



H&M Group

Sustainability Report 2018

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ARKET.



Letter from CEO



A little more than 70 years ago, my grandfather opened a shop selling women's apparel in the small Swedish town of Västerås. He believed that everyone should have the opportunity to express their personality through fashion and he saw it as his mission to democratise fashion and make it available to all rather than the privileged few. The concept of "Fashion for everyone, at a great price" has remained with our company ever since.

In the same way that we took the lead 70 years ago by making fashion accessible to all, we now want to take the lead in ensuring a more sustainable fashion industry by tackling some of the most significant challenges that are facing our planet and society.

We are part of an industry which undoubtedly faces significant challenges when it comes to environmental and social sustainability – but I want H&M group to continue to be a positive force towards resolving these shared

challenges. We know that we are a large company and we therefore know that we have an equally large responsibility to ensure that we have a positive impact on our planet.

As such I am proud to say that our sustainability work is embedded in our culture and our values. A long-term approach is a natural and important part of our overall business strategy. We also believe that taking a long-term view is crucial when it comes to dealing with complex sustainability issues.

According to the UN, climate change and poverty are two of the most significant challenges of our time and will affect many generations to come. While I have a great deal of respect for the vast complexity of both of these challenges, I also strongly believe that we can make a positive contribution towards facing them. We will continue to take a long-term approach to achieve sustainable production, while at the same time creating good jobs and driving prosperity in the markets in which we operate.

In order for our company to take on these challenges in an effective way I believe that sustainability must be considered as an integral part of our business rather than being treated as an after-thought. For this reason, we work to ensure that sustainability is integrated into all aspects of our business – it should pervade everything that we do, all the decisions we make and the everyday work of all our employees.

Taking this approach makes it possible for all of us to work towards the same goal. For this reason, all functions within H&M group are assessed on the basis of sustainability objectives, which are just as important as any other benchmark.

However, it is not possible to achieve great change in isolation. We have over 70 years of experience, but we are entirely dependent on our partnerships with experts from other fields to really drive our sustainability work forward. We therefore fully support the development of the new technology and

innovation that is required to create a circular fashion industry.

Encouragement of and collaboration with other forces for positive change is especially important when it comes to the complex challenges faced by the fashion industry, and indeed all other industries. Just a few examples of our collaborations include: our work with WWF on the responsible use of water in our value chain, our investment in innovations companies that are developing technologies for textile recycling, and our close partnership with the Ellen MacArthur Foundation that is helping drive the development of a circular economy as well as our work with the UN and textile workers' global trade union who are advising us about the best way to tackle the huge issue of wages in the textile industry.

The values of H&M group also include a constant willingness to innovate and look at things in new ways. Today, we are using AI to make it easier for us to ensure a good match between production and demand, thus saving

energy, transport and resources. We are switching to renewable electricity and streamlining our use of energy. With the help of innovation, we are not only able to find new sustainable materials and recover textile fibres in a better way than before, but we can also make this scalable in the long term. I am impressed every year by the winners of the Global Change Award challenge for innovation, which was founded by H&M Foundation – it presents solid proof that a circular fashion industry is possible. The transformation of orange peel and algae into fabric and grape residue into plant-based leather, are just a few of the great ideas that have been realised. I'm convinced that technical innovations will be the solution to many of the environmental challenges the textile industry is facing and will contribute to a more sustainable consumption.

The reality is that as our population grows, so does also consumption, which already today goes beyond what the planet can afford. The key to our future is therefore to ensure that we move away from an old, linear and

environmentally hazardous system to a circular one that ensures long-term environmental and social sustainability. Big leaps towards new and greener solutions, are usually taken by companies and countries that are developing and can therefore invest in technological innovations. As such consumption that contributes to both reducing global poverty and enabling investment in modern, sustainable production is not the problem, but instead part of the solution.

This report is our opportunity to share an honest and transparent account of the positive steps that we have taken so far as well as the complex challenges we continue to face. It helps us understand both the areas in which we have made progress, and those that we need to re-think and further develop. While I am proud of our achievements, I am aware that there is still a lot more for us to do. However, I remain convinced that our long-term approach coupled with our genuine determination, will help us lead the way to creating a more sustainable fashion industry.



Karl-Johan Persson, H&M Group

Executive summary

From the beginning, H&M group's role has been to democratise fashion. Today, that means making it sustainable: it's the only way we'll keep making great fashion and design available today, tomorrow and for generations to come.

Our sustainability vision is to use our size and scale for good, and with the help of technology and innovation, lead the change towards circular and renewable fashion while being a fair and equal company. To achieve this, we have developed an ambitious strategy with the help of a broad range of external and internal experts. Our strategy follows a science-based approach, wherever possible.



Key achievements 2018



WE HAVE ACCELERATED OUR WORK WITH ARTIFICIAL INTELLIGENCE BY CREATING AN AI DEPARTMENT WITHIN H&M GROUP. THIS WILL FURTHER HELP US MAKE THE BEST AND MOST SUSTAINABLE BUSINESS DECISIONS POSSIBLE.

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



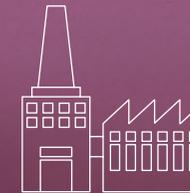
Because investing in innovation unlocks circularity, we support companies such as Moral Fiber and Colorifix.

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

DURING 2019, H&M AND H&M HOME ARE ROLLING OUT A NEW TRANSPARENCY TOOL IN THEIR ONLINE STORES, ENABLING CUSTOMERS TO TRACE MOST OF THEIR PRODUCTS TO THE FACTORY THEY HAVE BEEN MADE IN, AND FIND FURTHER INFORMATION TO MAKE MORE CONSCIOUS CHOICES.



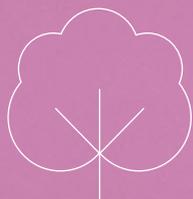
THE TAKE CARE CONCEPT LAUNCHED IN FURTHER FOUR MARKETS, OFFERING CUSTOMERS GUIDANCE AND HANDS-ON SUPPORT IN HOW TO CARE FOR THEIR GARMENTS.



655 factories and 930,000 garment workers are covered by one or both of our key programmes for workplace dialogue and Wage Management Systems. This represents 84% of our product volume.

H&M GROUP WAS RANKED AMONGST TOP 5 IN FASHION REVOLUTION'S 2018 INDEX WITH A SCORE OF 55% (HIGHEST SCORE 58%).

Key achievements 2018



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

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



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.

AFOUND

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

We've reduced CO₂ emissions from our own operations by a further 11%. This takes us another step closer to achieving a climate positive value chain by 2040.



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 been included in the Dow Jones Sustainability Index for several years now, this year reaching the highest possible score in the categories of Quality & Recall Management, Social Reporting, Environmental Reporting and the best industry score in Supply Chain Management.

Awards & recognitions

Here are some of the awards and recognitions that H&M Group has received during 2018:

DOW JONES SUSTAINABILITY WORLD INDEX

H&M Group has been included in the Dow Jones Sustainability Index for several years now, this year reaching the highest possible score in the categories of Quality & Recall Management, Social Reporting, Environmental Reporting and the best industry score in Supply chain Management.

FASHION REVOLUTION'S FASHION TRANSPARENCY INDEX

H&M group was ranked amongst the top 5 in Fashion Revolution's Fashion Transparency Index with a score of 55% (highest score 58%).

FTSE4GOOD

H&M group has been independently assessed according to the FTSE4Good criteria and has satisfied requirements to become a constituent of the FTSE4Good Index Series. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria and are positioned to capitalize on the benefits of responsible business practice.

ETHISPHERE® INSTITUTE

For the eight time, H&M group has been

recognized by the Ethisphere® Institute as one of the World's Most Ethical Companies.

NEWSWEEK GREEN RANKING

H&M group was ranked number 11 in the Newsweek Green Ranking among the 500 most sustainable companies in the world for 2017 (2016: 63, 2015: 88, 2014: 95). The ranking is annually produced by the magazine Newsweek in collaboration with leading environmental research organisations.

TEXTILE EXCHANGE PREFERRED FIBER & MATERIALS REPORT 2018

According to the Textile Exchange's Preferred Fiber & Materials Market Report 2018, H&M group was the biggest user of preferred Man-made cellulosic fibres and the biggest user of Lyocell, as well as preferred cotton, and the second biggest user of recycled and organic cotton.

DRAPERS SUSTAINABILITY AWARD UK

For third year in a row, H&M group has been recognised by the British retail publication Drapers for their contribution to the retail industry. In the Annual Awards Ceremony, H&M group won the Sustainability Award of The Year.



H&M group UK team accepting the Drapers Sustainability Award from host Russell Kane.

About H&M Group

Since day one, our business has been about bringing fashion and design to all people. Today, this is reflected in all our brands. We are always working to create the best offering for our customers, in the most sustainable way.

H&M group includes nine brands, each with their own specific brand DNA – H&M, COS, Weekday, Cheap Monday*, Monki, H&M Home, & Other Stories, ARKET and Afound. Together, our brands offer customers a wealth of styles and trends in fashion, beauty, accessories and home-

ware – as well as healthy, modern food in selected stores.

We reach customers around the world through our integrated physical stores and digital channels. Our customer proximity is amplified by our 177,000 colleagues globally, operating in both sales and production markets.

**As previously communicated, Cheap Monday will be ending operations in 2019. The H&M group's transition work in response to the extensive changes within the fashion industry means that the company is prioritising and focusing on its core business. Cheap Monday's business model is based on traditional wholesale, which is a model that has faced major challenges due to the shift in the industry. The H&M group has therefore decided to close Cheap Monday.*



ABOUT H&M FOUNDATION

H&M Foundation is a non-profit global foundation, with a mission to act as a catalyst for positive change and improve living conditions by investing in people, communities and innovative ideas. The foundation is privately funded by the Stefan Persson family, founders and main owners of the H&M group. Since 2013, the Stefan Persson family has donated 1.5 billion Swedish Krona (\$200 million/€163 million) to the H&M Foundation. Learn more about the foundation's work on pages 24, 38 and 87, and read H&M Foundation's annual report, [A Catalyst for Change 2018](#).

2018 FIGURES

4,968 stores in
71 markets and
e-commerce in 47 markets.

210 billion
Swedish kronor in net sales.

Our products are made in
2,383 supplier
factories around the world.

H&M alone has nearly
800
million customer
transactions per year.



Our value chain



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

Our vision is to lead the change towards a circular and renewable fashion industry, while being a fair and equal company. To do this, it is our responsibility to ensure our value chain works to its full potential. Our value chain describes the full sequence of processes involved in the production and lifespan of all our products, from product idea to customer use and disposal.

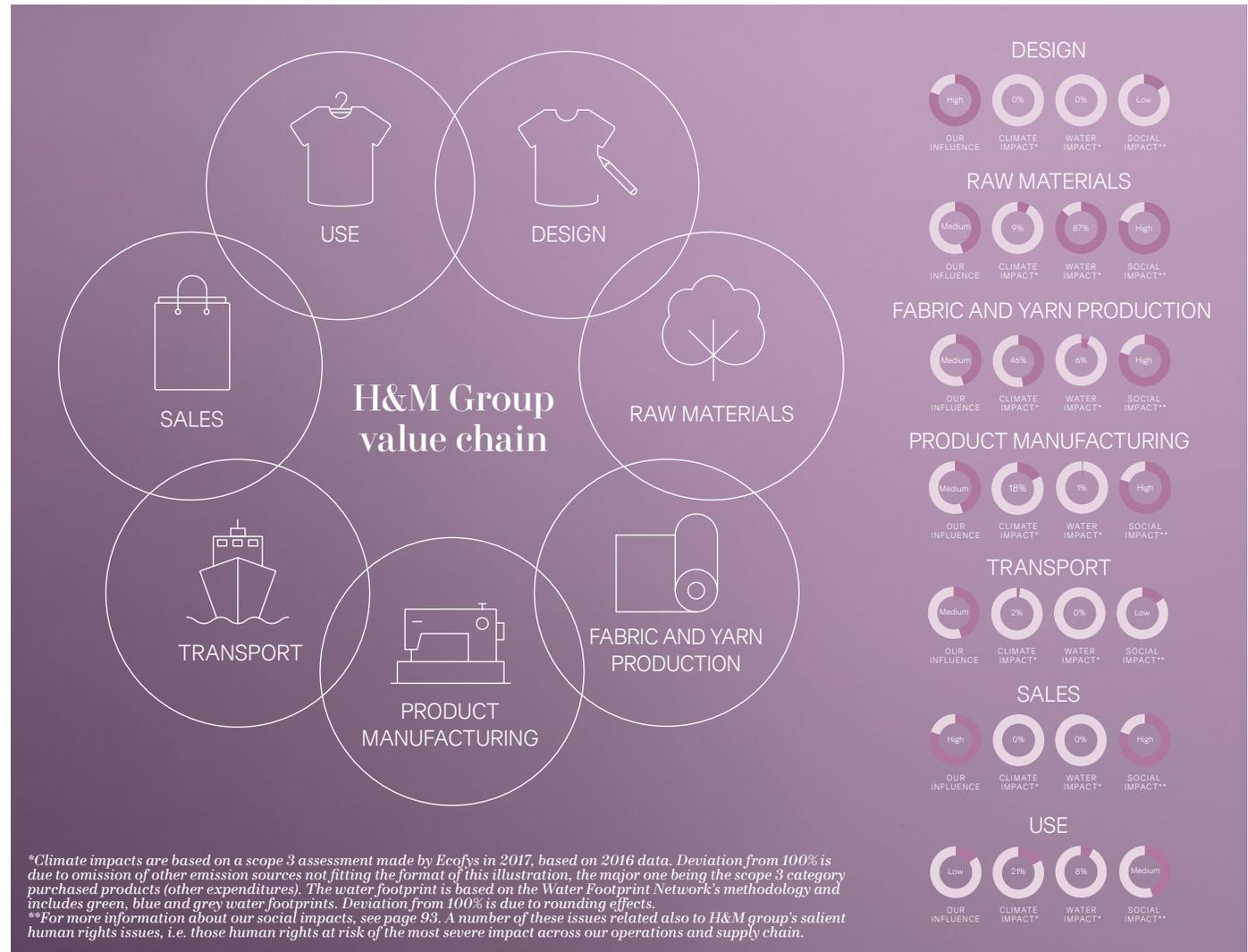
But our value chain does not operate in isolation. With nine brands selling products in over 4,968 stores and online markets in 47 countries, it is connected to countless people, communities, ecosystems and other businesses around the world.

IMPACTS ALONG OUR VALUE CHAIN

Our vast network of value chain connections means that our social, environmental and economic impacts are significant and far-reaching. To maintain our business idea, we need to maximise our positive impacts and minimise our negative impacts throughout our value chain and along every customer's journey with us.

To make this happen, we use our size and scale to drive change and innovation in all parts of the value chain, from raw materials to customer experience.

Please see the illustrations to the right for a more in-depth look at the impacts we have along our value chain. Please also visit sustainability.hm.com for further information.





VISION & STRATEGY

Our vision & strategy

At H&M group, we've always believed that great design should – and can – be available to anyone. From the beginning, our role has been to democratise fashion. Today, that means making it sustainable: it's the only way we'll keep making great fashion and design available to many people, for many years to come.

Our vision is to lead the change towards a circular and renewable fashion industry, while being a fair and equal company. Using our size and scale, we are working to catalyse systemic changes across our own operations, our entire value chain and the wider industry. In this way, we can continue to engage our customers and provide great fashion and design choices – today, and into the future.

Our vision and strategy applies to all our brands, while allowing each of them to maintain their own brand identity.

While our business has a long and well-established history in sustainability, projected population growth figures and natural resource levels make it clear that a more focused approach to sustainable fashion is needed. Our role, as leaders in our industry, is to innovate, influence, collaborate, and lead the way towards a truly sustainable fashion future.

This vision is not only necessary from a social and environmental perspective, it also makes good business sense. Long-term investments in sustainability provide us with long-term business opportunities that will keep H&M group relevant and successful in our rapidly changing world.

We know that achieving our vision will not be easy, but our openness to tackling challenges keeps us alert to opportunity. We are strongly positioned to make a positive impact, in part because of our continuing partnership with stakeholders and industry experts who help set and shape our sustainability work. Furthermore, by applying a science-based approach to our work, we can set the best goals and roadmaps possible to drive positive change throughout our company and the wider industry.

Our sustainability strategy



Our ambitions

Our vision and strategy are built on three key ambitions

100% LEADING THE CHANGE

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

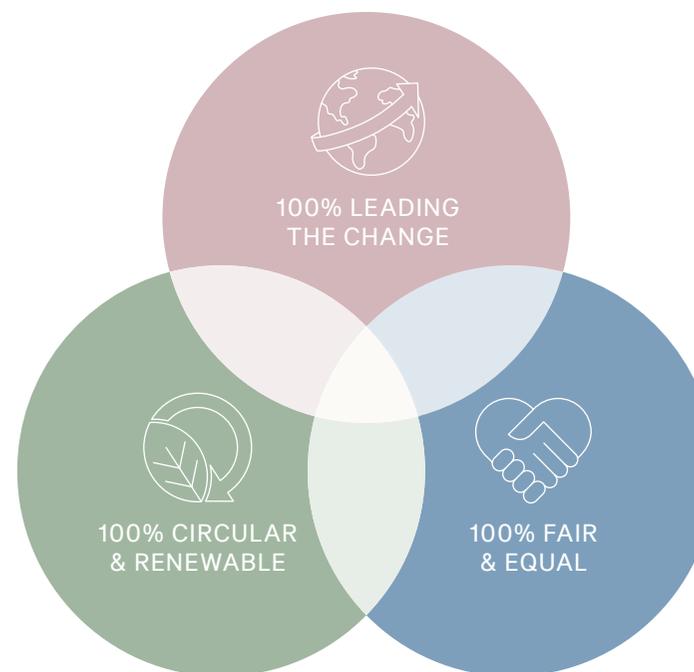
100% CIRCULAR & RENEWABLE

- A circular approach to how products are made and used
- Use only recycled or other sustainably sourced materials
- A climate positive value chain

100% FAIR & EQUAL

- Fair jobs for all
- Inclusion and diversity

To find and implement solutions to the scale and breadth of the challenges facing our industry, we must be clear, bold and visionary. Our three ambitions give us the long-term focus, direction and motivation we need to truly drive positive change through our company and across our industry.



“Big change requires bold actions and the courage to aim high. At the same time, we have to be humble to the challenges our planet is facing. So if we want to make a real change, we have to be brave, push the boundaries and not be afraid to fail.”



ANNA GEDDA,
HEAD OF SUSTAINABILITY,
H&M GROUP

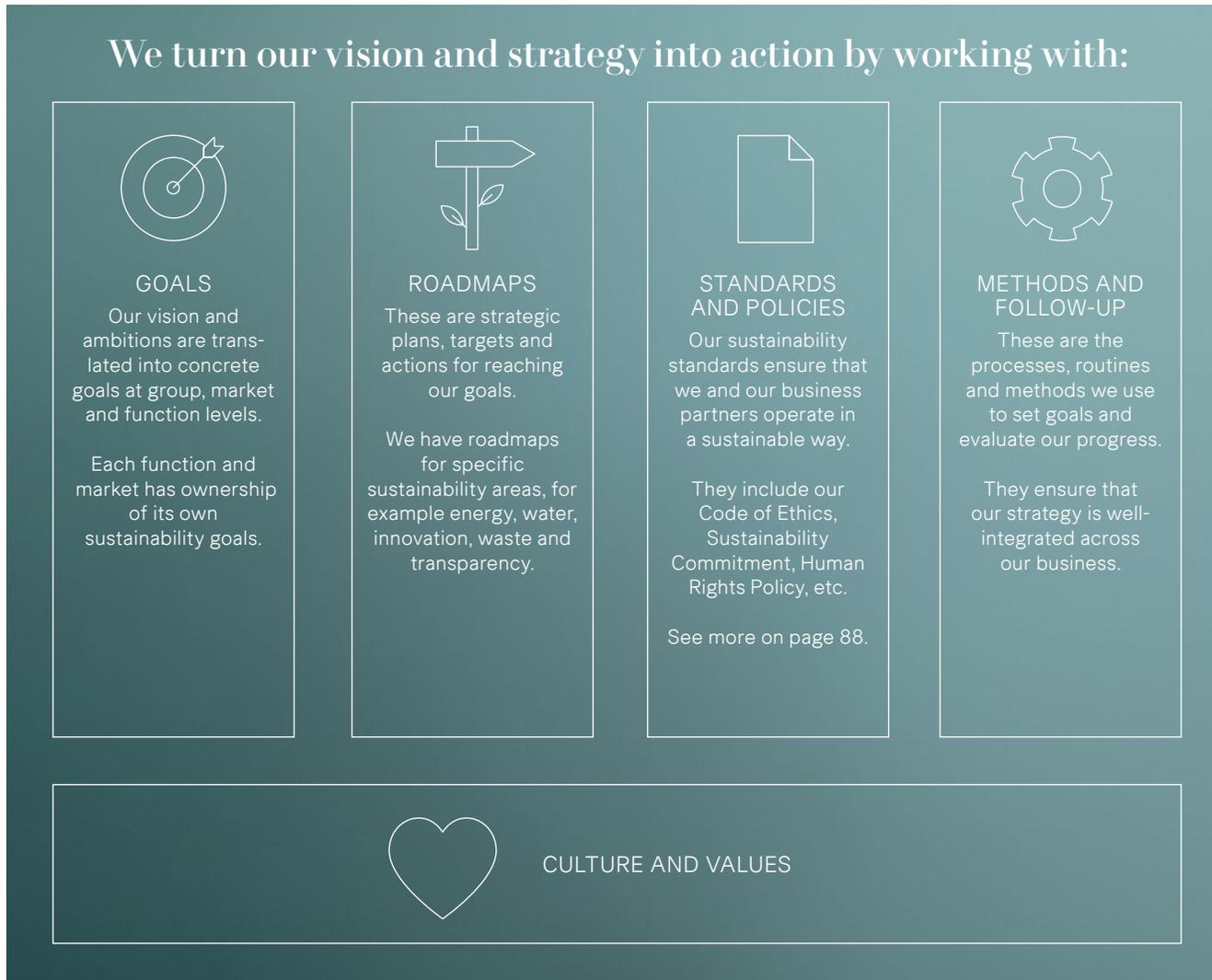
Our Change-Making Programme

By steering and integrating sustainability across our business, our Change-Making Programme turns our strategy into action and drives long-lasting change.

H&M group is comprised of multiple brands, which operate in a variety of functions across many different countries and cultures. Similarly, our value chain is vast and complex. Along with the obvious opportunity this scale offers, it also presents a big challenge: how do we drive systematic and effective long-term change across both our business and value chain?

HOW WE INTEGRATE SUSTAINABILITY

Sustainability is integrated as one of four equally important parameters in our company performance score card. This means that each central function and brand is measured on a set of sustainability KPI's, alongside and in equal weight to sales figures, customer satisfaction, etc. In addition to that, our Change-Making Programme brings together the goals, roadmaps, standards and follow-up methods we need to work towards our vision, while also leaving room for locally tailored implementation and activities. This enables our brands and functions to take ownership and integrate our sustainability strategy across the business, setting its own measurable sustainability goals and activities. Within each sales market, we employ a dedicated sustainability manager who drives the implementation of our strategy from a local perspective to engage all colleagues and customers.



How we are organised

We want to make sure all our efforts keep working together, even as our vision, ambitions and strategy grow and change. This year we strengthened our sustainability steering by establishing a senior cross-functional forum, which reviews strategy performance and defines key priorities.

Reporting directly to our CEO, our Head of Sustainability is responsible for the implementation of our sustainability vision and strategy together with the Executive Management Team. Twice a year, Head of Sustainability reports performance (against key sustainability indicators) to our Board of Directors.

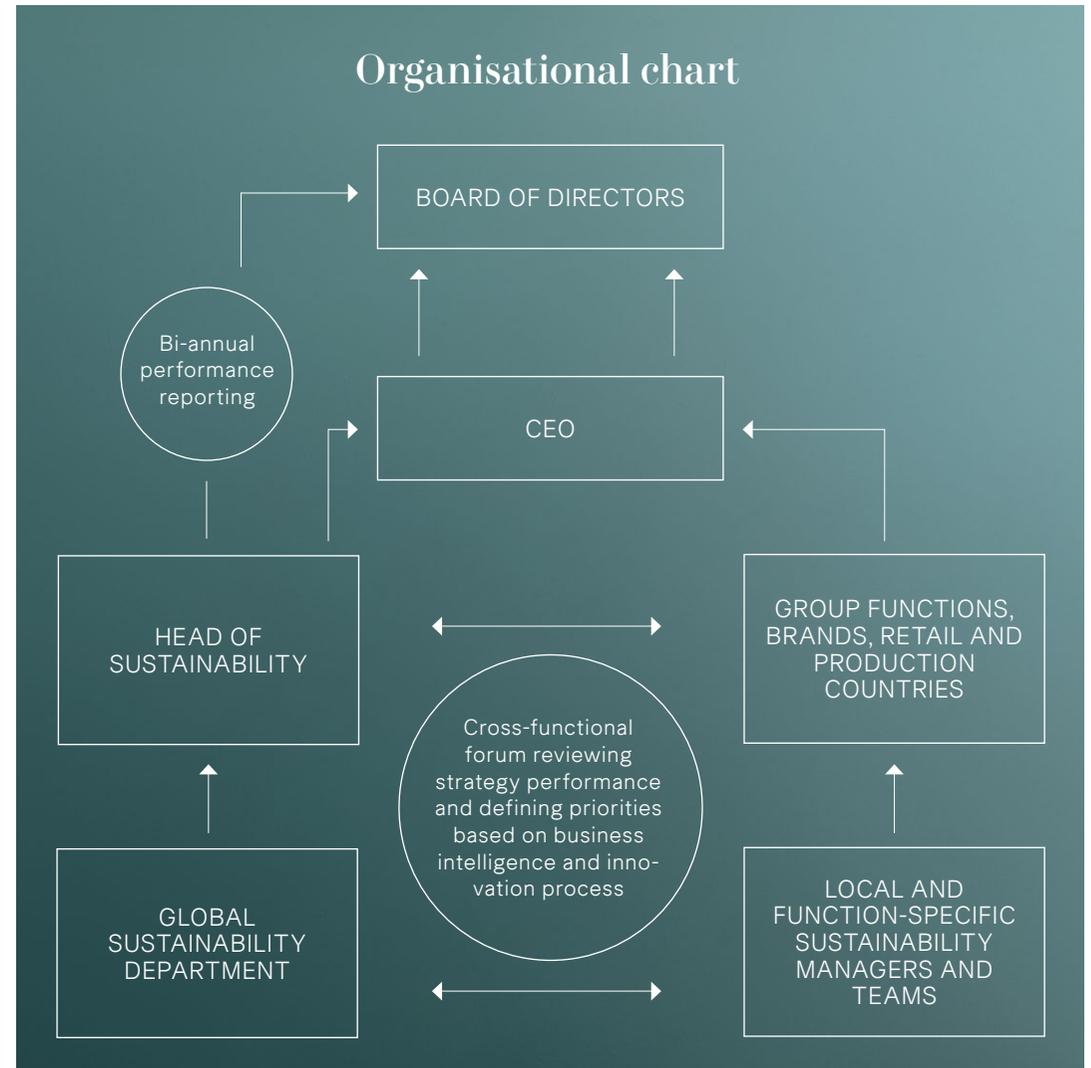
Our global sustainability department consists of more than 30 experts responsible for setting strategies, targets, goals, policies and follow-up procedures to ensure that our sustainability work is carried out systematically.

