






INTEGRATED SUPPLY CHAIN MANAGEMENT

Knowing where our articles are produced is what we refer to as traceability, an essential principle that allows us to know the conditions in which they are produced, to share this information and to address both the social and environmental challenges, and those relating to the health and safety of our products.

Photo: Employees in the central offices of Pull&Bear in Narón (A Coruña).

SDG	TARGETS	INDITEX'S CONTRIBUTION
	12.2	Our commitment to traceability, transparency and innovation in managing the supply chain is key to ensuring a responsible model of both production and consumption. In this way we work to ensure that our principles of sustainability are applied throughout our whole supply chain, which in 2018 comprised 1,866 suppliers and 7,235 factories.

 More information on pages 294 and 295 of this Annual Report.

R&D INDICATORS – INTEGRATED SUPPLY CHAIN MANAGEMENT

	<p>The scale and heterogeneity of Inditex's supply chain requires being able to operate with analytical capabilities to handle massive volumes of data. The analytical and integrated processing of such data represents an opportunity for furthering our knowledge, measurement, monitoring and control of the supply chain from the social, environmental and product safety perspectives. To this end, Inditex develops IT tools that allow it to enhance supply chain traceability and provide the teams involved with secure and effective access to the information they need.</p> <p> More information about our R&D projects on page 91 of this Annual Report.</p>
	<p>Investment earmarked to R&D</p> <p>€ 1,098,338</p>

Inditex has engaged an independent study to identify and measure the R&D effort in each of the Group's areas. The results are reported on in the various chapters outlining Our Priorities and are expressed in terms of investment (in euros) and the key projects carried out. The overall results of the study as well as an explanation of the assessment and the criteria used, is available in the "Sustainability, in figures" chapter.

 More information on pages 292 and 293 of this Annual Report.



Traceability: the cornerstone of integral management

Having a supply chain that is stable, sustainable, close, highly specialised, agile and flexible is one of the keys of Inditex's business model and one of our competitive advantages. This is how we create and commercialise fashion that is customised to the preferences of our customers all over the world. To do this, we need to establish a long-term relationship with our suppliers, using innovative solutions that ensure that we control every production centre our garments pass through and are aware of the social and environmental challenges and those relating to product safety and quality that need to be addressed on their journey.

We apply this work philosophy to our whole supply chain, both to manufacturers who are geographically close to headquarters (57% of the total) and the others who are based worldwide. We ensure that we are constantly monitoring the production units that are involved in producing our garments. Thanks to this, responsibility for managing the supply chain is shared by all areas of the Company. An innovative and integral approach that starts, at the front line, with the design, purchasing and quality teams, always close to the suppliers, who work on samples and prototypes, ensuring that the production of our collections faithfully reflects the model created on our design tables.

At the same time, the sustainability teams promote the application of social and environmental criteria and those relating to product health and safety to all these processes, adapting solutions to reflect the local conditions and the

specific challenges to be addressed, always prioritising the workers and taking into consideration the specific characteristics of each work centre and its environment.

From this dynamic, one of our priorities is to ensure

decent working conditions for the workers of our non exclusive suppliers and factories that produce the articles that Inditex sells. This ensures a *Socially Responsible Supply Chain*.

