



Sustainable Finance Framework

August 2023

H&M Group

Background and rationale

H&M Group is a family of brands with the business model to deliver fashion and quality at the best price in a sustainable way. Together we offer fashion, design and services that enable people to be inspired and to express their own personal style, making it easier to live in a more circular way. H&M Group includes the brands: H&M and H&M HOME, COS, & Other Stories, Monki, Weekday, ARKET and Afound. We operate in 78 markets with online sales in 58 markets and have over 150,000 employees.

The textile industry faces significant environmental and social challenges. We see great opportunities to meet these challenges, but this requires major transformation of the industry as well as companies. The H&M Group has an ambition to lead the change towards achieving a circular fashion industry with net-zero climate impact. We are exploring new business models, innovating with new materials and processes, and collaborating with others to reinvent the fashion industry. We believe that by aiming to lead wherever we can and embedding sustainability throughout our culture, values and business, we will create a better customer offering for all our brands.

Our Sustainable Finance Framework provides an opportunity for investors to learn about our influence to drive positive transformation within the fashion industry and support us in this journey. Together we can reinvent the fashion industry.



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Approach to sustainability

Sustainability is an integral part of H&M Group. More than 300 people work full time with sustainability with the majority being within our production organisation, situated in our production countries, close to our suppliers.

Vision and strategy

Sustainability is business critical, not only to fulfil our business idea, but also to meet evolving customer expectations and to ensure we future proof our business. Each brand, retail market, production market and group function work to drive performance towards both our business and sustainability goals. The importance and value of our sustainability work for our business is further underlined in our 2030 goal, which combine targets for company growth and profit with greenhouse gas (GHG) emissions reduction. Investments in sustainability provide the group with long-term business opportunities. By building strategic partnerships with key stakeholders and growing in different innovative ways such as circular business models, we can continue to offer our customers unbeatable value and access to a more sustainable lifestyle, while supporting the transition towards a circular, net-zero fashion industry.

Our vision is to lead the change towards achieving a circular fashion industry with net-zero climate impact, while being a fair and equal company. This guides us in how we play our part in tackling climate change, supporting biodiversity, avoiding natural resource depletion and reducing social inequality. These and other risks to our business, the planet and people connected to our value chain are all interlinked, and to achieve our vision, we have defined a wide range of detailed strategies, policies and goals that are further explained in our Sustainability Reporting¹.

The following three strategic areas describe our deepest intentions:

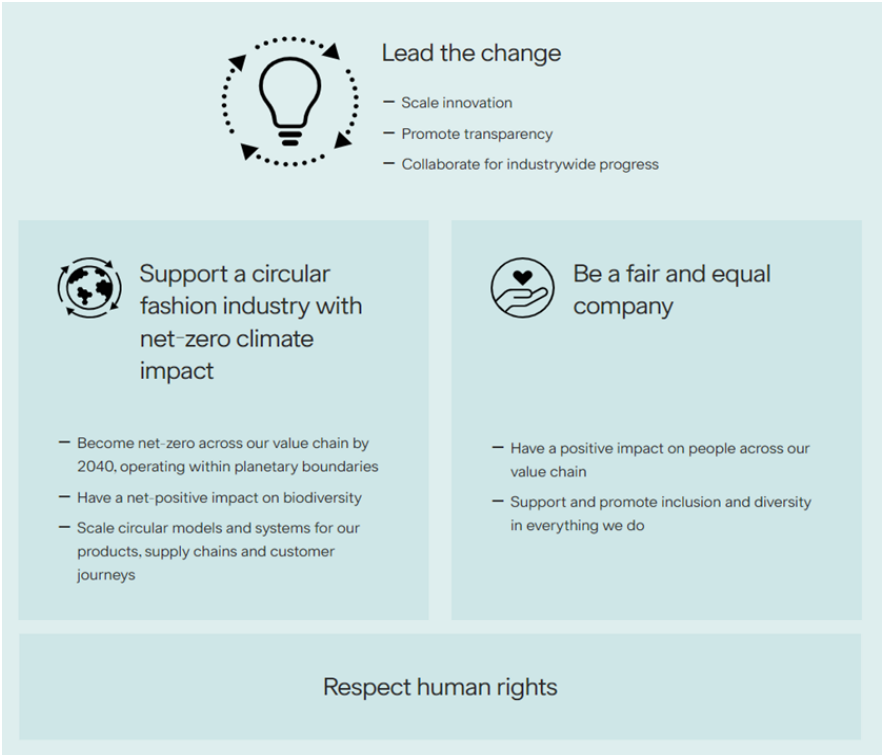
- Being **fair and equal** to the people and the communities around us,
- Using our planet's resources consciously supporting a **circular fashion Industry with net-zero climate impact**, and
- **Leading the change** by pushing ourselves and the industry to reinvent and transform.

By being inclusive and by using our size and scale, H&M Group can contribute to a fairer and more equal world which benefits both our business and the people across our value chain. H&M Group believes that everyone should be treated with respect and be given the opportunity to express themselves and their personality. This is deeply rooted in H&M Group's values and our approach to human rights.

We have a long history of focused sustainability work, starting in the mid 90's. Back then, the focus was mainly aimed towards social sustainability. We have been among the leaders within this area of our industry for decades, changing and challenging our supply chain with everything from occupational health and safety to human rights issues – such as workers' rights to organise.

¹ Our Sustainability Reporting includes H&M Group's Sustainability Disclosure and/or the H&M Group's Annual and Sustainability Report as published on H&M Group's website.

We have set ambitious sustainability goals, which to the greatest possible extent are based on latest science, best practice and knowledge. To achieve them, we need to work closely together with our suppliers and partners.



Our climate strategy

Our long-term ambition is to reach net-zero as defined by the Science Based Targets initiative’s (SBTi) net-zero standard. This standard focuses on reducing GHG emissions before balancing out any minor remaining emissions that cannot be avoided, using permanent carbon dioxide removals.

Action within our value chain

Our groupwide climate goals are to reduce our absolute scope 1 and 2 GHG emissions by 56% and our absolute scope 3 GHG emissions by 56% by 2030, against a 2019 baseline. Our longer-term goal is to reach net-zero by 2040. Our emissions reduction goals were verified in 2022 by the SBTi.

To reach these targets, we focus on these strategy areas:

- **Energy efficiency:** The efforts of minimising energy usage start within our own operations where we aim to be leaders in our industry. This is very important from a symbolic and leadership perspective, as we want to continue to lead by example.

Energy efficiency within our supply chain is considered a key element for reaching our long-term goals and can look very different from one supplier to another, depending on how old their facilities are, which country they are located in, when they started their sustainability journey, along with many other things.

- **100% Renewable electricity:** Working to source 100% renewable electricity both in our own operations and within our supply chain by 2030, engaging with partners and suppliers to push for their increased use of renewable electricity, heat and steam. Our strategy here includes, but

is not limited to, efforts within power generation, on-site solar, offsite Power Purchase Agreements (PPAs), as well as removal of fossil-fuel based onsite heat and electricity production. We are an RE100 member company. We stopped onboarding new suppliers with coal boilers in January 2022.

- **Circularity:** Investing in and scaling more circular systems across our business — including our products, supply chains and customer journeys. The efforts within Energy Efficiency and Renewable Energy will not be sufficient for the planet unless we, at the same time, transition from a linear business model to a circular one. A circular business model, or a closed loop, means that we can increase the lifetime of our limited resources, find new business models and mitigate risk through securing future material sourcing.
- **Nature based solutions:** We continue to explore viable long-term options for removing carbon dioxide from the atmosphere. Much attention will be given to the role of nature-based solutions as, for example, regenerative agriculture holds the potential to deliver dual climate and biodiversity benefits, as well as for other United Nation’s Sustainable Development Goals (SDGs).

Moving to a circular ecosystem

We are committed to using resources responsibly — to reduce our environmental impact and protect natural systems, and to support interconnected human rights such as land rights, livelihoods, and access to water. Shifting to a circular ecosystem is the key to decoupling our business growth from resource use. There is still a long way to go on this journey.

