

H&M Group

Sustainability Performance Report 2020

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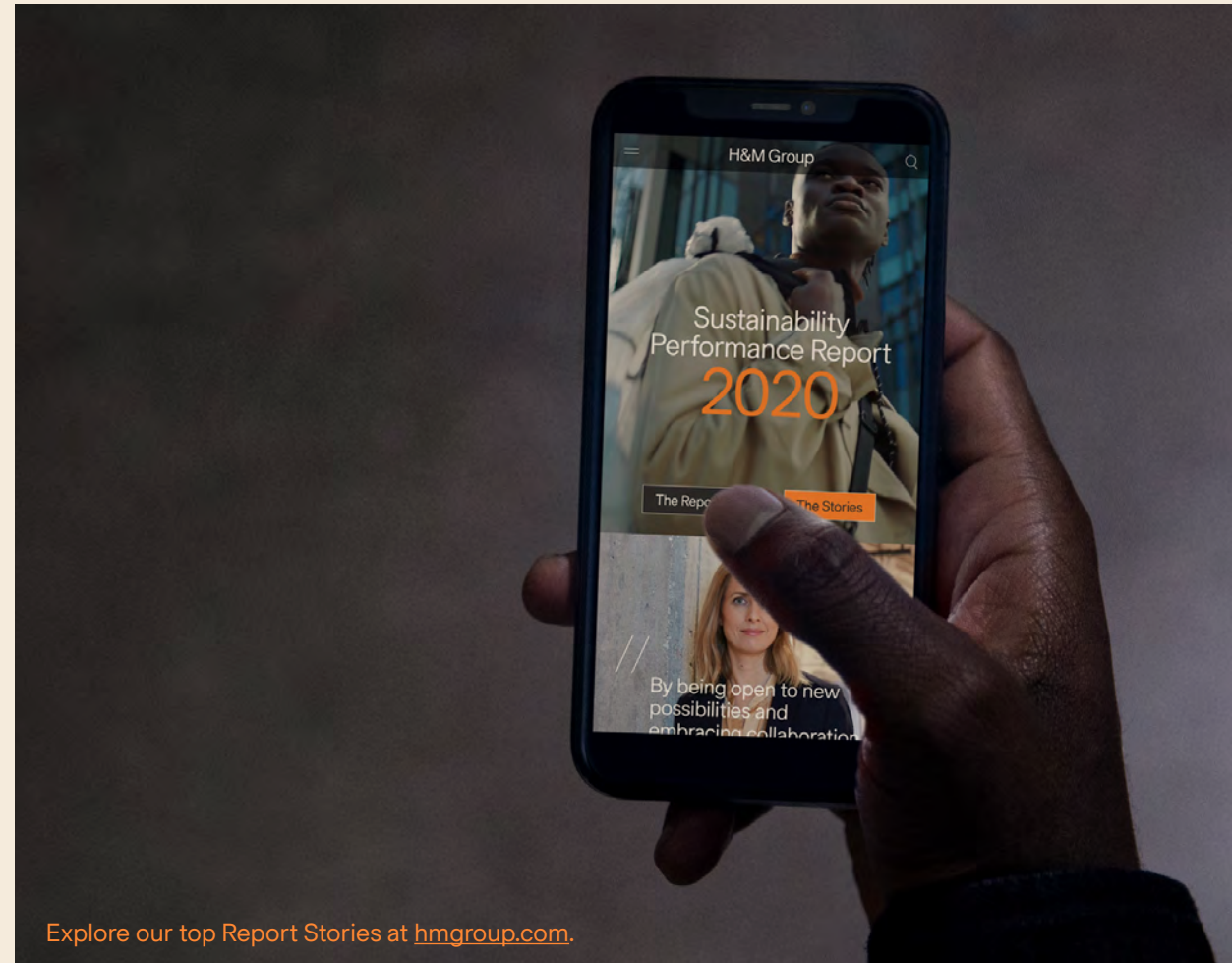
— About this report

Our vision has always been to democratise fashion. Today, that means making sustainable fashion available to all. This won't happen overnight, but one way we can speed up the process is by openly and transparently reporting on our progress and challenges, and encouraging others to do the same. It's a vital step towards changing our company and industry for the better. Our reporting includes:

- This **Sustainability Performance Report**, with information about strategy, goals, programmes, and performance data.
- **Report Stories**: dive into immersive highlights from our work during 2020. Follow links to hmgroup.com across this report.
- **External reporting initiatives**: Global Reporting Initiative and UN Guiding Principles [indexes](#), and Task Force on Climate-Related Financial Disclosure in our [Annual Report](#).
- **Supporting web content** providing further detail on specific sustainability issues. Find links from this report.
- Our [Annual Report](#), which includes our **Statutory Sustainability Report**.

This report summarises our goals and performance in 2020. It provides a transparent account of our progress, as well as learnings and challenges.

We've detailed how the COVID-19 pandemic affected our business, and how we responded.



— Letter from our CEO



Helena Helmersson
CEO, H&M Group

We can all acknowledge this past year has been a very unpredictable and challenging one. While we are hopeful for the future, our day-to-day existence is still very much affected by the impact the pandemic has on us all. Thanks to the efforts of our talented and committed colleagues, we have not let circumstances discourage us from staying true to our values, pursuing our goals and meeting our customers' evolving needs.

Although we have made good progress advancing our sustainability agenda, the last 12 months have further highlighted the importance of sustainability and the need to accelerate this work. We all need to play our part in transforming our industry into one that is genuinely built around circularity and social justice. While I know we have much work to do, I am inspired by what we have achieved so far and confident H&M Group can continue leading this change.

A key part of our transition to a more circular fashion future is to make sustainable products and services more accessible, inspiring and affordable to our customers. This will lead to both strengthening our current relationships with our valued customers as well as attracting new ones. It will expand the lifecycle of products whilst making our business more resilient as we move into the next decade.

During 2020 we have taken many positive steps. We've embraced new breakthroughs in fabric recycling technology —

including the world's first collection using the mixed-fibre textile recycling Green Machine, and the first commercial products made from Renewcell's Circulose®. These innovations show that garment recycling can be scalable and commercially viable, bringing us closer to our new goal of using 30 per cent recycled materials by 2025. To help us reach this and other circular goals, we're embedding the principles of circularity into the design process and continuing to test and scale pioneering materials — including some made from textile, plastic and agricultural waste. With the expansion of the second-hand platform Sellpy into new markets, and through launching new services such as COS Resell and Arket Rental, we are helping customers access and enjoy fashion in a more sustainable way.

We stand by our responsible purchasing practices and agreements with suppliers, and are in close dialogue with them in order to support their businesses during these uncertain times. At the same time, H&M Group's updated wage strategy will take a localised approach to improving working conditions for the people in our supply chain. We've also had a big focus on advancing our inclusion and diversity work this year — including new partnerships, increased transparency, and improving representation across the business.

We are continuing to increase transparency around our sustainability plans and performance, as well as the sustainability credentials of our products. I'm particularly pleased we're pushing forward with product transparency initiatives to help our customers make more informed purchasing decisions.

Furthermore, the highly successful launch of our sustainability-linked bond in February 2021 is testament to the appetite for sustainability-driven initiatives. Not only does this type of bond create another example of transparent commitments and incentives, it also contributes to the positive transformation of the fashion industry. The bond is linked to H&M Group meeting a number of sustainability targets, such as by 2025 reducing emissions from our own operations by 20 per cent. We are also committed to reduce absolute Scope 3 emissions from garment manufacturing, fabric production, upstream transport and raw materials by 10 per cent.

There's much more to do, and our direction is clear. We'll continue inspiring and building meaningful relationships with our customers, offering more sustainable products and scaling circular business models. We want to empower everyone to be able to express themselves, to be proud of who they are and the choices they make. But we can't do this alone. We need to continue working with others and build deeper partnerships within and outside our business. Our work alongside close partners such as the Ellen McArthur Foundation, IndustriAll, WWF and the UN Global Compact, to mention a few, is vital to achieve this.

As we continue with and accelerate our own transformation with a new sense of urgency given how the world is changing, I'm excited for the year ahead. By being open to new possibilities and embracing collaboration and partnerships, H&M Group has the power to change something much bigger than ourselves. We want to achieve sustainable growth that makes a positive difference to people and the planet.



— Response to the COVID-19 pandemic

COVID-19 has devastated communities and economies across the world, affecting people in different ways. Many of us have lost loved ones, many feel lonely or uncertain about the future. And as a business we've experienced the damaging economic consequences, including store closures and job losses. People working in the fashion value chain have been particularly hard hit, with few alternative jobs available and limited social security.

The past year has accelerated changes already happening in our industry, including shifts in customer behaviour and expectations. It's hard to predict exactly how this will develop over the coming months. But it is clear that building even stronger relationships with our customers — beyond one-off transactions — and with the partners around us has been the key to getting through the pandemic and will be equally important to our recovery and future growth. Our ongoing resilience requires us to increase our focus on circular business models, co-creation and operation within the planetary boundaries.

Impacts on our work

- The pandemic led to an 18% decrease in our net sales by the end of our financial year.
- There was a delay or pause in several sustainability-related activities — including garment collection programmes, some

projects to scale innovative business models, finalising our Circular Product Development Guideline and microfibre strategy, and carrying out in-person supplier factory assessments. In addition, the development of global science-based guidelines on biodiversity through a broad partnership between various global organisations and corporations has been delayed and is expected to resume in 2021. We will adapt our biodiversity ambition to these guidelines and engage in this conversation when it resumes.

- Many store openings due in 2020 were delayed or cancelled, and we had to permanently close or refit more stores than planned.
- Supply chain impacts included factory closures and reductions in future orders. We're in close dialogue with several partners to support suppliers, with the aim of finding a sustainable, whole-sector solution.

Our response

- Despite the challenges of the pandemic, we have accelerated our sustainability work on many fronts, including setting new goals, evaluating our wage strategy, developing our work on issues such as biodiversity, continuing investments in innovation, and trialling and scaling further circular business models.



— Teamwork and partnership — with our colleagues, partners and suppliers — were central to our response to the pandemic.

— Our first priority was employee and customer health and safety, and we cooperated closely with the relevant authorities in all markets. Our global crisis team coordinated efforts, collaborating with local teams to work with colleagues, customers, suppliers, landlords and communities. Read more about how we [supported employees](#).

— To support our suppliers and work towards a more resilient supply chain, we joined the International Labour Organization’s [Call to Action](#) and we stuck to our responsible purchasing practices. Read more about how we [worked with suppliers](#).

— To support healthcare workers, we donated protective equipment or coordinated its production (with buyers paying our suppliers directly), including:

- 100,000 face masks to Spain and Italy.
- 3 million long-sleeved aprons to Sweden, alongside basic clothes for nurses and doctors to change into at work, to limit the risk of contamination from bringing their own clothes.
- 130,000 surgical masks and 1,000 coveralls to Indonesia.

Learnings

— During the pandemic, we’ve been reminded of how valuable and vulnerable the jobs in our value chain are. We’ve also seen a reduction in the negative environmental impacts caused by businesses and people. We’re determined to support job creation, strengthen social protection and build a more resilient supply chain in the wake of the pandemic, but also to [build back better](#) so that environmental impacts don’t increase with economic growth.

— By working closely with all our stakeholders, we’ve recovered more quickly than anticipated and continued to accelerate existing work to transform our business, increase our online sales and customer base, invest in sustainability, and set ambitious plans for the future.

We’ll use these lessons to continue working towards a more sustainable fashion industry. It’s difficult to know how severe the longer-term economic consequences of the pandemic will be, but our company and our industry have an opportunity to emerge from this crisis even more resilient and sustainable.

H&M Foundation actions

— [H&M Foundation](#) donated 500,000 USD to the COVID-19 Solidarity Response Fund, to support the World Health Organization’s work to prevent, detect and respond to the pandemic.

— As part of a long-term project supporting women garment workers in Bangladesh, the H&M Foundation provided emergency relief to combat the social and economic hardships of the COVID-19 pandemic on these workers and their households. This vulnerable group has been hugely impacted by the effect of the pandemic on the ready-made garments sector. Efforts by H&M Foundation’s partners CARE, Save the Children and WaterAid have reached almost 100,000 women. In addition, 1 million people in Bangladesh have been reached with messages on COVID-19 and good hygiene practices. [Read more](#) about this project.

— About H&M Group

H&M Group in 2020

Our vision is to make fashion and design accessible to everyone, in a way that's good for people, the planet, our industry and our business.

H&M Group includes eight brands: H&M, COS, Weekday, Monki, H&M HOME, & Other Stories, ARKET and Afound. We operate three other businesses — Treadler, a business-to-business initiative enabling other companies to access our supply chain to accelerate the sustainable change needed in our industry; Itsapark, our new digital marketplace for a sustainable lifestyle; and Singular Society, a new subscription-based business making responsible high-quality products accessible at the price they cost to make. We are a majority shareholder in Sellpy, an online resale platform.

Our brands and businesses offer a variety of products and services empowering customers to explore their individual style and embrace more sustainable habits. Each member of the group has its own unique DNA, but all are aligned in our shared mission to make fashion more sustainable.

Our company is connected to millions of people, communities and businesses. Through our physical stores, digital e-commerce channels and other online platforms, we reach customers all over the world. This is made possible by around 153,000 colleagues operating across sales and production markets.

187

billion SEK net sales.

~153,000

H&M Group employees.

~5,000

stores¹ in 74 markets and e-commerce in 52 markets.

1 INCLUDES 269 FRANCHISE STORES.

H&M Foundation

The H&M Foundation is an independent non-profit global foundation headquartered in Stockholm, Sweden. It is privately funded by the Stefan Persson family, founders and main owners of the H&M Group.

Founded to accelerate progress towards 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 1.5 billion SEK (200 USD million) to the Foundation.

Learn more at hmfoundation.com.

Our value chain

Our global reach brings the responsibility and opportunity to create change. We want to use our size and scale to create meaningful change towards net positive impact throughout our value chain — from design, sourcing raw materials, manufacturing, transport, sale and use of our products, through to reuse and recycling.

We have the most influence where our relationships are strongest. That's why we choose to work with those who share our values and commitment to making a positive impact. The strong, long-term relationships we build with partners — such as suppliers, transporters and landlords — help to ensure compliance with our standards while driving meaningful change.

See our supplier list [here](#).

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

708

commercial product suppliers.¹

1,603

tier 1 supplier factories.^{1,2}

1.56

million people employed by supplier factories.

How we describe suppliers

Our supply chain is complex and can contain several different levels or 'tiers', depending on the material. The two we talk about most in this report are tier 1 and tier 2 suppliers, with whom we have the closest relationships and the most influence:

Tier 1. Manufacturing suppliers and subcontracted factories, who make our products by cutting, sewing and processing.

Tier 2. Suppliers who provide the fabrics and yarns for our products, including spinning, tanning, and fabric dyeing and printing facilities.

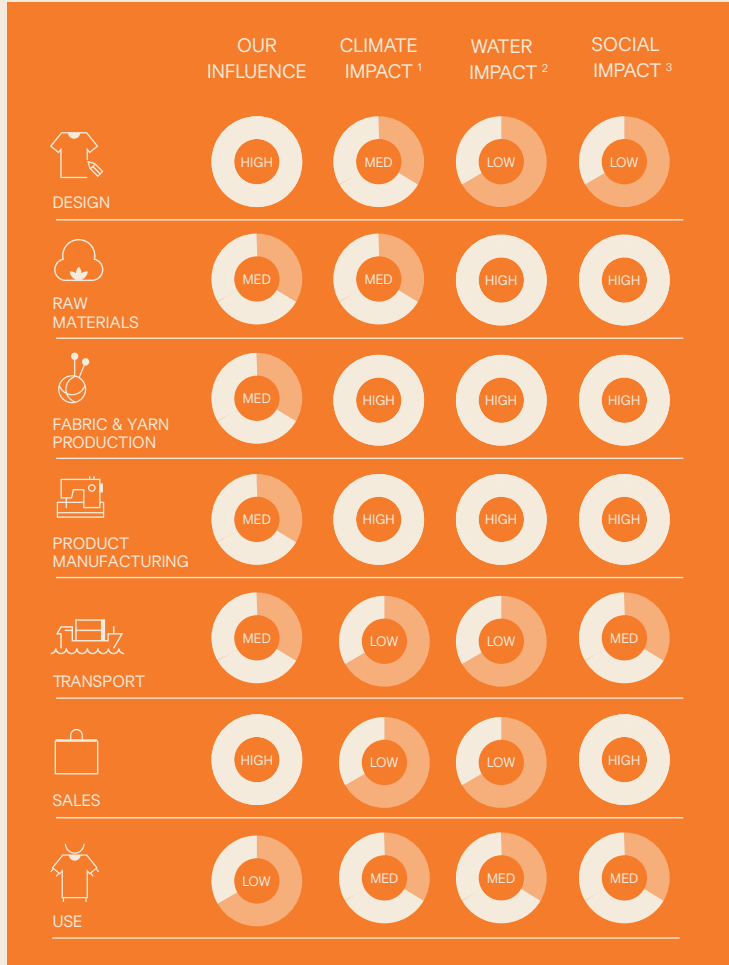
We also work with raw material suppliers — even if we don't know the location of every farm, we can influence the selection of raw materials in line with our social and environmental standards.

¹ ACTIVE APPROVED COMMERCIAL PRODUCT SUPPLIERS, AS AT JANUARY 2021.
² TIER 1 DISCLOSED FACTORIES, AS AT JANUARY 2021.

— Our value chain impacts

As a global fashion and design company, the impact of our value chain on people, communities, economies and ecosystems is significant and far-reaching. We work together with our suppliers and other partners to tackle these issues and increase our positive impact by empowering conscious decisions all along the value chain.

H&M GROUP VALUE CHAIN



- CLIMATE IMPACT:** REFERS TO GREENHOUSE GAS EMISSIONS IN EACH PART OF OUR VALUE CHAIN, TAKING ACCOUNT OF THE TYPE AND AMOUNT OF ENERGY USED, AND OPPORTUNITIES TO REDUCE EMISSIONS AS WE WORK TOWARDS OUR CLIMATE POSITIVE GOAL.
- WATER IMPACT:** REFERS TO THE IMPACTS OF THE WATER WE USE AND DISCHARGE IN EACH PART OF OUR VALUE CHAIN, TAKING ACCOUNT OF THE VOLUME AND SOURCES OF WATER, WATER QUALITY, AND OPPORTUNITIES FOR RECYCLING.
- SOCIAL IMPACT:** REFERS TO H&M GROUP'S IDENTIFIED SALIENT HUMAN RIGHTS ISSUES, AS WELL AS OUR CONTRIBUTION TO POSITIVE IMPACT ON PEOPLE ACROSS OUR VALUE CHAIN THROUGH JOB CREATION, NEW AND INNOVATIVE PRODUCTS AND SERVICES, HOW WE COMMUNICATE, AND THE WAY WE DO BUSINESS.

— External recognition

Benchmarking, indexes & recognition

CDP: H&M Group was included in [CDP's 2020 A List for climate](#), which recognises companies leading on environmental transparency and performance. Of more than 9,600 companies assessed in 2020, H&M Group was among the 273 companies recognised for climate action work.

Changing Markets Foundation Responsible Viscose Report: H&M Group was included as one of 14 frontrunners in Changing Markets Foundation's [report](#) on where the global textile industry stands in the transition towards responsible viscose.

Dow Jones Sustainability Index: H&M Group was included in the [Dow Jones World Sustainability Index](#) for the eighth year running. We ranked fourth in 2020, with a score of 70/100 (69/100 in 2019). In addition, we were listed in the Dow Jones European Index. We achieved the highest possible score for human rights, environmental reporting, social reporting and materiality. We also reached the highest score in our industry for supply chain management (92/100) and strategy for emerging markets (56/100).

Fashion Transparency Index: H&M Group ranked number one in Fashion Revolution's 2020 [Fashion Transparency Index](#), a ranking of 250 fashion brands, with a score of 73% (61% in

2019). We're pleased to have been recognised for our efforts to increase transparency, but we know this is not a substitute for performance and will continue to improve our practices.

FTSE4Good: H&M Group was again a constituent of the [FTSE4Good Index Series](#), a responsible investment index that helps investors identify companies demonstrating strong environmental, social and governance standards.

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

Sustainable Cotton Ranking: H&M Group ranked third in the [2020 Sustainable Cotton Ranking](#).

Textile Exchange Corporate Fiber & Materials Benchmark: H&M Group was recognised as one of 16 leading companies out of the 173 analysed in the 2019 [Material Change Index \(MCI\)](#).

Dagens Industri: H&M Group was ranked as the most sustainable consumer goods company in an [assessment](#) of listed companies in Sweden by Dagens Industri and Aktuell Hållbarhet.

Awards

Corporate Responsibility Reporting Awards: Our 2018 Sustainability Performance Report was named first runner up for the Best Report award. The report won the Creativity in Communications and Relevance & Materiality categories.



— Vision & strategy

Our sustainability journey

For over 70 years, we've worked to make great fashion accessible to people around the world. And we've taken significant steps to become a more sustainable company. But we need to move faster to make sustainable fashion an everyday option for everyone.

Our industry and the world around us have undergone transformative change over the last decades. Globalisation has led to growth and a more connected world. Digitisation has changed how we work and shifted customer behaviour by creating new opportunities for interaction. And now we're seeing a rapid shift in awareness and interest in sustainability: companies and customers alike are seeing their impacts on the world more clearly and learning how to behave more sustainably.

These changes have opened up new opportunities and challenges for our business. We've continued to evolve and lead our industry towards a more sustainable future that offers customers more conscious fashion choices.

2020 has brought new urgency to this transformation. The COVID-19 pandemic arrived in the wake of the accelerating climate crisis. The resurgence of the Black Lives Matter movement was a stark reminder of the inequity that still exists in the world. And ongoing political instability continues to create uncertainty about the future. These events demonstrate why

we must work even harder to move towards resilient, equitable business models.

We believe our sustainability strategy focuses on the right areas, but we need to accelerate the speed of change and develop a new mindset to achieve our ambitions at the pace required. We call this mindset meaningful growth. It's about growing in ways that make a difference to our colleagues, our customers, our business and our planet. We'll achieve this by placing our customers in the centre and integrating sustainability into everything we do.

