

Responsibly sourced materials

Our risk based approach to raw material sourcing (recycled and virgin)

Responsibly¹ sourced materials

All materials used by H&M Group should be sourced in a responsible² way that respects human rights, preserves natural resources and ensures humane treatment of animals. Social and environmental risks and impact must be considered, with any severe impacts avoided or mitigated. Therefore, we have a risk-based approach³ to sourcing raw materials, which is aligned with the [UN Guiding Principles on Business and Human Rights](#) and the [OECD guidelines for Multinational Enterprises and Responsible Business Conduct](#), as well as our relevant policies:

- [H&M Group Human rights policy](#)
- [H&M Group Environmental policy](#)
- [H&M Group Animal welfare policy](#)
- [H&M Group Responsible Business Conduct policy](#)

Risk based approach

Our risk-based approach *identifies* and *assesses* environmental and human rights risks connected, or potentially connected, to our raw material production. It then determines appropriate measures to prevent or mitigate these risks, based on likelihood and severity. This approach is based on the recommendations of the OECD Due Diligence Guidance.

All raw materials we use, recycled or virgin, are risk assessed. Key materials⁴ are assessed at least annually to identify and address possible new risks. This way, we continuously strengthen our due diligence for raw material sourcing and can be more proactive.

We base our assessments on external input, for example global risk tools for risk data⁵ connected to sourcing countries and industries. We also collect insights from reports and articles, and our external networks. We connect all relevant information to our

¹ Please note, this document is part of our corporate reporting and is not intended to be used in our marketing practises about our business or our products.

² OECD definition of Responsible business conduct (RBC) sets out an expectation that “all businesses – regardless of their legal status, size, ownership, or sector – avoid and address negative impacts of their operations, while contributing to sustainable development in the countries where they operate”.

³ To assess, prioritize and manage risks based on severity and likelihood of the risk to occur.

⁴ Materials that we use in large volumes or materials linked to known sustainability risks at source.

⁵ For example, Verisk Maplecroft, WWF Biodiversity Risk Filter, WWF Water Risk filter, Corruption perception Index, Global Risk registry.

own sourcing data to better understand where potential risks may occur and then evaluate the severity and likelihood of those.

We develop adequate⁶ measures to prevent and/or mitigate these risks and integrate the measures into our raw material sourcing strategies. For any salient⁷ human rights risks, and risks with a severe negative impact on the environment, the mitigation strategies will be more extensive. All measures are also documented, and mitigation plans are continuously monitored. As implementation of responsible sourcing commitments takes time, it is crucial to monitor and report on progress, both internally and externally.

Risk mitigation strategies

Our strategies to manage sustainability risks at raw material level depends on the volumes we source and the level of risk connected to individual materials. These strategies include:

- Investing in supply chain traceability. Establishing a transparent supply chain is crucial for responsible sourcing.
- Buying certified materials from independently verified sources.⁸
- Engaging in multi-stakeholder industry initiatives on risk-related topics to collectively find solutions for mitigation and or remedy.
- Engaging in local projects with relevant stakeholders, such as farmer groups, standard owners, and NGOs to target known risks in a region.
- In some cases, we might completely avoid a specific material or sourcing region where risk mitigation is not possible through the above measures.

Standards & certifications as risk mitigation tools

We believe that sustainability standards and certifications, for example Forest Stewardship Council or Responsible Wool Standard, are important tools to help encourage best practices at raw material production level, promote transparency and secure accountability.

According to the Food and Agricultural Organization of the United Nations (FAO) and the United Nations Forum on Sustainability Standards (UNFSS), sustainability standards and certifications are becoming increasingly important with new regulatory initiatives imposing due diligence requirements on businesses.⁹ And as many of these standards include requirements linked to respecting basic human rights, worker health and safety, environmental impacts of production etc., they become important tools for compliance with legal frameworks.¹⁰

However, there are variations in both the quality and scope of standards and certifications, making it difficult to generalise. Even the more credible standards and certification systems are not perfect solutions to avoid negative impacts on people and nature. Breaches can still happen despite the best efforts of the standard owners. Therefore, we must also take a risk-based approach for certified materials to mitigate risks beyond what the standards require.

⁶ The adequacy of measure(s) taken to address an issue vary depending on the severity of risk, operational context and how we are connected to that risk.

⁷ Where the likelihood and severity of an adverse impact is high.

⁸ Please see the document "[Recycled and Sustainably sourced materials - Definitions and reasoning](#)" for more details on how we evaluate sustainability standards and certifications. (add link)

⁹ FAO report on Voluntary Sustainability Standards in agriculture, fishery, and forestry trade, 2017

¹⁰ UNFSS (2022). Voluntary Sustainability Standards Sustainability Agenda and Developing Countries: Opportunities and Challenges
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It is also important that the standards and certifications we use have credible grievance mechanisms and incident management processes in place.

Therefore, we select those aligned with the International Social and Environmental Accreditation Labelling Alliance's¹¹ [Codes of Good Practice, which sets out](#) how standards should be developed, structured, governed and improved over time. This includes being independently verified, having multi-stakeholder consultation and decision-making in place, and ensuring the standard contains clear requirements that can be measured and assessed.

Engagement beyond certifications

Engagement on the ground is necessary to properly address more severe risks. It includes engagement in local projects with relevant stakeholders such as farmer groups and other rights holders, local governments and NGOs to address complex risks more effectively in a specific context.

Additionally, for larger volume materials and those linked to high risks, we engage more with standard owners, as well as with relevant multi-stakeholder initiatives. This increases the effectiveness of our industry's actions and accelerates progress toward achieving our sustainability goals. A few examples of collaboration partners include [Textile Exchange](#), [CanopyStyle initiative](#), and [Ellen MacArthur Foundation](#).

¹¹ The ISEAL alliance is the collaboration of eight international social and environmental standard setting and accreditation organizations, which represents most of the NGO driven social and environmental certification initiatives worldwide. The main objectives of ISEAL are to improve the methods of standard setting and conformity assessment as a means to improve both the credibility and the accessibility of sustainability certifications
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