To guide our approach, we align with the Ellen MacArthur Foundation (EMF) definition of the circular economy, which focuses on three key principles:

- Eliminate waste and pollution
- Circulate products and materials (at their highest value)
- Regenerate nature

We also support and aspire to the EMF vision for a circular fashion industry, where products are designed to be used more, made to be made again, and made from safe and recycled or renewable inputs.

We are working to continually make progress towards this vision by investing in and scaling more circular systems across our business. We focus on three interconnected areas:

1. **Circular products:** Creating products that are made to last from safe, recycled, regenerative or other more sustainably sourced materials that can circulate multiple times.
2. **Circular supply chains:** Building scalable systems that circulate products and materials for repair, reuse and recycling and use lower-impact production processes— such as dyeing, printing and finishing.
3. **Circular customer journeys:** Providing convenient ways to engage in circular fashion where products are used more before being repaired, reused and recycled.

A circular fashion ecosystem

We focus on integrating circularity across our entire ecosystem by building on the synergies and interconnections of all parts of our value chain.



Supply chain management

We are committed to raising the standards in our industry by working with our suppliers to improve environmental and social performance. We choose suppliers who share our values, building long-term partnerships.

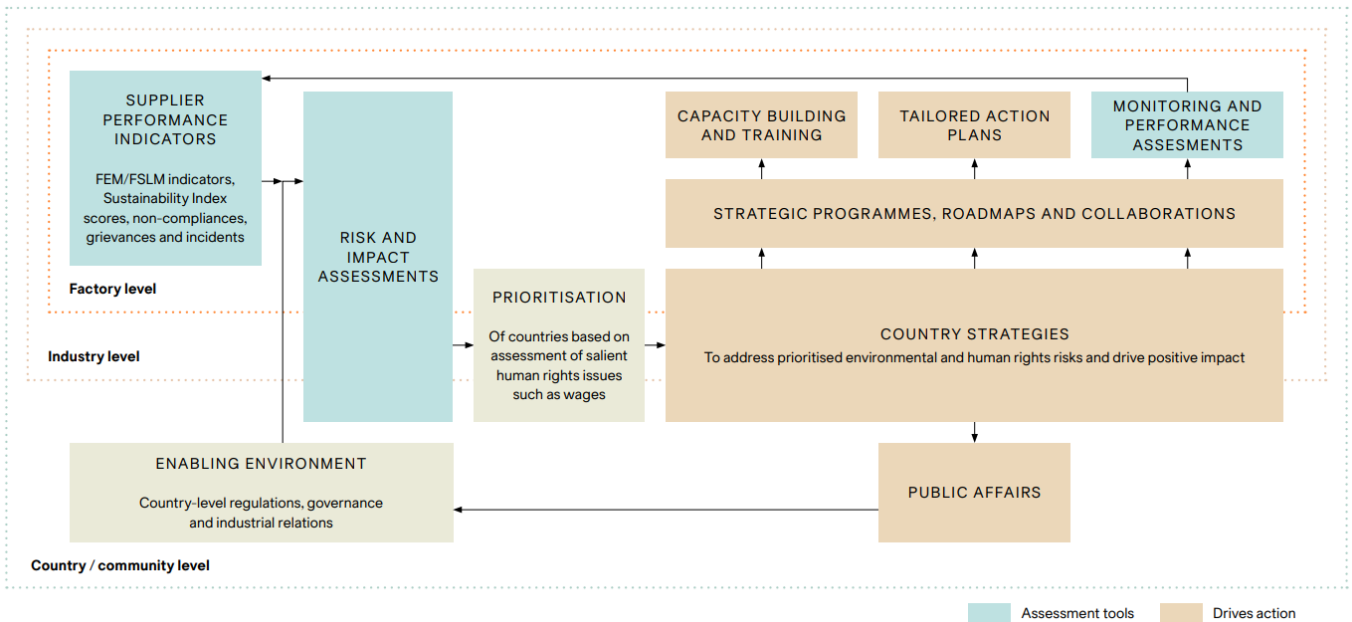
Our work is focused on our production supply chain, where we have the biggest impact, and we require all our suppliers and business partners to comply with our Sustainability Commitment and Code of Ethics. We work with suppliers to go beyond the minimum legal requirements, with the aim to create lasting social and environmental change throughout our supply chain.

We gauge compliance and performance using our Sustainable Impact Partnership Programme (SIPP). Through SIPP we ensure all suppliers meet our minimum requirements, and we support our tier 1 and 2 suppliers to raise standards and take ownership of their sustainability goals. SIPP includes:

- Minimum requirements: Assessment of all new suppliers, with ongoing follow-up checks.
- Self-assessment and verification: Self assessment using industrywide tools including the Sustainable Apparel Coalition's (SAC) Higg Facility Environmental Module (FEM) and Higg Facility Social and Labor Module (FSLM), verified by a third party.
- Capacity building: Support for suppliers to identify priority areas and set goals.
- Grievance mechanisms and worker voice: Ensuring opportunities for workers to report concerns and have their voices heard.

- Dealing with incidents: Recording and investigating potential incidents. Issuing a letter of concern and requiring a corrective action plan for all non-compliance cases, and engaging with suppliers on remediation actions — for example changes to policies and processes, training, and other relevant actions.

Our supply chain management ecosystem



Our approach to being fair and equal

Our business impacts people all over the world, and we want to ensure that impact is positive. We have a responsibility to respect and advance the rights of everyone involved in and affected by our business, guided by our shared values and our commitment to being a fair and equal company. Human rights due diligence is the ongoing process we use to identify, prevent, mitigate and remedy potential and actual negative impact on people and their human rights. It is the foundation of our approach to being a fair and equal company and ensuring the social perspective is included in our environmental programmes. We aim to support all human rights and we focus our efforts and strategies on our salient issues — those issues at greatest risk of significant impact from our business.

Rights holders impacted by our business include our employees, our customers, the workers in our supply chains, the communities where we operate, and specific communities of people at greater risk of inequity or human rights violations. We strive to respect and advance their rights through the following areas of work:

- Social impact in our own operations and production supply chain
- Inclusion and diversity. We're determined to create inclusive, diverse and equitable workplaces in our operations and production supply chain
- Working towards a circular, net-zero fashion industry

Respecting and advancing human rights

We are committed to respecting and safeguarding human rights across our entire value chain, led by the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for

Multinational Enterprises. We aim to take a consistent approach to assessing, addressing and remedying our impact on people and the planet and we prioritise our most salient issues.

Our standpoint is detailed in our Human Rights Policy, which clarifies and embeds our work to respect fundamental human rights in our operations. Our Modern Slavery Statement outlines how we work to prevent forced labour and child labour in our supply chains.

Our strategies and policies are focused on our salient human rights issues and we take a risk-based approach to human rights due diligence. We continually monitor and evaluate emerging concerns across our operations, supply chains respecting & advancing human rights and communities, and adjust our priorities accordingly.

We are unifying our corporate governance policies and centralised risk management systems, further integrating our human rights and environmental due diligence with corporate risk management processes. We continue to embed due diligence across our operations and continuously seek to track and improve our impact.

See more details about our work on corporate risk management², human rights³ and due diligence⁴.

Sustainability Materiality Assessment

To identify and prioritise the issues that are most relevant to our stakeholders and our business we analyse our stakeholders' expectations as well as the social, environmental and economic impacts along our value chain in a materiality analysis.

We take a three-stage approach to identifying material sustainability issues and report against those of most interest to our stakeholder and those where we have the most significant impact.