We will grow by strengthening our core, always having a customer-centric view, and by creating further customer value. We are developing our business to grow in new ways, through new business models. For example, we're creating shared services and collaborative platforms that use the power of technology to enable our business and our industry to make more sustainable choices. And we're investing in experiences and services to engage with customers in new ways, as we invite them to be part of a circular fashion ecosystem.

By harnessing the current energy around sustainability and social justice, we can generate impact outside our own company and lead a movement that goes beyond fashion — built on partnership, purpose and the opportunity to create a better world.

With our ability to influence change, combined with our deep sustainability knowledge gained in the past years, we have the opportunity and responsibility to empower people across our value chain and lead our industry towards a sustainable future. And that's what we intend to do.

Watch our CEO Helena Helmersson discussing the future of our business at the [2020 Copenhagen Fashion Summit](#).

— Our vision

In the face of huge global challenges and the ongoing transformation of our business, our sustainability vision remains more relevant than ever: to lead the change towards circular and climate positive fashion while being a fair and equal company.

Our three sustainability ambitions are closely connected, and we cannot achieve any of them in isolation. Being a fair and equal company requires us to enable equal access to sustainable resources and solutions. Responding to environmental and health crises means tackling existing inequalities. And making progress requires us to be honest, take risks, and be willing to take the lead.

We must consider social and environmental impacts in every decision we make and fully integrate our sustainability ambitions into our business strategy, so that sustainability becomes part of everyday decisions and everyone's job.

We translate strategy into action through our Change-Making Programme: the set of tools that guide our companywide approach to delivering our sustainability ambitions. See [page 14](#).



Our Change-Making Programme

We translate strategy into action through our Change-Making Programme: the set of tools that guide our companywide approach to delivering our sustainability ambitions.



GOALS

Sustainability integrated into companywide strategic KPIs and goals, with clear ambition levels for all functions, teams and individuals.



ROADMAPS

Strategic plans, targets and actions for reaching goals supported by appropriate resource allocation and investments.



METHODS & FOLLOW UPS

Iterative processes to set goals, evaluate progress and constantly refine roadmaps, supported by structures to secure ownership.



STANDARDS & POLICIES

Guiding principles and requirements for H&M Group and our business partners.



CULTURE AND VALUES

The foundation for how we think, act, communicate and interact as we work to achieve our business and sustainability ambitions — with a shared mindset of meaningful growth.



— Engaging with stakeholders

Change happens when people act together. Our stakeholders play many roles within and beyond the complex ecosystem of the fashion industry. It's important we work in partnership with them all on our journey towards sustainable fashion. Genuine collaboration requires us to listen, to challenge and be challenged, and to openly share experiences.

Our stakeholders

— **Experts.** We work with peers, policy makers, academics and researchers, nongovernmental organisations, innovators, investors, trade unions, and multi-stakeholder initiatives to create change beyond our business. These partnerships tend to be focused on raising standards, developing ideas, and tackling regional or global challenges.

— **Business partners.** Our suppliers of commercial and non-commercial goods and services, franchise partners and online platform channels are a central part of our value chain. We work with them to understand each other's challenges and expectations, partner on new solutions and opportunities, and raise industrywide standards.

— **Our colleagues.** Our colleagues bring a diversity of knowledge and talent that contributes to innovation and inclusive products. Everyone at H&M Group has a role to play in creating a better business, and we have a responsibility to empower them to be who they want to be.

— **Our customers.** Without our customers, we wouldn't exist. To make sustainable choice more accessible, we must work with them to understand customer needs, challenges, and drivers — so that opting for lower impact fashion is a natural, affordable decision for everyone.

Read more about our [external collaborations in 2020](#) and [how we engage with our stakeholders](#).

Feedback on performance

In 2020, 96 key stakeholders participated in our annual stakeholder perception survey (350 in 2019; 133 in 2018; 124 in 2017). We're heartened by their positive feedback (see right) and grateful for their valuable insights. We are happy to have reached a higher level of trust, which we will do our best to build on further. We've also seen a positive response to increased disclosure on our strategies and impacts related to becoming climate positive across our value chain, fair jobs, and inclusion and diversity. We will continue working to improve this.

We understand that many of our stakeholders have faced a challenging situation during 2020 and could not always prioritise filling in questionnaires and surveys. This has probably played a part in a lower response rate to this survey this year. We will look to simplify the questionnaire and work to reach out to more of our stakeholders in order to capture input as widely as possible.

Key survey results in 2020 were:

— 76% say that H&M Group is taking the lead among fashion retailers for social and environmental sustainability (52% in 2019).

— 92% say that H&M Group is good or very good at listening to and incorporating stakeholder feedback in its sustainability work (71% in 2019).

— 75% say that H&M Group is a company they trust (55% in 2019).

— Respondents rating our work as good or very good on key issues:

— **Transparency:** 80% (58% in 2019).

— **Innovation:** 78% (57% in 2019).

— **Circularity:** 76% (54% in 2019).

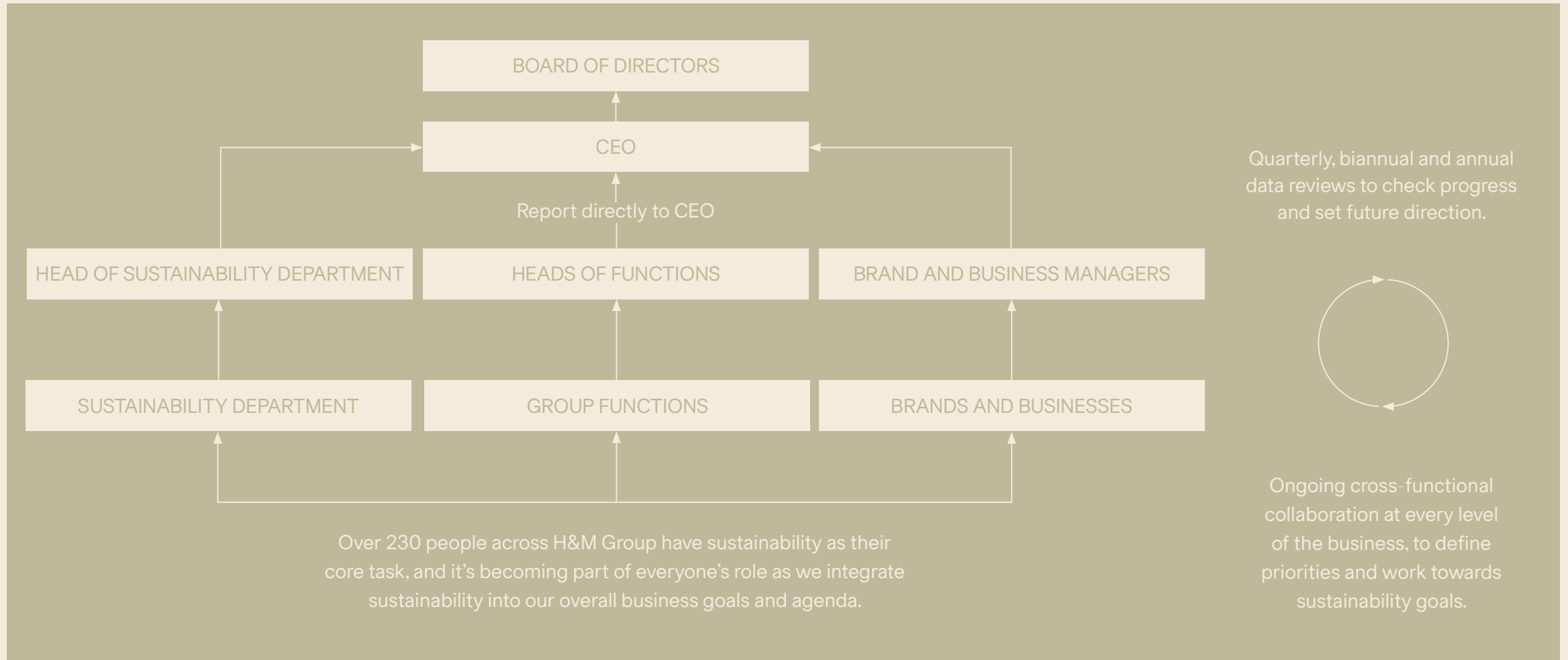
— **Recycled or sustainably sourced materials:** 73% (57% in 2019).

— **Climate positive:** 62% (45% in 2019).

— **Inclusion and diversity:** 47% (39% in 2019).

— **Fair jobs:** 43% (35% in 2019).

— Sustainability governance



— Standards & policies

Our key sustainability policies and standards

[Human Rights Policy](#)

H&M Group

OUR OWN OPERATIONS

- [Code of Ethics for Employees](#)
- [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 Compensation and Benefit Policy](#)
- [Global Labour Relations Principles](#)
- [Tax Policy](#)



OUR BUSINESS PARTNERS

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



OUR MATERIALS/PRODUCTS

- [Animal Welfare and Material Ethics Policy](#)
- [H&M Group Chemical Restrictions](#)

— Leading the Change



— 2020 highlights

7 million

customers participated in H&M brand's On Product Transparency pilot with the Higg Index.

Promoted sustainable change

in our industry by launching Treadler — enabling other companies to access our supply chain.

Ranked no.1

in Fashion Revolution's Fashion Transparency Index.

Breakthrough in recycling

post-consumer fabric without quality loss. Innovations are moving out of the lab to our brands.

Monki launched a collection using output from HKRITA's Green Machine, which recycles cotton and polyester blends. H&M brand and Renewcell released the first commercial product from Circulose®, a fibre made from regenerated cotton waste.

It's a step towards our new goal to use 30% recycled materials by 2025.

Piloted blockchain technology

to track three sustainable fibres through six levels of our supply chain.

Released new business models

such as subscription-based Singular Society which offers responsible, high-quality products at the price they cost to make.



— Our approach to Leading the Change

We're committed to Leading the Change to a better fashion future. This starts with improving sustainability performance in our own value chain and demonstrating the resilience of sustainable business. We amplify our positive impact by working with others — showing the potential for innovation and dialogue to speed transformation.

Leading the Change is a mindset. It influences everything we do and contributes to achieving our ambition to become fully circular and climate positive, while being a fair and equal company.

We focus on two key areas that maximise our impact:

— **Innovation.** Stimulating transformation by identifying, testing and scaling new solutions and business models.

— **Transparency.** Sharing clear, accurate, relevant information in an honest and accountable way. Openly sharing our progress and challenges to create accountability and encourage others to do the same. Collecting and disclosing sustainability information relating to our supply chain, products and business practices to increase visibility and enable informed choices.

An important part of our approach is openly engaging with decision makers on policy issues such as wage setting mechanisms, labour law, climate change, due diligence, circular economy and biodiversity (see right). By sharing knowledge and expertise we add value to legislation and contribute to progress beyond our industry. We believe ambitious, well-defined legislation is key for business and governments to take shared responsibility in creating sustainable change.

Engaging with policy makers

— In 2020, we supported calls for governments to focus their COVID-19 recovery efforts on sustainable growth, pledging our support for the International Labour Organization's Call to Action, the European Alliance for a Green Recovery, and the Uniting Business and Governments to Recover Better statement. During the pandemic, our CEO met regularly with EU Commissioners and the Swedish Government.

— We supported research institute [RISE](#) to engage with the Swedish Government on [responsible use of AI technology](#).

— Our memberships of multi-stakeholder platforms include [Action, Collaboration, Transformation \(ACT\)](#), [Business for Nature](#), [Global Fashion Agenda](#), [Policy Hub](#), [Sustainable Apparel Coalition](#) and the [UNFCCC Fashion Industry Charter for Climate Action](#).

— Read more about our public affairs work to increase [transparency](#) and further our [Circular & Climate Positive](#) and [Fair & Equal](#) ambitions.

— Innovation

Innovation is one way we respond to urgent environmental and social issues while meeting our customers' changing needs. We're transforming how H&M Group does business — defining new ways to design our offering with use, reuse and recyclability as the central focus. We aim to be a fully circular business where our products are reused and repurposed, again and again. We test innovations and scale those that work, focusing on:

— **New business models and ventures.** We explore products and services that increase use and offer diverse ways to access fashion, such as repair, rental, resale and remanufacture. Collaborating with external partners, our brands and H&M Group Laboratory (our internal innovation hub) test new circular business models.

— **New materials and processes.** We connect with start-ups, for example through the Global Change Award (GCA). Our Circular Innovation Lab then helps bridge the gap from proof-of-concept projects to commercial production. Through our investment arm H&M CO:LAB, we invest in companies that develop technologies and software that will enable H&M Group to lead our industry to a circular and sustainable future. We pioneer breakthroughs in post-consumer fabric recycling, such as HKRITA's Green Machine, and familiarise customers with recycling possibilities through initiatives such as the in-store Loop machine.

— **Digital transformation.** Scaling circular business models requires improved technology capabilities, data systems and processes. We explore how artificial intelligence (AI),

algorithms and 3D tools can advance our sustainability agenda, including by aligning demand with supply. Our new Business Tech organisation unites our information technology services, business development and AI teams. We apply our Responsible AI Checklist to ensure ethical questions are answered every time we initiate an AI project. **Discover more about our innovative work including 3D design with zero waste, virtual fittings and avatars in this [Report Story](#).**

— **Future of work.** We collaborate to create working conditions that improve daily life and to plan for the future of jobs in a digital world with circular supply chains. We innovate in a way that builds diverse, accepting workplaces and contributes to an inclusive society.

Progress

— We explored new business models by:

– **Launching our new business-to-business service Treadler.** This offers other companies access to H&M Group's supply chain so that they can share the benefits of our investment in sustainable product development, sourcing, production and logistics.

– **Increasing customer-facing options.** Our new sustainably driven marketplace Itsapark, launching online for Germany in spring 2021, inspires conscious fashion, beauty and



lifestyle choices. Itsapark curates a multi-brand assortment of products and services, making it easier to live more sustainably. COS partnered with circular business-to-business technology provider [Reflaunt](#) to enable customers in the United Kingdom and Germany to sell and shoppers worldwide to buy pre-owned garments on [COS Resell](#). Sellpy now resells clothes in Germany as well as in Sweden. Weekday collaborated with H&M Group Laboratory and GCA-winner [unspun](#) on a limited launch of made-to-measure jeans, created by digitally scanning customers' bodies to ensure the perfect fit (the COVID-19 pandemic delayed the full launch). ARKET partnered with [Circos](#) on a kids' clothing rental service. And in late 2020, H&M Group introduced [Singular Society](#) — a new subscription-based business offering responsibly made, high-quality products at the price they cost to make. Read more about our work to [maximise product life](#).

— We worked to increase use of new materials and improve processes by:

— **Scaling innovations.** Our Circular Innovation Lab supported [Infinited Fiber Company \(IFC\)](#) to expand production of its regenerated cellulosic fibre, [Infinna™](#). This provided commercial quantities to Weekday for a February 2021 collection made from fabric containing half [Infinna™](#) fibres and half organic cotton. Together with H&M brand, [Renewcell](#) released the first commercial product made from its [Circulose®](#) fibre, supported by investment from CO:LAB. We then expanded our [partnership with Renewcell](#). Monki launched a collection using output from the [world's first machine](#) to recycle blended textiles at scale. Read more about our work on [materials](#).

— **Changing product development.** We released Marketplace, an internal platform where our product development teams can see leftover material stocked by tier 1 and tier 2 suppliers. We expanded use of 3D tools to design garments, lay out stores and create virtual showrooms. Read more about work on [circular design](#) and [waste minimisation](#).

— We used technology to improve decision-making by:

— **Tracking how to achieve sustainability goals.** We've built a Climate Positive Roadmap to forecast how our activities across the value cycle can contribute to future carbon reductions.

— **Improving product traceability.** We supported development of the standards needed to trace materials and products through the supply chain — from sourcing to recycling — via workstreams with the [Tex.IT project](#) (coordinated by [RISE](#)) and the [UN Economic Commission for Europe](#).

— We continued to prioritise being a fair and equal company by:

— **Researching the future workplace.** We collaborated with [BSR](#) to examine the [social effects](#) of transitioning to a circular system.

Learnings

— To better understand demand for circular business models, we surveyed 3,630 customers in Germany, Japan, Russia, Sweden, the United Kingdom and the United States to understand attitudes towards different circular fashion models — from buying pre-owned clothes to repairing garments. Second

hand, vintage and pre-owned services were most commonly used (by 39% of customers), with 24% of customers using these services 'often' or 'sometimes'. This shows there's interest in reuse and resell business models. We've taken — and will keep taking — leaps forward in this area by further exploring customer demands and developing the data systems needed to support these new models through our focus on innovation and incubation within our Business Tech organisation.

Future focus

— We want everyone to have access to sustainable products and services. We'll continue developing and scaling circular business models that see products used more and reduce resource use, while generating new revenue streams. We're looking to expand resell customer options in 2021.

— We're creating a companywide responsible data strategy to address important ethical considerations related to data management and AI.

— [Less than 1%](#) of garments are recycled into new clothing. By developing a product-level information standard easily shared within our industry through digital data carriers such as radio-frequency identification tags, we'll support partners such as [I:CO](#) to scale recycling by automating fabric sorting based on material or chemical content.

— Transparency

Sharing relevant, honest and accountable information about our supply chain, business practices and products is key to creating transparency and is something we've been committed to for many years. Transparency helps our customers understand the story behind our business and products, helps us build relationships based on trust and accountability, and pushes us to do better.

We believe transparency contributes to meaningful change in two important ways:

— **Empowering informed choice.** Giving customers more information about the impacts and journey of our products so they can make informed choices aligned with their values. Reinforcing this shift towards more sustainable behaviour by enabling, inspiring and rewarding sustainable actions.

— **Accelerating sustainable change in our business and industry.** Increasing transparency across our value chain to create accountability, comparability and opportunities for collaboration that drive industrywide change.

Transparency relies on sophisticated data collection and management systems — a big focus of our recently revised Transparency Strategy. We're scaling and improving our data systems to achieve our ambition for a fully traceable and transparent supply chain.

Discover more about why 2020 was an important milestone in our transparency work in this [Report Story](#).



Empowering informed choice

Simple indicators of business and product sustainability can give customers the detail they need to make informed choices. It sounds straightforward, but it's challenging to identify meaningful customer-facing metrics, access relevant data and establish consistency across the industry. We're committed to providing comparable, trustworthy information about our business and product sustainability and are determined to continue improving in this area.

We launched our Product Transparency Solution in 2019, enabling H&M brand and H&M HOME online customers to see information about product materials, factory locations, garment care and recycling options. Now all our brands are exploring how to increase visibility of product sustainability information — testing new communication approaches and traceability pilots.

We're a founding member of the [Sustainable Apparel Coalition](#) (SAC), an industry collaboration focused on:

- Developing the Higg Index. A suite of assessment tools enabling brands, retailers, and individual facilities to accurately measure, score and compare sustainability performance.
- Creating an on-product-transparency industry standard. A method for publicly disclosing comparable information on products.

Progress: empowering informed choice

- We continued our longstanding work with SAC, sitting on the board and within working groups relating to the Higg modules and On Product Transparency.
- In 2020, H&M brand completed the Higg Brand & Retail Module. The scores will be made available to SAC members to view following verification. These scores will help compare sustainability performance across the industry.
- H&M brand conducted an On Product Transparency (OPT) pilot enabling customers to see Higg Index Facility Environment Module (FEM) scores on over 7,000 products. Seven million customers participated. While customers were interested in the information provided, it did not impact purchasing habits.
- For the first time, H&M brand made environmental impact data (via lifecycle assessments) visible to customers on products for a denim collection launched in January 2021.
- H&M Group ranked no. 1 in Fashion Revolution's 2020 [Fashion Transparency Index](#), scoring 73% (61% in 2019). We're pleased but recognise that transparency enables sustainability rather than achieves it.
- [H&M brand](#), [ARKET](#), & [Other Stories](#), [COS](#) and [Monki](#) launched new sustainability destinations on their websites — dedicated spaces to share brand-specific sustainability updates.

- Starting in Sweden, H&M brand launched Conscious Points — a new element of the existing H&M membership scheme where customers earn rewards for more sustainable actions like using garment recycling services.
- We continued to sit on the Technical Secretariat developing an EU-wide methodology to measure [product environmental footprints](#) for the apparel and footwear industry.

Accelerating sustainable change

A transparent and traceable supply chain is a foundation for ensuring high social and environmental standards. Accurate data on supplier performance shows us where improvements are needed and helps us collaborate for more systemic changes.

Our [supplier list](#) discloses information about 1,603 tier 1 supplier factories, covering 100% of relevant production volume, and 291 tier 2 supplier factories, covering 70% of relevant production volume.

We are a participant of the [Transparency Pledge](#), which supports the garment industry to reach a common minimum standard for supply chain disclosure. We hope to see more brands take the pledge.

Progress: accelerating sustainable change

- We collaborated with [Global Change Award](#) winner TextileGenesis, piloting blockchain technology to track and verify use of sustainable fibres within our supply chain. We tracked three materials through six levels of our supply chain using traceable digital fibrecoin technology.
- COS launched a traceability pilot with blockchain company VeChain to trace and share the production journey of a recycled wool sweater. Customers were able to scan a QR code on the product label for traceability information.
- ARKET added a brand-specific [supplier list](#) to its website.
- 1,184 tier 1 supplier factories and 194 tier 2 supplier factories used the Higg Index Facility Environment Module (FEM). 144 tier 1 supplier factories used the Higg Index Facility Social and Labor Module (FSLM).
- We reached our goal to achieve 100% disclosure of [man-made cellulosic fibre](#) suppliers.¹
- We continued to disclose our full apparel and footwear supplier list through the [Open Apparel Registry](#) and a list of suppliers in China through the China Institute of Public Affairs Blue Map.

Learnings

- Establishing effective data systems to track and communicate our sustainability performance is an ongoing challenge. We're working to package together consistent information from different data sources across our value chain.
- We're still learning how to share customer-facing sustainability metrics in a meaningful way. The H&M brand OPT pilot showed that customers are interested in sustainability information, but it must be easily understandable to have an impact.
- We need more data on customer behaviour to discover the best ways to enable and reward sustainable actions. Our ambition is to build an ecosystem of sustainable solutions across the lifecycle of our products that are both convenient and rewarding for customers.

Future focus

- Improving the accessibility of our sustainability performance data is a top priority for 2021. Read how our [Business Tech](#) organisation will help achieve this.
- We'll continue testing Higg On Product Transparency tools with our customers. H&M brand aims to apply the tools to selected products during 2021, but this depends on SAC fulfilling its commitment to make these solutions available to its members in time.
- As we gain new insights, we'll continue to update our Transparency Strategy and align with our Traceability Strategy to increase visibility throughout the supply chain.

