







# 3 Develop

*3.1. Minimising environmental impact across the value chain / 3.2. Alignment with the Task Force on Climate-related Financial Disclosures (TCFD) / 3.3. Sustainability of our products / 3.4. Sustainable management of the supply chain / 3.5. Human Rights*





# **Minimising environmental impact across the value chain**

# 3.1. Minimising environmental impact across the value chain

RELATED MATERIAL TOPICS:

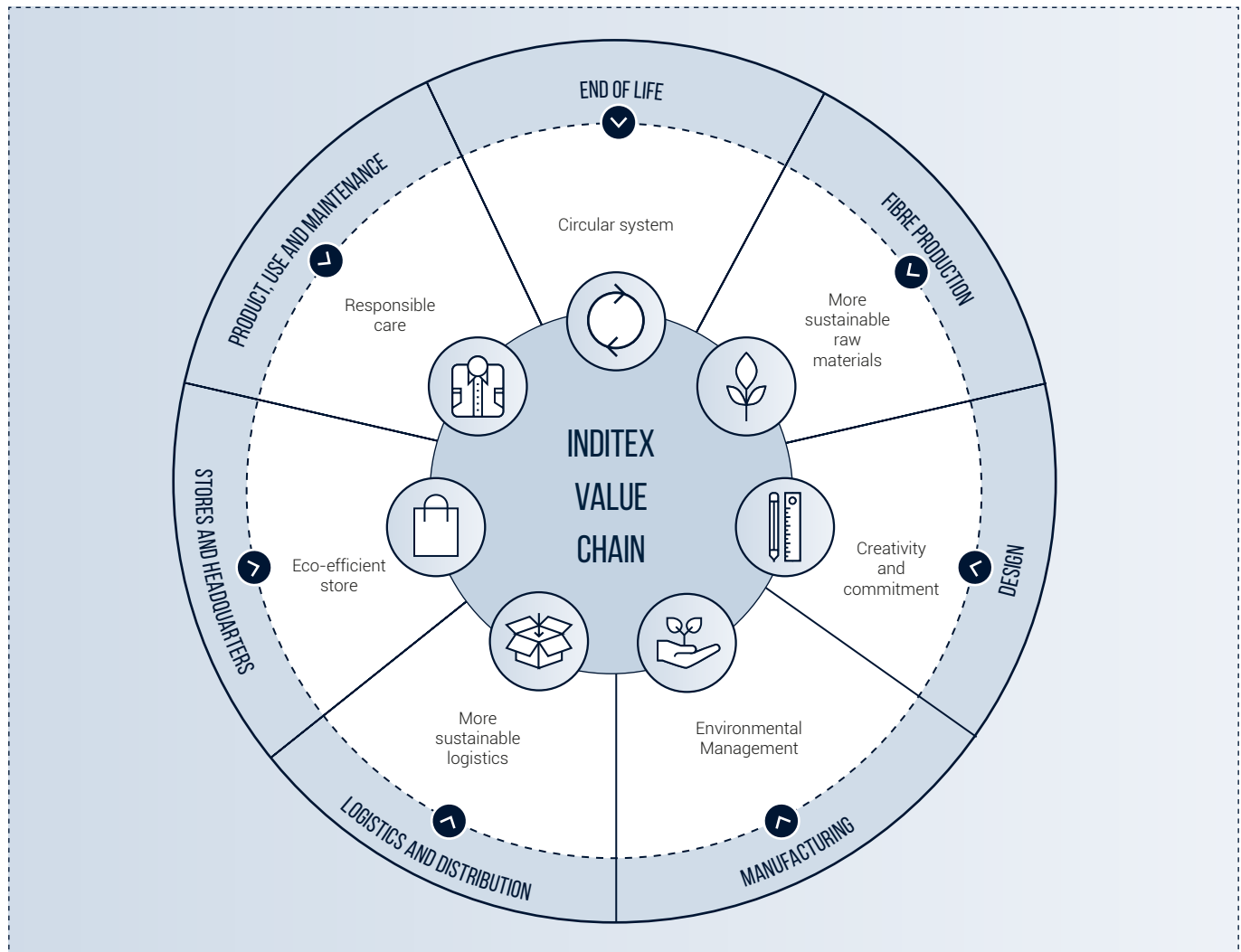
CLIMATE CHANGE; ENVIRONMENTAL FOOTPRINT MINIMISATION; PROTECTION OF NATURAL RESOURCES



The pressure on the planet's limited resources and the challenge posed by climate change require everyone's joint swift and coordinated action. At Inditex, we take multidisciplinary measures in order to protect biodiversity and reduce our impact on water consumption and the use of production and energy resources, with circularity as a key means for advancing towards decarbonisation.

Given that half of the total greenhouse gases (hereinafter, GHG) and over 90% of the loss of biodiversity and of water stress are due to the extraction and transformation of resources, we continue to advance in our strategy to reach an economy that is climate-neutral, efficient in the use of resources and competitive.

In addition, we are aligned with the goals of the Paris Climate Agreement, which are to limit the planet global warming to well below 2 °C and to pursue efforts to limit it to 1.5 °C.



## Principles governing the Sustainability Policy in the environmental field

1. Consideration of environmental and social variables, in the planning and undertaking of our activities and those of our business partners and suppliers, fostering environmental awareness.
2. Compliance with applicable environmental legislation, **as well as other obligations that may be laid down.**
3. **Environmental conservation by undertaking** ongoing improvement actions (**emissions, resource consumption, chemicals, waste, etc.**).
4. Identification of possible environmental risks **arising from our activity and prevention.**
5. **Circulation of the Policy** among all employees and the companies comprising the Group.
6. Setting up channels for fluid communication **with the authorities, local communities and other stakeholders.**

Our Sustainability Policy includes, among other matters, the cross-cutting environmental commitments applied throughout our business areas and value chain.

And, stemming from this Policy are our three strategies on environmental topics (Energy, Water and Biodiversity) that express the efforts we make to seek to ensure the protection of environmental resources:



Besides such strategies, we have also commitments in relation to protecting forest products, as specifically addressed in our **Forest Product Policy**.



The most efficient use of resources is not only a maxim for our products but also for our facilities: headquarters, stores and logistics centres. To implement it, we have established various objectives, such as the delinking of our energy consumption and of GHG emissions, the commitment to renewable energies and the efficiency of our shipments.

As part of the *Race to Zero* Campaign, an initiative of the United Nations Framework Convention on Climate Change (UNFCCC), Inditex is committed to achieving climate neutrality by the year 2050. This means that by then it must have net-zero GHG emissions or gases emitted into the atmosphere will be offset by those absorbed by natural sinks such as oceans and forests.



