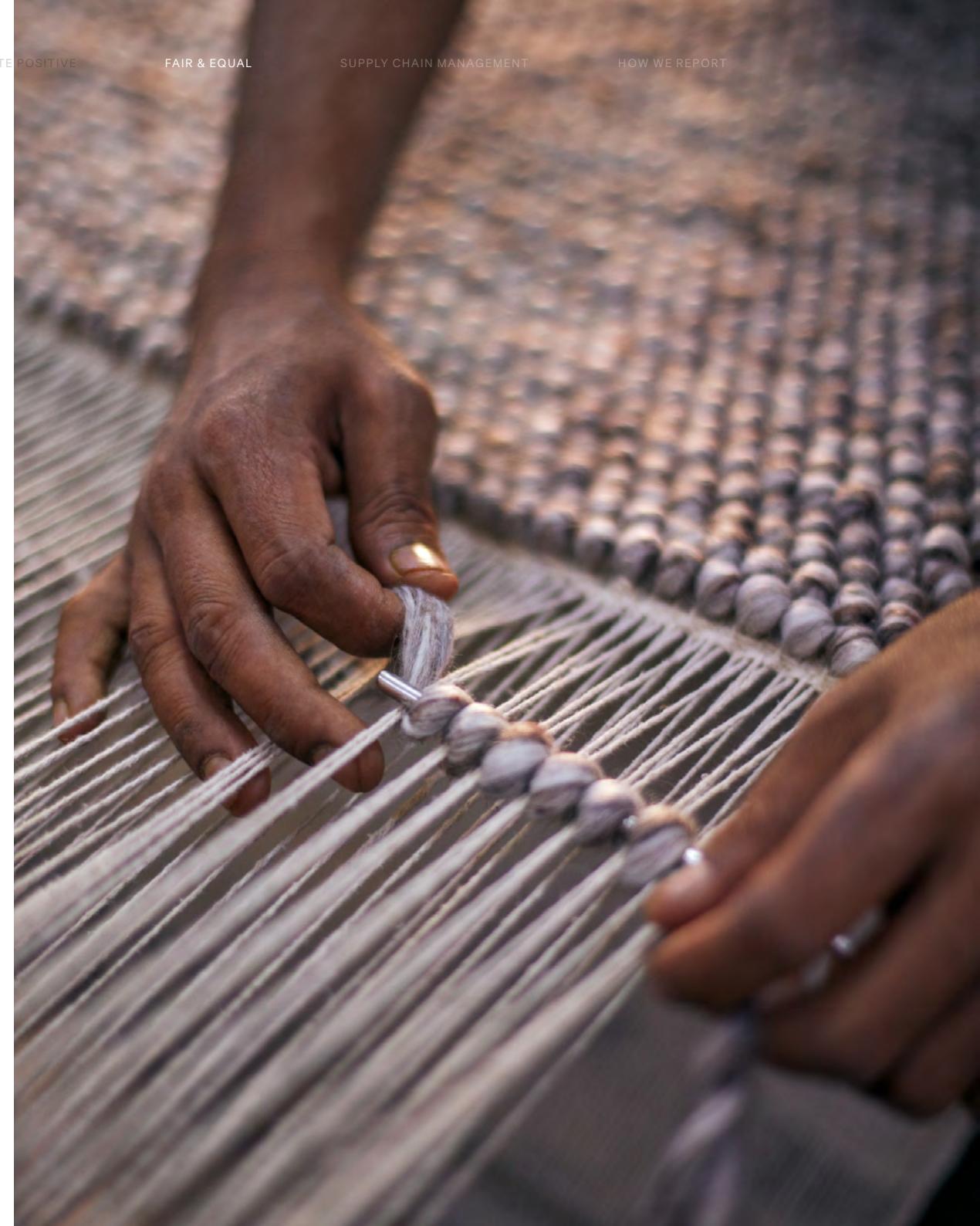
— Although our wage strategy review in 2020 found that wage management systems (WMS) have increased average wages by up to 5%, the research also found that WMS appeared less effective in some locations — for example wages had not increased at our suppliers in India after they enrolled in WMS. We are partnering with researchers at the Accounting Frameworks Platform at Mistra Center for Sustainable Markets (Misum), Stockholm School of Economics, to

understand why this was the case in India and how we can improve wages at the factory level.

Future focus

— We will train our teams and NMC members on gender-based violence and prevention of sexual harassment alongside reviewing our policies and guidelines to ensure we have the most effective procedures to support our suppliers on these issues. We will also add an addendum to our case handling routine — a process that we created together with IndustriALL and IF Metall — to include special procedures for cases that involve these topics.

— Building on our workplace dialogue programmes, we will develop targeted training to give worker representatives and management the skills they need to provide effective access to grievance remedies.



Fair jobs in our production supply chain

Detailed wage & worker data for 2021¹

In 2021, we monitored 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.