¹ REPORTING PERIOD JANUARY - DECEMBER 2020.

— Circular & Climate Positive



— 2020 highlights

64.5%

of our materials are from recycled or more sustainable sources.

Expanded circular customer offerings

including COS Resell and ARKET rental service.

Set new materials goal

to use 30% recycled material by 2025.

We pioneered materials made from textile, plastic and agricultural waste in 2020.

CDP A List

recognised leadership on climate action.

14%

reduction in packaging, including 24% less plastic packaging.

100%

of our cotton is organic, recycled or sourced in a more sustainable way.

Confirmed our biodiversity ambition

— committing to a net positive impact.



— Circular & Climate Positive KPIs

Details of specific goals, including the reasons for changes in performance this year, are included within relevant sections of this chapter.

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

KPI	2017	2018	2019	2020	GOAL
% change in CO ₂ e emissions from own operations (scope 1 + 2 ¹) compared with previous year ²	-21%	-11%	+8%	+18%	Climate positive by latest 2040
% change in CO ₂ e emissions from own operations (scope 1 + 2 ¹) compared with 2017 baseline	Baseline year	-11%	-3%	+14%	-40% by 2030
% change in electricity intensity (kwh/m ² per opening hour) compared with 2016 baseline ²	-2.7%	-8.2%	-10.1%	-17.0%	-25% by 2025
% renewable electricity in own operations ²	95%	96%	96%	90%	100% by 2030
% of facilities in own operations with water-efficient equipment	51%	64%	67%	85%	100% by 2020
% of recycled or other sustainably sourced cotton (certified organic, recycled or Better Cotton) ²	59%	95%	97%	100%	100% by 2020
% of recycled or other sustainably sourced materials (commercial goods)	35.5%	56.6%	57.1%	64.5%	100% by 2030
% of recycled materials (commercial goods)	0.62%	1.4%	2.2%	5.8%	30% by 2025
% recycled packaging materials, of total packaging materials used	n/a	Baseline year	40%	50%	100% by 2030
% of supplier factories compliant with ZDHC Manufacturing Restricted Substances List	n/a	n/a	80%	88%	100% by 2020
Tonnes of garments collected through garment collecting initiative ²	17,771	20,649	29,005	18,800	25,000 per year by 2020
% of stores with recycling systems for main types of store waste ³	64%	63%	62%	64%	100%

¹ SCOPE 1 AND 2 ARE DIRECT AND INDIRECT EMISSIONS OF GREENHOUSE GASES FROM THE GROUP'S OWN OPERATIONS, E.G. WAREHOUSES.

² REVIEWED BY THE COMPANY'S AUDITORS.

³ IN 2021, THIS WASTE MANAGEMENT KPI WILL BE REVISED TO ALIGN WITH OUR NEW [CIRCULAR BUILT ENVIRONMENT STRATEGY](#).

— Becoming Circular & Climate Positive

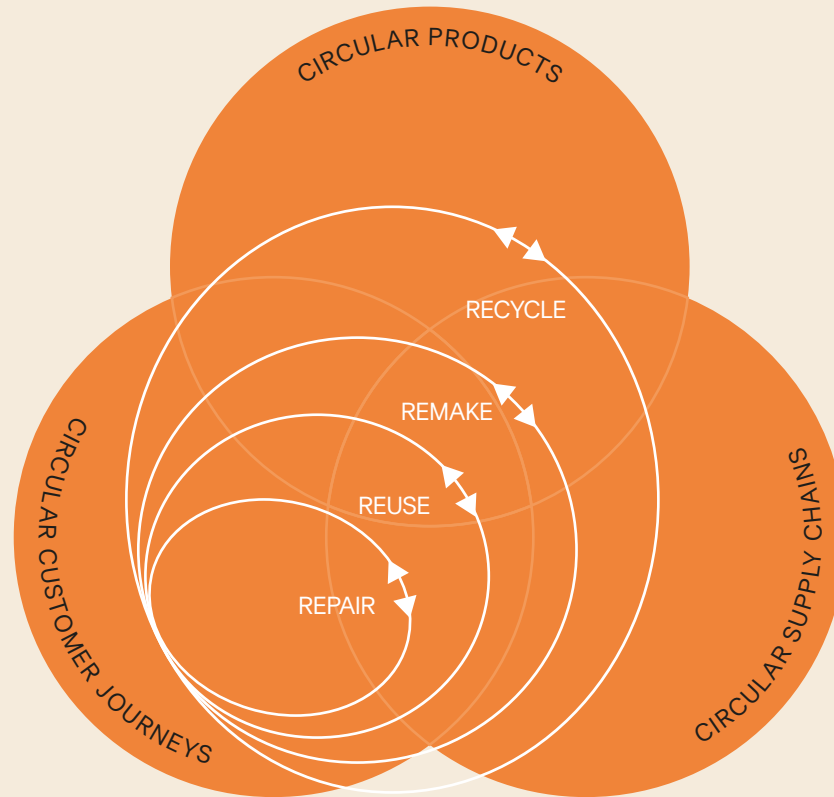
Two of the biggest challenges facing our planet today are climate change and resource depletion. Both contribute to biodiversity loss and worsen existing human rights problems. As a global fashion company, we have a significant impact on the health of our planet. Our ambition is to become a fully circular business that is climate positive by 2040 and has a net positive impact on biodiversity.

This means moving from a linear model — take, use, waste — to a circular model where we maximise the value of products and resources by reusing them more and as much as possible until finally recycling them. Our circular strategy supports the Ellen MacArthur Foundation’s [vision for a circular economy](#). It covers all parts of our business, products and customer offer, supply chain, and non-commercial goods such as packaging and items used in store interiors, offices and distribution centres. We focus on building a circular ecosystem, which in turn contributes to our climate and biodiversity ambitions:

- **Circular products:** Creating products that are made to last, from safe, recycled and sustainably sourced input that can recirculate multiple times.
- **Circular supply chains:** Fuelling systems that recirculate 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 CIRCULAR APPROACH

WE AIM TO CREATE A CIRCULAR ECOSYSTEM, HELPING US BECOME CLIMATE POSITIVE WITH A NET POSITIVE IMPACT ON BIODIVERSITY.



Action is needed at every stage of our value chain if we're to remain within the planetary boundaries defined by the [Stockholm Resilience Centre](#). We've collaborated with the [Ellen MacArthur Foundation](#) and the [Stockholm Resilience Centre](#) to produce a blueprint for a fashion industry that operates sustainably within planetary boundaries — ready to launch during the first half of 2021. We look forward to using this framework to guide our target setting and plans, and to sharing it with others.

Achieving lasting change at scale requires collaboration. That's why we partner with garment sorting and recycling company [I:CO](#) as well as organisations such as the [Ellen MacArthur Foundation](#), including its [Make Fashion Circular Initiative](#) and its [New Plastics Economy Global Commitment](#). As a signatory of the [Fashion Pact](#) we're committed — along with other leading global fashion and textile companies — to common goals on climate, biodiversity and oceans. We signed [Global Fashion Agenda's 2020 Commitment](#) to express our ambition to build circularity into every product's design and we've joined its [Circular Fashion Partnership](#).

Working with policy makers

— We support legislation that advances a circular fashion industry. In 2020, we engaged with Swedish Government officials to advocate for impactful policy on chemicals content and the German Government to ensure efficient garment collecting legislation. We participated in European Union (EU) [consultations](#) on waste shipment regulation, energy efficient building requirements, and circular economy.

— We voiced our commitment to [#buildbackbetter](#) from the COVID-19 pandemic. It's time to step up, not back. We formed a [Green Recovery Alliance](#) alongside 180 policy makers, businesses and others to call on the EU to prioritise a green recovery and to adopt a 2030 goal to cut carbon emissions by 55%. We signed [WWF's letter](#) for the fashion industry to [#buildbackbetter](#), and we [signed a pledge](#) with the [Ellen MacArthur Foundation](#) for a circular economy that achieves economic growth, restores our planet and benefits society.

— We want decisive action on climate change and continued to back initiatives in countries where we operate. For example, we signed a letter supporting the [Cambodian Government's](#) choice to invest in renewable, low-carbon energy sources over new fossil fuel infrastructure.



— Climate Positive

The climate crisis remains one of the world’s most urgent challenges, with many impacts already being felt. Scientific consensus tells us that to avoid catastrophic effects, we must not go beyond an average global temperature increase of 1.5°C from pre-industrial levels. This requires current carbon emissions to halve every decade. Without immediate, coordinated action, global communities, ecosystems and economies will suffer significant damage.

We’re committed to being part of the solution to the climate crisis. Our goal is to become climate positive by 2040, supported by reaching our reduction targets:

- Reduce absolute scope 1 and 2 greenhouse gas (GHG) emissions 40% by 2030, from a 2017 baseline — confirmed by the [Science Based Targets initiative \(SBTi\)](#) to be consistent with reductions required to keep warming to well below 2°.
- Increase annual sourcing of renewable electricity to 100% by 2030, from 95% in 2017 — confirmed by the SBTi to be consistent with reductions required to keep warming to 1.5°C.
- Reduce absolute scope 3 GHG emissions 59% per product (or 20% in absolute terms) by 2030 from purchased raw materials, fabric and garments, from a 2017 baseline.

But commitments are not enough. We must move faster to bring our performance in line with a 1.5°C trajectory across all

OUR JOURNEY TO BECOME CLIMATE POSITIVE IN PRINCIPLE

ACHIEVING OUR CLIMATE POSITIVE GOAL REQUIRES US TO HALVE OUR EMISSIONS EVERY DECADE.



emission scopes. Our ambition is to halve our emissions every decade — this becomes more challenging with every year that our emissions increase. We're more determined than ever to get there, by collaborating and investing in new solutions. Our continuing [partnership with WWF](#) supports our climate work.

Global issues such as climate change require a coordinated approach. We're part of the steering committee of the UNFCCC [Fashion Industry Charter for Climate Action](#) and a signatory of the [Fashion Pact](#). These initiatives commit us to action and working with policy makers to develop legislation for a low-carbon future.

We also work with others to improve efficiency and reduce emissions across shared transport supply chains. For example, we're members of BSR's [Clean Cargo](#) and [Sustainable Air Freight Alliance](#), [Green Freight Asia](#), [Network for Transport Measures](#) and [The Pathways Coalition](#). And we're a signatory to the [Arctic Shipping Corporate Pledge](#).

We focus our climate work on four priority areas:

— **Energy efficiency.** We aim to lead in energy efficiency by using as little energy as possible across our entire value chain.

— **Renewable energy.** We're working towards 100% renewable electricity in our own operations and raising the bar on our energy sourcing criteria. We work to increase use of renewable energy with partners and suppliers, and we are an [RE100](#) group member.

— **Circularity.** Our ambition to become fully circular is an important contributor to our climate ambitions. [Read about our approach to circularity.](#)

— **Nature-based solutions.** We'll continue collaborating to explore viable long-term options for removing carbon dioxide from the atmosphere. Much attention will be given to the role of nature-based solutions — for example, regenerative agriculture holds the potential to deliver dual climate and [biodiversity](#) benefits, as well as contributing to other UN Sustainable Development Goals.

[Read more about our approach to becoming climate positive.](#)

Progress: overall

— Our net emissions for own operations (scope 1 + 2) increased by 18%. Our total scope 3 carbon dioxide equivalent (CO₂e) emissions were 17,387 kilotonnes (1.6% decrease versus the previous year). The COVID-19 pandemic led to store closures as well as reduced orders and production over several months, lessening emissions from these sources. Since our scope 3 data is currently delayed by one year due to data availability, this will not be seen until the next report. The increase in scope 1 + 2 came from aligning our renewable energy sourcing with the new RE100 market boundary criteria that led to a decreased percentage of renewable energy and an increase in our scope 2 emissions. Shifting our overall emissions to a consistent downward trend will require continued investment in effective measures across our value chain.

— We created several cross-functional teams, focusing on mapping carbon reduction opportunities and related costs for our key climate change challenges.

TCFD assessment

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 assessment in our Annual Report.](#)

— We launched a pilot for an internal carbon pricing model, alongside a new green bond framework that offers investors the opportunity to finance sustainability-focused activities.

Progress: energy efficiency

— We reached a 17% reduction in electricity consumption per square metre and opening hour compared with our 2016 baseline. This was partly as a result of the impact of COVID-19 on our stores. We continued retrofitting LED lighting, updating 288 stores in 28 markets.

— Our overall transport emissions decreased by 12% to 442 kilotonnes CO₂e in 2020, including a reduction in air freight emissions of around 40% (largely due to a drop in air freight during the COVID-19 pandemic). Collaboration with transport and logistics company Maersk on reducing emissions brought about an estimated reduction of 13,500 tonnes CO₂e, which was also included in the total decrease.

— By the end of 2020, 757 tier 1 and 2 supplier factories were enrolled in energy efficiency programmes.¹ COVID-19 impacted supplier factory enrolment this year, but we expect emission reductions from 2020 efficiency improvement projects to reach 30,725 tonnes CO₂e. We continued to work with the Sustainable Apparel Coalition and technical service providers to develop industrywide assessment tools through the Higg Index and other platforms.

— We reviewed our approach to working with suppliers on energy efficiency. Our goal is still to enrol all tier 1 and 2 suppliers in efficiency programmes, but we will also categorise suppliers

based on their energy footprint and the amount of business they do with us. We'll work more intensively on emissions reductions with suppliers where there's the potential for biggest impact, with the overall aim of reducing supplier emissions by 20-25% by 2030 through improved energy efficiency.

— In partnership with WWF, we launched a supplier programme in India to remove potential obstacles to investing in low carbon technology. Suppliers can access favourable purchasing terms with leading manufacturers of energy efficient equipment and renewables technology, supported by financing deals. The first complete energy audit of a participating facility shows a payback time of less than six months.

Progress: renewable energy

— 90% of electricity purchased for our own operations was renewable (96% in 2019). This reduction is because we aligned our sourcing of renewable electricity with the new RE100's market boundary criteria: these were introduced mid-2019 after we'd secured renewable energy for 2020, some of which does not meet the new criteria. To achieve our 100% goal, we'll continue to work towards a balanced portfolio of energy attribute certificates, power purchase agreements on large-scale renewables projects, and rooftop solar photovoltaic.

— We joined other leading companies to form the LEO Coalition research project led by Maersk. The project will explore the environmental and commercial viability of LEO fuel — a mix of ethanol and lignin — as a potential near-carbon-neutral biofuel for shipping.

— We scaled up our use of Maersk Eco Delivery fuel — this carbon-neutral fuel made from waste cooking oil accounted for 20% of our total shipping volume in 2020.

— We continued to advance work on climate-smart delivery (including electrical vehicles and pedal cycles) and fossil-free fuels (including biogas and biodiesel). With the addition of last-mile delivery to online customers in Germany, Italy, Sweden, and the United Kingdom in 2020, 27 of our markets now have some form of climate-smart delivery.

— COS worked with seven suppliers in Turkey to buy renewable energy certificates for nine production facilities, covering September 2019 to August 2020. Approximately 45% of COS garments produced in Turkey — 13.3% of global COS garment production — were produced using renewable electricity during this period.

— We continued to work with tier 1 and 2 suppliers to install rooftop solar panels, including:

- The largest and second largest rooftop solar projects in Bangladesh, with 5.7 megawatt-peak combined capacity.

- 13 factories in China, with total capacity of around 10 megawatt-peak.

¹ THIS WILL BE OUR FINAL YEAR REPORTING THIS FIGURE, SINCE WE ARE CHANGING THE WAY WE WORK WITH SUPPLIERS ON ENERGY EFFICIENCY.

Learnings: overall

— Our cross-functional work to map emissions sources and challenges has given us many new insights and will help us prioritise future activities. We'll continue this work at a regional level in the coming year.

Future focus

— We're developing internal carbon pricing to support our emerging Climate Positive Roadmap tool. By directly connecting emissions to a carbon price, we aim to raise companywide awareness of the real cost of emissions and focus on reducing future climate impact. [Discover more about how carbon pricing will be a game changer in our climate work in this Report Story.](#)

— We'll work to implement recommendations from our cross-functional climate teams, including building a team of internal experts to support supplier energy efficiency activities, developing resources to support suppliers in transitioning to renewable electricity and bioenergy, and increasing our public affairs work on power purchase agreements and renewables policy.

— We will look to develop regenerative agriculture pilots linked to one or more of our main raw materials.



— Biodiversity

Biodiversity is the variety of all life on Earth, including plants, animals and microorganisms. It plays a vital role in supporting people, societies and economies — including our business. Water supply, crop pollination, cycles of nutrients and waste, and resilience against climate change are all essential services supported by healthy ecosystems. But biodiversity is disappearing at an alarming rate and scientists warn that the next ten years are crucial if we're to avoid losing millions more species.

Like the rest of our industry, every part of our value chain can affect biodiversity. Our biggest impacts occur in sourcing raw materials. We also have an impact through our production processes, transportation, and the life of our garments once they reach customers.

We must do more to help protect and restore biodiversity, avoid over-exploitation of natural resources, and ensure we operate within planetary boundaries. This is essential not only for the wellbeing of people and nature, but also for the resilience of our supply chain and our business.

Our new biodiversity ambition sets net positive impact as our long-term vision. This aligns with our commitment to the Fashion Pact and links closely with our ambition to become a fully circular and climate positive business — particularly our work on climate, materials, and circular business models. Read more about our approach to biodiversity.

Progress

— We confirmed our ambition to have a net positive impact on biodiversity. This includes:

- Working to prevent and reduce our overall impact on biodiversity and natural ecosystems in our value chain.
- Supporting the protection and restoration of biodiversity and natural ecosystems in line with scientific advice — which is that 50% of the Earth's surface should be protected, restored or sustainably managed by 2030.

— We signed Business for Nature's Call to Action on biodiversity, joining more than 600 other companies to call on governments to adopt policies that reverse nature loss.

— We assessed the biodiversity impact of our raw material sourcing with an external consultancy, using the results as a basis for prioritising future work. **Discover more about how our practices for responsible farming are helping to protect and preserve biodiversity in this [Report Story](#).**

— Biodiversity is a new focus for our ongoing partnership with WWF and we formed new partnerships with:

- The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services — an independent body

that aims to strengthen links between science and policy for biodiversity and ecosystems services.

– The International Platform for Insetting — a collaborative organisation for businesses implementing insetting projects. These are activities such as regenerative agriculture and agroforestry, that reduce greenhouse gas emissions and increase carbon storage while creating positive impacts for communities, landscapes and ecosystems.

– We joined the informal working group for the Taskforce on Nature-Related Financial Disclosures.

Learnings

— Biodiversity is a complex local issue with worldwide importance. The development of global guidance on goals and science-based targets has been delayed due to the COVID-19 pandemic — we'll remain engaged in this conversation as it evolves.

Future focus

— We'll continue mapping our impact on biodiversity and evaluating projects of interest, as we develop our ambition into a formalised set of actions.

— Design

Circularity starts with design. This is our opportunity to create products that last, from safe, recycled and sustainably sourced materials that can recirculate multiple times before being recycled into new resources.

Our new Circular Product Development Guideline will bring us closer to achieving the Ellen MacArthur Foundation's [circular economy vision](#) by introducing several design strategies for our teams. The guideline spans all aspects of product development — from material choice, versatility and durability through to recyclability — with the goal of sharing knowledge on circularity so we develop products that can recirculate multiple times. Our annually updated, groupwide quality and durability standards support us to [maximise product life](#).

Progress

— We're piloting our Circular Product Development Guideline by developing the proof of concept together with product teams within H&M brand. Together with partners such as the Ellen MacArthur Foundation and [Global Change Award](#) winner [circular.fashion](#), we're finalising a scoring tool to support our teams to apply this guideline.

— H&M brand and Weekday released their first denim collections made according to the Ellen MacArthur Foundation's [Jeans Redesign](#) guidelines, as part of the Make Fashion Circular

initiative. These jeans are 100% recyclable and produced using the Screened Chemistry method for selecting safer chemicals, going beyond the guideline requirements.

— Monki worked with [circular.fashion](#) to apply our new design strategies and develop the brand's first circular collection — ready for launch in 2021.

— We continued expanding use of digital tools — such as 3D design software and virtual showrooms and stores — to streamline design processes. These tools reduce the need to make and ship physical samples, saving time and resources.

Learnings

— The Jeans Redesign project showed that to secure recyclability, we need more innovation to create cellulose-based, durable alternatives to polyester thread.

— Our ambition to become fully circular requires us to rethink how we work. We can't simply add a step into the design process. Instead, we must completely shift our product development mindset and build products in new ways.

Future focus

— During 2021, H&M brand will roll out the Circular Product Development Guideline across its product assortments, while the other H&M Group brands test the guideline and determine how to integrate it into their creative processes.

— We will develop and scale additional tools that support circular design decisions. For example, we'll continue to scale use of 3D software to prototype designs and test pattern cutting optimisation with ARKET and Monki. Optimising pattern cutting has huge potential for [minimising production waste](#).

— Material choice

Circular products require carefully considered material choice. By 2030, we aim for 100% of our materials to be either recycled or sourced in a more sustainable way, including our new goal of 30% recycled materials by 2025 — to further accelerate use of recycled fibres. Our approach is guided by our [Material Ethics Policy](#).

We continue to increase the share of more sustainably sourced and recycled materials across all brands — even during the unpredictable buying patterns caused by COVID-19 — while working to improve the [traceability and transparency](#) of our supply chain. We evaluate materials using third-party verified lifecycle assessment data and external material benchmarks such as the Sustainable Apparel Coalition's Materials Sustainability Index. We verify materials using credible third-party certification schemes.

New sustainable materials and recycling innovations are fundamental to achieving our goals. Read more about [how we innovate](#) through various collaborations between our brands, our Circular Innovation Lab, our CO:LAB investment arm, winners of the H&M Foundation's [Global Change Award](#), and industry experts.

Cotton

Goal: As of 2020, we only source recycled cotton, organic cotton, or cotton sourced through the Better Cotton Initiative (BCI).

— **How?** We joined BCI in 2010 to help make cotton production more socially and environmentally sustainable. We work to strengthen the supply of organic cotton as a founding member of the [Organic Cotton Accelerator](#).

— Now that we have achieved our 2020 goal, we will continue to strengthen our cotton strategy and expand our criteria for cotton sourced in a more sustainable way.