*In 2020, SBTi approved our decarbonisation targets and defined them as 'ambitious', because the proposed reductions are stricter than those established by the most ambitious available emissions reductions roadmaps.*

Furthermore, in 2020 we have continued to work within the framework of the Science-Based Targets initiative (SBTi), which promotes setting science-based decarbonisation targets as a way of boosting the competitive advantage of companies in the transition to a low-carbon economy. The SBTi emerged as a partnership between CDP, the World Resources Institute (WRI), the World Wide Fund for Nature (WWF) and the United Nations Global Compact (UNGC). It is also one of the commitments of the We Mean Business Coalition.

In August 2020, SBTi approved our science-based decarbonisation targets (SBTs). SBTs are voluntary targets adopted by companies in order to reduce their greenhouse gas emissions. They are deemed to be "science-based" if they are aligned with the actions that the latest scientific research considers to be necessary to undertake in order to fulfil the goals of the Paris Agreement.

### SBTs of Inditex



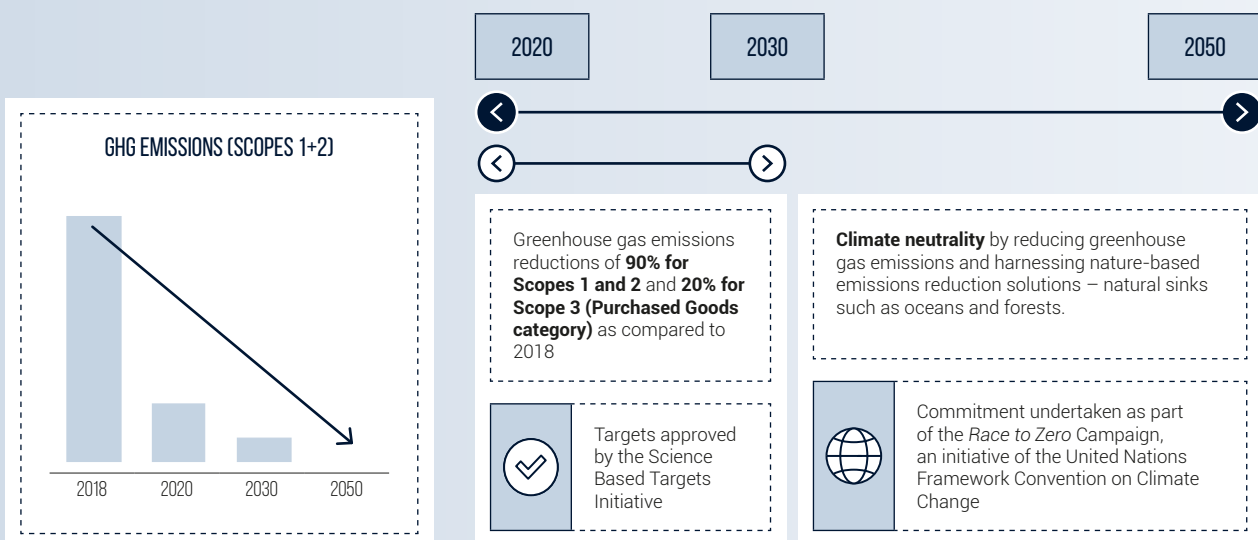
**A 90% reduction in our Scope 1 and 2 emissions by 2030 compared to 2018**



**A 20% reduction in our Scope 3 emissions (in the Purchased Goods category), by 2030 compared to 2018**

Meanwhile, SBTi has defined these targets as 'ambitious', as the proposed reductions are more stringent than those marked by the most ambitious pathways for emission reductions available at present (1.5 °C for own operations and 2D or 2 °C for supply chain).

## MAIN DECARBONISATION COMMITMENTS





Training our teams is key to implementing our strategies and progressing towards achieving our goals. In 2020, we continued training our teams on environmental sustainability (Seedtraining, *Join Life* Product, *Zero Waste*, Technical Product Training, and the *Closing the Loop* programme, among others), at our headquarters, logistics centres, factories and our own stores, both in Spain and in many other markets where we have a commercial presence, such as China, Japan, Turkey,

Uruguay, India, Mexico, Germany, Argentina, Brazil, Bangladesh, Australia, Colombia, Ecuador, the USA and Panama. Overall, 28,972 employees have received training on sustainability since 2014.

Besides training, internal communications were conducted concerning sustainability and circularity that include sustainable household practices for our employees (considering the lockdown period).

## MINIMISING ENVIRONMENTAL IMPACT IN THE SUPPLY CHAIN



COMMITMENT TO EXTERNAL INITIATIVES



To fulfil our environmental commitments, we implement ongoing improvement measures and we also adhere to external initiatives that enable us to share best practices and align ourselves with more ambitious goals.



DECARBONISATION AND ENERGY MANAGEMENT



WATER MANAGEMENT



BIODIVERSITY



Our environmental management encompasses three broad areas: energy, water and biodiversity, on which the strategies deriving from our Sustainability Policy focus. In each sphere we strive to monitor our impacts, implementing initiatives to minimise those impacts and identify opportunities to generate positive effects, not only in our own operations, but expanding their scope throughout our value chain.






### 3.1.1. Commitment to external initiatives

In our commitment to stop climate change, not only do we use our own resources in order to implement ongoing improvement measures, but we also adhere to external initiatives that enable us to share best practices and align ourselves with more ambitious commitments.

In this connection, Inditex works with organisations such as the Ellen MacArthur Foundation, Textile Exchange, The United Nations Framework Convention on Climate Change (UNFCCC) and Zero Discharge of Hazardous Chemicals (ZDHC).

 More information on page 4.3. *Partnerships and commitments with civil society* of this Annual Report.

#### EXTERNAL INITIATIVES



##### *UNITING BUSINESS AND GOVERNMENTS TO RECOVER BETTER BY THE UNITED NATIONS*

Inditex is one of over 150 companies involved in the *Science Based Targets* initiative that have set voluntary decarbonisation targets and that, in 2020, signed a declaration urging governments worldwide to align their recovery efforts to combat the crisis caused by covid-19 and work on economic aid, using cutting-edge climate-related scientific developments.

##### *BUSINESS AMBITION FOR 1.5°C BY THE UNITED NATIONS*

An urgent call to action by a global coalition of United Nations agencies, business and industry leaders to commit to setting ambitious science-based emission reduction targets.

##### PARTNERSHIP FOR SUSTAINABLE ECONOMIC RECOVERY

A partnership promoted by ECODES and the Spanish Group for Green Growth, among others, to advocate for economically and socially effective stimulus policies and, in turn, to ensure they are aligned with sustainability and biodiversity policies.