Every retail market and H&M group function has sustainability managers. In our 20 production markets, we employ more than 150 people working specifically with sustainability. These colleagues work directly with

our business partners to assess their performance against our Sustainability Commitment and support them in making improvements through capacity-building programmes and activities. Read more about our Sustainability Commitment on page 95.



ARKET



Engaging our changemakers

Changemakers are the people who help H&M group achieve our vision of a sustainable fashion and design industry. Through effective collaboration we can accelerate impact to drive long-lasting change.

STAKEHOLDERS & EXPERTS

Building and maintaining partnerships and dialogue with industry stakeholders and experts is crucial to achieving our vision. Not only do they give us direction and expertise for our long-term goals and action plans, they also work with us to find the best solutions and address specific challenges.

BUSINESS PARTNERS

We always aim to build long-term rewarding relationships with our business partners. By becoming partners, we can work together to raise environmental and social standards across our industry.

OUR COLLEAGUES

Everyone at H&M group should feel they can contribute to our sustainability vision and goals. By enabling our employees to use their unique talents, skills and passions in their daily work, our business can lead the change our industry needs.

OUR CUSTOMERS

Our size and scale means we have many customers, so every single action, no matter how small, makes a huge collective difference. That is why it is so important that we inspire and enable our customers to make sustainable choices for the environment, people and communities. One example of how we engage with customers is the garment collecting initiative that we have across our group. Read more on page 29.

To read further on how we engage with our stakeholders, please visit sustainability.hm.com.



“Engaging with our many and diverse stakeholders gives us new perspectives and helps us build partnerships for solutions that we could not achieve on our own.”

HENDRIK ALPEN,
SUSTAINABILITY ENGAGEMENT
MANAGER, H&M GROUP



INTERVIEW WITH ANNA GEDDA, HEAD OF SUSTAINABILITY, H&M GROUP

“We must continue to dare and push the boundaries”

The fashion industry is going through a major transformation. How is H&M group positioning itself to be a part of this journey?

As a major player in the industry, we are well-positioned to not only be part of, but to also lead the change on this journey. One area that we have been focusing on for a while is the shift from a linear to a circular business model, where we have the ambition to become fully circular.

We are also constantly innovating and developing our sustainability work in line with other developments in the industry. For example, we have accelerated our investments in AI and algorithm-driven retail and see them as important tools to not only grow our business in a sustainable way, but also reach our sustainability goals.

How do you see the customer becoming a part of H&M group’s sustainability journey?

Today we see a positive trend in customer behavior, where more and more customers want to know where and how the garments are made, and how they can contribute to a sustainable fashion future. This year, we have developed a customer-facing transparency layer where our online customers can see sustainability information such as materials used, or in which factory the product has been made.

We have also expanded our Take Care concept across more markets, which we see as

an important step in helping our customers care for their favorite pieces longer and in that way prolong the lifespan of the product.

Looking back over the year, what has been the greatest achievement?

There are many things I’m proud to have been a part of, but one that stands out this year is our results from the five-year Fair Living Wage Strategy. We have not only achieved, but exceeded in all our goals, affecting the lives of almost one million garment workers. This has been the result of many of my colleagues’ tremendous efforts to make an impact and drive change in a very challenging area. There is still a lot to be done and I can’t stress enough the need of alignment between different actors throughout the whole industry.

Another achievement is our new packaging strategy, which is an important milestone towards our circular ambition. With our goal to only use recycled or sustainably sourced packaging materials by 2030, we will be able to have a big environmental impact, create a better shopping experience for our customers, and a better work environment for our colleagues.

... and what are the biggest lessons learned?

That big change takes a long time. For example, even though I am very proud of our results of our Fair Living Wage Strategy,

I also wish that we could have come even further. But the issue of wages goes far beyond our own suppliers and their factories and we alone cannot change the industry.

This also goes for many other sustainability challenges, such as scaling technologies for garment recycling, developing solutions for microfibre shedding and driving transparency on sustainability performance across the industry.

Another important lesson from this year is the need to constantly keep sustainability integrated into the business, which can be a challenge given the rapid change and transformation that the retail industry is undergoing. In the light of the hoodie incident, we have learned that we need to do even more to integrate inclusion and diversity across our operations and beyond.

Back to H&M group leading the change in the fashion industry transformation.

Where do you see us in five years?

I hope that we will continue to lead the change towards a sustainable fashion industry. With all the technological advancements and ever-changing expectations from customers, it’s hard to have a clear picture of what exactly will be happening five years from now. But I am positive, that by then we will see a wide use of both circular technologies and renewable energy that will move the fashion industry within the planetary



Anna Gedda (right) with colleagues during the Fair Living Wage Summit in Cambodia.

boundaries. I hope that we will continue to stay true to our long-term direction and at the same time keep our agility. And of course, that we continue to dare, push boundaries, test, and never be afraid to fail.

100% LEADING THE CHANGE



Photo credit: James Morgan/WWF.

Key facts & figures 2018



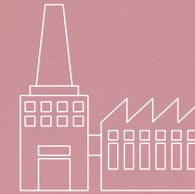
Key facts & figures 2018



We have accelerated our work with artificial intelligence by creating an AI department within H&M group. This will further help us make the best and most sustainable business decisions possible.

During 2019, H&M and H&M Home are rolling out a new transparency tool in their online stores, enabling customers to trace most of their products to the factory they have been made in, and find further information to make more conscious choices.

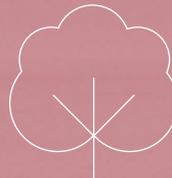
H&M Group was ranked amongst top 5 in Fashion Revolution's 2018 index with a score of 55% (highest score 58%).



Since 2013 we make names of suppliers, addresses and other factory information public. Today this includes 100% of our tier 1 supplier factories and tier 2 factories who make about 65% of our products - and fulfills the requirements of the transparency pledge.



Because investing in innovation unlocks circularity, we support companies such as Moral Fiber and Colorifix.



OUR LEADING THE CHANGE AMBITION CONTRIBUTES TO SDG 9, SDG 12 AND SDG 17.

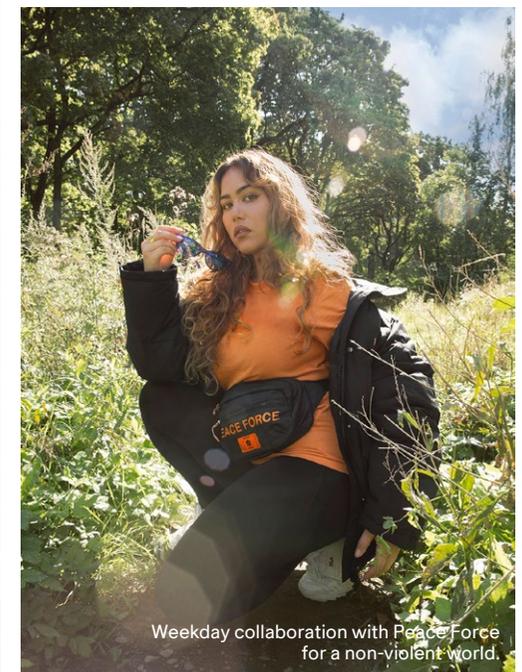


100% Leading the Change explained

100% Leading the Change is our commitment to catalyse change across the entire fashion industry and improve the way our products are designed and made. To do this, we bring diverse partners together to identify and share the challenges and innovative solutions that will push boundaries and deliver results.

This approach to leadership underpins our entire strategy, helping us fulfil our ambition to become both a 100% Circular & Renewable and a 100% Fair & Equal business. Our work centres on catalysing business and industry-wide change in three focus areas:

- Innovation
- Transparency
- Rewarding sustainable actions





Innovation

Innovation is the key to achieving industry-wide change.

Many of the sustainability challenges facing our industry require intense innovation to find solutions. These challenges also present us with business opportunities. For example, there is not yet a viable technology for recycling of blended fibres at scale, which means we cannot make new products from as many old products as we would like. To tackle this, we are currently working with experts who are developing new scalable technological solutions that will transform the way our industry works with materials.

At H&M group, we have a responsibility, as well as an opportunity to identify, invest in and promote sustainable innovations, from digital systems that provide traceability information to new energy-saving solutions. Our size and global reach means we can take the most promising sustainable innovations to scale and help create the transformation our industry needs.

HOW WE APPROACH INNOVATION

To make our business better, we use innovation to challenge our thinking and give us new perspectives. Across our company, we prototype ideas that

“Working with innovation is a constant adventure”

At H&M group, we have an internal innovation department called the Laboratory. It is our home for research and development and it exists to challenge our thinking and give us fresh perspectives, turning research into action through co-creation, launching new business and service models. Laura Coppen works as Creative Business Development at the Laboratory.

What is it like to work with innovation?

Working with innovation is a constant adventure, one has to navigate through a global landscape of trends, both macro and micro, identifying the key areas that will disrupt our industry. For me, working with innovation means collaborating; we work with an external and internal network of experts to support us and make our concepts come to life. In today's ever increasingly complex landscape it's necessary to look at the whole picture, the whole system.

What trends do you see when it comes to innovation?

The trend I'm most focused on is the rise in responsible businesses and service models. These have an action-driven agenda

towards changing the fashion industry and are transitioning to a circular economy model while building a socially and environmentally positive supply chain. That is a huge shift, and much more than a trend, it is the necessary future. We are proud to be one of the leaders on this journey.

What projects are you working with right now?

We are working on a concept that is centred around the future of local, smart and circular manufacturing. This model enables us to be faster to customers' demands and test new technologies like custom fit, customization and small batch collections with new machinery. We are also looking into several areas within service models, from remaking, to renting and renewing products. Alongside new packaging solutions and the greater system around online logistics.

How can innovation help us achieve our sustainability goals?

Innovation is a necessary part of reaching our sustainability goals. With the huge shift that we need to make in the fashion industry, we can't rely on what already exists. We need new materials, processes and busi-



Laura Coppen

ness models, which we are on the journey of creating with many of our partners. Right now, an intrapreneurial spirit is needed – in all companies, including ours – to achieve the sustainability goals. It's an 'all hands on deck' time!

demonstrate – both internally and externally – that our commitment to sustainability demands both a new way of working and a new way of thinking.

Our approach to innovation always starts by looking at our customers' needs alongside the macro and micro trends that are changing our industry and the world around us. We then employ a design and system thinking approach to problem solving and innovation. Finally, we take the best and most promising innovations and use our size to help them scale.

This involves looking at the wider systems and trends we are a part of – both now and in the future. We have an opportunity to rethink how we organise global production and consumer demand, and to access cutting edge technologies and innovative business models. We have a wide network of partners that help us identify and pilot innovation and take them to scale.

ALGORITHM-DRIVEN RETAIL

To further secure an organization that drives innovation and optimizes business decisions which enable sustainable choices, H&M group is working with advanced analytics and artificial intelligence. Our new AI department supports various processes across our entire value chain – from design to customer experience. For example, by amplifying the decision making of our designers and buyers we can ensure that we are designing the right products. We also use advanced analytics and AI to better forecast trends, make sure the right products are in the right stores, and to give our customers even more relevant and customized recommendations and offers. Used right, AI is one of the most powerful tools we have to secure that we meet our future in a sustainable way through the lens of a circular economy.

Moving towards sustainable fashion with the help of AI

Arti Zeighami, Head of Advanced Analytics and AI at H&M group: How are your colleagues using AI tools in their work?

When we talk about AI at H&M group, we mean Amplified Intelligence. Advanced analytics and machine learning are tools that enhance our human intelligence. Amplified intelligence is the collaboration between machines and humans – between science and art, data and gut feeling. We are creating solutions that help our colleagues make more precise decisions, and enable them to focus on the most relevant and creative parts of their work.



Arti Zeighami.

What is the connection between AI and sustainability?

Circularity is ultimately about using resources sustainably, where one central aspect is to avoid over-production. With the help of

advanced analytics and AI, we can be much sharper in aligning supply and demand. This could also entail less transport and warehousing, which means less energy is used. It's really a win-win situation: while creating an

even more relevant offering for our customers, we are reducing the environmental impact of our operations. AI and advanced analytics are great tools for reaching our sustainability goals, and it is equally important to have a sustainable and ethical approach when we work with AI. This is a high priority for us, and our work on sustainable and ethical AI is part of the overall vision of leading the change towards circular and renewable fashion while being a fair and equal company.

If you look ahead, what part do you think AI will play in the journey towards a circular business model?

I think it is one of the most powerful tools we have in the transition towards a circular and sustainable fashion system. With AI we can make sharper and better decisions that impact our world in a sustainable way.

PROGRESS

- We have created an AI department within H&M group and are setting strategies on how to advance algorithm driven retail technology in a sustainable way.
- H&M group's the Laboratory joined IDEO's Circular Economy CoLab, a collaborative innovation lab with member companies interested in exploring the potential of circular economy business models. We worked in a human-centered design process, building

prototypes together as cross-company and cross-industry teams.

- Our company's extensive prototyping and testing of new ideas means that different functions sometimes come up with the same ideas. To capitalise on this culture of innovation and ensure we're all pulling in the same direction, we have streamlined our processes and put cross-functional teams in place that can identify and push the best ideas forward.

- We are in the process of identifying key stakeholders and partners to drive ethical AI work within our field.

LEARNING

- Advanced analytics and AI are great tools in helping us reach our sustainability goals, and it is important to have a sustainable approach when we work with AI. Sustainable and ethical AI is at the top of our agenda and we appointed a Head of AI Policy in 2018.

Investing in fashion future

H&M CO:LAB is a business area which invests in companies that can add value to our business. During the last few years, we have invested in innovative companies such as Worn Again, Re:newcell, TreeToTextile, Thread, amongst others. In 2018, we have further expanded our portfolio with the following investments:

Moral Fiber was among the first winners of the Global Change Award in 2016. The American innovation company focuses on chemical recycling of polyester fabrics. Our investment in Moral Fiber helps us speed up the acceleration of recycling technologies available at scale.

Colorifix has developed the first commercial biological dyeing process to help the textile industry reduce its environmental impact by using fewer chemicals, and less energy and water. The technology is scalable and does not require existing infrastructure to be rebuilt. We will work closely with Colorifix to support their pilot projects in the textile supply chain.



H&M Foundation's Global Change Award

The Global Change Award is one of the world's biggest challenges for early-stage fashion innovation. Initiated by the non-profit H&M Foundation, it calls for ideas that accelerate the shift from a linear to a circular fashion industry. This means changing the way garments are designed and produced, shipped, bought, used, and recycled, by adding disruptive technology or new business models.

With almost 15,000 entries from 182 countries since its inception, the award is the go-to competition for circular innovation and has been called the Nobel Prize of fashion.

The award's five annual winners are selected by a panel of international experts. Amongst this year's innovators was a company making sustainable bio-textiles by using left-overs from food crop harvests. As well as their share of the € 1,000,000 grant, winners are invited to an innovation accelerator provided by H&M Foundation, Accenture and KTH Royal Institute of Technology in Stockholm, which offers focused support to further develop their innovations.

During the fourth year of Global Change Award, H&M Foundation kept an extra eye on digital innovation. "Digital innovations can make significant impact on efficiency planning and resource use - all the way from making



H&M group's CEO Karl-Johan Persson together with the winners of Global Change Award 2018 at the ceremony in the Stockholm City Hall.

raw material to a garment's end of life. Digitalization has the potential to disrupt at the root, reinvent how things are done and help producers, sellers and customers to become circular", says Erik Bang, Innovation Lead, H&M Foundation.

Neither the H&M Foundation nor H&M group take any equity or intellectual property rights in the innovations. The aim of the challenge is to find innovations that allow major change for the entire industry, and the winners can collaborate with whomever they want.



Transparency

Transparency is the key to build trust and enable customers to make conscious choices. It is also an important driver for improved performance and creation of stronger impact across our value chain. Beyond disclosing where and by whom our products are made, we also work to make the impacts of how they are made measurable and comparable.

We are convinced that transparency is the foundation for gaining trust and building strong relationships – with our customers, colleagues, investors, business partners and other stakeholders. That’s why we provide transparent information about our business and value chain through various channels and dialogues – this report being just one of them. By sharing our ambitions, challenges, solutions and progress in an open and honest way, we can collaborate more effectively with others, and gain mutual trust.

However, we believe there is more to be done. We want all the players in our value chain to be able to make conscious and informed choices. That means we need to make it easier for consumers to understand where and how the products they buy have been made. It also means we need to create even greater traceability in our value chain, and make impacts

measurable and comparable across the industry. In this way, transparency becomes a key tool to lead the change towards a sustainable fashion industry.

We are working on transparency in two key areas:

1. TRANSPARENCY TO EMPOWER THE CUSTOMER’S CHOICE

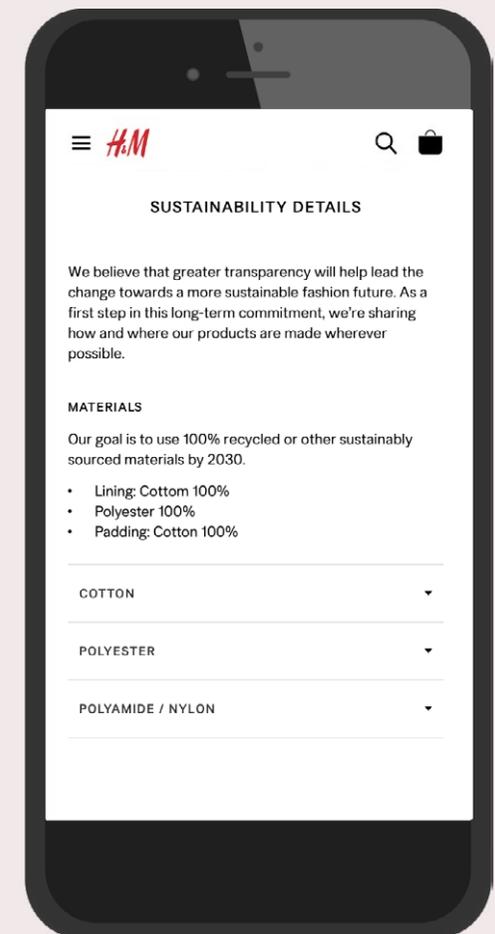
We are committed to inspiring our customers to make more sustainable choices. One way we can do that is by bringing the story behind the product closer to the customer, which means being transparent about exactly where and how it has been made, the materials used, and its social and environmental impacts. In recent years, we started sharing product stories for H&M’s Conscious Exclusive collection and ARKET’s regular assortment. For some ARKET products, we also share the material supplier’s name. In 2019, we will take this a step further and

Helping our customers make conscious choices

During 2018, a tight-knit team of sustainability experts, IT architects, business developers and other experts from across H&M group has worked intensely to develop a solution through system integration and automation. Combining this solution with the results of our in-depth customer research, during 2019 we will be offering the following in our online stores:

- Information about each product’s material, including how sustainable it is, and our specific sustainability goals for it.
- Where each product is produced, down to a country, supplier and factory level.
- Information about how to recycle the garment and why it is important to do so.

This function will be available for all our own textiles, footwear, and accessory products in our online store at H&M and H&M Home. Looking ahead, we want to see an industry standardised index for each product that makes it even easier for our customers to make sustainable choices.



make it possible for H&M and H&M Home customers to see more specific information for most of our products. This includes information such as in which factory a product was made and what materials were used to make it.

Creating this transparency is a big and important step, but it doesn't immediately show how sustainable a product is. To answer this question, we need a common measurement for fashion products that allows consumers to compare in a simple and trusted way. This is why we have been involved in developing the Higg Index.

H&M group is one of the founding members of the Sustainable Apparel Coalition (SAC), an industry-wide alliance that, among other activities, is developing the Higg Index – a tool to help create a more transparent and sustainable fashion industry. The Higg Index aims to score sustainability performance, making it easier for customers to benchmark brands, manufacturers and individual products so that they can make more sustainable choices.

Creating the required alignment within the fashion and design industry is taking longer than we expected. We have been pushing for this alignment from the beginning but, as with other collaborations, bringing many actors together is a significant challenge. Nevertheless, we are confident that the Higg Index will become a trusted tool for consumers.

Enabling informed decisions through consumer-facing transparency

Sarah Ditty, you are a Policy Director at Fashion Revolution: What is consumer-facing transparency for you?

For Fashion Revolution, transparency means credible, comprehensive and comparable public disclosure of data and information about brands and retailers' supply chains, business practices and impacts of these practices on workers, communities and the environment. Transparency is not just sharing the good stories, nor disclosing only compliant, well-performing suppliers. It's about presenting the full picture, both good and less good, in the effort to allow for greater scrutiny and to help drive faster improvements. There is power in sharing the challenges we all face, as well as where progress has been made.

Why is it important?

Transparency information allows consumers to make more informed decisions about the impacts of the products they buy. If companies truly want to build sustainable businesses for the future, they need their customers to act more responsibly and sustainably and that requires awareness, information and education. This is what consumer-facing transparency can do. Companies can literally help create better future customers.

How do you see H&M group's role and performance in this area so far?

H&M was one of the first major brands



Sarah Ditty.

to publish a list of its manufacturers and suppliers, a crucial step towards greater accountability. This information helps trade unions and other civil society organisations to better understand where products are being made. H&M scores within the ten highest brands in our annual Fashion Transparency Index, and this shows that H&M is striving year-on-year to provide more information about its sustainability policies, practices and impacts. We hope to see even more comprehensive, compa-

table, easy-to-use and verifiable data and information about H&M group's practices and impacts in the future. We are excited to see transparency information provided at the product level. This is a huge step forward, enabling customers to make more informed decisions about the products they buy from H&M. Hopefully in the future this sort of transparency will be available to consumers on every product they purchase from any brand or retailer, big or small.

PROGRESS

- We were ranked in the top 5 of Fashion Revolution's Fashion Transparency Index, scoring 55% (highest score 58%). While we acknowledge this recognition, we know there is more for us to do.
- Scaling our transparency work, we developed a solution that will provide our customers with sustainability information on products for H&M and H&M Home.
- We arranged a Transparency Hack in Los Angeles, USA, bringing together future generations, thought leaders and change-makers with tech, sustainability and fashion expertise for a day full of ideation sessions. The aim was to present scenario solutions for a transparent fashion future. We believe that if we collaborate across the industry and use new technologies such as blockchain and AI, we can push the fashion industry towards becoming fully transparent.
- ARKET has conducted a pilot project to better understand the usage of blockchain in connection to transparency. Blockchain is a ledger or table that businesses use to keep track of their credit and debit. The distinguishing feature of block chain is that it cryptographically chains verified data into blocks. That means once info is added into the system it can't be modified without everyone connected into the chain being informed.

LEARNINGS

- We are working hard to promote a consumer-facing Higg Index so our customers can compare a product's sustainability performance across brands. SAC has a



H&M group hosted a Transparency Hack in Los Angeles.

diverse membership, each with their own commitments and timelines. While we are confident that the Higg index will deliver as a ground-breaking tool for transparency and comparability, we acknowledge that creating a common standard for so many actors takes time.

• Over the years we have learned that it is very difficult to find solutions that suit customers' needs for sustainability information. There is currently little knowledge available on how exactly customers want further information. That is why, amongst other things, we are conducting further

research to address this gap. H&M joined an insight study with several other fashion brands in SAC to learn more about customer expectations in China, Europe and the US.



H&M Home.

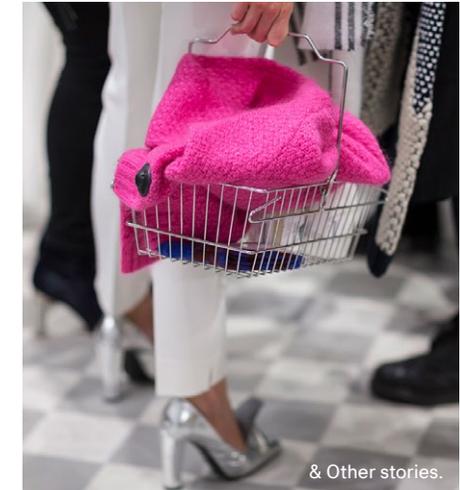
2. TRANSPARENCY TO DRIVE SUSTAINABILITY IMPACT IN SUPPLY CHAIN

In 2013, we were one of the first fashion retailers to make our supplier list public. This list includes tier 1 manufacturing supplier factories for 100% of H&M group products and tier 2 factories, which account for 65% of our products. Creating greater traceability in our supply chain means knowing exactly where our products (and their materials) come from. One of the biggest challenges in creating greater traceability is collecting trusted data throughout our supply chain. We see that new emerging technologies such as blockchain can potentially help us tackle this challenge.

Mapping the apparel industry's complex supply chains is both a joint effort and a groundbreaking and unparalleled initiative. Within the frame of SAC, the sharing of data for brands, textile manufacturers, mills and material suppliers' locations and sustainability performance on a joint platform is a significant step towards public transparency. However, because of some unanimity issues within SAC membership, the timelines for developing a transparency platform for data sharing are somewhat delayed.

H&M group recently joined the Executive Board of SAC to further drive industry-wide transparency of the fashion and apparel industry. This is needed now more than ever, with the increased expectations from customers, stakeholders and legislators for

transparent supply chains and disclosures on the impact on people and the planet. SAC's Higgs Index creates a 'common language' for transparent product information, allowing comparability across brands.



& Other stories.