Wood-based materials

Goal: By the end of 2025, all wood in our products and packaging will be made of [Forest Stewardship Council \(FSC\)](#) certified materials, or fibres from alternative sources such as agricultural residues and post-consumer textiles.

— **How?** Our [Material Ethics Policy](#) commits us to avoid sourcing wood-based materials from: forests with threatened high-conservation values, forest areas that have been illegally harvested or where traditional or civil rights have been violated, or from natural forests cleared for plantations or other uses.

Man-made cellulosic (MMC) fibres

Goal: By 2025, we will only source MMC fibres that are from recycled or FSC-certified sources, or from agricultural residues — and we'll only use producers with good environmental practices.

— **How?** Our new [Roadmap for MMC fibres](#) commits us to prioritise alternative MMC fibre sources, such as agricultural residues or recycled textiles.

— Through the [CanopyStyle](#) initiative, we collaborate with nongovernmental organisation Canopy and almost 200 brands to eliminate sourcing from ancient or endangered forests. We're a signatory to the [Roadmap](#) towards responsible viscose and modal fibre manufacturing. And as part of Textile Exchange and Forum for the Future's [MMC Fibre Brand Round Table](#), we work with around 50 business and civil society organisations to harness the potential of MMC fibres to offer recyclable fabric and thread options.

— We only support producers of viscose and other MMC fibres that have good environmental practices — such as closed-loop processing of water and chemicals — as part of our commitment to the [Zero Discharge of Hazardous Chemicals](#) and Canopy collaboration.

Wool, cashmere, down & mohair

— **Wool goal:** By 2025, we will only source wool from farms certified to the [Responsible Wool Standard \(RWS\)](#), from recycled or regenerated sources, or we will replace wool with other sustainable, non-animal fibres.

— **Cashmere goal:** By 2025, all cashmere will come from farms certified to the [Good Cashmere Standard \(GCS\)](#), from recycled or regenerated sources, or we will replace cashmere with other sustainable, non-animal fibres. We're a member of the [Responsible Cashmere Round Table](#), which seeks to reduce the social and environmental impacts of cashmere production in Mongolia.

— **Down commitment:** Since 2016, we source all virgin down in our products from farms that are [Responsible Down Standard \(RDS\)](#) certified.

— **Mohair commitment:** Since 2020, we source all mohair from farms certified by the [Responsible Mohair Standard \(RMS\)](#).

Leather

Goal: By 2025, all our animal-based leather will be chrome-free and originate from more responsible sources.

— **How?** The key tanneries in our supply chain are now covered by our supplier assessment programme. Since 2019, we do not source leather from Brazil owing to the high risk of indirectly contributing to deforestation of the Amazon rainforest.

— Industry collaboration is vital for improving traceability, so we collaborate with the [Responsible Leather Round Table](#).

— Due to the sustainability and ethical challenges associated with all stages of the leather value chain, we actively seek leather alternatives such as bio-based materials.

Recycled materials

Goal: By 2025, 30% of our total materials will be from recycled sources.

— **How?** We're scaling sourcing of recycled materials such as cotton, polyester, wool, MMC fibres, nylon, plastic, down, feathers, cashmere and silver. We prioritise recycling textiles into new textiles, in particular by expanding sourcing of fibres from post-consumer waste.

— Collaboration is central to accelerating use of recycled materials within H&M Group and across our industry. We partner to scale innovations in materials, for example by [working with Renewcell](#) to increase our use of its Circulose® material (made from recycled cotton waste), as well as engaging in the [New Cotton](#) project, funded by the European Union.

Progress: overall

— We achieved 64.5% recycled or other more sustainably sourced materials in 2020 (57.1% in 2019).

— H&M Group was one of 16 leading companies out of 173 analysed by the Textile Exchange's 2019 [Material Change Insights Report](#). We lead the ranking for use of organic cotton, MMC-fibres and RDS-certified down, and continue to be one of the world's biggest adopters of recycled cotton, wool, nylon and lyocell.

— We ranked third in the [2020 Sustainable Cotton Ranking](#) (third in 2019).

Progress: cotton

— We achieved our 2020 cotton sourcing goal. We're working to strengthen our cotton strategy and expand our criteria for cotton sourced in a more sustainable way.

— COS joined ARKET and Monki in only using organic cotton and recycled cotton for jeans.

— Our cotton sourced through BCI enabled an estimated:

- 377 billion gallons of water to be saved.¹
- 91,400 kilograms of pesticides to be avoided.
- 49.1 million USD additional profit for BCI farmers.²

— By participating in projects with the Organic Cotton Accelerator and other organic cotton initiatives in India during the 2019-20 crop season, H&M Group's support resulted in:

- 13,000 farmers involved in organic cotton projects.
- 1.15 million USD in premiums received by farmers, supporting investment in organic farming.³
- 100% procurement by H&M Group brands of committed volumes.

Progress: wood-based & MMC fibres

— We finalised our [MMC Fibres Roadmap](#), which describes how we'll achieve our 2025 goal (see [page 38](#)).

— We achieved our interim 2020 goals:

- 100% of our MMC fibres were sourced from low-risk suppliers, according to Canopy's [Hot Button Report](#).⁴
- All our MMC fibre producers were disclosed in our [supplier list](#).
- We began giving preference to MMC fibres made from alternative sources, such as agricultural residues.

¹ WATER SAVINGS RELATE TO BLUE WATER USE (IRRIGATION). THIS RELATES TO FARMER INPUTS, AND NO OTHER FORMS OF WATER USE.
² BCI FARMERS EXPERIENCE PROFIT INCREASES FOR A VARIETY OF REASONS, MOST COMMONLY DUE TO INCREASED YIELDS AND/OR OPTIMISED USE OF INPUTS (SUCH AS IRRIGATION WATER, PESTICIDES OR SYNTHETIC FERTILISER).

³ BASED ON A CONVERSION RATE OF 1 USD TO 72 INR.
⁴ THIS WAS REACHED WITHIN THE 2020 CALENDAR YEAR.

— H&M brand launched a Conscious Exclusive collection using Circulose®, an MMC fibre made from recycled cotton waste and developed by [Renewcell](#) with support from our CO:LAB. Building on this success, H&M Group agreed a [five-year partnership](#) to increase use of Circulose® across our brands.

— Weekday also created a collection (launched in February 2021) using Infinna™, an MMC fibre from regenerated cotton waste, developed by [Infinited Fiber Company](#) with support from our Circular Innovation Lab.

— We continued working with WWF to support responsible rattan production in Borneo, Indonesia. The project achieved its ambition to offer training and supply chain connections to local communities, with H&M HOME creating a capsule collection from FSC-certified rattan grown by project farmers.

Progress: wool, cashmere, down & mohair

— 12.1% of our wool was RWS compliant.

— We started sourcing cashmere through the [Good Cashmere Standard](#), with 13% of all our virgin cashmere from GCS farms in 2020. H&M brand, COS and ARKET aim to only purchase GCS compliant or recycled cashmere from 2021.

— In 2020, the Textile Exchange launched the [Responsible Mohair Standard](#). Going forward, we have a commitment to only source mohair from RMS certified farms.

Progress: leather

— 44% of all leather products were produced with chrome-free tanned leather, including full vegetable-tanned leather and metal-free leather (40% in 2019).¹

— We continued working with the Textile Exchange to establish the standards needed to achieve traceability of our leather supply chain.

— We continued to explore leather alternatives, such as partly plant-based [VEGEA](#) which & Other Stories used for sandals during 2020.

Progress: recycled & other more sustainably sourced materials

— Our sourcing of recycled materials more than doubled to 5.8% in 2020 (2.2% in 2019).

— Brand highlights include:

— **ARKET**: uses only post-consumer recycled cashmere since autumn 2020.

— **COS**: made padded outerwear from recycled polyester, polyamide or down in its Autumn/Winter collection for all markets where this is permitted.

— **H&M brand**: used 100% recycled polyester in its Spring and Autumn Conscious Collections.

— **H&M HOME**: released a collection of toys made from 100% recycled polyester and used recycled glass in tableware and decorations.

— New materials included:

— **Made of Air**: tested a new plastic-like material partly made from biowaste, designed to combat climate change (H&M brand).

— **Naia™Renew**: acetate fibre partly made from plastic waste (H&M brand created the [world's first collection](#) using this fibre).

— **Texloop RCOT™**: recycled cotton made from textile waste (ARKET and H&M brand).

— **Agraloop Biofibre™**: natural fibre made from low value agricultural waste (H&M brand created the [world's first collection](#) using this fibre).

— **Renu polyester™**: recycled polyester fibre made from textile waste (H&M brand).

¹ WE HAVE BROADENED OUR REPORTING SCOPE TO ALL LEATHER PRODUCTS. IN PREVIOUS YEARS, THE SCOPE WAS LIMITED TO FOOTWEAR, BAGS AND BELTS.

— We continued to support the development and testing of new more sustainable materials, through various partnerships as well as our Circular Innovation Lab and investment arm CO:LAB. This included:

- Working with [Global Change Award](#) winner [Fairbrics](#) to develop the world’s first carbon-negative polyester fibres. [Discover more about our work with cutting-edge carbon negative materials in this Report Story.](#)
- Testing bio-based, biodegradable substitutes for polyurethane foams in clothing and furniture with [Bioextrax](#), University of Borås and Muehlmeier Bodyshaping.
- Accelerating development of recycling technologies and materials sourced in a more sustainable way through engagement in the European Union projects [DEMETO](#),¹ [EFFECTIVE](#)² and [New Cotton](#).³ New Cotton, initiated in 2020, will launch clothing made of post-consumer recycled textiles — testing use of [Infinited Fiber Company’s](#) technology to create a circular textile value chain at scale.
- Launching a collection by Monki using output from the [Green Machine](#), the world’s first machine — developed by HKRITA and H&M Foundation — that can recycle mixed-fibre textiles at scale.

Learnings: overall

- Textile recycling technologies are moving towards scale but securing adequate volumes of recyclable, post-consumer textiles remains challenging. We need to establish automated sorting of waste textiles and improve availability of product-level information on chemical and material content. Read how we’re [exploring this with I:CO](#).
- During 2020, H&M Group worked with Renewcell to learn how to develop a [five-year strategy](#) to expand production of Circulose® (a material made from unusable textile waste). This first-of-its-kind partnership will help scale more sustainable materials for use across our brands.

Future focus

- The COVID-19 pandemic disrupted many of our tests of materials sourced in a more sustainable way. We’ll work to complete these and continue searching for innovative solutions to fill gaps in more sustainable options.
- We’ll work to increase options to recycle and reuse fibres from clothing gathered by our [garment collection services](#).



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.

— Microfibres

Washing garments can release tiny plastic fibres — microfibres — into water systems. These end up in oceans, where they pollute habitats and can eventually appear in drinking water and food. Microfibres are mostly released from synthetic fabrics, but the dyes and treatments used for natural materials can also shed fibres. It's a significant issue throughout the fashion industry, from material washing and processing during production through to customer product use.

We're committed to researching and addressing the issue of microfibre emissions. As part of our [approach](#), we:

- Design yarns and fabrics to minimise microfibre shedding and seek alternative materials.
- Investigate new production processes and requirements to minimise shedding.
- Provide customers with repair services and microfibre-reducing laundry bags, and support the development of laundry machine filter systems.
- Develop technologies to enable reuse and recycling.

To help the textile industry develop clothing that doesn't emit microplastics, we're part of the [MinShed](#) project led by the Swedish research group [RISE](#). And we hold associate

membership in [The Microfibre Consortium](#), which seeks to develop solutions to minimise microfibres across textile product lifecycles.

Progress

— Together with the Hong Kong Research Institute of Textiles and Apparel (HKRITA), we started our 24-month research project — A Management Tool for Microplastics from Textile Production Process. We've established an evaluation method for monitoring the release of microplastics during manufacturing. Collection of water samples from supplier factories to measure microplastic content is ongoing (the COVID-19 pandemic delayed some sample collections).

— H&M brand and ARKET continue to offer laundry bags that capture microfibres before they enter water systems.

Learnings

— Working with HKRITA, we've studied how best to take representative water samples and extract microfibres. For example, we experienced sample loss as the smallest fibres can pass through sieves. We're now testing other ways to separate microfibres.

— Garments made completely from biodegradable fabric cannot be seen as the one solution to microfibre shedding, because these often have chemical finishes added which can hinder the fibres degrading.

Future focus

— We need to find ways to prevent microfibre shedding, rather than relying on laundry bags as a long-term solution. We'll continue to strengthen our research on microfibre-free alternatives to current synthetic fibres and production techniques, and start developing a groupwide Microfibres Roadmap.

— Water

Water scarcity and quality are significant global issues: two billion people live in countries experiencing high water stress, and 80% of wastewater flows back into ecosystems without being treated. Climate change worsens these impacts by increasing the likelihood of water-related disruptions such as floods, droughts, rising sea levels and changing rainfall patterns.

Our industry and business need water, but we use too much. Clean water is a basic human right and essential for thriving biodiversity. It's our responsibility to conserve water, reuse and recycle wherever possible and keep it clean for future generations.

We've been working to reduce our water impacts across each part of the value chain for more than a decade, paying attention to global and local impacts. Our water stewardship strategy focuses on water awareness and efficiency throughout our value chain, impact measurement, and stakeholder engagement. Our Water Roadmap 2018-2022 lays out the goals and actions to deliver our strategy, supported by several tools:

— Water management requirements for suppliers, covering legal compliance and a set of minimum and aspirational requirements for water use and quality.

— Risk assessment, using WWF's [Water Risk Filter](#).

— New wastewater recycling solutions piloted and implemented in our textile production processes.

Read more about our [water strategy and roadmap](#).

Collaboration is central to our efforts to reduce water impacts. Our partnership with WWF began in 2011 and includes [water](#) as a key focus. To encourage industrywide progress on water use and quality, we work with and align our performance reporting with groups such as [Zero Discharge of Hazardous Chemicals \(ZDHC\)](#) and the [Sustainable Apparel Coalition \(SAC\)](#).

Progress

— Together with WWF, we completed a study of water risks across our production offices and river basins impacted by our value chain. This will enable us to take a contextual approach to set water targets, based on local context including hydrology, users, and levels of risk to water availability. We will set these contextual targets for H&M Group as a whole, and at the production office and facility level — with the aim to complete all target setting by 2022 to feed into our new water strategy.

— Globally, 17.6% of production water is being recycled in our supply chain, reaching our 2022 goal two years early. This was possible due to high levels of recycling adoption in countries like India, China and Indonesia. Following a successful pilot study, we worked with 19 suppliers in Bangladesh to recycle water in denim washing facilities. The study has led facilities to recycle effluent treatment plant discharge wastewater with minimal advanced treatment, reducing freshwater consumption.

H&M Foundation

The H&M Foundation has collaborated with WaterAid for the past six years, including funding SusWASH — a programme to strengthen inclusive water, sanitation and hygiene systems. Their [learning report](#) shares practical experiences, learnings and next steps.

— We achieved a CDP score of B for our water work and were recognised as one of a limited number of fashion companies to show awareness of water pollution across our whole value chain.

— Our suppliers maintained a reduction in production water consumption of 8.5% from a 2017 baseline. The COVID-19 pandemic led to facility closure and production capacity issues for many of our suppliers in 2020. This forced facilities to operate machines at lower capacities but with the same water consumption, impacting progress on water efficiency.

— 39% of facilities in the H&M Group supply chain have implemented rainwater harvesting system where feasible. We aim to increase this to 50% by 2022, while exploring options to maximise the use of rainwater in production.

— We've installed water-efficient equipment in 85% of our stores. Our goal was to reach 100% by the end of 2020, but the pandemic disrupted our efforts. We'll continue to work towards 100% in 2021.

— In Bangladesh, WRG2030 — in collaboration with stakeholders including H&M Group — has finalised the Position Paper on Valuing Water.

— [Discover more about how we are protecting precious water in this Report Story.](#)

Learnings

— The SAC Higg Facility Environment Module shows that our value chain is performing well in reducing water use and improving wastewater quality compared to our industry. But we cannot become complacent. We recognise the ongoing urgency of reducing our impacts on water quality and availability.

— Facility closure due to the pandemic impacted supplier wastewater treatment plants, many of which require continuous wastewater flow to keep the essential water cleaning microorganisms alive. We shared ZDHC guidance and detailed information from the German development agency GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), explaining how to take care of treatment plants during shutdown and reopening.

Future focus

— We'll use findings from our work with WWF to set contextual targets and country-level plans to feed into our new Water Strategy for 2023-2030. We're taking a bottom-up, localised approach to strategy development, including seeking input from suppliers and relevant stakeholders.

— The COVID-19 pandemic impacted our water programme this year and has potential implications for our suppliers' future ability to continue investing in cleaner production and water efficient machinery. We will keep working with our supply chain to overcome disruptions and make progress.

Material processing

The journey from raw materials to product involves a range of processes, including dyeing and printing. We're working towards lower-impact production processes in five areas. For **water**, reduce use, increase reuse and recycling, and reduce quantity and improve quality of wastewater. For **energy**, improve efficiency and reduce CO₂e emissions. For **chemicals**, reduce use, increase reuse or regeneration, and use Screened Chemistry green and yellow scores.¹ For **waste**, reduce waste that would normally be landfilled or incinerated. And for **workers**, no adverse health or safety effect and proper use of personal protective equipment.

We've mapped production processes for printing, dyeing and denim and assessed impacts across the areas listed above, including a lifecycle analysis for denim production. Our next step is to develop roadmaps to shift any high impact activities to lower impact — and eventually fully sustainable — production processes.

For example, H&M brand launched a Conscious Exclusive Collection using a more sustainable colouring method by We aRe SpinDye®. The closed-loop system results in 75% less water consumption, 90% less chemical usage, 30% less energy consumption, and a 30% reduction in CO₂e.

¹ [ZDHC GATEWAY](#).

— Chemicals

Progressive chemical management is an essential part of circular fashion. Our [Chemical Management Roadmap](#) commits us to zero discharge, 100% traceability and 100% toxic-free fashion.

To achieve this, we help develop and implement shared industry tools, such as AFIRM's [Restricted Substances List](#) and [Zero Discharge of Hazardous Chemicals Manufacturing Restricted Substances List 2.0](#) (ZDHC MRSL). The [H&M Group Chemical Restrictions](#) commit us to phase out additional potentially harmful substances. We hope to influence our industry to do the same. To identify safer alternatives, we use the Screened Chemistry hazard-based scoring system (a third-party toxicological assessment). We also continue to develop a shared methodology to define and assess “safer chemistry” with other brands and the chemicals industry as part of ZDHC's Safer Chemistry Task Team.

As a signatory brand in ZDHC's commitment to reach zero hazardous discharge from textile and leather supply chains, we follow the ZDHC MRSL, Chemical Management System, and Wastewater Guidelines. Alignment will make it easier for our supply chain and industry to collaborate and achieve toxic-free fashion.

Progress

— 100% of our textile and leather supply chain (553 suppliers) are enrolled in the ZDHC programme, achieving 99.9% ZDHC

MRSL compliance for wastewater and 88% compliance for chemical inputs.¹

— To lead change in our industry, we successfully [phased out the solvent DMFa](#) from synthetic leather products.

— We set a strategy to phase out potassium permanganate (commonly used to distress denim) by 2023. Using Screened Chemistry, we identified safer alternatives. We advocated for our whole industry to restrict this chemical by submitting it to the [ZDHC MRSL Submission Platform](#).

— We published our [Man-Made Cellulosic Fibre Roadmap](#), which includes chemical requirements.

— We continue to strive for progressive chemical regulatory actions together with the [ChemSec Business Group](#). In 2020, we were among the first to join its [pledge](#) calling to end use of toxic per- and polyfluoroalkyl chemicals (PFAS, used to make water and dirt repellent products). We banned PFAS in our apparel, homeware and shoes in 2013, and in H&M Group branded cosmetics in 2018.

— We began participating in [Mistra SafeChem](#), a research programme using green chemistry to develop new chemicals designed to minimise health and environmental impacts.

Learnings

— Reaching 100% MRSL compliance will take time. We continue to work towards our goal, and efforts by our suppliers and the chemicals industry to certify and list products' chemical content on the ZDHC Gateway are ongoing.

— Collaboration is vital for reaching our goals. For example, by partnering with IKEA we're unlocking ways to optimise chemical testing programmes and develop the science-based test strategies that will enable safe usage of recycled textiles.

Future focus

— We've made good progress working with our industry to ensure toxic-free textiles and leather. We'll set up collaborations for other supply chains, such as home hardgoods.

— There is an urgent need to phase out endocrine disrupting chemicals — substances that interfere with the hormonal system. We've mapped the potential risks of these substances (as [identified by ChemSec](#)) in all our products.

— We welcome the new [European Union Chemicals Strategy](#). Our intention is to push for meaningful chemical regulations that can change our industry for the better.

¹ COMPLIANCE TRACKED USING THIRD-PARTY TOOLS CLEAN CHAIN AND BVE3.

— Packaging

Packaging is essential for getting products to our stores and customers in good shape. But it creates waste and uses valuable resources unless designed and reused in a circular way.

The goals in our [Circular Packaging Strategy](#) commit us to minimise the environmental impact of packaging, especially when plastic is involved. The journey to circular packaging starts with design, so we've created and launched a [Circular Product Development Guideline](#) to support all teams working with packaging across our organisation. Our procurement and product development functions follow our internal Material Guideline and our Restricted Substances List for Packaging Suppliers, which bans use of potentially harmful chemicals.

Our packaging goals are:

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

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

Plastic packaging remains one of our priority concerns. We're determined to address plastic pollution as a [New Plastics Economy Initiative](#) member and a signatory to its [Global Commitment](#). And by signing the [Fashion Pact](#), we've committed to reducing ocean pollution. As part of Canopy's [Pack4Good](#), we're [committed](#) to responsibly sourcing wood-based packaging, with a preference for post-consumer recycled content.

Progress

- We reduced our total packaging volume by -14%, including a -24% reduction in our plastic packaging (comparing 2019 with 2020¹).
- By analysing groupwide packaging data, we identified priority actions. Single-use, non-recyclable plastic hangers represent 59% of our total plastic packaging scope, so we began phasing these out and shifting to a reuse model. We started with baby-clothes hangers in 2020 and estimate that this will save 1,183 tonnes during 2021.
- We completed several pilots examining how to eliminate polybags in our supply chain, which account for 28% of our total plastic packaging.