Because national responses to Covid-19 continued to impact wage trends differently, we continue to present data country by country. We also present available data about the number of workers employed in suppliers' factories for the first nine months of the year, to show the ongoing impact of job disruptions caused by Covid-19.

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.



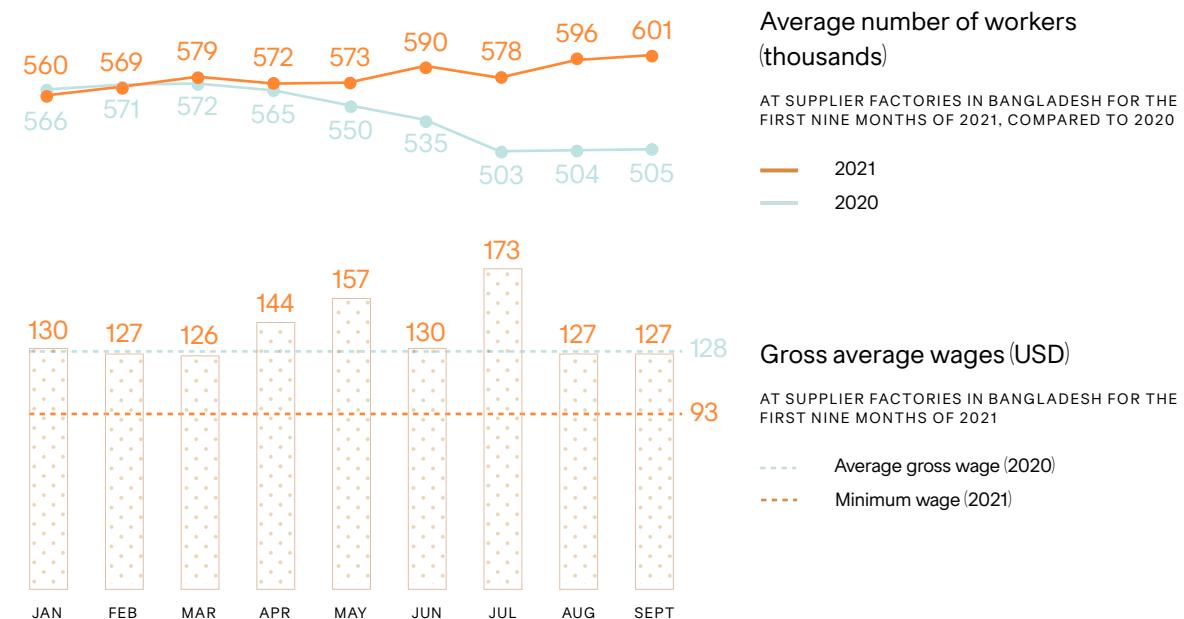
Bangladesh

The number of workers and gross average wages increased compared to 2020. The increase in worker numbers was largely due to an increase in orders following the 2020 decline in the wake of the Covid-19 pandemic.

The uptick in orders also supported the increase in gross average wages paid during the first nine months of the year, compared to 2020. There was

a brief period of factory closure in July as part of Government measures in response to Covid-19, but this did not have a significant impact on worker wages.

The next national minimum wage revision in Bangladesh is due in 2023. In 2021, the national standard 5% annual wage increment was implemented for workers who had been working for a supplier company for more than a year.



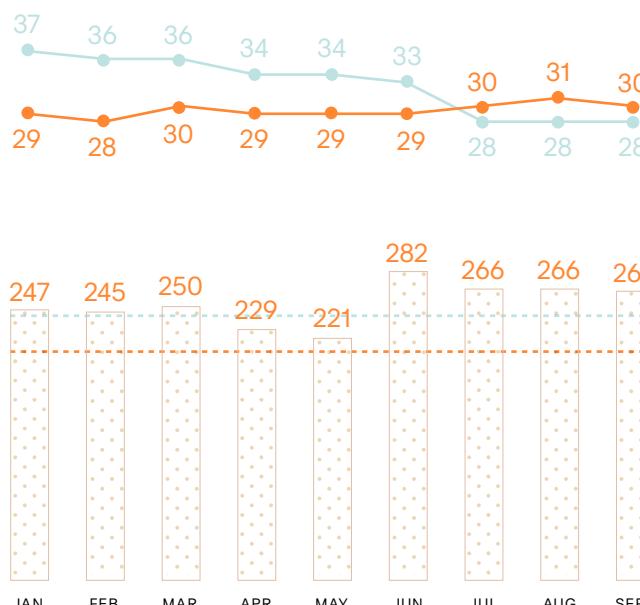
¹) Worker data covers workers at manufacturing (tier 1) factories for all commercial product types that have shared complete worker datapoints with H&M Group for the equivalent months in 2021 and 2020.

Fair jobs in our production supply chain

Cambodia

In response to Covid-19, the Government imposed a city lockdown from mid-April to May 2021, impacting more than 40% of the H&M Group supply chain in Cambodia. Legally, employers were not required to pay workers during this period, although the Government encouraged factories to negotiate with workers and pay workers per their agreed amount. Despite these challenges, gross average wage was consistently above the minimum wage.

