

100% CIRCULAR & RENEWABLE



COS.

Key facts & figures 2018

We reduced CO₂ emissions from our own operations by a further 11% compared with 2017.

AFOUND

We launched Afound, a brand with the mission of giving unsold products a new life.

57% of all materials we use to make our products are recycled or other sustainably sourced materials.



We collected 20,649 tonnes of textiles for reuse and recycling through our garment collecting initiative. That's 16% more than last year and represents the equivalent of 103 million t-shirts.

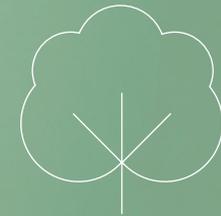


WE HAVE DEVELOPED A NEW WATER ROADMAP FOR OUR SUPPLY CHAIN WHICH CONTAINS OUR KEY GOALS AND ACTIONS UP UNTIL 2022.

H&M Group has developed 2030 GHG emissions reduction goals that have been approved by the Science Based Targets initiative.



We set a new circular packaging strategy and roadmap for the entire value chain.



95% of cotton used by H&M Group is recycled or other sustainably sourced.



OUR CIRCULAR AND RENEWABLE AMBITION CONTRIBUTES TO SDG 6, 7, 12, 13, 14, 15, 17.



100% Circular & Renewable: KPIs and goals

Goal-setting is an ongoing process. We work with experts – both internally and externally – and follow a science-based approach to define targets and actions wherever possible. The KPIs and goals below represent the initial key milestones along the way to achieving our ambition to become 100% Circular & Renewable.

100% Circular & Renewable

KPI	2015	2016	2017	2018	GOAL
% of recycled or other sustainably sourced materials of total material use (commercial goods)	20%	26%	35%	57%	100% by 2030 at the latest
% of recycled or other sustainably sourced cotton (certified organic, recycled or Better Cotton)	34%	43%	59%	95%	100% by 2020
Tonnes of garments collected through garment collecting initiative	12,341t	15,888t	17,771t	20,649t	25,000t per year by 2020
% of stores with recycling systems for main types of store waste	61%	71%	64%	63%	100%
% of facilities in own operations with water-efficient equipment	37%	51%	51%	64%	100% by 2020
% supplier factories in compliance with ZDHC wastewater standard for conventional parameter*	75%	82%	84%	87%	100%
% renewable electricity in own operations	78%	96%	95%**	96%	100%
% change in CO ₂ emissions from own operations (scope 1 + 2) compared with previous year	-56%	-47%	-21%	-11%	Climate positive by 2040
% change in electricity intensity (kwh/sqm per opening hour compared with 2017)	n/a	n/a	-2.7%	-8.2%	-25% by 2030

*2017 data is compliant with BSR, 2018 data and forward is compliant with ZDHC.

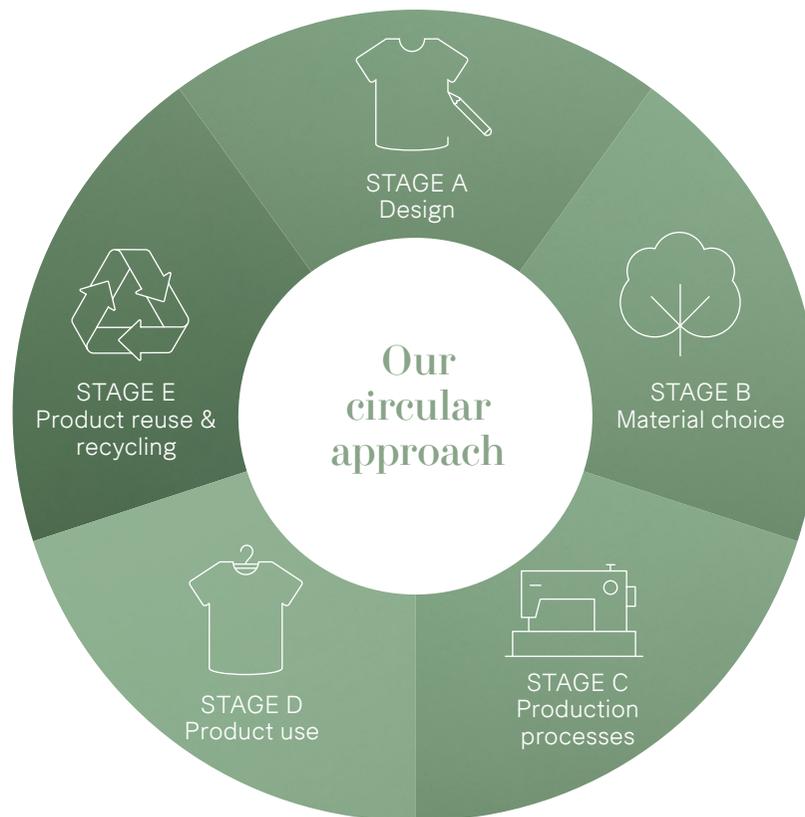
**Due to inaccuracy in calculation, the 2017 share has been corrected from 96% to 95%.

100% Circular & Renewable explained

Our planet provides us with an abundance of natural resources. However, with global demand rapidly outstripping supply, the fashion industry cannot continue to operate as it has in the past. At H&M group, we believe that an industry-wide shift from a linear to a circular business model is the only solution.

Circular models maximise resources and minimise waste. Using the current linear model, less than 1% of material used to produce clothes across the industry is recycled into new products.* But in a circular model, resources stay in use for as long as possible before being regenerated into new products and materials, resulting in a reduction in waste and negative impacts. They also open for new business opportunities, such as our newly launched Take Care concept that offers products, services, inspiration, and guidance on expanding the life of garments (read more on page 49).

To fulfil our 100% Circular & Renewable ambition, we are building circularity into every stage of our value chain; from the products we design and make, to the packaging, materials and processes we use, to how our



customers care for and dispose of our products. A business model can only be truly circular if it's powered by renewable electricity, which is why we are planning to use 100% renewable electricity throughout our own operations. Ultimately, our goal is to achieve a climate positive value chain – a value chain that creates a net positive impact on the climate by 2040.

Making fashion circular also presents a strong business case. By designing for circularity, maximising resource use by working with recycled or other sustainably sourced materials, prolonging product lifespan and creating a climate positive value chain, we will increase the efficiency and the value of our operations and products. This will enable us to continue designing and producing great, sustainable products while creating positive social and environmental impacts.

To become 100% circular, we are focusing on five key stages within our value chain that are applicable to both commercial and non-commercial products:

- A. Design
- B. Material choice
- C. Production processes
- D. Product use
- E. Product reuse and recycling

*Source: A New Textiles Economy: Redesigning Fashion's Future by Ellen MacArthur Foundation and CFI.

STRATEGIC TARGETS FOR SUSTAINABLE FASHION

H&M group is working strategically on sustainability, using science and partnerships to help us lead the change towards a circular and renewable fashion industry. We are continuously developing new goals and roadmaps in all areas of our circular approach.

One example is our research project with the Ellen MacArthur Foundation and Stockholm University's Stockholm Resilience Centre. The project, "A circular fashion industry within planetary boundaries", is an ongoing collaboration continuing through 2019. The project team is using a science-based approach to help H&M group and the wider industry set targets for a more sustainable fashion future.

The project adopts a global perspective and incorporates the whole fashion value chain. It combines the principles of the circular economy from the Ellen MacArthur Foundation with the science of planetary boundaries from the Stockholm Resilience Centre.

The principles of a circular economy act as guidelines for how the fashion industry can thrive while remaining within the earth's limits. That means designing out waste and pollution, keeping products and materials in use, and allowing nature to regenerate. Planetary boundaries highlight the extent to which human activities can impact the environment without harming our planet's critical 'life support systems'. In other words, planetary boundaries mark the edges of the playing field while the circular economy shows us how to play.



Photo credit: Tiffany Tsang.

Collaboration with MFC: Creating a fashion industry of the future

Make Fashion Circular (MFC) exists to drive the level of collaboration and innovation necessary to create a fashion industry that can thrive in the future.

The group brings together leaders from a wide range of backgrounds, including brands, cities, philanthropists, NGOs and innovators. H&M group is a core partner of MFC, which means we are collaborating with other core partners to lead the transition to a circular economy.

This year, MFC has created working groups to focus on new business models that increase clothing use, inputs that are safe and renewable, and solutions for turning used clothes into new ones.



“Collaboration and innovation are key to creating a fashion industry where clothes are used more and never become waste. As a core partner of Make Fashion Circular, and a brand with significant global presence, H&M group is playing an essential role in driving momentum towards this new vision for the industry.”

FRANCOIS SOUCHET, LEAD,
MAKE FASHION CIRCULAR



OUR PACKAGING STRATEGY

We take a holistic circular approach to packaging, taking all the stages of the value chain into account. Packaging, particularly when it's made from plastic, has a big environmental impact – from raw materials, to manufacturing, to use and disposal. Our industry, as well as others, need to shift from a linear to a circular packaging model. Plastic packaging is front-of-mind for customers, colleagues and legislators, which means we have a good opportunity for rapid change in this area.

During 2018, H&M group collaborated with the Ellen MacArthur Foundation to develop a circular packaging strategy that covers the reduction of packaging used, circular design, material use and re-use, and recycling systems.

We want to lead the change in circular packaging, both for commercial and non-commercial goods, and have set the following goals:

- We have set a circular design goal that all packaging should be designed to be reusable, recyclable or compostable by 2025.
- We will use 100% recycled and other sustainably sourced materials by year 2030.
- We will reuse or recycle 100% of packaging waste from our own sites by 2025.

In addition to our circular packaging strategy, H&M group has signed the New Plastic Economy Global Commitment,

developed between the Ellen MacArthur Foundation and UN Environment. This represents a unique opportunity for businesses and governments to step forward as global leaders working on solutions that address the root cause of plastic waste and pollution. In the agreement, we commit to:

- Take action to eliminate problematic and unnecessary plastic packaging by 2025.
- Take action to move from single-use towards reuse models where relevant by 2025.
- 100% of plastic packaging to be reusable, recyclable or compostable by 2025.



CIRCULAR BUILT ENVIRONMENT

We want to lead the change and take a holistic approach towards circular built environment, increasing our operational efficiency and the longevity of our stores and offices. To do this, we are developing a strategy that covers the whole value chain within our built environment. While we're working on this, we continue to collaborate with suppliers and external experts to identify and implement actions that can shift us from linear to circular stores and offices.

We have continued to work with the Ellen MacArthur Foundation to develop tools to assess the circularity of our non-commercial goods and suppliers. We have started the implementation and are continuing our work to achieve the already set goal, that at least 80% of new store concepts (H&M brand to begin with), should be circular by 2025.

For example, we recently rebuilt one of our H&M stores in Stockholm, Sweden, using mainly building materials and interiors from existing store materials, production samples or previous purchase leftovers. This shortened the lead-time along the entire value chain, maximised the value and use of the resources, and reduced our climate impact. We are currently looking into scaling this project.

A. Design



Design is our first opportunity to bring circularity into our value chain. Incorporating circular thinking early on paves the way for later stages to follow suit.

Circular design involves addressing the quality and durability of products, as well as their chemical input, materials and production processes. It also means finding ways to expand product lifespan, enabling better care and repair for our products and creating greater opportunities for rewear, reuse and recycling. We also apply circular design to our NCG (Non-Commercial Goods), such as packaging and stores, to increase their operational efficiency and longevity.

CIRCULAR GARMENT DESIGN

All H&M group brands have their own teams of designers and buyers. Having a circular approach in the design stage is crucial for creating circular products. Our designers are trained in choosing the right materials, which means choosing materials that are recycled or sustainably sourced and suited to longevity, reuse and recyclability.