— We started to roll out a new e-commerce packaging system, replacing single-use plastic with FSC-certified paper. This will be fully used by all brands in all markets by 2022. [Discover more about how our new, smart design helps downsize packaging in this Report Story.](#)

— We tested ways to remove more plastic such as tagging products electronically, eliminating packaging from underwear and socks, and using alternatives to plastic to protect beauty products.

Learnings

— Collecting groupwide data for packaging increased our level of control and improved data collection processes. This helped identify areas for exploration: technology support and reusable business models. To take the next step, we worked to examine reusable e-commerce packaging through a research project with Virginia Tech University and an internal research project.

Future focus

— We're determined to phase out all single-use problematic and unnecessary plastic packaging. We want to end use of virgin plastic and maximise use of easily recyclable packaging made from post-consumer content. To do this, we're analysing the different plastic polymers used groupwide.

¹ WE AMENDED OUR 2018 PLASTIC PACKAGING BASELINE FROM 24,038 TONNES TO 22,953 TONNES IN 2020, DUE TO IMPROVED DATA AVAILABILITY AND CONTROL.

— Buildings

We want to build and operate our stores, distribution centres and offices in a circular way, prioritising resilience and protecting natural resources. To do this, we've created a Circular Built Environment Strategy through collaboration with the [Ellen MacArthur Foundation](#) and their knowledge partner, [Arup](#).

This strategy prioritises optimising the resources used in our buildings, to reduce our carbon footprint. It requires us to design and build stores based on circular principles — reduce, reuse, repair and recycle — and to use only recycled or other sustainably sourced materials. We plan to extend this strategy to our distribution centres and offices. And we need to work closely with all our business partners to achieve our goals.

Our circular built environment goals are:

- Reduce carbon dioxide equivalent (CO₂e) emissions across our value chain by 50% by 2030.
- Design 100% of new products to be reusable, repairable or recyclable from 2021.
- Use only recycled or other sustainably sourced materials by 2030, with preference for post-recycled materials.
- Reuse, repair or recycle all products and materials by 2030, with preference for reuse.

Progress

- We launched our groupwide [Circular Built Environment Strategy](#). To complement existing tools that measure how our products and suppliers perform on circularity, we initiated projects to set a long-term carbon roadmap for buildings and we're establishing a groupwide reuse and recycling guideline.
- We continued to improve our supplier circular assessment tool, which now reaches all H&M Group suppliers. Additionally H&M brand and — in part — H&M HOME and COS, measure the circularity of their products.
- The majority of brands (& Other Stories, COS, H&M brand and Monki) implemented programmes to reduce waste by reusing interior and building materials in new stores and refurbishments.
- We partnered to use innovative new materials for interiors and construction. For example, COS collaborated with designers who created new materials from waste, including supplier [Really](#) to create solid textile boards, saving 3,198 kilograms of fabric waste. We also worked with bioMASON® and its bioLITH® brick made by microbes, instead of using cement. This results in a much lower climate impact. The brick was tested during an office renovation in February 2021. [Discover how else we've used dust, waste and old yoghurt pots in our efforts to become a circular business in this Report Story.](#)

Learnings

- We learnt a lot about scaling use of innovative materials. For example, Monki and COS found that not everything is scalable and it's important that innovative materials conform to standard size fixtures, to design out waste.
- We improved our understanding of how best to collaborate with industry partners. For example, we gained insight from the Group's ongoing journey to assess suppliers' social and environmental performance, and COS learnt how to scale circular business models with suppliers — including how to return materials to suppliers for refurbishment or become feedstock for new materials.
- Introducing a new environmental assessment and validation model to our supplier self-assessment programme required more engagement with suppliers than anticipated. Read more about how we're extending [supply chain management](#) to non-commercial goods suppliers.

Future focus

- We'll implement our Circular Built Environment Strategy across our brands and functions, with each setting a tailored roadmap. This includes consolidating our store portfolio to operate more efficiently, testing new store formats, and using more sustainable materials.

— Minimising waste

In a circular future, waste will be redefined as resources. Today, we work towards eliminating waste, focusing on three key areas:

— **Operational waste.** Reuse or recycle waste generated from our offices, stores and distribution centres, and offer effective waste management and recycling facilities.

— **Production waste.** Better management of waste generated by our suppliers, by following our guidelines focused on reduction, reuse and recycling.

— **Faulty products.** Prohibit destruction of faulty products that could be sold, used or recycled. If we cannot sell a product, we reuse it, give it to charity or recycle it. We never send clothes to landfill and only destroy them in very few cases,¹ where there are no other options.

We work hard to ensure that unsold products never end up as waste — read more about how we [maximise product life](#).

Progress

— 0.32% of our total product assortment was reused (including charity donations) or recycled due to the products being faulty (0.41% in 2019²).

— 0.03% of our total product assortment was destroyed 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 2019).

— 92% of waste handled in H&M Group distribution centres was recycled or reused (91.5% in 2019).

— 64.3% of H&M Group stores have sufficient recycling systems in place (62% in 2019).³

— To reduce production waste, we:

– Shared our new Responsible Waste Management Guideline with all suppliers.

– Launched the AI tool Movebox, an algorithm that enables redistribution of products to locations where there is demand. Looking ahead, using this algorithm will also make it possible to react faster to changes in customer preferences, leading to further improved production to demand.

– Offered made-to-measure jeans in Stockholm, with [unspun](#) and H&M Group Laboratory. The COVID-19 pandemic delayed the full launch of this service to customers until 2021, but H&M Group friends and family were able to experience the limited launch of the in-store Body Scan Jeans service to customise their jeans, which were then made to order.

– Continued exploring ways to minimise waste during design by cutting kids t-shirts and menswear from the same pieces of fabric at COS.

— To reduce waste from damaged products and returns, we:

– Turned old fabric into new products. H&M brand released a second collection made from remanufacturing unsold products. COS used material left over from unsold products and cutting waste from its supply chain for the Repurposed collection.

– Enabled customers to purchase renewed, previously damaged, garments by scaling COS Restore to nine stores, with [The Renewal Workshop](#).

Learnings

— Testing a new functionality in our computer-aided design programme used by patternmakers and technicians during the design stage shows potential to significantly reduce fabric waste.

Future focus

— We will finalise our Production Waste Strategy, focusing on circular production models that reduce, reuse and recycle the waste generated by our supply chain.

— We'll continue to pilot on-demand sourcing to help us plan as close to demand as possible.

¹ WHEN PRODUCTS DO NOT PASS CHEMICAL OR SAFETY STANDARDS, HAVE MOULD, OR THERE ARE NO RECYCLING SOLUTIONS AVAILABLE, WE PRIORITISE INCINERATION FOR ENERGY RECOVERY WHERE POSSIBLE.

² IN 2019, WE REPORTED 0.55%. THIS DOUBLE COUNTED CHARITY DONATIONS AND SHOULD HAVE READ 0.41%.

³ IN 2021, THIS INDICATOR WILL BE REVISED TO ALIGN WITH OUR NEW CIRCULAR BUILT ENVIRONMENT STRATEGY.

— Maximising product life

The fashion industry needs to move from a linear to a circular business model, with lower greenhouse gas emissions. We want to shift from one-off transactions with customers towards more meaningful relationships by providing accessible ways to experience and engage in circular fashion — where products are used more, repaired, reused and recycled.

We work to ensure the durability of everything we make through our groupwide quality and durability standards, and we test and scale new tools, processes and services that maximise the value of the resources that go into our products. Our focus is on product use, care and repair — where we empower customers to prolong product life — and on product reuse and recycling, where we take responsibility for recirculating products so they are used more.

Ensuring unsold products never become waste is a priority for us — we want the resources that go into producing a product to be valued, used and reused. We increasingly apply predictive artificial intelligence tools to match production to demand. When a product isn't selling, we take all actions possible to sell products within our primary sales channels, before using products within internal circular initiatives or brands such as Afound. When internal possibilities are exhausted, we find solutions via trusted business partners.

Progress: use, care & repair

— We helped customers extend the life of their products and encourage them to keep garments for longer, for example:

- H&M brand offered repair and alteration services in eight stores. Customers in 46 markets (seven markets 2019) can access tips and inspiration on how to repair, adjust, wash and care for products, with seven markets also offering a Take Care product range.

- Weekday held a launch day for 'body-scan' jeans, with unspun.

- & Other Stories started offering sustainable garment care products.

Progress: reuse & recycling

— We expanded ways customers can rent products, for example:

- COS continued partnering with market-leading platform Ycloset to offer subscriptions to rent clothes in China.

- H&M brand expanded rental options to customers in Berlin and continued offering services to Hello Member club members at its flagship Stockholm store in Sweden.



- ARKET launched a kids' clothes rental service in 19 markets, in collaboration with [Circos](#).

— We increased ways to reuse products, for example:

- [Sellpy](#) expanded to Germany — enabling more customers to shop and sell second-hand pieces.

- Afound now offers unsold H&M Group clothing in four markets, alongside unsold and pre-owned clothing from third-party brands. The brand saw a 216% increase in pre-owned sales between November 2019 and September 2020.

- [COS](#) created the [COS Resell](#) platform with [Reflaunt](#).

- [Discover more about how we are meeting customers' growing interest in circular fashion in this \[Report Story\]\(#\).](#)

— We continued to recycle garments when other reuse options were not possible, for example:

- We worked with [I:CO](#) to offer garment collection services across brands for reuse and recycling. COVID-19 disrupted these services, resulting in much lower collection volumes because customers couldn't use in-store services. Of the 18,800 tonnes of garments collected in 2020, 50-60% were sorted for re-wear or reuse, and 35-45% were recycled to become products for other industries or made into new fibres. For example, ARKET and I:CO created an upcycled collection using post-consumer recycled denim. As a last resort, we disposed of the remaining 3-7% that could not be reused or recycled, prioritising incineration for energy recovery and never sending textiles to landfill. Our Circular

Innovation Lab trialled recycling such material into board for in-store garment collection boxes and display material with upcycling company [Really](#).

- Monki pioneered mixed-fabric recycling technology by releasing a collection featuring recycled material from the [Green Machine](#), developed by HKRITA and H&M Foundation. It is the first machine that can fully separate and recycle cotton and polyester blends at scale with no quality loss.

- H&M brand worked to change customer perceptions of garment recycling, also partnering with HKRITA and the H&M Foundation. Customers in Stockholm can now watch as unwanted garments are transformed into new clothing by a miniaturised in-store [Loop machine](#) — familiarising customers with the potential hidden in their old clothing.

Learnings

— Reuse, resell and recycle pilots show that we need to offer diverse options that are accessible to all customers. We're still learning what works best, as well as adapting to the rapid changes caused by COVID-19 and increasing digitisation.

— To scale pilots, we need to develop our internal information systems and improve the metrics we track to fully understand how best to maximise product life.

Future focus

— We'll continue to scale up initiatives to offer customers a coordinated and easily accessible range of reuse, resell and recycle options. For example, we'll focus on finding [scalable resell solutions](#).

— To obtain more post-consumer feedstock for recycled materials, we'll deepen the connection between our in-store garment collection services and our remake, reuse and recycle initiatives. We'll collaborate to test how we can ensure quality fibres are produced when scaling recycling processes.

— Key Circular & Climate Positive data

Climate

TOTAL SCOPE 1 & 2 CO₂E EMISSIONS, INCLUDING RENEWABLES ^{1,2}

	2017	2018	2019	2020
Total Scope 1 CO ₂ e emissions (tonnes)	12,484	11,818	13,380	11,973
Total Scope 2 CO ₂ e emissions, including renewables (tonnes)	51,206	45,160	48,082	60,607
Total Scope 1 & 2 CO ₂ e emissions, including renewables (tonnes)	63,690	56,977	61,462	72,580

ENERGY USE IN OUR OWN OPERATIONS ¹

	2017	2018	2019	2020
% renewable electricity in own operations	95%	96%	96%	90%
Energy use within our own operations (gigajoules), of which:	5,893,266	6,186,278	6,229,012	5,408,859
Building diesel	3,791	4,355	7,693	9,954
Direct heating	98,921	134,801	175,691	214,990
Electricity ³	5,575,996	5,841,296	5,820,887	4,974,565
Building natural gas, oil and others	214,558	205,826	224,472	209,349
Electricity use reduction per square metre and opening hour (2016 baseline, in comparable stores)	-2.7%	-8.2%	-10.1%	-17.0%

¹ AN INDEPENDENT ASSURANCE STATEMENT RELATED TO THIS DATA IS PROVIDED ON PAGE 82.

² OUR GHG EMISSIONS ACCOUNTING AND REPORTING IS ALIGNED WITH THE GHG PROTOCOL. SCOPE 2 EMISSIONS UNDER THE MARKET-BASED APPROACH ARE EQUAL TO 60,607 TONNES CO₂E. UNDER THE LOCATION-BASED APPROACH (USING GRID AVERAGE EMISSION FACTORS), SCOPE 2 EMISSIONS WERE 564,552 TONNES. FOR FURTHER DETAILS AND DATA, PLEASE SEE OUR CDP CLIMATE CHANGE INVESTOR RESPONSE 2020. CO₂E EMISSIONS INCLUDE CARBON DIOXIDE (CO₂), METHANE (CH₄), NITROUS OXIDE (N₂O), HYDROFLUOROCARBONS (HFCs), PERFLUOROCARBONS (PFCS) AND SULPHUR HEXAFLUORIDE (SF₆).

³ ENERGY RELATED TO ELECTRICITY-BASED COOLING CONSUMPTION IS INCLUDED.

TRANSPORT AND BUSINESS TRAVEL EMISSIONS

	2017	2018	2019	2020
CO ₂ e emissions in kilotonnes from transport and business travel ^{1,2}	414	587	500	442

SUPPLIER ENERGY EFFICIENCY

	2017	2018	2019	2020
Suppliers enrolled in energy efficiency programmes	–	–	671	757

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.

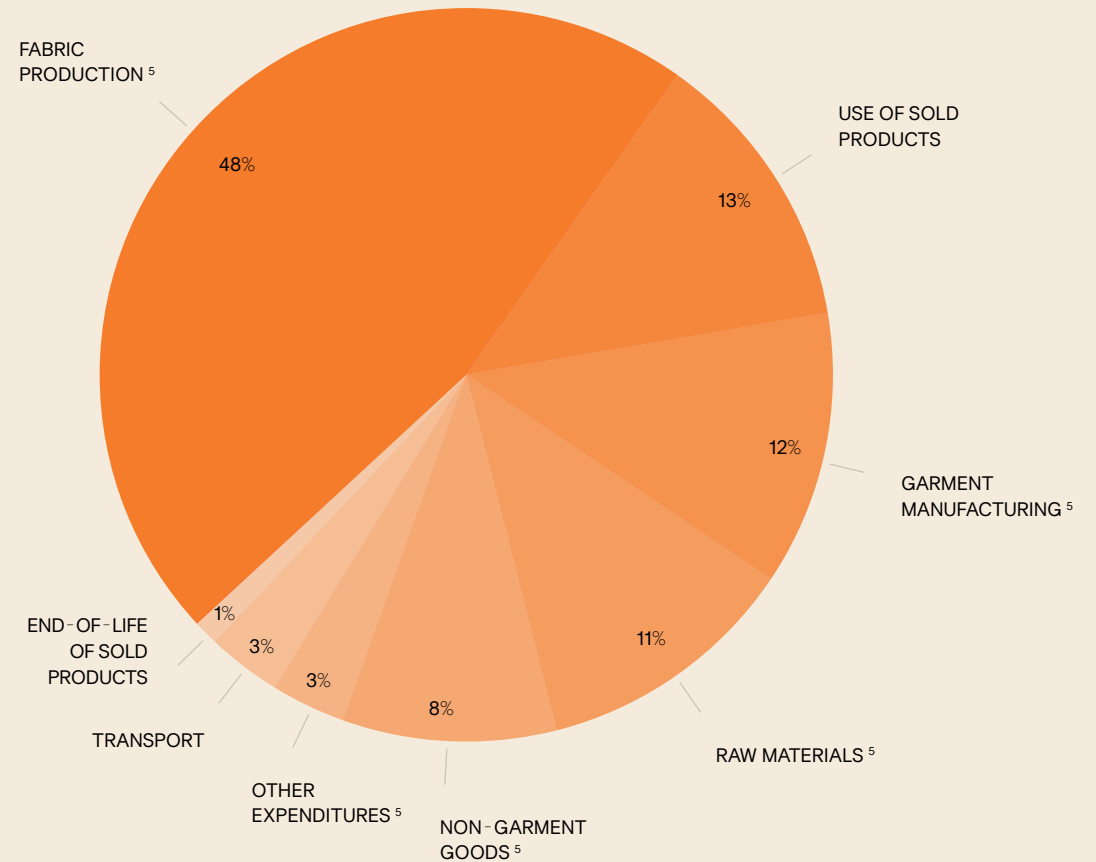
Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in scope 2, outsourced activities, and waste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

OUR SCOPE 3 EMISSIONS DATA

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

SCOPE 3 CO₂E EMISSIONS ^{3,4}

TOTAL 17,387 KILOTONNES OF WHICH % COMES FROM:



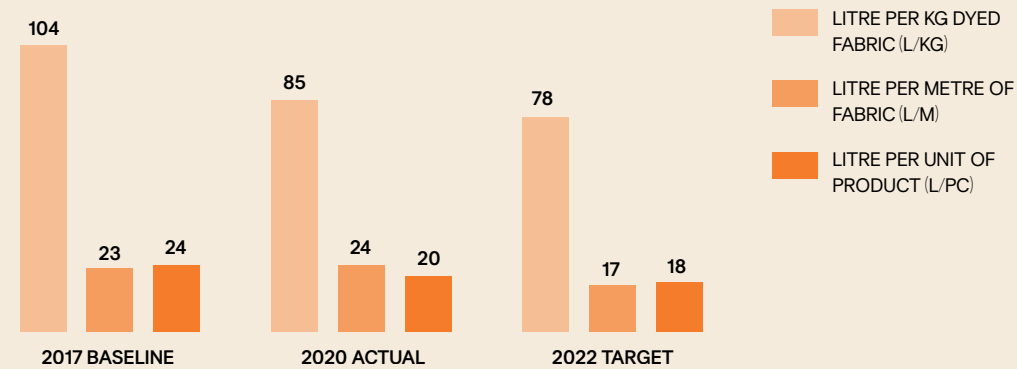
1 AN INDEPENDENT ASSURANCE STATEMENT RELATED TO THIS DATA IS PROVIDED ON PAGE 82.
 2 REPORTED SCOPE 3 EMISSIONS INCLUDE GOODS TRANSPORT AND DISTRIBUTION, AND BUSINESS TRAVEL. CO₂E EMISSIONS INCLUDE CARBON DIOXIDE (CO₂), METHANE (CH₄), NITROUS OXIDE (N₂O), HYDROFLUOROCARBONS (HFCs), PERFLUOROCARBONS (PFCS) AND SULPHUR HEXAFLUORIDE (SF₆).
 3 FIGURES BASED ON 2019 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. WHEN ROUNDED, THESE OTHER EMISSIONS COMPRISE 0% OF TOTAL SCOPE 3 EMISSIONS FOR 2020.
 4 FIGURES DO NOT ADD UP TO 100% DUE TO ROUNDING.
 5 GHG PROTOCOL CATEGORY 1: PURCHASED PRODUCTS.

Water

KEY WATER DATA

	2018	2019	2020	2022 GOAL
Reduction of production water usage compared to 2017 baseline (l/kg, l/pc, l/m) ¹ — see bar chart below	—	7%	8.5%	25%
Effluent Treatment Plant (ETP) functionality assessments achieving green grade	93%	91%	95% ²	100%
ETP discharged water quality that is Zero Discharge of Hazardous Chemicals wastewater compliant (Foundation Level)	87%	93%	96%	100%
Water recycled out of total production water consumption	—	13%	17.6%	15%

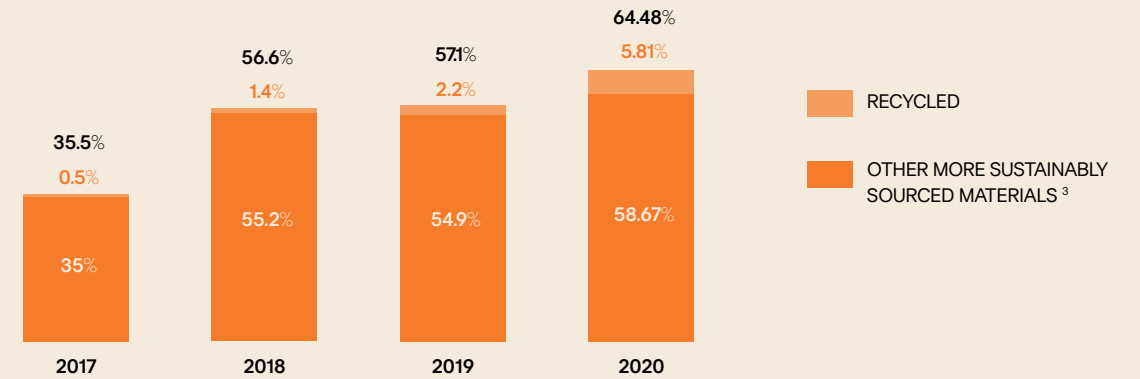
CHANGE IN PRODUCTION WATER EFFICIENCY¹



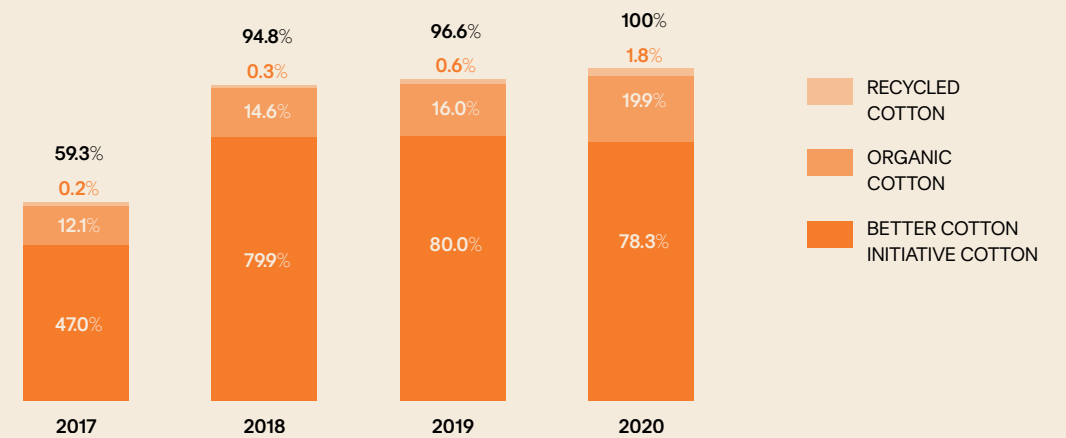
¹ INCLUDES MANUFACTURING, FABRIC DYEING AND PRINTING SUPPLIERS IN BOTH TIER 1 AND TIER 2 WITH WATER INTENSIVE WET PRODUCTION. BASED ON PERFORMANCE DATA, REPORTED BY FACILITY AND CALCULATED USING WEIGHTED AVERAGES.
² 24 FACILITIES WERE NOT IN SCOPE IN 2020 SINCE THEY ARE ZERO LIQUID DISCHARGE (ZLD). NINE NEW FACILITIES WITH ONSITE ETP ON-BOARDED IN 2020 AND HAVE A MAXIMUM OF TWO YEARS TO ACHIEVE "GREEN" GRADE.