PROGRESS

- H&M group signed the [Transparency Pledge](#) and added more detailed information to our public supplier list. Our supplier list covers 100% of our tier 1 and 65% of our products with tier 2 suppliers. We have also added strategic tanneries this year.
- 100% of our tier 1 and tier 2 supplier factories* used the Higgs Index Facility Environmental Module during 2018, making us one of the widest users of the first tool developed by SAC. For more information on the performance, see page 96.

*Apparel and footwear supply chains excluding factories with less than 25 employees.



Rewarding sustainable actions

We believe it is important to encourage and empower sustainable actions throughout our value chain. Because we know incentives and reward systems help achieve long-term, positive behavioural changes, we are using them to engage our business partners, colleagues and customers to accelerate progress towards our sustainability vision.

We have developed and are using different reward systems, tailored to the needs of our three changemaker groups.

BUSINESS PARTNERS

We are working with our business partners through our Sustainable Impact Partnership Programme (SIPP) to raise their environmental and social performance. We reward high-achieving and ambitious partners with more orders, training opportunities and long-term contracts. This helps drive environmental and social progress across our whole industry. Read more about SIPP on page 95.

COLLEAGUES

We want all our colleagues to contribute to our sustainability work and we reward them for doing so. This involves implementing and measuring sustainability goals at different levels and

across functions within H&M group. Crucially, this includes goals set at an executive level. We include sustainability goals in our overall management evaluation process and we regularly follow up on function specific goals. We encourage colleagues to contribute to change in the workplace and in their communities through a range of strategies and activities.

CUSTOMERS

To achieve our sustainability ambitions and drive change across our industry, we also need active participation from our customers. We offer our customers incentives for sustainable actions, which can increase customer interest and knowledge in sustainability and create positive behavioural change. In this way, we encourage our customers to re-wear, reuse and recycle unwanted clothes whenever possible.



Rewarding customers for garment collecting

H&M All H&M stores around the world encourage customers to bring unwanted garments and textiles for recycling, re-wear or reuse. Customers can use the in-store garment collecting scheme to return garments from any brand, in any condition. As a reward, we offer a voucher towards their next H&M purchase.

& OTHER STORIES As well as collecting textiles via H&M group's partner-

ship with I:CO, & Other Stories also encourages customers to return the brand's empty beauty containers for recycling. Customers are rewarded for sustainable behaviour with 10% off their next purchase.

MONKI All Monki customers are rewarded with a "10% off your next purchase" voucher when they bring a bag of unwanted textiles for the garment recycling service.

These can be found in all Monki stores, anywhere in the world.

WEEKDAY All Weekday stores in Sweden currently offer garment collecting. This initiative will be rolled out worldwide during 2019 and will offer customers who bring in their unwanted garments a 10% discount on their next purchase.

AFOUND Offers garment and shoe collecting in all physical stores.

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.

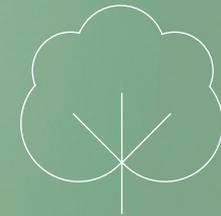


WE HAVE DEVELOPED A NEW WATER ROADMAP FOR OUR SUPPLY CHAIN WHICH CONTAINS OUR KEY GOALS AND ACTIONS UP UNTIL 2022.

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

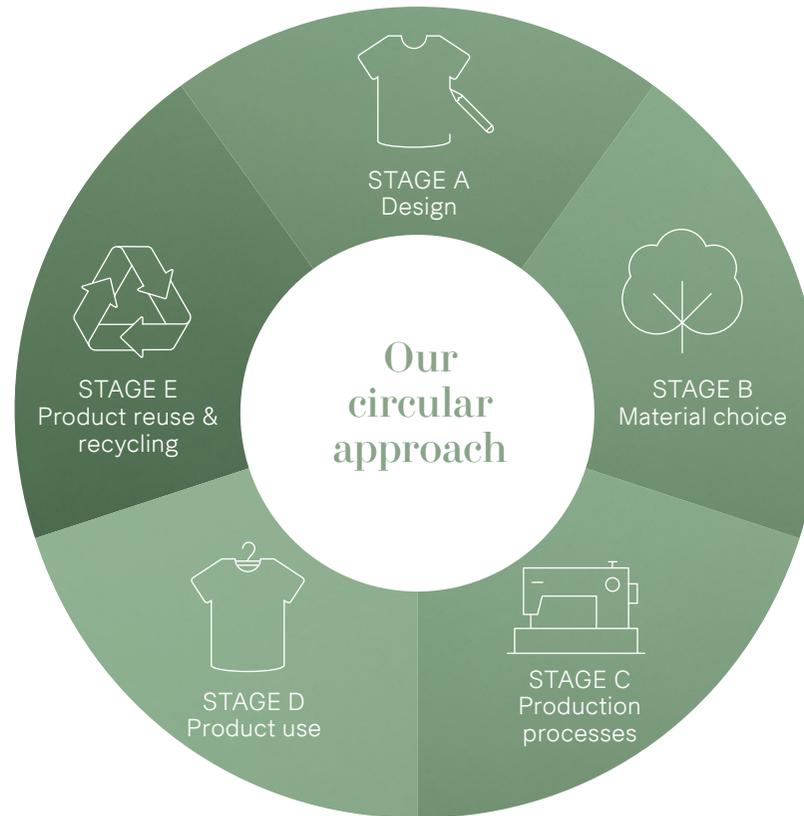
*2017 data is compliant with BSR, 2018 data and forward is compliant with ZDHC.
 **Due to inaccuracy in calculation, the 2017 share has been corrected from 96% to 95%.

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.

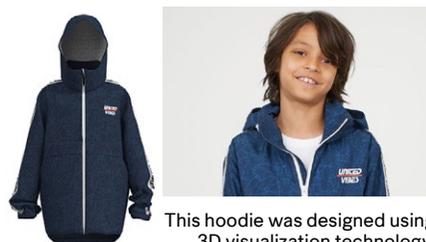
Circular design involves addressing the quality and durability of products, as well as their chemical input, materials and production processes. It also means finding ways to expand product lifespan, enabling better care and repair for our products and creating greater opportunities for rewear, reuse 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

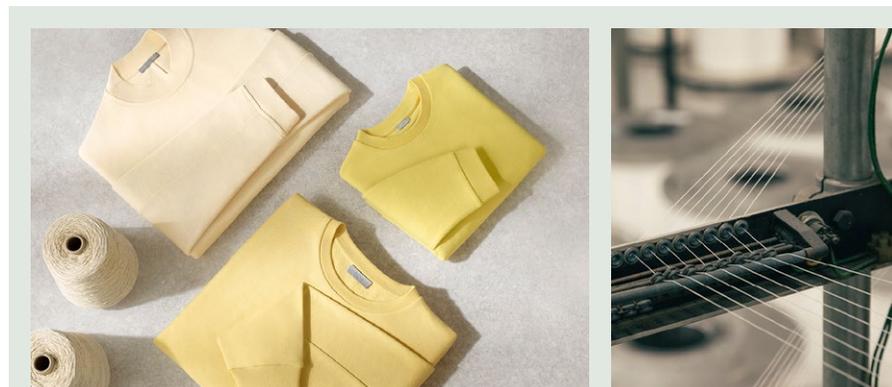
in sample rounds and use of resources. Now, designers are able to iterate on products in 3D, until they are sure it's the right style. This removes the room for error both in designing the desired products for our customers, but also removes potential communication errors between us and factories.



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%.

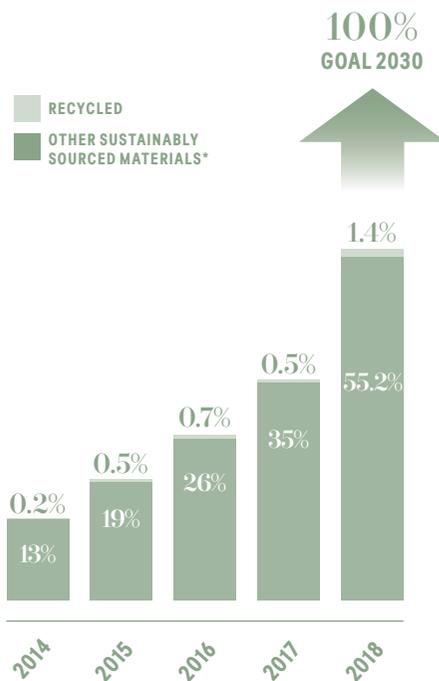
Recycled materials are a win-win: they stop waste material from going to landfill and reduce the use of virgin raw materials (as well as chemicals, energy and water used to make them). Similarly, sustainably sourced bio-based materials are naturally grown or cultivated, and better from an environmental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



The award-winning hydrothermal recycling technology has been put into practice at scale, using only heat, water and less than 5% of a biodegradable green chemical to recycle cotton and polyester blends into new fibres.

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*.



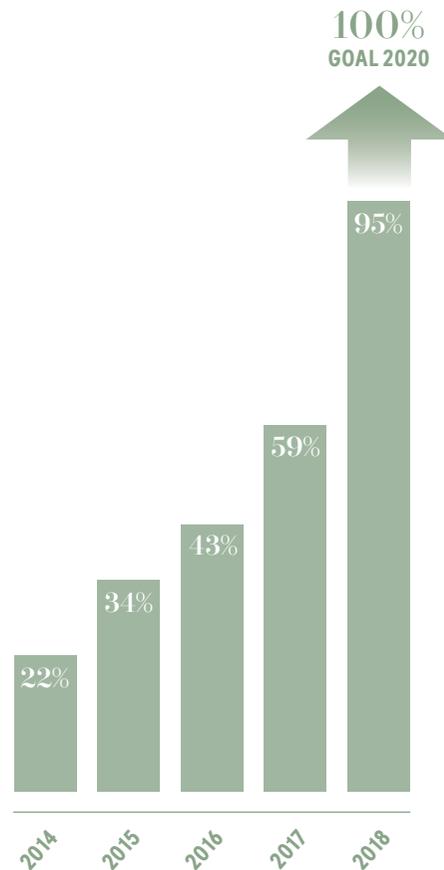
COTTON

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

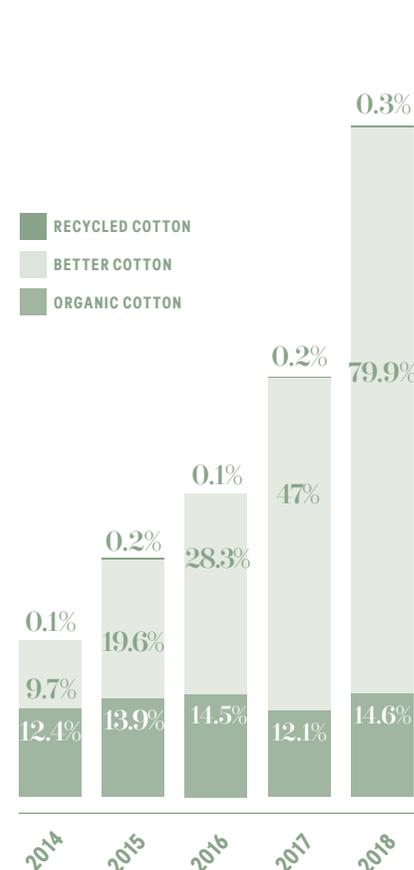
We are a founding partner of the Organic Cotton Accelerator (OCA) and are an active member of the board. The OCA was

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

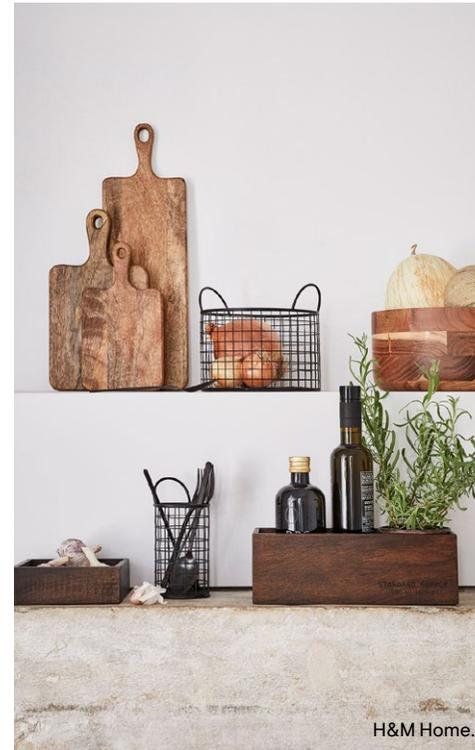
- According to the Textile Exchange's Preferred Fiber & Materials Market Report 2018, H&M group was the biggest user of preferred MMC fibres and the biggest user of preferred Lyocell.

- 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.

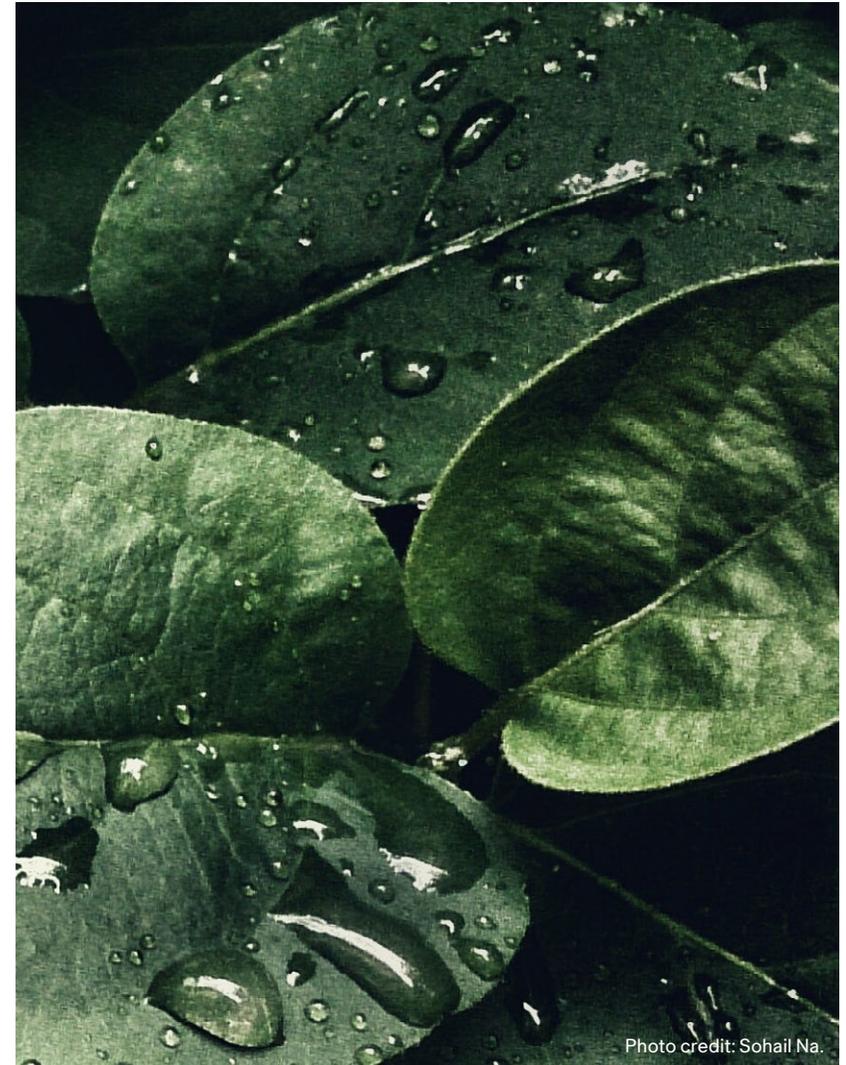
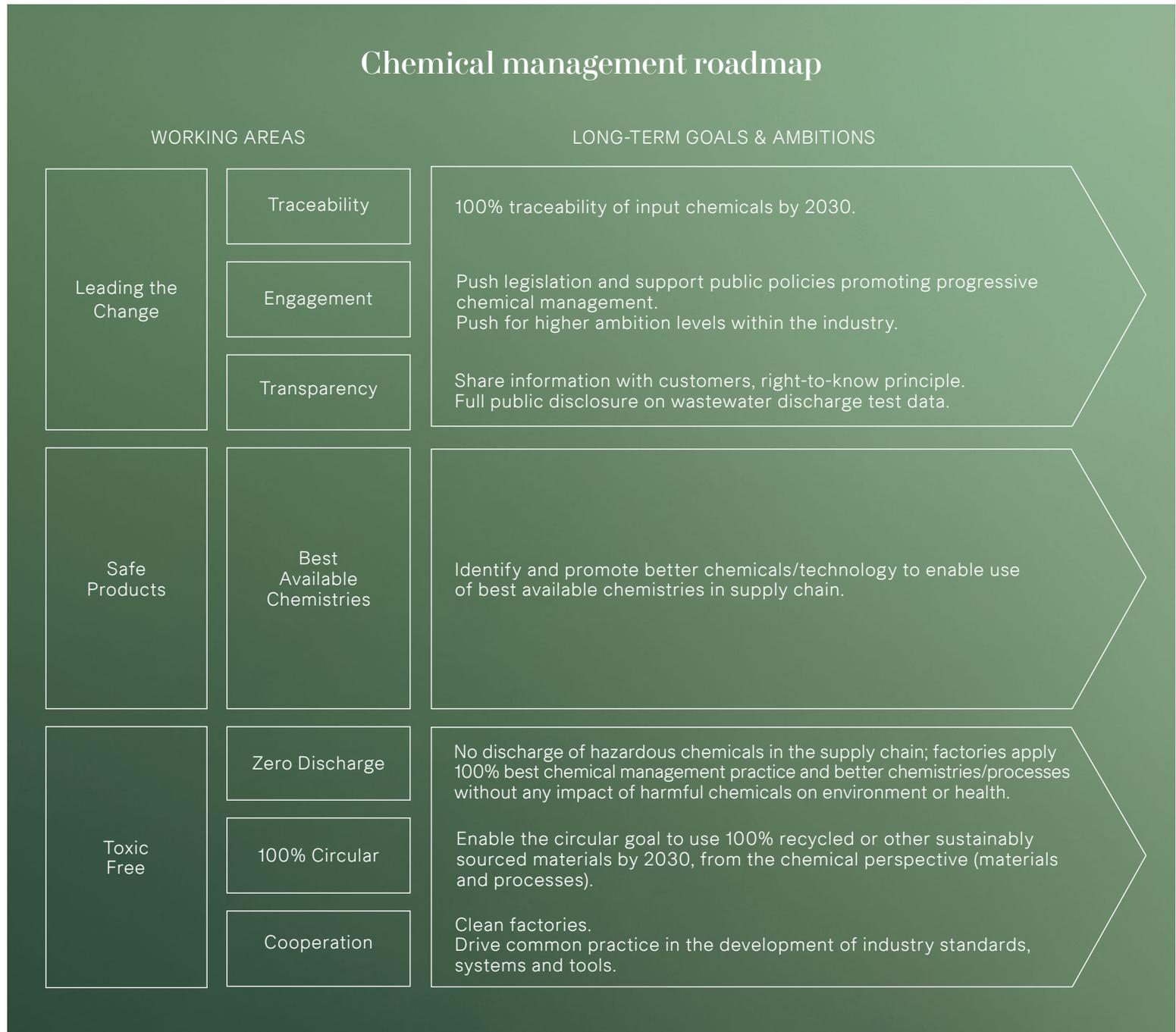


Photo credit: Sohail Na.

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.

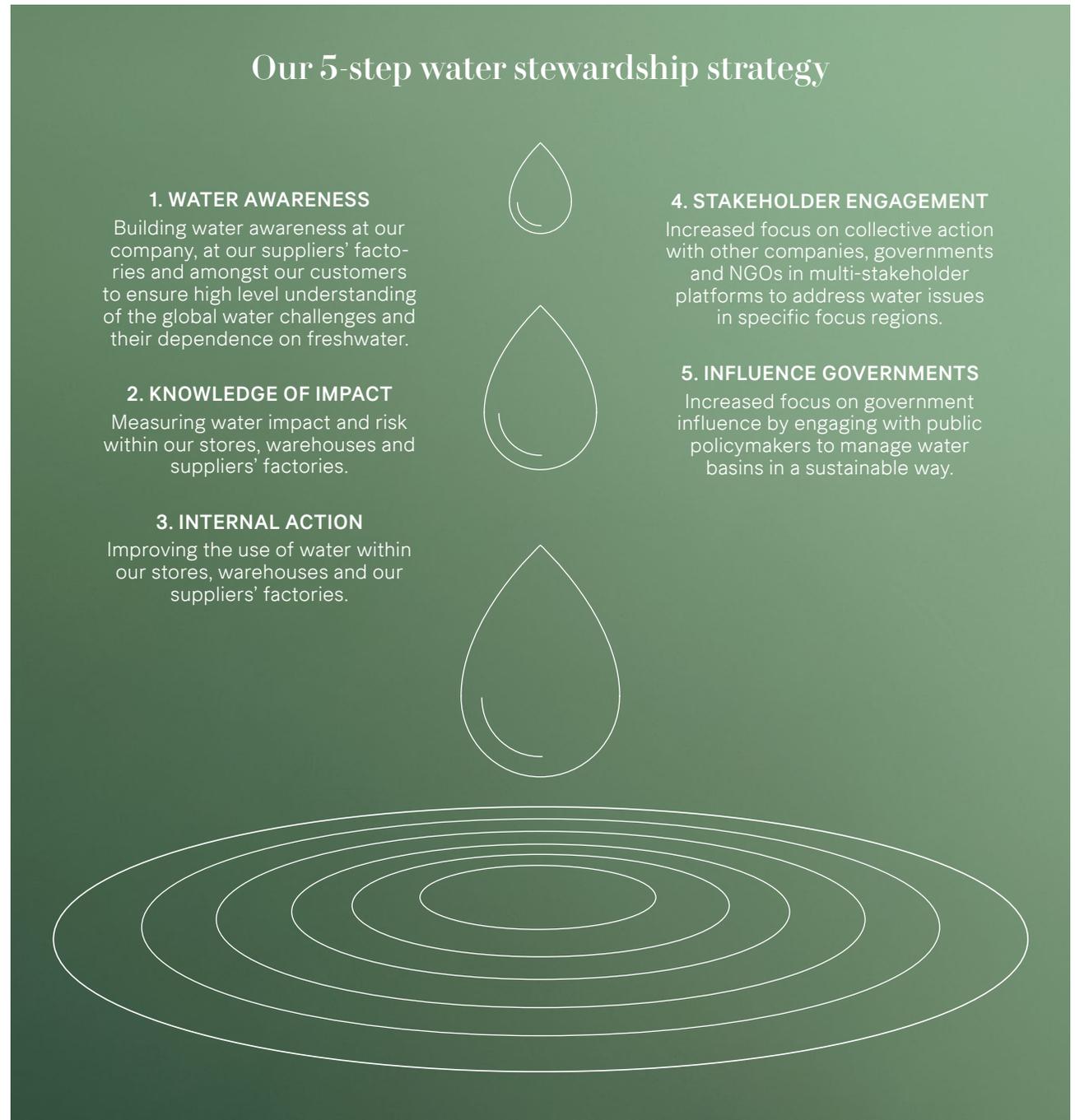
H&M group has been working to reduce water impacts throughout our value chain for over ten years. We began a long-term partnership with WWF in 2011, with the goal of becoming a leading water steward within the fashion industry. With the help of WWF, we developed a five-step water stewardship strategy.

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



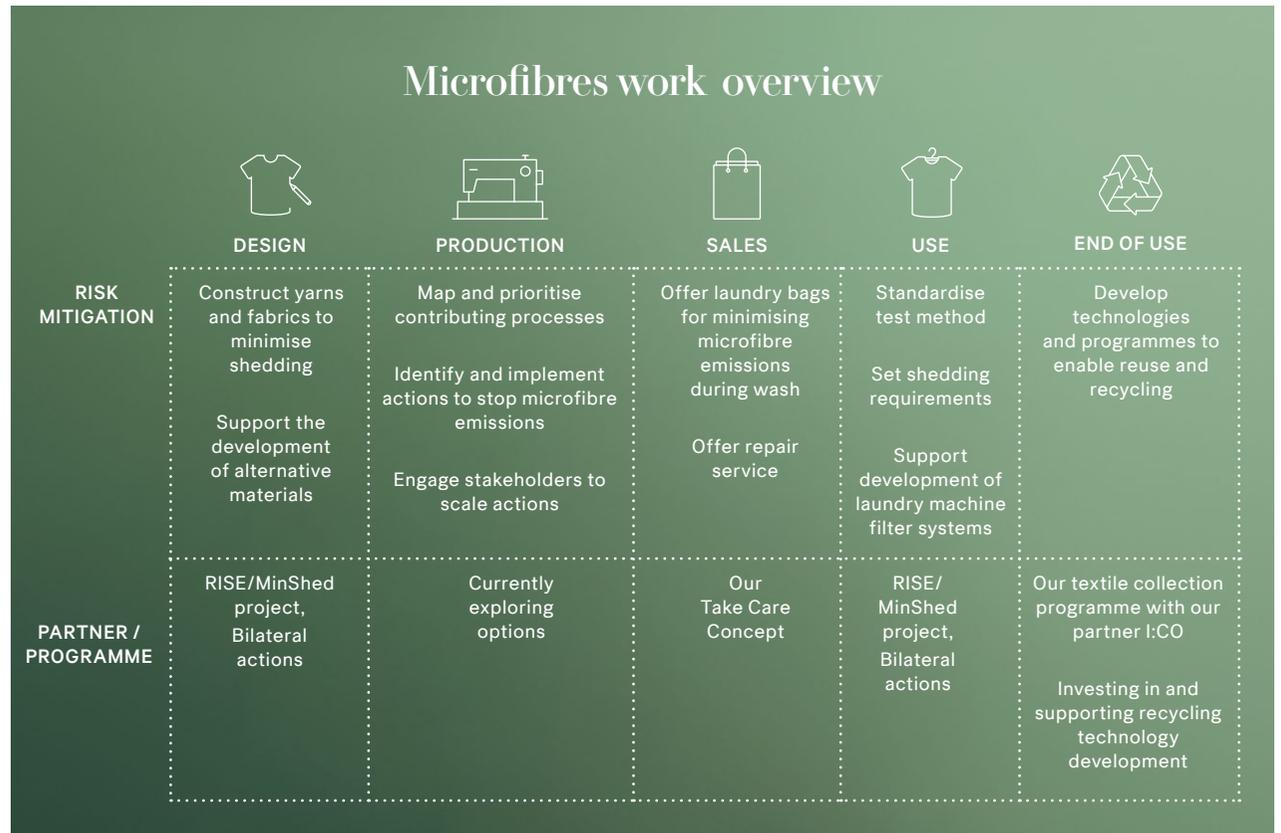


MICROFIBRES

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.

