Second Party Opinion

H&M Group's Sustainable-Finance Framework

Sept. 1, 2023

H&M Hennes & Mauritz AB (H&M) is one of the world’s largest retailers of clothing, accessories, footwear, cosmetics, home textiles, and homewares. It offers sportswear, shoes, bags, beauty products, and ready-to-wear; and interior products including bed linen, dinnerware, textiles, furniture, and lighting. H&M Group includes the brands H&M and H&M HOME, COS, & Other Stories, Monki, Weekday, ARKET, and Afound. H&M was founded in 1947 and is headquartered in Stockholm, Sweden.

In our view, H&M Group’s Sustainable-Finance Framework, published on Sept. 1, 2023, is aligned with:

- ✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✔ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✔ Sustainability-Linked Bond Principles, ICMA, 2023
- ✔ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

Issuer’s Sustainability Objectives

H&M aims to move toward a circular approach with a net-zero climate impact. Its three strategic focuses are promoting equality and fairness; using resources in a way that supports a circular fashion industry with a net-zero climate impact; and leading the industry to reinvent and transform in line with circular economy principles. The company also has a climate strategy with a goal to reach net zero by 2040 as defined by the Science Based Targets initiative (SBTi). To achieve this, H&M focuses on areas such as energy efficiency, increasing the use of renewable electricity, investing in circular systems, and using nature-based solutions. To move to a circular economy, the company is focusing on creating circular products along with improved supply chains, promoting reusing and recycling, and reducing the environmental footprint of production processes and customer journeys. Longer-lasting products are one example. The company also prioritizes responsible supply management and human rights across the value chain.
## Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

<table>
<thead>
<tr>
<th>KPI</th>
<th>SPT</th>
<th>Baseline</th>
<th>2022 performance</th>
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<tbody>
<tr>
<td>Share of recycled materials used in commercial goods</td>
<td>Achieve 50% recycled materials as share of total material used in commercial goods by 2030</td>
<td>-</td>
<td>23%</td>
</tr>
<tr>
<td>% absolute reduction in scopes 1 and 2 greenhouse gas (GHG) emissions</td>
<td>Reduce absolute scopes 1 and 2 GHG emission 56% by 2030</td>
<td>65,796 tons of carbon dioxide equivalent (CO2e) (2019)</td>
<td>60,701 tons of CO2e</td>
</tr>
<tr>
<td>% absolute reduction in scope 3 GHG emissions</td>
<td>Reduce absolute scope 3 GHG emissions 56% by 2030</td>
<td>4,838 thousand tons of CO2e (2019)</td>
<td>4,363 thousand tons of CO2e</td>
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Second Party Opinion Summary

Use of proceeds

<table>
<thead>
<tr>
<th>Alignment</th>
<th>H&amp;M Group’s Green Finance Framework aligned with this component of the GBP and GLP.</th>
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<tbody>
<tr>
<td>Score</td>
<td>Not aligned</td>
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H&M will allocate the net proceeds issued under the framework exclusively to eligible green projects. Funding might take the form of assets, expenditures, and equity and debt investments. The framework specifies that equity and debt investments will be with companies that derive at least 90% of revenue from activities included in the eligibility criteria. Loan documentation for debt investments will indicate that activities to be financed must meet the eligibility criteria outlined in the framework. Eligible projects include the development of circular products, supply chains, and customer take-back value chains; the ownership or leasing of green stores, offices, or logistics centers, supporting renewable energy generation and energy efficiency improvements in logistics and supply chain activities; and the reduction of freshwater consumption across its value chain. Projects will contribute to achieving the Sustainable Development Goals (SDGs) and the EU New Circular Economy Action Plan. Asset value and capital spending will qualify for refinancing with no look-back period, and operating expenditure and cost of goods sold (COGS) will qualify with a maximum three-year look-back period from the time of issuance.

Process for project evaluation and selection

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H&M has established a Green Finance Committee (GFC) comprising members of the CFO, Treasury, Sustainability, Governance, and Compliance business units. The GFC is responsible for evaluating and selecting projects in line with the eligibility criteria outlined in the framework, as well as an exclusion list covering activities such as those linked to fossil fuels, gambling, or alcohol. All H&M Group Investments comply with national and international regulations and standards, as well as internal policies and due diligence checks.