Materials

% RECYCLED OR OTHER MORE SUSTAINABLY SOURCED MATERIALS



% COTTON BY SOURCE⁴



³ NOT ALL SUSTAINABLY SOURCED MATERIALS CAN BE NATURALLY GROWN OR CULTIVATED, I.E. MINERALS OR STONES. IN THESE INSTANCES, WE SET UP MATERIAL SPECIFIC POLICIES SUCH AS THE USE OF EXTERNAL STANDARD SCHEMES TO SECURE MORE SUSTAINABLE SOURCING.
⁴ AN INDEPENDENT ASSURANCE STATEMENT RELATED TO THIS DATA IS PROVIDED ON PAGE 82.

Materials

- Equivalent number of PET bottles used in our recycled polyester: 1.1 billion (537 million in 2019)
- Chrome-free, animal-based leather: 44% (40% in 2019)¹
- Virgin wool from Responsible Wool Standard-certified farms: 12.1% (11.6% in 2019)
- Virgin cashmere from Good Cashmere Standard-certified farms: 13% (standard adopted in 2020)

Chemicals

- Textile and leather suppliers enrolled in the Zero Discharge of Hazardous Chemicals (ZDHC) programme: 100% of 553 facilities, achieving 99.9% compliance with the ZDHC Manufacturing Restricted Substances List for wastewater and 88% compliance for chemical inputs
- H&M Group Chemical Restrictions product compliance: 99%

Packaging²

- Reduce packaging across the value chain by 25% by 2025 (2018 baseline³):
 - All packaging: -14%
 - Plastic packaging: -24%
 - Design all packaging to be reusable, recyclable or compostable by 2025:
 - Plastic packaging: 6%
 - Make 100% of packaging from recycled or other sustainably sourced material by 2030:
 - Recycled or sustainably sourced: 89%
- Within this:
- Packaging from recycled material: 50% (25% post-consumer; 25% pre-consumer)
 - Plastic packaging from recycled material: 76% (12% post-consumer; 64% pre-consumer)⁴
 - Wood in packaging from Forest Stewardship Council certified sources: 97% certified paper and cardboard (78% of paper in 2019)

Minimising waste

- Total product assortment reused (including charity donations) or recycled due to the products being faulty: 0.32% (0.41% in 2019)⁵
- Total product assortment destroyed⁶: 0.03% (0.03% in 2019)
- Waste handled in H&M Group distribution centres: 50,170 tonnes, of which 92% was recycled or reused
- H&M Group stores with sufficient recycling systems⁷: 64.3% (62% in 2019)

Maximising product life

- Textiles collected in H&M Group stores: 18,800 tonnes (29,005 in 2019), equivalent to more than 94 million t-shirts⁸

1 WE HAVE BROADENED OUR REPORTING SCOPE TO ALL LEATHER PRODUCTS. IN PREVIOUS YEARS, THE SCOPE WAS LIMITED TO FOOTWEAR, BAGS AND BELTS.
 2 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, RECYCLABLE OR COMPOSTABLE.
 3 IN 2020, WE REVISED OUR 2018 BASELINE DATA FOR PACKAGING DUE TO IMPROVEMENTS IN DATA QUALITY.
 4 IN 2019, WE REPORTED THAT 65% OF PLASTIC PACKAGING WAS FROM POST-CONSUMER RECYCLED MATERIAL. THIS SHOULD HAVE READ 65% RECYCLED MATERIAL OVERALL, OF WHICH 38% WAS POST-CONSUMER AND 27% PRE-CONSUMER RECYCLED MATERIAL.

5 IN 2019, WE REPORTED 0.55%. THIS DOUBLE COUNTED CHARITY DONATIONS AND SHOULD HAVE READ 0.41%.
 6 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.
 7 IN 2021, THIS KPI WILL BE REVISED TO ALIGN WITH OUR NEW CIRCULAR BUILT ENVIRONMENT STRATEGY.
 8 OUR GARMENT COLLECTION SCHEMES WERE DISRUPTED BY THE COVID-19 PANDEMIC. AN INDEPENDENT ASSURANCE STATEMENT RELATED TO OUR TONNES OF GARMENTS COLLECTED FOR REUSE AND RECYCLING IS ON PAGE 82.

— Fair & Equal



— 2020 highlights

Stood by our suppliers

during the pandemic, honouring a partnership approach and our commitment to responsible purchasing practices, and monitoring factory-level wages and health and safety provisions.

32%

of our tier 1 supplier factories have trade union representation, and 18% have collective bargaining agreements in place — ensuring workers' voices are heard.

“The H&M Group strategy effectively targets wage challenges at all levels,”

found one expert reviewer of our current wages strategy. We're now updating our strategy to be even more impactful.

Supported the Black community

by partnering with key organisations and donating 500,000 USD to further their work.

75/100

overall employee engagement score for our annual survey, where we seek feedback for improvement.



— Fair & Equal KPIs

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

KPI	2017	2018	2019	2020
Supply chain: % tier 1 supplier factories with trade union representation ^{1,2}			See footnote 1	32%
Supply chain: % tier 1 supplier factories with collective bargaining agreements ^{1,2}			See footnote 1	18%
Supply chain: % tier 1 supplier factories with digital payment solutions (bank account and/or mobile money) ¹			See footnote 1	82%
Supply chain: % of workers, supervisors, and worker representatives in our tier 1 production supply chain that are female ³			See footnote 1	Workers: 63% Supervisors: 24% Representatives: 59%
Supply chain: % of suppliers regarding H&M Group as a fair business partner	94%	93%	96%	96%
Own organisation: Overall People Engagement Pulses (PEP) employee engagement score (out of 100)	n/a	75	76	75
Own organisation: % of H&M Group employees agreeing with the statement “I feel comfortable being myself at work” ⁴	n/a	83%	84%	84%
Own organisation: % of H&M Group employees agreeing with the statement “I am treated with respect and dignity” ⁴	n/a	81%	82%	80%
Own organisation: Share of brands, functions and respective markets that have started rolling out Layers, our inclusion and diversity training ⁵			See footnote 5	Brands: 90% Functions: 100% Markets: 10%

¹ NEW KPI INTRODUCED IN 2020 DUE TO THE STRATEGIC DECISION TO TRACK PROGRESS IN THE H&M GROUP'S GLOBAL SUPPLY CHAIN FOR PRODUCTION. 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.

³ NEW KPI FOR 2020. INCREASING THE SHARE OF FEMALE SUPERVISORS AND WORKER REPRESENTATIVES IS AN AMBITION IN THE GROUP'S GENDER EQUALITY STRATEGY FOR THE SUPPLY CHAIN. THE BASELINE WAS ESTABLISHED IN 2020 AND THE AIM IS FOR YEARLY INCREASES.

⁴ 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.

⁵ NEW KPI INTRODUCED IN 2020 AS WE PROGRESS OUR INCLUSION AND DIVERSITY AMBITIONS.

— Our approach to being Fair & Equal

We're committed to being fair and equal and respecting the fundamental human rights of all people across our value chain — in our own operations, across our supply chains¹ and in the communities where we operate. Everyone should be treated equally with respect and dignity, and empowered to be who they want to be.

We focus on:

- **Human rights.** Concentrating on salient human rights risks: those with greatest risk for severe negative impacts on people. Carrying out human rights due diligence across our operations, supply chains and in the communities where we operate.
- **Fair jobs for all.** Supporting decent, meaningful jobs with fair compensation and benefits in safe and secure workplaces free from discrimination, where everyone has the right to freedom of association — in our own operations and our production supply chain.
- **Inclusion & diversity.** Enabling inclusive, diverse workplaces that promote equity for all. Promoting diversity and equality through products and communication, and advancing inclusion in our communities and wider society.

Working with policy makers

In 2020, we supported and actively contributed to the mandatory due diligence agenda in the European Union (EU):

- We call for practical legislation that supports a level playing field for all companies and sectors. Our previous head of sustainability, Anna Gedda, presented our views on the ongoing process for creating EU-level legislation addressing mandatory due diligence at the Organisation for Economic Co-operation and Development (OECD) meeting in February 2020. We made a [public statement](#) together with 26 other companies, business associations and initiatives in September 2020.
- We developed a formal position on the EU legislation on mandatory due diligence, which states our support for well-balanced legislation and commitment to contribute to a practical policy framework. We continue to work actively on this issue with key stakeholders in the EU, continuing more than 70 years of contributing our knowledge and practical experience in diverse global settings.



¹ INCLUDING OUR PRODUCTION SUPPLY CHAIN AND ALL OTHER SUPPLIERS OF GOODS AND SERVICES TO H&M GROUP.

— Human rights

Respect and support for human rights is at the heart of our culture and values, and cuts across everything we do. It's a basic responsibility that we uphold the rights of colleagues, workers and customers across our global value chain.

Our updated [Human Rights Policy](#) — guided by the [UN Guiding Principles on Business and Human Rights](#) — describes our commitment.

We focus on salient human rights risks: those with greatest risk for severe negative impacts on people. We concentrate our efforts on labour rights — driving systemic change through our strategic areas of fair jobs and inclusion & diversity, supported by our [supply chain management programme](#). We manage other human rights risks, such as water and land rights, through our environmental agenda. We regularly review our list of salient risks with internal and external stakeholders to ensure their relevance and to prioritise action and engagement. Read more about our [salient human rights issues](#).

We carry out human rights due diligence across our operations and supply chains, supported by training and incident management — see data on [Letters of Concern](#) issued in response to supplier non-compliance. We pay special attention to vulnerable groups such as [migrant workers and children](#).

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

Progress

— We finalised our revised [Human Rights Policy](#) — signed by the board in November 2020.

— We engaged in [public affairs work](#) on emerging due diligence legislation in the European Union.

— In response to the COVID-19 pandemic, we paid increased attention to health and safety, social protection and wage payment, and focused on securing responsible purchasing practices in our supply chain.

— All key construction, facility management and logistics staff have completed human rights training. We delivered training on remedy to staff in the National Monitoring Committees in our production supply chain.

Learnings

— Actions by individual businesses are a vital part of creating change and addressing human rights issues, but we continue to see the limitations of our own due diligence processes in the context of political instability or systemic inequality. This highlights the need to work with others to achieve meaningful change for complex or systemic issues.

— Our rapid response to the COVID-19 pandemic showed that we can mobilise quickly in times of crisis, particularly to safeguard the rights of the most vulnerable people in our value chain. We were reminded of the effectiveness of cross-functional collaboration and joining with peers to tackle global issues.

— Global events such as COVID-19 amplify human rights risks for already vulnerable groups — for example issues of health and safety, social security, forced labour, wages and working hours. This shows the importance of robust supply chain risk management processes, so that we understand where increased risks from sudden global events are likely to have greatest impact, and can act accordingly.

Future focus

— We will continue to integrate human rights management and due diligence across our business, with a focus on service supply chains, materials and circular business models.

— We will review and update our governance of human rights risks.

— We will engage on emerging regulation such as EU mandatory due diligence, and ensure H&M Group meets any new requirements.

— Our approach to fair jobs for all

We're committed to supporting decent, meaningful jobs with fair compensation and benefits in safe and secure workplaces free from discrimination, where everyone has the right to freedom of association — in our own operations and our production supply chain. We have an opportunity to use our size to bring about positive change for all those involved in our value chain, and we use the International Labour Organization's definition of decent work as a basis for our approach.

Discover more about the important work of securing fair jobs in a circular economy in this [Report Story](#).

Jobs in a circular fashion industry

We're partnering on a project with [BSR](#), supported by the [Laudes Foundation](#), to examine what a circular future means for employment in the fashion industry. The project aims to develop shared understanding of the implications of circular business models on job quality and opportunities. We hope this will help guide action and legislative frameworks that support inclusive circular models and good jobs at all levels of the garment industry.



— Fair jobs in our own operations

Our ambition is to offer our employees healthy, safe, fair and inclusive workplaces.

We focus on:

— **Health & safety.** We're committed to creating safe workplaces that support our employees' wellbeing. We work proactively to identify health and safety risks and take action to address them accordingly. We raise awareness through trainings and local health and safety campaigns.

— **Professional & personal development.** Our values guide us in our work to enable all colleagues to grow and make a difference. We encourage a culture of daily feedback and personal development, supported by our online training platform GROW, our internal careers site and mentoring and coaching opportunities. Managers and employees meet regularly to agree on career and development goals.

— **Employee relations & engagement.** We believe in a constructive workplace dialogue built on trust and respect. It's through sharing ideas and knowledge that we can create working conditions that benefit our colleagues and our business. We:

- Respect every employee's right to freedom of association and collective bargaining. This is affirmed by our Global Labour Relations Principles and our Global Framework Agreement with [Union Network International](#).

- Seek feedback from employees through our People Engagement Pulses survey and take actions for improvement.

- Have local grievance procedures in place at all H&M Group workplaces, supported by our Global Grievance Policy and a global grievance channel.

— **Compensation & benefits.** Guided by our [Global Compensation and Benefits Policy](#), we provide our employees with fair and competitive compensation.

- The H&M Incentive Programme (HIP) provides incremental investments in H&M Group shares to every part- and full-time H&M Group employee, regardless of country, position and salary!¹

- All employees receive discounts in H&M Group stores worldwide.

Progress: overall context

— The COVID-19 pandemic had a significant impact on our workforce, with up to 80% of our stores closed at one point during the spring. We took immediate actions to support our colleagues and safeguard their health and safety.

Progress: health & safety

— In response to the pandemic, we acted on the recommendations of the World Health Organization, European and US Centres for Disease Control and local health authorities to keep colleagues safe. We sometimes took decisions that went beyond local advice, for example closing all US stores before any official lockdowns.

— We provided a global 24-hour support line and equipped all our teams with health and safety guidelines.

— We supported colleagues working from home, for example with remote working and meeting guidance and technical support.

— For colleagues who couldn't work from home, we provided personal protective equipment, health and safety training, and sanitation protocols.

— To ensure social distancing in stores, routines such as maximum customer numbers, reduced opening hours and fitting room guidelines were implemented locally.

— We added questions to our People Engagement Pulses survey to learn how our employees were doing during the pandemic. 80% of respondents agreed with the statement "I feel safe at my workplace" (84% in 2019).

¹ EMPLOYEES RECEIVE FUNDS WHEN THEY REACH THE AGE OF 62, WHETHER OR NOT THEY STILL WORK FOR THE COMPANY. IN SOME MARKETS, EMPLOYEES CAN RECEIVE THE FIRST PART OF THEIR FUNDS ONCE THEY HAVE WORKED FOR H&M GROUP FOR TEN YEARS. PAYMENT REGULATIONS VARY IN SOME MARKETS.

Progress: professional & personal development

— In response to the pandemic, we continued to run essential trainings remotely.

— We offered free English lessons to colleagues globally in partnership with [Education First](#). More than 18,000 colleagues completed a total of nearly 27,000 study hours.

— We developed targeted programmes to enhance colleagues' development. For example, in 2020, 67% of H&M Group colleagues completed our sustainability fundamentals e-learning course on GROW. H&M brand developed and launched a new Sustainability Guide that supports its colleagues to understand and communicate our sustainability ambitions and actions with customers.

Progress: employee relations & engagement

— Our overall employee engagement score in our People Engagement Pulses survey was 75 out of 100 (76 in 2019).

— We piloted a labour relations workshop for managers, with a focus on widening perspectives of working with local and global labour relations.

— In response to the pandemic, we strengthened the support for managers to keep colleagues engaged, and encouraged more frequent meetings and check-ins with teams.

— We created a global mini-series of “Coming Together” videos, showing how employees across teams and functions collaborated in the midst of a global health crisis. This was featured in internal and [external](#) channels.

— Read more about compliance with our [Code of Ethics](#) in 2020.

Progress: compensation & benefits

— Wherever we had to close physical stores in response to COVID-19, we guaranteed all employees full compensation for the first 14 days of closure. We took a country-by-country approach to providing further support and worked to avoid redundancies.

Learnings: overall

— Although we are prepared to face unforeseen events, we didn't anticipate the scale and progress of the COVID-19 pandemic, and the extensive action it would take from us to manage the situation. Our response demonstrated the importance of cross-functional internal collaboration and communication, enabling us to take quick decisions to secure our business and support colleagues. Our strong culture and values were important foundations for finding new ways of going forward.

— Many of our employees work in public-facing roles, which presented the challenge of securing social distancing and ensuring health and safety protection. We found that global

guidelines in combination with support and advice coordinated by local crisis teams were critical to making the right decisions.

— The transformations already being experienced by our sector, including an increasing shift towards online shopping and the desire for quality digital experiences, accelerated during the pandemic. We've stayed responsive to these changes and continued adapting the way we work internally.

Future focus

— We will continue to engage and support H&M Group colleagues throughout these times of change and transformation, for example by focusing on accelerating digital solutions and finding new, more flexible ways of working.

— We'll continue to strengthen cross-functional collaboration across H&M Group to create even greater impact together.

— Fair jobs in our production supply chain

Our production supply chain spans many countries and contributes to the employment of 1.56 million people. For many working in the garment and textile sector, especially women, this is their first formal employment and an opportunity to earn a regular income.

We have a significant responsibility to uphold the rights of workers in our supply chain and ensure they know these rights — which include good working conditions, proper representation, improved wages and opportunities to develop. We do not accept child labour in our supply chain and we work to protect vulnerable groups, such as migrant workers, from the risks of forced labour ([see page 64](#)).

Our approach focuses on:

— **Health & safety.** Everyone has the right to a safe workplace. Health and safety is a central consideration for our supplier validations. We were one of the first companies to sign the [Bangladesh Accord](#) — established in 2013 to improve fire and building safety in the textile industry in Bangladesh — which transitioned to a national regulatory body in 2020 — the Ready-Made Garment Sustainability Council.

— **Workplace dialogue.** Open dialogue between workers and managers is an essential foundation for good working conditions. We support the right to freedom of association and collective bargaining in our supply chain, and work with suppliers to enable democratically elected worker representation and constructive

engagement. To accelerate the pace of industrywide change, we:

- Empower workers to know their rights, support the presence of worker representation at a factory level, and provide training on democratic election of representatives.

- Partner with peers and trade unions. This includes our [Global Framework Agreement \(GFA\)](#) with trade unions [IndustriALL](#) and [IF Metall](#), focused on strengthening industrial relations and enabling peaceful conflict resolution in our supply chain. National Monitoring Committees (NMCs) in Bangladesh, Cambodia, India, Indonesia, Myanmar and Turkey oversee localised implementation of the GFA. NMCs consist of H&M Group representatives working on the ground alongside national-level trade union representatives affiliated with IndustriALL.

- **Compensation & benefits.** We're working to improve wage management systems at our suppliers' factories, based on our belief in equal and competitive compensation for work of equal value.

Since 2013, our Fair Living Wage Strategy has guided our approach to understanding and improving workplace dialogue and wage management systems at the factory level, ensuring appropriate purchasing practices and collaboration with other stakeholders in the industry. We're updating our wage strategy following external evaluation this year ([see page 65](#)).



Making progress on these issues can be a challenge in countries where labour laws and structures are still in development, so it's vital our industry works together. We collaborate with suppliers, peers, employer organisations, unions, nongovernmental organisations and government representatives to achieve systemic change and raise industry standards. Our ongoing activities include:

- Membership of the Industry Summit — an alliance of 15 garment and textile brands that aims to share common approaches and data on supply chain issues such as audits, joint remediation, and gender equality.
- Working with [policy makers](#) to advocate for progressive legislative frameworks — including ongoing support for the International Labour Organization's (ILO) [Decent Work Agenda](#).
- Contributing to [Sustainable Apparel Coalition's](#) work to progress data assessment at the factory level, including finalisation of the Social & Labor Convergence Program [assessment tool](#).
- Membership of [Action, Collaboration, Transformation \(ACT\)](#); a coalition between 21 brands and IndustriALL that aims to achieve living wages for workers in the garment, textile and footwear industry through collective bargaining. As an ACT [Memorandum of Understanding](#) signatory, we're committed to ensure our purchasing practices facilitate the payment of a living wage.

Read more about our approach to [wages](#) and [working conditions](#) in our production supply chain.

Child rights

Our [Child Labour Policy](#) confirms we do not accept child labour and explains our expectations of business partners in this regard. We continually monitor compliance and investigate and remediate any suspected cases of child labour. In 2020, we identified no cases of child labour in our supply chain.

In 2020, we continued to actively address two areas of our supply chain at potential risk of child labour:

- **Mica.** Through membership of the [Responsible Mica Initiative](#) (RMI) we work towards responsible mica mining in India. In 2020, we contributed to the due diligence content in the RMI Workplace Standards, and to the emerging Global Mica Standards — due for release in 2021.
- **Spinning mills.** We work to address potential human rights and child labour risks at spinning mills in Tamil Nadu, India. In 2020, our work with the Amsterdam Coalition (AMCO) on responsible sourcing from India included contributing to the OECD's baseline risk assessment. Alongside ongoing global collaboration, we engaged with the [Tamil Nadu Alliance](#) — a new civil society forum representing local organisations in Southern India.

We contributed to UNICEF's new [tool](#) for integrating children's rights into responsible sourcing frameworks.

Protecting migrant workers in supply chains

We identify and address risks of forced labour through our due diligence process and produce an annual [Modern Slavery Statement](#). Our [Migrant Workers Fair Recruitment and Treatment Guidelines](#) directly address our approach to migrant workers, who can be particularly vulnerable to risks of forced labour. Through our partnership with the [International Organization for Migration](#) (IOM) we take a country-by-country approach to targeting and reducing risks of forced labour for migrant workers.