As the industry recovered, the total number of workers grew to surpass the number of workers



the previous year during the first nine months of 2021. This was also enabled by the high vaccination rate in Cambodia, which allowed stability of operation.

The Government continued to implement a directive in which workers suspended due to supply chain issue received USD 30 per month from the employer and an additional USD 40 per month from the Government. The latter amount is not included in the data below, as transfers were made directly to workers and cannot be verified.



AT SUPPLIER FACTORIES IN CAMBODIA FOR THE FIRST NINE MONTHS OF 2021

Average gross wage (2020)

Minimum wage (2021)

Mainland China

Compared to 2020, the situation for factories improved due to a lessening impact from Covid-19. Gross average wages increased over the first nine months of the year, consistently above the minimum wage, and higher than in 2020. There was a dip in wage in February as a result of the annual Chinese New Year Holiday.



AT SUPPLIER FACTORIES IN MAINLAND CHINA FOR THE FIRST NINE MONTHS OF 2021

Average gross wage (2020)

Minimum wage (2021)

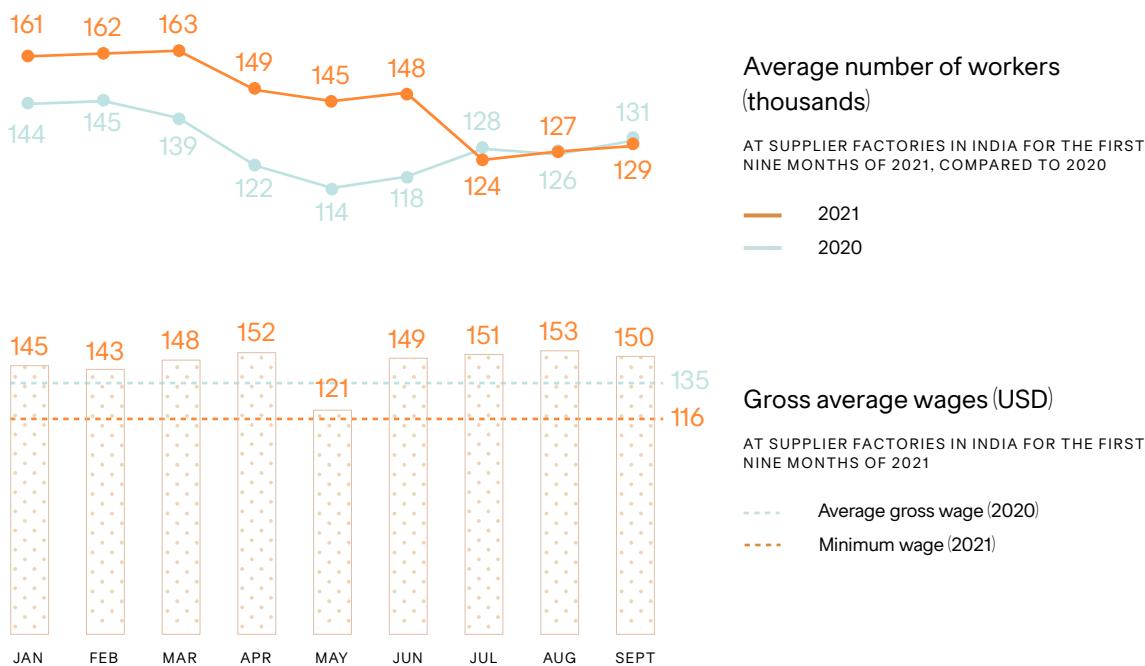
Average worker numbers increased compared to 2020, with a slight decrease in February partially due to the Chinese New Year Holiday (a trend seen every year). Overall, total employment levels followed normal fluctuations in business patterns.

Fair jobs in our production supply chain

India

In response to Covid-19, the Government introduced full lockdown in some Southern India states in May and June, with impact felt on gross average wages in May in particular. Most factories remained fully operational during the first nine months of the year, and average gross wages overall improved compared to 2020.

However, in the state of Karnataka, wages did not increase as payments of the Variable Dearness



Allowance (VDA) — one of two components of minimum wage — was deferred by the state Government. The postponement of the VDA has since then been revoked by Karnataka High Court and manufacturers have agreed to pay VDA in arrears since April 2020 to January 2022, and pay at increased rates going forward.