##### THE FASHION INDUSTRY CHARTER FOR CLIMATE ACTION

A commitment backed by the United Nations Framework Convention on Climate Change that established an initial target for reducing greenhouse gas emissions by 30% by 2030. At the moment, it is under review in order to align it with Science Based Targets. The signatories collaborate by advocating for the steps for implementation through different task forces.





*In combating climate change, in addition to continuous improvement measures implemented internally, we have joined external initiatives whereby we share best practices and ambitious goals.*



#### FASHION PACT

We are founding members of the Fashion Pact, an initiative designed to drive environmental sustainability in the textile and fashion industries, mainly geared to stop climate change, protect the oceans and restore biodiversity. Moreover, the pact encourages the participation of member companies in other complementary initiatives through the development of accelerators to help achieve the challenges ahead.

#### SUSTAINABLE APPAREL COALITION (SAC)

In order to accelerate the transition towards a more sustainable and competitive industry, we work in forums like the Sustainable Apparel Coalition, where we pool our experiences and collaborate in creating modules for measuring impact and fostering best practices (e.g. Brand and Retail Module and Facility Environmental Module). We also take part in the Product Environmental Footprint in the European Union textile sector. And we collaborate with the Policy Hub to accelerate the sector's circular transformation.

#### CDP

For more than 15 years, Inditex has been taking part in CDP, a non-profit organisation responsible for a global environmental impact dissemination system (climate change, water management and forest) for investors, companies, cities, states and regions. In 2020, our climate change programme has been acknowledged as level A- for our leadership in disclosure of information and performance in the field.



#### MIT CLIMATE AND SUSTAINABILITY CONSORTIUM (MCSC)

Given the importance of establishing links between companies and scientists in order to accomplish effective changes to stop climate change, Inditex, along with another 12 companies, has joined the *MIT Climate and Sustainability Consortium (MCSC)*, coordinated by the Massachusetts Institute of Technology (MIT) School of Engineering, with the following goals:

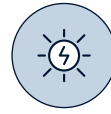
- To lower barriers and costs of access to the best-available environmental technologies and processes.
- To encourage direct investment where it will be most effective.
- To translate industrial best practices to new sectors at a faster pace in order to mitigate the planet's intensifying climate crisis.

### 3.1.2. Our approach to decarbonisation and energy management

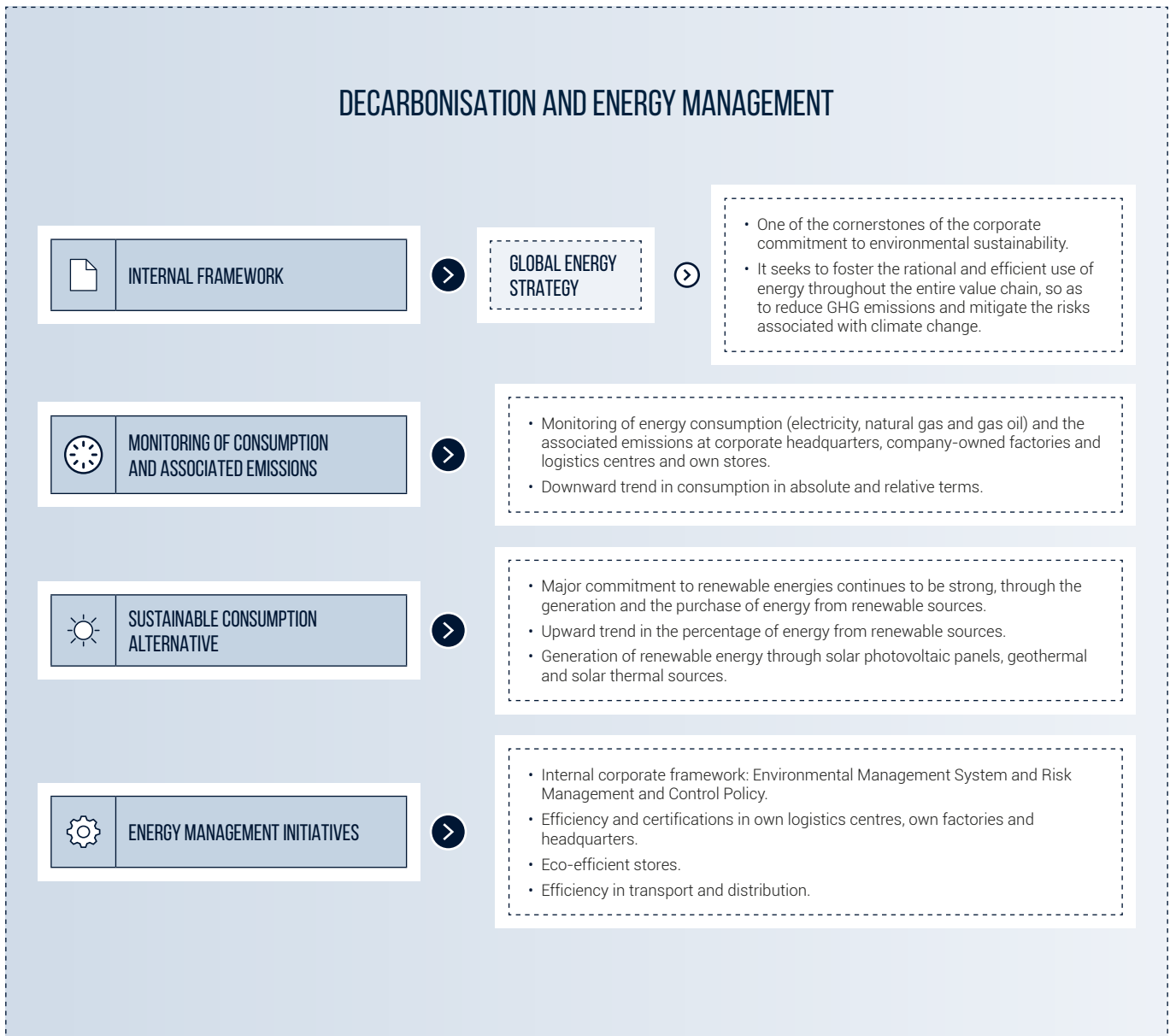
Energy is a core element in the fashion industry. Its efficient use with a low environmental impact features in Inditex's sustainability approach. We are aware of the inherent value of energy resources and the need to have suitable solutions at all times to safeguard a stable and quality supply.