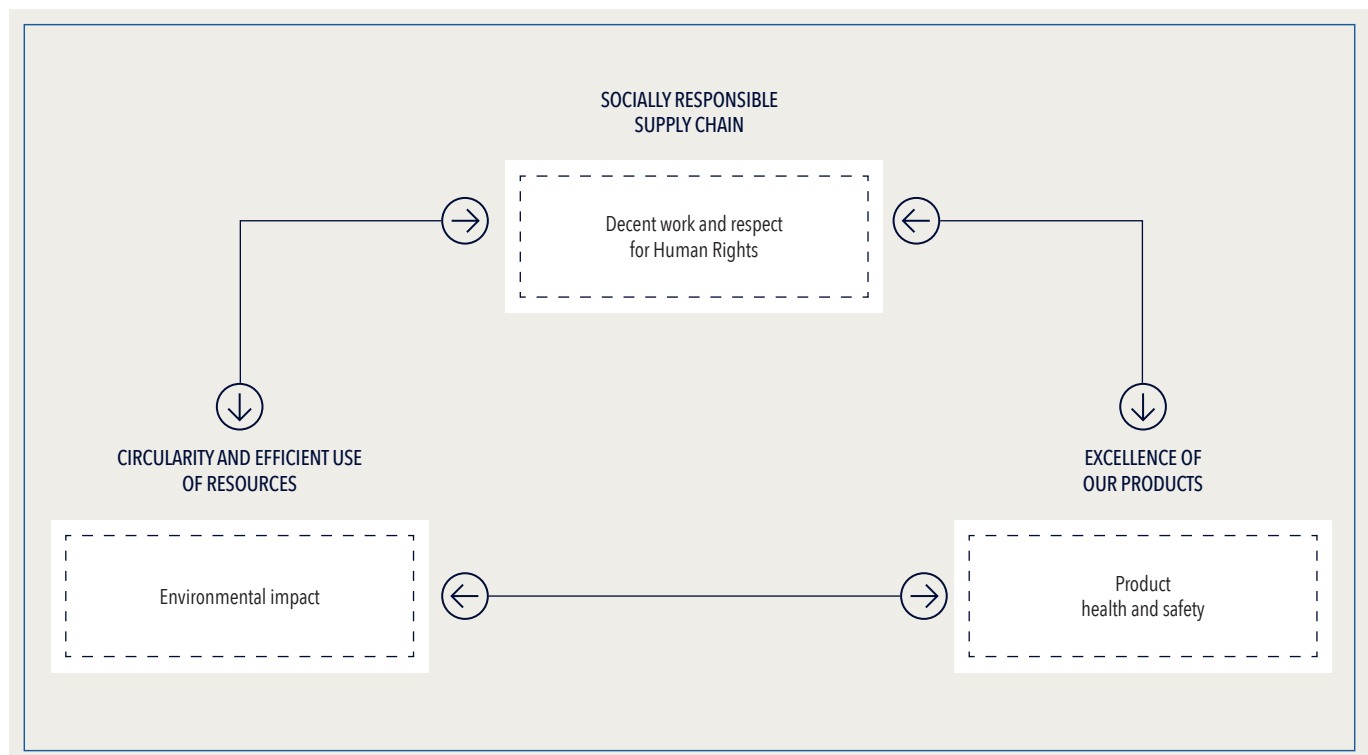
 More information on pages 96 to 145 of this Annual Report.

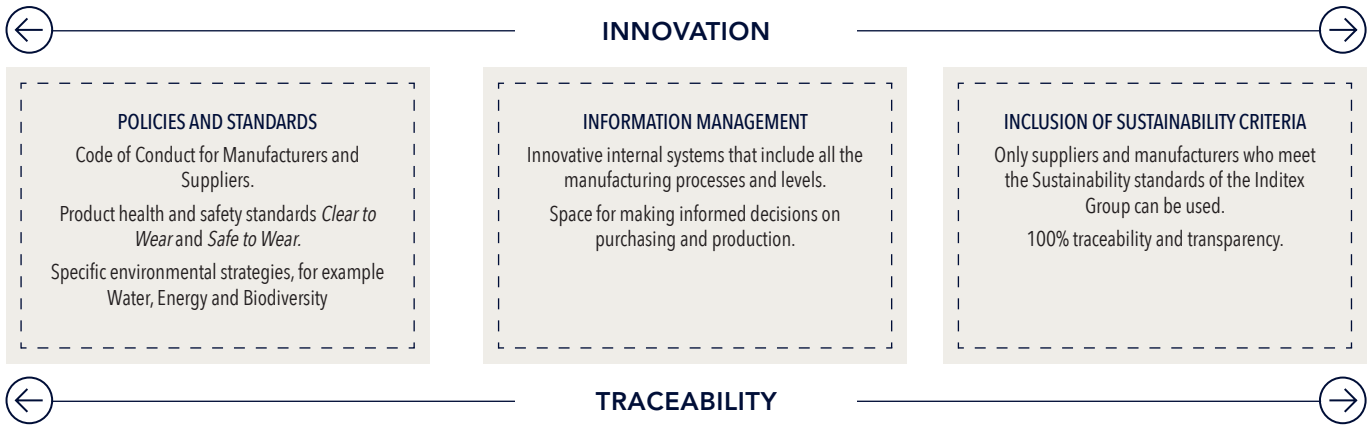
Similarly, traceability allows us to establish mechanisms to ensure that the products bought by our customers have the highest health and safety standards. This area of work is included under the heading *Excellence of Our Products*.

