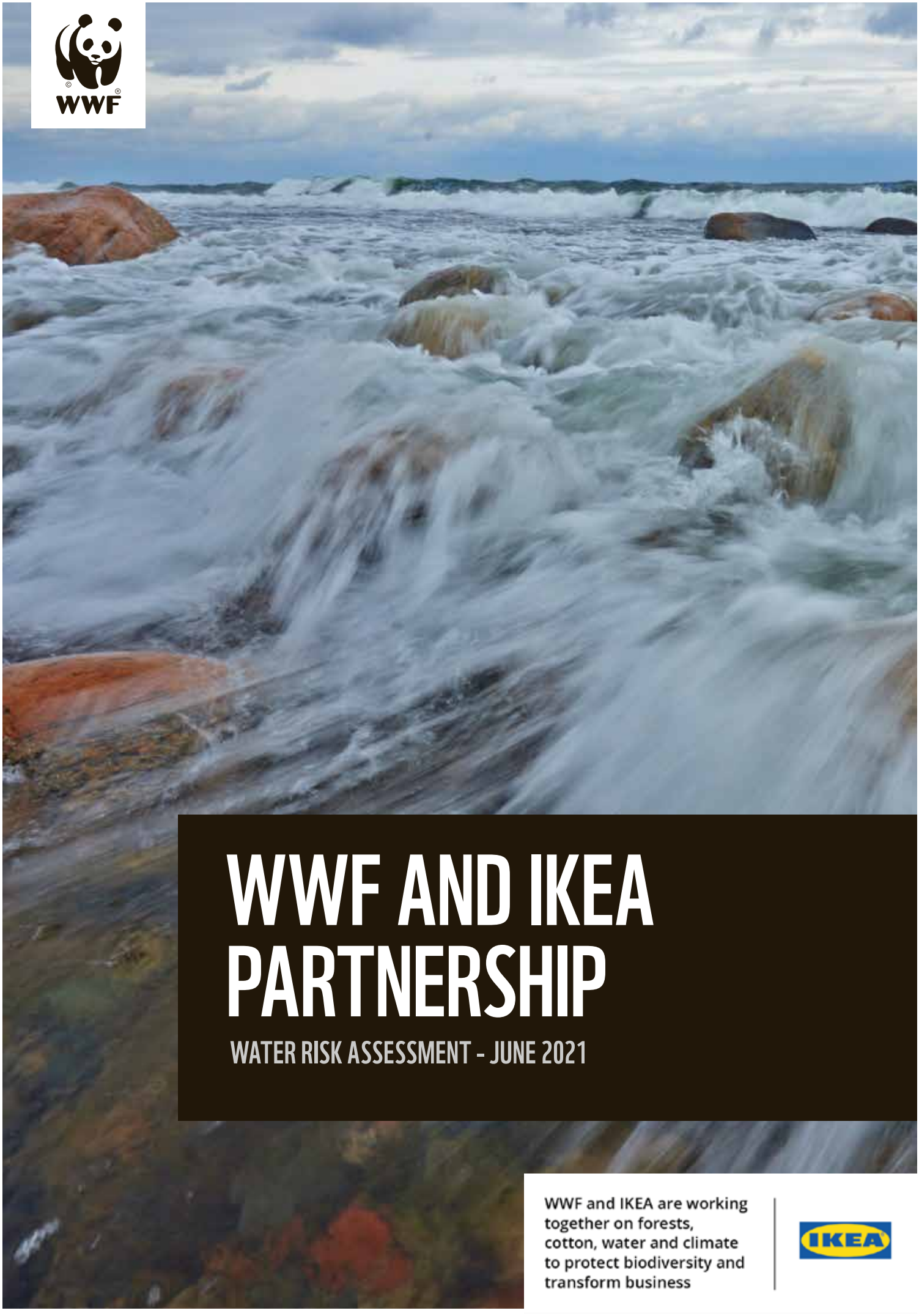


WWF AND IKEA PARTNERSHIP

WATER RISK ASSESSMENT - JUNE 2021

WWF and IKEA are working together on forests, cotton, water and climate to protect biodiversity and transform business



Since 2012, water crisis has been listed in the top 5 global risks in terms of impact by World Economic Forum. To tackle the shared water challenges, the Water Stewardship partnership between IKEA and WWF started in 2014.

Summary

In the phase 6 of WWF-IKEA partnership, Water Risk Assessment on both basin level and operational level has been completed on IKEA's global supply chain, by using WWF's Water Risk Filter. Risk mitigation plans have been created to help strategic supplier sites to respond to the local water contexts and build resilience on water challenges. The understanding of water risk exposures on global operations also provides a solid foundation for contextual water strategy development and water target setting.