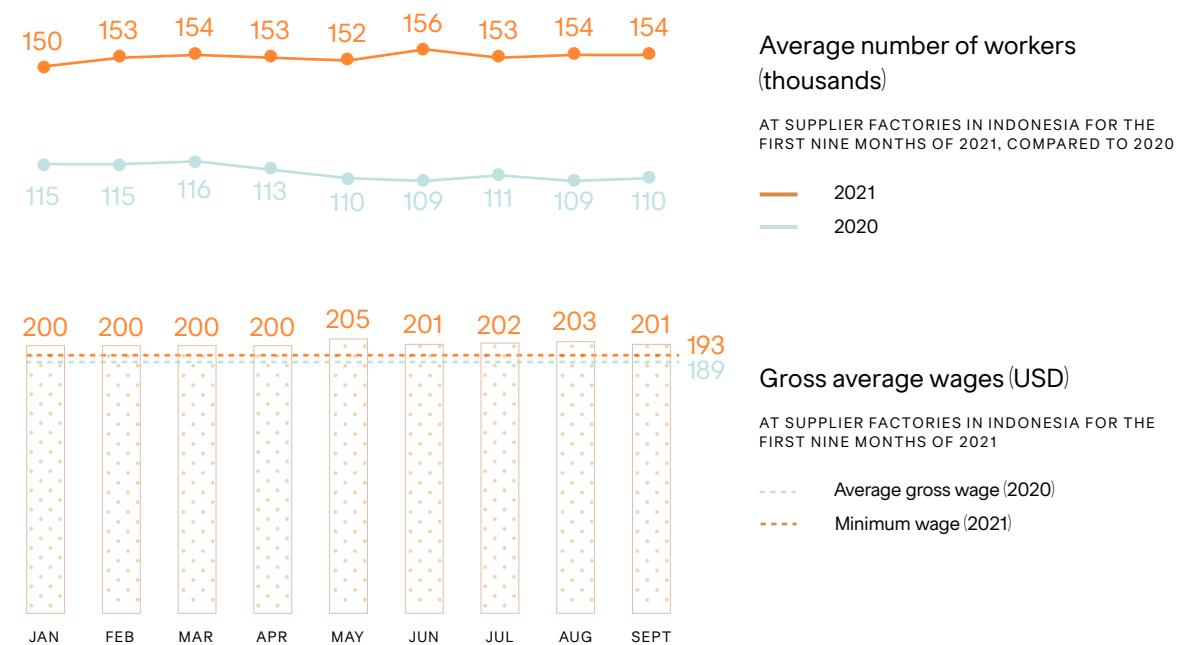
Employment levels rebounded and remained relatively stable this year, following the decline in 2020.

Indonesia

Amidst the second wave of Covid-19, the supply chain situation in Indonesia remained relatively stable. At the beginning of the year, 85% of facilities maintained full operation, with 15% in partial operation. The recovery process continued throughout the year, with full operation increasing to 97%. No factories in the H&M Group supply chain were fully closed in 2021.

Gross average wages show a consistent and increased development for the first nine months of 2021. Overall, wages remained in line with local minimum wage regulations, which are formed at the regional level.

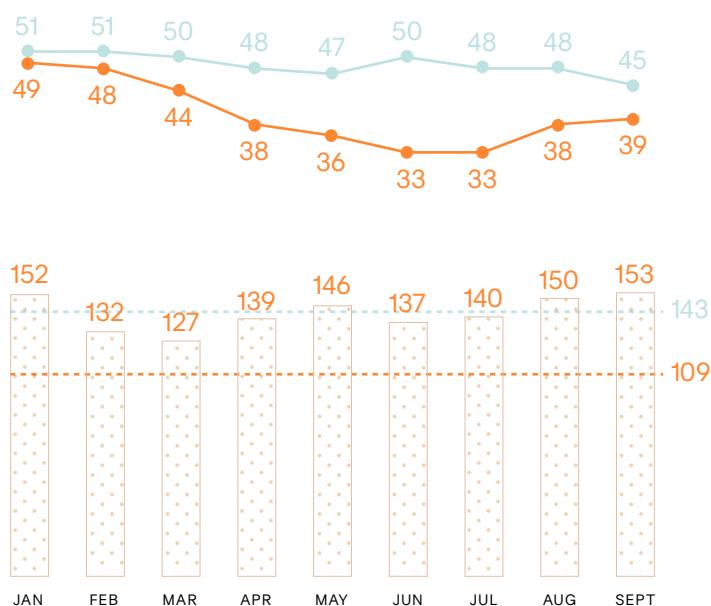
Compared to 2020, the number of employed workers increased significantly and remained consistent for the first nine months of the year.