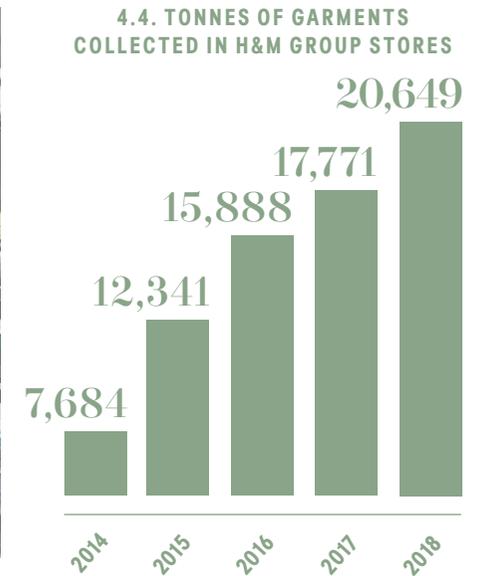
About 35–45%* of the textiles are recycled to become products for other industries or made into new textile fibres. For example, some textiles are used to make cleaning cloths. Other textiles are mechanically shredded into fibres and used to make insulation materials or painters' drop cloths. During 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%.

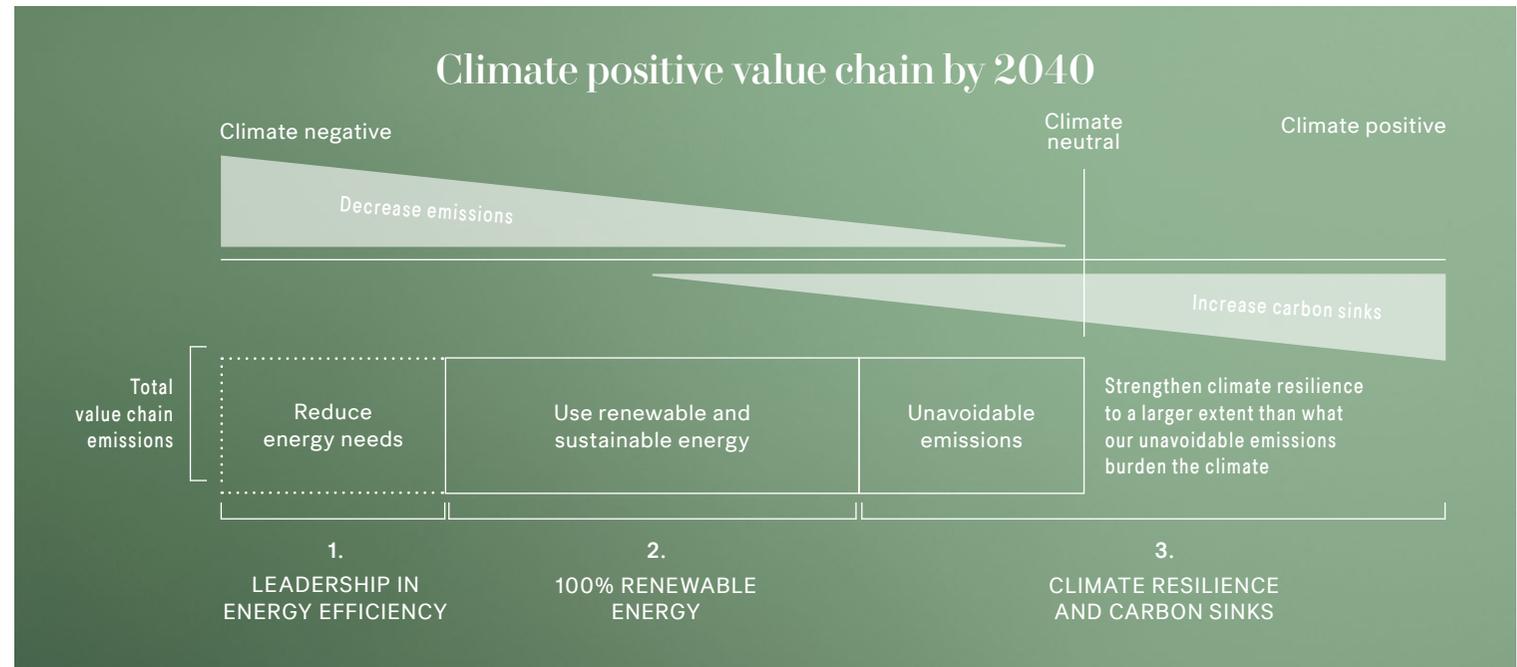
- We recycled 92% of waste originating at our DCs and waste delivered to our DCs from our stores (2017: 93%).

- 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.

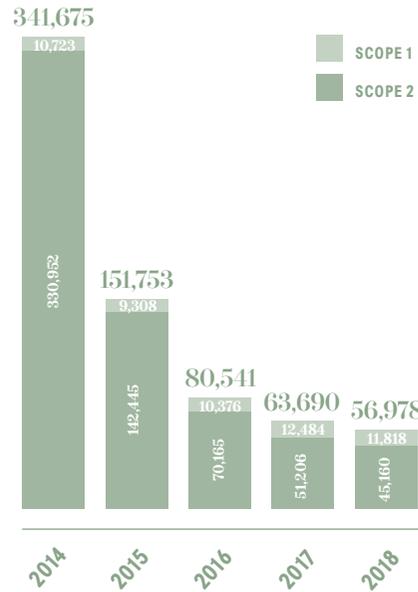
TCFD H&M group has publicly endorsed the Task force on Climate Related Disclosure (TCFD) and aims to comply with its recommendations. We are in the process of analysing our climate risks according to the TCFD guidelines and will follow the recommendations for disclosure.

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.

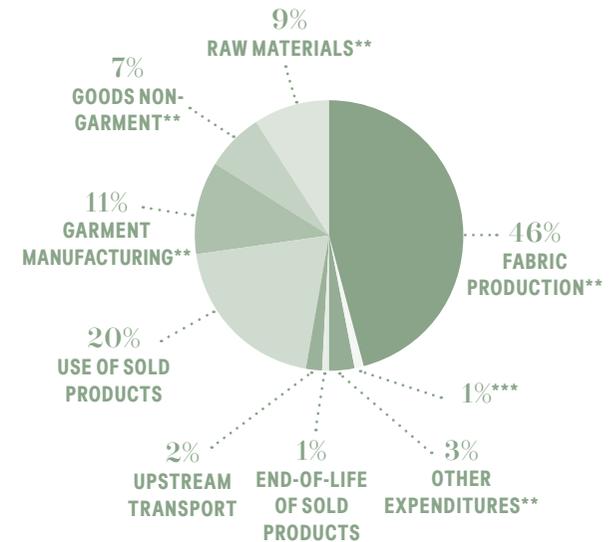
Our emissions throughout our value chain (scope 1 + 2 and 3)

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.

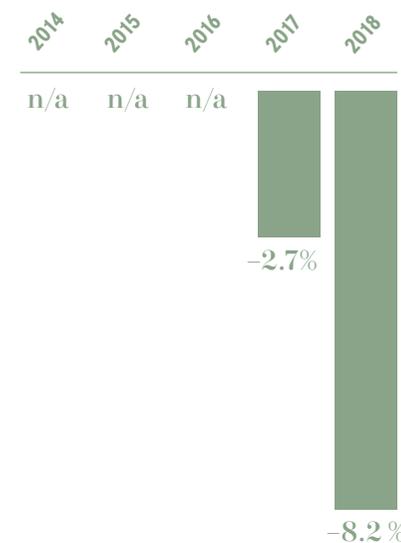
- We are gradually replacing all existing lighting with LED, while phasing out high-intensity discharge (HID) lighting.
- We have made substantial energy savings in the US and Poland. In 2017 and 2018, the US saw decreases of around 5% both years; Poland has decreased by 20% over the last five years. 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.

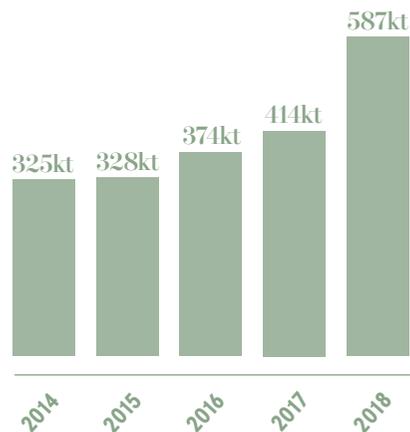
TRANSPORT & DISTRIBUTION CENTRES

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

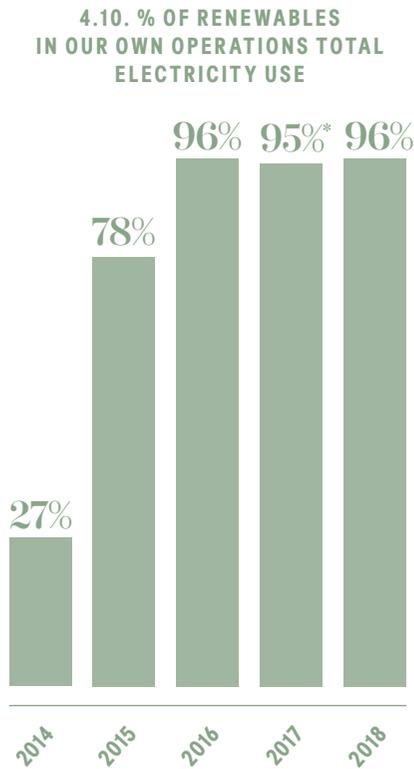
We are committed to maximising the use of renewable energy in our value chain. We know that by using more renewable energy and helping our suppliers and customers do the same, we are supporting the transition to fossil-free energy use.

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.



100% FAIR & EQUAL



H&M.

Key facts & figures 2018

H&M Group's global supply chain directly contributes to 1.6 million jobs in our tier 1 and tier 2 factories.



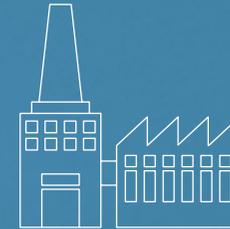
We have signed a new partnership agreement with ILO.



Our Board of Directors is represented by a 60%:40% (female:male) gender split.

93% of our business partners rate H&M Group as a fair business partner.

H&M Group hosted a Fair Living Wage Summit in Phnom Penh in December to share the impact, results and main learnings from the last five years' work with the Fair Living Wage Strategy.



655 factories and 930,000 garment workers are covered by one or both of our key programmes for workplace dialogue and Wage Management Systems. This represents 84% of our product volume.



OUR FAIR AND EQUAL AMBITION CONTRIBUTES TO SDG 1, 2, 3, 4, 5, 8, 10, 16, 17.

100% Fair & Equal: KPIs and goals

Our goal-setting process is ongoing. We work with internal and external experts and, wherever possible, follow a science-based approach to defining targets and actions. The KPIs and goals in the table below represent key milestones towards our ambition to become 100% Fair & Equal.

100% Fair & Equal					
KPI	2015	2016	2017	2018	GOAL
No. of supplier factories implementing improved Wage Management Systems (% of production volume covered)	69	140 (29%)	227 (40%)	500 (67%)	50% of product volume by 2018
No. of supplier factories that have implemented democratically-elected worker representation (% of production volume covered)	132	290 (42%)	458 (52%)	594 (73%)	50% of product volume by 2018
% of business partners regarding H&M group as a fair business partner	84%	83%	94%	93%	90% by 2018
% of employees agreeing with the statement "I feel comfortable being myself at work", and % of employees agreeing with the statement "I am treated with respect and dignity"*	n/a	n/a	n/a	83%, 81%	Year on year improvement
% of remediated issues (defined by the Bangladesh Accord**)	61%	81%	90%	98%	100%

*New baseline 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 have made a shift to a new engagement survey platform.
 **From beginning of 2019, orders will only be placed with supplier factories that are 100% compliant with the Accord requirements.

100% Fair & Equal explained

We believe that everyone connected to our business deserves fair and equal treatment. At H&M group, being 100% Fair & Equal means living by our values and respecting human rights – within our own company and across our supply chain. By providing fair jobs, promoting diversity and growing our business in an increasingly inclusive way, we can contribute toward fair and equal societies.

Our 100% Fair & Equal ambition has two focus areas:

1. Providing fair jobs for all
 - within H&M group
 - within our supply chain
2. Inclusion and diversity

A fair job is defined as one with fair compensation, a safe and healthy workplace, an environment free from discrimination and one in which every employee is heard. At H&M group, we believe that a fair job should make every individual feel valued, respected and engaged within their workplace. Fair jobs enable people to enjoy life and provide for themselves and their families.

Alongside this, we believe we have a responsibility and an opportunity to drive inclusion and diversity. We want to con-

tribute to a more open society where everyone is welcome, and we recognise we can promote diversity and equality through our actions, products and marketing.

Ultimately, by providing fair jobs, being inclusive and encouraging diversity and equality, we can make a positive impact on the lives of employees within H&M group, workers within our supply chain, our customers and wider society. We also believe our approach is good for business. It makes us an attractive employer and business partner, it contributes to stable markets in which we operate, and it makes our business more resilient, productive and sustainable.



Embroidery work at one of our supplier factories.

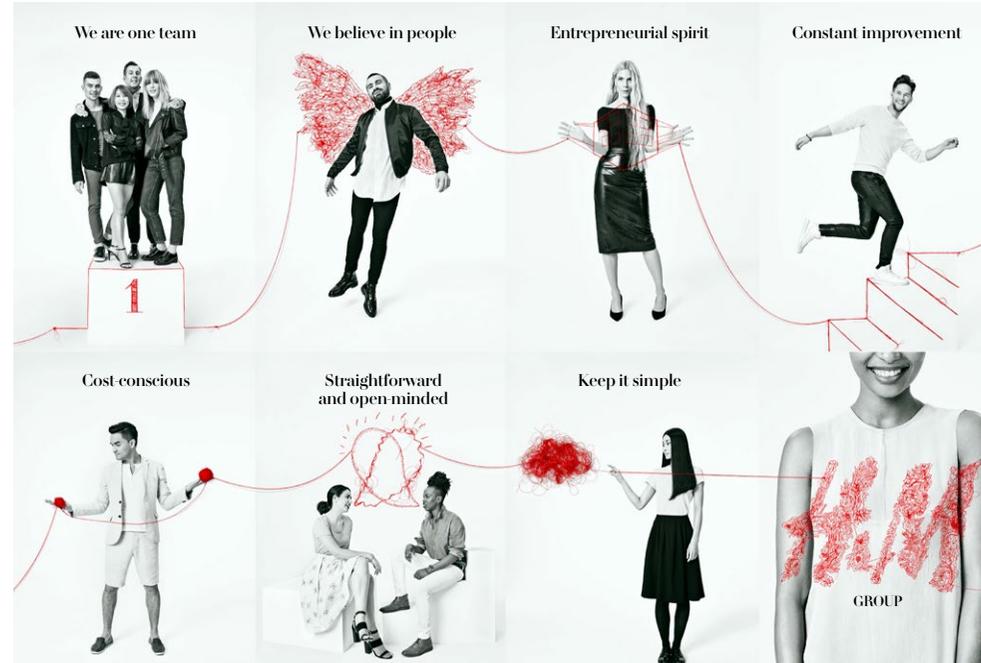
Fair jobs for all: within H&M Group

As one of the world's biggest fashion and design groups, we strive to be a fair and equal employer to 177,000 colleagues.

We work hard to create a transparent, trustworthy, fair and equal workplace with great opportunities for everyone. Our values are the red thread that runs through the fabric of our company. They come to life in our everyday work and create a unique culture that attracts the people we need for our continued business success.

Creating fair jobs within H&M group is about:

- Providing a solid foundation of fair and attractive working conditions. These include fair labour standards, high health and safety standards, fair and competitive compensation, a comprehensive grievance procedure and a cooperative workplace dialogue.
- Promoting a values-driven way of working. Our values are the starting point for how we do business and how we interact with the world around us.



They give us a competitive advantage and ensure a sustainable way of working. We expect all employees to contribute to our company culture by being ambassadors for our values.

- Making sure we have the right people in the right positions. We secure this through our internal and external

recruitment processes and by providing quality introductory trainings. Offering all our employees the opportunity to grow and develop within their role or move on to new roles and responsibilities in different parts of our company. Our leaders are role models who lead the way, and we provide them with clear expectations and ongoing support.

PROGRESS

- We recognised all winners of the Erling Persson Award in early 2018. This award gives all H&M group employees the opportunity to nominate colleagues who contribute to our company culture by living our values and creating great results.
- We focused on supporting and empowering our leaders to navigate change in a global, fast-paced business. We provided workshops and tools, including the Lead the Way podcast where inspirational internal leaders and external influence experts share their insights.
- Because the engagement of our employees is critical for our business success, we launched the People Engagement Pulses (PEP) in October. This is a new survey platform where our employees can voice their opinions and give feedback that helps us improve. Overall PEP score for employee engagement was 75 out of 100.

Fair jobs for all: within our supply chain (production)

We are working with our suppliers to achieve our ambition that everyone in our supply chain has access to a fair job. Although the concept of a fair job sounds simple, many of the production markets in which we operate are developing countries and they either lack or face challenges in implementing the legislation that would make fair jobs available to all. This creates an industry-wide challenge.

H&M group directly contributes to 1.6 million jobs*, and the textile industry has helped many people and countries out of poverty. H&M group has been working for many years to ensure that all jobs within our supply chain are fair jobs. Back in 1998, we started an assessment programme to help monitor working conditions in supply chain factories, which has led to improvements ever since. However, certain issues are complex and require collaboration and systemic industry-level action to ensure lasting change.

In 2013, in close dialogue with a variety of external experts, unions and international organisations, we updated our social sustainability strategy. It now takes a more holistic approach with an increased focus on capacity building,

* Tier 1 and tier 2.

collaboration and structural change at factory, industry and country level.

Our assessment programme continues to provide a solid foundation for our work and is an integral part of our company risk and human rights due diligence framework (read more on page 92). The programme ensures our requirements are met, drives continuous improvement and informs our core social sustainability strategy. Our strategy covers salient global and local human rights issues, with a focus on the rights we believe will help us meet our ambition to ensure fair jobs for all.



Worker at Seduno Cambo Knitting factory in Cambodia. Photo credit: Tiffany Tsang.



Enabling well-functioning industrial relations

We believe well-functioning industrial relations are crucial to the creation of fair jobs. We have seen how good working conditions and better wages are more likely to come from good relationships between workers, their representatives and management, and effective interactions and negotiations between social partners at a factory, industry and country level. Good labour relations also support stability and performance in our production markets.

However, many markets lack the necessary systems to make well-functioning industrial relations a reality. That is why, as part of H&M group's strategy to achieve 100% fair jobs in our supply chain, we are working to improve industrial relations across our industry and in all our production markets. This is a highly complex challenge and involves working to:

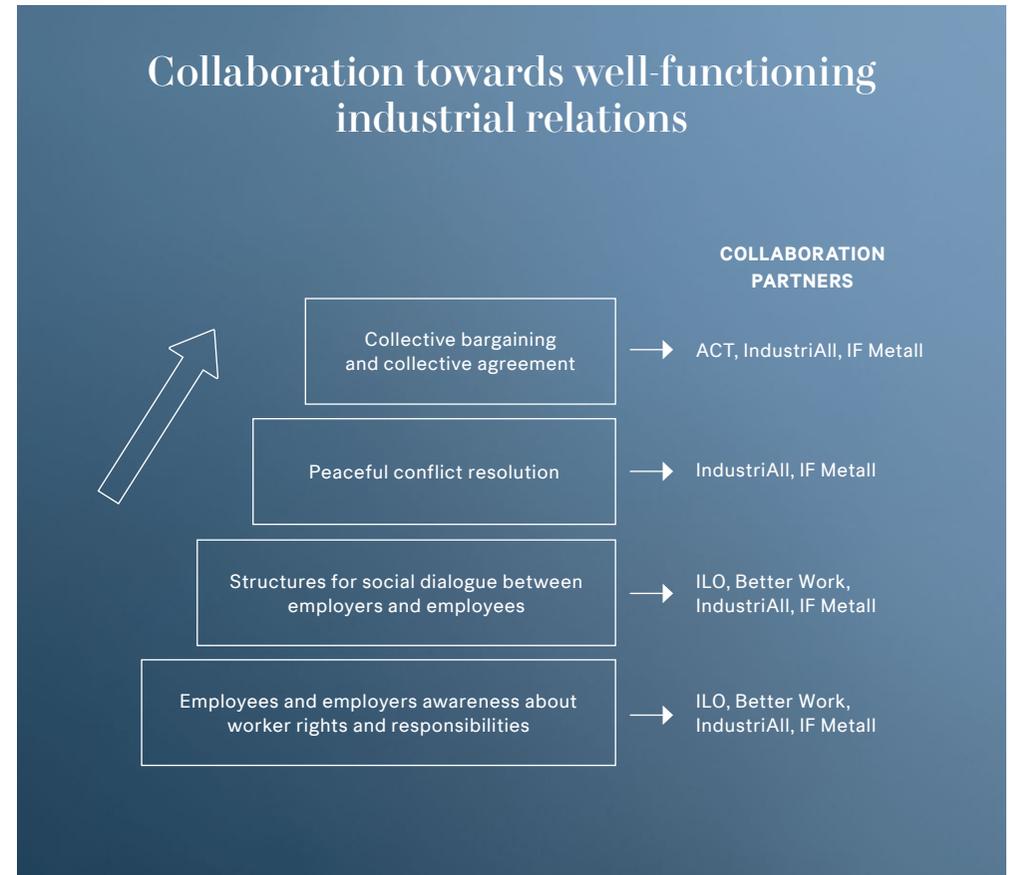
- make sure workers are heard
- build industry collaborations
- engage with local governments

MAKING SURE WORKERS ARE HEARD

H&M group has a production office (PO) team in almost every country in which our products are made. Each PO team is responsible for working with our various industrial relations programmes to facilitate stronger relationships between

local factory employees and factory management. For example, they implement our workplace dialogue programmes with workers and management to raise awareness of rights and obligations, including the importance of freedom of association and collective bargaining. PO teams can also provide worker and management training around the democratic election of workers' representatives in the factories.

Worker representatives, trade unions and workers' committees are important components for making sure workers are heard. These can address issues such as working hours, health and safety, grievances, etc. Unions are particularly well suited to negotiate wages in good faith with employers, while worker representatives can use the trust from their peers and respect



from management to bridge the gap that often exists between the two parties. When workers are represented by a trade union or democratically-elected

representatives, it creates an important communication channel and provides a crucial first step towards enabling well-functioning industrial relations.

Meeting an elected worker-representative

Our supplier, Newage Apparels LTD, elected their first worker participation committee in June 2014. Here, we meet Ms. Shahida Khanom, who joined the factory in 2010 and works as a machine operator. She was elected as Vice Chair of the nine-person committee in 2014 and re-elected to the position in September 2017.



Name Shahida Khanom
Role Machine operator

Why did you want to be re-elected as Vice Chair?

I find my daily communication and dialogue with workers and managers in my factory inspiring, so I decided to stand for re-election in 2017. I am very happy

I was re-elected because I really enjoy contributing to a better dialogue between management and workers.

What do you think is important in your role?

My role is to gain trust from the workers by always listening carefully to what they have to say so I can deliver their messages to the managers. I always try to explain the overall picture of a challenge in the factory so that workers are not disappointed if they don't see quick fixes.

What are the best things about being a Vice Chair?

It has been great professional and personal development for me. I have improved my communication skills and strengthened my dialogue with both workers and managers. I am more confident overall. It is also a great feeling to know I am contributing to improving the workplace dialogue in this factory.



The Executive Director at Newage Apparels LTD during info session with trainees.

In Newage Apparels LTD, absenteeism decreased from 4.8% in 2017 to 3.56% in 2018. The Managing Director, Arif Ibrahim, thinks the improved dialogue between managers and workers in the factory is one of the key factors behind this improvement.

“Efficient workplace dialogue is the key to become one force, together we can build a better future!”

ARIF IBRAHIM, MANAGING DIRECTOR,
NEWAGE APPARELS LTD

BUILDING INDUSTRY COLLABORATIONS

We believe that industry-wide collaboration is essential to establish the agreements and strategies needed to further improve industrial relations. One of the key relationships we have built is with the trade unions, IndustriALL and IF Metall. We have a Global Framework Agreement (GFA) in place to improve industrial relations in our supply chain. The GFA focuses on the right of freedom of association and collective bargaining.

We have set up National Monitoring Committees (NMC) as a collaborative mechanism under the Global Framework Agreement (GFA) in Bangladesh, Cambodia, Indonesia, Myanmar and Turkey. NMCs are composed of local IndustriALL-affiliated trade union representatives and local H&M group production office representatives. NMCs work with partners to co-develop action plans, establish long and short-term goals for the implementation of the GFA and deliver agreed action points, most of which concern the facilitation of conflict resolution for both employers and employees.

The role of an NMC is:

- To create, monitor and evaluate national strategies to implement the GFA.
- To create collaboration between trade unions, workers' representatives and H&M group suppliers to support well-functioning industrial relations, with a focus on dispute prevention and resolution.

H&M group is also a founding member of Action Collaboration Transformation (ACT), a partnership between international brands, retailers and trade unions that exists to address the issue of a living wage through industry-wide collective bargaining. Read more about our work with ACT on page 75.

ENGAGING WITH GOVERNMENTS

Enabling legal and institutional frameworks is crucial for well-functioning industrial relations. We engage with governments and policy makers directly and indirectly, conduct advocacy work and have an agreement with ILO to cooperate and collaborate around the implementation of the [Decent Work Agenda](#). Through our partnerships, we are in a good position to engage with governments and other national stakeholders.

As a partner of ILO, we promote ILO conventions and engage in the debate on important public policy issues that affect the well-being and rights of the workforce.



Photo credit: Tiffany Tsang.

PROGRESS

- Our industrial relations and workplace dialogue programmes reached 594 factories in 2018 (2017: 458, 2016: 290, 2015: 132). Our 2018 programmes included factories in China, Bangladesh, Cambodia, India, Indonesia, Turkey, Ethiopia, Myanmar, Pakistan and Vietnam. In total, we reached 840,000 workers.
- Factories producing 73% of our product volume implemented democratically-elected worker representation.