Management of proceeds

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<tr>
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H&M commits to using a portfolio approach to manage the net proceeds and an internal project register to monitor and track them. Unallocated funds will be temporarily held in H&M Group’s liquidity portfolio in cash or as other short-term liquid instruments. The company will seek to match or exceed the level of allocation for eligible projects relative to the balance of the net proceeds from its outstanding instruments within 24 months from issuance, which we view as in line with market practice.

Reporting

<table>
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Second Party Opinion

H&M commits to annual allocation reporting until maturity or until full allocation that will include the size of the project portfolio, the total amount of outstanding instruments and of allocated proceeds, the balance of unallocated proceeds, and the amount of new financing and refinancing. The company will also report on the actual environmental impacts associated with the projects, supplemented by descriptions of the projects and, where feasible, the relevant metrics.

### Selection of key performance indicators (KPIs)

<table>
<thead>
<tr>
<th>Alignment</th>
<th>H&amp;M Group's Sustainability-Linked-Finance Framework is aligned with this component of the SLBP and SLLP.</th>
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<tbody>
<tr>
<td>KPI 1</td>
<td>Share of recycled materials used in commercial goods</td>
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<td>Not aligned</td>
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<tr>
<td>KPI 2</td>
<td>% absolute reduction in scopes 1 and 2 GHG emissions</td>
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<td></td>
<td>Not aligned</td>
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<tr>
<td>KPI 3</td>
<td>% absolute reduction in scope 3 GHG emissions</td>
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### Calibration of sustainability performance targets (SPTs)

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H&M commits to have annual targets for sustainability-linked loans that will be covered in the relevant financial documentation.

### Instrument characteristics

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| The issuer’s framework covers bonds, loans, Schuldscheins, and any other financing instruments whose characteristics are linked to sustainability performance targets. The financial and structural characteristics of the Sustainability-Linked Finance Instruments will be specified in the relevant transaction documentation (offering circular, terms and conditions, final terms, facility agreement, among others).

### Reporting

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spglobal.com/ratings  This product is not a credit rating
H&M commits to reporting on the KPI's performance annually. The reporting will include up-to-date information on the KPI's performance and external verification assurance on the KPI's performance against the SPTs.

Post-issuance review

Alignment ✔ H&M Group's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.

H&M will obtain an independent external verification of the KPI's performance from an external verifier. This verification will be provided annually, and it will be made publicly available on H&M Group's website.
Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity as to how the proceeds are used.

✔ H&M Group's Green Finance Framework is aligned with this component of the GBP and GLP

Commitments score

We consider H&M Group's overall use-of-proceeds commitments to be strong.

H&M commits to exclusively allocate funds issued under its framework for eligible green projects. Eligible projects may take the form of assets, expenditures, and equity and debt investments. Companies eligible to receive equity or debt investments will need to be "pure players" deriving at least 90% of their revenue from activities that meet the eligibility criteria outlined in the framework. The loan documentation for debt investments will need to specify that the activities to be financed are in line with the eligibility criteria. We expect equity investments to be largely in the form of minority stakes. While this could limit H&M's ability to control all of investee companies' activities, we expect the issuer to monitor that the companies remain compliant with the requirements of the framework over the course of the investment. In addition, H&M will apply exclusionary criteria to all eligible projects preventing investments in activities including fossil or nuclear energy generation; fossil fuel exploration, extraction, refining or marketing and distribution; gambling; tobacco; alcohol; weapons; animal testing; GMOs and adult entertainment.

The project categories listed in the framework include 1) circular-economy-adapted products, production technologies and/or certified eco-efficiency products; 2) green buildings; 3) renewable energy; 4) energy efficiency; and 5) sustainable water and wastewater management.

The circular-economy-adapted products, production technologies, and/or certified eco-efficiency products category criteria include:

- Circular supply chains: the development of scalable systems that circulate products and garment-handling machinery to reduce plastic packaging use.
- Circular customer journey: providing customer access to repair and reuse facilities.

The overall circular economy category aims to address key material issues for apparel retail companies, namely virgin material consumption and the linear nature of the industry. We view positively that it strives to align with the EU New Circular Economy Action Plan.