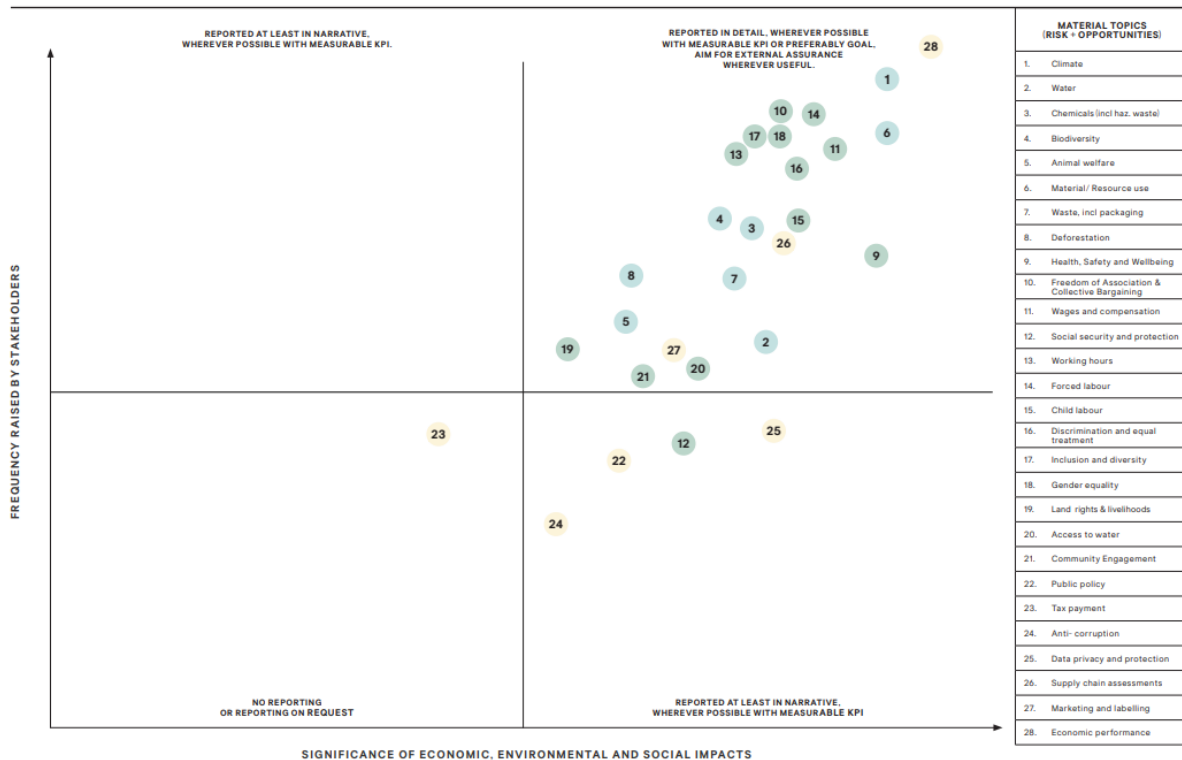
1. Identification: We conduct an annual review of a long list of topics based on analysis of external standards and interest.
2. Prioritisation: We score and prioritise topics based on how often they are raised by stakeholders and their level of economic, environmental and social impact — seeking input from internal and external stakeholders.
3. Review: We regularly review and refresh our materiality matrix with key stakeholders, considering emerging challenges while remaining focused on delivering our sustainability strategy.

² <https://hmggroup.com/about-us/corporate-governance/risk-management/>

³ <https://hmggroup.com/sustainability/fair-and-equal/human-rights/>

⁴ <https://hmggroup.com/sustainability/fair-and-equal/human-rights/due-diligence/>

2022 Sustainability materiality matrix



Material sustainability topics 2022

AMBITION AREAS	OUR FOCUS AREAS	MATERIAL TOPICS (RISK + OPPORTUNITIES)	WHERE IN THE VALUE CHAIN ARE THESE TOPICS MORE SIGNIFICANT? YELLOW ● - MEDIUM IMPACT, RED ● - HIGH IMPACT						HOW DO WE MANAGE THESE IMPACTS? SD = SUSTAINABILITY DISCLOSURE 2023 CLICK FOR WEBSITE LINK	
			DESIGN AND PRODUCT DEVELOPMENT	RAW MATERIAL SOURCING	MATERIAL PRODUCTION AND PROCESSING	PRODUCT PROCESSING AND MANUFACTURING	TRANSPORT AND WAREHOUSE OPERATIONS	SALES		PRODUCT USE, REUSE AND RECYCLING
CLIMATE AND CIRCULAR	CLIMATE & NATURE	Climate	●	●	●	●	●	●	Climate strategy including approved SBTi targets, see SD p.26ff	
		Water		●	●	●		●	Water strategy, see also SD p.35ff	
		Chemicals (incl haz. waste)		●	●	●			Chemicals strategy, see also SD p.38ff	
		Biodiversity		●	●	●			Biodiversity strategy, see also SD p.32ff	
		Animal welfare		●	●	●			Animal welfare policy, see also SD p.43ff	
	RESOURCE USE	Material/ Resource use	●	●	●	●	●	●	Resource use and circular strategy, see SD p.39ff;	
		Waste, incl packaging	●	●	●	●	●	●	Waste, see SD p.49ff Packaging, see SD p.56ff	
		Deforestation		●				Strategy under development, see SD p.31ff		
FAIR AND EQUAL	FAIR JOBS	Health, Safety and Wellbeing		●	●	●	●	●	Policies & procedures Own Operations, see SD p.65 Supply chain, see SD p.67 GBV and sexual harassment in India, see SD p.79	
		Freedom of Association & Collective Bargaining		●	●	●	●	●	Policies & procedures Industrial Relations strategy in our production supply chain in Bangladesh, Cambodia, China, India, Indonesia, Myanmar, Pakistan, Turkey and Vietnam. See SD p.69, 85	
		Wages and compensation		●	●	●	●	●	Policies & procedures Wage strategy in our production supply chain in Bangladesh, Bulgaria, Cambodia, China, Ethiopia, India, Indonesia, Myanmar, Pakistan, Romania, Sri Lanka, Turkey, Vietnam See also SD p.67	
		Social security and protection		●	●	●	●	●	Policies & procedures Aspect of our Wage strategy in our production supply chain in Bangladesh. See also SD p.67	
		Working hours		●	●	●	●	●	Policies & procedures, see also SD p.69	
		Forced labour		●	●	●	●	●	Policies & procedures Modern Slavery statement See also SD p.69, 85	
	I&D	Child labour		●	●	●			Policies & procedures Our Wage strategy also supports this impact area in relation to working conditions of parents. See also our Modern Slavery statement, and SD, p. 63, p.85	
		Discrimination and equal treatment				●	●	●	Policies & procedures I&D Strategy within our own operations, SD p.77ff Gender Equality Strategy in our production supply chain SD p.69, 85	
		Inclusion and diversity				●	●	●	Same as above	
	COMMUNITY RIGHTS	Land rights & livelihoods		●					Policies & procedures Our Circularity strategy to reduce resource use, see also SD p.40 Our Material strategy, including a target of 100% FSC certified wood See also SD p.32, 43	
		Access to water		●	●	●		●	See SD p.26	
		Community Engagement					●	See SD p.81		
STANDARDS AND POLICIES	CORPORATE GOVERNANCE	Public policy				●		●	Public affairs strategy, specific to sustainability strategies, such as climate. See SD p16, 27	
		Tax payment						●	Tax policy	
		Anti- corruption				●			●	Policies & procedures
		Data privacy and protection							●	Policies & procedures
		Supply chain assessments			●	●				Policies & procedures See also SD p.81
OTHERS		Marketing and labelling						●	Policies & procedures	
		Economic performance						●	Annual and Sustainability Report, Quarterly sales development	

Ethics, transparency, and risk management

As a global company, it is of the utmost importance for H&M Group to always act ethically, transparently, and responsibly in all parts of the business — from collaborating with our suppliers to meeting with customers. Through good purchasing routines and close cooperation with suppliers, the company's products should always be produced with the greatest possible consideration for people and environment.

H&M Group's risk management and internal control processes ensure we are compliant, and act on things that makes a difference, throughout the organisation. The board of directors and the audit committee receive regular feedback from the organisation concerning these processes.

H&M Group's risks are reviewed centrally on a quarterly basis with each brand and every central function. The quarterly meetings are conducted in order to ensure each significant risk has an action plan to minimise impact and is kept at an acceptable risk level. This risk management work also provides continuous input to the company's long-term commercial decisions. Responsibility for management and control is shared between the company's shareholders, the board, the audit committee, and the CEO. The board's rule of procedure states how this work is to be distributed between the board, the board's audit committee and the CEO. The board is ultimately responsible for the company's organisation and administration and the CEO is responsible for ongoing management of the business, with regular feedback to the board.

Governance

The audit committee monitors the company's financial reporting, including monitoring the effectiveness of the company's internal control and risk management. This includes, among other things, our climate risks. The performance in relation to the gross list of corporate risks is reviewed and updated by the audit committee. Climate risks are currently identified as one of our major corporate risk clusters. The audit committee has overall responsibility for monitoring the progress of our climate strategy, including our plans and actions to mitigate all risks.

