

# H&M Group

## Sustainability-Linked Bond Progress Report 2023



This Sustainability-Linked Bond Progress Report is prepared in accordance with the Sustainability-Linked Bond Framework of January 2021 and Terms and Conditions of the outstanding EUR500 million 0.250% sustainability-linked Notes due 2029 (the 2029 Notes).

The report contains the status on the KPIs and should be read in conjunction with H&M Group’s Sustainability Disclosure 2023 published on 27 March 2024 and available at <https://hmgroupp.com/sustainability/sustainability-reporting/>.

We are pleased to report good progress on all three KPIs, with share of recycled materials well on track towards our 2025 target and scope 1, 2 and 3 GHG emission reduction exceeding the targets for the sustainability-linked bond.

Together with our suppliers, we are making significant efforts to reduce energy consumption and phase out coal and other fossil fuels in our supply chain. In 2023, the total spend on decarbonisation—including energy efficiency investments in our stores, supporting our suppliers to phase out coal and increasing the share of recycled and sustainably sourced materials—was approximately SEK 2.1 billion.

We are continuously working to improve our data availability and quality so we can estimate our emissions as accurately as possible. This has resulted in material changes to our reported scope 3 emissions, as further described below.

## KPI performance

KPI	Description	2017 baseline	2017 revised baseline <sup>1</sup>	2017 observation period	2023 outcome	% reduction against baseline	2023 observation period	Sustainability-linked bond SPT for 2025
KPI 1	Recycled materials as share of total materials used	N/A	N/A	N/A	25%	N/A	3 Dec 22 – 1 Dec 23	30%
KPI 2	Scope 1 & 2 CO <sub>2</sub> e emissions (tonnes) <sup>2</sup>	63,690	N/A	1 Sep 16 – 31 Aug 17	50,008	2017 baseline: -21%	1 Sep 22 – 31 Aug 23	-20%
KPI 3	Scope 3 CO <sub>2</sub> e emissions from upstream activities (kilotonnes) <sup>2</sup>	13,479	6,852	1 Jan 16 – 31 Dec 16	5,763	2017 baseline: -57% 2017 revised baseline: -16%	1 Jan 22 – 31 Dec 22	-10%

<sup>1</sup> For more details, see section “KPI 3 update of baseline” below

<sup>2</sup> For more details, see section “Calculation methodology” below

# Examples of measures taken during 2023 impacting KPI performance

## **KPI 1: Recycled materials as share of total materials used in commercial goods.**

Share of recycled materials used in commercial goods has continued to increase, up from 23.4% in 2022 to 25% in 2023.

We strengthened our ambition for recycled materials. By 2030, we aim for 50% of our materials to come from recycled sources, with the remainder to be sustainably sourced.

& Other Stories launched eight denim styles using 100% recycled cotton. ARKET released seven products using 100% recycled cotton. We are continuously reducing our dependency on virgin, fossil fuel-based synthetic materials. In 2023, 79% of our polyester was from recycled sources, marking progress to our goal of 100% recycled polyester in 2025.

In February 2024, we founded Syre, a joint venture with Vargas Holding to rapidly scale textile to textile recycled polyester. We reached a seven-year offtake agreement with Syre, with the aim to produce recycled polyester yarn with the same qualities as virgin polyester. A demonstration plant is planned to be operational in the US by mid-2024. Syre aspires to have ten operational recycling plants around the world in less than ten years, producing more than three million metric tonnes of material.

We launched Looper Textile Co., an independent joint venture with Remondis that provides local municipalities and retailers with solutions to extend the useful life of unwanted garments via reuse and recycling.

## **KPI 2: Scope 1 and 2 CO<sub>2</sub>e emissions**

Our Scope 1 and 2 CO<sub>2</sub>e emissions decreased by 21% compared to the baseline.

We achieved a 29% reduction in electricity intensity in our stores (per square metre and opening hour) from our 2016 baseline, exceeding our goal of 25% by 2030. We are pleased to have met this ambitious goal seven years early, and we are working to establish new targets, prioritising energy efficiency as a core element of our operational strategy.

Our ESG construction frameworks ensure energy efficiency measurements are included in newly constructed distribution centres. We also implemented more energy efficiency measures in existing distribution centres, including: installing building management systems, optimising distribution centre working hours, and installing smart lighting systems with motion sensors and light intensity adjusted to daylight.

By 2030, we aim to source 100% renewable electricity in our own operations. In 2023, we added a target for ≥50% of that renewable electricity to come from power purchase agreements (PPAs) with new renewable electricity generation. These will increase the renewable electricity generation capacity on electrical grids in markets where we operate. We have currently signed five PPAs in Europe, for solar parks being built in the UK (1), Spain (3) and Sweden (1). The first one, in the UK, started delivering electricity in December 2022, followed by two in Spain in July 2023. To date, we have in total secured a

capacity of 240MW of renewable electricity, which will result in an indicative annual output of 370GWh, more than a quarter of our annual electricity use.