Under the green buildings project category, H&M will invest in projects to own and lease buildings that have obtained national and globally recognized industry standards, such as BREEAM and LEED.

Under the renewable energy, energy efficiency, and sustainable water and wastewater management categories, H&M will invest in projects to support renewable energy generation, reduce energy use in its direct and supplier operations, and decrease freshwater consumption across its value chain. Although the environmental benefits of these projects are clear, and we expect the projects to be qualified in the borrowers’ loan documentation, the descriptions of the energy efficiency and water management categories remain high level in the framework. We understand that this is to allow H&M to adapt to the broad variety of eligible project types that could be relevant, especially in its suppliers’ diverse operations, where H&M aims to play a key role in terms of access to capital. The framework's water management category may include waterless textile dyeing and water-use reduction in cotton growing, while the energy efficiency category could, for instance, include waste heat recovery, process optimization, motor replacement, or boiler insulation. While H&M aims to systematically replace fossil fuels with renewable energy, this may not always be possible for all suppliers globally, and hence this
category allows the issuer to support its suppliers' energy efficiency investments to reduce their fossil fuel consumption. We expect improvements to existing fossil fuel generation to make up a very limited proportion of the overall portfolio, however.

We note that H&M commits to disclose the proportion of proceeds used to finance and refinance projects in its annual allocation reporting. The framework also stipulates that asset values and funds for capital spending obtained under the framework will qualify for refinancing without a look-back period and that operating expenditure and COGS will qualify with a maximum three-year look-back period from the time of issuance.

### Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✔ H&M Group's Green Finance Framework aligned with this component of the GBP and GLP

**Commitments score**

We consider H&M Group's overall process for project evaluation and selection to be aligned with the principles.

H&M has established a GFC responsible for evaluating and selecting projects in line with the eligibility criteria outlined in the framework as well as its exclusion list. The GFC includes sustainability, governance, and compliance expertise, and its decisions are arrived at on a consensus basis.

The GFC also oversees the process to identify environmental and social risks associated with the projects. H&M complies with applicable regulations and international standards and has developed and implemented several environmental and social policies that cover human rights, ethics, responsible sourcing, child labor, animal welfare, and chemical restrictions. At the group level, investments, including equity investments, are subject to due diligence checks and comply with practices outlined by the U.N. Guiding Principles on Business and Human Rights and the Organisation for Economic Co-operation and Development. Additionally, new suppliers and business partners are required to meet H&M’s minimum requirements on key issues, namely working conditions and environmental practices, and it encourages remediation by suspending its business transactions in case of violations.

That said, while the GFC will use recognized industry and national standards to select and assess the eligibility of Green Building projects, the framework does not state whether market-based taxonomies, standards, and certifications will be used for all other project categories. Moreover, although we view positively that the company has established thresholds for green buildings and recycled content (at least 50% for synthetic and man-made cellulosic fibers and at least 20% for cotton), similar thresholds, standards, or taxonomies are absent for all other categories. We are aware of the lack of existing market-based taxonomies or standards for all project categories but expect H&M to take these into account when they become available.

### Management of proceeds

The Principles require disclosure of the issuer’s management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clearly the documentation states the issuer’s commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✔ H&M Group's Green Finance Framework is aligned with this component of the GBP and GLP

H&M commits to using a portfolio approach to manage the net proceeds from the instruments issued under the framework, which will be monitored and tracked using an internal project register. Unallocated funds will be held temporarily in H&M Group's liquidity portfolio, in cash or other short-term liquid instruments, or will be used for any other treasury business, at the
issuers’ discretion. The company will aim to achieve a level of allocation for eligible projects that matches or exceeds the balance of net proceeds from its outstanding green finance instruments within 24 months from the time of issuance. If projects no longer meet the eligibility criteria outlined in the framework, the GFC will exclude, dispose of, or replace them on a best-effort basis. We consider the timeframe 24 months to be aligned with market practice.

**Reporting**

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider commitments for reporting on the allocation of proceeds to eligible projects and the expected or actual impact of the projects financed, as well as the frequency of reporting.