 More information on pages 146 to 167 of this Annual Report.

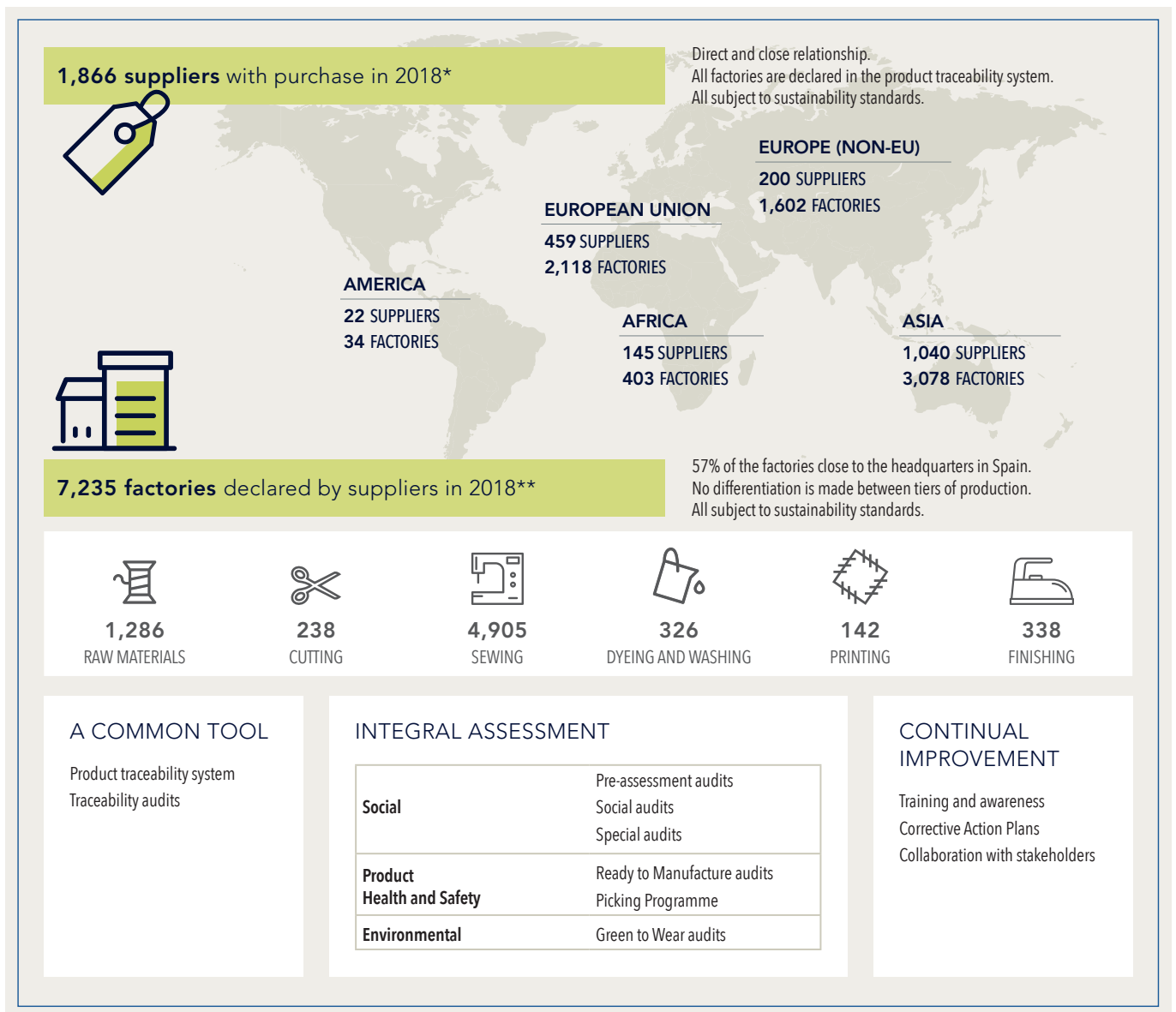
This management is completed with our work to ensure the environmental sustainability of our production and of our value chain. For this we apply assessment and improvement policies and programmes, which are part of our commitment to *Circularity and Efficient Use of Resources*.

 More information on pages 168 to 191 of this Annual Report.





The Inditex supply chain in 2018



* Suppliers with purchase in 2018 of fashion items, mainly clothing, footwear and accessories with production for Inditex of more than 20,000 units/year. Suppliers with lower production account for 0.23% of the total production.

