

Sustainability-Linked Bond Progress Report

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 2021 published on 31st March 2022 and available at <https://hmgroup.com/sustainability/sustainability-reporting/>

We are pleased to report progress ahead of our trajectory on all three KPIs. We have increased the share of recycled materials from 7.1% in 2020 to 19.4% in 2021, we have reduced scope 1, 2 and 3 emissions and reached our sustainability performance targets (SPTs) for 2025. However, scope 3 emissions in 2021 (for which observation period is calendar year 2020) were heavily impacted by Covid 19 and the drop is largely a temporary effect due to a reduction in the number of pieces purchased compared to the baseline year.

To ensure progress towards our goals at the speed required, we launched several key initiatives focused on energy efficiency, renewable energy and circularity during 2021. We have established a dedicated climate impact budget, implemented internal carbon pricing to support sustainable buying decisions, launched our Climate Positive Roadmap tool to identify levers for greatest impact reduction and hired our own energy expert team to provide onsite audits at supplier factories free of charge to identify energy efficiency potential.

In 2021, we continued our work to improve the accuracy of our scope 3 emissions data which has resulted in material changes to our reported scope 3 emissions, as further described below. Sustainalytics has reviewed the KPI and SPT in light of the revised calculation methodology and confirmed their conclusions in their Second Party Opinion dated 15th January 2021¹.



¹ Available on <https://hmgroup.com/investors/sustainability-linked-finance/>

KPI PERFORMANCE

KPI	Description	2017 baseline	2017 revised baseline ²	2017 observation period	2021 outcome	% reduction against baseline	2021 observation period	Sustainability-linked bond SPT for 2025
KPI 1	Recycled materials as share of total materials used	N/A	N/A	N/A	19.4%	N/A	28 Nov 20 – 3 Dec 21	30%
KPI 2	Scope 1 & 2 CO ₂ e emissions (tonnes) ²	63,690	N/A	1 Sep 17 – 31 Aug 17	50,078	2017 baseline: 21%	1 Sep 20 – 31 Aug 21	20%
KPI 3	Scope 3 CO ₂ e emissions from upstream activities (kilotonnes) ²	13,479	4,854	1 Jan 16 – 31 Dec 16	4,278	2017 baseline: 68% 2017 revised baseline: 12%	1 Jan 20 – 31 Dec 20	10%

EXAMPLES OF MEASURES TAKEN DURING 2021 IMPACTING THE KPI PERFORMANCE

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

We are pleased to report a significant increase in recycled materials used in commercial goods, up from 7.1% in 2020 to 19.4%⁴, mainly due to growth in our volumes of recycled cotton and polyester – two materials for which recycling technology is available at scale. 63.7% of our polyester is from recycled sources. We continued to examine the possibility of recycling post-consumer polyester textiles using scalable, automated sorting techniques and chemical recycling. We also increased use of several innovative materials.

We established a new internal material organisation to accelerate our sustainable materials strategy. The organisation will work closely with our assortments teams to scale up innovations and sustainable material sourcing across H&M Group.

Many of our brands began testing H&M Group’s newly developed circular product development tool – Circulator. This tool, alongside our groupwide quality and durability standards, assists our product teams to select the appropriate level of durability for a product’s use and to prioritise recyclability. Physical durability and recyclability are important for enabling recirculation of the resources used in products.

Achieving our circular ambitions requires us to accelerate development of new materials and recycling innovations. Innovation takes place through our brands, the Circular Innovation Lab, our H&M CO:Lab investment arm, together with inventors of sustainable materials and processes including winners of H&M Foundation’s Global Change Award and industry experts.

KPI 2: Scope 1 & 2 CO₂e emissions

Our scope 1 and 2 CO₂e emission decreased by 21% compared to the baseline.

We increased the share of renewable electricity in own operations to 95%, compared to 90% in the previous year.

We retrofitted LED lighting in around 720 stores and started retrofitting efficient heating, ventilation and air conditioning systems across multiple markets.

² For more details, see section “Calculation methodology” below

³ For more details, see section “KPI 3 update of baseline” below

⁴ Note that observation period specified in the Terms and Conditions of the 2029 Notes differ from observation period used in the Sustainability Disclosure

Five of our distribution centres installed solar panels during the year, with a combined peak capacity of 1,375 MWh.

KPI 3: Scope 3 CO₂e emissions from upstream activities

Scope 3 emissions decreased by 12% in 2021 (calendar year 2020) compared to the revised baseline, mainly due to a large reduction in the number of pieces purchased as a result of the Covid-19 pandemic.