### **KPI 3: Scope 3 CO<sub>2</sub>e emissions from upstream activities**

Scope 3 emissions decreased by 16% in 2023 (calendar year 2022) compared to the revised baseline.

Alongside the ongoing energy audits and technical support given to already enrolled units, 57 new facilities were included in the energy efficiency programme during 2023. Within this programme, our energy efficiency experts have identified possible improvements that could lead to around 200,000 tonnes CO<sub>2</sub>e of annual reductions. This significant progress underscores the importance of prioritising investments in energy efficiency at the factory level.

Our Green Fashion Initiative has financed 17 projects focusing on several aspects of decarbonisation. These initiatives have the potential to reduce approximately 50 kilotonnes of CO<sub>2</sub>e annually within H&M Group's supply chain, with an additional reduction of approximately 120 kilotonnes beyond our supply chain.

The number of supplier factories reporting the use of on-site coal boilers saw a notable decline to 67 in 2023 (compared to 117 in 2022, and 105 in 2021). This decrease is a result of our continued efforts in phasing out on-site coal, changes in our supplier base, local policy, and H&M Group pushing for increased electrification of steam production. We are working closely with business partners and local stakeholders in our production countries to accelerate total substitution of coal, as well as financially supporting suppliers to transition to solar photovoltaic and thermal energy from agricultural residues. This will make a significant contribution to reaching our absolute GHG emissions reduction goal.

We signed a letter of intent for co-investment in the first early-development offshore wind project in Bangladesh through the Global Fashion Agenda.

Our combined AI enhancements are contributing significantly to reduced stock levels in relation to sales, while also reducing the number of physical samples we produce. We expanded use of our AI model for size and fit to nearly half of our teams. The model predicts customer demand for clothing sizes in different markets, to optimise size-availability while minimising excess stock.

As a member of Frontier, we commit to buy permanent carbon removals once they are delivered, to demonstrate the strong demand for these technologies and to accelerate their development.

These are just a sample of the measures taken, for more information on our sustainability efforts, please visit <https://hmgroup.com/sustainability/>.

# Calculation methodology

## Share of recycled materials

Share of recycled material as share of total materials is calculated by dividing the total weight of all the recycled material used in 3 December 2022 – 1 December 2023 by total weight of all the materials used.

## Scope 1 and 2 CO<sub>2</sub>e emissions

Scope 1 emissions are all direct emissions from our own operations, while scope 2 represents indirect GHG emissions from the consumption of purchased electricity and heat in our own operations. Emissions are calculated based on energy reports collected from meters and invoices. In cases where actual electricity consumption is not reported, estimates are made based on current average of opening hours and store area. Electricity emissions are calculated using the market-based method. Fuel consumption includes natural gas, fuel oil and diesel. Company cars and refrigerant leakage are not included.

## Scope 3 CO<sub>2</sub>e emissions

KPI 3 includes scope 3 GHG emissions from upstream activities, more specifically fabric production, garment manufacturing, raw materials and upstream transport.

### Purchased goods and services

Fabric production and garment manufacturing: During 2023 we made significant improvements to the way we calculate our fabric and garment manufacturing emissions. First, we determine the expected energy consumption. We use our internal order data to ascertain type of product and processes, Higg databases for the energy requirements of these processes, and independently verified energy consumption data from our suppliers for the energy mix. This expected energy consumption is combined with the climate impact of the energy mix to calculate the emissions from each product. When a process cannot be linked to a specific facility, we use country-specific assumptions based on the local electricity grid.

The improved model and data quality will support us to improve how we steer our business to reduce our climate impact and enable us to better capture the outcomes of specific investments and initiatives. For a more in-depth description of what the change in methodology and other changes comprised of, see page 21 in our Sustainability Disclosure 2023 under Progress: Updated data & calculation methods<sup>3</sup>.

Raw materials includes emissions from production and processing of fibres such as cotton, viscose and

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<sup>3</sup> Available at <https://hmgroup.com/sustainability/sustainability-reporting/>

polyester. We estimate the weight of each material, based on measured final product weights from our logistics system, and adding estimated waste in each production stage. This weight is then multiplied by the relevant emission factor in the HIGG MSI database. This is often referred to as tier 4.

### **Upstream transportation**

Emissions related to upstream transportation are calculated by identifying how far goods have travelled per mode of transport (ocean, rail, road, air) multiplied with relevant emission factors<sup>4</sup> for each mode of transport. The calculation methodology uses a stepwise approach combining multiple internal data sources.

Identifying routes for international freight:

- Shipping country is assumed to be the same as country of production.
- For each shipping country, if more than one possible place of loading exists then one place of loading is identified per mode of transport.
- For each planned market, if more than one possible place of discharge exists then one place of discharge is identified per mode of transport.