** Textile, footwear and accessory factories declared by suppliers in the product traceability system for orders in 2018.

For those factories involved in more than one process, figures refer to the main process performed. Due to the updating and improvement of Inditex's traceability tool, the information on the processes is not fully comparable with that of previous years.

R&D ENHANCING MANAGEMENT OF THE SUPPLY CHAIN



PROJECTS UNDERTAKEN IN 2018

The incorporation of strategic and technological innovation into our supply chain management system is enabling us to have a bigger, more holistic and longer-lasting impact on the social and environmental conditions in which our products are made, while boosting product quality and safety. Accordingly, application of supply chain innovation is articulated around four key principles:

MAXIMISING OUR REACH

Deepening our knowledge of the supply chain

To enhance supply chain and raw material traceability, in 2018 we expanded the scope of the information required from our suppliers via the traceability IT tool.

INTEGRATION

Integrating sustainability into our business areas

The Sustainability Department is working with other teams across the Company on new tools and developments to ensure sustainability throughout the supply chain, framed by a holistic approach.

APPROVAL AND ASSESSMENT

Reinforcing the mechanisms for approving and continuously evaluating our suppliers

We have added new due diligence mechanisms to our supplier certification process. We have also integrated the new metal detection audit (Safe to Wear) to the system to verify which suppliers have the means to ensure that our products are free from metallic items.

WORKER TECH

Bringing technology to supply chain workers (Worker Tech)

The incorporation of technology into the supply chain stands to benefit its workers by offering them opportunities for training, better payment methods vis-à-vis their employers and higher assurance regarding due diligence mechanisms.

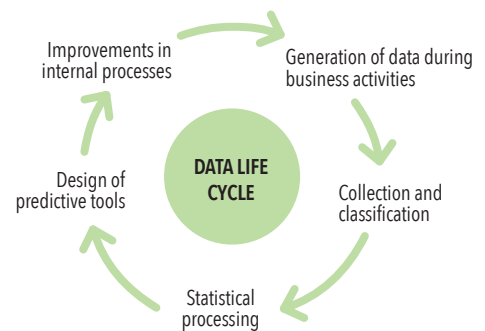
More information on page 106 of this Annual Report.

INFORMATION MANAGEMENT AND DATA PROCESSING

The supply chain traceability effort enables us to collect, organise, process and analyse large volumes of data that can help us with our monitoring work. Data processing for predictive purposes creates an opportunity for better control of impact and risk and constitutes a competitive advantage.

Statistical dimension of control and analysis programmes

Development and implementation of the Picking Project has enabled us to aggregate an unprecedented volume of data concerning the cycle of producing the products we sell which Inditex, together with Santiago de Compostela University, is analysing statistically. The first step has been to standardise all of the information gathered for subsequent processing. The project is currently focused on searching for patterns within the activity data for subsequent integration of the conclusions into the processes used to produce goods for Inditex. The final result will be to improve processes, reassign resources efficiently and create internal knowledge databases that can be used for other product health and safety programmes.