We are continuing to develop our circular design strategy. During the past few years we have been utilizing the latest technologies in 3D visualization of fabrics and products, which has led to a reduction

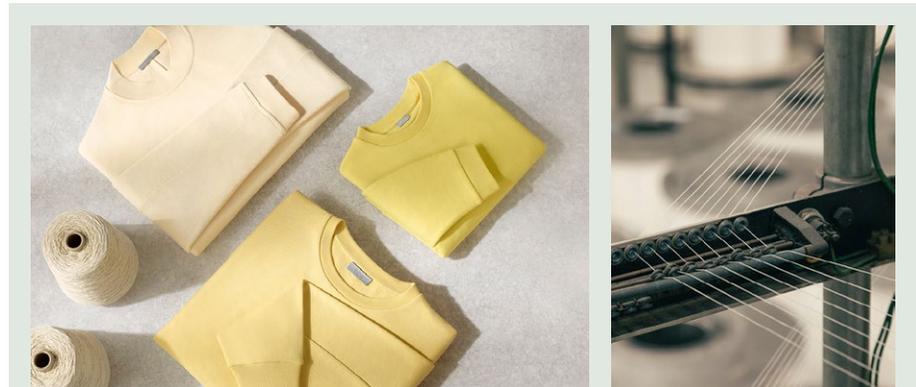
in sample rounds and use of resources. Now, designers are able to iterate on products in 3D, until they are sure it's the right style. This removes the room for error both in designing the desired products for our customers, but also removes potential communication errors between us and factories.



This hoodie was designed using 3D visualization technology.

PROGRESS

- We have set a circular design goal that all packaging should be designed to be reusable, recyclable or compostable by 2025.
- H&M group has signed up to the Global Fashion Agenda's Circularity Commitment. This exists to encourage more companies in the fashion industry to support and practice the principles of circularity, including circular design goals. We continue to report progress on the Global Fashion Agenda Circularity Commitment.



COS: Repurposing cut offs through design

COS has always worked according to the principles of timeless, functional and considered design. This approach honours longevity and durability, and therefore translates well into circular thinking. Following the recent success of the capsule collection "10", which focused on clever patternmaking and garment construction to reduce cut off waste, the brand launched the Repurposed Cotton Project.

Despite minimising cut offs as much as possible, COS knew there was still some high-quality cotton going to waste in their supply chain. Through the Repurposed Cotton Project, these

cut offs are now collected, shredded, compacted, spun, knitted, dyed and constructed into sweatshirts. The recycled cotton is blended with some virgin cotton to ensure its quality meets our customers' high expectations.

COS used a new recycling supplier to process the fabric, but the sweatshirt itself is produced in the same factories and using the same high standards as all other COS garments. That means not only is this product made from recycled fabric, it is also durable by design. It's early days, but the project could save up to 1.5 tonnes of cotton cuttings from going to waste every year.

B. Material choice



Our goal is to use 100% recycled or other sustainably sourced materials by 2030 at the latest. In 2018, we achieved 57%.

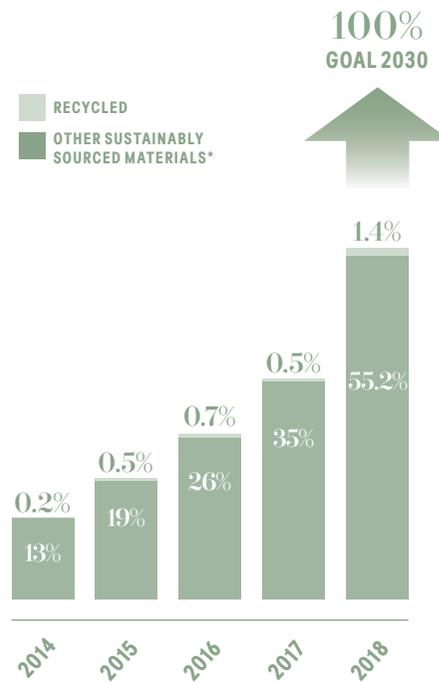
Recycled materials are a win-win: they stop waste material from going to landfill and reduce the use of virgin raw materials (as well as chemicals, energy and water used to make them). Similarly, sustainably sourced bio-based materials are naturally grown or cultivated, and better from an environmental perspective.

We use third-party verified lifecycle assessment data to evaluate the sustainability credentials of recycled and sustainably sourced materials. This includes LCA data as well as external material benchmarks based on LCA data, such as the Material Sustainability Index within the Higg Index.

We have specific sourcing policies for many of our raw materials. These typically require the use of credible third-party certification schemes to ensure sustainable sourcing, such as Organic and recycled standards, the Forest Stewardship Council (FSC) and the Responsible Wool Standard (RWS).

We are collaborating with industry experts to ensure we successfully integrate recycled and sustainably sourced materials into our value chain. For example, we are working with Fashion Positive

4.1. SHARE OF RECYCLED OR OTHER SUSTAINABLY SOURCED MATERIALS



*Not all sustainably sourced materials can be naturally grown or cultivated i.e. minerals or stones. In these instances, we set up material-specific policies such as the use of external standard schemes to secure sustainable sourcing.

PLUS, an initiative which seeks to identify, optimise and accelerate sustainable materials while making them widely available. So far, it has awarded grants to three recycling technology developers – Worn Again, Moral Fiber and Tyton BioSciences.



H&M Conscious Exclusive.

Recycled materials

H&M group uses several types of recycled materials, including recycled cotton, polyester, nylon, wool, cashmere, plastic, silver and down. We are constantly working to increase our use of recycled materials. However, for many types of textiles, particularly blended fibres, viable recycling solutions either do not exist or are not commercially available at scale.

To tackle this challenge, we are creating demand for solutions and working with scientists and innovators, including investments in Worn Again, Re:newcell and Moral Fiber, and engagement in, for example, DEMETO/GR3N, Fashion Positive PLUS and H&M Foundation's Hong Kong Research Institute of Textiles and Apparel (HKRITA).

PROGRESS

- 57% of the materials used by H&M group were recycled or other sustainably sourced. This is an increase from 35% in 2017.
- We have set a goal to only use recycled or other sustainably sourced material for packaging by 2030.
- H&M group is the second biggest user of recycled cotton in the world, and the sixth biggest user of recycled polyester. This is according to The Textile Exchange's Preferred Fiber & Materials Market Report 2018.
- We used the equivalent of over 325 million plastic PET bottles in our recycled polyester.
- Several of our brands continued to replace conventional polyester and nylon with recycled alternatives. ARKET and H&M worked with a 100% regenerated nylon fibre material called Econyl®, while all Weekday swimwear was made from recycled nylon and recycled polyester.
- We used recycled silver to make jewellery in H&M's Conscious Exclusive collection 2018. By recycling metals, we avoid the negative impacts of mining.
- We invested in Moral Fiber, an American innovation company developing a unique technology for polyester recycling.

• H&M group is part of DEMETO, a research project for polyester recycling with an objective to build a pilot plant designed to treat about 500 tons of polyester waste per year. The project is funded by the EU and its partners.*

LEARNINGS

- The use of any synthetic fibre creates the challenge of microfibre shedding. We are taking this very seriously and are looking for solutions. You can read more on page 48.
- We want to further accelerate the use of recycled fibres in our products. However, to do this and to be able to recycle all fibre types and blends at scale we need more technological advancement in recycling technologies. H&M group supports this development by investing and collaborating with innovators such as Worn Again, Re:newcell and H&M Foundation's Hong Kong Research Institute of Textiles and Apparel (HKRITA).



H&M Foundation launches ground-breaking textile-blend recycling facility

In 2016, the H&M Foundation and the Hong Kong Research Institute of Textiles and Apparel (HKRITA) formed a four-year partnership which, in 2017, led to a technological breakthrough. Using a hydrothermal method, HKRITA presented a solution for recycling cotton and polyester blends into new fibres.

In autumn 2018, the H&M Foundation and HKRITA

opened a recycling facility in Hong Kong, the first of its kind, putting the new technology into practice at scale.

“This is a significant step towards a new fashion industry that operates within the planetary boundaries. As we scale up and make this technology freely available to the industry, we will reduce the dependence on limited natural resources to dress a

growing global population,” says Erik Bang, Innovation Lead at H&M Foundation.

The H&M Foundation's 5.8 million euro projected investment in HKRITA has been made possible through the surplus from the H&M group's in-store garment collecting programs. The H&M Foundation allocates 50% of the total donated surplus to research on textile recycling.



*The DEMETO project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement no 768573.

Sustainably sourced materials

The production of many of the raw materials used in our products both depends on and impacts natural landscapes and their biodiversity. We depend on ecosystem services like pollination, water cleansing and carbon sequestration that forests, wetlands and other natural systems provide. It is therefore critical that the sourcing of our raw materials is done in a responsible way that respects people, animals and the environment by protecting and enhancing human rights, natural systems and biodiversity. We also aim to source materials that have the potential to be used as closed-loop materials. This means they can be recycled or regenerated, making them typically less polluting than other materials.

In 2018, H&M group joined EFFECTIVE, a multi-national research project with a focus on developing bio-based polyamide (nylon) fibres to make recyclable textile products. The project is funded by the EU and its partners*.



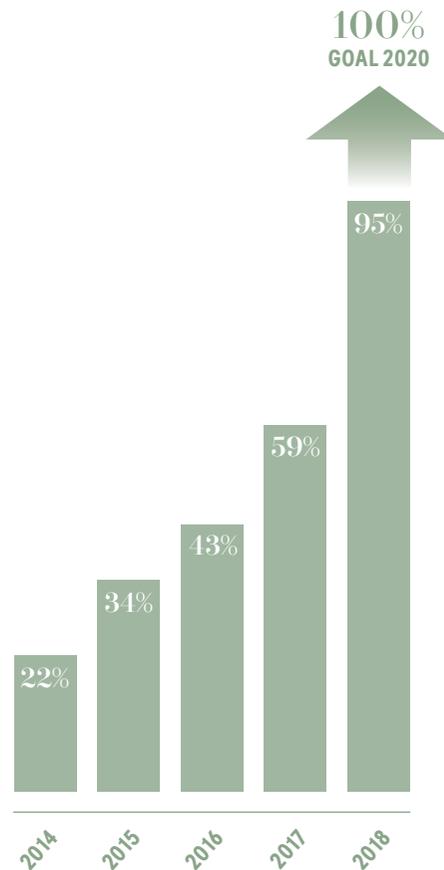
COTTON

Our goal is to use 100% sustainably sourced cotton by 2020, which includes certified organic cotton, Better Cotton (BCI) and recycled cotton.

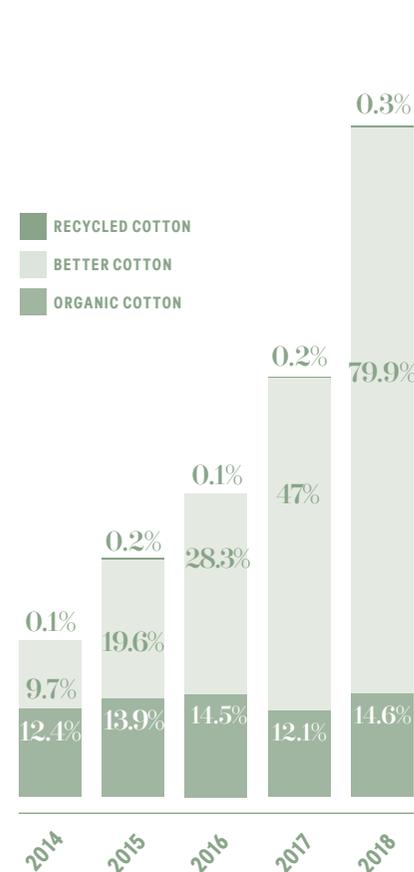
We are a founding partner of the Organic Cotton Accelerator (OCA) and are an active member of the board. The OCA was

formed to tackle sector-wide challenges and accelerate the growth of the organic cotton market. In 2018, prototype-sourcing pilot projects in India delivered results and learnings to guide us in securing supply chain transparency and integrity. It was also an important year in the initiative's strategy formation for long-term farmer capacity building and sustainable sourcing.