In the early the 1990s, we began developing our own systems for optimising and improving energy consumption and reducing greenhouse gas emissions at our headquarters, logistics centres, own stores and own factories. Since then, our commitment in this area has grown exponentially, as has our activity.

In 2020, we have obtained a 52% reduction in scope 1 and 2 relative emissions per euro of sale. We also continued to boost energies from clean sources, accounted for 81% of our global electricity consumption.



**In 2020, we achieved 81% of the electricity consumption at our facilities (headquarters, logistics and stores) to come from renewable energy, reaching our 2025 goal.**





At Inditex, we work to preserve freshwater resources with programmes that help us curb our water consumption and manage the water we use responsibly. With the *Care for Water* programme, as part of *Green to Wear 2.0*, we drive the use of more efficient production processes and technologies that help us to curb water consumption and achieve excellent water consumption within our public standard.

The programme promotes the ongoing improvement of our suppliers' processes and investment in new technologies, enabling us to reduce the impact of our products to the stipulated limits. These limits are regularly reviewed and aligned with the best techniques available on the market, constantly increasing our ambition.

*i* More information in paragraph b) *Green to Wear* of section 3.4.2. *Policies, standards and principles on which our supply chain management is based* is based, of this Annual Report.

## a) Global Energy Strategy

The Global Energy Strategy is one of the cornerstones of our commitment to environmental sustainability for promoting the rational and efficient use of energy throughout the entire value chain, while at the same time reducing GHG emissions and mitigating the risks associated with climate change. To this end, renewable energy sources are being incorporated at our facilities. Moreover, in 2009, we launched the eco-efficient store programme, which was completed in 2020.

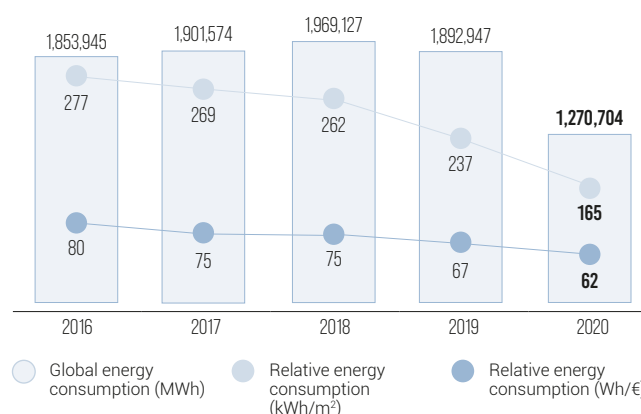
## b) Global energy consumption

During 2020, the global energy consumption of all Group headquarters, own factories, logistics centres and own stores has amounted to a total of 1,270,704 MWh<sup>(1)</sup>. Following on from our energy efficiency measures, we have managed to cut the overall relative energy consumption per euro of sale by 7% compared to last year.

Among the energy efficiency measures implemented, note the connection of our stores to the *Inergy* platform, which enables us to supervise and optimise energy consumption and reduce our environmental impact. It also enables us to install the most efficient heating, ventilation and air conditioning systems in our stores.

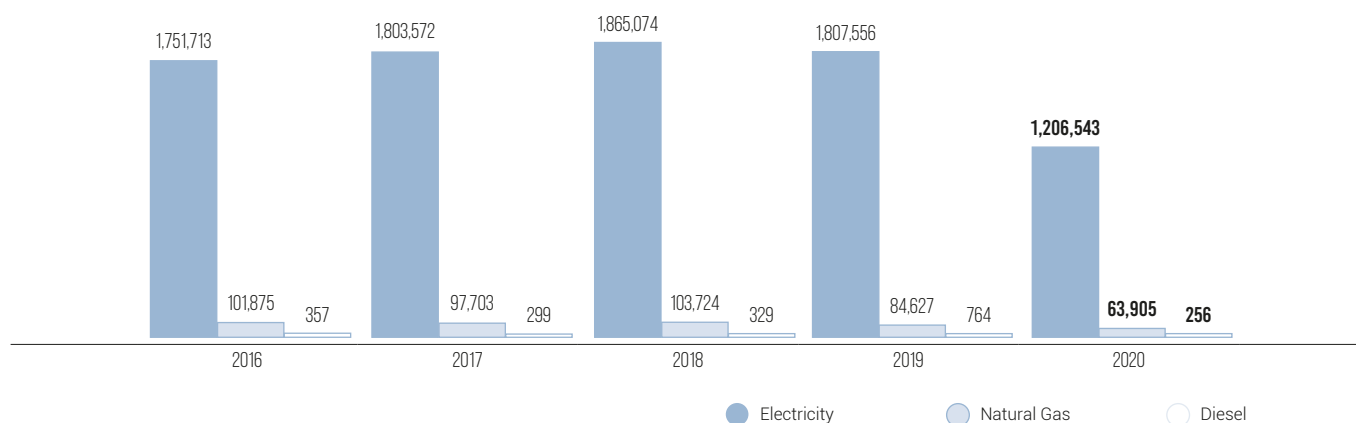
The energy used comes mainly from the supply network and, to a lesser extent, from the consumption of natural gas and diesel.

GLOBAL ENERGY CONSUMPTION (MWh) <sup>(\*)</sup>



(\*) This indicator records all the energy consumed at our Group's own factories, headquarters, logistics centres and own stores. Electricity consumption for December 2020 and January 2021 has been estimated for some centres.

GLOBAL ENERGY CONSUMPTION BY TYPE (MWh) <sup>(\*)</sup>



(\*) Electricity consumption for December 2020 and January 2021 has been estimated for some centres.

(1) The electricity consumption in stores has been calculated on the basis of actual data on the central monitoring platform. In order to estimate average consumption, the data from 2,017 stores has been used, 100% of which are eco-efficient.



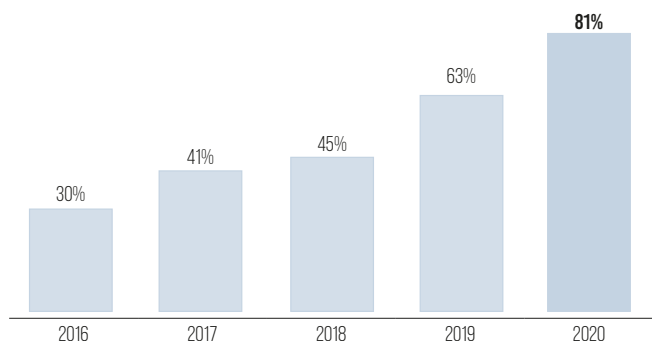
*At some of our facilities we also have co-generation plants, which enable the simultaneous production of heat and energy using low-carbon fuel.*

### c) Major commitment to renewable energies

Our commitment to renewable energies continues to be strong, through the generation and the purchase of energy from renewable sources. We invest in our own renewable energy generation facilities when it is technically viable, which has led us to having thermal solar, photovoltaic and wind energy facilities, as well as facilities that make use of geothermal energy.