External assessments

The Business of Fashion Sustainability Index. H&M Group ranked fourth in Business of Fashion's 2022 benchmark.

CDP. H&M Group achieved CDP scores of A- in the Climate module and B- in the Water module. Our CDP Forest score increased to B- for Cattle products, B for Timber, and C for Palm Oil.

Dow Jones Sustainability Index. H&M Group was included in the Dow Jones Sustainability World Index for the 11th year running. In 2022, we reached a score of 61/100 (68/100 in 2021) with highest possible or best in class scores in several areas.

Fashion Transparency Index. H&M Group ranked fourth out of 250 fashion brands and retailers reviewed by Fashion Revolution's 2022 Fashion Transparency Index.

FTSE4Good. H&M Group was a constituent of the FTSE4Good Index Series, which helps investors identify companies demonstrating strong environmental, social and governance standards.

Higg Brand & Retail Module (BRM). H&M Group publicly disclosed its scores for the first time and had them verified. This year, H&M Group's BRM environment score increased from 77.4% to 85.1% and its social score increased from 74.3% to 84.3%. See detailed scores right.

Platform Living Wage Financials. Our work on wages in our supply chain was rated as “advanced” in the Platform Living Wage Financials 2022 Annual Report.

Stand Earth Fashion Scorecard. H&M Group ranked first in the Stand.earth Fossil Free Fashion Scorecard 2023, an analysis of 43 fashion brands, with a B- score overall and an A+ for our public affairs work.

Textile Exchange Corporate Fiber & Materials Benchmark. H&M Group was recognised as one of 47 leading companies out of 292 analysed in the 2021 Material Change Leaderboard. We were one of 16 companies identified as leading on circularity and one of 17 companies identified as leading on progress towards achievement of the Sustainable Development Goals.

Zero Discharge of Hazardous Chemicals (ZDHC) Brands to Zero assessment. H&M Group was one of eight brands awarded Aspirational Level for our leadership in implementation of chemical management in our supply chain.

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UN Sustainable Development Goals

Our relationship with the UN SDGs									
GOAL		DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH OUR PARTNERSHIPS	GOAL		DIRECT INFLUENCE THROUGH OUR STRATEGY	INDIRECT INFLUENCE THROUGH OUR STRATEGY	CONTRIBUTION THROUGH OUR PARTNERSHIPS
 1 No poverty	Fair & Equal		•		 10 Reduced inequalities	Fair & Equal			•
 2 Zero hunger			•	•	 11 Sustainable cities & communities			•	
 3 Good health & well-being	Fair & Equal		•		 12 Responsible consumption & production	Leading the Change; Circularity, Climate & Nature			•
 4 Quality education			•		 13 Climate action	Circularity, Climate & Nature			•
 5 Gender equality	Fair & Equal			•	 14 Life below water	Circularity, Climate & Nature		•	•
 6 Clean water & sanitation	Circularity, Climate & Nature		•	•	 15 Life on land	Circularity, Climate & Nature		•	•
 7 Affordable & clean energy	Circularity, Climate & Nature			•	 16 Peace, justice and strong institutions	Fair & Equal		•	•
 8 Decent work & economic growth	Fair & Equal			•	 17 Partnerships for the goals	Leading the Change; Circularity, Climate & Nature		•	•
 9 Industry, innovation and infrastructure	Leading the Change; Circularity, Climate & Nature			•					

Sustainable Finance Framework

Rationale for sustainable financing

In alignment with the broader H&M Group corporate responsibility strategy, H&M Group has established a Sustainable finance framework (hereinafter referred to as the “Framework”) to be able to issue sustainable finance instruments, including green finance instruments and sustainability-linked finance instruments. Green finance instruments will be used to finance and refinance projects which enable the transition to a low carbon and circular economy. While sustainability-linked finance instruments will be used to foster enhanced transparency and accountability with regards to our ambitious sustainability targets. H&M Group is committed to promoting sustainable business activities in the industry sector and regions where the company is operating. By issuing a combination of green and sustainability-linked finance instruments, H&M Group seeks to maximise the connection between its funding and sustainability strategies, while highlighting the investments that we make today that have a positive impact in the environment and our future trajectory to support our decarbonisation goals and the transition to a circular economy. H&M Group hereby wants to promote further investments into environmentally sustainable projects that will assist in reaching the targets set forth by the Paris Climate Agreement and the UN Sustainable Development Goals (UN SDGs).

In addition, sustainable finance instruments will help to diversify H&M Group’s investor base and to broaden dialogue to existing investors and contribute to the development of the sustainable finance market.

Scope of the Framework

Under the Framework, H&M Group and its operating companies can issue sustainable finance instruments in both green and sustainability-linked formats. The Framework is available on the H&M Group website⁵. H&M Group may review this Framework from time to time to align with industry best market practices and future market developments, regulations and expectations. Any updated version of this Framework will be published on H&M Group’s website and reviewed by a Second Party Opinion Provider. The Framework does not apply to Sustainable-Linked Bond issued under previous framework. Furthermore, instruments issued under the Framework will not be affected by any updates of new iterations of this document, unless explicitly stated by H&M Group.

⁵ <https://hmggroup.com/investors/sustainable-finance/>

Green Finance Framework

Basis of this framework

The Green Finance Framework has been developed in accordance with the 2021 ICMA Green Bond Principles (GBP)⁶, including the updated appendix I of June 2022, as well as the 2023 LMA Green Loan Principles⁷ administered by the Loan Market Association (“LMA”). They are collectively known as “The Principles”. Through this Green Finance Framework, H&M Group may issue different green finance instruments (which may include, but are not limited to, bonds, including private placements, loans, and commercial paper). The Green Finance Framework is aligned with the four core components of “The Principles”:

1. Use of proceeds
2. Process for projects evaluation and selection
3. Management of proceeds
4. Reporting

The Green Finance Framework also follows the recommendations of The Principles with regards to external review⁸.

1. Use of proceeds

An amount equivalent to the net proceeds from the issuance of green instruments will be exclusively used to finance and/or refinance, in whole or in part, new or existing eligible projects as specified in the table below (“Eligible Projects”). Eligible Projects may take the form of assets, expenditures and equity investments and debt investments that H&M Group provides to its suppliers. Equity and debt investments are eligible when the entity invested in derives at least 90% of revenues from activities outlined in the eligible category description below. Debt investments are also eligible when the loan documentation specifies activities to be financed in accordance with the eligibility criteria outlined below.

H&M Group believes the green instruments issued under this Green Finance Framework will support the achievement of the United Nations Sustainable Development Goals⁹ and may contribute to EU Environmental Objectives¹⁰ and EU strategy for sustainable and circular textile¹¹. Moreover, the Green Finance Framework takes into consideration, on a best-effort basis, the Technical Screening Criteria of the EU Taxonomy Regulation and including the EU Taxonomy Climate Delegated Act and Environmental Delegated Act, where relevant and feasible.

⁶ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf






⁷ <https://www.lsta.org/content/green-loan-principles/#>

⁸ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines_June-2022-280622.pdf

⁹ Mapping between ICMA Eligible Categories and UN SDGs based on ICMA High Level Mapping to the Sustainable Development Goals: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

¹⁰ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending regulation (EU) 2019/2088, see [here](#)

¹¹ In line with EU strategy for sustainable and circular textiles (New Circular Economy Action Plan), which aims at textile products being placed on the EU market are durable, repairable and recyclable and to a great extent made of recycled fibres.