Fair jobs in our production supply chain

Myanmar

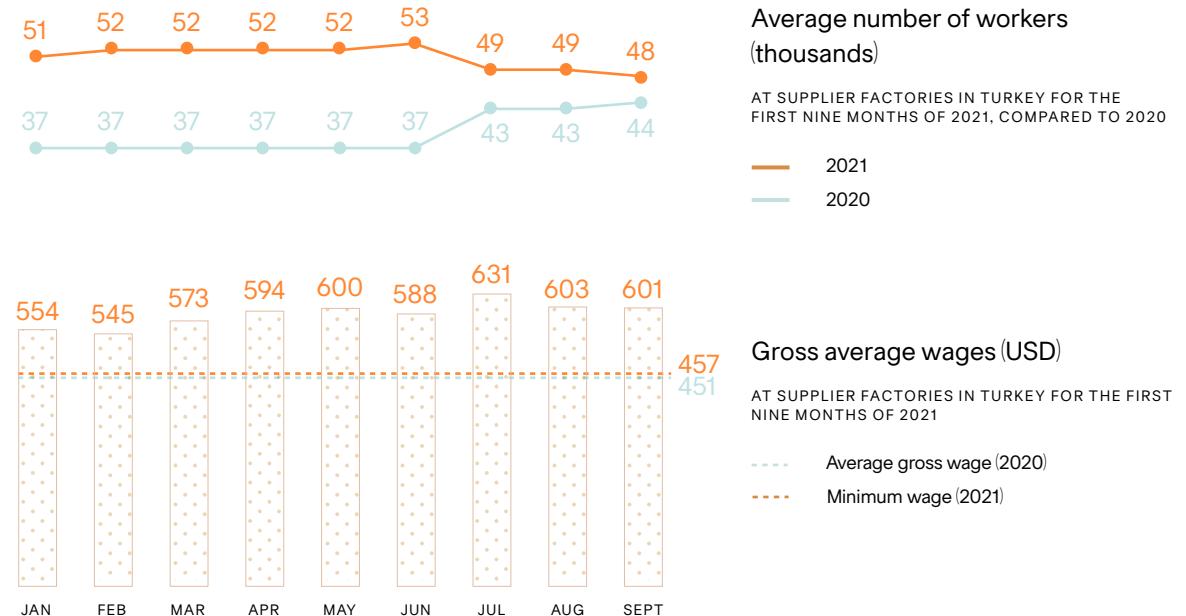
The current situation in Myanmar remains uncertain and has, together with the third wave of Covid-19, impacted factories and workers throughout the year. The worker attendance rate was significantly impacted at the beginning of the year as a direct consequence of the coup on 1 February 2021, with an accompanying negative effect on the gross average wage.



Despite the impact on factory operations, wage levels remained above the minimum wage. Worker attendance recovered to some extent at the end of the year, but still stayed below the 2020 monthly average.

Turkey

Because of Covid-19, approximately 85% of the factories in the H&M Group supply chain reported not working at full capacity between January and June. Workers in factories affected by Covid-19 benefited from Government subsidies, defined by each worker's specific circumstances. By June, Government subsidies ended, and workers were paid fully by facilities even in cases where the factories were only partially operational. This had a slight negative effect on average wage levels during the first six months of the year.



Overall, average gross wages for the first nine months of the year improved significantly compared to 2020. The year-on-year average wage for the first six months increased by more than 29%.

The total number of workers rose compared to 2020 and remained at a steady level during the first nine months of the year, despite the impact of Covid-19. A moderate decrease was noted from July onward, following the end of the ban on dismissal of workers introduced by the Government during the peak period of Covid-19.

Supply chain management

As a global fashion company with an extensive supply chain, we have a responsibility to manage our supply chain impacts. We work with suppliers to move beyond compliance and towards continuously improving environmental and social performance. We have the most influence where our relationships are strongest. That's why we focus on building long-term partnerships with suppliers who share our vision for a more sustainable industry.

Our [Sustainability Commitment](#) outlines our expectations. This includes compliance with minimum requirements and international standards, and the aspiration to go beyond compliance for lasting impacts. We require all suppliers and business partners to sign and adhere to our Sustainability Commitment and our [Code of Ethics](#).

How we describe suppliers

Our supply chain 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 supplier tiers can be involved in the same production stage. We work most closely with tier 1 and tier 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 and fabric dyeing and printing factories.

Read more about our [supplier tiers](#).