In 2020, 81% of the Group's electricity needs were covered by energy from renewable sources. This represents a total sustainable energy consumption of 978,266 MWh in our facilities located in Spain, Germany, Austria, Belgium, Brazil, China, South Korea, Croatia, United States, France, Greece, Italy, Ireland, Mexico, Luxembourg, Norway, Netherlands, Poland, Portugal, United Kingdom, Sweden, Switzerland and Turkey. This has enabled us to avoid 363,182 tons of GHG emissions<sup>(2)</sup> (1,144,020 MWh and 415,474 tons, and 837,626 MWh and 274,554 tons in 2019 and 2018, respectively).

PERCENTAGE OF ELECTRIC ENERGY COMING FROM RENEWABLE SOURCES <sup>(\*)</sup>



(\*) In the case of renewable energy certificates, the period for the data is the calendar year, instead of the tax year (time period of this Report).

At the end of the year, we have several active plants with photovoltaic panels with the following installed capacities: 3 MW in Lelystad, 1 MW in the employee car park at our Arteixo Central Services facilities and 100 kW at the Arteixo Technology Building, 200 kW in the Tempe 3 centre, 200 kW in the Tempe 3S centre and 100 kW in the Laracha fabric warehouse. In 2020, they generated 1,373 MWh of electricity (811 in 2019; 575 in 2018).

At some of our facilities we also have co-generation plants, which enable the simultaneous production of heat and energy using low-carbon fuel. During 2020, a total of 4,334 MWh of electrical energy and 6,679 MWh of thermal energy were generated by these plants (7,785 MWh of electricity and 11,002 MWh thermal and 17,317 MWh of electricity and 16,634 MWh thermal in 2019 and 2018, respectively).

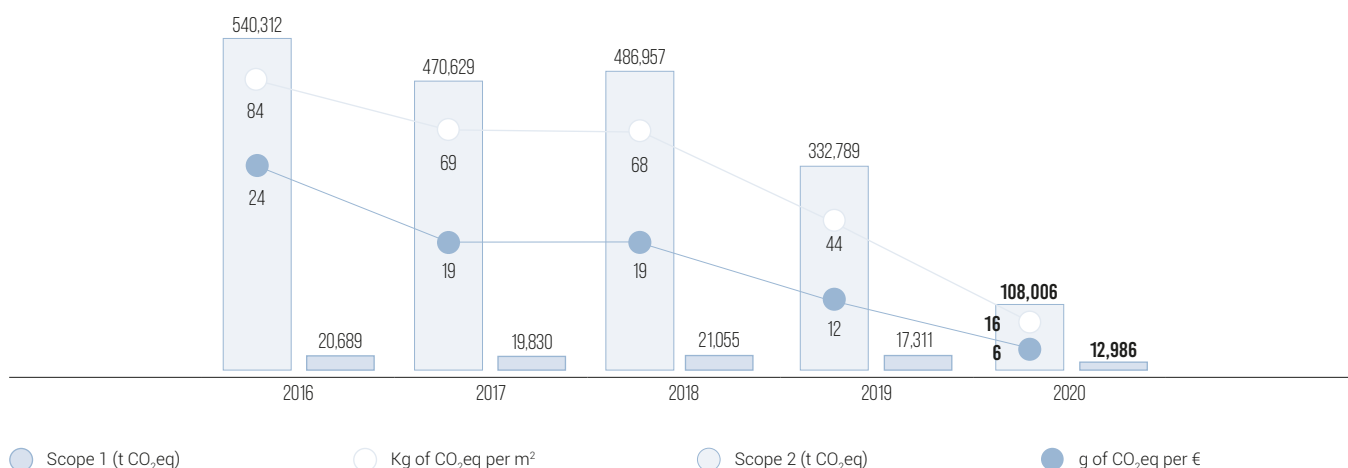
In addition, in 2020 a total of 633 MWh of thermal energy has been generated from renewable installations using geothermics and solar panels (577 MWh and 329 MWh in 2019 and 2018, respectively).

### d) Greenhouse gas emissions

Overall, all the actions that have been implemented to foster energy efficiency, together with the materialisation of our commitment to renewable energies, have allowed us to achieve a 52% reduction in scope 1 and 2 relative emissions per euro of sale.

(2) The emission factors applied to the energy mix of each of the countries are those pertaining to the GHG Protocol Tool for Purchased Electricity, Version 4.9 of the World Resources Institute, 2017.

EMISSIONS OF GHG OF SCOPES 1 AND 2 (T CO<sub>2</sub>EQ)<sup>(\*)</sup>



(\*) The Scope 2 data are calculated according to the market-based method following the GHG Protocol guidance for the calculation of Scope 2, World Resources Institute (WRI), 2015. More information in chapter 3.2. Alignment with the Task Force on Climate-related Financial Disclosures (TCFD).

Scope 1 emissions correspond to direct emissions related to sources under the direct control of the Inditex Group (combustion in boilers, vehicles, etc.). Scope 2 emissions are indirect emissions related to the generation of electricity acquired and consumed by the Inditex Group.

Scope 3 emissions correspond to other indirect emissions associated with the production chain of goods and services produced, distributed and marketed outside the organisation.