ICMA GBP category	Eligible project description	UN SDGs ⁹	Contribution to EU Environmental Objectives ¹⁰
Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products	<p>Projects related to a circular ecosystem:</p> <ul style="list-style-type: none"> • Circular products <ul style="list-style-type: none"> ○ Purchase directly or via our intermediary suppliers and product vendors, of fabric containing at least 50% recycled content¹² for synthetic and man-made cellulosic fibres and at least 20% recycled content for cotton ○ Invest in, develop and scale production of innovative recycled¹³ and low environmental impact¹⁴ materials and products, including through H&M Group Ventures¹⁵ • Circular supply chains <ul style="list-style-type: none"> ○ Building scalable systems that circulate products and materials for repair, reuse and recycling, including collection, sorting, reuse and recycling and distribution of used fibres, for example. ○ Garment handling machinery to enable no plastic packaging • Circular customer journey <ul style="list-style-type: none"> ○ Provide access for repair and reuse of fashion goods, including platforms to support the sale of second-hand fashion goods and the repair/maintenance of customer owned fashion goods 	  	<p>The Transition to a Circular Economy (Article 13):</p> <p>Reducing the use of primary raw materials</p> <p>Increases the recyclability of products</p> <p>EU strategy and circular textile (the new circular economy action plan) ¹¹</p>
Green buildings	<p>Projects related to the acquisition, ownership and lease of stores, offices or logistics centres:</p> <ul style="list-style-type: none"> • Buildings built up to and including 31 December 2020 <ul style="list-style-type: none"> - EPC label ≥ “A”; or - belonging to the top 15% of the national or regional building stock based on primary energy demand (PED) • Buildings built after 31 December 2020 <ul style="list-style-type: none"> - The Primary Energy Demand (PED) is at least 10% lower than the threshold for Nearly Zero-Energy Building (NZEB) requirements in the national context 	 	<p>Climate Change Mitigation (Article 10):</p> <p>Improving energy efficiency</p>

¹² Defined as weight of recycled material used in shell material in a product/order divided by weight of all materials used in shell of that product/order.

¹³ Recycled materials means material that has been reprocessed from reclaimed material by means of a manufacturing process and made into a final product or into a component for incorporation into a product.

¹⁴ Low environmental impact refers to describes materials, raw materials or production processes, that have a reduced negative environmental impact compared to conventional alternatives. We base this assessment on various qualitative and quantitative comparative data sources including third-party lifecycle assessment (LCA) data, external benchmarks and assessments, supply chain assessment scores, and data on other KPIs. We further define more sustainably sourced for different materials in our Material Categorisation, Responsible Raw Material Sourcing Policy and Animal Welfare Policy.

¹⁵ We invest equity and debt in innovative companies that enable a more circular future. For examples of companies that H&M Group Ventures has invested in, please see our Sustainability Reporting.

	<ul style="list-style-type: none"> Buildings that have or are expected to receive a: <ul style="list-style-type: none"> BREEAM “Excellent” or above certification LEED “Gold” or above certification CASBEE “A” or above certification 		
Renewable energy	<p>Projects related to renewable energy generation¹⁶:</p> <ul style="list-style-type: none"> Solar energy <ul style="list-style-type: none"> Photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities and related infrastructure Wind energy <ul style="list-style-type: none"> Onshore and offshore wind energy generation facilities and related infrastructure Ocean energy <ul style="list-style-type: none"> Wave and tidal 		<p>Climate Change Mitigation (Article 10):</p> <p>Generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001</p>
Energy efficiency	<p>Projects related to reducing energy use across our value chain including logistics and supply chain¹⁷</p>	 	<p>Climate Change Mitigation (Article 10):</p> <p>Improving energy efficiency</p>
Sustainable water and wastewater management	<p>Projects/programs related to reduction of impact on freshwater in our value chain¹⁸</p> <ul style="list-style-type: none"> Water recycling /fresh water consumption reduction Water efficiency/ improvement in efficiency benchmark Process improvement / innovation Wastewater quality improvement 		<p>Sustainable Use and Protection of Water and Marine Resources (Article 12):</p> <p>Improving water management and efficiency</p>

¹⁶ These projects may include utility scale investments, onsite renewable energy at H&M facilities and supplier renewable energy programmes

¹⁷ H&M Group does not invest in new fossil fuel energy generation capacity

¹⁸ Examples of projects may include, but are not limited to reducing/removing the use of water in the textile dyeing process and reducing the amount of water used in agricultural process related to the growing of cotton

H&M Group will apply the following exclusionary criteria to all eligible projects: fossil or nuclear energy generation; fossil fuel exploration, extraction, refining or marketing and distribution; gambling; tobacco; alcohol; weapons; animal testing; GMOs and adult entertainment.

2. Process for project evaluation and selection

H&M Group has established a Green Finance Committee to oversee the process of evaluating and selecting Eligible Green Projects in accordance with the description of the Eligibility Criteria mentioned in the Use of Proceeds section of this Green Finance Framework. The Working Group is formed by members of H&M Group's CFO, Treasury, Sustainability, Governance and Compliance and other relevant business teams. The Green Finance Committee will meet at least on an annual basis.

Main responsibilities of the Green Finance Committee include, but are not limited to:

- Reviewing the content of H&M Group's Green Finance Framework and updating it to reflect changes in corporate strategy, technology, market, or regulatory developments on a best effort basis
- Updating external documents such as Second Party Opinion (SPO) and related documents from external consultants and accountants
- Evaluating and selecting projects for the Eligible Green Project Portfolio in line with the Eligibility Criteria as set out in the Green Finance Framework
- Excluding projects that no longer comply with the Eligibility Criteria or have been disposed of and replacing them on a best-efforts basis
- Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements. H&M Group may rely on external consultants and their data sources, in addition to its own assessment
- Monitoring internal processes to identify known material risks of negative social and/or environmental impacts associated with the Eligible Green Project Portfolio and appropriate mitigation measures where possible
- Liaising with relevant business finance segments and other stakeholders on the above as necessary

Green Finance Committee decisions are arrived at on a consensus basis.

Furthermore, H&M Group complies with applicable national and international environmental and social standards as well as applicable laws and regulations, on a best effort basis across all of its activities and has this expectation of its suppliers and business partners. H&M Group's standards and policies are critical to achieving our sustainability vision and goals. Where applicable, we base our policies and standards on international norms and recognised initiatives.

- Human Rights Policy¹⁹
- Sustainability commitment²⁰
- Code of ethics – business partners²¹
- Responsible raw material sourcing policy²²

¹⁹ <https://hmgroup.com/sustainability/standards-and-policies/human-rights-policy/>

²⁰ <https://hmgroup.com/sustainability/standards-and-policies/sustainability-commitment/>

²¹ <https://hmgroup.com/wp-content/uploads/2022/02/Code-of-Ethics-Policy-Business-Partner.pdf>

²² <https://hmgroup.com/wp-content/uploads/2022/03/HM-Group-Responsible-Raw-Material-Sourcing-Policy-2022-.pdf>

- Child labour policy²³
- Animal welfare policy²⁴
- Chemical restrictions²⁵

More standards and policies can be found on the company website²⁶

When making investments H&M Group implements the appropriate checks and due diligence in relation to the counterparty's alignment with H&M Group's standards and policies. H&M Group continuously carries out due diligence and engages in remediation across our value chain following the process set out by the UNGP and OECD. When evaluating a new supplier, H&M Group shares minimum requirements early in the process to create a common understanding and ambition from the start. These requirements span issues such as working conditions, environmental practices and corruption. If a supplier violates our minimum requirements, we have the right to pause business until the issue has been remedied. More information can be found on the company website.²⁷

3. Management of proceeds

The net proceeds from the Green Finance Instruments will be managed by H&M Group in a portfolio approach and tracked and monitored accordingly using an internal project register. H&M Group will allocate these proceeds to an Eligible Green Project Portfolio, selected in accordance with the Eligibility Criteria and the Process for Project Evaluation and Selection presented above. Eligible Projects may take the form of green Assets, Expenditures, Cost of Goods sold (COGS) that meet the Eligibility Criteria outlined in section 1 "Use of Proceeds". Asset values and Capital Expenditure ("CapEx") shall qualify for refinancing with no look-back period, while Operational Expenditure ("OpEx") and Cost of Good Sold ("COGS") qualify with a maximum three-year look-back period from the time of issuance.

H&M Group will strive, over time, to achieve a level of allocation for the Eligible Green Project Portfolio that matches or exceeds the balance of net proceeds from its outstanding Green Finance Instruments within 24 months from the time of issuance of each instrument. Pending full allocation, unallocated net proceeds from Green Finance Instruments will be held temporarily in H&M Group's liquidity portfolio, in cash or other short term liquid instruments, or will be used for any other treasury business, at the issuers' own discretion.