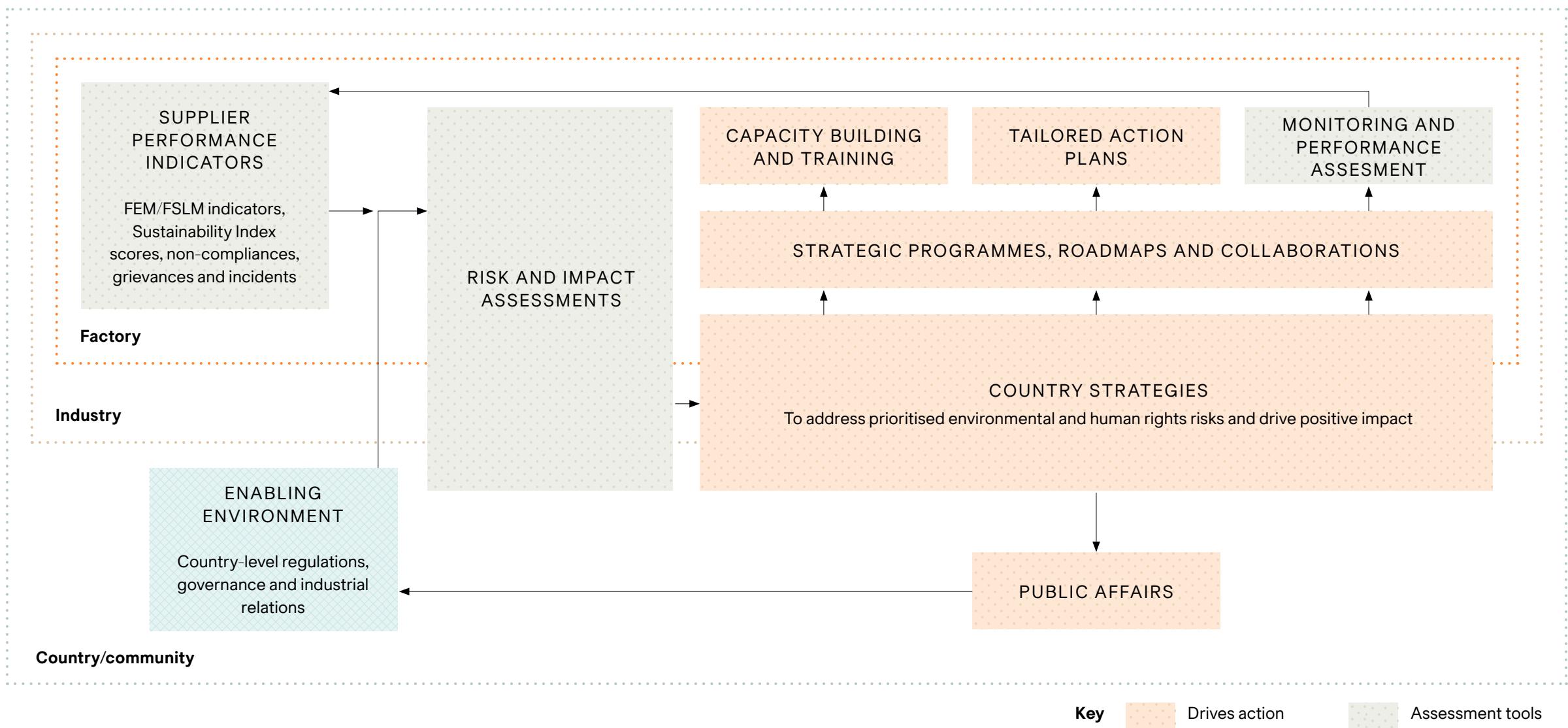
We monitor compliance and measure performance using our [Sustainable Impact Partnership Programme \(SIPP\)](#). We use SIPP to support suppliers in raising environmental and social performance while encouraging them to take ownership of their sustainability agenda. SIPP includes:

- **Minimum requirements.** Assessments for new suppliers and ongoing follow-up checks.
- **Self-assessment and validation.** Self-assessment through 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.** Identifying priority areas and setting goals for improvements. Actioned through targeted support or wider topic-based programmes.
- **Grievance mechanisms and worker voice.** Ensuring effective opportunities for workers to report concerns and have their voices heard.
- **Dealing with incidents.** Recording and investigating potential incidents. Following up confirmed non-compliance cases with a letter of concern and corrective action plan.



Supply chain management

Our supply chain management ecosystem



Supply chain management

Progress: supplier relationships

— We integrated sustainability KPIs into our Sustainability Index (SI) — the set of internal metrics we use to gauge overall supplier sustainability performance. We evaluate suppliers annually using industry tools and Group specific performance data on social and environmental impacts. High performing suppliers are rewarded with increased business opportunities, incentivising them to improve. Our SI is weighted equally between environmental and social performance:

— **Environmental:** GHG emissions, water use and chemicals.

— **Social:** wages, health and safety, inclusion and diversity, and industrial relations.

Aligning the SI more closely with our sustainability strategy has been an ongoing project, so we're pleased to have reached this milestone. This will improve our ability to select suppliers who share our commitment to sustainability.

— We continued adapting to Covid-19 disruptions, completing a mix of onsite and offsite assessments and verifications for SIPP, Higg FEM and Higg FSLM, depending on local restrictions. We prioritised higher-risk suppliers.

— We further integrated the most important aspects of supplier performance into the responsibilities of our business teams,

strengthening the link between supplier performance and our purchasing decisions.

— We participated in the ACT purchasing practices review. Read more in [Fair Jobs in our Production Supply Chain](#).

Progress: industry tools & standards

— We continued contributing to the development of the [Social & Labor Convergence Program \(SLCP\)](#) tool and common scoring system within FSLM. As an FSLM strategic council member, we're working in partnership with brands, manufacturers and [Better Work](#) to improve labour conditions in the apparel and footwear industries.

— We're participating in the SAC's working group to integrate the Higg Facility Modules into the On-Product Transparency programme methodology. Read more about [on-product transparency](#).