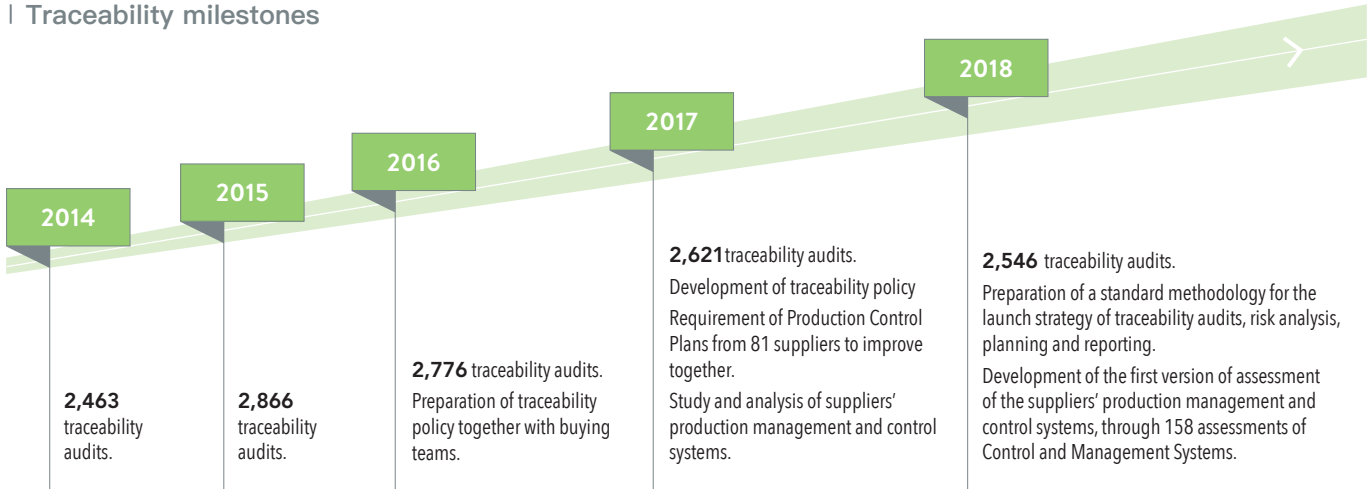


More information on page 163 of this Annual Report.

1. Traceability of the supply chain

In 2018 we continued to incorporate innovative tools and methodologies aimed at improving traceability of the products and processes in our supply chain. They also aim to monitor and prevent any non-compliance of our suppliers with their obligation to identify all participants in the preparation of our collections.

I Traceability milestones



New traceability tool

For the sustainable and integral management of the supply chain is it essential to continue developing the IT tools that we use to ensure our knowledge of it. In October 2018 we completely updated the application of traceability, enabling us to obtain information about the production centres that is increasingly complete and accurate, from the finished product to the raw materials used in them, including all the intermediate processes.

Traceability audits

Throughout the year 2,546 traceability audits were carried out, aimed at verifying, on site, the information provided by our suppliers. In this way, we ensure that the only factories that work on our collections are those that are authorised by Inditex, and where we have checked that they comply with our sustainability requirements. The number of breaches of our traceability requirements identified was 235, lower than previous years, thanks to the continuing implementation of methods of prevention and monitoring by the specialist team that, working together with the suppliers, is responsible for this management. In all these cases, corrective plans have been established and the supplier is given support to improve. If the breaches are repeated, the supplier will be blocked. Eight suppliers were blocked in 2018 for this reason.

New strategy for audit triggering

During the year, work was carried out on updating the criteria that triggers traceability audits based on different factors and in standardised report and implementation procedures for all the internal traceability control teams

who work in the production clusters. The pilot tests for updating the methodology were carried out in Turkey, with a total of 206 audits with this new format.

Assessment of control and management systems

In 2018, following the work carried out in the previous year, 62 production control plans were designed by the suppliers, with the aim of reinforcing their management systems and ensuring traceability.

Furthermore, the Sustainability Department carried out 158 assessments of management and control systems used by the suppliers. This work was carried out in cooperation with the Business Organisation Department of the School of Industrial Engineering at the University of Vigo, based on the joint development of a questionnaire covering different relevant aspects of organisation and management. We intend to identify how the suppliers' internal organisation ultimately affects the sustainability of our productions.

In 2019 we will continue to proceed implementing this model, which will allow us to identify the root cause of potential weak points in suppliers' production organisation and to identify areas for management improvement.

Training and awareness

Throughout the year, 209 individual meetings were held with suppliers in eight production clusters, concerning specific aspects of traceability in their supply chain. In total, during the year, 838 suppliers were given training on the subject of traceability in collaboration with our purchasing teams.

2. Raw material traceability

Our traceability system identifies all those involved in the production of our garments, from the thread that is made into fabric, up to when this fabric is cut and the pieces are sewn. Also all the intermediary manufacturers who may be involved in its washing, dyeing, ironing and other processes are traced.

Similarly, we have been moving forward for years on the issue of traceability from the thread right back to origin of the raw material from which it is made. In this way we are also able to improve our knowledge of their production systems and ensure compliance at this stage with regulations and our Code of Conduct for Manufacturers and Suppliers.

The responsible production of clothes starts during its design as this is when the raw materials are chosen. With a better knowledge of their origin, we can choose the most sustainable, as we have done in the Join Life collections which incorporate best practices in social and environmental matters.

Within the raw materials of natural origin, cotton is one of the most widely-used textile fibres in the world.

In order to promote progress in this field, we collaborate with other agents in the sector on initiatives that promote the sustainability of cotton, for example, Better Cotton

Initiative (BCI), Textile Exchange and Organic Cotton Accelerator.