4. Reporting

In accordance with the Principle, H&M Group will publish a report on the allocation of proceeds to the Eligible Green Project Portfolio as well as an impact report annually until maturity or until full allocation.

H&M Group will report the allocation and impact of the net proceeds to the Eligible Green Project Portfolio at least at the category level and on an aggregated basis for all H&M Group's Green Finance Instruments outstanding. On a best-efforts basis, H&M Group intends to align the impact

²³ <https://hmggroup.com/wp-content/uploads/2020/10/Child-Labour-Case-Handling-Guideline.pdf>

²⁴ <https://hmggroup.com/sustainability/circularity-and-climate/animal-welfare/>

²⁵ <https://hmggroup.com/sustainability/circularity-and-climate/chemicals/chemical-restrictions/>

²⁶ <https://hmggroup.com/sustainability/standards-and-policies/>

²⁷ <https://hmggroup.com/sustainability/fair-and-equal/human-rights/due-diligence/#:~:text=What%20does%20due%20diligence%20mean,to%20people%2C%20including%20human%20rights.>

reporting with the portfolio approach table as described in the ICMA Handbook – Harmonised Framework for Impact Report (June 2022)²⁸.

Allocation reporting

The allocation report will include the following information, on an aggregated basis:

- The size of the identified Eligible Green Project Portfolio, per eligible category
- The total amount of H&M Group green finance instruments outstanding
- The amount of the proceeds allocated to the Eligible Green Portfolio
- The balance (if any) of unallocated proceeds
- The amount or the percentage of new financing and refinancing

Impact reporting

H&M Group will report annually until full allocation or until maturity on the environmental impact associated with the Eligible Green Projects.

The impact report will provide:

- A high level description of relevant eligible green projects
- Metrics regarding projects’ environmental impact

Examples of relevant environmental indicators associated with the Eligibility Criteria that will be reported on a best efforts basis where feasible include:

GBP/GLP Category	Impact indicators
Green building	<ul style="list-style-type: none"> ✓ Number of certified buildings and type of classification/ rating ✓ Total annual energy savings [GJ] ✓ Total annual GHG emissions reduced [tCO2e/year]
Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products	<ul style="list-style-type: none"> ✓ % recycled content in commercial goods ✓ Tonnes of plastic packaging reduced ✓ Tonnes of garments collected
Renewable energy	<ul style="list-style-type: none"> ✓ Estimated total annual reduced GHG emissions [tCO2e/year]
Energy efficiency	<ul style="list-style-type: none"> ✓ Estimated total annual reduced GHG emissions [tCO2e/year] ✓ Total annual energy savings [GJ] (electricity)
Sustainable water and wastewater management	<ul style="list-style-type: none"> ✓ Total annual %/volume of freshwater consumption reduced m3 ✓ Total annual %/volume of water recycled m3 ✓ Total annual L/Kg reduction compare to baseline ✓ Total annual improvement in efficiency benchmark ✓ Total annual % of resource reduction (energy/water /chemical/ batch time) compare to the conventional process ✓ Total annual improvement in water quality (i.e. foundational level to progressive or aspirational)

²⁸ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf

Depending on availability and subject to confidentiality agreements, H&M Group might seek to complement above indicators with relevant case studies. H&M Group may appoint specialised consultants to develop a methodology for the estimation and calculation of the impacts. Both the allocation report(s) and the impact report(s) will be made available on H&M Group's website.

5. External review

Second Party Opinion

H&M Group has obtained an independent second party opinion from S&P Global Ratings to assess the alignment of the Green Finance Framework with the ICMA Green Bond Principles 2021 (including the updated Appendix I of June 2022) and the LMA/APLMA/LSTA Green Loan Principles 2023. The independent second party opinion will be published on H&M Group's website.

Verification

H&M Group intends to request on an annual basis, starting one year after issuance or until maturity (or until full allocation), a limited assurance report of the allocation of the proceeds to the Eligible Green Project Portfolio, provided by its external auditor (or any subsequent external assurance provider).

Sustainability-Linked Finance Framework

Basis of this framework

This Sustainability-Linked Finance Framework has been developed to be aligned with the Sustainability-Linked Bond Principles (SLBP), established by the International Capital Markets Association (ICMA) in June 2023²⁹ and also takes into account the Loan Market Association's (LMA) Sustainability-Linked Loan Principles February 2023 (SLLP)³⁰. H&M Group may under this Sustainability-Linked Finance Framework issue different securities including sustainability-linked bonds and Schuldscheins, as well as grant sustainability-linked loans (together, sustainability-linked instruments).

The five core components of the SLBP are:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

1. Selection of Key Performance Indicators (KPIs)

The pace of climate change and biodiversity loss are accelerating, putting pressure on already fragile ecosystems and communities. The way in which we — as individuals and organisations — use resources and the speed at which they are consumed contributes to both these issues, as well as affecting communities and livelihoods. As a global fashion company, we must step up to take responsibility for our part in creating and tackling these issues. The KPIs that have been included for the purpose of this Sustainability-Linked Finance Framework mirror the key environmental sustainability challenges the fashion industry is facing.

Circularity

KPI 1: share of recycled materials used in commercial goods

Definition and methodology

KPI 1 is defined as the proportion of recycled materials by weight used in our commercial goods in relation to total materials used in our commercial goods³¹.

²⁹ <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

³⁰ <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>

³¹ Excluding non-shell materials such as filling, lining or trims and second-hand goods. Shell material represent 90-92% of total material used in a product.

Recycled materials mean material that has been reprocessed from reclaimed material by means of a manufacturing process and made into a final product or into a component for incorporation into a product.

Recycled materials will be of both pre-consumer and post-consumer origin and will consist of recycled textile and waste products from other value chains.

Commercial goods for the purpose of this KPI means H&M Group’s brands’ products purchased by H&M Group to be sold to customers.

Rationale and materiality

The fashion industry is heavily reliant on materials. Therefore, it is vital to choose, create demand for and innovate materials with lower negative impact — alongside working to reduce our overall resource use and decouple it from business growth. In order to safeguard the long-term success of H&M Group, the use of virgin materials must decrease. The ability to recirculate resources again and again, maintaining quality and minimising impact, is a key step towards reaching a circular fashion industry. By investing in, developing and scaling production of innovative materials, recycling innovations, technology and infrastructure, we get greater access to the materials, which can also mitigate future risks connected to resource scarcity and help reduce our negative impact on the planet.

The environmental footprint of garments sold can be significantly reduced by recycling used textile fibres. Recycled fibres reduce consumption of virgin raw materials and lower the use of chemicals, energy and water. By focusing on recycled raw materials, we can limit our impact on ecosystems and also meaningfully address our scope 3 GHG emissions.

Historical performance

	2019	2020	2021	2022
% of recycled materials in commercial goods	2%	6%	18%	23%

Reporting and data assurance

KPI performance will be reported annually in the Sustainability Reporting. H&M Group will engage an external assurance provider to provide a limited assurance regarding such KPI performance information.

Contribution to EU environmental objective

Transition to a Circular Economy and Climate Change Mitigation

Contribution to UN SDG:



GHG emissions

KPI 2: % absolute reduction in Scope 1 and 2 GHG emissions

Definition and methodology

Scope 1 emissions are all direct GHG emissions from our own operations. Scope 2 represents indirect GHG emissions from consumption of purchased electricity, heat or steam used in our own operations. Scope 1 and 2 GHG emissions include CO2 emissions as defined in the GHG Protocol. Only stores open for the full quarter are included; company cars, refrigerant leakage and electricity consumption for HVAC operated by landlords are not included. Electricity consumption includes both actuals and estimations, where estimations are made if actuals are not received within the reporting deadline. For stores, estimates are based on current average of opening hours and store area, for other facilities estimates are based on previous consumption. Scope 2 includes market-based emissions from electricity.

The GHG emissions accounting and reporting are aligned with the GHG Protocol. Calculations in the footprint analysis are based on a combination of H&M Group data and the best available public data sources on CO2e emissions, using conservative assumptions. H&M Group uses an operational control approach.

Rationale and materiality

While the majority of our GHG emissions relates to our scope 3 GHG emissions, addressing our scope 1 and 2 GHG emissions is also very important from a symbolic and leadership perspective, as we want to continue to lead by example.

