

Supplier Sustainability Program & Process

Introduction

At Arvind Limited, we are committed to sustainability and responsible supply chain management. As part of our ongoing efforts to align with global sustainability standards, we have implemented a structured approach to supplier screening, assessment and development. This process allows us to prioritise our engagement and systematically engage with our suppliers, particularly those that have the most significant environmental, social, and governance (ESG) impacts. Our goal is to ensure transparency, reduce risks, and enhance the overall sustainability performance of our supply chain.

Supplier Screening Process

Supplier screening is an essential process for ensuring that our supply chain remains aligned with our sustainability goals and business objectives. It enables us to evaluate potential and existing suppliers based on their adherence to key environmental, social, and governance (ESG) criteria. This rigorous assessment allows us to identify and mitigate risks, ensuring long-term partnerships with suppliers who share our values and commitment to responsible business practices. Given the scale and impact of our operations, supplier screening strengthens our resilience against disruptions and contributes to our overall sustainability strategy.

Aspects of Supplier Screening

We have adopted a data-driven approach to identify our significant suppliers which focuses on four core aspects: **Environmental, Social, Governance, and Business Relevance.**

Environmental Aspects

The screening evaluates the risk for negative environmental impacts, including but not limited to:

- Greenhouse gas emissions
- Energy
- Water
- Pollution and Waste
- Biodiversity protection

Social Aspects

We assess the risk of negative impacts related to social topics, including but not limited to:

- Human rights and labor rights violations, such as child labor, forced labor, discrimination
- Freedom of association and the right to collective bargaining
- Working hours, remuneration, and occupational health and safety
- Rights of local communities

Governance Aspects

On the governance aspects, we assess potential negative impacts in areas including but not limited to:

- Corruption and bribery
- Conflicts of interest
- Anti-competitive practices
- Transparency
- Ethics

Business Relevance

On the **business relevance aspect**, we assess various areas including but not limited to:

- Share in Spend
- Substitutability of Product
- Timely Delivery
- Quality
- Collaboration Potential

Supplier Screening Methodology

The primary objective of the supplier screening methodology is to evaluate and mitigate risks associated with potential and existing suppliers, ensuring alignment with our organizational values and sustainability goals. The supplier

screening process consists of several key steps designed to comprehensively assess suppliers across various aspects as mentioned in the section above.

Framework

This framework is designed to systematically analyze three key categories of risk: country-specific, sector-specific, and commodity-specific. By leveraging a variety of specialized tools and methodologies, we aim to ensure that our supplier relationships not only comply with regulatory standards but also contribute positively to our sustainability initiatives. The following sections detail the components of this framework, outlining the critical areas of assessment and the tools employed to facilitate a thorough evaluation of our suppliers.

Country-Specific Risk

- **Geographic Analysis:** Identify the countries where suppliers are located.
- **Environmental Factors:** Assess risks related to climate, biodiversity, and water resources using tools such as the WRI Aqueduct and the Global Climate Risk Index.
- **Social Factors:** Assess risks related to labor practices, human rights, community impact, social stability, etc.
- **Regulatory Environment:** Evaluate the political and economic stability of the country, including local regulations regarding labor practices, environmental protection, and corporate governance.

Sector-Specific Risk

- **Industry Impact Analysis:** Analyze the specific risks associated with the supplier's sector, particularly the textile industry.
- **Environmental Footprint:** Assess the supplier's contribution to greenhouse gas emissions, resource consumption, and pollution levels.
- **Social Impact:** Assess potential negative social impacts related to labor practices, community relations, and adherence to human rights standards.
- **Supply Chain Complexity:** Understand the supplier's position in the supply chain and the associated environmental and social risks due to transportation and production methods.

Commodity-Specific Risk

- **Resource Dependency:** Identify the key commodities supplied and assess risks associated with their procurement.
- **Agricultural Vulnerability:** Evaluate risks related to climate change, such as heat stress and drought, particularly for commodities like cotton.
- **Market Fluctuations:** Consider potential supply disruptions due to fluctuations in market demand and availability of raw materials.
- **Environmental Impact:** Assess the environmental consequences of commodity extraction and production, including deforestation, water use, and biodiversity loss, to understand the broader ecological implications of sourcing decisions.
- **Social Impact:** Analyze the social risks associated with commodity production, such as labor rights violations, community displacement, and the effects on local livelihoods, ensuring that sourcing practices align with ethical standards and contribute positively to communities.

Tools for Risk Assessment in Supplier Screening

In today's complex and dynamic supply chain landscape, effective supplier screening is crucial for managing potential risks that can impact organizational sustainability and compliance. To facilitate this process, Arvind Limited will use a range of specialized tools and resources to assess and analyze potential and existing suppliers comprehensively. Some of these are listed below:

- **Geographic Information Systems (GIS):** Utilize QGIS for spatial analysis of supplier locations and geographic risk assessments.
- **WRI Aqueduct Water Atlas:** Assess water-related risks, including water scarcity and quality, crucial for understanding environmental impacts.

- Global Climate Risk Index: Evaluate climate vulnerability and exposure of countries to climate-related risks.
- Biodiversity Intactness Index: Measure biodiversity health in supplier countries to assess ecological risks.
- Social Progress Index: Evaluate social factors such as human rights, community impact, and overall societal well-being to ensure ethical supplier practices.
- Human Rights Watch Reports: Analyze country-specific human rights conditions and labor practices for social compliance.
- World Bank Governance Indicators: Assess political stability, regulatory quality, and rule of law in supplier countries.
- Transparency International's Corruption Perceptions Index: Evaluate perceived levels of corruption in countries to understand governance risks.
- Sector Risk Reports (e.g., McKinsey, PwC): Provide insights into industry-specific risks and trends affecting suppliers.
- Commodity Risk Reports (e.g., FAO, Rabobank): Analyze risks associated with the procurement of specific commodities, particularly those crucial to operations.