We have implemented an internal carbon pricing scheme to support our organisation to minimise carbon emissions when making decisions about which materials, production processes and modes of transport to use. Choices with higher emissions will impact a product's margin negatively. We set an initial carbon price in 2021, which we will increase over time to shift behaviour towards more sustainable buying decisions.

We launched our supply chain energy efficiency team to provide onsite energy audits for suppliers free of charge. They work with the suppliers with the biggest impact — the 20% that contribute 80% of emissions — and those with whom we have the closest business relationship. Our aim is to create an industrywide guidance platform on effective energy efficiency activities for suppliers.

We have set up a green investment team with a single focus: to financially support projects that reduce H&M Group's emissions throughout the value chain. The team will measure return on investment by emissions reductions, not financial gain.

We engage with policy makers to develop legislation in support of a low carbon future – for example, as part of the steering committee of the United Nations Framework Convention on Climate Change's (UNFCCC) Fashion Industry Charter for Climate Action. We continued to engage in the LEO Coalition research project led by Maersk testing different lignin types for LEO fuel – a potential near carbon-neutral biofuel for shipping.

From 1st January 2022 we will not onboard any new suppliers or supplier factories into our supply chain if they have on-site coal boilers in their factories – as part of a longer-term aim to phase out coal from our supply chain.

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 28th Nov 2020 – 3rd Dec 2021 by total weight of all the materials used.

Scope 1 and 2 CO₂e emissions

Scope 1 emissions are all direct emissions from our own operations, while scope 2 represents indirect greenhouse gas (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 historical data. 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 CO₂e emissions

In 2021, we continued to improve the accuracy of our scope 3 emissions data. This has resulted in some material changes to our scope 3 emissions calculations for this and previous years, compared to data based on the previous methodology. Prior to 2021, we were using an assumption based model for calculating our scope 3 emissions, based on selected materials and using historic emissions factors.

We are moving to a model that:

- **Incorporates live, real data wherever possible.** Where we cannot connect production directly to a supplier, we use estimated data based on relevant share of materials. As we onboard more suppliers to our data systems, we will increase the share of real data and the accuracy of our system.
- **Includes a wider scope of materials.** We are moving from only considering cotton, organic cotton, BCI cotton, polyester and viscose to including the full mix of materials used in our products. This enables us to track changes to emissions caused by shifting to more sustainable materials.
- **Includes more detail on specific production processes.** Our previous calculations combined yarn production and fabric production. The new model examines each process separately and in more detail, enabling us to pinpoint which production processes are responsible for the most emissions and therefore provide greatest potential for reductions.
- **Uses updated emissions factors.** Where we do not have direct real data from a supplier and therefore still need to make assumptions, we use emissions factors from the Higg Materials Sustainability Index (MSI) for our calculations. These are updated twice a year, giving us the most up to date factors for available materials.

The new calculation methodology allows us to more accurately capture scope 3 emissions of the H&M Group and is a better tool for engaging with our suppliers to reduce the relevant emissions. That said, there is still room for improvement and our work to move from estimated data to real

supplier data is ongoing. Our Business Tech function will help develop data analysis systems for the supplier factory level, and we will work to improve transport emissions data by partnering with the Global Logistics Emissions Council to find a global standard for accurately measuring logistics 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 fiber, 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 no identification key is possible to match with Higg MSI due to e.g. incorrect data entry or material not 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 factors⁵ 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.

⁵ 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.

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.

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.

Sustainalytics has reviewed the change in calculation methodology and concludes that:

“Based on the limited assurance procedures conducted, 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 remain unchanged by the update in KPI 3 calculation methodology."

AUDITORS LIMITED ASSURANCE

Auditor's Assurance Report on specified sustainability information in H & M Group's Sustainability-Linked Bond Progress report 2021

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 2021'.

- **KPI 1:** Share of recycled materials used in commercial goods as part of total materials used in commercial goods for the period 28 November 2020 to 3 December 2021, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2021
- **KPI 2:** Scope 1 and 2 GHG emissions, including percentage in relation to baseline for the period 1 September 2020 to 31 August 2021, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2021
- **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 2020 to 31 December 2020, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2021
- **KPI 3:** Revised baseline for Scope 3 GHG emission related to fabric production, garment manufacturing, raw materials and upstream transport for the period 1 January 2016 to 31 December 2016, as presented on page 2 in the H&M Group Sustainability-Linked Bond Progress report 2021

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 2021, and are 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 2021 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 therefore not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 *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 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 ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and 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 H&M Group Sustainability-Linked Bond Progress report 2021.

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 Sustainability-Linked Bond Progress report 2021, are not prepared, in all material respects, in accordance with the criteria defined by the Executive Management.

Stockholm 28 April 2022

Deloitte AB

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