In this context, we have actively participated in operations in the cotton fields led by the Fair Labor Association (FLA), whose objective is to understand better the employment practices and working conditions in the sector. This intervention was centred on the cotton sector in Turkey, together with IPUD (a local partner of BCI in Turkey) and other international brands in the sector, and it provided an impetus for improvement in various areas.

With respect to natural raw materials from forest products, the traceability system allows us to meet our commitment to only use cellulose fibres from sustainably-managed woods.

Likewise, we have continued to implement traceability mechanisms that allow us to ensure directly that raw materials of animal origin are only secondary products and not the main reason for the slaughter of an animal, in accordance with our commitments.

On the other hand, for raw materials of synthetic origin like polyester, our approach is based on the circular economy system, with which we promote the use of recycled material. We also continue to investigate the traceability of its provenance before it is converted into the corresponding fabric.



Public Private Agreement with the International Labour Organization for the cotton supply chain

During the year we continued to work with the International Labour Organization (ILO) to strengthen the Fundamental Principles and Rights at Work in cotton production and to contribute to the sustainability of the supply chain of this raw material. Within the framework of the Public Private Partnership (PPP) Agreement signed in 2017, Inditex has improved its knowledge of the raw material supervision and control processes, from the perspective of traceability and from the perspective of improving working conditions.

This agreement helps us to promote the fundamental rights in the cotton-producing communities in India, Pakistan, China and Mali. To do this it adopts a cooperative approach with different stakeholders nationally and in the communities themselves. The agreement is based on the following strategic framework:







In 2018 the agreement was applied to awareness raising and capacity development in countries such as India, China or Pakistan. It is also relevant to the appointment of representatives of the ILO as project coordinators; they will initiate the activities that fall within the scope of the project, with the support of our local Sustainability teams. Moreover, a dialogue with the authorities and civil society organisations was initiated to secure a consensus that will facilitate application of the agreement.



We share all the information about our supply chain with our stakeholders.

3. Transparency of the supply chain

In an exercise of accountability and transparency, we share all the information about our supply chain with our stakeholders. In this way, not only do we meet our commitment to transparency, but we also promote a more sustainable management of the supply chain.

Stakeholders	Action
IndustriALL Global Union	<p>Transparency is one of the pillars of our collaboration with IndustriALL Global Union, developed within the Framework Agreement that we have with this union federation. IndustriALL has access to the complete list of our suppliers and manufacturers, including their production volumes with the Group and their degree of compliance in sustainability. This information is updated regularly, so facilitating our cooperation in the field with IndustriALL and with its various local affiliates, to whom we provide access to all the companies in our supply chain.</p> <p> More information on page 102 of this Annual Report.</p>
International Labour Organization (ILO)	<p>With the objective of working on the assessment and improvement of conditions in the factories, we share with the ILO information on our supply chain in the countries where we participate in the Programme Better Work. A total of 116 factories in our supply chain in Cambodia, Vietnam, Indonesia and Bangladesh formed part of the programme in 2018.</p> <p> More information on page 103 of this Annual Report.</p>
Greenpeace and the Institute of Public & Environmental Affairs (IPE)	<p>We provide all our stakeholders access to the environmental information relating to our productions. For this, the list of direct and indirect factories that carry out wet processing declared by our suppliers can be consulted by the public on the website: www.wateractionplan.com</p>
Customers	<p>We also address the concerns of our customers in relation to sustainability. We provide information on the origin of our articles, as well as the conditions of the workers involved in their production, whenever requested. In 2018 we answered 42 requests for information from our customers.</p>
Investors, stock market indices, NGOS...	<p>Throughout the financial year, different stakeholders and organisations representing them ask us for social, environmental and/or financial information either on an occasional or regular basis. The commitment shown by Inditex to provide this information has been positively acknowledged by several organisations, such as the Dow Jones Sustainability Index, FTSE4Good, Fashion Revolution, Know the Chain and Baptist World Aid Australia, among others.</p> <p> More information on page 275 of this Annual Report.</p>
Other companies in the sector	<p>We share information on sustainability with several brands and companies in the sector with whom we collaborate in order to further sustainability in the industry. One initiative that is an example of this collaboration is ACT (Action, Collaboration, Transformation).</p> <p> More information on page 103 of this Annual Report.</p>