4.2. SUSTAINABLE COTTON IN % OF TOTAL COTTON USE



4.3. BREAKDOWN OF SUSTAINABLE COTTON SOURCES



An independent assurance statement related to GRI 301-1 is provided on page 106.

PROGRESS

- 95% of our cotton was recycled or other sustainably sourced cotton (Better cotton, organic or recycled cotton).

- H&M group is the biggest user of preferred cotton (for H&M group this consists of better cotton, organic and recycled cotton), and the second biggest user of recycled and organic cotton, according to The Textile Exchange's Preferred Fiber & Materials Market Report 2018.

- In autumn of 2018, Monki reached its goal to source 100% of its cotton products sustainably. Monki's sustainably-sourced cotton includes organic cotton, recycled cotton and Better Cotton sourced through the Better Cotton Initiative. Cheap Monday has also reached their goal to use 100% sustainably sourced cotton, in their case, meaning organic or recycled cotton during 2018. As for Weekday, all cotton in their denim and basics range is recycled or organic.

- We joined the EU project EFFECTIVE, with a focus on developing 100% bio-based and recyclable nylon.

WOOD-BASED MATERIALS

H&M group depends on forests for many of our materials, including solid wood, man-made cellulosic (MMC) fibres, paper and board material. Forests make up some of the world's largest and most important ecosystems; tropical rain-forests cover less than 10% of the planet's surface yet contain at least two-thirds of its biodiversity.

However, forests are rapidly being destroyed through illegal (or badly managed) logging and unsustainable land conversion. Responsible sourcing policies promote sustainable forest management practices and help combat illegal logging and deforestation. We commit to not source wood and forest materials from:

- Forests with threatened high conservation values (HCV)
- Forest areas that have been illegally harvested
- Natural forests cleared for plantations or other use
- Forest areas where traditional or civil rights have been violated

We aim to exclude the above by increasing our use of FSC (Forest Stewardship Council) certified materials, and by increasing our use of alternative fibre sources, such as agricultural residues and post-consumer textiles. These can work as replacements for wood fibre in, for example, man-made cellulosic materials and paper.

PROGRESS

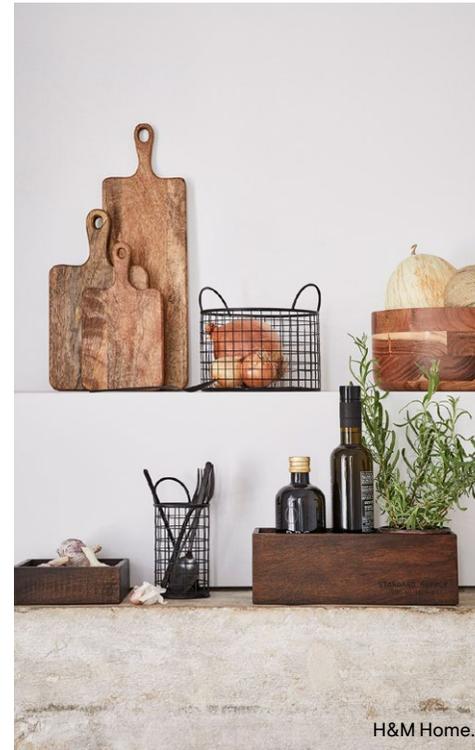
- According to the Textile Exchange's Preferred Fiber & Materials Market Report 2018, H&M group was the biggest user of preferred MMC fibres and the biggest user of preferred Lyocell.

- We released the updated version of our man-made cellulosic sourcing policy in 2018.

- H&M group is committed to the [Changing Markets Roadmap](#) for responsible viscose and modal fibre manufacturing. The objective of the roadmap is for viscose and modal producers to move towards a closed-loop manufacturing system. By 2025 H&M group will only use viscose and other man-made cellulosic fibre producers with good environmental practices that align with the roadmap, such as closed-loop processing of water and chemicals. We are working to reduce the chemical intensity of viscose in partnership with the Zero Discharge of Hazardous Chemicals (ZDHC) initiative. Please read more about this work in the chemical management section on page 42.

- H&M group is one of the investors in TreeToTextile, a Swedish innovation company that is working with new technologies that use wood pulp to make textile fibres in an environmentally friendly way.

- H&M group has contributed to the development of ForestMapper, a new public interactive tool that identifies ancient and endangered forests. ForestMapper was developed to support the marketplace in making responsible sourcing decisions. You can take a trip through the world's forests [here](#).



MAN-MADE CELLULOSIC FIBRES (VISCOSE, RAYON, LYOCCELL)

Man-made cellulosic (MMC) fibres are one of the world's biggest group of fibres, and an important material group for us as well. MMC fibres include viscose, lyocell and modal, and are made by dissolving pulp, which today is mainly produced from wood. However, since the world's forests face challenges such as forest depletion and deforestation, H&M group has engaged with others to push this industry in a more sustainable direction.

We are collaborating with the not-for-profit group Canopy and more than 160 other brands to eliminate the use of MMC

fibres sourced from ancient or endangered forests and other controversial sources, and to replace them with sustainably sourced alternatives. H&M group is one of the founding members of the CanopyStyle Leader for Forest Conservation and has been actively working with the CanopyStyle initiative since 2014. This initiative is working to eliminate sourcing from ancient and endangered forests, as well as closing the loop for textiles and supporting the development of alternative MMC fibres made from more innovative sources, such as agricultural residues and recycled textiles.

In our MMC sourcing policy (updated end of 2018), we commit that by the end of 2020, 100% of our man-made cellulosic fibres will be sourced from low risk suppliers that have completed CanopyStyle audits and attained a "green shirt" in the Hot button report*. This means they will indicate a low risk of sourcing from ancient and endangered forests. By the end of 2025, all H&M group MMC fibres will come from either FSC certified forests or from other, more sustainable and innovative sources, such as agricultural residues or post-consumer textiles.

WOOL

Although wool represents a small share of our total material use, it is still an important fibre and has benefits that are currently hard to replace. Our goal is that, by 2022, we will only source our virgin wool from farms certified to the Responsible Wool Standard (RWS).

**The Hot Button Report is a tool that enables brands and retailers to assess producers' impact on the world's forests, as well as their leadership in finding solutions to eliminate endangered forest fibre from their supply chain.*

This will ensure we only source wool fibres from farms that respect animals and the environment.

PROGRESS

- 100% of our tier 1, 2 and 3 suppliers have been briefed on the new RWS.
- ARKET became one of the first brands in the world to introduce the Responsible Wool Standard in their collection.

LEARNINGS

- Industry challenges and lack of traceability and transparency in the mohair supply chain made us act decisively. PETA revealed systematic animal abuse in the mohair industry in May 2018. We stopped buying products containing mohair in mid-2018 and by 2020, we will have phased out mohair completely.
- While cashmere is popular for its soft texture and known as a high-quality material, it comes with both environmental and animal welfare challenges. As part of our 2030 goal to only use sustainably sourced materials, we have decided to gradually phase out conventional cashmere and replace it with more sustainable options with similar high value for our customers.

LEATHER

We are continuously working towards a more transparent leather supply chain. Even though leather stands for a very small fraction of our total material use, we want all the animal-derived leather we use to come from sources we know are proactively addressing their environmental, social and animal welfare impacts.



ARKET, one of the first brands in the world to introduce Responsible Wool Standard in their collection.

We have teamed up with other brands and organisations to work together for a more sustainable leather supply chain. This includes working with the Responsible Leather Roundtable, driven by the Textile Exchange, the Leather Working Group and its sub-group on animal welfare.

We are systematically working to integrate tanneries into our social and environmental sustainability assessments. During 2018 we have further reinforced our sustainability commitment for leather products, putting the focus on chrome-free solutions for the coming years. By 2025, all our animal-based leather will be chrome-free and originate from more sustainable sources.

However, because leather has so many sustainability challenges – from farm level up to finished product – we are also focused on finding more sustainable non-animal leather alternatives made using plants and other bio-based materials. We are increasingly optimistic about the potential of these innovative alternatives.

OTHER SUSTAINABLY SOURCED MATERIALS

All the virgin down we use in our products comes from farms certified to the Responsible Down Standard (RDS). In 2018, we also introduced recycled down and feathers into our products, which is collected from post-consumer goods. According to the Textile Exchange's 2018 Preferred Fiber Market Report, H&M group is the world's largest user of preferred down, which includes both RDS certified, and post-consumer recycled down.

C. Sustainable production



Sustainable production processes are central to circular systems. In the fashion and design

industry, we rely on water and chemicals in most of our production processes. To achieve sustainable production and our larger 100% Circular & Renewable ambition, we must address our chemical and water management, and tackle the microfibre challenge that comes from using synthetic fibres.

CHEMICAL MANAGEMENT

To ensure the safe use and reuse of materials in the circular system, we must ensure good chemical management. Our vision is to lead the change towards safe products and a toxic-free fashion future.

In 2018, we started the process to adopt Screened Chemistry to enable us to select the best available chemicals for our production. Screened Chemistry goes beyond Restricted Substance List /Manufacturing Restricted Substance List chemicals and identifies best-in-class chemicals and safer alternatives. It includes a

hazard-based scoring system to rate chemicals and formulations based on human health and environmental toxicity, and automatically designs hazardous substances out. This is a prerequisite for circular economy.

We have also re-launched a Positive List of chemicals that we promote throughout our supply chain. This Positive List will be included in the Zero Discharge of Hazardous Chemical (ZDHC) Gateway, as a web-based industry platform to choose the best chemicals. We are working to align all the tools and standards within the fashion industry, which will help achieve our goal of zero discharge. By 2030, all products on our Positive List should be assessed by their hazard to secure our vision for a toxic-free fashion future.

We have continued to work alongside other brands and stakeholders on the ZDHC programme, raising awareness and developing shared industry standards and tools.

Using recycled materials is a key element in the circular economy. However, increasing the use of recycled materials while staying toxic-free presents a challenge. We have therefore initiated mapping of textile waste streams and assessing chemicals. In this way, we can make sure that textiles containing hazardous substances are not allowed to re-enter the production cycle.