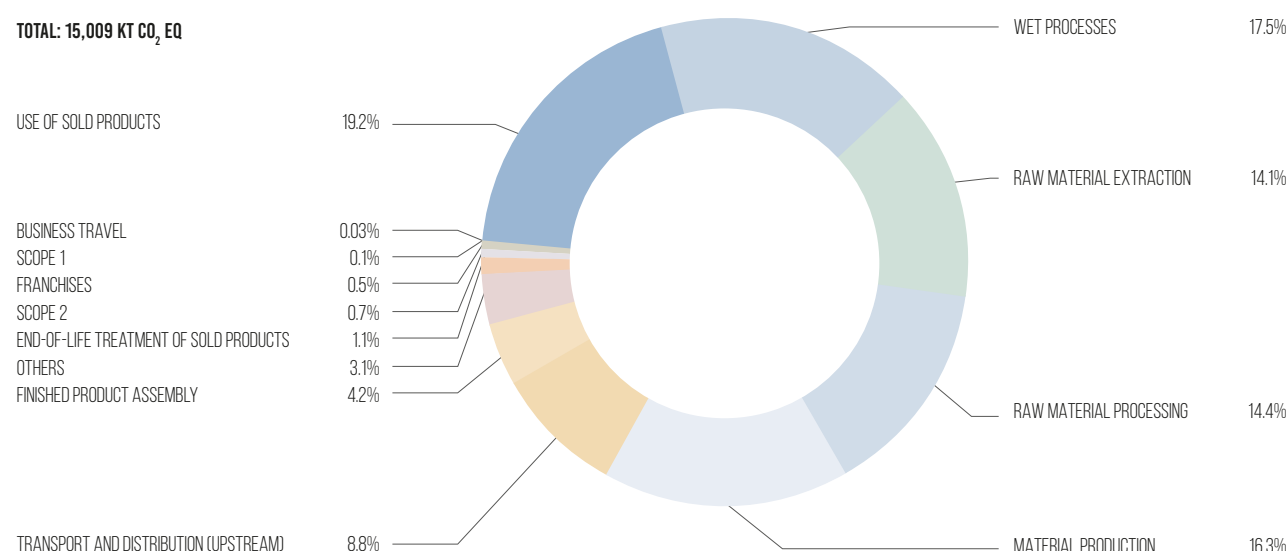
In 2020, we continued to work on improving the methodology used to calculate the carbon footprint and, thanks to these efforts, we have managed to broaden the data, making our findings more accurate.

Scope 3 emission indicators have also been affected by the closure of our stores and headquarters for several months of the year, and by the promotion of teleworking, due to the health crisis arising from covid-19.

In 2020, the emissions associated with Upstream Inbound Transport and Upstream Outbound Transport equivalent to energy consumption of 2,802,639 MWh and 3,218,377 MWh, respectively (3,431,069 MWh and 4,306,576 MWh in 2019). Electricity consumption at franchised stores amounted to 150,114 MWh (226,520 MWh in 2019) and consumption in business travel came to 18,488 MWh (218,274 MWh in 2019).

GREENHOUSE GAS (GHG) EMISSIONS

TOTAL: 15,009 KT CO<sub>2</sub> EQ



More information in the section *Minimising environmental impact across the value chain indicators* in the Appendices to this Annual Report





*The commitment to clean energies and the implementation of circular management models are the cornerstones of our Environmental Management System.*

## e) Energy Management

### Environmental Management System

The commitment to clean energy and the implementation of circular management models in our headquarters and logistics centres are the cornerstones of our Environmental Management System (“EMS”), which is certified under the ISO 14001 international standard. In 2020, we obtained the abovementioned certification for the textile warehouse (in A Laracha, Spain) and for the Lelystad Logistics Platform (Netherlands), which have been operational since 2019.

Thus, the EMS is implemented in all logistic centres, headquarters and Company-owned factories. We have a 27-people team responsible for monitoring and assessing the appropriate implementation of the EMS and the prevention of environmental risks associated with these centres.

During 2020 and 2019, the Inditex Group has not registered through available channels any significant penalty or sanction for non-compliance with environmental laws and has no facilities located in protected areas.

### Risk Management and Control Policy

Meanwhile, our Risk Management and Control Policy sets the basic principles, key risk factors and the general framework of action for the management of the risks affecting the Group. This Policy was approved by the Board of Directors in the meeting held on 9 December 2015 and was later modified on 14 December 2020. The scope of application of this Policy extends to the entire Group and forms the basis of an Integrated Risk Management System. In this framework, the business units constitute the first line of defence in the management and control of the risks to which the Group is exposed, including those of a climate-related nature.

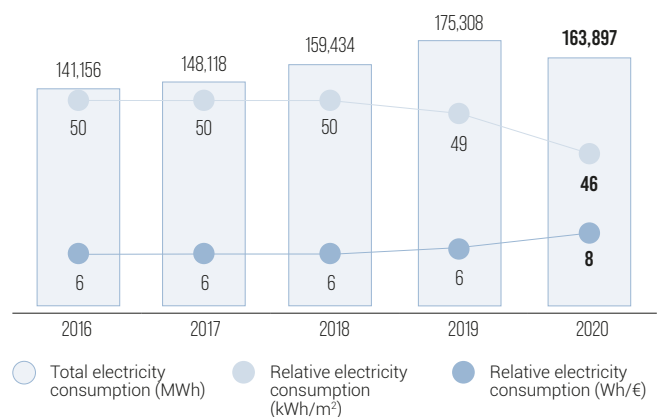
*i* More information in the chapter on *Enterprise Risk Management Systems* in the Annual Financial Statements included in this Annual Report. The chapter is an extract of the Inditex Group’s Corporate Governance Report for 2020.

Bearing our business activity in mind, the Group has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could play a significant role in terms of the net assets, the financial situation and results of the Company. For this reason, such specific breakdowns are not included in this report.

### Efficiency in corporate headquarters, logistics centres and own factories

Eco-efficiency is a priority at all the Group’s facilities. This is evidenced by the investments undertaken to fulfil the *Instruction for Proper Environmental Management*, an internal document aimed at ensuring that headquarters and platforms are eco-efficient. The daily management of eco-efficiency promotes good practices between our employees, which allows obtaining control of the consumption of resources and applying measures to reduce that consumption.

ELECTRIC ENERGY CONSUMPTION AT OWN LOGISTICS CENTRES, OWN HEADQUARTERS AND OWN FACTORIES (MWh)<sup>(\*)</sup>



(\*) Consumption for December 2020 and January 2021 has been estimated for some centres.



Designed in accordance with **bioclimatic concepts**.

554 **photovoltaic** panels.

Energy consumption is **100% renewable-sourced**.



**High efficiency glass** in the entire façade and roof generating an estimated **energy saving** of 22%.

**Re-harnessing rain water** for non-drinking uses.



**Lighting** system that **auto-regulate lighting conditions** according to exterior light and internal occupancy of the building.



### **New eco-efficient and technologically advanced building for the headquarters of Zara.com and Zara Men in Arteixo, A Coruña**

Our offices are an extension of our philosophy: think and act responsibly and sustainably to generate shared value and to advance towards a circular economy.

At Inditex, we have a Manual of Good Environmental Practices at the Office for guiding responsible behaviour at our offices. It is an invitation to all personnel of the Group to mark the difference at their job position in different areas (energy and climate change, water, biodiversity and materials, and waste) with small daily gestures.





**Collaboration** with some **proximity restaurant businesses**, invited to provide their menus in the canteen of Inditex's headquarters in Arteixo (A Coruña).



Through the **KM 0 Market** initiative, our employees can also buy a selection of products from these local suppliers directly at our headquarters.