- In December 2018, we held our annual global meeting for National Monitoring Committees (NMCs) in Phnom Penh, Cambodia. Each NMC reported on its progress during for 2018 and shared experiences from the past year. The meeting was attended by experts from both the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organisation (ILO), who hosted workshops on due diligence in supply chains, procedures for dispute resolution, and the definition of International Labour Standards.

- We have been working with Ethical Trading Initiative (ETI) to raise our concerns about Cambodia's change in trade union law.
- Our Memorandum of Understanding (MOU) with the Swedish development agency Sida shares the common goals of supporting ILO's Decent Work Agenda and developing opportunities that contribute to sustainable development in our supply chain.

LEARNING

- Our Global Framework Agreement (GFA) with IndustriALL and IF Metall is an agreement between the global union of textile workers and its affiliated unions to collaborate for well-functioning industrial relations in our supply chain. The GFA is a framework that can create awareness and maturity between labour market parties to effectively negotiate and engage in dialogue. It will take time to build up the necessary structures, and we are only at the beginning of this long journey.

Supporting a fair living wage

A living wage is a human right. Unfortunately, it is not a reality for many people working in many different industries around the world. The fashion industry is no exception.

In 2013, we launched our Fair Living Wage Strategy in an endeavour to change this. As part of this, we set out a vision for all textile workers to earn a fair living wage. This vision was supported with concrete goals and actions, in our supply chain and across the textile industry.

OUR FAIR LIVING WAGE STRATEGY

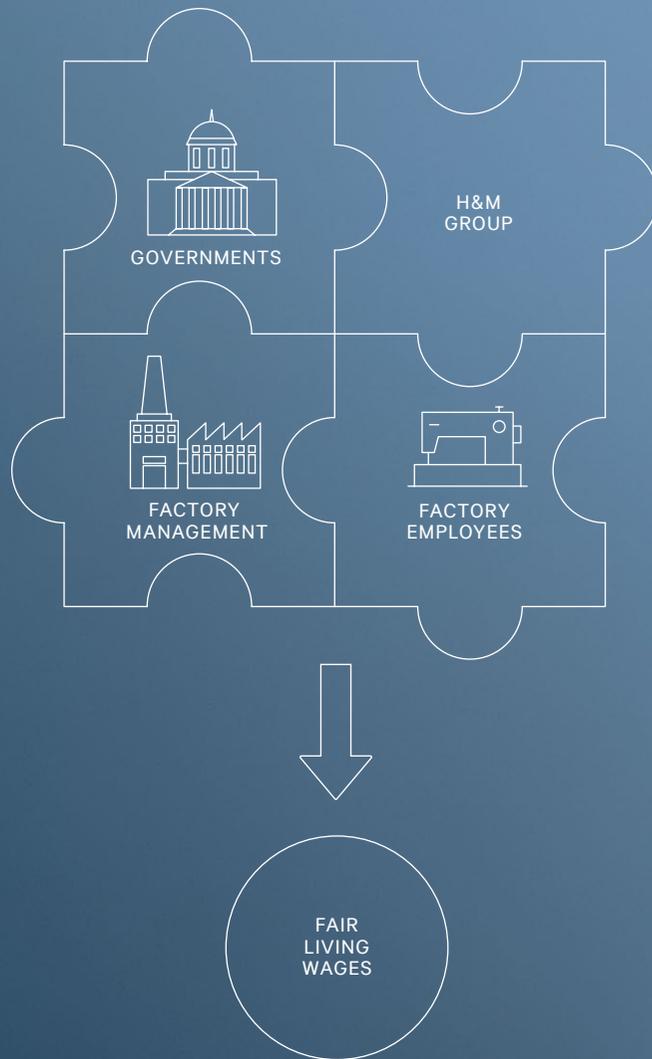
We launched our global Fair Living Wage Strategy in 2013 with guidance from multiple experts, trade unions, suppliers and NGOs.



Photo credit: Tiffany Tsang.

Our Fair Living Wage Strategy

Our strategy sets out clear goals and actions for four target groups: governments, factory owners, brands and, most crucially, factory employees.



GOALS AND RESULTS

When we devised our Fair Living Wage Strategy, we set measurable goals, milestones and actions to be achieved between 2014 and 2018. As we started to accomplish these, we used what we'd learned to increase our ambitions, setting further goals, expanding our scope and improving our measurements. This process led to the development of five key goals for 2018:



Governments

Goal Continue to advocate governments and the public on wages.

Result In 2017, ACT was recognized as a credible initiative to work on living wages by G20.



Factory management

Goal Ensure that supplier factories producing 50% of

H&M group's product volume have democratically-elected worker representation in place by 2018.

Result We exceeded the goal. 73% of our product volume is made in factories that have democratically-elected worker representatives in place. This covers 594 factories and about 840,000 workers. You can find more information about this goal and other elements of our strategy to strengthen industrial relations on page 66.

Goal Ensure that 100% of supplier factories in Bangladesh have democratically-elected worker representation in place by 2018.

Result We reached this goal ahead of schedule. 100% of our tier 1 supplier factories in Bangladesh had democratically-elected worker representation by December 2017.



H&M Group

Goal 90% of business partners should regard H&M group as a fair business partner by 2018.

Result We exceeded this goal, 93% of our business partners see H&M group as a fair business partner. We assess this figure on an annual basis through an extensive anonymous supplier survey.



Factory employees

Goal Ensure that supplier factories producing 50% of

H&M group's product volume are implementing improved Wage Management Systems by 2018.

Result We exceeded the goal. 67% of our product volume is made in factories that are implementing improved Wage Management Systems. This covers 500 factories and about 635,000 workers.

You can find an overview of all our goals and results [here](#).

KEY IMPACTS OF OUR FAIR LIVING WAGE STRATEGY

Achieving our goals means that today, 930,000 garment workers work in factories that are either implementing improved Wage Management Systems or have democratically elected worker representation – or, in most cases, both. This is an important achievement that lays the foundation for structural changes by making sure workers’ voices are heard in a better way.

Over the last five years, we have analysed data from hundreds of factories in some of our most important sourcing markets to gain further understanding of the impacts that have and can be created at a factory level. We have learned that our work can achieve great progress in individual factories, but it has limitations – we need broader perspectives, involvement at industry level and legislation.

UNDERSTANDING THE DIFFERENT COMPONENTS OF WAGES

Wages are a complex issue. In order to achieve fair living wages for all garment workers, it is important to understand the components of a textile worker’s monthly take-home wage and how they can be influenced. In general, there are two components:

The biggest component is minimum wages which are stipulated by governments and the lesser component is individual wage setting and factory benefits. Combined, these components make up the take-home wage for garment workers.

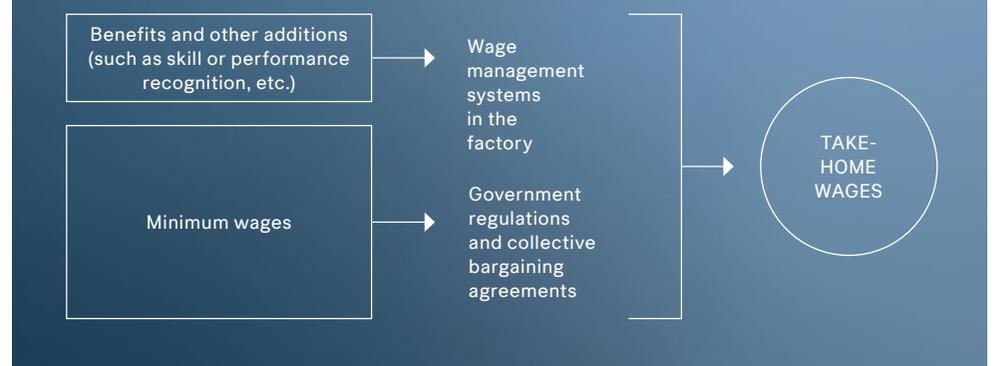
We believe that improved Wage Management Systems will help factories become fairer and more transparent in the way they work with individual wage setting and bonuses. We have supported our suppliers in establishing transparent wage grids in their factories, which show



Functional wage management system should include:

1. Proper and correct payment of wages according to individual contracts, legal regulations and existing collective bargaining.
2. Internal development of human resources policies and processes to ensure competitiveness, high motivation and sustainable social climate in the factory.
3. A progressive and coherent pay system that rewards workers according to their skills, education, performance and experience, etc.
4. Proper mechanisms for workers’ involvement in factory decisions, including those that generate a process of communication and possible negotiations on the content of wages and payment structures.

Wage components



workers how they are rewarded for different skills, tasks, education, and seniority, etc. This allows workers to understand how they can influence their wage by improving their skills and performance, etc. At the same time, the improved Wage Management Systems strengthen and mature Human Resources management systems, which should lead to increases in motivation, retention and productivity among the workforce.

When analysing the data from supplier factories in our key market suppliers, we can see that the factories which are implementing improved Wage Management Systems pay higher take-home wages than

those which don't (see tables no. 5.1. and 5.2.). In 2017, the difference ranged from 8% higher take-home wages in Bangladesh to 29% in Indonesia. In 2018, the difference ranged from 2% in Turkey to 11% in Indonesia. In Myanmar first factories started implementing improved Wage Management Systems in late 2017 which is why first results show a positive development since 2018.

Besides higher take-home wages, the factories that are enrolled in our Wage Management System programme (but also all other factories) increasingly provide workers with non-monetary benefits, such as subsidised or free meals, housing subsi-

dies, medical insurance, free child care or health services, and transport subsidies. This is not reflected in the take-home wage figures mentioned in graph 5.1., but it means workers spend less money or receive additional benefits.

By creating incentives and structures that reward workers' skills, performance and loyalty, etc., we can make significant improvements to the situation of workers and the operations of our supplier factories. However, there is a limit to both how much can be achieved at a factory level, and to how much above the industry standard a factory can pay without losing their competitiveness. So, while it

is important for factories to implement improved Wage Management Systems and similar measures, this is not the whole solution to a future of fair living wages for workers.

For this reason, our strategy has always looked beyond individual factories to find solutions that can increase minimum wage in a sustainable and competition-neutral way. These solutions bring together all relevant actors, from governments, factory owners and other brands, to workers and trade unions. Learn more about how we work with Wage Management Systems [here](#).

5.1. Impact of Wage Management Systems*

	2017	2018
Bangladesh	+8%	+5%
Cambodia	+19%	+10%
China	+8%	+5%
India	+12%	+5%
Indonesia	+29%	+11%
Myanmar	-6%	+3%
Turkey	+10%	+2%

Difference in take-home wages, between supplier factories implementing improved Wage Management Systems vs factories not yet enrolled in such a programme

5.2. Progress of take-home wages 2017-2018*

	2017 IN USD	2018 IN USD	INCREASE
Bangladesh	123	136	11%
Cambodia	250	294	18%
China	553	636	15%
India	164	199	21%
Indonesia	235	255	8%
Myanmar	115	152	32%
Turkey	615	706	15%

Increase in take-home wages at factories implementing improved Wage Management Systems

*The figures are based on data gathered from tier 1 textile supplier factories. Time frame of data for 2017 is 1 Jan-31 December 2017. Time frame of data for 2018 is 1 Jan-30th June 2018. The data has been collected through our SIPP method and has been validated by H&M group's developers in the different production markets. The data is weighted by factory in flat averages. We are currently working to further improve our data method and instead report wage data as a weighted average per worker, since we see it as a better and more representative measure of salary in a country. We plan to report according to this new method with our 2019 report. The Conversion to USD is based on Swedish Central Bank average exchange rate for the period.

Improving Wage Management Systems at Ekpen Tekstil

H&M group is working with suppliers in ten production countries to implement improved Wage Management Systems. We want factory management to understand why and how they should be rewarding their workers for their skills, experience, etc.

Ekpen Tekstil, a supplier factory in Turkey, is one of 500 factories we're working with in this way. It has been producing for H&M group for 16 years and today, employs about 200 workers. We've been working with employers and employees locally for two years to improve their Wage Management System. Julia Bakutis, Sustainability

Manager at our production office in Turkey, says the work creates a 'win-win situation': "The steps taken by Ekpen Tekstil to implement improved Wage Management Systems taking employees' individual skills, education and experience into account, supported by open and constructive communication, contribute to a more positive work environment."

As part of the improvements to its Wage Management System, Ekpen Tekstil has involved worker representatives in choosing which parameters wages should be based on and what development skills should be offered.

Ahmet Yavuçehre, the factory owner, is convinced of the benefits of this new approach: "I believe this system gives workers more opportunities and increases their trust in the company. It also contributes to a happier work environment as well as improved productivity".

The changes have also been well received by employees: "I worked in some other companies before and the salary was the same for all employees. I find the payment system in Ekpen quite fair. It is linked to the performance and effort, and open to workers' feedback.", says Hatice Ertekin at packing department.



Melek Bozova and Aynur Akbaba.



Durmus Bozkurt and Huseyin Akir.



Julia Bakutis, H&M group.



Ekpen Tekstil.

“I work in a more motivated way as I already know how my salary can be increased by my performance.”

DUDU OZALTUN, MACHINE OPERATOR,
SEWING DEPARTMENT



Photo credit: Tiffany Tsang.

5.3. Average monthly wages (excluding overtime) at H&M Group factories vs applicable minimum wages in key production markets*

	Minimum wages 2013 in USD**	Average wage (excl. overtime) 2013 in USD**	Minimum wages 2018 in USD**	Average wage (excl. overtime) 2018 in USD**	Difference between average wages (excl. overtime) and min. wages 2018 in USD**
Bangladesh	42	64	67	100	49%
Cambodia	97	99	177	219	24%
China (Guangdong)	183	385	225	501	122%
India (Bangalore)	91	115	115	145	26%
Indonesia	104	149	155	194	25%
Myanmar	53	75	79	116	47%
Turkey	370	475	432	598	38%

*The scope is all tier 1 and tier 2 suppliers, all product types.
 **Conversion to USD based on Swedish Central Bank average exchange rate for the period. Time frame of data for 2013 is 1 Jan-31 December 2013. Time frame data for 2018 is 1 Jan-30th June 2018.

When looking at all H&M group’s supplier factories, including those not enrolled in our Wage Management System programme and excluding any overtime compensation, we can see that H&M group supplier factories pay significantly higher wages than the relevant minimum wage. For 2018, this ranges from 24% more in Cambodia to 122% more in China (Guangdong).

Increases are in most markets often above inflation rates according to the IMF. However, even if the wage increments are higher than the inflation rate in a majority of the countries, workers are facing increments of housing rents, food prices, etc. which leads to no real wage increment for the workers in the end.

FROM MINIMUM WAGES TO INDUSTRY-WIDE COLLECTIVE BARGAINING

To achieve industry-wide living wages, minimum wages must increase. The minimum wage is the most important benchmark for wages in the industry and usually defines the biggest portion of a worker’s income. Today, it is usually defined by minimum wages, which are set by governments.

Over the past five years, minimum wage levels have increased substantially in several countries – wages are up by 82% in Cambodia and 60% in Bangladesh. While this is a positive development, these increases are not enough. Too often, they simply reflect the poverty line in these countries and neither keep up with inflation nor the growth in industry in these markets. As a result, the minimum wage in most markets is not a living wage.

We share the view of the UN body ILO and many other experts, that the only lasting and viable way to achieve substantial and sufficient increases in the minimum wage for all workers is through fair negotiations between workers, trade unions and employers. This requires collective bargaining agreements that empower workers’ representatives to engage in fair negotiations. This approach replaces the idea that global brands should impose specific wage levels, a short-sighted tactic that undermines the role of workers, unions, employers’ organisations and governments to effect lasting change. Wages are an industry-wide challenge, and therefore need to be solved at an industry level to stand the test of time. Instead of imposing specific wage levels, brands should ensure that our purchasing practices facilitate the payment of a living wage and enable collective bargaining. Brands also need to advocate governments because they can set the necessary legal framework, ensuring the right to freedom of association and enabling collective bargaining.

This is not an easy thing to achieve, especially considering trade union representation is low in many sourcing markets and industrial relation systems are often immature or even legally restricted. However, we believe this is the only way that workers wages can increase in a sustainable way, with a level playing field. While it takes time to change complex systems like this, we can see significant progress and a growing consensus between relevant stakeholder groups to collaboratively drive structural change at an industry and country level.



“By addressing the structural barriers to living wages, ACT has the best chance of increasing garment workers’ wages in a way that is scalable, sustainable and enforceable.”

JENNY HOLDCROFT, ASSISTANT GENERAL SECRETARY,
INDUSTRIALL GLOBAL UNION

ACT: ACTION, COLLABORATION, TRANSFORMATION

The formation of ACT represents a significant milestone on the journey to fair wages. ACT is a ground-breaking coalition of 22 global brands, including H&M group, and IndustriAll Global Union. The group’s mission is to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at industry level.

One particularly game-changing component in ACT’s approach is to include brands’ purchasing practices in the equation. While local employers and trade unions should negotiate wage levels and working conditions with each other, brands can contribute with a commitment to responsible purchasing practices. For example, they can offer long-term commitments to source from suppliers and markets that are willing to enter such a collective bargaining agreement. To support this, all ACT brands have signed a Memorandum of Understanding with IndustriAll Global Union, which commits them – amongst other things – to ensure that their purchasing practices facilitate the payment of a living wage.

You can read more about ACT and the meaning of an industry-wide collective bargaining agreement [here](#).

PURCHASING PRACTICES

A brand’s purchasing practices are an important contributor to achieving fair living wages. We developed a purchasing practice guide as part of our 2013 roadmap. It helps ensure best possible capacity planning, timely payments and much more. Thanks to these measures, 93% of our suppliers regard H&M group as a fair business partner.

We also developed a ‘scientific pricing method’. This involves suppliers sharing with us all the major cost components that contribute to a product’s price, including the labour cost component. This means merchandisers can and will negotiate the price of a garment with our suppliers around all component costs except one: labour. This takes garment workers’ wages out of the equation for price negotiations. If wages increase as a result of a collective bargaining agreement, our method ensures the money needed to pay for these wages is accounted for. Together with the other brands within ACT, we are committed to ensure that higher wages are covered by our purchasing price. We believe this systematic isolation of the labour cost is important as an enabler to an industry-wide collective bargaining agreement.



David Sävman.

“Our purchasing practices should make it possible to fulfil our business idea and give long-term benefits to workers, suppliers, customers and the environment.”

DAVID SÄVMAN, HEAD OF PRODUCTION,
H&M GROUP

Creating win-win-win situations with good purchasing practices

DAVID SÄVMAN, HEAD OF PRODUCTION, H&M GROUP

What does the term purchasing practices mean to you?

It simply means doing good business! Our purchasing practices should make it possible to fulfil our business idea and give long-term benefits to workers, suppliers, customers and the environment. During 2018 we focused on suppliers' production plans, our execution and follow up of production volumes, as well as how we can secure ring-fencing labour costs in price negotiations. This means when we negotiate price with a supplier, the labour cost is taken out of the equation.

How do you isolate the labour cost?

We exclude the labour cost from our price negotiations with the supplier. When we negotiate the price, it can only affect the material and quality, for example, and not the workers' wages.

What does the isolation of the labour cost mean to workers, suppliers and our business?

By isolating the labour cost,

we can be more concrete and credible towards both suppliers and production countries, and show that we can and will stand by our purchasing practices. It also means that we can do better business and minimize challenges for workers to get better working conditions.

How does the scientific pricing method work?

We transparently look at all parts of producing a product and make sure we have the right cost that creates win-win-win situations: for the workers, our business partners and for H&M group.

You developed an app based on this method that other companies can use to isolate labour costs in the same way?

Yes! The app is called SEA (SMV Estimation Application), and it's basically old facts packaged into a modern and user-friendly way! We believe that the only way to create change in the industry is to get as many brands as possible to join us.

WORKERS AND SUPPLIERS ARE BETTER PREPARED FOR COLLECTIVE BARGAINING AGREEMENTS

As part of our Fair Living Wage Strategy, we have placed a strong focus on establishing well-functioning dialogue and democratically elected worker representation in factories. We exceeded our 2013 goal for 50% of our product volume to come from factories with democratically elected worker representation, reaching 73% by 2018. Democratically elected representation provides workers with better opportunities to make their voices heard and resolve any issues that arise.

Democratically elected worker representation also helps prepare suppliers for an industry with maturing industrial relations. Many of our supplier factories undergo a mindset shift when they initiate this kind of change, in which they recognise the benefits of improved dialogue with their workers and worker representatives. In turn, this leads to an openness in addressing specific key issues such as worker well-being, health and safety, or wages and compensation.

Alongside this mindset shift, we have also seen an increase in the number of supplier factories with one or more trade unions. While this is a positive development that we will continue to support, more needs to be done by all actors involved. You can find out more about our Industrial Relations strategy on page 66.

PROGRESS

- We reached and exceeded the Fair Living Wage Strategy goals we set in 2013. In five years, this work has reached 655 factories and more than 930,000 garment workers in ten different countries. Read more on page 79.
- ACT has brought together 22 different brands as well as trade unions to work together to achieve industry-wide collective bargaining agreements, supported by brands' common commitments on purchasing practices. As part of this, all signatory brands have signed Memorandums of Understanding, which commit them, amongst other things, to ensure their purchasing practices facilitate the payment of a living wage.
- H&M group developed and implemented a 'scientific pricing method', which systematically removes labour costs from price negotiations with suppliers, therefore ensuring that labour costs are paid and accounted for with each product order.
- We asked the Ethical Trading Initiative (ETI) to review our Fair Living Wage Strategy and implementation, and to compile an independent evaluation report. We recognise and have already addressed several of the report's findings, such as further developing our purchasing practices using the above-mentioned scientific pricing method. With help from other stakeholders, we'll continue to address issues as we develop our strategy. ETI's report is publicly available [here](#).

- In December 2018, we shared the ETI's feedback from 150 key stakeholders at an event in Phnom Penh. Through this kind of openness, we can jointly advance best practices, learn from shared challenges, and set the framework for joint steps forward to ensure fair living wages for all garment workers.
- In Ethiopia, the Government has not ratified the ILO Minimum Wage and has not set a minimum legal wage for the private sector. In 2018, together with the ILO we have engaged with the Ethiopian Government to advocate for a minimum wage-setting mechanism for the textile industry. Although we believe this process might take a long time, we are fully committed to support the ILO driven agenda.

LEARNINGS

- Together with trade unions and other experts, we have learned that the best way to achieve wage increases in a scalable, lasting and competition-neutral way is through industry-wide collective bargaining agreements.
- We recognise that we cannot achieve industry-wide living wages only through factory level interventions. To achieve sustainable increases, minimum wages have to increase. Although there have been significant increases in minimum wages in several markets, the change has been too small and too slow to achieve industry-wide living wages.



Panel discussion at the Fair Living Wage summit in Phnom Penh, Cambodia.

Interview with Frank Hoffer, Executive Director of ACT

ACT (Action Collaboration Transformation) is a group of 22 brands and retailers that are working together with IndustriALL towards a future in which all textile workers earn a fair living wage.

What makes ACT different?
ACT is something that has never been tried before. It's a joint initiative between major brands in the garment and textile industry, plus IndustriALL, which has a clear objective to work together to achieve living wages for

workers in the garment and textile producing countries.

What role does H&M group play in ACT?

H&M group has been at the forefront of our discussions, particularly around finding practical solutions. For example, it is important that the brands buying from textile suppliers make sure their respective purchasing practices support a living wage. One of the agreements H&M group helped with is that the wage cost on a product is

not up for negotiation, which ensures that workers' wages are not negatively affected.

Why does the industry need ACT?

We are trying to prove that worker representation can lead to positive change. Some of the countries we work with have experienced other forms of worker representation, including bargaining by riot. We show these countries a different way – that it is possible to build systems to create stable and predictable development.

What has ACT achieved so far?

Bringing all these stakeholders together was our first achievement. Our second was to agree to use industry-wide collective bargaining to engage with national actors in countries like Cambodia, Myanmar, Turkey and Vietnam. Our third achievement was to present the shared message that international brands – like H&M group – will make a country a preferred country of sourcing if they share our vision of a living wage for textile workers.

NEXT STEPS

We remain committed to our vision of achieving fair living wages for all textile workers. We will continue to work with our supplier factories to further build on the positive learnings and impacts from the implementation of improved Wage Management Systems, as well as the implementation of democratically elected worker representatives. Beyond this, we know we'll continue to need strong collaboration

with various actors. Therefore, we will further expand our work with key partners in the industry moving forward. This includes continuing to work with ACT and its ground-breaking approach to achieving fair living wages.

We will continue to take a leading role in driving such collaboration forward, and continue to contribute by sharing our future learnings, challenges and achievements.



Frank Hoffer.