![H&M Group's Green Finance Framework is aligned with this component of the GBP and GLP.](image)

**Disclosure score**

We consider H&M Group's overall reporting practices to be aligned.

H&M commits to annual allocation reporting until maturity or full allocation. This will include the size of the project portfolio, the total amounts of outstanding green finance instruments and allocated proceeds, the balance of unallocated proceeds, and the amount of new financing and refinancing. The reporting will not differentiate between proceeds used for projects and those used for equity and debt investments. Considering that the latter are uncommon among corporate issuers, we would have considered separate disclosure as an advanced practice. In the framework, the company also states that it will report annually on the actual impacts of selected projects. It will do this using environmental indicators specific to each project category, as well as case studies where relevant. For example, circular adapted product indicators will show the percentage of recycled content in commercial goods, tons of plastic packaging reduced, and tons of garments collected. Impact reporting will also include a brief description of the relevant projects.

We view favorably that H&M will annually request limited assurance on the allocation of proceeds by an external auditor as of one year after issuance or until full maturity. Nonetheless, it will not seek external verification of its impact reporting, which we would consider stronger practice.

The framework specifies that H&M will, on a best effort basis, align its impact reporting with the portfolio approach defined by the Harmonized Framework.

**Selection of key performance indicators (KPIs)**

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

![H&M Group Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.](image)

**KPI 1**  
**Share of recycled materials used in commercial goods**

We believe the selected KPI is aligned with the principles. The scope and objective are clearly articulated in the framework.

The KPI aims to measure H&M’s progress in reducing its consumption of virgin raw materials and increasing its use of recycled ones. H&M is among the first large players in the apparel sector to tie its financing to such a KPI. This could, in our view, greatly contribute to increased transparency in the industry while accelerating its transition to a circular economy, which we see as particularly important, and support the global effort to deal with waste pollution, especially during the post-consumer phase.
The framework defines the KPI as the proportion of recycled materials (by weight) used in commercial goods in relation to total materials used in commercial goods. Commercial goods, in turn, are defined as H&M Group branded products purchased by H&M Group to be sold to customers excluding nonshell materials (for example filling, lining, or trims) and secondhand goods. Nonshell materials represent 8%-10% of total material used. The innovative nature of this KPI, however, also means that there are no well-established and accepted benchmarks, international standards, or science-based methodologies, which we view as a constraint under the Sustainability-Linked Bond/Loan Principles. We consider positive, however, that H&M specifies the calculation method used because it could provide an opportunity for future benchmarking and transparency to the market.

The KPI is expressed in a relative measure, therefore H&M will have to continue increasing its share of recycled materials in the product mix, even in a context of increased production volumes. We view this as particularly relevant considering the group’s projected increased sales, and for fast fashion companies overall. Yet, the relative nature of the KPI also implies that the use of virgin materials could increase along with the amount of recycled materials used if production grows.

Increasing the share of recycled materials it uses is key to H&M’s goal of transitioning the apparel industry toward circular fashion and is integral to its sustainability strategy. The topic of material/resource use is also deemed one of the most important in H&M’s materiality matrix. The selected KPI is relevant to the apparel sector given its high exposure to downstream waste (see “Key Sustainability Factors: Consumer Goods”). This is particularly relevant given H&M’s large global presence.

**KPI 2 % absolute reduction in scopes 1 and 2 GHG emissions**

We consider the KPI selected by H&M to be aligned with the principles, given that the scope, objective, and calculation methodology are clearly outlined in the framework. The KPI, aimed at an absolute reduction in scopes 1 and 2 emissions, helps improve operational efficiencies, a topic we consider relevant to the sector. The KPI covers H&M stores open for the full quarter but does not cover company cars, refrigerant leakage, or electricity consumption for heating, ventilation, and air conditioning (HVAC) operated by landlords. We understand that the latter is not covered under the KPI due to data limitations. However, given that scopes 1 and 2 cover only about 1% of the company’s emissions, this exclusion limits the KPI’s scope even further. That said, the framework does include a recalculation policy that allows H&M to recalculate the base year and publish updates via its sustainability reporting. H&M will disclose any adjustments it makes.

