



Monki.

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

Key facts & figures 2018



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

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



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



100% of our suppliers have signed our Sustainability Commitment.



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.

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.

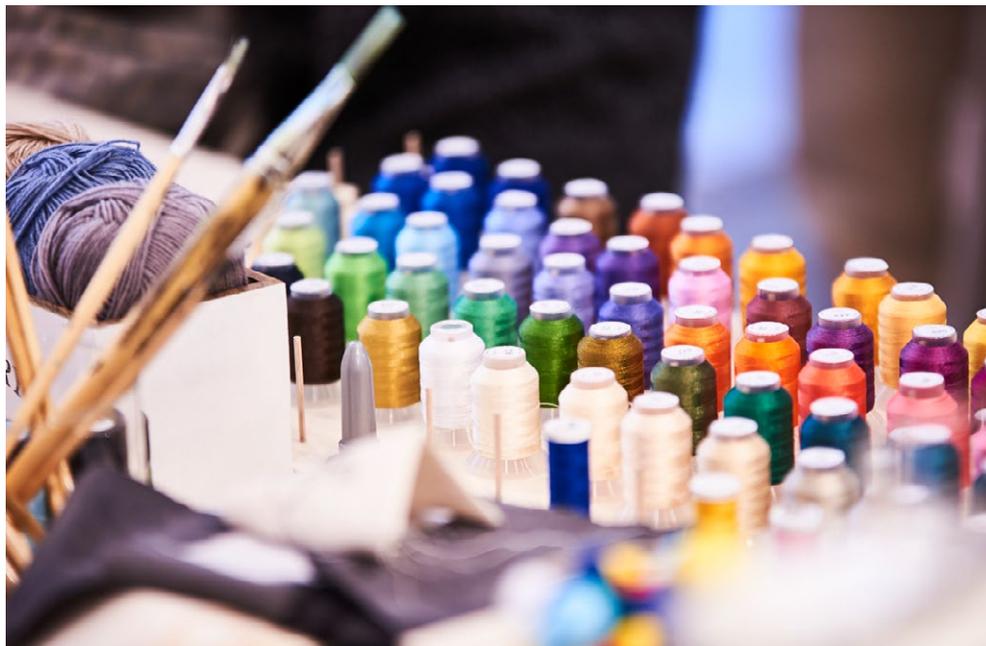
We use the results of this mapping to identify high-risk countries and to allocate our resources in the best way. We have a zero-tolerance policy for corruption.

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

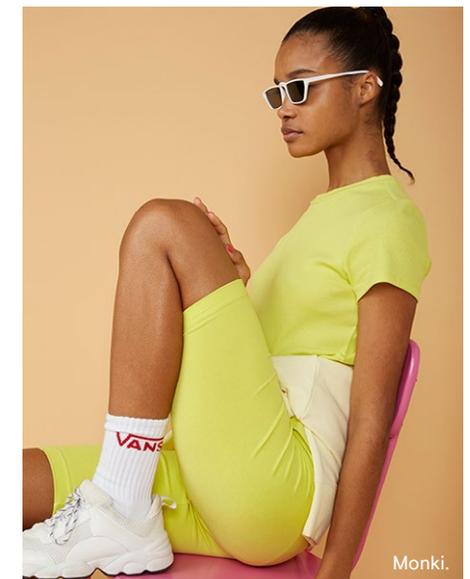
We provide ongoing in-depth training across our business to raise awareness and competence in human rights issues. We customise our training to suit different functions and roles, but it all covers the following:

- 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.

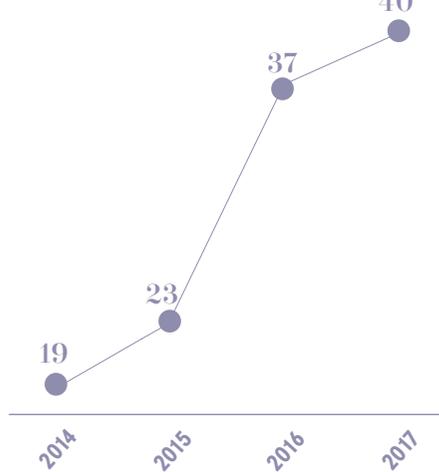
ASSESSING OUR SUPPLIERS COMPLIANCE AND PERFORMANCE

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.

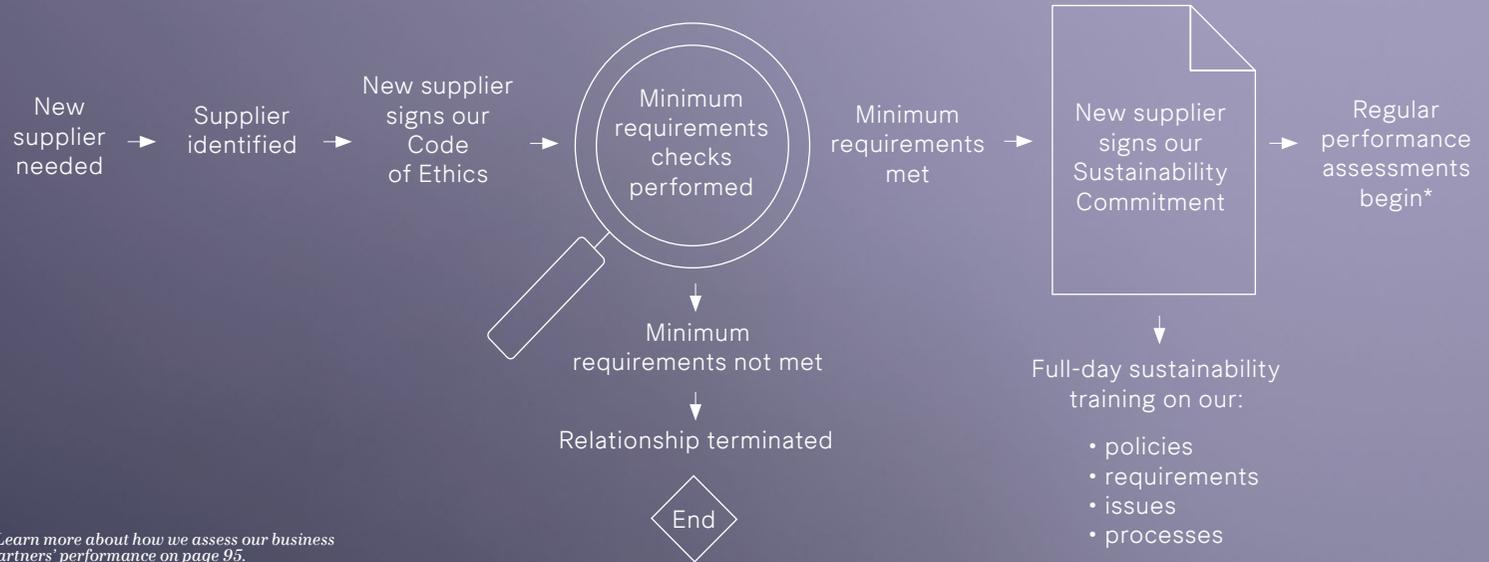
Manufacturers use the Higg Facility Environmental Module (Higg FEM) to measure the environmental performance of their facilities. Higg FEM began being used by all our tier 1 apparel suppliers in

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



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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



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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.