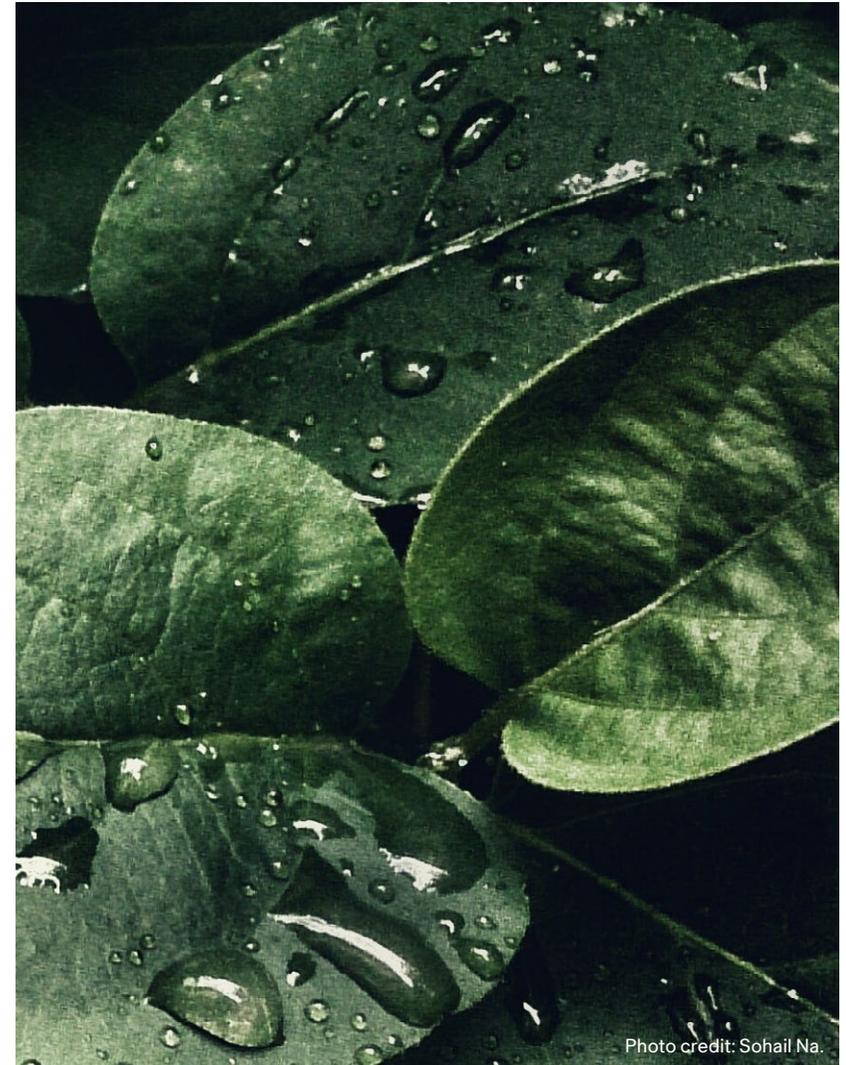
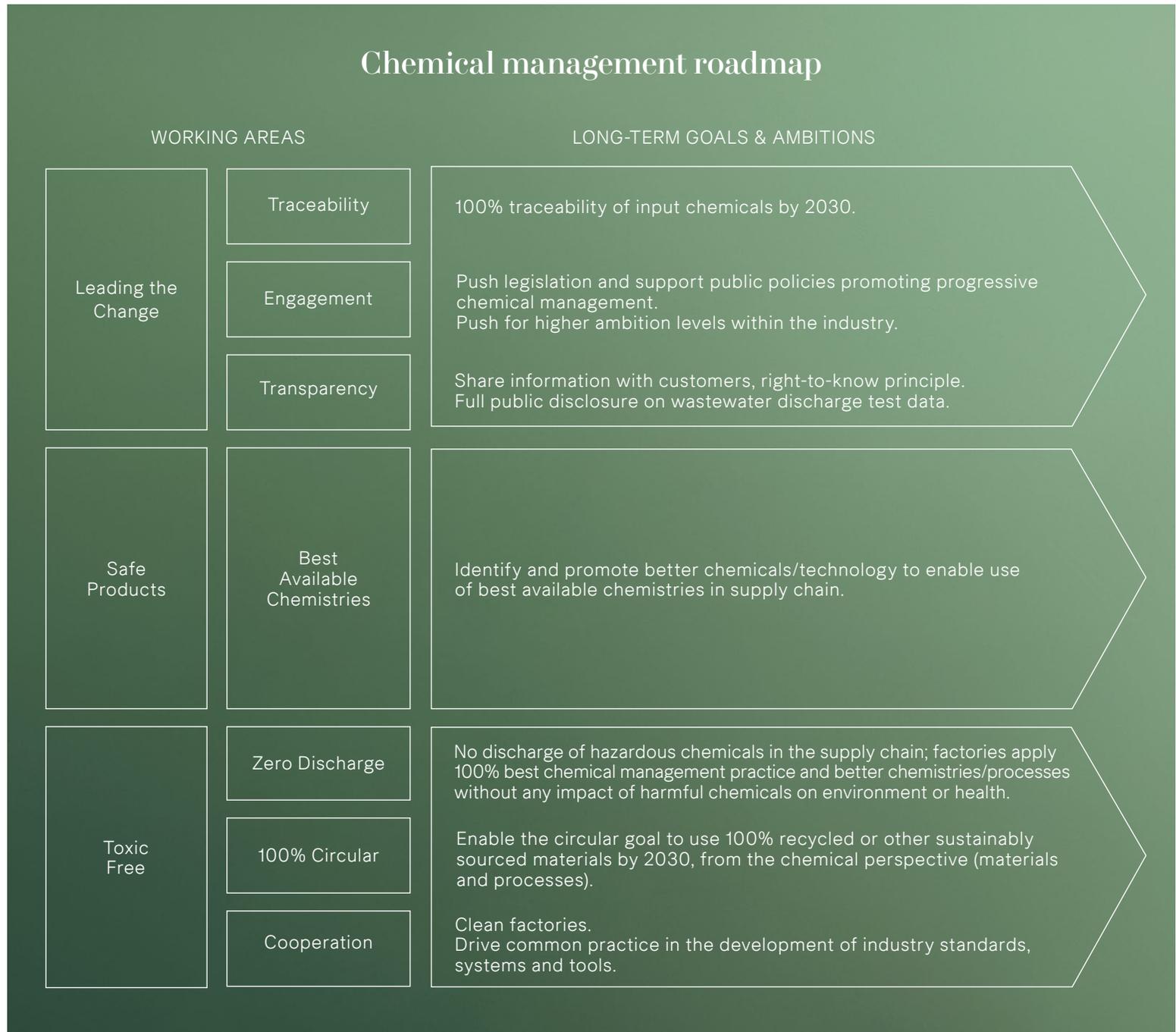


Photo credit: Sohail Na.

PROGRESS

- We adopted Screened Chemistry as a method to choose the best available chemicals. Currently we have 5,300 chemical products on our positive list and 53 chemical suppliers who apply Screened Chemistry, and we are actively expanding this list by working closely with the chemical industry. To further promote and develop Screened Chemistry we hosted an industry dialogue sharing our chemical vision and roadmap.
- 272 of our suppliers participated in wastewater testing using ZDHC wastewater guidelines and the results are published in the ZDHC Gateway.
- The Environmental Emissions Evaluator (a tool to help suppliers assess and improve their chemical usage and discharge) is now being used by 204 of our suppliers (49 suppliers in 2017) in China, Bangladesh, Pakistan, Cambodia, Vietnam, India, Turkey, and Indonesia.
- We participated in Re-TEX, a project within the CE100, where mechanically recycled cotton was tested for restricted substances. We will further evaluate and continue testing recycled materials in collaboration with other brands.
- Together with ChemSec we published a joint letter to push for stricter legislation of recycled materials and to put pressure on suppliers to increase chemical transparency and use of safer alternatives.



Water management

In 2018, a report on SDG 6 Clean Water and Sanitation stated, “the world is not on track to achieve the global SDG 6 targets by 2030 at the current rate of progress”. With 2.3 billion people lacking basic sanitation services, along with worsening worldwide water pollution, we are resolved to push harder for action and progress on this issue, both within our value chain and beyond.

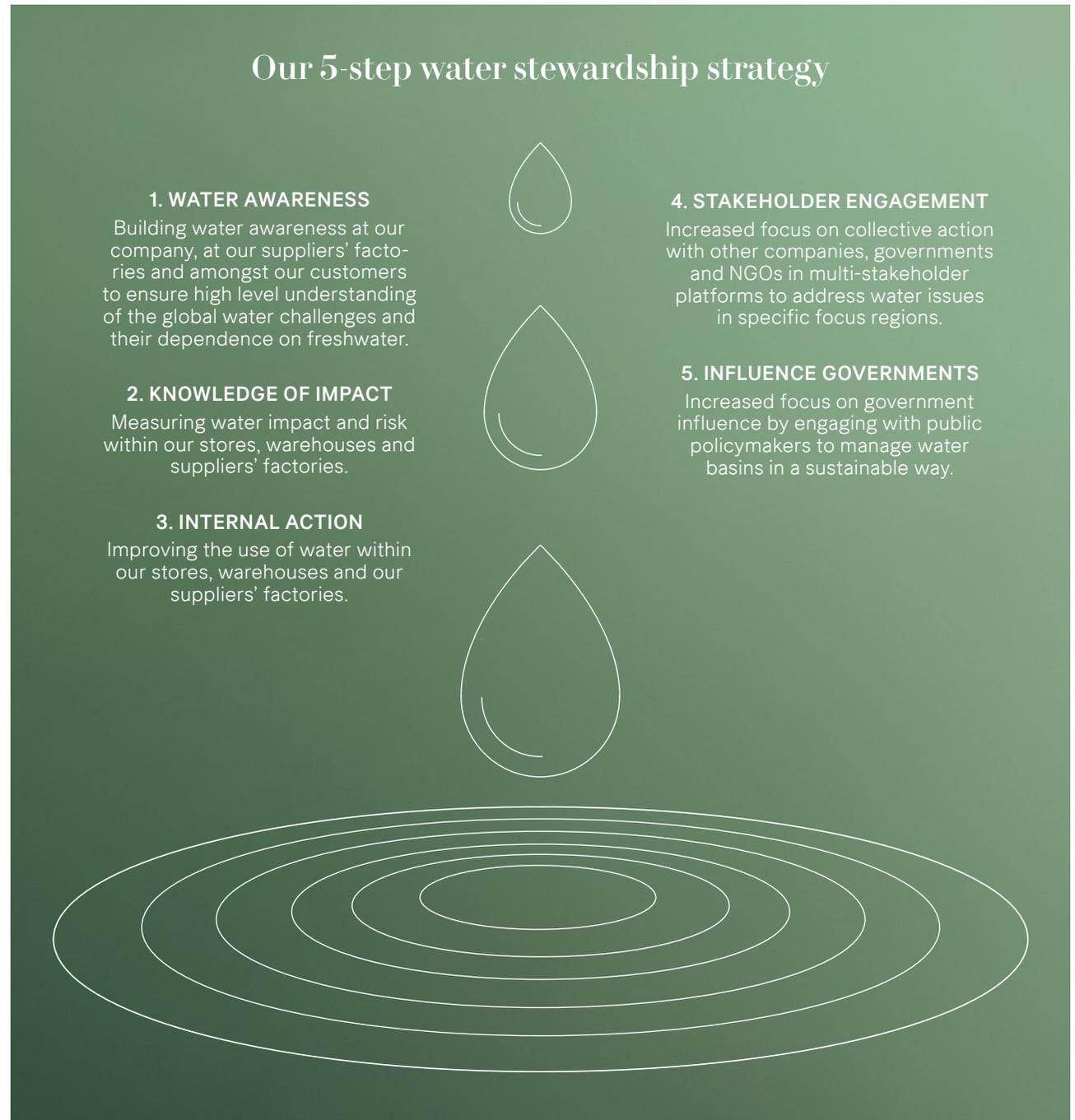
H&M group has been working to reduce water impacts throughout our value chain for over ten years. We began a long-term partnership with WWF in 2011, with the goal of becoming a leading water steward within the fashion industry. With the help of WWF, we developed a five-step water stewardship strategy.

During World Water Week in 2018, H&M group and WWF called for action from the textile and apparel industry to join forces with stakeholders, governments, development partners, wider industry and water users to find solutions to today’s water-related challenges in basins where we operate.

OUR WATER STEWARDSHIP STRATEGY

H&M group’s water stewardship strategy takes an innovative and integrated approach, going beyond factory lines to address large scale, local, environmental and social impacts across our whole supply chain.

In 2018, we revised our Water Management requirements for suppliers. This meant raising the bar for functional effluent treatment plants and requiring the measurement and tracking of water streams for efficiency and benchmarking.