We view favorably that H&M calculates its absolute scopes 1 and 2 greenhouse gas emissions (tons of CO2e) in accordance with the GHG protocol. Its framework uses a market-based approach for scope 2 reporting. We see as a strength that the KPI is expressed as a sustainability outcome rather than a financial proxy.

The KPI is directly related to H&M’s sustainability strategy and its long-term ambition to reach net zero by 2040. The company carries out an annual materiality assessment that positions climate change as one of the most relevant topics. The framework highlights that the majority of its GHG emissions relate to scope 3. Therefore, even though relevant, scopes 1 and 2 emissions are not the most material. This is in line with our views on the materiality of the current KPI. We therefore believe the impact of this KPI will be marginal for the reduction in global GHG emissions unless it is combined with KPI 3, which covers value chain emissions.

**KPI 3 % absolute reduction in scope 3 GHG emissions**

We assess the KPI’s alignment with the principles as strong, considering its scope, objective, and calculation; and we see a direct link between the KPI and the sustainability issues H&M faces. The KPI covers H&M Group and its operating companies. KPI 3 includes scope 3 GHG emissions related to fabric production for garment manufacturing, garment raw materials, and upstream
transportation and distribution, which amount to approximately 75% of all scope 3 GHG emissions under H&M’s target validated by the SBTi.

The KPI’s objective is to support H&M’s climate strategy and contribute to the industry overall achieving a net-zero climate impact. Nearly all (99%) of H&M’s emissions stem from its vast supply chain. This is arguably one of the most relevant issues for the industry and is regarded as such in the company’s materiality assessment. We view the inclusion of scope 3 emissions as a relative strength of the framework, given their materiality in the industry.

We view positively that H&M calculates its absolute scope 3 emissions (thousand tons of CO2e) in accordance with the GHG protocol and that the KPI is expressed as a sustainability outcome rather than a financial proxy. H&M uses modeled data rather than primary for part of the calculation of the KPI, which is quite common given the difficulty of obtaining scope 3 data. This means that the group has potentially limited control over the reduction of its scope 3 emissions for some categories where it uses modelization. However, H&M has been improving the quality of data rapidly and we view positively that any further addition of primary data in scope 3 would lead to a reassessment of the baseline.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✔ H&M Group’s Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.

SPT 1
Achieve 50% recycled materials as a share of total material used in commercial goods by 2030

We think the issuer’s target is aligned with the principles and we view the targets as clearly defined.

The framework lays out the expected observation date, which is Nov. 30, 2030.

H&M has benchmarked the SPT against four years of its historical performance (2019-2022). The company includes recycled polyester, recycled cotton, and other materials (polyamide, man-made cellulosic fibers) in the calculation of the target. The significant increases observed in 2021 (18%) and 2022 (23%) were mainly driven by the increased presence of recycled polyester. By 2022, this represented 74% of all polyester used by H&M and about 20% of total materials in H&M’s materials basket. In addition, H&M has conducted a benchmark exercise with sector peers. Within a relatively small group of large fashion players with similar targets, we recognize that H&M’s target threshold is among the highest currently set. That said, the current benchmark does not allow for a comprehensive comparison of the target on a like-for-like basis, since the peer group is tracking different metrics. We acknowledge the difficulties related to this benchmarking given the innovative nature of the target and related KPI. However, this limits our assessment to aligned.

To achieve the target, the group is planning to convert all polyester to recycled polyester as well as increase the recycled share of other materials. Arguably the most difficult aspect of achieving the target will be maximizing the amount of recycled cotton in its product range since there are some challenges and limitations as to how recycled fabric can be used. For example, the amount of recycled cotton in a product will have an impact on final properties such as uniformity, strength, and durability. Therefore, recycled cotton must be blended with other fibers to create a resistant and long-lasting yarn. Given these difficulties and because cotton represents about 60% of total materials used by H&M, we think it will be challenging to realize the same year-on-year increase in the use of recycled materials achieved previously, and we view the target as ambitious. If the group decides to substantially increase the amount of polyester in its material
basket in the next few years, it will compromise the level of ambition of the target and increase
the pollution concerns related to its polyester use.