WWF's Living Planet Report 2020 is a leading scientific study on the health of the earth ecosystem.

Since 2012, water crisis has been listed in the top 5 global risks in terms of impact by World Economic Forum. Water scarcity will be affecting half of the world's population by 2024 and it could displace 700 million people by 2030, according to UNICEF. There is also severe impact on freshwater biodiversity which has declined by 84%, equivalent to 4% per year since 1970, revealed by WWF's Living Planet Report 2020 as a leading scientific study on the health of the earth ecosystem. On top of that, climate change will intensify the water crisis by changing of precipitation pattern causing higher occurrence of extreme weather events such as droughts and floods.

To tackle the shared water challenges, the Water Stewardship partnership between IKEA and WWF started in 2014, building on a continuing engagement on sustainable cotton growing with a specific focus on water and gradually developing into a more comprehensive water stewardship approach which now includes water risk assessment on global operations, internal corporate action to enhance water management and collective action projects in priority river basins in India and Turkey. WWF and IKEA are working together to safeguard and manage natural resources and transform business for the benefit of people and planet.

Water Risk Assessment on IKEA's global operations

In phase 6 of the WWF-IKEA partnership from 2018 to 2020, we have accomplished a comprehensive **basin-related water risk assessment** for IKEA's 1268 suppliers in 34 product categories through the data input of GPS locations. Water risk hotspots are identified on IKEA's global supply chain and understanding is built on how physical, regulatory, and reputational water risks of the river basins impose impacts and consequences on the production and operations of IKEA's suppliers. We have also completed an **operational water risk assessment** for IKEA's 75 key suppliers that are selected from 3 category areas of Textile (10 sites), IKEA components (11 sites), and Metal, Plastics and Glass (54 sites). This exercise helped to identify how the water management issues of the production sites impose risks to the external water environment. Water risk trainings for IKEA staff and suppliers have been organized to increase knowledge on water risks and its impacts, as well as build capacity on how to engage a water risk assessment on the facility level.

Water risks can be categorized into three different types:

PHYSICAL WATER RISKS are related to water quantity (too little water causing scarcity and too much water causing flooding) and water quality (pollution causing water unfit for use and threat to ecosystem health). It indicates that a company might not have sufficient amount of good quality water for their business operations and supply chains. With impacts from climate change and the increasing demands for water, the risks will only intensify.

REGULATORY WATER RISKS are related to the imposition of restrictions on water use by government, including the pricing of water supply and waste discharge, licenses to operate, water rights, quality standards etc. Unpredictable and abrupt changes on water policies and regulations can greatly hinder the business development in the area, for example, limitation on water use quota, cost increase of business operation due to higher water price and stricter quality standards, reduction on investments, as well as changes of the business ecosystem and competitive landscape. These risks might further result in major changes in production, shut-down of facilities, loss of suppliers, etc.

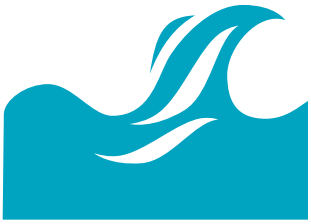
REPUTATIONAL WATER RISKS are related to the exposure and publicity drawn by disputes, and accidents around water issues, which impacts a company's brand and image and further influences customer purchasing decisions. Reputational risks could be fermented in the long-lasting tensions and conflicts on water accessibility, pollution emission, degradation of local water resources etc., igniting by an unexpected incident. Sometimes, even inappropriate behaviour of a supplier could be captured by media and jeopardize the corporate image. With exposure of such water disputes or incidents, the supervision intensity will be enhanced on the company or sometimes even the whole industrial sector.

Risk mitigation plan

Based on the findings from the water risk assessment on both basin and operational level, water stewardship plans have been developed for selected 19 supplier sites to mitigate those risks hotspots identified and be responsive to the local water contexts. The recommended actions provided guidance on how the sites could strategically react to the water-related issues of flood occurrence, scarcity and droughts, WASH (Water Sanitation and Hygiene), water quality, water footprint and supply chain, and stakeholder engagement etc. in the timeframe of urgent, short-term, medium-term, long-term.

New partnership phase

The phase 7 of WWF-IKEA partnership has been launched and we look forward to a new 5-year collaboration to advance in the water stewardship journey with contribution to healthy water flows and improved biodiversity in priority river basins. The partnership will take a multi-stakeholder approach and support the IKEA water management in supply chain and business operations/planning with further investigations into water risks on the value chain and pursuing water target setting in a science-based approach.



1 268

of IKEA'S suppliers have received a comprehensive basin-related water risk assessment.



75

of IKEA'S key suppliers have received operational water risk assessment.



Phase 7

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