Water roadmap 2018–2022

FOCUS
GOAL

WATER QUANTITY

Reduction of production water usage by 25% in comparison to baseline of 2017 for tier 1 and tier 2 (l/kg, l/pc, l/m)

Maximize the use of rain water harvesting where feasible

WATER QUALITY

100% Effluent Treatment Plant (ETP) functionality assessments to achieve green grading

100% ETP discharged water quality are ZDHC wastewater compliant-Foundation Level

WATER CIRCULARITY

15% of water will be recycled out of total production water consumption

5% of discharge wastewater will be reused within the facility

Our vision is to have a positive impact on water in our value chain by stewardship actions.

FOCUS
GOAL

COLLECTIVE ACTION

Build and enhance relationships in two prioritized driver basins stakeholders

Progressive support for science-based target for water



COMMUNICATION

100% H&M group PO staff to receive basic water education via e-learning

Raise supplier awareness on water-related risks, mitigation and efficiency measures

Water roadmap for supply chain

As part of our water stewardship strategy, in 2018 we launched our new Water roadmap for our supply chain, which contains our key goals and actions up until 2022. It addresses the water-related challenges we face around the world in a way that puts our industry, and others, on the right path to SDG6, to “ensure availability and sustainable management of water and sanitation for all”.

The roadmap represents a paradigm-shifting move towards integrated water management that values water as a shared resource. For example, we set an ambitious goal to recycle 15% of wastewater back into production processes by 2022. We have started to use five new water recycling solutions for textile and apparel production processes, which will improve the quality and create opportunities for water recycling in many of our production countries.

H&M group operates in many medium-to-high risk water basins where challenges vary from water scarcity to water pollution. We have assessed the risk of our suppliers’ production facilities with the WWF Water Risk Filter and integrated the necessary actions and goals in our roadmap. We have also aligned our ambition with SAC/Higg FEM3.0, which we will use to measure the water sustainability performance of our suppliers’ facilities.

PROGRESS

- We have assessed all onsite industrial Effluent Treatment Plants (ETP) in our value chain and worked with our suppliers to secure appropriate technology, operational control and high levels of relevant competence. We now have 93% functional ETPs in our supply chain.
- Our current rate of compliance with ZDHC wastewater standard for conventional parameters is 87%.
- We trained all our tier 1 and tier 2 facilities on Higg FEM 3.0. This supported them in making self-assessment of their environmental performance. We also rolled out our Towards Circular & Renewable training for facilities, which includes capacity building on cleaner production with a focus on water, energy and chemicals.
- Our work with resource efficiency and cleaner production programmes has continued to help our suppliers to reduce their water consumption. In 2018 our efforts projected water consumption reduction by 4.7 million m³.
- We also encourage our suppliers to use a rain water harvesting system to efficiently capture, store and use natural water sources whenever feasible. In 2018, our partner Hamza Textiles Ltd in Bangladesh harvested 18.9 million litres of rain water.
- We have further improved our understanding of where the water in our supply chain comes from. 38% of water comes from the ground, 5% from surface water, 52% from municipal water, 5% from Produce /Process Water. (Self reported data Higg FEM 3.0 in 2018).

- 30.8% of our denim products have achieved a green level EIM (Environmental Impact Measurement), which means they used a maximum of 35 litres of water per garment during the treatment processes.
- We have installed water-efficient equipment in 64% of our own stores, offices and distribution centres. Our goal is to install water-efficient equipment across all our operations by 2020.
- Our partnership with WWF contributed to bringing in more global fashion brands to the WWF water stewardship program in Taihu, China. The first standardized supplier training material was digitized and implemented for suppliers in autumn 2018.

LEARNINGS

- In many countries where we operate, water is not considered as a valuable, natural resource. This lowers awareness and creates a perception that water is dispensable. We are supporting the Bangladesh government's Water Valuation Study to develop an operational shadow price for water, so its value can be considered in policy, projects and investment decisions in the public and private sector.
- Many countries lack the required innovation to provide solutions for reducing water consumption. Processes for washing and dyeing textiles still depend on water as a carrier, and often require huge volumes of water. Newer technology and innovation can significantly reduce water usage in textile processing. We are exploring new recycling techniques for textile processes with more efficient water consumption.



- Most existing water management platforms work in silos, making it much more challenging to reach common industry goals. The many organisations working to improve

water management means there are both gaps and overlaps. If we could join forces, it would help us align and use available resources more effectively.

Promoting cleaner production in the Büyük Menderes basin

Water facilities often require financial support to adopt cleaner production processes. In many basins where we operate, such financial mechanisms are either absent or not promoted. Providing easy access to finance increases resource efficiency and maximises profit for the facility. Between 2017 and 2018, we worked with WWF to promote cleaner production in the Büyük Menderes river basin in Turkey. This involved engaging relevant ministries and industrial bodies, as well as contributing with training programmes, feasibility studies, favourable financing programmes and knowledge-boosting activities for programme participants. Through this project, we are facilitating financing options for the textile facility so they can adopt cleaner production techniques in their production. In May 2018, several major brands emphasised the importance of cleaner production to their global supply chains at a textile engagement event. This was followed by a Cleaner Production Guideline launch in September 2018.



Photo credit: Cenk Oruç.

“We will continue our work in the Büyük Menderes region and scale to the heart of the textile industry in Turkey, the Ergene region, during 2019. Other companies

will also join us, which is excellent. We feel that we are gaining momentum”, says Julia Bakutis, Sustainability Manager, H&M group Europe.



Photo credit: Charlotta Järnmark/WWF.

“Healthy rivers and freshwater ecosystems are central to achieving the Sustainable Development Goals. WWF’s partnership with H&M group has set ambitious targets on water stewardship, reducing supply chain water impacts, supporting collective action and strengthening water governance in key regions – targets which will help to restore and protect rivers and freshwater ecosystems for the benefit of people, business and nature.”

STUART ORR,
WWF PRACTICE LEAD,
FRESHWATER



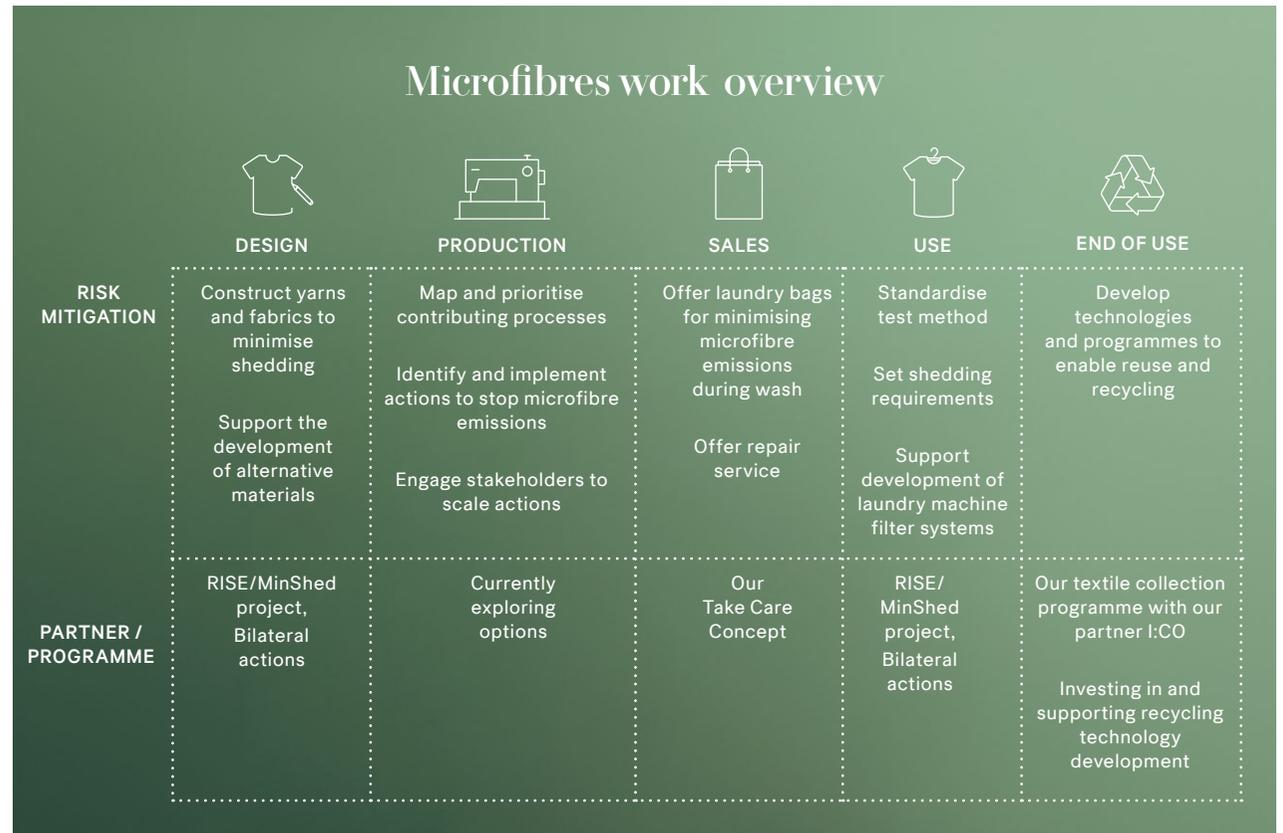


MICROFIBRES

When synthetic fabrics like polyester, nylon and acrylic are washed, they release microfibres into the water system, which disturbs natural ecosystems. Each year, approximately 500,000 tonnes of microfibres – the equivalent of 50 billion plastic bottles – enter the ocean as a result of clothes-washing.*

H&M group is highly concerned about the environmental impact of microfibres and is engaged in driving research and contributing to a global solution, together with many others in the fashion and design industry. The issue of microfibres needs to be addressed at several stages throughout the value chain, including design, production, usage and end-of-life. We are also investigating our own synthetic textiles to see how the fibre composition sheds during the washing process. This way, we will be able to see if we can make any adjustments in the making of the fibres to reduce the shedding.

*A New Textiles Economy: Redesigning Fashion's Future by Ellen MacArthur Foundation & CFI page 39.



PROGRESS

- We joined the Swedish research group RISE in their project MinShed, which aims to find methods of designing clothes with minimized microfibre shedding. Testing and evaluation of fabrics to find parameters that affect the shedding behavior is currently in progress. Through MinShed, we also support an investigation to understand how and if washing machines can be equipped with filters to reduce microfibre emissions. Read more about MinShed [here](#).

- We are developing a research programme to create a better understanding of how and where to best reduce microfibre emissions in textile production. The purpose of this programme is to study microplastics generation and management in the textile production processes. This covers polyester, recycled polyester, nylon, and acrylic.

- We have added laundry bags that specialize in filtering microfibres to the assortment and are rolling this initiative out to more and more mar-

kets. Microfibre-reducing laundry bags aim to prevent the release of microfibres into the water system during the wash. We recognize this is a short term solution, and more robust system solutions must be developed for the long term.

- We are closely monitoring the development of alternative bio-degradable fibres that potentially could be used as alternatives for today's synthetic fibres.

D. Product use



Circular products stay in use as long as possible before they are recycled. For most products, a major part of the lifespan is with their owner. We have a responsibility to ensure we create long-lasting products and that we help our customers keep them for longer.

We can prolong the lifespan of our products and create a truly circular system by designing durable products and empowering our customers to care for and use the products in a sustainable way.

CUSTOMER USE

We encourage our customers to make sustainable choices while using our products. We do this by providing information about garment care, encouraging customers to use products for as long as possible and offering opportunities for reuse and recycling, rather than disposal. For many years, our garments have had the Clevercare label included in their washing instructions. This encourages washing at lower temperatures and hang drying instead of tumble drying. Simple behavioural changes like this can dramatically

reduce the environmental impact of our products after they leave our store, as well as increasing their overall lifespan.

Now we have taken further steps to create more products with emotional durability through H&M's Take Care concept, Monki's Re:Love event and Weekday's in-store workshop. Read more on these initiatives on page 51.