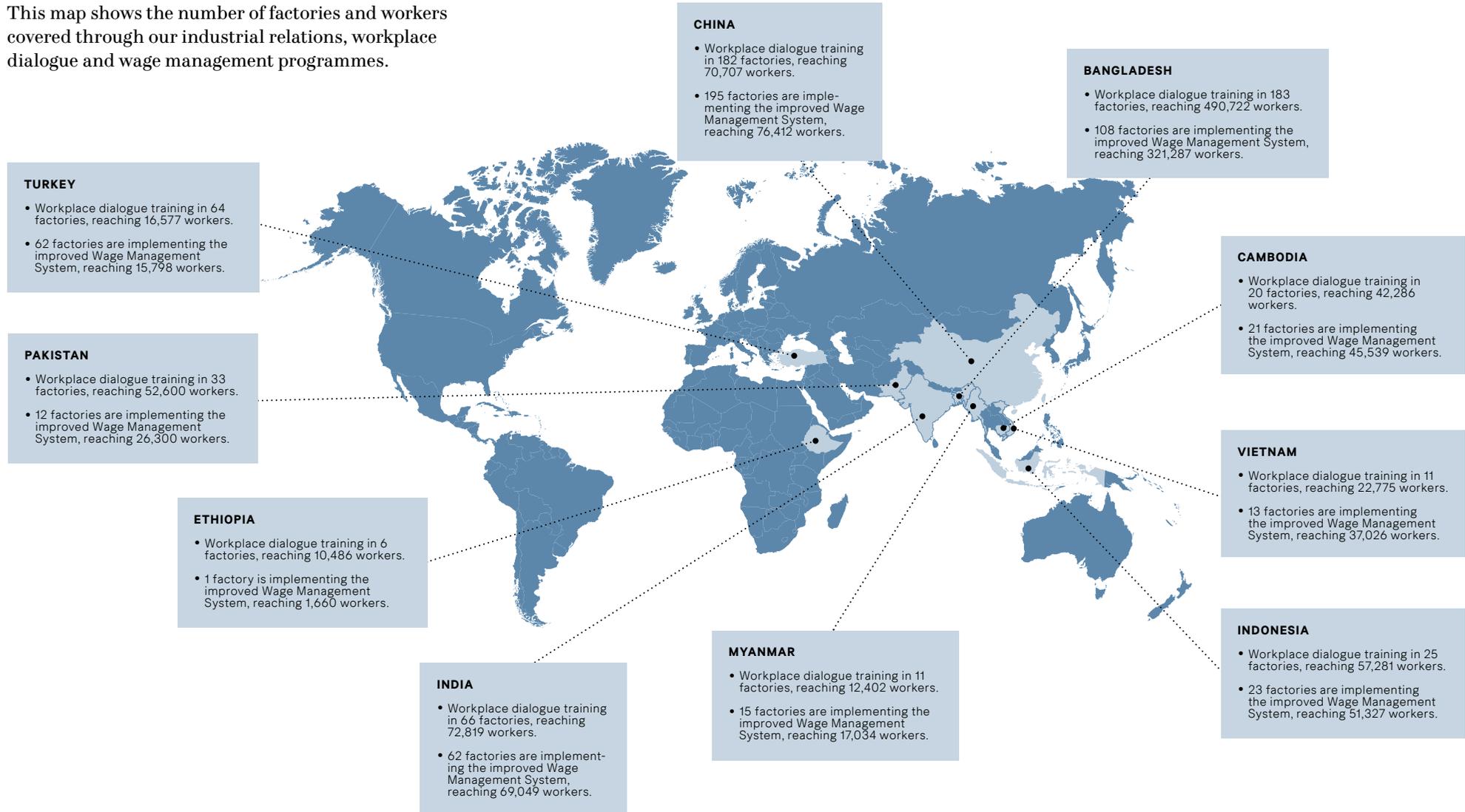
“Progress against the H&M group’s 2018 targets already points to the measurable contribution such strategies can make towards key Sustainable Development Goals. The company’s next targets must maintain and increase the pace of change. And even more companies within and beyond the apparel sector should feel challenged to follow suit.”

CAROLINE REES,
BUSINESS & HUMAN RIGHTS EXPERT,
PRESIDENT AND CO-FOUNDER OF SHIFT



Overview of our industrial relations, workplace dialogue and wage management system programmes

This map shows the number of factories and workers covered through our industrial relations, workplace dialogue and wage management programmes.





Addressing human rights issues

Respecting human rights is a fundamental part of H&M group's responsibility as a company and vital to the sustainable operations of our business.

Our Human Rights policy requires us to have sound due diligence and risk assessment processes in place to identify any risk of doing harm in our operations and our supply chain. Our due diligence process is described on page 92, along with how we identify salient human rights issues. Read more about H&M group's policies at sustainability.hm.com.

We have identified a living wage, freedom of association and collective bargaining as human rights issues that are most important to address in securing fair jobs for all. Not only are they important rights by themselves, but they also enable the establishing of other rights. In the previous section of this report, we describe how we address them. In this section, we will describe how we identify and address additional human rights issues.

ADDRESSING CHILD RIGHTS AND CHILD LABOUR

We recognise the importance of contributing and strengthening children's rights by improving life for children and young people, both directly and indirectly. For

example, our Fair Living Wage strategy can make an indirect positive difference to children's lives because it helps parents earn a sustainable living. We also collaborate with the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) to improve and develop young workers' life skills. This is described in a [film](#) produced by Global Child Forum and CCR CSR.

We make it an absolute, minimum requirement for all factories producing for H&M group to be free from child labour and this compliance is continuously monitored. The likelihood of child labour taking place in an H&M group-supplying factory is very small. During 2018 we identified 1 case of an underage worker in a factory in China. The boy was 15 years and 10 months old (in China minimum working age is 16 years). In dialogue with the boy and his family it was agreed, that he should attend a vocational training school until he reached legal working age. During this time, the factory compensated him in line with the legal minimum wage and

paid his schooling fees. Read more about our requirements on page 96. If we find any person below the minimum age working in any of our supplier factories, then our Child Labour Policy guides us (and our supplier) to act in the best interests of the child. This can include ensuring that the individual enrolls in school, providing compensation to the family for lost income and partnering with civil society organisations. Please find a full list of our Salient Human Rights issues [here](#) and further details on how we address human rights issues in our supply chain on page 80–82.

PROGRESS

- H&M group actively participated in the multi-stakeholder Responsible Mica Initiative (RMI), which is working towards responsible Indian mica mining. We took part in working groups for 'Traceability and Specifications' and 'Community Empowerment', in which 40 villages were selected for empowerment programmes. We have also had continued dialogue regarding mica mining with stakeholders in our own supply chains.
- In Myanmar, we are in the third year of a successful collaboration with Centre for Child Rights and Corporate Social Responsibility (CCR CSR). In 2018, we engaged 10 of our factories in a project to prevent child labour and protect young workers. The project aims to train factory management and raise awareness among workers on the prevention and remediation of child labour. We have now covered all our supplier factories, in total 45 in Myanmar over the course of our work with [CCR CSR](#).
- We engage and support UNICEF and NBIM's (Norges Bank Investment Management) work on the framework to the Children's Rights Principle in the Garment and Footwear Supply Chain, which focuses on the fashion industry's impact on children with working parents.

ADDRESSING FORCED LABOUR

As with our approach to child labour, we continuously monitor compliance with the absolute minimum requirement that all factories producing for us are free from forced labour.

We have due diligence processes in place to ensure we identify and address any risks of forced labour. We describe our ongoing work to address the specific risks of forced labour in our Modern Slavery Statement, which is published each financial year alongside our annual sustainability report.



Worker at one of our supplier factories in Cambodia. Photo credit: Tiffany Tsang.

PROGRESS

- We collaborated with Mekong Club, Hong Kong, which produced training material on forced labour and modern slavery. We incorporated this material into the relevant training for various functions within H&M group.

- We engage with AMCO (Amsterdam Coalition), a group of leading brands who are developing a sector-wide approach that focuses on due diligence and responsible sourcing from India. This group consults regularly with important civil society stakeholders, and in 2018 established an industry platform for responsible business conduct with Indian manufacturing businesses and the OECD's Responsible Business Conduct unit. The platform exists to address due diligence challenges and opportunities in Indian supply chains through shared research and capacity-building activities.

- In India, three of our spinning mill suppliers are participating in the [Ethical Trading Initiative's Tamil Nadu Multi-Stakeholder programme \(ETI TNMS\)](#). This programme focuses on awareness training around workers' rights, health, safety and nutrition in spinning mills in south India.

- We continue to refine the due diligence process in our supply chain. We have included target outcomes in our goal-setting process at a global and national level.

- In Vietnam, together with IOM (International Organization for Migration) we have provided awareness training to 13 of our suppliers on forced labour and modern slavery.

ADDRESSING HEALTH & SAFETY

Our priority is to ensure that all workplaces in our business and supply chain are places that always prioritise health and safety for workers. Where hazards do occur, these workplaces must take preventative measures to safeguard and protect workers' safety. One of these preventative measures is to involve workers in health and safety awareness-raising, and to secure grievance channels that enable workers to raise safety concerns. This requires worker representation, dialogue with factory management about issues of concern, and worker involvement in decisions that affect workplace-related health and safety issues.

ADVANCING THE BANGLADESH ACCORD

H&M group actively supports the Bangladesh Accord, which was set up in May 2013 to help improve fire and building safety in the textile industry in Bangladesh. We were one of the first companies to sign the Accord and have been on the steering committee since day one. The Bangladesh Accord is now monitoring over 1,600 factories.

Initially, the Accord was meant to be transferred to a local national regulatory body by May 2018. However, this transfer process depended on the local body satisfactorily demonstrating its capacity to inspect factories, protect workers, provide transparency and offer confidential complaints mechanisms. A Transitional Accord was signed in 2017 and became effective in June 2018.

PROGRESS

- The High Court of Bangladesh intervention has changed the scenario and we keep monitoring the situation closely. H&M group has a close and constant dialogue with the Bangladesh authorities, BGMEA, ILO and other stakeholders. Our position is that the timeline must secure the possibility for a smooth and progressive transition of the Accord to a national regulatory body. Our presence and commitment in our production markets is long-term. H&M group has been sourcing from Bangladesh over three decades and currently we source from around 250 production units. For further reference, our supplier list has been public since 2013 at sustainability.hm.com.

- 98% of our suppliers have remediated issues as defined by the Bangladesh Accord. Effective January 2019 we only place orders with factories that 100% comply with the Accord requirements.

ADDRESSING SOCIAL SECURITY

Social security is a human right, and includes benefits such as healthcare, sick pay, work-related injury coverage and maternity leave. Social security can be undermined by recruiting and hiring methods that exclude people from social security schemes. Modern slavery is the worst example of this. Permanent forms of employment usually entitle employees to social security benefits, but in many countries, employment schemes do not always entitle their workers to the same kind of protection. In fact, some schemes can limit a worker's ability to exercise their rights.

At H&M group, we seek to minimise these limitations by working with suppliers to improve the terms they offer their workers. This starts by ensuring suppliers and factory management are both aware of and meeting their obligations under labour and social security laws. We then look to identify instances in which social security obligations are being systematically avoided. For example, some suppliers avoid providing better employment schemes through the continued use of short-term contracts rather than the offer of full-time employment.

We also ensure that especially vulnerable groups such as refugees can access social security system through proper registration.

PROGRESS

- In Cambodia, the legislation regarding Fixed Duration Contracts (FDCs) and Undetermined Duration Contracts (UDCs) was amended by the government during 2018 to better facilitate the use of UDCs – which are typically more secure for workers. We have started to map the ratio of UDCs to FDCs in our supply chain, and in 2019 we will work with suppliers and workers to increase the transition from FDCs to UDCs. Although progress on this issue has taken longer than expected since we first identified the problem, we have recently started to see signs of positive change.

- In Turkey, H&M group is building capacity and collaborating with various stakeholders to enable the formal employment of Syrian refugees in our supplier factories in Turkey. As of 2018, more than 300 Syrian refugees are employed in over 20 approved units in Turkey, supported by the United Work programme. The ILO SCORE initiative invited factory units employing Syrian refugees to participate in a training programme. Four facilities have participated so far, and the programme focuses on functional workplace dialogue and health and safety committees.

- In Italy, we engaged in a working group to map resources amongst local trade unions and government programmes that ensure responsible conditions for migrant workers.

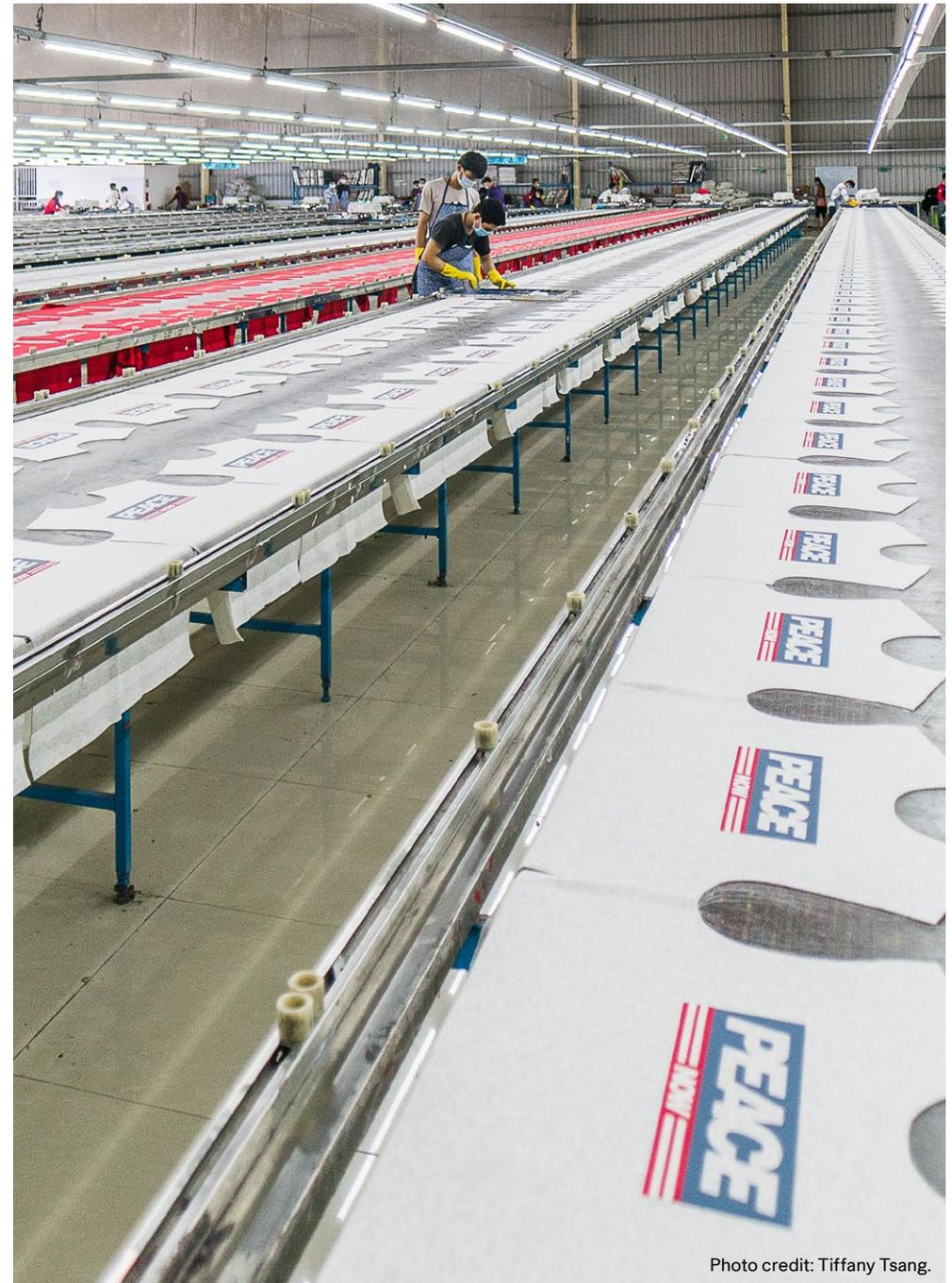


Photo credit: Tiffany Tsang.



Inclusion & diversity

Through relationships with our employees, business partners and customers, and through our global presence, H&M group represents and connects with a huge number of people around the world. This presents us with a unique opportunity to drive inclusion and diversity.

We believe each and every individual should be treated fairly and equally, and are therefore dedicated to advancing inclusion and promoting diversity. We aim to understand, reflect and advance the inclusion of every person we connect with – from suppliers to customers – in all the diverse markets in which we operate. We believe this is the foundation for great customer experience and key to our ongoing success.

In 2018, we intensified our continuing work around inclusion and diversity. One of the reasons was the key learning from the children's hoodie, which many perceived as racist. This was unintentional and consequently had to be addressed comprehensively. As a result, we have increased our emphasis and attention to our inclusion and diversity work. During 2018 we updated our strategy on inclusion and diversity and broadened the scope of our ambitions. We use our size and scale to advance inclusion and diversity towards our customers and the communities around us. An important

step in implementing our strategy was the roll out of a new training programme on inclusion, diversity and unconscious bias, which raises awareness and helps us shape our goals, as well as identify improvement areas. Several markets, including South Africa and USA, have teamed up with external partners to customise their own training on inclusion and diversity.

Our ambition is to be inclusive and become more diverse at all levels of our company. This will optimise our decision-making and team performance, and ensure we reflect and respect the diversity around us. We want to be inclusive across our wide customer offering, continue to promote diversity through our marketing and campaigns, and contribute to positive social impact through inclusion and diversity initiatives where we are present.

Rooted in our values, and through our global reach, we also want to be advocates for everyone's right to be included and accepted, and to express who they are.



H&M colleagues starring in "Love for All" campaign in Amsterdam during Pride week.

PROGRESS - INTERNAL

- According to our employee survey, 83% of H&M group employees agree with the statement "I feel comfortable being myself at work". 81% of H&M group employees agree with the statement "I am treated with respect and dignity".
- In 2018, 74% of all H&M group employees were female and 72% of management positions were filled by female employees (2017: 76%, 72%).
- Our Board of Directors was represented by a 60:40% (female:male) gender split.
- Our Internship for Integration programme focuses on providing refugees in Germany, Sweden and Italy with work experience opportunities. In 2018, Spain launched a similar programme. The internship initiative

has been around for three years and has had a positive impact for all participants. Going forward, we will work to strengthen our social impact measures as well as look into possibilities to scale up.

- Our initiative to provide safe transport to and from work for our female H&M store employees in India continued. In addition, we are working with vocational schools, such as the World Class Skill Centre and Infrastructure Leasing and Financial Services Skills Development Corporation Limited, and NGOs such as the Magic Bus and Oasis, to attract and recruit new colleagues from less advantaged socio-economic backgrounds. Approximately 5% of our employees have a chance to be hired through these partnerships.
- All our head office functions, including

the executive management team and the CEO, have completed our internal training programme for inclusion and diversity and unconscious bias, which covers aspects across our value chain.

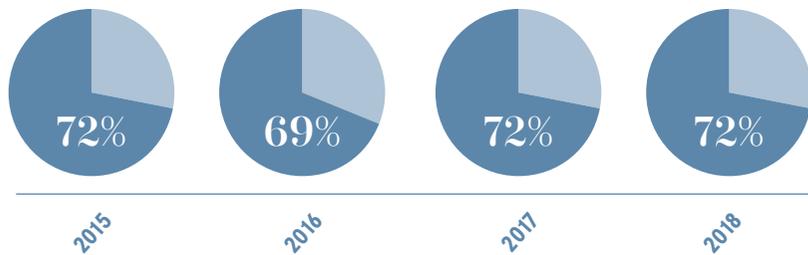
- In 2018, we initiated a further roll-out of trainings to reach most of our employees. The training programme aims to ensure more intentional goal-setting around inclusion and diversity throughout the employment lifecycle, and to identify clear action points related to an inclusive customer offer, advancing inclusion and promoting diversity.
- We have worked with different focus markets throughout the year. For example, we partnered with the Institute for Justice and Reconciliation in South Africa to conduct internal training for the ZA organisation. We

also participated in the Anti-Racism Network conference. In the USA, we partnered with Accenture to offer internal training, and put a Diversity Officer in place to drive our inclusion and diversity strategy forward.

LEARNING - INTERNAL

- During the roll-out of internal training on inclusion, diversity and unconscious bias, we realized there are a lot of learnings for us as an organization. We are a global company but need to adapt to, and address, issues of local relevance. This is why we have started to review our policies and processes to further improve an inclusive approach and way of working. A key insight from the training on unconscious bias is that we constantly need to challenge our perspectives. In 2019, we will continue to look into how we can effectively measure inclusion and diversity.

5.4. % OF FEMALE EMPLOYEES AT H&M GROUP IN MANAGEMENT POSITIONS



“We commend H&M group for its investment in a series of our interventions. The increasing complexity of the issues facing society often make people long for simple answers. However, for H&M group to provide an opportunity for their staff to engage with the issues is a proactive move to contribute positively, not only to internal company culture and values, but also to building a more cohesive and inclusive society.”

STANLEY HENKEMAN, EXECUTIVE DIRECTOR AT THE INSTITUTE FOR JUSTICE AND RECONCILIATION IJR IN CAPE TOWN, SOUTH AFRICA



Advocating for gender equality in Turkey



Nur Ger.

Ms. Nur Ger is the founder of the Suteks group, an H&M group supplier since 1982. She is also the Chair of the Board of Suteks group, the Business Spokesperson for the UN on Women's Empowerment Principles (WEPs) and the founding President of the Yanindayiz Association.

Why is it important for you to work with gender equality?

I have always cared about participation in civil society activities, as well as business life. As a student and as an entrepreneur, I have experienced various difficulties and realized the sacrifices that women need to make in order to succeed in the business world. This should not be the case, women and men should have equal opportunities in all aspects of life, at home and at work.

What kind of role can your business play?

The business world has a great responsibility in this area in addition to government policy. Gender equality is at the very heart of human rights and a cornerstone on which I founded my company. Suteks is based on gender equality which not only involves the opportunities

that we offer to our female employees during pregnancy and the first period of motherhood, but also all employees taking advantage of the opportunities to keep a good work and family balance in life. Non-hierarchical management, as well as the profit share system are unique management tools.

How can we advance gender equality?

In my opinion, women's access to education is one of the best ways to eliminate gender inequality. As the level of education increases, so does women's participation in the labour force. But gender equality isn't possible without including men. For many years now, women in this country have been alone in their struggle for women's rights and social gender equality. That is why I founded Yanindayiz (Stand By You) together with 40 male members, all advocating for gender equality in Turkey. In order to get changes in the laws, institutions and social life, we aim for the better awareness and active involvement of men in the struggles against all obstacles and prejudices that cause gender inequality and sexual discrimination.

“In a global society, there is still work to be done to achieve gender equality. It is an explicit priority for the world, through the sustainable development goals, and it is a priority for us. As a large company where the majority of people employed by us directly or indirectly are women, we need to ensure that we address both structural and unconscious inequalities. We are signatories to the Women's Empowerment Principles and use these principles to guide our strategy development, goals and actions.”

SOFIE NYSTRÖM, STRATEGY LEAD
INCLUSION AND DIVERSITY,
H&M GROUP



PROGRESS - EXTERNAL

- Monki HQ was LGBTQ certified by the Swedish Federation for Lesbian, Gay, Bisexual and Transgender Rights (RFSL). This certification came as a result of employee-participation in workshops held by RFSL that provided education in norms and the impact they have on the working conditions and health of LGBTQ people.
- Monki also entered into a partnership with Mental Health Europe (MHE), a non-governmental organization committed to the promotion of positive health that works closely with a large network to end mental health stigma. Monki and MHE collaboratively launched the Monki campaign, “All the Feels”.
- H&M launched a Pride collection to advocate for equal rights and to celebrate that everyone should be free to love who they want. We donated 10% of the sales from the collection to the UN Free & Equal Campaign, which was set up by the Office of the High Commissioner of Human Rights (OHCHR) and advocates for equal rights and fair treatment for LGBT+ people.
- Weekday launched a swimwear collection and accompanying campaign that was created by women for women. “My Body, My Image” was a collaborative campaign that invited 25 women to contribute self-portraits of themselves in one of the brand’s eight new swimwear designs. With complete creative control, the women had

an unrestricted opportunity to create the sort of images they wanted to see.

- Weekday collaborated with UNHCR, the UN Refugee Agency, to create a collection of five original designs that encouraged action in support of the millions of refugees and forcibly displaced persons worldwide. The collection’s designs were printed on organic cotton t-shirts and totes, a belt, a key chain and a porcelain coffee cup; 100% of all proceeds (30% of sales price) was donated to UNHCR.
- H&M launched the first collection of bras for breast cancer survivors. The “Close to My Heart” collection was

inspired by an H&M employee who survived breast cancer and couldn’t find affordable and functional undergarments. H&M created this collection for her and all those fighting breast cancer around the world, and to shine a light on the social stigma sometimes experienced. In the USA, 100% of sales from the collection was donated to the American Cancer Society.

- We continued to support a project providing equal opportunities for people with disabilities in Indonesia. In this project, suppliers involved ensure the hiring and accommodation of people with disabilities in supplying factories.



Weekday.



“All the feels.” Monki.



“My body. My image.” Weekday.

“We want to engage women to take control and reflect over how the female body is portrayed in media.”

NADINE SCHMIDT, HEAD OF MARKETING AT WEEKDAY ON THE CAMPAIGN “MY BODY, MY IMAGE”



Participants at TEDx event at Kakuma Refugee Camp.

H&M Foundation supported the world's first TEDx event at a refugee camp

In June 2018, the Kakuma Refugee Camp in the north of Kenya hosted the world's first TEDx event in a refugee camp. The theme was "Thrive" and it focused on life as a refugee away from the image of suffering, and towards stories of resilience, contribution and creativity. The event was a powerful demonstration of how

empowered refugees can shape a peaceful and tolerant future.

The TEDx was part of a 30 million SEK collaboration between UNHCR and H&M Foundation. The project's main focus is supporting half a million refugee children with the school supplies they need to attend school in Chad, Ethiopia,

Iran, Kenya, Malaysia, Pakistan, Rwanda, Sudan, South Sudan, Syria, Uganda and Yemen.

"H&M Foundation wants to contribute to positive change for refugees, and we do this by supporting UNHCR efforts in many different countries. By also supporting the arrangement of

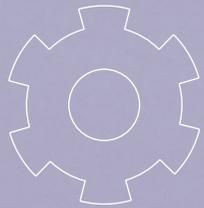
the world's first TEDx in a refugee camp, we want to highlight perspectives and stories from people with their own experience of being on the run. It is crucial to counter prejudice and contribute to important knowledge, needed now more than ever," says Diana Amini, Global Manager at H&M Foundation.

Speakers included current and former Kakuma Camp refugees. Pur Biel spoke about growing up in Kakuma Camp and competing at the 2016 Summer Olympics as a member of the first ever Refugee Olympic Team. Halima Aden spoke about her journey from a childhood in Kakuma Camp to becoming a supermodel.



Monki.

Key facts & figures 2018



We measured the sustainability performance of our tier 1 and tier 2 supplier factories by conducting 884 desktop validations and 1,430 onsite validations.

We launched an updated version of the Animal Welfare and Material Ethics policy.



100% of our suppliers have signed our Code of Ethics.



After completing 9,715 safety and security audits in our stores, we reached a worldwide compliance level of 85%.



We have rolled out a new standard for Sustainable Workplace, which addresses everything from reducing waste to using LED lights. The standard makes sustainability part of our daily working lives and helps us set a good example across our business and beyond.



100% of our suppliers have signed our Sustainability Commitment.

Standards & policies explained

Our standards and policies are critical to achieving our sustainability vision and goals. Our values are essential for us – they define who we are and what we stand for. We use our standards and policies to integrate and implement these values for all our employees and business partners.



