

# Sustainability-Linked Bond Progress Report 2022

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 the Group’s Sustainability Disclosure 2022 published on 30<sup>th</sup> March 2022 and available at <https://hmgroup.com/sustainability/sustainability-reporting/>

We are well on track towards our 2025 targets for recycled materials and scope 3 emissions. Our scope 1 and 2 emissions increased in 2022 due to a temporary lower share of renewable electricity in our own operations.

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 2022, 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 more sustainably sourced materials – was approximately SEK 2.6 billion.



## KPI PERFORMANCE

KPI	Description	2017 baseline	2017 revised baseline <sup>2</sup>	2017 observation period	2022 outcome	% reduction against baseline	2022 observation period	Sustainability-linked bond SPT for 2025
KPI 1	Recycled materials as share of total materials used	N A	N A	N A	23.4%	N A	4 Dec 21 – 2 Dec 22	30%
KPI 2	Scope 1 & 2 CO <sub>2</sub> e emissions tonnes <sup>1</sup>	63,690	N A	1 Sep 16 – 31 Aug 17	74,706	2017 baseline: +17%	1 Sep 21 – 31 Aug 22	-20%
KPI 3	Scope 3 CO <sub>2</sub> e emissions from upstream activities kilotonnes <sup>1</sup>	13,479	4,854	1 Jan 16 – 31 Dec 16	4,466	2017 baseline: -67% 2017 revised baseline: -8%	1 Jan 21 – 31 Dec 21	-10%

## EXAMPLES OF MEASURES TAKEN DURING 2022 IMPACTING KPI PERFORMANCE

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

We are pleased to report a continued increase in the amount of recycled materials used in commercial goods, up from 19,4% in 2021 to 23.4% in 2022.

We are committed to phasing our virgin polyester as we work towards our goal to source 100% recycled polyester by 2025. In 2022, 74% of our polyester came from recycled sources, which have a significantly lower carbon footprint than conventional sources.

We began scaling our use of textile to textile recycled polyester and plan to double it next year. We are also exploring scalable, automated sorting techniques and chemical recycling to increase availability of the fibre.

We are continuing to focus on developing circular products, using recycled and more sustainably sourced materials, enabling circular supply chains as well as scaling reuse, remake and recycling of our products.

H&M Group and H&M CO:LAB continued to support Renewcell to scale production of Circulose® – an man made cellulosic fibre (MMCF) made from recycled cotton waste. H&M CO:LAB also supported Infinited Fiber Company to scale Infinna™ – an MMCF from regenerated cotton waste – through the building of the company’s first commercial plant in Finland.

We will continue to prioritise and scale recycled materials by investing in developing closed-loop recycling feedstock capacity and through our public affairs work to advocate for a favourable legislative environment.

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

Our scope 1 and 2 CO<sub>2</sub>e emissions increased by 17% compared to the baseline, largely because of the decrease in the share of renewable electricity purchased in 2022. This is primarily because we did not purchase renewable electricity certificates in Russia and, to some degree, sourcing challenges in a few other markets. This year, we changed the reporting year for energy data and greenhouse gas (GHG) emissions in the Sustainability Disclosure to align with our financial year. This change is not reflected in this Progress Report since the observation periods for the 2029 Notes are fixed. The effect of not purchasing renewable electricity certificates in Russia is larger for the observation period

<sup>1</sup> For more details, see section “Calculation methodology” below

<sup>2</sup> For more details, see section “KPI 3 update of baseline” in Sustainability Linked Bond Progress Report 2021

of the 2029 Notes, compared to that of the Sustainability Disclosure 2022. All effects are temporary and not expected to impact our ability to achieve our 2025 target.

We have signed power purchase agreements in UK, Sweden and Spain to cover electricity consumption in our own operations in most of our European markets.

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

Scope 3 emissions decreased by 8% in 2022 (calendar year 2021) compared to the revised baseline.

We established the Green Fashion Initiative, which makes funding available to supplier factories to invest in technologies and processes that reduce energy demand and replace fossil fuels. As of January 2023, we have approved 17 projects that have the potential to reduce CO<sub>2</sub>e in H&M Group's supply chain by 50,000 tonnes per annum, plus a further 140,000 tonnes per annum beyond our own value chain.

Our team of in-house, supply chain efficiency experts performed 51 on-site evaluations and planned energy efficiency measures. The assessments revealed the potential for energy efficiency improvements of nearly a fifth in tier 1 facilities and over a quarter in tier 2. Examples of actions already taken as a result of these assessments include replacing air compressors, implementing heat recovery from air compressors, and digital monitoring and control of steam boilers.

H&M Group joined the Fashion Climate Fund by Apparel Impact Institute as a lead contributor. This fund is designed to drive collective action to tackle fashion's supply chain GHG emissions.

We stopped onboarding new suppliers with coal boilers in January 2022.

We continue to prioritise finding suppliers who align with our goals, as well as steering existing suppliers towards lower GHG emissions, supported by investments and insights from our green investments.

H&M integrated an assortment from Sellpy into its website to help normalise second hand shopping.

We joined LEAF (Lowering Emissions by Accelerating Forest Finance) Coalition. The purpose of this public-private initiative is to mobilise large-scale financing to countries that are committed to making ambitious reductions to tropical deforestation.

We entered into our first contract for permanent carbon dioxide removal using direct air capture and storage via a multi-year agreement with Climeworks.

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 4<sup>th</sup> Dec 2021 – 2<sup>nd</sup> Dec 2022 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. Only stores open for the full quarter are included. 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

Material related emissions (from raw material to finished fabric) are calculated based on selection of fibre, yarn formation, textile formation, yarn density and fabric finishing process as defined in the H&M

Group's production system. Identification keys are created for each possible combination of these variables and matched with its corresponding value in Higg MSI (lifecycle assessment database for fashion industry). Emissions are calculated by multiplying material weight as per the production system with matching emission factor in Higg MSI. As a fallback, if it is not possible to match an identification key with Higg MSI due to, for example, incorrect data entry or material not being available in Higg MSI, emissions are calculated using material weight and global average emission factors.

Emissions from product manufacturing are calculated based on primary data from suppliers combined with H&M Group's internal order data. Suppliers report their energy consumption and production volumes to H&M Group on a quarterly basis. Emissions are calculated by multiplying ordered pieces with average emission per piece per production unit. Where it is not possible to match order data with supplier data, a fallback method is based on average emissions for production country and type of garment production group.

### **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>3</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.

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<sup>3</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.

## AUDITORS LIMITED ASSURANCE

### Auditor's Assurance Report on specified sustainability information in H & M Group's Sustainability-Linked Bond Progress report 2022

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 2022'.

- **KPI 1:** Share of recycled materials used in commercial goods as part of total materials used in commercial goods for the period 4<sup>th</sup> of December 2021 to 2<sup>nd</sup> of December 2022, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2022
- **KPI 2:** Scope 1 and 2 GHG emissions, including percentage in relation to baseline for the period 1<sup>st</sup> of September 2021 to 31<sup>st</sup> of August 2022, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2022
- **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<sup>st</sup> of January 2021 to 31<sup>st</sup> of December 2021, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2022

#### 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 1 in the Sustainability-Linked Bond Progress report 2022, 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 2022 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 2022.

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 2022, are not prepared, in all material respects, in accordance with the criteria defined by the Executive Management.

Stockholm 18 April 2023

Deloitte AB

Didrik Roos  
Authorized Public Accountant

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