Progress: supplier assessment & performance

— We transitioned to third-party verification for the Higg modules. Last year we set a goal for 100% verification of FEM and FSLM assessments

Higg Index results

	TIER 1		TIER 2	
	SUPPLIER FACTORIES	THIRD-PARTY VERIFICATIONS	SUPPLIER FACTORIES	THIRD-PARTY VERIFICATIONS
FEM	894	878 (98%)	337	329 (98%)
FSLM	883	850 (96%)	332	311 (94%)

FEM scores – participating tier 1 and 2 supplier factories

	2019	2020	2021
Overall score (out of 100) ¹	47	52	57
Based on the combined average for:			
Energy	75	82	87
Water use	62	73	76
Emissions	52	59	70
Wastewater	51	59	67
Waste management	31	34	37
Air emissions	30	29	29
Chemicals	27	29	32

¹) Average of all active, approved tier 1 and tier 2 factories that have either a verified score or a self-reported score. Scores are based on the previous year's data, e.g. the 2021 overall score is based on 2020 data.

Supply chain management

by October 2021, but this has been impacted by Covid-19 preventing verification in most countries. See table for verification results.

- 100% of tier 1 supplier factories implemented SIPP. We reached our goal of 100% of tier 2 dyeing and printing factories implementing SIPP.

- We continued to enrol non-commercial goods (NCG) suppliers in SIPP. 83% of NCG suppliers and 79% of their factories implemented SIPP.

- Our FEM score across participating supplier factories was 57 out of 100. We're working with SLCP to develop an industry scoring tool for FSLM, which we'll use when it's ready.

- 225 suppliers reported minimum requirement non-compliances across tier 1 (201) and 2 (24) suppliers, leading to:

- 111 minimum requirement non-compliance cases — 72 for social, 11 for environmental and 28 for business practice issues.

- 38 letters of concern issued as part of our process to resolve human rights and environmental issues (see table opposite).

- 0 terminations of business relationships with suppliers due to minimum requirement non-compliance issues.

- We investigated and closed 5 incidents of potential non-compliance with the Code of

Ethics by business partners. Investigations led to 0 terminations and 2 written warnings. Cases concerning 2 business partners remained open into 2022.¹

Learnings

- The Covid-19 pandemic has led us to re-examine our role in supporting suppliers through periods of challenge and increasing supply chain resilience, to protect the most vulnerable people in our value chain. We've had to focus on fundamental supply chain management issues like protecting jobs and wages. At the same time, we've kept driving progress by developing industry standards and advocating for policies that enable suppliers to perform better.

Future focus

- With the help of our Materials team and Business Tech function, we'll extend our supply chain management approach beyond tier 2. This will enable us to better trace the impacts of our products and extend our influence through the supply chain.

- We will continue to align our strategy with industry tools like Higg FEM and FSLM to drive impacts through industry collaboration.

¹⁾ See page 72 for an assurance statement relating to these data points.

Letters of concern issued to suppliers for non-compliance with minimum requirements²

ISSUE	LETTER OF CONCERN TOPIC/S	2018	2019	2020	2021 ^{3,4}
Health & safety	Legal licences, emergency planning, fire safety	26	18	3	2
Child labour	Child labour	2	0	0	0
Fair living wage	Compensation, minimum wage, overtime compensation	39	63	4	2
Freedom of association & collective bargaining agreements	Worker involvement & communication	2	7	2	2
Social security, forced labour, modern slavery	Recruitment & hiring	8	8	3	1
Discrimination & harassment	Worker treatment & development	5	2	0	1
Access to water	Water use, waste water	7	7	4	7
Environmental	Energy, chemicals	6	4	1	4
Other	Use of undeclared units, transparency	33	24	11	19

²⁾ Tier 1 supplier factories.

³⁾ 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 has resulted in significantly lower minimum requirements non-compliance

cases, reiterating the importance of alternative due diligence approaches, including workplace dialogue and effective grievance channels for workers to raise issues.

⁴⁾ Figures based on 2021 data up to end of Q3.

How we report

Scope

H&M Group produces an annual sustainability performance report that covers sustainability strategy, policies, goals, programmes and performance data for the global group operations of H & M Hennes & Mauritz AB (also called H&M Group in this report). Our 2021 reporting includes seven H&M Group brands (H&M, COS, Weekday, Monki, H&M HOME, & Other Stories, ARKET and Afound), as well as wholly or partially owned subsidiaries during the financial year from December 1, 2020 to November 30, 2021, unless stated otherwise. See our [Annual and Sustainability Report 2021](#) for a full list of entities.

Our sustainability reporting includes our [Annual and Sustainability Report](#), which contains our Statutory Sustainability Report, as well as our Corporate Governance report and our Financial reports. This is complemented by this [Sustainability Disclosure](#), reporting indexes and supporting web content. Read more about [how we report](#) and our [material issues](#), including how we identify and update them, and the boundaries of each issue.