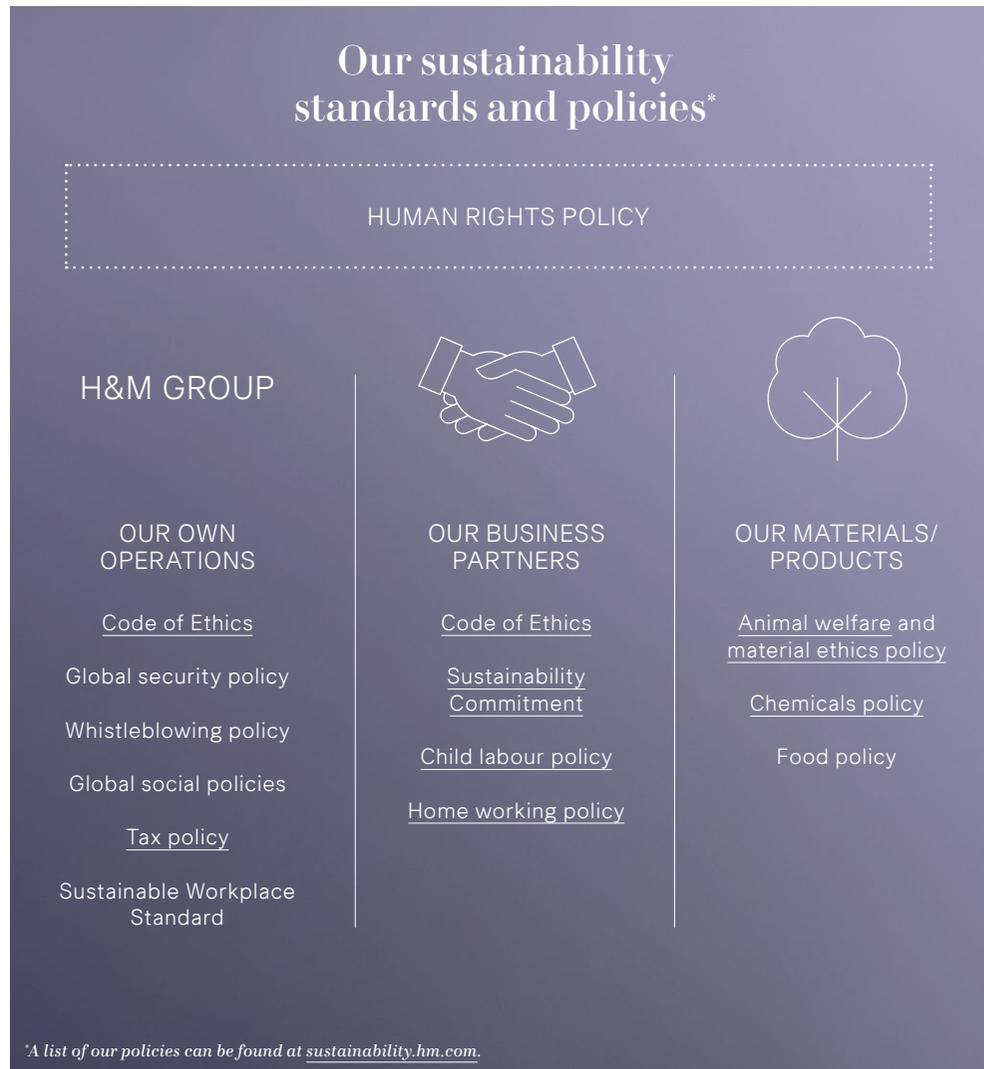
& Other Stories.

Where applicable, we base our policies and standards on international norms and well-recognised initiatives. Among others, these include ILO Conventions and the UN Guiding Principles on Business and Human Rights.

We group our standards into three categories:

- our own operations
- our business partners
- our materials/products

Our human rights policy sits above these categories and applies to all areas of our work. In this chapter, we will show you how we implement our standards and policies along our value chain, and how we assess and monitor them to ensure compliance and improvement.



Working with standards & policies

Our business is always changing, with new needs, risks and opportunities arising all the time. Sometimes this is a result of external factors, such as exploring a new business model; sometimes it comes from within our business, such as setting a new sustainability goal. We are aware of changes and respond appropriately. When we become aware of a new need, risk or opportunity, we address it through a range of different actions. One action is to create a new set of standards

and policies, together with a strategy to implement and evaluate it.

Our standards and policies are part of our change-making programme and are an essential component in turning our strategy into action and making our vision a reality.

To ensure we work with the correct standard and policy for the given need, risk or opportunity we always apply the

same steps: we identify, we address, we implement, evaluate and report.

1. WE IDENTIFY

We identify new risks and opportunities by looking at our key long-term sustainability needs and conducting in-depth assessments of our own and our business partners' operations. We use both internal and external assessment tools. Three focus areas require particular attention:

Human rights To respect human rights throughout our value chain, we require ongoing due diligence processes. We continuously work to ensure human rights are an integral part of all relevant processes. Our processes help us identify risks and impacts, and address them effectively.

Environment We make sure to conduct daily assessments on water, chemicals, climate change, biodiversity and animal welfare as part of our basic risk management operations.

Corruption We assess levels of risk for corruption according to country, industry and position/function. Once we know the level of risk, we set short and long-term goals for mitigation. Every year, we map our biggest corruption risks using a combination of our own assessments and

experience, and external sources such as the Maplecroft Country Risk Tool and the Transparency International Perception Index.

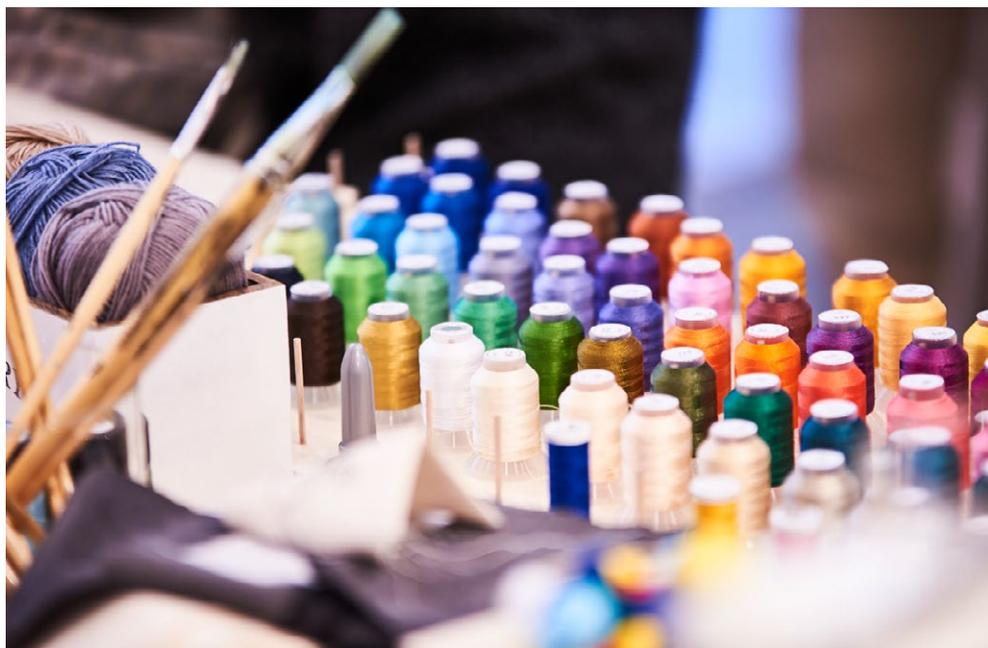
We use the results of this mapping to identify high-risk countries and to allocate our resources in the best way. We have a zero-tolerance policy for corruption.

2. WE ADDRESS

Having identified a new need, risk or opportunity, we use a framework to address it in the best possible way. For risks, this means prevention, mitigation and remediation. The framework is either prescribed by an existing standard or policy, or is developed along with a new and more suitable standard or policy.

3. WE IMPLEMENT, EVALUATE & REPORT

We use a tailored strategy to implement the standard or policy that addresses the need, risk or opportunity we have identified. We track and evaluate this implementation to gain insight on how we can further strengthen and improve our programmes. We report our progress and findings to internal and external stakeholders through continuous dialogues, public communication channels and regular reports.



Our human rights policy

Respect for human rights is fundamental to any successful business.

As our human rights policy states, we work to integrate this respect across all operations and relevant activities. To do this, we must both understand the risks and impacts on human rights in our value chain and seek ways to prevent, mitigate and remediate these risks and impacts.

HUMAN RIGHTS DUE DILIGENCE

Our human rights due diligence is an ongoing process that monitors the practice of and respect for human rights throughout H&M group. We conduct this due diligence systematically during relevant assessment processes including, for example, risk management processes, business partner due diligence, stakeholder engagement, grievance handling and all internal training. Each assessment process contains a clear component that enables us to identify, address and report on any risks or impacts that relate to human rights.

HUMAN RIGHTS MANAGEMENT

Our human rights due diligence serves as the basis for implementing our human rights management. The main processes and activities connected to our human rights management include:

- Identifying and addressing salient human rights issues.
- Annual sustainability risk assessments, conducted by all functions within the business.
- Business partner due diligence conducted prior to entering a new contract.
- Country sustainability risk assessment for production and retail markets.
- Business partner management follow-up through SIPP (Sustainable Impact Partnership Programme).
- Human rights due diligence process in production markets.
- Material/process/product risk assessments.
- Incident-handling routines with integrated analysis according to the UN Guiding Principles (UNGPs).
- In-depth training on UNGPs and our Human Rights Policy.
- Continuous stakeholder engagement at global and local levels.

TRAINING

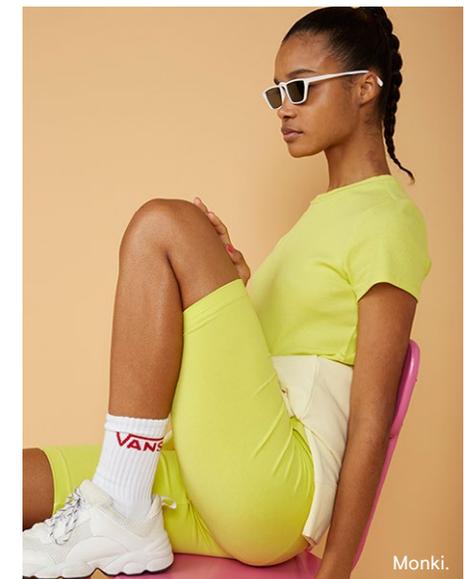
We provide ongoing in-depth training across our business to raise awareness and competence in human rights issues. We customise our training to suit different functions and roles, but it all covers the following:

- A basic introduction to human rights.
- An outline of our responsibilities as per the UNGPs.
- An explanation of how we work with human rights due diligence and how we address situations that may have a human rights impact.

INCIDENT MANAGEMENT

We have specific policies and standards to help prevent human rights impacts from occurring. Despite this, incidents may still arise that we need to address and resolve. If an incident should occur within the factory walls, our Sustainability Commitment and Minimum Requirements apply. This is handled in accordance with our set routines. However, when human rights violations occur in a country but not directly linked to textile industry, we as a company need to

take a stand. For example, in Myanmar, when the military-led operations in northern Rakhine intensified in 2017, H&M group and other brands used their leverage to express concerns to the government on a number of occasions, increasingly so after the UN Fact Finding Mission was released end of August 2018. EUCham Garment Advocacy Group was formed in March 2018, and met with ministries in September 2018 to discuss the Rakhine situation. Read more on our advocacy work [here](#) and [here](#).



Our salient human rights issues

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

Besides guiding us on the human rights issues relevant to report according to the UNGP's Reporting Framework, the process also informs our strategies and works to address these issues going forward. To ensure our list of salient human rights issues remains relevant, we will review these issues annually. The full process, including input from external stakeholders, will be conducted approximately every three years, or more frequently if necessary. While we take steps to mitigate all risks, salience guides us in what to focus on within human rights and hence informs our strategies and work.

Consequently the most recent review took place in 2017, and resulted in slightly adjusted definitions on, for example Child Labour changed to Child Rights.

Here is the full list of our [Salient Human Rights issues](#).

PROGRESS

- Having increased our knowledge of the UN Guiding Principles and how to approach them, we will update our Human Rights Policy during 2019.
- We assessed human rights issues for all our production countries to inform our prioritisation going forward. Actions on identified issues can be found on page 80.
- We see a trend where the migrant workforce is growing, contributing to a higher risk for forced labour in several areas of our value chain. Alongside our ongoing work with our manufacturing partners, we've initiated a review of how we work with human rights issues in our logistics operations, as well as construction and facility management services. This will ensure that we can better identify and address human rights risks related to, for example, forced labour.
- We fine-tuned the Human Rights due diligence processes for our main production markets.
- We trained staff from the Legal department, as well as Expansion functions, country managers and functions' sustainability managers on the risk assessment process.



Policies within our own operations

CODE OF ETHICS (FOR H&M GROUP EMPLOYEES)

Working in an ethical manner is an important part of our business. H&M group conducts business based on the principles of honesty, integrity, transparency and fair play. We have developed a Code of Ethics to make sure our employees know and practice these values. This code has a zero tolerance for bribery and corruptive practices and can be read in full on sustainability.hm.com.

The Code of Ethics is the same in all markets and we have translated it into all languages spoken at H&M group. All employees are required to sign the Code of Ethics and receive practical training on how to act, and how to talk about and report violations. They will also learn about our whistleblowing procedure, through which potential breaches can be reported confidentially without any risk of reprisal.

Our security, IT and expansion functions, along with several others, conduct internal audits of their department's routines and policies. These audits include an analysis of how the Code of Ethics is being implemented. We also conduct random assessments on specifically risky markets or positions.

We follow up on all reported incidents or suspicions of violation. Our Security department conducts the investigations and consequences can vary from a warning to termination of employment.

Every six months, our Head of Security reports on the number of breaches and case progress to the Board. We analyse cases to help us further improve our risk mapping for the future. We report the number of cases in our Annual Report and our Sustainability Report.

GLOBAL SECURITY POLICY

It is our responsibility to make sure our customers and colleagues feel safe. We conduct an annual store audit consisting of safety, loss prevention and information security. We have identified employee training, as the area with most opportunity to improve our compliance rates. Training our employees includes how to work safely, prevent loss and comply with local legal safety training demand. We are working with HR to increase the safety and security awareness amongst our people through trainings.

WHISTLEBLOWING POLICY

We have a whistleblowing procedure in place so that potential breaches can be

reported by H&M group employees confidentially without any risk of reprisal.

GLOBAL SOCIAL POLICIES

Our business is global and has a growing presence in many markets around the world. We are expanding rapidly, which means a lot of new recruits. We recognise that our success depends on our people, so we take care to implement and improve our social policies. These include our global policy on inclusion, diversity and equality, and our global non-discrimination harassment policy, labour relations policy and grievance policy, all of which are founded on our respect for human rights and on UN and ILO conventions, amongst others.

Our social policies set our minimum expectations and complement our company values. They contain clear directions that help managers and employees to meet daily business needs, understand how to work and act towards business partners, and create fair and equal working conditions in safe and healthy workplaces. Our social policies are global and set the minimum standard regardless of local legislation where we operate. Our guiding principle is to use whatever gives the greatest protection for all colleagues.

TAX POLICY

H&M group works in accordance with the tax laws and regulations set by each and every country in which our business operates.

See the full list of our policies on sustainability.hm.com.

PROGRESS

- In 2018 we rolled out a new Sustainable Workplace Standard (SWS), which states a minimum level of sustainability requirements ensuring colleagues are working in sustainably functioning workplaces. The SWS also describes an aspirational level of performance, designed to encourage colleagues to tailor further sustainable adaptations in their workplaces.
- In 2018, our goal for the global store audit was 90% compliance. We completed 9,715 store audits and achieved 85% compliance, where the safety area result of the global store audit was 87% compliance across all stores and brands. In 2019 we're aiming to be 90% with the e-learning security-awareness training.

Policies for our business partners

In order to be an H&M group business partner, all new (and existing) business partners must sign and comply with our policies. Two of our most crucial policies are our Code of Ethics and our Sustainability Commitment.

CODE OF ETHICS (FOR OUR BUSINESS PARTNERS)

We set an expectation of mutual trust and transparency in all our business partner relationships. We underpin this expectation with our Code of Ethics (CoE) and by building awareness, providing education and maintaining a strict no-gift policy.

We define business partners as any business that supplies us with goods and/or services, acts on behalf of our business or collaborates with us. That means business partners include suppliers (commercial and non-commercial), vendors, consultants, landlords, agents, service providers, and organisations. Our biggest group of business partners is our commercial goods suppliers; 100% of them have signed our CoE.

We will always address any kind of bribery (including facilitation payments), and this may result in terminating a business relationship. We believe that taking such

a firm line on bribery will encourage others in our markets to share our values. We focus our efforts on high-risk countries, such as Cambodia, Bangladesh, India, and Russia, by providing training and awareness-building activities to both employees and business partners.

We provide all our new commercial suppliers with face-to-face training on our CoE. This training is focused on our zero tolerance of bribery and corruption, gifts and hospitality, and on our position on confidential information and compliance.

SUSTAINABILITY COMMITMENT

We launched our Sustainability Commitment in 2016; it replaced our Code of Conduct, which had been in place since 1997. It outlines our basic requirements for all H&M group's suppliers for commercial goods and frames a long-term aspirational level of performance we expect them to aim for. We want our suppliers to take this ownership of their sustainability performance because we believe it is the best way to achieve long-lasting and sustainable change.

Any suppliers that want to start or continue working with any H&M group brand must sign the Sustainability

Commitment. The Sustainability Commitment summarises the areas we are working on to make our supply chain more sustainable. The three major focus areas are healthy workplaces, healthy ecosystems and animal welfare. The Sustainability Commitment also describes how we work with our suppliers to create progress in these areas.

We use a performance evaluation (see "How we assess our suppliers' performance beyond compliance") to identify and reward those partners that commit to and meet the aspirations.

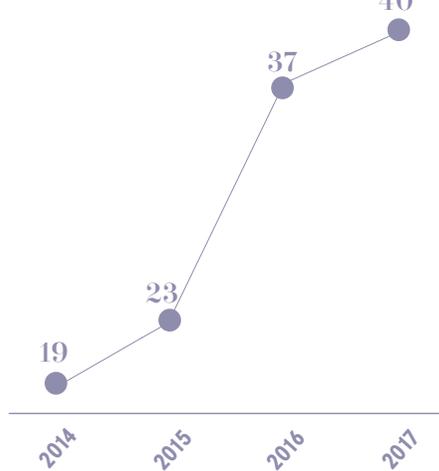
ASSESSING OUR SUPPLIERS COMPLIANCE AND PERFORMANCE

SIPP is our Sustainable Impact Partnership Programme, and it applies to our suppliers. We use SIPP to assess levels of compliance with the Sustainability Commitment and to further measure our suppliers' performance over time and drive constant improvements beyond compliance. SIPP consists of five major components: minimum requirements verification, self-assessment, validation, capacity building and case handling.

How we assess our suppliers' performance beyond compliance

1. Self or joint assessment within agreed timeline
2. Validation of self-assessment via desktop and/or onsite review
3. Sustainability index score (incl. Higg facility score and additional own criteria)
4. Supplier ownership and capacity building based on strengths and weaknesses
5. Monitor progress through annual SIPP cycle (i.e. repeat from step 1 above)

6.1. H&M GROUP SUPPLIER FACTORY HIGG FEM SCORE*



*Scores 2014, 2015 and 2016 follow the SAC/Higg FEM 2.0 module. Score 2017 follows the SAC/Higg FEM 3.0 and is preliminary, pending SAC correction of a limited but known score calculation malfunction. Data is self reported and covers tier 1 and tier 2 factories in the apparel and footwear supply chain with more than 25 employees.

MINIMUM REQUIREMENTS

Before starting any working relationship with a supplier, we conduct an “entry level minimum requirement verification”. All suppliers must pass the verification to begin working with us. (See Becoming an H&M group business partner for commercial goods illustration). Within the apparel and footwear supply chain an additional, “basic level” is required in order to begin working together. Other supply chains are permitted an agreed timeline (maximum 18 months) in order to fulfill the basic level. We also have ongoing minimum requirement checks and in 2018 performed 2,223 across our tier 1 and among our tier 2 suppliers. Please see more on minimum requirements verification findings on page 97.

SELF-ASSESSMENT

We empower our suppliers to use their initiative to further their sustainability credentials. Once our suppliers have passed our initial minimum requirement verification, we provide them with the training and tools to self-report their sustainability credentials and performance on an ongoing basis.

We assess our partners’ capacity to manage their sustainability issues and track their performance. This component of SIPP is closely linked to the evaluation methodology of the Sustainable Apparel Coalition’s (SAC) Higg Facility Modules, part of the Higg Index suite of tools. The results of this SIPP assessment are captured in our Sustainability Index (SI). This index has a score of between

zero and 100, which we assign based on the Higg Facility Modules and our own criteria.

We were one of the first brands to incorporate the Higg Facility Modules (both environmental and social) into our supply chain sustainability programme. The main advantage of the Higg facility scores is that all brands can use them, so suppliers only need to complete one assessment rather than several brand-specific ones. As a result, factory assessments are fairer and more comparable, regardless of the brand.

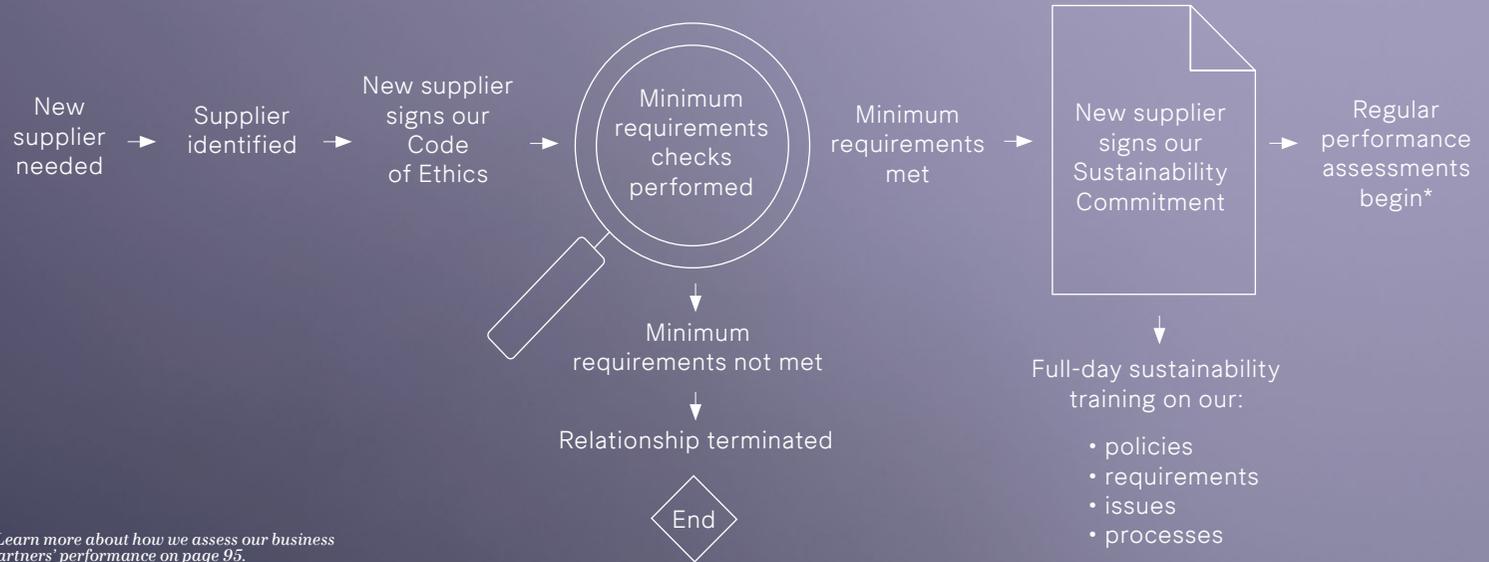
Manufacturers use the Higg Facility Environmental Module (Higg FEM) to measure the environmental performance of their facilities. Higg FEM began being used by all our tier 1 apparel suppliers in

2015 (who base their self-assessment on the previous year’s data) and by 2018 it was rolled out to 100% of tier 1* and tier 2 factories representing 65% of our products in 2018. The SAC which owns the tool has developed the content over the years, so the comparability over time is not perfect. However, we still want to share the journey of the supplier factories using the Higg FEM (see graph 6.1.). The Facility Social and Labor Module has been under development for years and will be launched by SAC for the 2019 reporting cycle.

So far we are the only brand disclosing our results, but we hope our industry peers will follow. To learn more about the Higg facility modules, visit [SAC’s webpage](#).

*Factories in the apparel and footwear supply chain, with more than 25 employees.

Becoming an H&M Group business partner for commercial goods



*Learn more about how we assess our business partners’ performance on page 95.

VALIDATION

Our suppliers self-report through SIPP and we validate the results. We determine what level of validation is appropriate for each factory based on their history, overall performance and risk assessments, among other indicators. We perform an onsite check at least once a year for all new and high risk suppliers. We may use desktop validation (checking data and paperwork for anomalies and inconsistencies) if the supplier is low risk.

We encourage our suppliers to set their own goals, priorities and focus areas. We reward those who set ambitious goals and maintain good performance, which incentivises our suppliers to improve their sustainability performance. These rewards include long-term business commitments and growth opportunities.

CAPACITY BUILDING

We use the validated assessments of our suppliers' sustainability performance to identify their strengths and weaknesses. We use this information to ask our suppliers to set their goals and act to strengthen their capacity to better manage their sustainability performance. We work with our partners to identify areas where H&M group can best provide support through capacity-building workshops, training and management systems analysis. We also build connections between our suppliers and other functions at our production offices, such as our merchandising and quality departments. We use these connections to encourage our suppliers to develop their own strategies and solutions to challenges, as well as providing incentives to shift impacts from negative to positive

ones. This consistent presence helps us build long-term and mutually rewarding partnerships.

Our capacity-building programme is a tool to support our suppliers in different focus areas, such as industrial relations, clean water, climate neutral supply chain, etc. Read more about our capacity-building programmes on pages 46, 58 and 68.

CASE HANDLING

If we learn about a problem or incident linked to a supplier, our sustainability team will log the case and investigate. Cases cover a broad range of issues and can concern anything from a specific facility to a regional natural disaster. If we have a confirmed case of non-compliance towards our minimum requirements by a supplier, we send a Letter of Concern, and further action depends on the number and kind of violation. We require a corrective action plan to be submitted by the relevant supplier, which we must approve before any further business is conducted. At this stage, we evaluate if the supplier involved is the right type of partner for H&M group. If we decide it is not, we phase them out and cease conducting business with them.