The **Picnic Dinner** service enables our employees to request leftover meals from the lunchtime menu to reduce food waste and foster circularity.



**360° Restaurant**

Inditex has four canteens operating under the **360° Restaurant** philosophy at its facilities in Arteixo (A Coruña). In 2020, these canteens served more than **2,800 daily meals**, with an average **74% purchased according to KM 0** (the ingredients are sourced within a 100 kilometres of the consumer). This model helps nurture indigenous varieties and species, ensuring a **sustainable management of land and water that reduces the carbon footprint and the impact on climate**.



## LEED Certification in distribution centres and facilities

In order to ensure that our facilities meet the most cutting-edge requirements in terms of sustainable construction, since 2009 we have been certifying our more emblematic facilities under the most prestigious standards in sustainable construction<sup>(1)</sup>.

### LEED CERTIFICATION IN DISTRIBUTION CENTRES AND FACILITIES

<b>1 LEED PLATINUM CERTIFICATION</b>	INDITEX DATA PROCESSING CENTRE IN ARTEIXO
<b>9 LEED GOLD CERTIFICATIONS</b>	NEW HEADQUARTERS OF THE INDITEX GROUP'S CENTRAL SERVICES IN ARTEIXO
	ZARA LOGISTICS OFFICES
	ZARA LOGISTICS CANTEEN
	PULL&BEAR HEADQUARTERS
	CABANILLAS LOGISTICS PLATFORM
	MASSIMO DUTTI HEADQUARTERS
	MASSIMO DUTTI LOGISTICS CENTRE
	OYSHO HEADQUARTERS
	STRADIVARIUS HEADQUARTERS
<b>1 LEED CI CERTIFIED</b>	INDITEX GROUP'S CENTRAL SERVICES FACILITIES IN ARTEIXO (PHASES I, II, III)

In addition, in the year 2020 it maintained its ISO 50001 standard at the Inditex Data Processing Centre in the headquarters of Arteixo (A Coruña), certifying its energy management and more sustainable and efficient energy use. This facility consumes energy that is 100% from renewable sources, and it is certified as LEED Platinum by the US Green Building Council.

## Eco-efficient stores

Eco-efficiency is a priority upon designing our stores, with the goal of **optimising the consumption and emissions** at all stages of their life cycle, including their design, construction and operation. To achieve this, we rely on the *Eco-efficient Store Manual*, which seeks to ensure that its efficiency and sustainability requirements are fulfilled. Such Manual defines the technical requirements for the installations and systems of the stores, as well as the operations to be carried out.

At the end of 2020, Inditex met its goal of ensuring that 100% of its stores are eco-efficient (93% in 2019; 86% in 2018). The stores that have been added this year notably include Zara Wangfujing in Beijing (China), Pull & Bear in Bilbao (Spain) and Stradivarius on Avenida Presidente Masaryk in Mexico City (Mexico).



Zara Wangfujing in Beijing, Asia's biggest, spanning more than 3,500 m<sup>2</sup>

(1) Currently valid certifications.





The new **Stradivarius** flagship store in Mexico



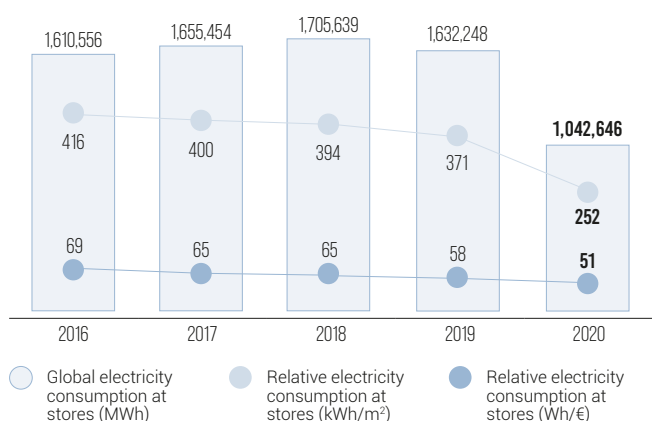
The **Pull&Bear** flagship store in Bilbao

“ In the online field, we are working to make Zara.com an eco-efficient website. In 2020, 100% of the energy consumed by its servers was from renewable sources.

Moreover, at the end of 2020, 60% of our own stores were connected to the central Inergy platform, designed to monitor and optimise energy consumption, achieve greater efficiency and reduce the environmental impact.

At the same time, the estimated power consumption in own stores decreased to 1,042,646 MWh. Note that energy indicators were undermined by store and facility closures as a result of the covid-19 health crisis.

ESTIMATED ELECTRICITY CONSUMPTION AT OWN STORES (MWh) (\*)



(\*) The electricity consumption has been calculated on the basis of actual data on the central monitoring platform. In order to estimate average consumption, the data from 2,017 stores has been used, 100% of which are eco-efficient.

Similarly, the certification of several company properties under international sustainable construction standards, such as LEED and BREEAM<sup>(2)</sup>, are also an example of our commitment to the improvement of our environmental development.

<b>10</b> <b>LEED PLATINUM</b> <b>CERTIFICATION</b>	<b>29</b> <b>LEED GOLD</b> <b>CERTIFICATIONS</b>	<b>1</b> <b>BREEAM</b> <b>CERTIFICATION</b>
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In the digital field, we are working to make our Zara online store an eco-efficient website. The images, videos and information provided on Zara.com are housed at our own data centres and on external servers. In 2020, 100% of the energy consumed at Zara.com offices, at the Technological Centre and at external servers was renewably sourced.

Moreover, to respond to the increasing usage of the website, we enhanced our server structure with technologies to boost energy performance, through the use of more efficient power sources or improved heat dissipation systems.

## Efficiency in transport and distribution

The efficiency of our network of logistics centres is a determining factor for us to be able to ship our products to stores twice per week. Moreover, at Inditex we understand that the optimum management of transport and packaging is key to making more efficient use of resources, thereby reducing the emissions associated with our processes. In this regard, we believe that the commitment to sustainability and efficiency also has a positive impact on the business.

With the aim of improving the efficiency associated with our distribution and logistics operations and of reducing ensuing Scope 3 indirect emissions, the Group has conducted a number of initiatives, notably including:

(2) All the certifications are currently valid.



## FEATURED INITIATIVES



### PACKAGING

Optimised packing and packaging and increased multimodal transport in certain flows.

### LOAD OPTIMISATION

Improved box-packing controls thanks to the introduction of new protocols for load optimisation, revision and adjustment.