PROGRESS

- After the initial pilot project in Germany we launched the Take Care concept in several markets including France, UK, Sweden, and Norway.

Take Care concept expands to more markets

Our Take Care concept inspires and enables our customers in caring for their fashion favourites – from the moment they leave the store with their new clothes up to the time they bring them back for reuse and recycling. Because 21% of the climate impact in a garment's life occurs after it has left the store, we want to help our customers keep their clothes fresh and prolong their life. The Take Care concept does this by offering guidance and hands-on support for smart repairs and easy modifications. We also offer a range of products to support this behaviour change, including eco-friendly detergents, sewing kits, deco-patches and innovative washing bags that collect micro-fibres, to mention a few.

During 2019 we will roll out the Take Care concept to more markets. Several brands in the H&M group have ongoing initiatives similar to the Take Care concept, personalized to their customers

and reflecting their brand identity. Together we can make fashion last longer. “Many customers want to take care of their favourite wardrobe pieces, but often

don't know how. With Take Care, we can offer them guidance and provide the services and products to make it happen”, says Johan Lindström, Take Care Group Manager at H&M.



H&M.

E. Product reuse & recycling



At H&M group, we work hard to increase the number of our products that are reused or recycled.

We run renewal and remake projects, turning old clothes into new fashion favourites through reprinting, re-purposing and remaking.

We also continue to collect unwanted clothes and home textiles from our customers through our garment collection initiatives. In 2016, H&M brand set a goal to collect 25,000 tonnes of unwanted clothes annually by 2020. In 2018, we collected over 20,649 tonnes.

We started collecting unwanted textiles (from any brand, in any condition) in H&M stores in 2012 in Switzerland, rolling out the initiative globally in 2013. We also offer the service in all & Other Stories, Monki and selected Weekday stores. & Other Stories also offers instore collection and recycling of beauty product containers. Our new brand Afound offers collection service not only for garments, but also shoes.

*Sorting results vary due to geographical and seasonal changes.

We collaborate with I:CO (a global partner for collection, reuse and recycling of used textiles and shoes) to run our garment collecting scheme. I:CO and their partners sort all collected textile and shoes according to the EU Waste Hierarchy which promotes reuse before recycling.

About 50–60%* of the textiles are sorted for re-wear or reuse: wearable pieces are kept in their current condition and marketed as second hand garments. Some are even used to create new products in both regular and special collections for H&M group brands.

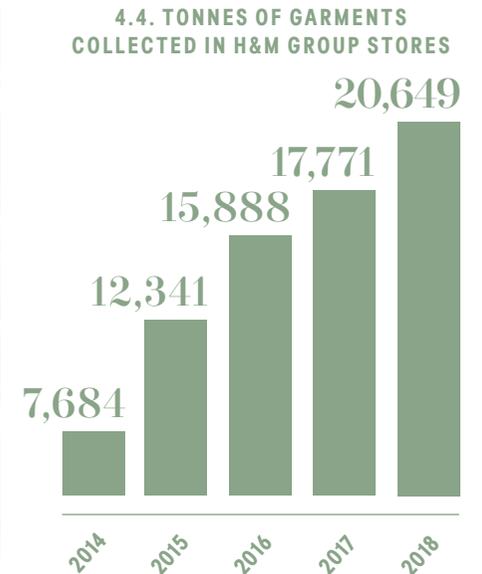
About 35–45%* of the textiles are recycled to become products for other industries or made into new textile fibres. For example, some textiles are used to make cleaning cloths. Other textiles are mechanically shredded into fibres and used to make insulation materials or painters' drop cloths. During this process, buttons and other hard materials are sorted out. Even the dust, which is left over from shredding is kept and used for felt board production.

A still rather small share of the recyclable textiles is also recycled



Used clothing and shoes are sorted for reuse and recycling at I:CO's partner facility plants. Photo credit: I:CO/SOEX.

into new textile fibres and yarns for our closed loop collections. This is something we want to change and dramatically increase through investing and engaging in solutions available for all types of textile fibres and blends. The remaining 3–7%* that can't be reused or recycled are used as combustibles for energy production. Sending textiles to landfill is not an option.



Please find an independent assurance statement related to our tonnes of garment collected for reuse and recycling on page 106.

We are constantly working to increase the share of textile-to-textile recycled materials in our products. As new recycling technologies become available at scale, we will be able to create more products from the post-consumer waste we collect via our garment collecting scheme. This will help us reach our goal to use only 100% recycled or other sustainably sourced materials by 2030.



Weekday.



Monki.



Cheap Monday.



Cheap Monday.

Product re-use and on-demand production

MONKI recently teamed up with the University of Borås on Re:Textile, a project that finds new ways for fashion to be kinder to the environment. The brand hosted a two-day Re:Love event in Gothenburg and Stockholm. Customers were invited to bring old clothes or find new Monki favourites. Over half of those attending brought old Monki favourites and customised them for free with graphics, stickers and prints.

WEEKDAY launched the Weekday Workshop in August 2018, a mini manufacturing hub inside the store in Stockholm. Customers were offered production on-demand of local trends, testing new designs before producing in bulk, and replenishing stock on the fly – all in all reducing the amount of unsold products and increasing accuracy to demand. The workshop also invited Weekday customers to co-create products with prints to their liking. After the success of the workshop, Weekday is scaling up to nearshore facilities that make use of new printing, embroidery and custom fit technologies, all part of a circular production innovation plan. We've seen in research, if a customer is part of the process of creating their product, it is more likely that the product will last

longer in their wardrobes and be worn more frequently. Weekday's experiment has proved successful: customers become more interested in how products are made and are eager to be part of new experiences, like printing in store and on-demand production. This initiative has resulted in permanent printing services in one of Weekday's stores in Stockholm.

CHEAP MONDAY launched their yearly C/O collection for AW18, which in this capsule creates new products by upcycling workwear. The collection consists of jackets, work chinos, t-shirts, sweats and a shopper bag, all made from discarded workwear with that sought-after worn look. The project aims to shift the context from workwear to fashion, rescuing the value of pieces that have become worthless for their primary purpose. By saving old, quality garments from going to waste, the collection is saving virgin materials, carbon emissions, water and chemical use.

The project was initiated by Cheap Monday together with Re:Textile, a project within Science Park Borås in Sweden that focuses on developing structures for circular processes and re-design in the textile industry.

PROGRESS

- With our newly created brand Afound, we use a new business model that gives unsold fashion new life by selling overstock, both from H&M group brands as well as over 100 external brands.

- We collected 20,649 tonnes of garments through our garment collecting initiatives. This is an increase of 16% from last year, meaning we have achieved our 2018 goal.

LEARNING

- Mechanical recycling techniques are advancing, but are restricted as to which fibres they can be used for and how the fibres are affected by the process. We know it takes time for new recycling technologies to scale and are therefore involved in research projects such as DEMETO and H&M Foundation's Hong Kong Research Institute of Textiles and Apparel (HKRITA), to support breakthroughs and make solutions more mainstream. Through H&M group's investments in Worn Again, Re:newcell and Moral Fiber, we also speed up the acceleration of recycling technologies available at scale.

WASTE MANAGEMENT WITHIN OUR OWN OPERATIONS

To make sure we operate in a truly circular way, we always aim to reuse or recycle the waste generated within our own operations. During 2018, we rolled out Sustainable Workplace Standard (SWS). SWS is our commitment to create the best possible sustainable working environment in our offices, distribution centres and stores, such as waste management and recycling. The other categories within waste management are faulty products and store and distribution centre waste.

FAULTY PRODUCTS

Waste, particularly product waste, is an emerging topic in our industry. We believe one product going to waste is one too many, whether that's after customer use or before. We have a strict policy in place that prohibits the destruction of any products that could be sold, used or recycled. We naturally want to avoid any overstock; it's in our interest to sell everything we produce. We put a lot of time and effort into forecasting the demand of our customers as accurately as possible, which involves using advanced AI tools. If we plan incorrectly, we will discount a product and sell it, but we will never destroy it.

We also apply very strict quality requirements to all our products. If, despite preventive measures, a product is made that does not meet these quality requirements, we have a responsibility not to sell it. When this happens, we either give the product to charity or recycle it. The same goes for samples or any damaged or faulty products returned to us by our customers. There are very rare instances in which a product cannot be sold, given to charities or recycled. This is the case if a product has failed certain chemical tests, has been contaminated by mould, for example, during transportation or when there is no viable recycling or downcycling solution available. In those rare cases the product unfortunately can't be reused, donated to charities or recycled.

We work preventively to minimize any such instances wherever possible and to accelerate new recycling technologies that can handle these challenges.

However, if they occur, we follow a strict ban on landfill. Due to lack of solutions and to keep the risk of circulating unsafe materials to an absolute minimum, such products unfortunately have to be destroyed (prioritizing incineration for energy recovery where possible).

STORE & DISTRIBUTION CENTRE WASTE

We focus on managing the most common forms of waste within our stores and distribution centres (DCs) – cardboard, plastic and paper. These materials are usually collected in our stores and then sent to our local DC facilities for recycling. We occasionally face a challenge when a country or region does not have the necessary recycling systems available. In 2018, the share of stores that had enough recycling systems for our waste equated to 63%. This indicates a decrease from last year's result (2017: 64%), which can be attributed to improved data collection.

In 2018, 92% of waste originating in our DCs and waste delivered to our DCs from stores was recycled compared to 93% in 2017. Our aim is to recycle 100% of the waste collected in all our stores and 95% of waste originating or delivered to our DCs.

PRODUCTION WASTE

In 2018, H&M group started developing a strategy that focuses on the management of waste generated by our group's supplier factories. Over the next two years, we aim to set goals and roadmaps that will help in managing the waste resources through reduction, reuse and recycling. In 2019, we will focus on waste sources and waste disposal, and continue to evaluate options for waste recovery in the different production markets we operate.

PROGRESS

- 0.453% of our total product assortment was reused (including charity donations) or recycled due to the products being faulty.

- 0.052% of our total product assortment was destroyed due to the products having failed certain chemical tests, were contaminated by mould, for example, during transportation, or when there was no viable recycling or downcycling solution available.

- This year, the share of stores with recycling systems is 63%.