We expect that addressing these emissions will result in meaningful operational efficiencies while supporting the development of greener buildings and renewable power generation.

H&M Group continues collecting data to improve the coverage of scope 1 and 2 GHG emissions over time. H&M Group strive to increase the disclosure in the Sustainability Reporting as soon as the data is available.

Baseline and historical performance

GHG emissions	2019 baseline	2020	2021	2022
Total scope 1 GHG emissions (tonnes CO2e)	17,062	15,128	16,092	13,899
Total scope 2 GHG emissions, market based (tonnes CO2e)	48,733	60,607	35,339	46,803
Total scope 1 & 2 GHG emissions, market-based (tonnes CO2e)	65,796	75,735	51,431	60,701

Reporting and data assurance

KPI performance will be reported annually in the Sustainability Reporting. H&M Group will engage an external assurance provider to provide a limited assurance regarding such KPI performance information.

Contribution to EU environmental objective

Climate Change Mitigation

Contribution to UN SDG:



KPI 3: % absolute reduction in scope 3 GHG emissions

Definition and methodology

KPI 3 includes Scope 3 GHG emissions related to fabric production for garments, garment manufacturing, garment raw materials and upstream transportation and distribution for all products. The included auditable categories cover approximately 75% of all GHG emissions under our Scope 3 science-based target (SBT).

The Scope 3 GHG emissions accounting and reporting are aligned with the GHG Protocol. Calculations in the footprint analysis are based on best available data sources, including primary data from suppliers reported to H&M Group and Higg FEM, Higg MSI emission factors and internal H&M Group data, using conservative assumptions.

Rationale and materiality

In line with other retailers with a global reach, H&M Group’s GHG emissions can largely be traced back to the supply chain. That is why H&M Group has selected the scope 3 GHG emissions as KPI for this Sustainability-Linked Finance Framework. Addressing our scope 3 GHG emissions is critical to aligning our business with the goals of the Paris agreement but will also have important benefits for other environmental issues, given that our supply chain for virgin raw materials relies on agriculture production, which sits at the nexus of multiple sustainability issues, including biodiversity and water.

Baseline and historical performance

GHG emissions	2019 baseline	2020	2021	2022
Scope 3 GHG emissions from fabric production for garments, garment manufacturing, raw materials and upstream transportation and distribution (thousand tonnes CO2e)	4,838	4,433	4,602	4,363

Reporting and data assurance

KPI performance will be reported annually in the Sustainability Reporting. H&M Group will engage an external assurance provider to provide a limited assurance regarding such KPI performance information.

Contribution to EU environmental objective

Climate Change Mitigation

Contribution to UN SDG:



2. Calibration of Sustainability Performance Targets (SPTs)

Circularity

SPT1: achieve 50% recycled materials as share of total material used in commercial goods by 2030

Ambition

We are pleased to report a significant increase in share of recycled materials over the past two years. The increase is largely driven by increased use of recycled polyester - in 2022, recycled polyester represented 74% of all our polyester. We have also increased the share of recycled cotton. The ability to increase share of recycled content in cotton fabric is challenging due to difficulties in sorting and shredding cotton, and limitations to how much recycled fibre can be used with maintained durability. With cotton representing about 60% of our total materials, this is a key focus area for us to achieve our target. We are looking for solutions by investing in and collaborating with innovators, building our supply chain's capacities in sorting, collecting and managing both pre-consumer and post-consumer textile waste, as well as re-engineering our products to include more recycled cotton content.

Baseline year: No baseline

Baseline figure: No baseline

Target observation date: 30 November 2030

External validation of SPT

Recycled materials are not yet used on any large scale in the fashion industry, especially the use of textile to textile recycled fibres is still very low. To our knowledge, H&M Group's target for recycled materials is not matched by any fashion retailer of H&M Group's scale and reach which should be a testament to both our commitment to sustainability and level of ambition. Through the use of this target, we hope to catalyse the sector towards more action, and to set the benchmark for ambitious action.

Measures to achieve the SPT

H&M Group is committed to leading the change and will continue to invest in and collaborate with start-ups, peers, and organisations to accelerate progress in this area. By investing in, developing and scaling production of innovative materials, recycling innovations, technology and infrastructure, we get greater access to the materials, which can also mitigate future risks connected to resource scarcity and help reduce our negative impact on the planet. Our aim with investments goes beyond achieving our sustainability goals and supporting the long-term growth of H&M Group — we look for investments and technologies that the entire industry can benefit from.

As a global procurer of garments, H&M Group can increase the demand for recycled materials by requesting suppliers to increase the use of recycled materials. Such a market signal will affect the supply of recycled materials. H&M Group will be a catalysing force in kickstarting the global demand for recycled garment, a route where other actors will follow suit.

To share some examples of H&M Group's investments, we have invested in Renewcell and Infinited Fiber Company – two innovative companies using garment recycling technologies to produce their materials. We were not only one of the first companies to start offering garments made of these innovative materials, but we have signed multi-year agreements to secure future access to them.

Another example is Looper Textile Co. – a joint venture between H&M Group and Remondis to collect, sort and sell used and unwanted garments and textiles. Looper prepares used and unwanted garments for the next phase of their lifecycle, so that they can be provided as feedstock to responsible companies engaged in reuse and recycling. Looper plans to innovate within textile collection and sorting, for example by testing new collection schemes and implementing automated sorting technologies such as near-infrared sorting. Looper are also developing an assortment of partners in the areas of reuse and recycling, who share Looper's focus on transparency and responsibility regarding garment end state.

We also continue to invest to expand our majority-owned fast-growing resell platform Sellpy, which is already one of the biggest players in second-hand fashion in Europe.

Risks to achieve the target

- Unexpected global event (such as war, pandemic, trade war)
- Supply disruptions
- Technical failures

GHG emissions

SPT2: reduce absolute Scope 1 and 2 GHG emission by 56% by 2030

Ambition

H&M Group has already made great strides to reduce GHG emissions in own operations. This achievement has been made possible by investing in energy efficiency and increasing the purchase of renewable electricity, with 91% renewable electricity in own operations in the baseline year.

We are determined to reduce GHG emissions in own operations even further.

Baseline year: 2019

Baseline figure: 65,796 tonnes CO₂e

Target observation date: 30th of November 2030

External validation of SPT

H&M Group's scope 1 and 2 reduction target for 2030 is aligned with a global temperature rise of below 1.5 °C and was validated and approved by the SBTi in September 2022.

Measures to achieve the SPT

To reach the scope 1 and 2 SPT, H&M Group will continue to invest in energy efficiency to reduce energy use in own operations, secure 100% renewable electricity in own operations for example via signing virtual power purchase agreements and investing in renewable energy onsite and offsite.

Risks to achieve the target

- Unexpected global event (such as war, pandemic, trade war)
- Extreme weather (unexpected natural disaster)
- Availability of renewable energy

SPT3: reduce absolute Scope 3 GHG emissions by 56% by 2030

Ambition

We want to lead the change towards a more sustainable fashion industry, using our size and scale to help speed up the transformation.

Our vision to lead the change means innovating, incubating and investing in scaling new materials, technologies and business models. It means trying to do things differently, daring to take the first step. It means sharing more data and working to improve the accuracy and comparability of industrywide disclosure. And finally, it means collaborating with others to change the way the industry works and create the legislative environment and infrastructure required for the fashion sector of the future.

We set ambitious goals that are based on the latest science.

Our scope 3 SBT is to reduce absolute scope 3 GHG emissions by 56% against a 2019 baseline. By 2040, we aim to become net-zero.³² These goals are at the forefront in the fashion industry.

The path towards achieving these goals will not be linear. Investments made by H&M Group and our suppliers will require some time before impact is shown in the form of reduced scope 3 GHG emissions.

Baseline year: 2019

Baseline figure: 4,838 thousand tonnes CO₂e

³² Both goals have been verified by the Science Based Targets Initiative

Target observation date: 30th of November 2030

External validation of SPT

H&M Group has a scope 3 reduction target for 2030 aligned with a global temperature rise of below 1.5 °C, validated and approved by the SBTi in September 2022.