Identifying routes for trucks delivering H&M Group goods from place of discharge to warehouse:

- All goods shipped to the planned market are assumed to be allocated to one warehouse, selected based on largest historical volume for H&M Group.

### **KPI 3 update of baseline**

When comparing our performance, based on the updated calculation methodology, against the original 2017 baseline included in the Terms and Conditions, we deem that there is a substantially higher likelihood of the H&M Group reaching Scope 3 GHG Emissions Percentage Threshold (as defined in the Terms and Conditions of the 2029 Notes (SPT 3)) when using the updated calculation methodology. We recognise that this comparison is not fully aligned with the ambition level communicated in our Sustainability-Linked Bond (SLB) Framework. We strongly believe that it is in the interest of the holders of our 2029 Notes (the Noteholders) that we, transparently and in good faith, report our progress according to the updated calculation methodology against a revised 2017 baseline calculated in line with that updated methodology, which we believe reflects the most accurate and true performance. In addition, we will also continue to report our progress, based on the updated calculation methodology, against the original 2017 baseline, to be compliant with the Terms and Conditions.

By updating the calculation methodology and including the revised baseline in this Progress Report, H&M Group's objective is to underline its ambition to reduce its scope 3 emissions by giving Noteholders the benefit of a comparison against both the revised 2017 baseline and the original 2017 baseline.

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<sup>4</sup> Transport by rail, air, shipping, truck — emissions factors provided by Conlogic and NTM 2019. Emission factors assumed to be the same for both base year and for latest reporting year.

H&M Group will, as a result of this ambition, measure SPT 3 against both the revised and the original 2017 baseline and report accordingly. Consequently H&M Group also considers it fair to investors that a failure to reach SPT 3 against either of the 2017 baselines (i.e. revised or original) should result in a coupon step-up, equivalent to the relative weight assigned to SPT 3 in the Final Terms prepared in connection with the 2029 Notes.

- In order to effectuate a coupon step-up triggered as a result of a failure to reach SPT 3 under the revised 2017 baseline, H&M Group will, upon such failure, seek the consent of the Noteholders to amend the Terms and Conditions accordingly. H&M Group's ability to make such an amendment will be dependent on Noteholders approving a consent solicitation in the required majority.
- For the avoidance of doubt, if H&M Group fails to reach SPT 3 under the original 2017 baseline, the coupon step-up will come into force in accordance with the current Terms and Conditions. If H&M Group were to reach SPT 3 under both the original 2017 baseline and the revised 2017 baseline, no coupon step-up will apply.



## Auditor's assurance report on specified sustainability information in H&M Group's Sustainability-Linked Bond Progress Report 2023

To H & M Hennes & Mauritz AB, corporate identity number 556042-7220

### Introduction

We have been engaged by the Executive Management of H & M Hennes & Mauritz AB (H&M Group) to perform a limited assurance engagement on the below specified disclosures, presented in the H&M Group Sustainability-Linked Bond Progress Report 2023.

- **KPI 1:** Share of recycled materials used in commercial goods as part of total materials used in commercial goods for the period 3 December 2022 to 1 December 2023, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2023.
- **KPI 2:** Scope 1 and 2 GHG-emissions, including percentage in relation to baseline for the period 1 September 2022 to 31 August 2023, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2023.
- **KPI 3:** Scope 3 GHG-emissions related to fabric production, garment manufacturing, raw materials and upstream transport including percentage in relation to baseline for the period 1 January 2022 to 31 December 2022, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2023.

### Responsibilities of the Executive Management for the Sustainability-Linked Bond Progress Report

The Executive Management is responsible for the preparation of the Sustainability-Linked Bond Progress report in accordance with the applicable criteria, as explained on page 1 in the Sustainability-Linked Bond Progress report 2023, and are the parts of H&M Group's Sustainability-Linked Bond framework as well as the accounting and calculation principles that the company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability-Linked Bond Progress report that is free from material misstatements, whether due to fraud or error.

## **Responsibilities of the auditor**

Our responsibility is to express a conclusion on the above specified disclosures in the H&M Group Sustainability-Linked Bond Progress Report 2023 based on the limited assurance procedures we have performed. The selection of disclosures to be reviewed has been made by the management of H&M Group. Our engagement is limited to the above specified information and is limited to historical information presented and does not cover future oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 (revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability-Linked Bond Progress report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of H&M Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, the conclusion of the procedures performed do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Executive Management as described above. We consider these criteria suitable for the preparation of the above specified disclosures presented in the Sustainability-Linked Bond Progress Report 2023.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the information regarding the above specified disclosures in H&M Group's Sustainability-Linked Bond Progress Report 2023, are not prepared, in all material respects, in accordance with the criteria defined by the Executive Management.

Stockholm 29 April 2024

Deloitte AB

Didrik Roos

Authorized Public Accountant

Lennart Nordqvist

Expert Member of FAR