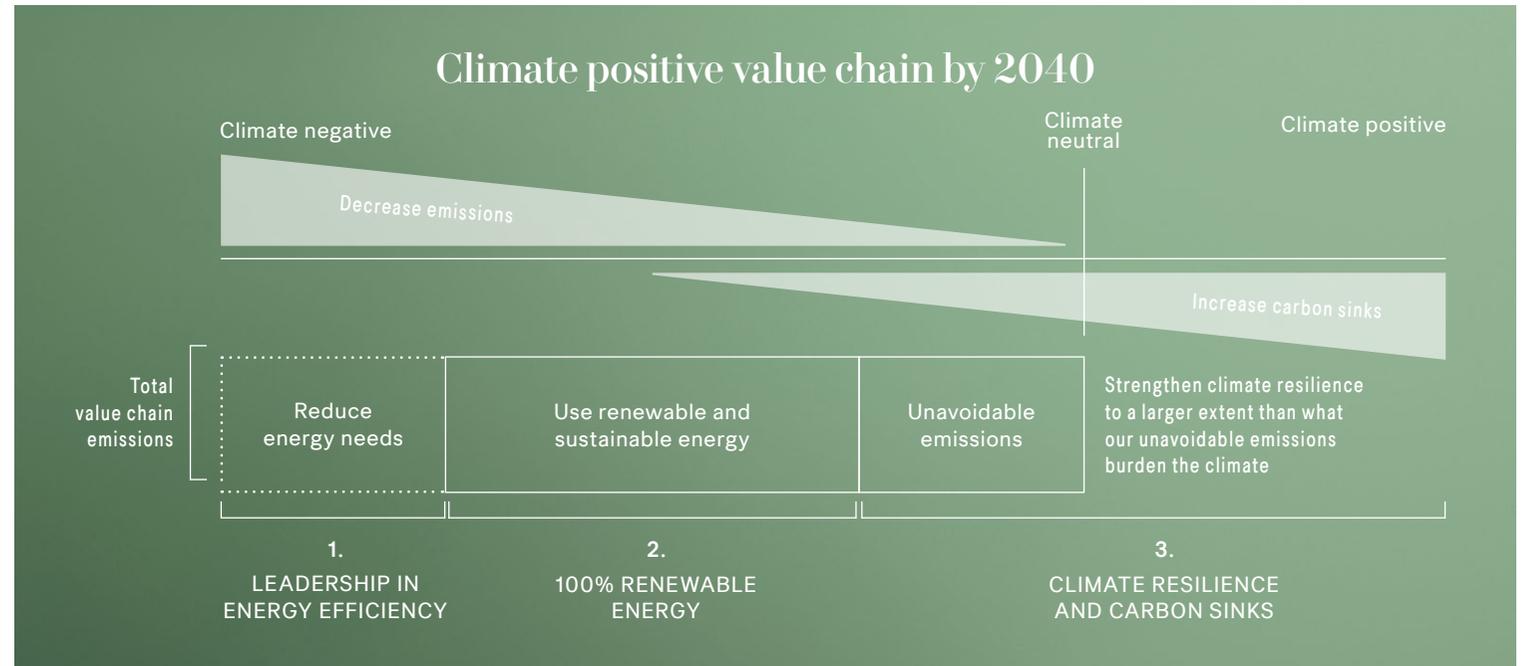
- We recycled 92% of waste originating at our DCs and waste delivered to our DCs from our stores (2017: 93%).

- In 2018, we launched the Sustainable Workplace Standard and plan to roll it out to all our offices, distribution centres and stores worldwide during 2019.

Becoming climate positive

Becoming circular and climate positive are closely linked. Climate change remains one of the greatest challenges of our time. Its consequences will affect our entire planet and everyone living on it. To tackle the challenge of climate change, we need to collaborate across sectors. For example, by creating energy-efficient products and services, sustainable and innovative material use, and improvements in supply chains.

We at H&M group are determined to take the lead in tackling the challenge of climate change. That means going way beyond simply cutting our emissions, committing instead to make a significant contribution to help our planet stay below the 2°C global warming limit as set by the Paris Climate Agreement. In addition, a recent landmark report by the UN Intergovernmental Panel on Climate Change (IPCC) described how we must stay below



1.5°C of warming to avoid the worst impacts of climate change and called for all sectors to hasten the transition to climate neutral or positive operations.

We have set an ambitious goal to become climate positive by 2040, which includes everything from raw materials to the consumers' use of our products. It means removing more emissions from the atmosphere than our value chain emits. We don't

yet have all the solutions we will need to achieve this goal, but the urgency of imminent climate change means we must start taking bold, decisive action now. Together with the help of expert scientific organisations and the WWF Climate Savers, we have identified three key priorities for action.

- Priority 1 focuses on leadership in energy efficiency to enable us to use as little energy as possible.

- Priority 2 tackles our 100% renewable energy goal, which will help us to ensure the energy sourced by H&M group and our supply chain is renewable.

- Priority 3 targets climate resilience and carbon sinks to address unavoidable emissions and emissions beyond what our value chain is responsible for. These three priorities relate to both our own operations and those across our value chain.

OUR KEY COMMITMENTS

Besides the efforts across our value chain to reach our climate positive goals, we are also engaging with other actors within the industry and beyond in driving policy change, by adopting science-based targets and committing to global climate reduction goals:

SBTs As testament to H&M group's leadership, and as an important milestone on the journey towards becoming climate positive by 2040, our science-based targets aligned with the Paris agreement have been approved by the Science Based Targets initiative (SBTi). H&M group commits to reduce absolute GHG emissions 40% in our own operations (scope 1+2) by 2030. H&M group also commits to reduce scope 3 GHG emissions from raw materials, fabric production and garment manufacturing 59% per product by 2030. Both targets are set against a 2017 baseline.

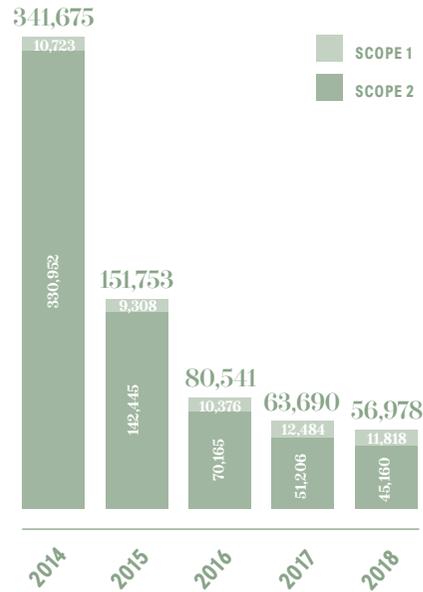
TCFD H&M group has publicly endorsed the Task force on Climate Related Disclosure (TCFD) and aims to comply with its recommendations. We are in the process of analysing our climate risks according to the TCFD guidelines and will follow the recommendations for disclosure.

UNFCCC We are a signatory of the Fashion Industry Charter on Climate Action initiated by UNFCCC. The UNFCCC's Fashion Industry Charter for Climate Action is an industry-wide collaboration to set a decarbonization pathway for the fashion industry, complementing and supporting other fashion sector initiatives, and aimed at increasing climate action.

Policy Push Through a series of seminars, meetings and correspondence, together with IKEA Group, WWF and RE100, we informed the European Parliament and the Council about the importance of high ambitions in The Clean Energy for All Europeans Package, with special focus on energy efficiency and renewable energy.

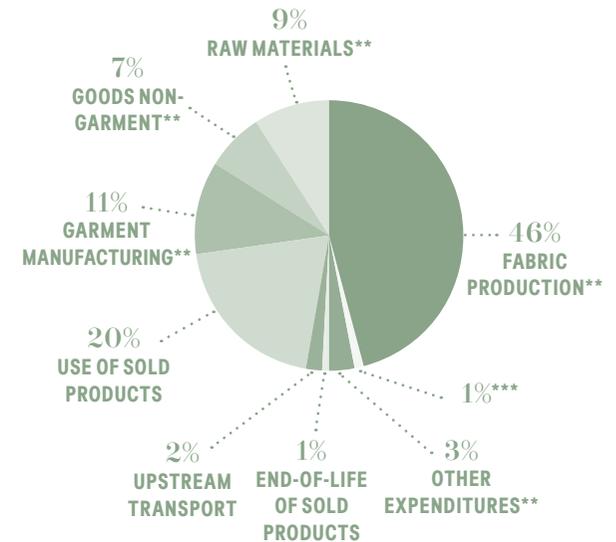
Our emissions throughout our value chain (scope 1 + 2 and 3)

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



*Our GHG emissions accounting and reporting is aligned with the GHG protocol. Scope 2 emissions under the market-based approach is equal to 45,160 tonnes CO₂e. Under the location-based approach (using grid average emission factors), comparable to emission figures in our 2013, 2015, 2016 and 2017 reports, scope 2 emissions were 662,739 tonnes. For further details and data, please see our CDP Climate Change Investor Response 2018. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 305-1 and 305-2 is included on page 106.

4.6. TOTAL SCOPE 3 CO₂e EMISSIONS*: 18,215KT



*Climate impacts are based on a scope 3 assessment done by Ecofys in 2017, based on 2016 data. The categories are based on GHG Protocol. Calculations in the footprint analysis are based on calculations on a combination of high-quality H&M group data combined with the best available public data sources on CO₂ emissions, using conservative assumptions. We are working to further improve the calculations by using primary data from our main suppliers.
 ** GHG Protocol Category 1: Purchased products.
 *** Including fuel & energy related activities (0,1%), employee commuting (0,2%), business travel (0,4%), waste generated in operations (0,02%), franchises (0,1%).
 **** Including fuel & energy related activities (0,1%), employee commuting (0,2%), business travel (0,4%), waste generated in operations (0,02%), franchises (0,1%).

What are scopes?

According to the Greenhouse Gas Protocol, emissions can be categorised into three groups known as scopes:

Scope 1 emissions: are defined as “direct” emissions the we (H&M group) either own or have direct control over.

Scope 2 emissions: are defined as

“indirect” emissions created from the consumption of purchased electricity. Purchased electricity is defined as electricity that is bought or otherwise brought into the organisational boundary of the company.

Scope 3 emissions: are defined as any emissions that are produced out-

side of our own operations and that we therefore have indirect control over. This includes our suppliers and the producers of raw materials used in our products, as well as emissions from the use of products, for example when our customers use washing machines to wash their clothes.

Priority 1

Leadership in energy efficiency

We need different approaches to energy efficiency in different parts of our value chain. We have a varying level of control over energy efficiency across our value chain, with greater control over some parts than others. Despite this, we are committed to increasing energy efficiency at all stages of our value chain by optimising maximum possible energy output from the smallest, necessary energy input.

OUR STORES

We have a primary focus on improving energy efficiency in our stores, because – with over 4,968 stores – our bricks-and-mortar portfolio accounts for the majority of H&M

group’s own electricity consumption. We have increased our store energy goal from a 20% reduction in electricity intensity by 2020 to 25% by 2030. With 2016 figures as our baseline, we are measuring this by taking into account the amount of electricity used per square metre of sales area and opening hours. Our store energy management strategy targets improvements in lighting and HVAC (heating, ventilation, air-conditioning), which accounts for 90% of the electricity we use in our stores. By putting more specific demands on HVAC systems and replacing HID with LED lighting systems, we are confident that by 2030 every store we construct will use 40% less energy per square metre and opening hour than those we constructed in 2016.

PROGRESS

- In line with our 2025 goal, we achieved a 8.2% decrease in electricity use per store square meter in 2018 (2017: 2.7%), compared to 2016 baseline. This decrease was mainly driven by 'low hanging fruit' initiatives, such as improving behavior and routines to prevent wasteful light consumption. At scale, these simple actions had a significant impact.
- In 2018, we reduced carbon emissions from our own operations by a further 11% compared to 2017.

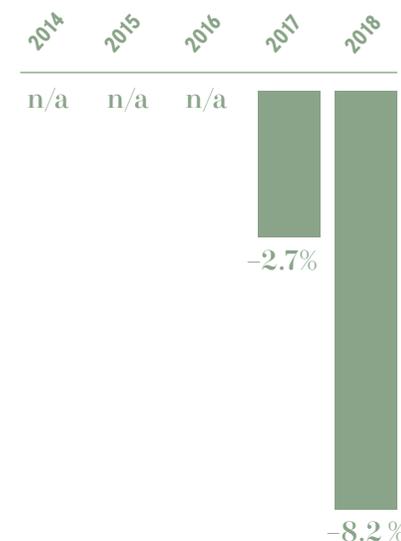
- We are gradually replacing all existing lighting with LED, while phasing out high-intensity discharge (HID) lighting.
- We have made substantial energy savings in the US and Poland. In 2017 and 2018, the US saw decreases of around 5% both years; Poland has decreased by 20% over the last five years. These results have mainly come from replacing older HVAC units with newer technology and focusing on building management steering.

4.7. Energy use within our own operations

ENERGY USE IN GIGAJOULES	2014	2015	2016	2017	2018
Building diesel	3,586	716	3,241	3,791	4,355
Direct heating	68,208	44,953	43,347	98,921	134,801
Electricity*	3,804,291	4,399,990	4,995,002	5,575,996	5,841,296
Building natural gas, oil and others	155,937	161,959	178,128	214,558**	205,826
TOTAL	4,032,022	4,607,618	5,219,718	5,893,266	6,186,278

*Energy related to electricity based cooling consumption is included. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). An independent assurance statement related to GRI 302-1 is included on page 106.
**We unfortunately reported the wrong figure of 214,451 in 2017 report. The correct figure is 214,558.