For the purpose of this Sustainability-Linked Finance Framework, GHG emissions from fabric production, garment manufacturing, raw materials and upstream transportation and distribution are included in SPT3. These categories represent approximately 75% of total scope 3 emissions included in our scope 3 SBT. The reason for not including all categories in the SPT is limitations on data of sufficient quality for limited assurance to be provided by an external assurance provider.

Measures to achieve the SPT

To reach our ambitious goal to reduce absolute Scope 3 GHG emissions across our value chain by 56% by 2030 and achieve net-zero by 2040, we make significant investments throughout our whole value chain, with focus on:

Renewable energy:

- We engage with partners and suppliers to push for their increased use of renewable electricity, heat and steam.
- We stopped onboarding new suppliers with coal boilers in January 2022 and together with our suppliers, we are making significant efforts to phase out coal and other fossil fuels in our supply chain.
- To help scale and accelerate climate action within our industry and beyond, we advocate for ambitious renewable energy policies in the countries where we operate and source from.

Energy efficiency:

- Our in-house supply chain energy experts offer suppliers onsite energy audits free of charge to identify energy saving opportunities.

Circularity:

- Central to reducing our GHG emissions is to decouple resource use from business growth. We're working to reduce our dependency on new resources while finding ways to generate growth through customer offerings such as rental, reuse and recycling, and using recycled and other more sustainably sourced materials — to support a circular, net-zero fashion industry.
- Our new Reverse Supply chain function focuses on retrieving garments from our customers and materials from our suppliers, feeding them back into our supply chain as valuable resources.

Production efficiency:

- Long-term investments to enable an efficient and demand-driven supply chain. By using AI and data across the whole value chain, we can ensure better precision in our quantification and allocation – contributing to a leaner production and a more sustainable use of

resources. Our new distribution systems and highly automated logistics centres are an important part of our work to reduce lead times and match supply and demand.

Financing emission reductions:

- Our Green Fashion Initiative makes funding available to supplier factories to invest in the technologies and processes needed to reduce energy demand and replace fossil fuels.
- We invest in new technologies and innovative recycled and regenerative materials.

Collaboration between diverse stakeholders throughout the entire industry is crucial for accelerating and extending positive impact

- We are a lead funder of The Fashion Climate Fund by Apparel Impact Institute that drives collective action to tackle supply chain GHG emissions.
- We collaborate with peers, banks, NGO's, and various organizations to make funding available for investments to reduce GHG emissions in our supply chain.
- We advocate for policy that limits temperature rise to 1.5°C and support legislation that accelerates the decarbonization of our value chain. We engage with policymakers and stakeholders within and outside our industry.

Data quality

- The entire fashion industry needs to work towards consistent, comparable data and accounting methodologies – to aid transparency, avoid the risk of false claims, and track impact effectively. We continue to invest in improving our data availability and quality to be able to estimate our GHG emission results as accurately as possible. We work with suppliers and peers to promote wider uptake of common approaches and consistent reporting.

More measures can be found on H&M Group's website³³

Risks to achieve the target

- Access to sustainable renewable energy in key production markets
- Access to low-emission materials (such as recycled cotton)
- Unexpected global event (such as war, pandemic, trade war)
- Extreme weather (unexpected natural disaster)

3. Characteristics of the sustainability-linked financing instruments

For each sustainability-linked finance instrument issued under this Sustainability-Linked Finance Framework H&M Group may use a single SPT or a combination of multiple SPTs. The financial and structural characteristics of the sustainability-linked finance instruments, including the impact of H&M Group's KPI performance compared to the applicable SPT, will be specified in the relevant transaction documentation (e.g., offering circular, terms and conditions, final terms, facility agreement). The financial and/or structural characteristics of H&M Group's sustainability-linked financing instruments may vary depending on whether or not the selected KPI(s) reach(es) the

³³ <https://hmgroup.com/sustainability/circularity-and-climate/climate/>

predefined SPT(s). This may include coupon step-down (s), coupon step-up(s) and/or a higher repayment amount in the case of bonds, and margin adjustments in the case of loans.

The relevant transaction documentation might provide that the SPTs may be subject to recalculation based on specific circumstances, such as changes in the calculation methodology or major events having a material impact on H&M Group's structure, and/or might provide that the occurrence of certain events, outside H&M Group's control, will not result in the financial penalty being triggered.

With regard to sustainability-linked loans, annual SPTs setting and test dates will be covered in relevant loan documentation (e.g. loan agreement).

Recalculation policy

In order to accurately track progress towards our emission targets, we will adjust our baselines and/or SPTs to account for the significant changes described below, if the changes drive an increase/decrease in (i) the share of recycled materials used in commercial goods of greater than 5%, (ii) GHG emissions of greater than 5% for scope 1 and 2 combined, or (iii) greater than 5% for scope 3 (each being referred to herein as a Significant Recalculation). We may also choose to recalculate our baseline(s) and/or SPT(s) for changes below this threshold.

Significant Recalculations of the SPT(s) and/or baseline(s) may be performed on the condition that an external assurance provider independently confirms that the revised SPT(s) and/or the baseline(s) are consistent with, or more ambitious and material than, the initial SPT(s) and/or the baseline(s).

The SPT(s) or the baseline(s) may be recalculated or redefined in good faith by H&M Group and applied to outstanding sustainability-linked bonds to reflect material changes:

Structural change

Changes in H&M Group's perimeter (due to an acquisition, a merger or a demerger or other restructuring), an amalgamation, a consolidation or other form of reorganisation with similar effect, a spin-off, a disposal, or a sale of assets). Organic changes to the organisation will not trigger a recalculation or update of the baseline.

Methodology changes

Changes to the methodology for calculation of any KPI to reflect changes in the market practice, the relevant market standards, which, individually or in the aggregate, has a significant impact on the level of any SPT or any KPI. Methodological changes include updated assumptions, or calculation methods. This also covers updates in emission factors, where the update is not related to an actual change in conditions such as annual updates of electricity grid factors.

Regulation changes

Changes in or any amendment to any applicable laws, regulations, rules, guidelines, and policies relating to the business of the Group, including transition plan disclosure regulation.

Errors and other changes

Changes in the Group's ability to calculate its SPT(s) and/or baseline(s), for example as a result of changes to data accessibility, or data quality. Recalculation will also be triggered by the discovery of a significant error or multiple cumulative errors.

4. Reporting

H&M Group will communicate annually on the relevant KPIs and SPT(s), making up-to-date information and reporting available on its website through:

- its Sustainability Reporting which will include:
 - the performance of the selected KPIs and any recalculation and updates to the selected KPIs and/or baselines, as well as a limited assurance statement of an external assurance provider relating thereto; and
 - any information relevant to the analysis of the KPI(s) and SPT(s), and
- the SLB Progress Report which will include:
 - the performance of the selected KPIs;
 - in relation to a Reference Year, where applicable, a confirmation as to whether the performance of the KPI meets the relevant SPT; and
 - any recalculation and updates of the selected KPIs and/or baselines, and
- where relevant and feasible, the SLB Progress Report will also include:
 - a qualitative and/or quantitative explanations of the contribution of the main factors, including M&A activities, behind the evolution of the performance on the KPIs on an annual basis;
 - an illustration of the positive sustainability impacts of the performance improvement; and
 - updates on new or proposed regulations from regulatory bodies relevant to the KPIs and the SPTs.

Regarding sustainability-linked loans, H&M Group will communicate annually to lenders on KPI performance in relation to the SPTs.

The Reporting End Date, the final date by which the Sustainability Reporting and SLB Progress Report shall be published on H&M Group's web page, will be no later than 151 days after the Target Observation Date.

In case the recalculation or updates are significant enough to impact our own or external parties' decision-making, we will publish the update as quickly as is practically possible and, in any event, prior to the Reporting End Date.

5. Verification

This Sustainability-Linked Finance Framework and the associated annual reporting will benefit from two layers of external verification:

- a Second Party Opinion by an external verifier with recognised environmental and social expertise on the alignment of the Sustainability-Linked Finance Framework and the associated documentation with the SLBP and SLLP, including an assessment of the relevance, robustness and reliability of selected KPIs, the rationale and level of ambition of the proposed SPTs, the relevance and reliability of selected benchmarks and baselines, and the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant; and
- an assurance report by an external assurance provider on the KPI information in the Sustainability Reporting.