In 2020, we:

- Signed a global agreement with IOM, with the goal of no recruitment fees in our supply chain by 2025.
- Analysed the current situation for migrant workers at [tier 1](#) suppliers, to understand who and how many they are, whether they are paying recruitment fees, and identify high-risk countries. We'll use this work to structure actions with the focus on key sourcing markets. We want to ensure migrants and refugees have access to jobs without recruitment costs, and that factories are inclusive towards migrants.
- Ran awareness raising on the risks of forced labour, with construction, facility management and logistics staff.

Supporting our suppliers through challenging times

Evolving and unexpected global issues add further complexity to the experiences of those in our supply chain. We're already seeing how disproportionately the climate crisis affects those in vulnerable situations.

The COVID-19 pandemic further heightened existing economic and social risks facing our suppliers and their workers. We prioritised monitoring health and safety provisions at a factory level and honouring our responsible purchasing practices in accordance with our [ACT commitments](#) (see [page 66](#)).

Along with other leading companies, we endorsed the ILO's [Call to Action](#), which sets priorities and commitments for collective action to support garment manufacturers and workers through the ongoing economic disruption caused by the pandemic. This Call has initial goals of supporting supplier business continuity and wage payments to workers, and a long-term goal of establishing sustainable social security systems in several production markets.

External expert feedback on our wage strategy

“The research team was impressed with H&M Group's efforts to collect wage data from its supplier factories since the early 2010s. Our key finding was that the H&M Group wage programmes were associated with increased factory wages beyond what could be explained by wage growth over time in the studied countries. Our analysis also highlighted higher wages in garment factories where trade unions were present. We see opportunities to gather new information about the distribution of wages in these factories: are the wages of the lowest-earners also increasing?”

— **Greg Distelhorst and Jee-Eun Shin,**
University of Toronto

“I have been very impressed with the thoughtfulness, appreciation of nuance, and drive for impact of the H&M Group wage strategy. The challenges are great and cannot be resolved easily. The H&M Group strategy effectively targets wage challenges at all levels. The three factors that stood out during the evaluation were the willingness to adapt in ways that reflected what was working, the recognition that each country presents unique challenges, and the competence and dedication of the H&M Group team.”

— **Raymond Robertson, Texas A&M University**

Progress: overall

— Following the closure of our 2013 Fair Living Wage Strategy, we used 2020 to reassess our overall approach to fair jobs and wages. We committed to an external, independent evaluation, to understand what worked and how we could do better. [Greg Distelhorst](#) and [Jee-Eun Shin](#) from the University of Toronto carried out a statistical analysis on an unprecedented volume of data from around 800 factories across our supply chain to assess the factory-level impacts of our strategy. [Raymond Robertson](#) from Texas A&M University examined this impact data and advised on how our next strategy can be more effective, taking account of the complexity of our production countries. The review found that:

- The components of our existing strategy reinforce each other and are all essential to achieve wage increases.
- Factory-level wage management systems at our suppliers led to a 2.8% average wage increase and workplace dialogue programmes led to a 2% average wage increase, compared to suppliers not enrolled in these programmes. When these programmes are completed with the implementation of a wage grid¹, the total increase in wages was brought on average to 5% compared to suppliers that were not enrolled in these programmes.
- Wage management systems are where H&M Group can have most influence, but for maximum impact work is also needed on minimum wages and social protection on national level and productivity on factory level.
- Presence of trade unions had an average positive effect on wages of 5.5% (global average).

¹ A WAGE GRID PROVIDES THE FACTORY WITH A TRANSPARENT SYSTEM THROUGH WHICH WAGES ARE SET, USING A GRID SYSTEM THAT RECOGNISES SKILL AND EXPERIENCE. THIS ENABLES WORKERS TO UNDERSTAND HOW THEIR WAGES ARE CALCULATED AND HOW THEY CAN INCREASE THEIR WAGES BY INCREASING THEIR SKILLS.

— Increasing productivity in factories' working methods by 10% has proved to increase wages on average by 4.6%. This finding further strengthens our view of productivity as a key (although not sufficient) enabler for higher wages.

— We're moving from tracking progress based on factory enrolment in workplace dialogue and wage programmes to measuring the actual effect on wages, and we've updated our KPIs accordingly. We'll continue to review these as we develop our new strategy. See our [KPIs](#) and [2020 wage data](#).

Progress: health & safety

— Factory-level health and safety was one of the main focuses of our COVID-19 response. We followed national health and safety laws and regulations, and engaged with suppliers regularly to remind them to do the same. We paid particular attention to monitoring worker safety and working conditions, engaging with local trade unions and other stakeholders to ensure compliance and improve information sharing.

— Our suppliers in Bangladesh have remediated 97% of fire and building safety issues as defined by the Bangladesh Accord. New suppliers are not approved unless they fulfil these requirements. This is the last year we will report on the Accord.

Progress: workplace dialogue

— Our six National Monitoring Committees (NMCs) cover more than 1 million workers. Of the 43 issues raised with NMCs in 2020, 26 have been resolved. The main focus for NMCs this year was to establish the tools necessary to continue their

work during the COVID-19 pandemic. This included increased attention to preventative actions to avoid issues of unfairness or discrimination against union members in our supply chain.

— In partnership with [Better Work](#), we continued to develop factory-level improvement plans based on assessment of compliance with international labour standards and national labour law — supported by a range of training activities.

— The work of ACT to establish industrywide collective bargaining agreements has been challenging this year — partly because several markets continue to not have the necessary supporting structures in place and also because of COVID-19. Progress has been made in some locations, for example finalisation of a freedom of association guideline in Myanmar.

— We continued our partnership with ILO, working through national committees to engage with policy makers on industry-level topics in our production organisation markets. We currently have committees in Bangladesh, Cambodia, China, Ethiopia, Indonesia, Myanmar and Turkey.

Progress: compensation & benefits

— In the wake of the pandemic, we continued to stand by our commitments and agreements by taking delivery of and paying for goods already produced or in production, if delivered within a reasonable timeframe.

— In our annual supplier survey, which suppliers respond to anonymously, 96% of our suppliers said they consider H&M

Group to be a fair business partner (96% in 2019).

— Within the framework of the ILO Call to Action, we're working with peers and other stakeholders to secure funding from financial institutions and donors, to support suppliers and their workers. The long-term goal is to secure social protection for workers within eight priority countries: Bangladesh, Cambodia, Ethiopia, Haiti, India, Indonesia, Myanmar and Pakistan.¹

— Our revised supplier Sustainability Index awards suppliers points based on the average wage they pay their workers — compared to the local minimum wage, increases due to inflation, and peer performance. These indicators have a significant weighting in the [Sustainability Index](#), translating to increased business opportunities for suppliers and incentivising them to increase the wages in their factories.

— We continued to work with the [Better Than Cash Alliance](#) and [BSR](#) to scale digital wage payment in Bangladesh. Digital payments are now available at 90% of our manufacturing supplier units in Bangladesh — disruption due to COVID-19 means we haven't yet reached our 100% goal. The presence of digital payment solutions facilitates our monitoring and review of wage payments to workers in our supply chain.

— We made progress against our [ACT purchasing practices](#) commitments, including developing and rolling out our 'SMV Estimation Application' app to help our merchandisers ring-fence labour costs in price negotiations. 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.

¹ H&M GROUP DOES NOT SOURCE FROM HAITI, SO IS INVOLVED IN NATIONAL-LEVEL ENGAGEMENT IN ALL THESE COUNTRIES EXCEPT HAITI.

— Restrictions due to the pandemic prevented us from visiting factories to gather data on wage payments. Instead, we followed up with suppliers through remote or virtual validations, surveys, phone discussions, interviews and reviews of payment records and other documents.

Learnings: overall

— The COVID-19 pandemic emphasised the importance of acting fast in times of crisis and of building resilience in our supply chain — facilitated by ongoing collaboration, policy-level work and data sharing to enable rapid responses. Read more about our learnings from a [human rights perspective](#).

— The external assessment of our wage strategy identified some key actions:

- Move to a more localised, market-based approach, since one size doesn't fit all.
- Continue to extend external engagement to create industrywide awareness and action, including collaboration within and beyond our sector.
- Inform and educate suppliers about our commitment to improve wage systems through clear incentives and requirements.
- Ensure internal sustainability, business and public affairs teams work together for systemic changes.

Future focus

— We will finalise our updated wage strategy to drive fair and competitive wage increases based on the external assessment findings and further input from external stakeholders. A global approach will feed into country-specific strategies that take account of national contexts and legal settings. We'll maintain key components of our previous strategy that have proved to be effective, including the programme to set up wage management systems, strengthening factory-level industrial relations, and responsible purchasing practices. We'll place increased emphasis on addressing systemic issues, including wage-setting mechanisms at the country level and the implementation of nationally appropriate social protection systems. And we're introducing a new focus on supporting productivity increases at a factory level.

— The COVID-19 pandemic highlighted the need for better social security for garment industry workers. In addition to our work through the ILO Call to Action to establish social protection systems, we've been commissioning external research and meeting with stakeholders such as the ILO and other brands to explore further options to strengthen national social security for garment workers in the short- and long-term.

— We'll continue to examine what a responsible transition to a future circular fashion industry means for people and their jobs in practice, for example through the project [Keeping Workers in the Loop](#), led by BSR and supported by Laudes Foundation.



— Inclusion & diversity

We're committed to taking a stand against injustice and inequality. Global events in 2020 have shown how much there is still to do to address these issues, and given us a renewed sense of momentum behind our inclusion and diversity (I&D) work.

Our focus areas are:

— **Internal diversity & equality.** We work to improve internal awareness of inclusion and unconscious bias, to ensure diversity and representation in teams and leadership, and offer fair and equal employment opportunities.

— **Promote diversity & equality.** Our brands encourage inclusion and celebrate diversity and equality through products and communications.

— **Inclusion.** We advance inclusion of people in the societies we are part of through global and local initiatives. We have a dedicated strategy to promote gender equality in our supply chain.

Depending on the context and experiences of individuals involved, definitions of diversity vary. We embrace all definitions

— we want to be a truly inclusive company that is informed by different perspectives. By 2025, our ambition is:

— Our workplaces are inclusive and diverse.

— We leverage our diversity for better business.

— We use our business to advance inclusion in our communities.

Progress: internal diversity & equality

— Building on our 2025 ambitions, we set new goals to: disclose I&D commitments and action plans for all markets by 2021, to improve diversity in our management teams, and to create a Peer Advisory Council where employees and senior leaders collaborate to promote inclusion and diversity.

— We disclosed our US [employee demographics](#) for H&M brand, COS and & Other Stories. To better understand how to promote diverse workplaces, we're gathering data across our business.

— In 2020, 74% of H&M Group employees were female and 71% of management positions were filled by female employees (2019: 76%, 69%). Our board of directors had a 67%:33% (female:male) gender split.

— According to our annual H&M Group employee survey, People Engagement Pulses, 84% of respondents agree with the statement "I feel comfortable being myself at work" (84% in 2019), and 80% with the statement "I am treated with respect and dignity" (82% in 2019).



— Internal training was disrupted by COVID-19. We digitised part of our training, letting us reach more employees faster:

– 7,752 employees have completed Layers training since March 2018 (4,152 in 2020) — our I&D training that we aim for all brands, functions and markets to have started rolling out by December 2021.

– 13,713 employees participated in our now mandatory unconscious bias training in 2020.

– 72 employees with creative roles received training during 2020 on mindful representation of cultures (to avoid cultural appropriation). We developed the training created by & Other Stories in 2019 into a groupwide format.

– 2,598 employees have completed I&D training on our Product and Print Policy since 2018 (98 in 2020).

— We focused on building inclusive workplaces. Afound, ARKET, COS, H&M brand, Monki, and & Other Stories established forums where employees can suggest I&D initiatives and feedback to leaders. Our business functions have similar initiatives.

Progress: promote diversity & equality

— We voiced and acted upon our [unequivocal support](#) for the Black community. Acknowledging our past mistakes, we want to play a part in ending racism in all forms, everywhere. In the United States, we partnered to enhance awareness and activism:

– At Group level, we donated 500,000 USD to organisations including [National Association for the Advancement of Colored People Legal Defense Fund \(NAACP\)](#), [American Civil Liberties Union \(ACLU\)](#) and [National Action Network \(NAN\)](#). We worked with these organisations to develop trainings, enable voter education, encourage activism, and more.

– H&M brand raised 20,000 USD for NAN through a virtual march of support — and donated 70,000 USD to ACLU to promote voting rights.

– Weekday marked the need for change through its weekly Zeitgeist t-shirt project, which creates prints reflecting social events. Two designs raised 5,400 USD, which was donated to NAACP and ACLU.

— We voiced and took action for gender equality:

– Our International Women’s Day celebrations raised awareness globally and locally through various initiatives, and supported charities helping women in poverty. H&M brand ran a “Make our normal the new norm” campaign that interviewed its female leaders, promoting equal opportunities and highlighting that seven in ten leaders at H&M brand are female. The & Other Stories [#herimageherstory](#) Instagram takeover raised 20,000 Euros for [CARE](#), while Monki launched an in-store micro-donations campaign, donating to [Plan International](#).

— Pride marches were interrupted by COVID-19. Everyone’s unique identity should be celebrated every day, and some brands celebrated freedom for the LGBTQI+ community in other ways. In the United States, for example, H&M brand donated

500,000 USD of product and 10 USD for every 60 USD spent between June 4-14, 2020 to [organisations helping LGBTQI+ community members](#), while continuing longer-term partnerships with organisations such as [The Trevor Project](#).

Progress: inclusion

— We are a member of the [TENT Partnership for Refugees](#), a coalition of over 140 companies that support refugees globally. We’re committed to the responsible recruitment of refugees in our Turkey supply chain, with the aim to recruit 2,000 foreign workers by 2025. We had to adjust plans to scale recruitment due to COVID-19, instead focusing on ensuring current workers kept their jobs. [Discover more about how we helped more than 400 Syrian refugees to earn a living in this Report Story.](#)

— In Myanmar, we completed a project with the [International Organization for Migration](#) to better understand risks and opportunities faced by migrant workers. The project examined two factories, finding that no brokers, agents or fees were involved in recruitment, and recommended further strengthening factory HR policies, including recruitment and grievance.

— We continued a health and wellbeing project in Indonesia to empower women in our supply chain, together with the United Nations Population Fund and others. COVID-19 disrupted activities, but training is now replanned for women at six participating factories during 2021.

— In South Africa, H&M brand partnered with [Clothes to Good](#) on a new six-month project. Female small business owners

with disabilities — whose children also have disabilities — are supported to achieve economic independence by reviving their clothing businesses.

— MyStore, our community engagement programme, ran locally relevant initiatives. For example, an H&M store in Munich, Germany collaborated with locals with disabilities to produce upcycled tote bags from store marketing banners.

— Though our supplier [Sustainability Index](#) we have started rewarding suppliers where their percentage of female supervisors reflects their overall percentage of female workers. This sends a strong message to our suppliers that we support female leadership and expect them to do the same.

Learnings: overall

— In July 2020, we discovered that one of our product teams at & Other Stories named a product with a racial slur in internal documentation. This is unacceptable and goes against our fundamental values. A comprehensive internal investigation — supported by external counsel — resulted in appropriate legal actions for those involved. The incident reinforced our intent to deepen our I&D commitments and expand I&D trainings to all employees.

— We recognise that there's more to be done to ensure our I&D ambitions are upheld across every single area of our business. To do this, we're working on market-specific plans, starting with key markets such as the [United States](#).

Future focus

— By the end of 2021, we aim to have I&D commitments and action plans in place for all H&M Group markets. As part of this, we'll work to increase diversity in our management and board of directors.

— We consulted with Plan International to ensure our supply chain Gender Equality Strategy will be effective and impactful. We're continuously developing plans focused on securing women's wellbeing, representation, wages and career progression in our suppliers' factories and our industry.

H&M Foundation

The H&M Foundation concluded its [global programme with CARE](#), which supported almost 270,000 women between 2014 and 2020. Project participants increased their daily enterprise earnings by an average of 91% across all participating countries.

Read how the Foundation has started a long-term [support project for female textile workers](#) in Bangladesh.

— Key Fair & Equal data

Wages in our production supply chain

AVERAGE MONTHLY WAGES (EXCLUDING OVERTIME) AT H&M GROUP FACTORIES VERSUS APPLICABLE MINIMUM WAGES IN KEY PRODUCTION MARKETS ¹

COUNTRY	MINIMUM WAGES 2019 (USD) ²	GROSS AVERAGE WAGES 2019 (USD) ²	DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2019 (USD) ²	MINIMUM WAGES 2020 (USD) ²	GROSS AVERAGE WAGES 2020 (USD) ²	DIFFERENCE BETWEEN AVERAGE AND MINIMUM WAGES 2020 (USD) ²
Bangladesh	93	125	+34%	93	123	+32%
Cambodia	199	235	+18%	207	232	+12%
China	261	455	+75%	262	415	+59%
India	107	136	+27%	114	126	+11%
Indonesia	169	178	+6%	186	191	+3%
Myanmar	109	143	+31%	109	140	+28%
Turkey	329	392	+19%	378	432	+14%

¹ 2020 DATA INCLUDES ACTIVE AND APPROVED MANUFACTURING (TIER 1) SUPPLIERS FOR ALL COMMERCIAL PRODUCT TYPES, AND COVERS THE TIME PERIOD 1 JANUARY–30 JUNE 2020. 2019 DATA COVERS THE TIME PERIOD 1 JANUARY–31 DECEMBER 2019. 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.

² CURRENCY CONVERSIONS FROM THOMSON REUTERS EIKON BASED ON ANNUAL AVERAGE FOR 2020.

Detailed wage and worker data for the first six months of 2020¹

In 2020, we monitored the wages paid to workers by our suppliers' factories. In this section, we present this data for the first six months of the 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 impacted wage trends differently, we have chosen to present data country by country. We also present available data about the number of workers employed in suppliers' factories, to show the impact of job disruptions caused by COVID-19.

BANGLADESH

Because of COVID-19, the Government closed down all factories between 26 March and 26 April, and announced that factory owners would receive subsidised loans against their commitment to pay workers 65% of the minimum wage.

As a consequence, both March and April gross average wages were affected, and in April the wages were slightly below the standard minimum wage level. However, the average of the wages paid in the first six months of 2020 remained overall in line with the 2019 average wage, due to a rebound of business in May and June. May compensation also registered the payment of the Eid Bonus,² which was made in full.

At the beginning of the year, employment was at a peak level, because business conditions were favourable. From April onwards, due to the pandemic, a significant decline in employment was registered.

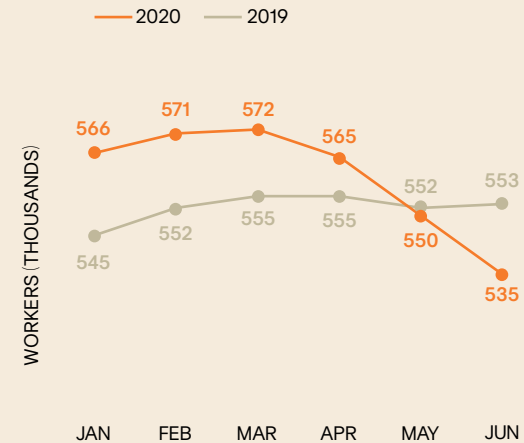
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN BANGLADESH FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN BANGLADESH FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



¹ WORKER DATA IS PRESENTED AS LIKE-FOR-LIKE ANALYSIS AND COVERS WORKERS AT MANUFACTURING (TIER 1) FACTORIES FOR ALL COMMERCIAL PRODUCT TYPES THAT HAVE SHARED COMPLETE WORKER DATAPPOINTS WITH H&M GROUP FOR THE PERIODS BOTH 2020 H1 AND 2019 H1.

² A LEGALLY-MANDATED FESTIVITY ALLOWANCE, GIVEN TO WORKERS TO MARK THE CELEBRATION OF EID AL-FITR.

CAMBODIA

In Cambodia there was no official regulation requesting factories to close down; however, some factories suspended their operations because of business reduction or logistics issues in April, May and June.

Overall gross average wages were lower than in 2019, but still above the minimum wage, with an exception for the month of April in some factories. As per a Government directive, workers who could not go to work for a certain number of days in May and June received 30 USD per month from the employer and an additional 40 USD per month from the Government. The latter amount is not included in the data shown here, because transfers were made directly to workers and cannot be verified.

Total employment was lower than in the same period of last year, showing a slight decline over the first six months of 2020.

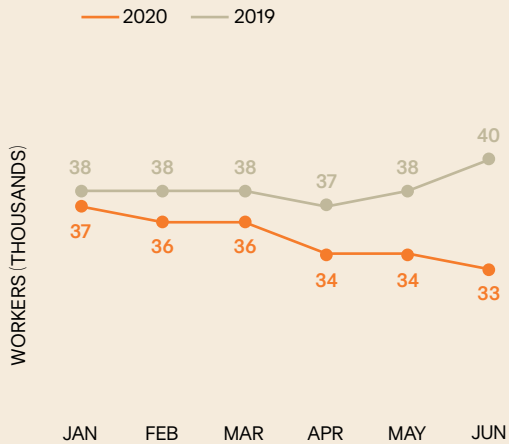
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN CAMBODIA FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN CAMBODIA FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



CHINA

Gross average wages were consistently above the minimum wage, although they were lower than the 2019 average. Factories were mostly closed in February and March, and wages were paid according to local regulations — varying between 100% and 70% of the minimum wage.

The total level of employment slightly decreased in February, partially because of the Chinese New Year Holiday (as every year) and because of COVID-19. Overall, total employment levels remained quite stable in 2020, albeit slightly lower compared to 2019, mainly due to normal changes in business patterns.