4.8. ELECTRICITY USE REDUCTION PER SQM AND OPENING HOUR (2016 BASELINE)



An independent assurance statement related to GRI 302-3 is included on page 106.

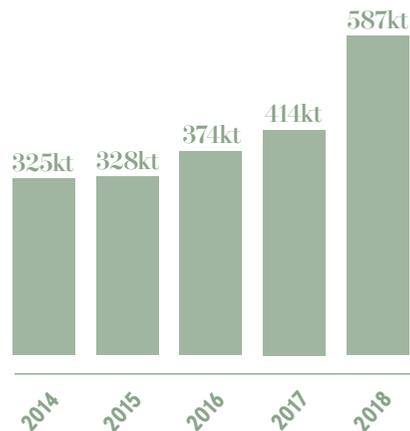
TRANSPORT & DISTRIBUTION CENTRES

We work to reduce energy emissions in several ways within our transport and distribution centre operations. We monitor our own energy consumption and ensure that our distribution centre operations and logistics are as energy efficient as possible.

We work with transport companies and ensure we use the most energy-efficient options where possible. This involves optimising routes, as well as looking at energy efficient vehicles and alternative fuel options. Transport represents 2% of our emissions and, with a growing online business, this is becoming an important focus area for reducing our impact.

We are members of the Clean Shipping Network, Clean Cargo Working Group, Green Freight Asia and

4.9. CO₂e EMISSIONS IN KILO TONNES FROM UPSTREAM TRANSPORT AND BUSINESS TRAVEL*



*Please find an independent assurance statement related to GRI 305-3 on page 106. Reported scope 3 emissions include energy use, goods transport and distribution, and business travel. CO₂e emissions include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). Increase in emissions from transport is mainly related to an increase in air freight. Emission data from previous years was likely underreported and actual historic emission data is unavailable.

Network for Transport Measure Pathways Coalition. We are also working with the Global Logistics Emissions Council (GLEC) to support work to find a global standard that accurately measures logistics-derived emissions.

PROGRESS

- We formed a transport coalition with Scania, Eon and Siemens called the Pathways Coalition. Its vision is to create fossil-free heavy commercial transport by 2050 or earlier, in line with the Paris Agreement. The group aims to accelerate decarbonisation of heavy transport and increase electrification. By collaborating across sectors, we can speed up the pace of change and form a louder voice for advocacy and leadership.

- We hosted our second Global Logistics Sustainability Week. The event aims to engage our logistics and distribution centre teams in our sustainability work and raise awareness about the importance of improving energy efficiency, reducing CO₂ emissions for transport, improving waste recycling and reuse, and collecting unwanted garments. 80% of distribution centres participated, 12.7 tons of garments were collected.

LEARNING

- Increased air shipments in some of our markets in Southeast Asia due to expansion to new geographical areas, has caused our upstream air transport emissions to increase. We are concerned about this and will look for other ways to distribute our garments in these areas.



OUR SUPPLIERS

Our goal is to create a climate neutral supply chain for our tier 1 and tier 2 suppliers by 2030. This commitment will involve both an increase in energy efficiency and a transition to renewable energy. It includes the following:

- 100% of factories enrolled in an energy efficiency programme by 2025.
- 30% GHG reduction per product by 2025 compared to 2017 baseline.
- 30% of factories will be enrolled in energy efficiency programme by the end of 2019. For 2018, the goal was to enroll 20% of factories in energy efficiency programme. If we calculate our progress using the number of factories we had at the time of this goal-setting, we reached this goal. However, because the number of factories has substantially increased since we set the goal, programme enrolment is currently at 18%.

PROGRESS

- We are reducing greenhouse gas emissions at a factory level through supplier factories energy efficiency programmes in Bangladesh, China, India and Turkey. The energy savings from our 2018 efficiency improvement programs in Europe, China, Indonesia, Vietnam and Pakistan are 633,587,214 kWh, which equals a reduction of 183,296 tonnes of GHG emissions.

- We have created a new engagement strategy to achieve our goal for energy efficiency and GHG reduction in the supply chain. This strategy allows us to work with our remaining suppliers who are diverse in size, energy profile and maturity of energy management. Having conducted a supplier categorisation exercise, we created targeted strategies and actions that directly address each group's unique level of maturity, capacity and resulting needs.

Priority 2 100% renewable energy

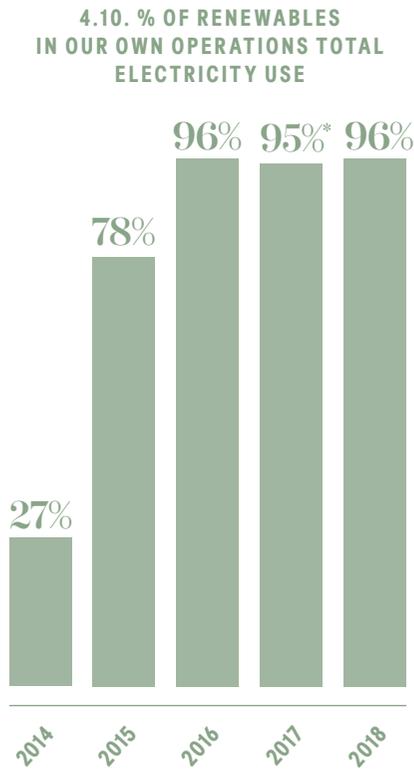
We are committed to maximising the use of renewable energy in our value chain. We know that by using more renewable energy and helping our suppliers and customers do the same, we are supporting the transition to fossil-free energy use.

OUR OPERATIONS

We want to source 100% renewable energy in our own operations. This year, 96% of the electricity purchased was renewable. We understand that adding new renewable energy (RE) generation capacity is needed to contribute to the necessary decarbonisation of energy systems, and we see that it makes good business sense too. As a result, our RE purchasing strategy will evolve from today's focus on Environmental Attribute Certificates (EACs) to a balanced portfolio of Power Purchase Agreements (PPAs) supporting large-scale renewables projects, rooftop solar PV and EACs. We are also members of RE100, a group of businesses committed to using renewable electricity.

PROGRESS

- 96% of the electricity purchased was renewable.
- Solar panels covering 800 m² were installed at our Head Office in Stockholm. A production of 105 000 kWh clean energy is expected annually.
- This year we have concluded our five-year initiative 'Double Sales - Half Impact' for our IT operations to break the link between business growth and



*Due to inaccuracy in calculation, the 2017 share has been corrected from 96% to 95%.

An independent assurance statement related to GRI AF21 is included on page 106.

environmental impact. Despite a 75% increase in the number of H&M group stores, we reduced our IT operations' energy consumption by 48%. This is thanks mostly to new capacity from solar panels and heat recovery from data centres. The initiative was limited to in-store IT systems, office IT systems, servers and data centres. In total, we saved over 27 million kWh, the equivalent of 10.9 million kilograms of carbon dioxide and electricity cost savings of EUR 4 million.



Electric fleet on the roads of Italy.

Going electric in transport operations

To guide our work in terms of reducing CO₂ emissions from transportation we have put together a Renewable fuel strategy. The key components are to support the use of electrical vehicles and second generation bio-fuels.

In recent years, we have actively supported the shift to more last-mile deliveries by electric vehicles. So far, we use electric trucks in Cyprus, France, China, Italy and Finland. Although this represents a small share globally, in certain markets a significant percentage of deliveries are performed by electric trucks. For example, in China, 50% of last-mile deliveries for store distribution were made using

electric trucks in late 2018. In Italy, we are working with a pioneering transport service provider that is advocating the usage of electric vehicles in the Italian market. This makes up 19% share of total transport in Italy, and 79% of the total transport in the major cities of Milan, Brescia, Florence, Turin and Rome. All deliveries for & Other Stories and COS in Italy are served by electric vehicles.

We are working to overcome several obstacles that are currently slowing the introduction of more electrical vehicles. This includes a changing policy and taxation landscape, which makes long-term investments risk-

ier for our transport service providers. The widespread lack of infrastructure for electric vehicle charging is also a challenge, as is the relatively short lifecycle for batteries, and the fact that electric vehicles can spend less time on the road because they need longer to charge.

In addition to electrical trucks and renewable fuel, we are striving to reduce the carbon impact of our operations through other measures, including optimising transport routes and number of deliveries per trip, filling grade, and training drivers to reduce fuel consumption through efficient driving techniques.

OUR SUPPLIERS

To reach our climate positive goals, we want to help all our suppliers use renewable energy. However, although some partners already source clean energy, many have limited access to viable renewable energy, particularly in new markets. We are working closely with stakeholders, including government bodies, to change this.

PROGRESS

- In Vietnam, we signed a Declaration of Support to encourage the government in its efforts to simplify and expand access to renewable energy. We stand ready to offer further support and advice in pursuit of smart, clean and secure economic growth.
- We continued working with the International Finance Corporation (IFC) to finalise low-carbon roadmaps in our sourcing markets. Working together, we engaged suppliers in several rooftop solar projects and demonstrated the business case using results of feasibility studies conducted last year.
- We have initiated several projects with our suppliers in China and India for the installation of rooftop solar panels.



Solar energy is one of the most feasible clean energy solutions. Photo credit: Angie Warren.

Accelerating solar energy in our supply chain

We are engaging our suppliers to accelerate the adoption of renewable energy. The installation of solar panels on factory rooftops is one of today's most feasible clean energy solutions. In China, we have been working with stakeholders to educate suppliers and support feasibility studies, as well as project design and implementation.

Like other suppliers, Wuxi Shilead Dyeing Co., Ltd was convinced by the feasibility studies to embrace rooftop solar. Once live, the 1,98MWp rooftop solar project will generate significant positive economic and environmental impacts, such as annual 1,883-ton reduction in greenhouse gas emissions, along with the reduction of other air pollutants. On average, the 22,000 m² rooftop solar system can gen-

erate 2,133,200 kWh electricity every year; >90% of this will be used on-site. The project should make a return-on-investment in less than six years and have GHG reduction of 1,755 tonnes.

This is just one of the rooftop solar projects commissioned by our suppliers in 2018, as a result of our low carbon roadmap.

Priority 3

Climate resilience & carbon sinks

Our commitment to the elimination of greenhouse gas emissions from our own operations remains as strong as ever. However, we know there will still be unavoidable emissions in our value chain, whatever action we take. We are therefore engaging in activities to absorb carbon (both within and beyond our direct control) to become truly climate positive.

These activities include supporting mechanisms that reduce existing emissions while strengthening climate resilience. We need to further develop this approach and collaborate with experts to move solutions forward, and are currently exploring opportunities in three areas:

1. Natural carbon sinks – these are nature’s existing mechanisms for absorbing greenhouse gases. Potential strategies include protecting valuable biomass (such as rainforests) and investing in more sustainable agriculture.
2. Technological carbon sinks – these are technological innovations that absorb existing greenhouse gases and turn them into new products and materials.
3. Reductions outside our value chain – these activities reduce greenhouse gases coming from sources unrelated to our value chain. We urge innovators and experts to collaborate with us and like-minded partners to develop these opportunities.



SCALE project in Cambodia.

PROGRESS

- We partnered with WWF to launch SCALE (the Supply Chain and Landscape approach) in the Eastern Plains Landscape (EPL) of Cambodia – home to diverse habitat types and endangered species, as well as valuable ecosystems services. SCALE exists to design a landscape investment program that will transform the textile industry and energy supply chains, starting in one of Cambodia’s most precious areas of biodiversity, while bringing multiple benefits to an important but threatened forest region. This is a pilot project, which we will use to define a broader set of strategic actions across our production areas and supply chains.