Frameworks

Global Reporting Initiative (GRI). This report is prepared in accordance with the revised [Universal GRI Standards](#). We will use the new sector standard as soon as it is available. Download our [GRI index](#).

Task Force on Climate-Related Financial Disclosures (TCFD). Our risk assessment follows the TCFD recommendations. Read more in our [Annual and Sustainability Report](#).

UN Guiding Principles Reporting Framework. We were one of the first companies to report on human rights in line with the UN Guiding Principles Reporting Framework in 2015. Our regular review of [salient human rights issues](#) complements our materiality assessment. Find more detail of our [reporting approach](#).

UN Global Compact and CEO Water Mandate. We are signatories to the UN Global Compact and named as a UN Global Compact LEAD for our ongoing commitment to its Ten Principles for responsible business. Our annual sustainability reporting serves as our Communication on Progress for the UN Global Compact and CEO Water Mandate.

Our emissions data

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](#).

UN Sustainable Development Goals

The [United Nations Sustainable Development Goals \(SDGs\)](#) and the 2030 Agenda for Sustainable Development guide our collaborative mindset to addressing social, environmental and economic challenges. We are part of the [Business Call to Action](#), which aims to accelerate progress towards these goals.

Our relationship with the UN SDGs

GOAL	DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH PARTNERSHIPS
 1 No poverty	Fair & Equal	•	
 2 Zero hunger		•	•
 3 Good health & well-being		•	
 4 Quality education		•	
 5 Gender equality	Fair & Equal		•

GOAL	DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH PARTNERSHIPS
 6 Clean water & sanitation	6 Clean water & sanitation	Circular & Climate Positive	•
 7 Affordable & clean energy	7 Affordable & clean energy	Circular & Climate Positive	•
 8 Decent work & economic growth	8 Decent work & economic growth	Fair & Equal	•
 9 Industry, innovation and infrastructure	9 Industry, innovation and infrastructure	Leading the Change, Circular & Climate Positive	•
 10 Reduced inequalities	10 Reduced inequalities	Fair & Equal	•
 11 Sustainable cities & communities	11 Sustainable cities & communities		•
 12 Responsible consumption & production	12 Responsible consumption & production	Leading the Change, Circular & Climate Positive	•
 13 Climate action	13 Climate action	Circular & Climate Positive	•
 14 Life below water	14 Life below water	Circular & Climate Positive	•
 15 Life on land	15 Life on land	Circular & Climate Positive	•
 16 Peace, justice and strong institutions	16 Peace, justice and strong institutions	Fair & Equal	•
 17 Partnerships for the goals	17 Partnerships for the goals	Leading the Change, Circular & Climate Positive, Fair & Equal	•

Auditor's report

Auditor's Assurance Report on specified sustainability information in H & M Group's Sustainability Disclosure 2021 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 2021 report', 'Material Issues 2021', 'Materiality Matrix 2021' and 'Stakeholder Engagement 2021' with regards to the below disclosures referred to in the GRI index that can be found in the 'GRI content index 2021'. Reporting principles can be found in 'How we Report 2021'.

— Approach to stakeholder engagement (Disclosure 2-29), reported in 'Stakeholder Engagement 2021', 'Material Issues 2021' and on pages 10-11 in the 'Sustainability Disclosure 2021 report'.

— Process to determine material topics and list

of material topics (Disclosures 3.1, 3.2), reported in 'Material Issues 2021', 'Materiality Matrix 2021', 'How we report 2021' and on pages 49 and 70-71 in the 'Sustainability Disclosure 2021 report'.

— Energy:

Energy consumption within the organization and percentage of renewable energy (Disclosure 302-1), page 23 in the 'Sustainability Disclosure 2021 report'. Energy intensity (Disclosure 302-3), page 23 in the 'Sustainability Disclosure 2021 report'.

— Emissions:

Direct (Scope 1) GHG emissions (Disclosure 305-1), page 22 in the 'Sustainability Disclosure 2021 report'. Energy indirect (Scope 2) GHG emissions (Disclosure 305-2), page 22 in the 'Sustainability Disclosure 2021 report'. Other indirect (Scope 3) GHG emissions, limited to transportation and garment production (part of Disclosure 305-3), page 22 in the 'Sustainability Disclosure 2021 report'.

— Materials:

Materials used by weight or volume, limited to cotton and top three recycled materials (part of Disclosure 301-1), page 31-32 in the 'Sustainability Disclosure 2021 report'.

— Anti-corruption:

Confirmed incidents of non-compliance with the Code of Ethics and actions taken (Disclosure 205-3), reported on page 56 in the 'Sustainability Disclosure 2021 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 70 in the Sustainability Disclosure 2021 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 *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.

Auditor's report

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of H&M 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 2021 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 2021 report', is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm 25 March 2022
Deloitte AB

Didrik Roos
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

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
Laura.Cars@hm.com.

We appreciate your feedback.

Thank you