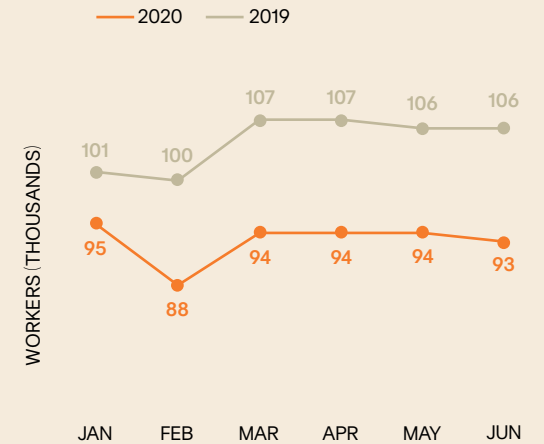
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN CHINA FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN CHINA FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



INDIA

There was a full lockdown from the end of March until mid-May. In this period, compensation to workers was set — following a Supreme Court judgment — on the basis of factory-level negotiations between employers and worker committees or recognised trade unions. Approximately 30% of our suppliers' factories set compensation at 100% of the minimum wage; approximately 5% at between 50% and 100%; approximately 40% at 50%; and the remaining 25% at below 50%. Overall, the gross average wage in the first six months of 2020 was above the minimum wage (with the exception of April), although the premium paid was generally lower than in 2019.

In the first three months of 2020, employment levels were in line with 2019. From April to June there was quite a significant reduction, mostly due to migrant workers being unable to return to factory work after temporarily going back to their home town.

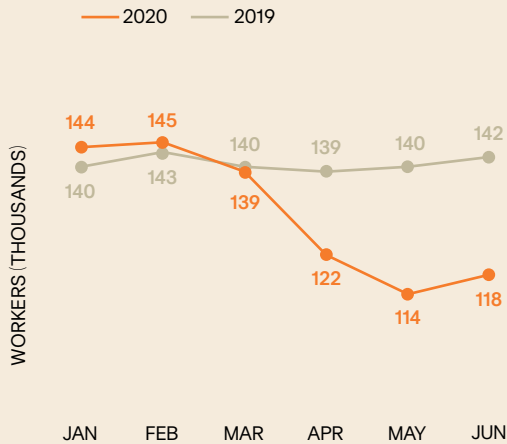
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN INDIA FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN INDIA FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



INDONESIA

The impact of COVID-19 was felt from April to June. While 57% of the factories were able to maintain full operations, the other 43% had disruptions, with temporary full or partial closures. In these cases, the compensation for workers was set — following Government directives — through negotiations with trade unions and/or worker representatives, with settlements that generally varied from 25% to 100% of the minimum. Some factories negotiated not to pay workers if they were not able to work. Overall, while wages remained in line with the local minimum wage regulations, the average of the first six months of 2020 shows a slight decline in the premium paid compared to last year.

Employment levels at the beginning of 2020 were in line with 2019; from April to June, quite a significant reduction was registered.

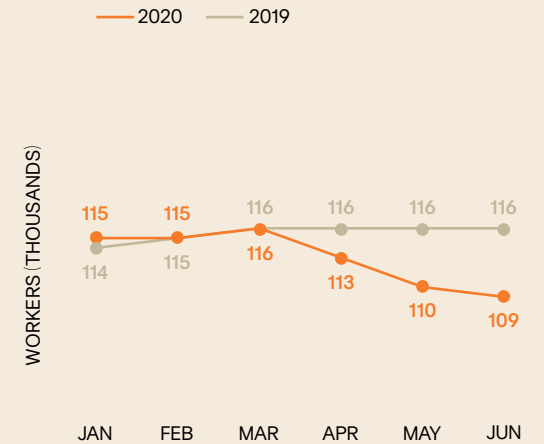
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN INDONESIA FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN INDONESIA FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



MYANMAR

The minimum wage in 2020 has not changed, because the Government postponed its planned update. The impact of COVID-19 and the regular holiday period both hit in April and all factories were closed for almost the whole month. During the closure period mandated by the Government due to COVID-19, workers were compensated with subsidies equal to 40% of the minimum wage. These subsidies are included in the data shown here.

The gross average wage in the month of April remained above the minimum wage. Overall, the premium paid above the minimum wage in the first six months of 2020 remained at a level comparable to 2019. In April and May there was a reduction in employment numbers due to business uncertainty and workers being unable to come back to work after the April holidays. Employment increased again in June, returning to a level comparable to 2019.

The political situation in Myanmar is evolving as we write this report, and may further impact wages and worker numbers in the months ahead.

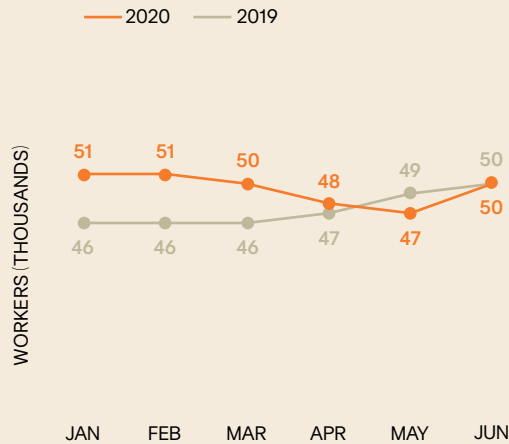
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN MYANMAR FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN MYANMAR FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



TURKEY

The impact of COVID-19 was felt mostly in April and partially in May and June. Approximately 70% of the factories worked partially, either with periods of total closure or with a rotation of the workforce capped at 30%. Workers in factories affected by COVID-19 benefited from Government subsidies that varied according to the specific circumstances of each worker. These subsidies are included in the data shown here.

Overall, gross average wages in the first six months of 2020 increased, partly as a consequence of the updated minimum wage. The premium paid by the factories was consistent with 2019.

Employment remained stable in the first six months of 2020, due to the Government ban on dismissals.

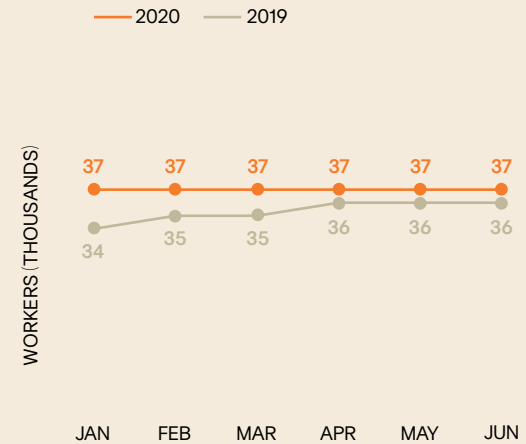
GROSS AVERAGE WAGES (USD)

AT SUPPLIER FACTORIES IN TURKEY FOR THE FIRST 6 MONTHS OF 2020



AVERAGE NUMBER OF WORKERS (THOUSANDS)

AT SUPPLIER FACTORIES IN TURKEY FOR THE FIRST 6 MONTHS OF 2020, COMPARED TO 2019



Workplace dialogue in our production supply chain

ISSUES BROUGHT TO NATIONAL MONITORING COMMITTEES IN 2020 OR CARRIED OVER FROM 2019

	RESOLVED	UNRESOLVED
Compensation & benefits, and severance payment	12	6
Discrimination & harassment	8	2
Freedom of association & collective bargaining agreements	6	9
Working hours	0	0
TOTAL	26	17

Tier 1 supplier factory data

— Factories with:

- Digital payment solutions: 82%
- Trade union representation: 32%
- Collective bargaining agreements: 18%

Inclusion & diversity

% OF FEMALES AT H&M GROUP

	2018	2019	2020
Overall	74%	76%	74%
In management positions	72%	69%	71%
On board of directors	60%	67%	67%

NUMBER OF WORKERS IN OUR TIER 1 PRODUCTION SUPPLY CHAIN IN 2020 (THOUSANDS)

	FEMALE	MALE	% FEMALE
Workers	765	442	63%
Supervisors	16	53	24%
Worker representatives	7	5	59%

INCLUSION & DIVERSITY TRAINING AT H&M GROUP

— Employees participating in one or more trainings during 2020:

- 4,152 in Layers, which is started in six markets
- 13,713 in unconscious bias training¹
- 72 in mindful cultural representation training
- 98 in Product and Print Policy training

— Total employees participating since 2018:

- 7,725 in Layers
- 24,335 in at least one I&D training

EMPLOYEE DEMOGRAPHICS AT H&M GROUP

— We've started gathering data on our employee demographic representation. We have disclosed our US employee demographics.

¹ TRAINING STARTED IN THE US WITH ACCENTURE. DATA IS FOR EMPLOYEES WHO HAVE ACCESSED THE TRAINING ON OUR INTERNAL LEARNING SYSTEM.

— Supply chain management

We want to work with partners who share our vision for a more sustainable industry. We choose suppliers who are open to challenging us and being challenged, so together we can realise positive change.

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

We monitor compliance with our requirements using a system of risk-based audits and our [Sustainable Impact Partnership Programme](#) (SIPP). The programme gives us deeper insight into performance than audits alone, creating a positive feedback loop to empower constant improvement. We've been using SIPP since 2016, continuously expanding coverage to include more levels of our supply chain. SIPP includes:

— **Minimum requirements.** Audits for new suppliers and ongoing follow-up checks.

— **Self-assessment and validation.** Self-reporting through assessment tools including the [Sustainable Apparel Coalition's](#) (SAC) Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM). Confirmation of self-assessment

results ranges from desktop validation to third-party verification as needed.

— **Capacity building.** Identifying priority areas and setting goals for improvements. Actioned through targeted support or wider topic-based programmes, for example on water stewardship, renewable energy and wage management systems.

— **Dealing with incidents.** Logging and investigating potential problems or incidents. Following up confirmed cases of minimum requirement non-compliance with a Letter of Concern and a corrective action plan.

With the COVID-19 pandemic disrupting global supply chains, we adapted our processes to suit changing restrictions and to safeguard the wellbeing of our employees and workers in our supply chain.

Progress

— In response to the COVID-19 pandemic, we:

– Switched from onsite data verification to digital assessments where needed and regularly followed up with suppliers on key issues such as wages and worker safety. We prioritised locations where the risk profile was heightened by the pandemic, working within local guidelines to ensure validation was conducted as soon as restrictions lifted.



– Engaged with [Better Work](#) and [International Labour Organization](#) country offices to track shifting legal landscapes and share updates with suppliers.

– Educated suppliers on implementing [World Health Organization](#) health and safety guidelines to reduce risk of COVID-19 exposure for workers.

– Supported suppliers to strengthen grievance systems and continued to consult with our National Monitoring Committees to ensure workers’ voices were heard. [Read more about how we supported suppliers during the pandemic.](#)

— SAC fully adopted the [Social & Labor Convergence Program \(SLCP\)](#) assessment for the FSLM — an important step towards enabling consistent and comparable social assessments across the fashion industry. We piloted the SLCP tool (as FSLM) with 144 factories and rolled out a light version to 1,273 supplier units, with 1,064 desktop or onsite validations. We’ll increase use of SLCP as it becomes available in more markets. We’ve shared learnings from this pilot to contribute to improving the SLCP tool and developing a common scoring system within FSLM.

— We increased use of independent third-party verification for the SAC Higg modules. In 2020, FEM verification became widely available for the whole industry and verification quality was monitored with the [SAC Quality Assurance Handbook](#), which we helped develop. Facilities participating in the SLCP pilot also underwent third-party verification. We continued to support the development of an industrywide assessment and verification system as a member of SAC’s working groups.

LETTERS OF CONCERN ISSUED TO SUPPLIERS IN RELATION TO SALIENT HUMAN RIGHTS ISSUES ¹

HUMAN RIGHTS ISSUE	LETTER OF CONCERN TOPIC/S	2017	2018	2019	2020 ²
Health & safety	Legal licences, emergency planning, fire safety	14	26	18	3
Child labour	Child labour	1	2	0	0
Fair living wage	Compensation, minimum wage, overtime compensation	35	39	63	4
Freedom of association & collective bargaining agreements	Worker involvement & communication	1	2	7	2
Social security, forced labour, modern slavery	Recruitment & hiring	8	8	8	3
Discrimination & harassment	Worker treatment & development	3	5	2	0
Access to water	Water use, wastewater	5	7	7	4
Other	Use of undeclared units, transparency	36	33	24	11

¹ TIER 1 SUPPLIER UNITS.

² DUE TO THE PANDEMIC AND RESTRICTIONS IN TRAVEL, FEWER ONSITE VISITS WERE CONDUCTED IN 2020. LOWER NUMBERS OF IDENTIFIED ISSUES MAY BE PARTLY LINKED TO THIS, AND SHOW THE IMPORTANCE OF ALTERNATIVE DUE DILIGENCE APPROACHES, INCLUDING WORKPLACE DIALOGUE AND EFFECTIVE GRIEVANCE CHANNELS FOR WORKERS TO RAISE ISSUES.

— 100% of tier 1 supplier units implemented SIPP. We expanded SIPP coverage by continuing to map and integrate our tier 2 suppliers, and we have a goal of 100% coverage of all dyeing and printing facilities in our supply chain by 2021.

— We launched a version of SIPP appropriate for non-commercial goods (NCG) suppliers, covering 61% of these suppliers and 58% of their production units. We weren't able to integrate as many suppliers as we'd hoped this year due to COVID-19, but we'll continue to extend coverage and refine assessments to align with our strategic goals.

— We updated our Sustainability Index (SI) — the set of internal metrics we use to gauge overall supplier sustainability performance. We've aligned the SI more closely with our sustainability strategy and goals, making it easier to reward outstanding suppliers with ongoing and increased business opportunities.

— Higg Index participation:

– FEM: 1,184 tier 1 supplier factories, with 430 third-party verifications. 194 tier 2 supplier factories, with 89 third-party verifications.

– Our FEM score¹ across participating supplier factories was 52² out of 100 (47 in 2019³) — based on combined average scores for energy (82), water use (73), emissions (59), wastewater (59), waste management (34), air emissions (29) and chemicals (29).

– FSLM: see [page 78](#) for progress.

— We performed 1,795 minimum requirement verifications across tier 1 and 2 suppliers:

– There were 149 minimum requirement cases — 123 for social, 11 for environmental and 15 for business practice issues.

– We issued 27 Letters of Concern as part of our process to resolve salient human rights issues (see [page 78](#)).

– We terminated business relationships with nine suppliers due to minimum requirement non-compliance issues.

— We investigated and closed 16 incidents of potential non-compliance with the Code of Ethics (2019: 28, 2018: 47). Of these, nine potential incidents involved our employees and eight involved our business partners. These investigations led to terminations or written warnings for employees or business partners in 16 cases (2019: 26, 2018: 25), involving eleven employees and six business partners.⁴

Learnings

— Improvements in data quality tools, visualisation and analysis increase our understanding of supplier strengths and weaknesses. This helps us make smarter decisions, shifting resources and focus to where improvements are needed most. With efficient systems to monitor compliance in place, we can increasingly focus on continuous improvement.

— As the verification programme for Higg FEM and FSLM has expanded, so has the need for quality assurance mechanisms to ensure consistent and accurate verification processes. We've been working with other SAC members to pilot and refine quality assurance protocols for implementation by independent verification oversight bodies.

— The success of our pilot using the SLCP tool for our supplier social assessments gives us confidence to scale up the FSLM using SLCP to all our suppliers.

Future focus

— We'll continue accelerating progress towards our goal of 100% of tier 1 supplier units within SIPP assessment scope completing verified FEM and FSLM by 2022.

— We'll continue to refine our Sustainability Index and close the data feedback loop so we can make better decisions about which suppliers to reward.

— The COVID-19 pandemic highlighted the need to secure our supply chain against sudden global events beyond our control. We'll continue exploring ways to increase supply chain resilience, including systems to protect the most vulnerable people in our value chain. Read more about our focus on [protecting workers](#) in our supply chain.

¹ BASED ON 2019 DATA.

² AVERAGE OF ALL ACTIVE, APPROVED TIER 1 AND TIER 2 FACTORIES THAT HAVE EITHER A VERIFIED SCORE OR A SELF-REPORTED SCORE.

³ BASED ON 2018 DATA.

⁴ SOME CASES INVOLVE MULTIPLE EMPLOYEES.

— How we report

Scope

H&M Group produces an annual sustainability performance report that covers sustainability strategy, challenges, activities, goals and performance for the global group operations of H&M Hennes & Mauritz AB (also called H & M Group in this report).

Our 2020 reporting includes eight 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, 2019 to November 30, 2020, unless stated otherwise. See our [Annual Report 2020](#) for a full list of entities.

Our reporting includes this Sustainability Performance Report, reporting indexes, our [Statutory Sustainability Report](#) in our Annual Report, 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 GRI Standards: Core Option. Download our [GRI index](#).

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

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

UN Global Compact and CEO Water Mandate. We are signatories to the UN Global Compact. Our annual sustainability reporting serves as our Communication on Progress for the UN Global Compact and CEO Water Mandate.


















Our emissions data

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

— UN Sustainable Development Goals

The UN's Sustainable Development Goals (SDGs) and the 2030 Agenda for Sustainable Development are central to encouraging a collaborative approach to solve social, environmental and economic challenges. We welcome the shared focus the SDGs provide to the efforts of government, business

and civil society. Here, we show our level of influence on each SDG — directly (through delivering our strategy), indirectly, and through partnerships.

	UN SDG GOAL	DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH PARTNERSHIPS		UN SDG GOAL	DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH PARTNERSHIPS
	NO POVERTY	Fair & Equal	•			REDUCED INEQUALITIES	Fair & Equal		•
	ZERO HUNGER	—	•	•		SUSTAINABLE CITIES & COMMUNITIES	—	•	
	GOOD HEALTH & WELL-BEING	—	•			RESPONSIBLE CONSUMPTION & PRODUCTION	Leading the Change, Circular & Climate Positive		•
	QUALITY EDUCATION	—	•			CLIMATE ACTION	Circular & Climate Positive		•
	GENDER EQUALITY	Fair & Equal		•		LIFE BELOW WATER	Circular & Climate Positive	•	•
	CLEAN WATER & SANITATION	Circular & Climate Positive		•		LIFE ON LAND	Circular & Climate Positive	•	•
	AFFORDABLE & CLEAN ENERGY	Circular & Climate Positive		•		PEACE, JUSTICE & STRONG INSTITUTIONS	Fair & Equal	•	•
	DECENT WORK & ECONOMIC GROWTH	Fair & Equal		•		PARTNERSHIPS FOR THE GOALS	Leading the Change, Circular & Climate Positive, Fair & Equal	•	•
	INDUSTRY, INNOVATION & INFRASTRUCTURE	Leading the Change, Circular & Climate Positive		•					

— Auditor's report

Auditor's Limited Assurance Report on specified sustainability information in H & M Hennes & Mauritz AB's 2020 group sustainability reporting.

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

We have been engaged by the management of H & M Hennes & Mauritz AB (H & M) to perform a limited assurance engagement on below specified information in H & M Group's 'Sustainability Performance Report 2020', 'Material Issues 2020', 'Materiality Matrix 2020' and 'Stakeholder Engagement 2020' with regards to the following indicators referred to in the GRI index that can be found in the 'GRI content index 2020': Reporting principles can be found in 'Reporting Scope 2020'.

— Identified material topics and boundaries (Disclosures 102-46, 102-47), reported in 'Material Issues 2020', 'Materiality Matrix 2020', 'Reporting Scope 2020' and on pages 59 and 80-81 in the 'Sustainability Performance Report 2020'.

— Stakeholder engagement (Disclosure 102-40, 102-42, 102-43, 102-44), reported in 'Stakeholder Engagement 2020', 'Material Issues 2020' and on page 15 in the 'Sustainability Performance Report 2020'.

— Energy:

Energy consumption within the organization (Disclosure 302-1), page 51 in the 'Sustainability Performance Report 2020'. Energy intensity (Disclosure 302-3), page 51 in the 'Sustainability Performance Report 2020'. Percentage of renewable energy (AF21), page 51 in the 'Sustainability Performance Report 2020'.

— Emissions:

Direct (Scope 1) GHG emissions (Disclosure 305-1), page 51 in the 'Sustainability Performance Report 2020'. Energy indirect (Scope 2) GHG emissions (Disclosure 305-2), page 51 in the 'Sustainability Performance Report 2020'. Other indirect (Scope 3) GHG emissions, limited to transportation (Disclosure 305-3), page 52 in the 'Sustainability Performance Report 2020'.

— Materials:

Materials used by weight or volume, limited to cotton (Disclosure 301-1), page 53 in the 'Sustainability Performance Report 2020'. Tons of garments collected for reuse and recycling, page 54 in the 'Sustainability Performance Report 2020'.

— Anti-corruption:

Confirmed incidents of corruption and actions taken (Disclosure 205-3), reported on page 79 in the 'Sustainability Performance Report 2020'.

The H & M Group Sustainability Report 2020 covers the period 1 December 2019 – 30 November 2020.

Management's responsibility

The Management of H & M is responsible for preparing and presenting H & M Hennes & Mauritz AB's 2020 group sustainability reporting in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Standards. As discussed in the document 'Reporting Scope 2020', greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases, as well as reliance on secondary data.

Auditor's responsibility

Our responsibility is to express a conclusion on the above specified indicators in the specified documents based on the limited assurance procedures we have performed. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, nor assume responsibility to anyone else, except to H & M for our work, for the limited assurance report, or for the conclusion that we have reached. Our review is limited to the above specified information, which does not include web-links, and to the historical information and does therefore not include future oriented information.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. The ISAE 3000 standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters have come to our attention that would cause us to believe that the above specified information in H & M Hennes & Mauritz AB's 2020 group sustainability reporting has not been prepared, in all material respects, in accordance with the reporting criteria.

A limited assurance engagement is provided only on the information disclosed in H & M Hennes & Mauritz AB's 2020 group sustainability reporting specified above, and not on information linked to and disclosed on other web pages. The presented information in the H & M Hennes & Mauritz AB's 2020 group sustainability reporting is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by H & M. This independent limited assurance report should not be used on its own as a basis for interpreting H & M's performance in relation to its principles of corporate responsibility.

Our review procedures are designed to obtain limited assurance on whether the above specified indicators are presented in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative, in all material respects. A limited assurance engagement consists of making inquiries, primary

of persons responsible for the preparation of H & M Hennes & Mauritz AB's 2020 group sustainability reporting and applying analytical and other evidence gathering procedures, as appropriate. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of H & M in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information regarding the above specified indicators in H & M Hennes & Mauritz AB's 2020 group sustainability reporting has not, in all material respects, been prepared in accordance with the reporting criteria stated above.

Stockholm, March 22, 2021
Ernst & Young AB

Andreas Troberg Authorized Public Accountant
Charlotte Söderlund Authorized Public Accountant

Thank you

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

Nathalie.StjernfeldtGrumme@hm.com

We appreciate your feedback.

H&M Group

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AFOUND