Scoring and Screening

For scoring and screening, each criterion of the framework is rated based on an assessment of available data and documentation with us and in public domain. The score and associated risk category is given below:

Score	Risk Rating
1	High Risk
2	Moderate-High Risk
3	Moderate Risk
4	Low-Moderate Risk
5	Low Risk

Based on the cumulative score, the risk level of the suppliers is assessed based on table below. All the suppliers that score below the score of 61 are considered critical.

Score	Risk
81-100 Points	Low Risk
61-80 Points	Low - Moderate Risk
41-60 Points	Moderate – High Risk
0-40 Points	High Risk

Supplier Assessment Process

After the identifying our significant suppliers, we use various methods to assess our suppliers which are listed below:

Desk based assessment:

We conduct a thorough Supplier Sustainability Assessment to collect detailed information on their ESG practices. This assessment includes various questions that capture both qualitative and quantitative data as well as evidence. The data reported in the Supplier Sustainability Assessment is then used to conduct a desk assessment of our suppliers. In the section below we list the various information collected through the Supplier Sustainability Assessment:

- Environmental performance, including energy consumption, greenhouse gas emissions, and water management, waste management, chemical management etc.
- Social performance, such as labor practices, community engagement, and health and safety standards.
- Governance practices, including ethical business conduct, anti-corruption policies, and transparency.

Once the data is collected, it is verified and analysed to categorize suppliers according to their risk levels and performance, which then helps us to prioritise our engagement with them.

Supplier Assessments Using Recognized Standards and Methodologies

At Arvind we adhere to a comprehensive range of certifications and frameworks recognized by the industry and multi-stakeholder initiatives. We require our suppliers to also follow these frameworks. Some of them are:

- Environmental Management: ISO 14001 for environmental management, ISO 50001 for energy management, and OHSAS 45001 for occupational health and safety.
- Textile Standards: Compliance with GOTS, OCS for organic textiles, SEDEX for ethical trade, and OEKO-TEX for product safety.
- Social Accountability: Alignment with SMETA and SA8000 for social accountability, WRAP for responsible sourcing, and BSCI for improving working conditions.
- Sustainable Practices: Support for Fair Trade, Better Cotton, and various recycling certifications like GRS, RCS, and RWS.
- Chemical Management: Implementation of ZDHC to eliminate hazardous chemicals and Bluesign for sustainable textiles.
- Higg Index (Worldly): Reporting and disclosure about Environmental and Social performance according to industry aligned questionnaire.

We collect the certification details from our suppliers to understand their current level of compliance.

Corrective Action Plan

In the event of non-compliance identified during the audit process by the third party, the suppliers submits a structured corrective action plan to this third party. If the compliance is not met, the certification is not issued. This plan outlines the necessary steps to rectify the identified non-compliance, including specific timelines for implementation and regular follow-up assessments to ensure that corrective actions have been effectively executed. By maintaining open communication and collaboration with our suppliers, we strive to enhance our suppliers' compliance with industry standards and foster continuous improvement in their sustainability practices.

Supplier development

Supplier development is a critical component of our commitment to sustainability and responsible sourcing. It is driven by comprehensive supplier assessments that evaluate their ESG performance and identify areas for improvement.

Supplier information and training

To foster continuous engagement with our suppliers, we have invested in specialized software that enables ongoing monitoring and development. Our suppliers are currently being on boarded onto this system, which will allow us to track their ESG performance, provide constructive feedback, and ensure adherence to their action plans. This software will act as a centralized platform for:

- Supplier assessments and data collection.

- Implementation of corrective actions.
- Progress tracking against ESG goals.

Training Programs

At Arvind Group, we recognize the importance of equipping both our suppliers and internal stakeholders with the knowledge and tools necessary to drive our ESG initiatives forward.

Supplier Training Programs

We are currently developing training modules designed to deepen our suppliers' understanding of ESG criteria and the actions required to enhance their performance. These training sessions will cover vital topics, including resource efficiency, waste management, ethical labor practices, and adherence to international sustainability standards.

Internal Stakeholder Training

In parallel, we are providing training for our company's buyers and internal stakeholders like Marketing, Production Planning & Control, Production, Finance, etc. to clarify their roles in supporting and implementing supplier ESG programs. Through this training, participants gain insights into governance frameworks, understand their specific responsibilities, and learn sustainable procurement practices that align with environmental and social standards.

The program also covers risk assessment and management, stakeholder engagement strategies, and the importance of monitoring and reporting on governance initiatives through key performance indicators (KPIs).

This training will ensure a cohesive approach to sustainability across our organization and empower our team to effectively engage with suppliers on ESG initiatives.

In-depth technical support program

The In-Depth Technical Support Program at Arvind Group is being developed to strengthen supplier capabilities and promote sustainable practices across our supply chain. Key features of the program will include:

- Customized training workshops led by industry experts.
- Access to knowledge resources and networking opportunities to facilitate the implementation of best practices.

Through this program, we aim to empower our suppliers to achieve higher sustainability standards and drive continuous improvement in their operations.

Governance

At Arvind Limited, we believe that supply chain sustainability is key to achieving long-term business success and environmental stewardship. Thus the oversight is provided by the ESG committee and management level responsibility is provided to the Vice President Corporate Sustainability for Supplier ESG initiatives

Our investment in technology and training further underscores our commitment to building a sustainable future for our company and our partners. By working closely with our suppliers, we are confident that we can continue to make significant strides towards a more sustainable and responsible supply chain.