The strategy to reach the SPT is clearly articulated in the framework. The issuer commits to invest
in and collaborate with a range of stakeholders to accelerate progress in this field. The
investment will be directed not only toward measures taken by H&M, but toward technologies
that be leveraged by the global industry. Examples of investments include Renewcell and Infi
Fiber Co., which is using garment recycling technologies to produce materials, and resell platform
Sellpy, an H&M majority-owned company that sells second-hand items.

Additionally, we view positively that the issuer has already identified external factors beyond its
control that may affect the SPT, such as unexpected global events (wars, pandemics, trade
wars), supply disruptions, and technical failures.

### SPT 2: Reduce absolute scopes 1 and 2 GHG emissions 56% by 2030

We believe the ambition, clarity, and characteristics of the issuer’s SPT are strong. The
framework outlines the strategy to reach the targets, providing relevant information on past
performance and lays out the expected observation date, Nov. 30, 2030.

H&M has benchmarked the SPT against four years of historical performance (2019-2022). We
believe its projected performance shows adequate improvement from historical levels and we
see the target as ambitious. We also view positively that H&M’s SPT of reducing scopes 1 and 2
CO2 emissions by 56% by 2030 from a 2019 base year has been already validated by the SBTi.

The company also conducted a peer benchmarking exercise by comparing its emissions
reduction target with those of its global industry peers. In terms of percentage reduction H&M’s
scopes 1 and 2 emissions are lower than many peers but H&M’s baseline was already quite low
compared to peers. Therefore, the scale of further reduction it could achieve by 2030 is more
limited than for peers that are starting from a higher baseline. These factors show that H&M’s
targets are within range of the peers selected by the issuer. We view its selection of industry
peers as adequate.

The strategy to reach the SPT is clearly articulated in the framework. Specifically, the issuer commits to
invest in energy-efficient solutions and secure 100% renewable electricity in its own operations via
power purchase agreements (PPAs) and direct investment in renewable energy. We view these
instruments as robust, because, for example, PPAs will likely provide the additional sustainability benefit
of helping drive the expansion of renewable generation capacity.

Furthermore, we view positively that the issuer has already identified external factors beyond its
control that may affect the SPT, such as unexpected global events (wars, pandemics, trade
wars), extreme weather (unexpected natural disasters), and availability of renewable energy.

### SPT 3: Reduce absolute scope 3 GHG emissions 56% by 2030

In our view, the ambition, clarity, and characteristics of the issuer’s SPT are strong. Specifically,
the framework outlines the strategy to reach the targets, providing relevant information on past
performance and lays out the expected observation date, Nov. 30, 2030.

H&M has benchmarked the SPT against four years of its historical performance (2019-2022). Its
projected performance shows an improvement compared to historical levels and we see the
target as ambitious. H&M’s SPT of reducing absolute scope 3 emissions 56% by financial year-
end 2030 from a financial 2019 base year has been already validated by the SBTi and is aligned
with a global temperature rise of below 1.5 degrees Celsius, which we view as a strength.

H&M also conducted a peer benchmarking exercise by comparing its reduction targets with
those of global industry peers. The outcome of the benchmark illustrates that company’s targets
are more ambitious than its selected peers, covering the majority of its value chain.
However, there is limited visibility as to how the company plans to decrease emissions in raw material sourcing, which is a limitation, in our view. These emissions are currently modeled and therefore the group may not have enough control over bringing these emissions down.

The strategy to reach the SPT is well articulated in the framework and covers many aspects of the group’s value chain. The issuer is focusing on the main areas that will help it to achieve the target. These include:

- Renewable energy; for example, encouraging suppliers’ use of renewable electricity, heat, and steam;
- Energy efficiency; for example, helping suppliers perform onsite energy audits and identify energy savings opportunities free of charge;
- Circularity; for example, reducing its dependency on new resources and increasing its use of recycled and innovative materials along with rental, reuse solutions;
- Production efficiency; for example, using artificial intelligence to ensure precise quantification of production and allocation;
- Financing emissions reduction; for example, investment in new technologies; and
- Stakeholder collaboration.

In addition, the framework highlights potential risks that can affect target achievement, which we view as a strong feature. These cover access to sustainable renewable energy in key production markets, access to low-emission materials (like recycled cotton), unexpected global events (such as wars, pandemics, trade wars), and extreme weather (unexpected natural disasters).

### Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument’s financial and/or structural characteristics.

✔ H&M Group’s Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.

The financial and structural characteristics of the sustainability-linked instruments, including the impact of H&M Group’s KPI performance compared to the applicable SPT, will be specified in the relevant transaction documentation (such as offering circular, terms and conditions, final terms, and the facility agreement). The framework specifies that the characteristics of the instruments may vary depending on whether or not the selected KPI(s) reach(es) the predefined SPT(s), which might result in coupon step-down(s), step-up(s) and/or a higher repayment amount in the case of bonds, and margin adjustments in the case of loans. H&M Group may use a single SPT or a combination of multiple SPTs.

The transaction documentation might state that the SPTs could be subject to recalculation based on specific circumstances, such as changes in the calculation methodology or major events having a material impact on H&M Group’s structure and/or might make allowance for certain events, outside H&M Group’s control, that would result in the financial penalty not being triggered.

In addition, the framework says that details of sustainability-linked loans, such as annual SPTs, will be disclosed in relevant loan documentation (for example the loan agreement).

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ H&M Group’s Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.
We consider H&M’s overall reporting practices to be strong. H&M will disclose the performance of the KPIs against the SPTs in its sustainability reporting. The company also commits to disclose any recalculation and updates to the SPT(s) and/or baseline(s), as well as a limited assurance statement from an external assurance provider and any information relevant to the analysis of the KPI(s) and SPT(s). The SLB Progress Report will be published on H&M Group’s website page no later than 151 days after the target observation date.

Furthermore, where relevant and feasible, the issuer will annually disclose how the main factors, such as merger and acquisition activities, contribute to KPI(s) performance, illustrate the positive sustainability impacts of the performance improvement, and/or provide any updates on new or proposed regulations from regulatory bodies deemed relevant to the KPI(s) and the SPT(s).

H&M will also annually share, with the lenders, information on KPIs’ performance linked to SPTs.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

✔ H&M Group’s Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLP.

The issuer commits to externally verify KPI performance by an independent and qualified third-party reviewer annually.
Mapping To The U.N.’s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association’s (ICMA’s) SDG mapping for this part of the report. We acknowledge that ICMA’s mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

H&M’s Green Finance Framework intends to contribute to the following SDGs:

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circular Economy Adapted Products, Production Technologies and Processes; and/or Certified Eco-Efficient Products</td>
<td>![Symbol] 12. Responsible consumption and production*</td>
</tr>
<tr>
<td>Green Buildings</td>
<td>![Symbol] 7. Affordable and clean energy</td>
</tr>
<tr>
<td></td>
<td>![Symbol] 9. Industry, innovation and infrastructure</td>
</tr>
<tr>
<td></td>
<td>![Symbol] 11. Sustainable cities and communities*</td>
</tr>
<tr>
<td></td>
<td>![Symbol] 13. Climate action</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>![Symbol] 7. Affordable and clean energy*</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>![Symbol] 7. Affordable and clean energy*</td>
</tr>
<tr>
<td></td>
<td>![Symbol] 9. Industry, innovation and infrastructure*</td>
</tr>
<tr>
<td>Sustainable Water and Wastewater Management</td>
<td>![Symbol] 12. Responsible consumption and production*</td>
</tr>
</tbody>
</table>
H&M’s Sustainability-Linked Finance Framework intends to contribute to the following SDGs:

<table>
<thead>
<tr>
<th>KPI</th>
<th>12. Responsible consumption and production §</th>
<th>13. Climate action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of recycled materials used in commercial goods</td>
<td></td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>13. Climate action §</th>
<th>12. Responsible consumption and production §</th>
</tr>
</thead>
<tbody>
<tr>
<td>% absolute reduction in Scope 1 and 2 GHG-emissions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13. Climate action §</th>
</tr>
</thead>
<tbody>
<tr>
<td>% absolute reduction in scope 3 GHG-emissions</td>
</tr>
</tbody>
</table>

*The eligible project categories link to these SDGs in the ICMA mapping.
§The KPI is likely to contribute to the SDGs.
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