During previous years, we have seen the year-on-year decline continuing in what we call "business practice" violations, such as use of child labour (read more on page 80 on one remediated case for 2018) or any lack of transparency on the part of a supplier. Among our tier 1 suppliers non-compliance against our social and environmental minimum requirements has remained at a consistent level, despite expanding and strengthening these requirements over

recent years. As a result of expanding our scope, we have seen an increase in the number of violations. All these cases have been resolved according to our standards and policies, with a total of 108 Letters of Concern sent. We had 0 terminations of business relations with our factories.

PROGRESS

- 100% of our suppliers have signed our Code of Ethics and Sustainability Commitment.
- We performed 2,223 minimum requirements verifications across tier 1 and tier 2 suppliers.
- The self-assessment component of SIPP has been improved with the new 3.0 version of SAC's Facility Environment Module Higg FEM. With contributions from H&M group, the methodology has upgraded content and a more customized questionnaire leading to fairer scoring. This year we released the first Supplier Environmental Performance Score and for 2017 our score is 40 (2016: 37). See graph 6.1. on page 96 for historic data and reporting boundaries.
- We continued to align SIPP and industry standards and tools by piloting the assessment framework of the Social Labour Convergence Project.
- We investigated and closed 47 incidents* of potential non-compliance with the Code of Ethics (2017: 41, 2016: 39). These investigations led to terminations or written warnings to employees or business partners in 12 cases.

**Please find an independent assurance statement related to GRI standard disclosure 205-3 on page 106.*



Products & materials policies

H&M group's standards and policies cover both our operations (ours and our suppliers'), and our products and materials. When our suppliers sign our Sustainability Commitment, they are also legally agreeing to comply with our Animal Welfare and Material Ethics policy, and our Chemical Restrictions policy.

ANIMAL WELFARE AND MATERIAL ETHICS POLICY

Securing our supply of raw materials ethically is very important and we are committed to ensuring that the natural raw materials used in our products are produced in a way that respects human rights and animal welfare, preserves natural resources and helps maintain biodiversity.

We define our standards on responsible sourcing in our Animal Welfare and Material Ethics Policy, as well as setting our long-term direction in line with our goal for 100% recycled or other sustainably sourced materials by 2030.

We aim to have all our virgin animal-derived materials coming from farms that are certified to a credible animal welfare standard and are fully traceable.

We also support the use of recycled animal fibres, as well as innovative and more sustainable materials that offer the same qualities but are from non-animal origin.

For a full list of our animal welfare policies please visit sustainability.hm.com.

PROGRESS

- We launched a new updated version of the Animal Welfare and Material Ethics policy at end of 2018.

CHEMICAL RESTRICTIONS

To ensure the ongoing safety of our products and to limit negative impacts on the environment and surrounding communities, we implement a strict global chemical management programme and work towards alignment across our industry. Our vision is to lead the change towards safe products and a toxic-free fashion future. Our key goal is to achieve zero discharge of hazardous chemicals throughout our supply chain by 2020.

H&M group's Chemical Restrictions List bans and/or limits any chemicals that are considered hazardous. It is mandatory for all our suppliers to comply with our restrictions. As a



H&M.

minimum, our chemical restrictions are based on laws and regulations in each of our sales markets, as well as up-to-date information from authorities, NGOs and scientific reports. We apply the precautionary principle, which means we preventively restrict chemicals even where there is scientific uncertainty. Accordingly, our requirements usually go further than the law demands. In 2018, we adopted 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. Please see more information about

chemical management on page 42. We require all our suppliers to take responsibility for their own chemical management and we monitor compliance via a series of self-assessment processes. Suppliers send samples for third-party testing and the test results are submitted to H&M group for review and final approval. We also conduct dedicated chemical audits at our suppliers' factories and work with experts and our suppliers to promote better chemical management practice throughout our industry.

PROGRESS

- Together with our suppliers, we have conducted 48,700 chemical tests to ensure compliance with our Restricted Substances List.
- We have invested in the train-the-trainer programme based on Best Chemical Management Practice (BCMP) to implement cleaner production. Our BCMP guidelines help our suppliers to minimise the use of hazardous chemicals by developing a strong chemical management system. BCMP is also closely linked to the new Higg FEM 3.0, ensuring that chemical performance is captured in suppliers' overall evaluation.



HOW WE REPORT

H&M Home.

- OVERVIEW
- VISION & STRATEGY
- 100% LEADING THE CHANGE
- 100% CIRCULAR & RENEWABLE
- 100% FAIR & EQUAL
- STANDARDS & POLICIES
- HOW WE REPORT

How we report

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

H&M group produces an annual sustainability report that covers sustainability strategies, challenges, activities, goals and performance for the global group operations of H & M Hennes & Mauritz AB (also called H&M group in this report). The report includes all H&M group brands (H&M, COS, Weekday, Cheap Monday, Monki, H&M Home, & Other Stories, ARKET, Afound), as well as its wholly- or partially-owned subsidiaries globally during our financial year from 1 December 2017 to 30 November 2018 unless stated otherwise. Please see our Annual Report 2018 for a full list of entities.

Wherever possible, we report how we are addressing our key positive and negative impacts across our value chain. This often involves reporting beyond or even outside our own operations, for example when we report on the suppliers manufacturing our products. We always clearly state when information is limited in scope, such as for specific brands, parts of our operations or our value chain.

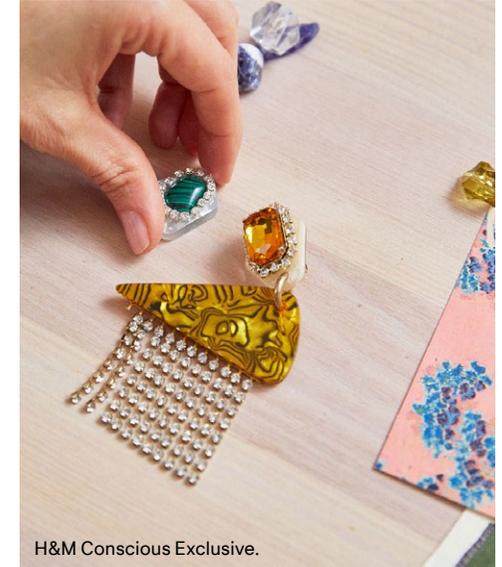
Unless otherwise stated, we do not cover franchise operations. The report has been reviewed by the highest executive management and external assurance has been performed for selected indicators (clearly marked where applicable, as well as in regards to materiality and stakeholder engagement). We have included stakeholder comments and interviews throughout this report.

Our sustainability teams collect data from the relevant functions within H&M group and from external parties such as suppliers or implementation partners. This data is always reviewed by our internal controlling team, relevant experts in our sustainability team and expert functions following a two-tier quality control principle. We clearly indicate any extrapolations or estimations. The same rule applies for any changes in data methodologies or scopes that may influence data comparability. We always base our data on the best possible systems that are currently available to us and, where applicable, align it with recognised standards. However, it is important to understand that there are continued improvements in data systems, methodologies and scientific uncertainties. For example, while our GHG emissions accounting and reporting is aligned with the GHG Proto-

col, the emission factors we use are from publicly-available sources such as the International Energy Agency (IEA 2017), the Network for Transport Measures (NTM), Reliable Disclosure System for Europe (RE-DISS) and supplier-specified emission factors. The global warming potential (GWP) factors used in the calculation of CO₂e are based on the IPCCs Fourth Assessment Report (AR4) over a 100-year period.

The scientific knowledge used to determine emission factors is incomplete. This means GHG emission data, as with other data, is subject to inherent uncertainties that ultimately affect all measurements and estimations. Our reported energy usage is based on invoiced data, data from real-time electricity meters and data as reported by transport providers. We convert between fuel usage and energy content using energy values specified by the supplier or by using tabled values provided by national bodies.

We are required to make certain assumptions about waste factors, weight per sizes, etc. for our material reporting. We are continuously working to improve those aspects of reporting that may lead to minor updates in our yearly material consumption reporting, as well as our



H&M Conscious Exclusive.

data systems and accuracy to report on material consumption.

Unless otherwise specified, all data concerning business partners and supplier factories includes all suppliers and factories that were active and approved for production during the reporting period. We include the following factories in our scope: tier 1 manufacturing or processing (i.e. washing or dyeing), factories that are owned or subcontracted by our suppliers and, where stated, selected tier 2 suppliers and suppliers for non-commercial

goods (such as store interior suppliers). The tier 2 suppliers we have selected so far are mostly fabric and yarn suppliers that account for about 60% of our products. We report monetary amounts mainly in the currency of transaction. Additional currency values are conversions as approximate figures based on the conversion rate on 30 November 2018, unless stated otherwise. We provide additional information at sustainability.hm.com and in our financial and corporate governance reporting. Our most recent sustainability report was published in April 2018. We are signatories to the UN Global Compact and our annual sustainability report also serves as our Communication on Progress (COP) for the UN Global Compact as well as the CEO Water Mandate.

GLOBAL REPORTING INITIATIVE (GRI)

We have prepared this report in accordance with the GRI Standards: Core Option. We have also included material indicators from the pilot of the Apparel and Footwear Sector Supplement. You can download a detailed GRI index at sustainability.hm.com.

UN GUIDING PRINCIPLES REPORTING FRAMEWORK

We were one of the first companies in the world to report on human rights in line with the UN Guiding Principles Reporting Framework. This framework is the first comprehensive guidance for companies to report on human rights issues in line with their responsibility to respect human rights set out in the UN Guiding Principles on Business and Human Rights. Detailed references to the UN

Guiding Principles Reporting Framework can be found at sustainability.hm.com. We identified our salient human rights (page 93) in 2015, following a comprehensive process that involved a variety of internal and external stakeholders. We plan to conduct this process every third year, or as deemed necessary. On an annual basis, we will review the relevance and definitions of the issues identified and discuss emerging issues. This complements our materiality assessment (described below), which identifies human rights as a highly material topic.

PROCESS FOR IDENTIFYING THE MOST MATERIAL TOPICS AND THEIR BOUNDARIES*

1. Identification: Mapping aspects and creating a gross list

We conduct an annual review of our gross list of aspects. This is based on an analysis of external standards, such as the GRI Standard topic list, legislation, investor and NGO questionnaires, peer reviews, business intelligence, lifecycle assessment results, stakeholder dialogues and stakeholder reports, and media coverage. The gross list has been checked against GRI's Sustainability Context and Stakeholder Inclusiveness tests most recently in 2016.

2. Prioritisation: Scoring and prioritising topics**

We prioritise the most material topics from this gross list by scoring different aspects on their frequency (how often they are raised by stakeholders) and their significance for economic, environmental and social impacts. We then break these categories down further. For frequency,



H&M Beauty.



Fabric samples.

we look at frequency raised by key defined sustainability stakeholders and experts (weighted x3), frequency featured in media (weighted x1) and frequency raised in key sustainability benchmarks, rankings and indices (weighted x1). For impact, we look at social and environmental impacts (weighted x1) and importance to business strategy (weighted x2). At least two internal experts per category gave scores, which were based on lifecycle assessment (LCA) data and existing strategy documents.

We also chose at least one representative from each of our key stakeholder groups (which includes customers, colleagues, communities, suppliers and their employ-

ees, industry peers, NGOs, IGOs, policy-makers and investors). We asked eleven stakeholder representatives to feedback on our materiality matrix.

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

We review our materiality matrix on an annual basis. This can mean conducting a full materiality analysis (as conducted in 2013 and 2016) as described in points 1 and 2 or a review of previous year's matrix considering feedback received.

* Please find an independently-verified assurance statement on defining report content and topic Boundaries GRI 102-46 on page 106.
 ** Please find an independently-verified assurance statement on list of material topics GRI 102-47 on page 106.
 *** Please find an independently-verified assurance statement on defining report content and topic Boundaries GRI 102-46 on page 106.

REVIEW OF MATERIALITY MATRIX IN 2018

In spring 2017, we launched our updated sustainability strategy, developed in close cooperation with several external and internal key stakeholders, partners and experts. In connection to this, we arranged a large-scale stakeholder meeting inviting over 300 representatives from our stakeholder communities to a full day of workshops and discussions, including feedback on our report and the focus areas chosen in our strategy.



MoschinoXH&M.

In 2017 we conducted our first stakeholder survey developed with Business for Social Responsibility (BSR). The survey assesses both the quality of our stakeholder engagement work, as well as feedback on our strategy and performance towards it. For this year's survey, the feedback we received widely confirmed our materiality matrix, with some adjustments made, such as an increased focus on inclusion and diversity.

PROCESS FOR DEFINING OUR SALIENT HUMAN RIGHTS ISSUES

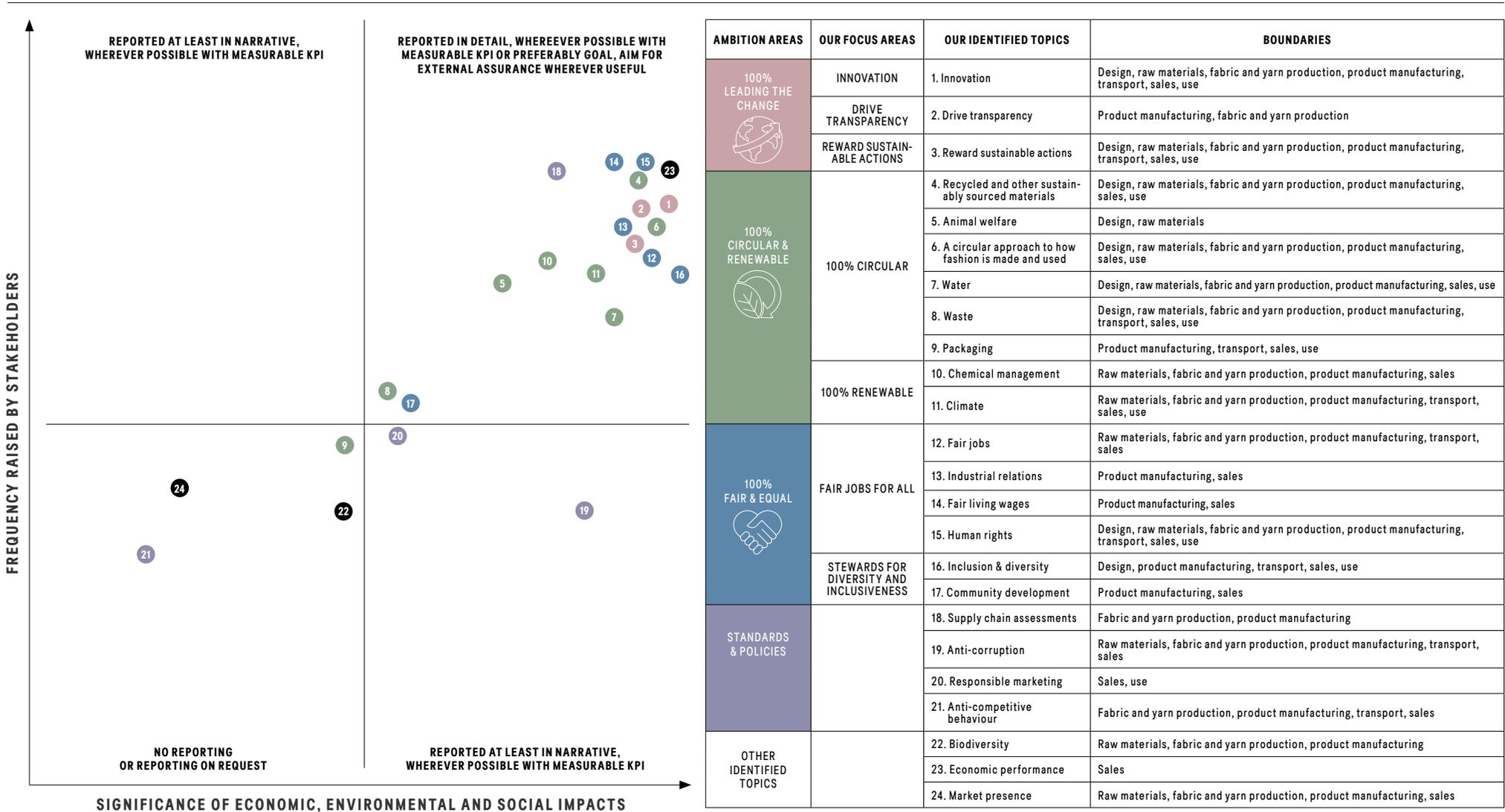
We started the process by defining who we impact through our business activities along our value chain. We paid special attention to those who are potentially more vulnerable and hence are more at risk, such as migrant workers, women and children. This mapping process resulted in a list of both potential and actual human rights impacts. From this list, we identified salient impacts by applying two criteria: the severity of the potential impact and the likelihood of occurrence.

We then held internal and external consultations about the method and input to the identified salient human rights issues with almost 100 people. Internally, we conducted workshops and opened dialogues across all levels and functions of our company. Externally, we held consultations with experts, organisations, academia and local stakeholders. We review our salient human rights issues annually and adjust them accordingly. For an update on our salient human rights issues, read more [here](#).



H&M Home.

Materiality matrix



UN's Sustainable Development Goals

The UN's Sustainability Development Goals (SDGs) and the 2030 Agenda for Sustainable Development call on governments, business and civil society to take action to address social and economic challenges. We believe this collaborative approach is essential and, as you can see below, our sustainability strategy aligns well with the SDGs.



CONTRIBUTION THROUGH PARTNERSHIPS

- SDG2 Zero hunger
- SDG4 Quality education
- SDG5 Gender equality
- SDG6 Clean water and sanitation
- SDG7 Affordable and clean energy
- SDG8 Decent work and economic growth
- SDG9 Industry, innovation and infrastructure
- SDG10 Reduced inequalities
- SDG12 Responsible consumption and production
- SDG13 Climate action
- SDG16 Peace, justice and strong institutions
- SDG17 Partnership for the goals

INDIRECT INFLUENCE AND IMPACT

- SDG1 No poverty
- SDG3 Good health and well-being
- SDG11 Sustainable cities and communities
- SDG14 Life below water
- SDG15 Life on land

Our business activities directly contribute to the following SDGs



Key collaborations

- Accord on Fire and Building Safety in Bangladesh (The Accord)
- ACT (Action, Collaboration, Transformation)
- Afirm Group
- Amsterdam Coalition (AMCO)
- Better Cotton Initiative (BCI)
- Better Than Cash Alliance (BTCA)
- Better Work
- Canopy
- CCWG (Clean Cargo Working Group)
- Chemsec Business Group
- Clean Shipping Index (CSI)
- Cradle to Cradle Products Innovation Institute
- Ellen MacArthur Foundation
- Ethical Trading Initiative (ETI)
- Fair Wage Network (FWN)
- Global Deal
- Global Fashion Agenda
- Global Logistics Emissions Council (GLEC)
- Green Freight Asia (GFA)
- Humane Society International (HSI)
- I:CO
- IFC
- ILO
- IndustriALL /IF Metall
- Make Fashion Circular
- Mekong Club
- Mistra Future Fashion
- Network for Civil Rights Defenders
- Network for Transport Measures (NTM)
- New Plastic Economy Global Commitment
- Organic Cotton Accelerator (OCA)
- Responsible Mica Initiative (RMI)
- Shift
- Sida
- Social & Labour Convergence Project (SLCP)
- Solidaridad
- Stockholm Resilience Centre (SRC)
- Sustainable Air Freight Initiative
- Sustainable Apparel Coalition (SAC)
- Sweden Textile Water Initiative (STWI)
- Textile Exchange
- The Climate Group (RE100; EP100)
- The Global Deal
- The Pathway Coalition
- Transparency International Sweden
- UNDP
- UNFCCC
- UN Global Compact (UNGC)
- UNI Global Union
- WRG
- WWF
- Zero Discharge of Hazardous Chemicals (ZDHC)

For more information about the above listed collaborations and memberships please visit sustainability.hm.com.



ARKET.

Auditor's report

AUDITOR'S LIMITED ASSURANCE REPORT ON SPECIFIED INFORMATION IN H&M HENNES & MAURITZ AB'S GROUP SUSTAINABILITY REPORT

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 the information in H & M's Group's Sustainability Report 2018 with regards to the following indicators referred to in the GRI index that can be found in the 'GRI content index 2018':

- Identified material topics and boundaries (Disclosures 102-46, 102-47), p. 101-103
- Stakeholder engagement (Disclosure 102-40, 102-42, 102-43, 102-44), p. 17, 101-103
- Energy: Energy consumption within the organization (Disclosure 302-1), p. 55
Energy intensity (Disclosure 302-3), p. 55
Percentage of renewable energy (AF21), p. 57
- Emissions: Direct (Scope 1) GHG emissions (Disclosure 305-1), p. 54
Energy indirect (Scope 2) GHG emissions (Disclosure 305-2), p. 54
Other indirect (Scope 3) GHG emissions, limited to transportation (Disclosure 305-3), p. 56
- Materials: Materials used by weight or

volume, limited to cotton (Disclosure 301-1), p. 39
Tons of garments collected for reuse and recycling, p. 50

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

The H & M Group Sustainability Report 2018 covers the period 1 December 2017 – 30 November 2018.

MANAGEMENT'S RESPONSIBILITY

The Management of H & M is responsible for preparing and presenting the H & M Group Sustainability Report 2018 in accordance with the reporting criteria as set out in the company's own reporting guidelines as well as the Global Reporting Initiative's (GRI) Standards. As discussed in the section "How we report", page 100 in the H & M Group Sustainability Report 2018, greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the above specified indica-

tors in the H & M Group Sustainability Report based on the limited assurance procedures we have performed. The selection of indicators to be reviewed has been made by the management of H & M Hennes & Mauritz AB. We do not accept, nor assume responsibility to anyone else, except to H & M for our work, for the limited assurance report, or for the conclusion that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. The ISAE 3000 standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters have come to our attention that would cause us to believe that the above specified information in the H & M Group Sustainability Report 2018 has not been prepared, in all material respects, in accordance with the reporting criteria. A limited assurance engagement is provided only on the information disclosed in the H & M Group Sustainability Report, not on information linked to and disclosed on other web pages. The pre-

sented information in the H & M Group Sustainability Report is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by 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 the H & M Group Sustainability Report and applying analytical and other evidence gathering procedures, as appropriate. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with 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.

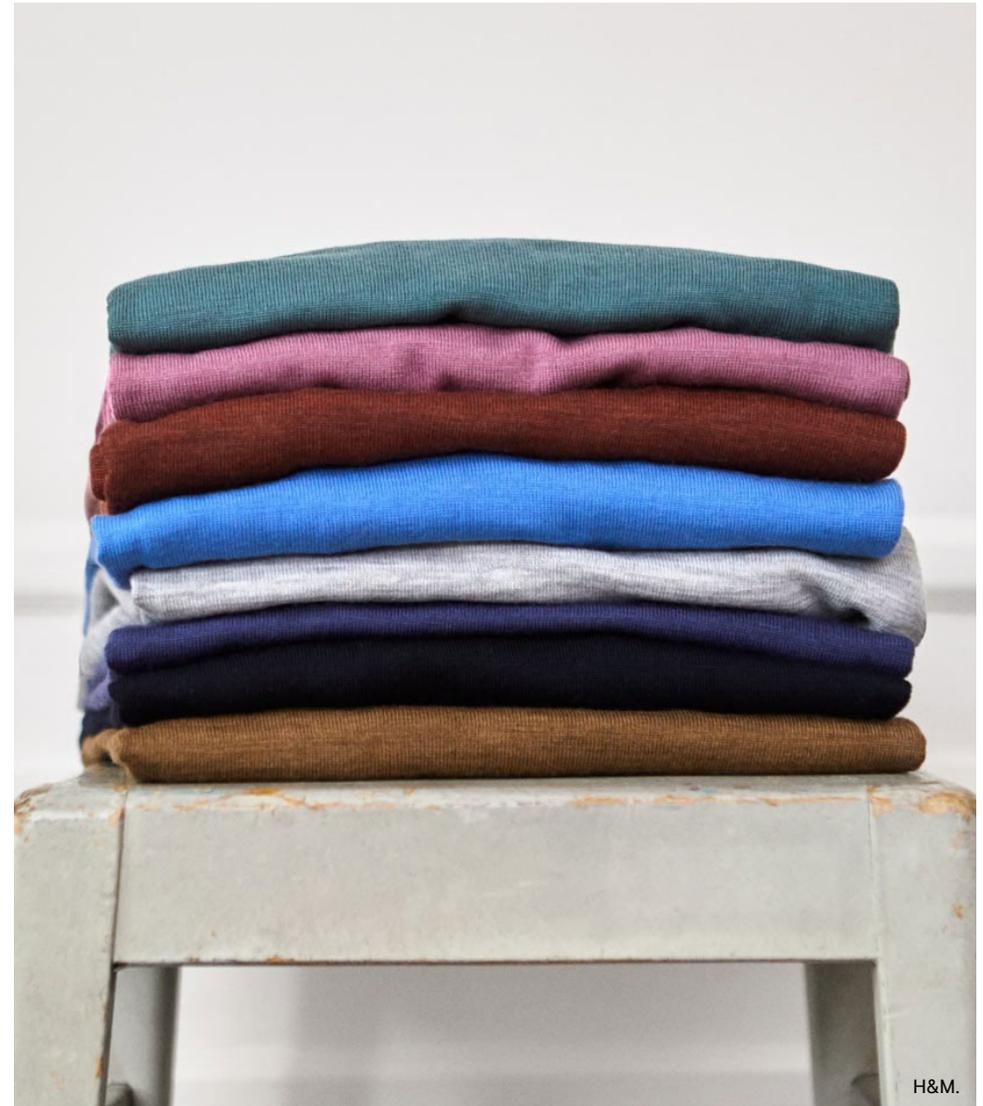
The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. 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 the H & M Group Sustainability Report has not, in all material respects, been prepared in accordance with the reporting criteria stated above.



Stockholm, March 29, 2019
Ernst & Young AB

Åsa Lundvall
Authorized Public Accountant

Charlotte Söderlund
Authorized Public Accountant

Get in touch

If you have any questions about the report, need help locating specific information or want to find out the latest on our sustainability work including our strategy, goals, standards and policies, please contact:

Laura.Cars@hm.com or
Nathalie.StjernfeldtGrumme@hm.com

We appreciate your feedback.



A woman with long blonde hair is sitting in a field of tall grass. She is wearing a teal sweater, a teal patterned scarf, and teal plaid pants. She is looking off to the side. The background shows rolling hills under a cloudy sky.

THANK YOU