

# H&M Group

**Type of Engagement:** Sustainability Linked Bond Annual Review

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## Introduction

Founded in 1947, H&M Group (“H&M”, the “Company”, or the “Issuer”) is a Swedish multinational clothing-retail company. The Company is headquartered in Stockholm and has a network of 4,700 physical stores in 75 countries, and online stores in 53 of those markets.

In 2021, H&M issued a Sustainability Linked Bond where the coupon rate of the bond is associated with three Key Performance Indicators (KPIs) tied to three Sustainability Performance Targets (SPTs) which are material sustainability-related issues of the Company.

In April 2022, H&M engaged Sustainalytics to review the Company’s methodological change to calculate and measure KPI 3 – Scope 3 GHG emissions at the end of 2021. Sustainalytics’ review covered the methodological changes implemented to improve data accuracy to calculate KPI 3.

## Evaluation Criteria

Sustainalytics evaluated H&M’s calculation methodology and measurement of the following elements as mentioned in the H&M Group Sustainability Linked Bond Framework :

1. Calculation and measurement of KPI 3 - Scope 3 GHG emissions

Table 1 lists the KPI that is subject of this assessment:

**Table 1: SPTs and KPIs**

KPI	KPI Description	Baseline year 2017 <sup>1</sup> (in million tCO <sub>2</sub> e)
KPI 3: Scope 3 GHG emissions	Upstream Scope 3 GHG emissions <sup>2</sup> as defined by the GHG Protocol <sup>3</sup> : <ul style="list-style-type: none"> <li>• H&amp;M’s Scope 3 emissions calculation includes upstream emissions related to fabric production, garment manufacturing, sourcing of raw materials, and transport, thus downstream emissions are not included.</li> </ul> Emissions are measured in metric tonnes of CO <sub>2</sub> e (t/CO <sub>2</sub> e).	4.8

## Issuing Entity’s Responsibility

H&M is responsible for providing accurate information and documentation relating to the details of the KPIs calculation and measurement.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of H&M’s Sustainability Linked Bond. The work undertaken as part of this

<sup>1</sup> Sustainalytics notes the baseline for KPI 3 has been previously determined through an assumption-based model. This figure represents the most accurate information as of April 7<sup>th</sup> 2022 following a change in the methodology of calculating KPI 3.

<sup>2</sup> Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

<sup>3</sup> GHG Protocol, “Product Standard”, (2020), at: <https://ghgprotocol.org/product-standard>

engagement included collection of documentation from H&M employees and review of documentation to confirm the conformance with the agreed upon details of the SLB.

Sustainalytics has relied on the information and the facts presented by H&M with respect to the methodology and calculation of KPI Scope 3 GHG emissions. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by H&M.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Internal Review Committee to provide oversight over the assessment of the review.

## Conclusion

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed change in methodology relating to Scope 3 GHG emissions as part of the SLB signed on January 15, 2021 by H&M, is not aligned with the intent of the Framework.

Sustainalytics is of the opinion that the update in the calculation methodology of KPI 3 – Scope 3 GHG emissions does not change Sustainalytics' assessment of the KPI/SPT or the Framework's alignment with the SLBP. Sustainalytics considers that the assessment of KPI 3 and SPT 3 provided in the Second-Party Opinion<sup>5</sup> remain unchanged by the update in KPI 3 calculation methodology.

## Detailed Findings

In Table 2, Sustainalytics provides the details of its assessment, that formed the foundation of the overall assessment.

**Table 2: Detailed Findings**

Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Calculation and measurement of KPI</b>	Review of Calculation and methodology used for KPI 3 – Scope 3 GHG emissions	<p>Prior to 2021, H&amp;M used an assumption-based model where the number of products/spend is multiplied by life-cycle assessment-based conversion factors using a combination of H&amp;M internal data and public data on CO<sub>2</sub>e emissions. In 2021, the Company modified the calculation methodology for KPI 3 to incorporate the following elements:</p> <ul style="list-style-type: none"> <li>• Use of live and real data whenever possible. Estimates based on share of materials are still used for suppliers that are not connected to the Company's data systems;</li> <li>• Wider scope of materials that takes into account the full mix of materials used in the Company's products, not just cotton, organic cotton, BCI cotton, polyester and viscose, which were the materials previously included in the previous methodology;</li> <li>• More granular information on yarn production and fabric production which are separately</li> </ul>	None

<sup>4</sup> Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the KPIs and SPTs that have been agreed upon, including data on performance of the KPIs, KPI reporting, calculations and verification conducted for the baseline data. The Borrower is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

<sup>5</sup> Sustainalytics' H&M Group Sustainability-Linked Bonds Second-Party Opinion dated January 15, 2021 is available on <https://hmgroupp.com/wp-content/uploads/2021/02/HM-Sustainability-Linked-Bond-Second-Party-Opinion.pdf>.

		<p>analyzed in more detail rather than as a single production process in the previous system; and</p> <ul style="list-style-type: none"><li>• For suppliers without real data available, emissions factors are based on Higgs Materials Sustainability Index (MSI) that is updated semi-annually.</li></ul> <p>Sustainalytics is of the opinion that the update in the calculation methodology of KPI 3 – Scope 3 GHG emissions does not change Sustainalytics' assessment of the KPI/SPTs or the Framework's alignment with the SLBP.</p>	
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