Truck load optimisation to further reduce the number of vehicles along European road routes. In 2020, 1,600 vehicles were saved using this measure (2,000 and 1,480 in 2019 and 2018, respectively). Furthermore, this has brought savings of 2.7 million km and the associated emissions (3.4 and 2.5 million km in 2019 and 2018, respectively).

In order to leverage the flows along the routes servicing the European stores and in an effort to avoid empty return truck runs, we use these trucks for goods returns to Spain. In 2020, we have used 4,000 return truck runs, resulting in savings of 6.8 million of km and associated emissions (5,400 trucks and 9.2 million km in 2019; 5,163 trucks and 9 million km in 2018).

### HIGH-CAPACITY VEHICLES

Increased number of routes using our high-capacity vehicles, such as the giga-trailer, which provides an increase in truck load volume, reducing CO<sub>2</sub> emissions. Moreover, in 2020, a flow has also been added to those currently implemented, with one of our transport providers for the transport of containers through the port of Algeciras, being the first duo-trailer container carrier recorded in Spain. In 2020, more than 1.2 million of kilometres have been covered using these modes of transport.



### VI ENGINE STANDARD

82% of the fleet of our overland transport suppliers, accounting for 89% of total business turnover of primary overland transport, meets the Euro VI engine standard, the most exacting at present in matters of nitrogen oxide and particle emissions.

### LIQUEFIED NATURAL GAS (LNG) TRAILER

Use of a LNG trailer on routes when it is permitted. In 2020, more than 311,000 km were covered loaded with goods (540,000 and 410,000 km in 2019 and 2018, respectively). We have also brought in a new unit for flows to and from our Distribution Centre in Lelystad, Holland, which makes two trips per week. The reduction in kilometres travelled is explained by the occurrence of the health crisis arising from covid-19.

### CLEAN CARGO

We joined this initiative in 2020 with the aim of curbing the environmental impacts of worldwide freight transport and to fostering responsible sea freight. There is collaboration, within the *Clean Cargo Working Group*, between companies dedicated to integrating environmental and socially responsible business principles into transport management. Its CO<sub>2</sub> emission calculation methodology is the shipping standard used by other initiatives, such as the US Environmental Protection Agency (EPA) *SmartWay* Programme and the Global Logistics Emissions Council (GLEC).

**ELECTRIC CARS**

Use of a last-mile electric vehicle in China for delivery to stores, reducing greenhouse gas emissions and air pollution in cities.



Minimising Scope 3 greenhouse gas emissions in travel is also one of our priorities. Along these lines and since 2019, all of our office employees can go to their offices using the shuttle bus service. We also continue to implement the WESHARE application for carpooling to the workplace. These measures reduce traffic density and driving times in daily trips.

Similarly, in 2020, the number of charging points for electric vehicles in all Group central services rose by 150%, thus encouraging use of such vehicles among employees. During 2020, over 71,000 kWh<sup>(3)</sup> have been dispensed from electrical vehicle charging stations (over 47,000 kWh in 2019), preventing the generation of emissions associated with the use of fossil fuels.

**Atmospheric emissions and noise pollution**

Our logistics centres meet the requirements of applicable legislation on control of atmospheric emissions from combustion equipment. Authorised control bodies carry out regular verifications and checks of the limit values of emissions generated by the combustion equipment (heating boilers and steam boilers) subject to control according to the legislation in force. Such regular controls verify compliance with the emission limit values for the parameters applicable to each case (for example: CO, NOx, SO<sub>2</sub> or Opacity).

In addition, the night-time distribution model includes the product supply to the stores at night, when noise pollution levels are more restrictive than in the daytime. Moreover, we have developed an Unloading Equipment Protocol calling for reduction of noise during unloading operations.

**GLOBAL LOGISTICS EMISSIONS COUNCIL (GLEC)**

Since 2020, we are part of the GLEC, a universally recognised global method for harmonised calculation and notification and reporting on the greenhouse gas footprint of logistics across the multimodal supply chain.

**SMART FREIGHT CENTER**

It is a non-profit organisation dedicated to sustainable transport. Its vision is to achieve an efficient global logistics sector and zero emissions, that contributes to the goals of the Paris Agreement on climate action and the Sustainable Development Goals. To achieve this vision, it brings together the global logistics community through their *Global Logistics Emissions Council* (GLEC).

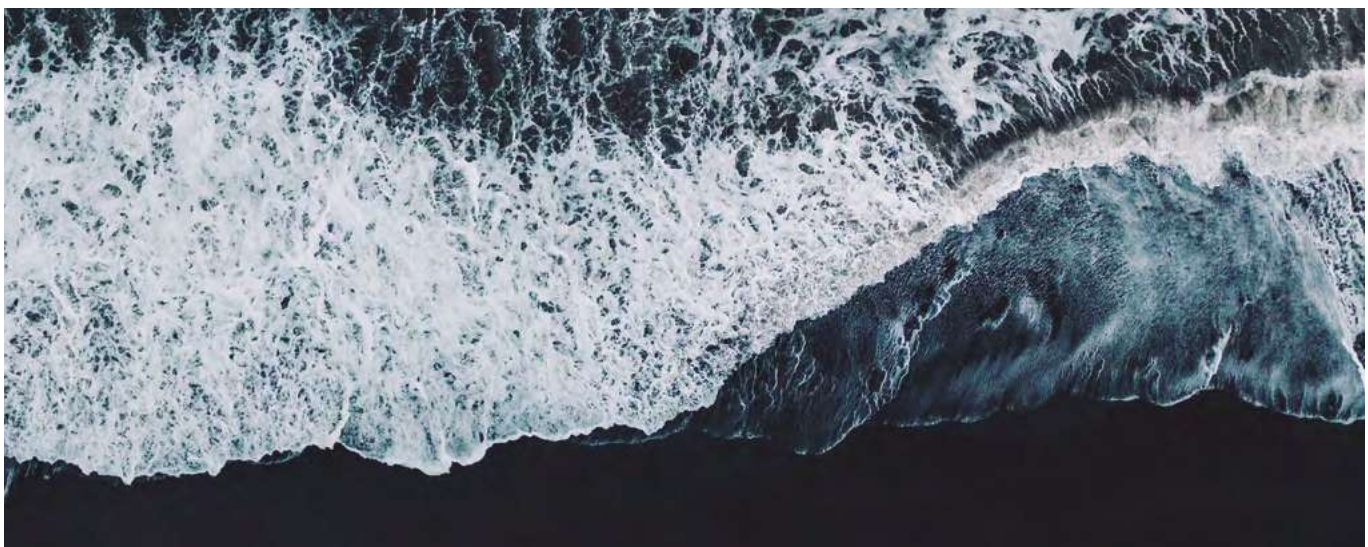
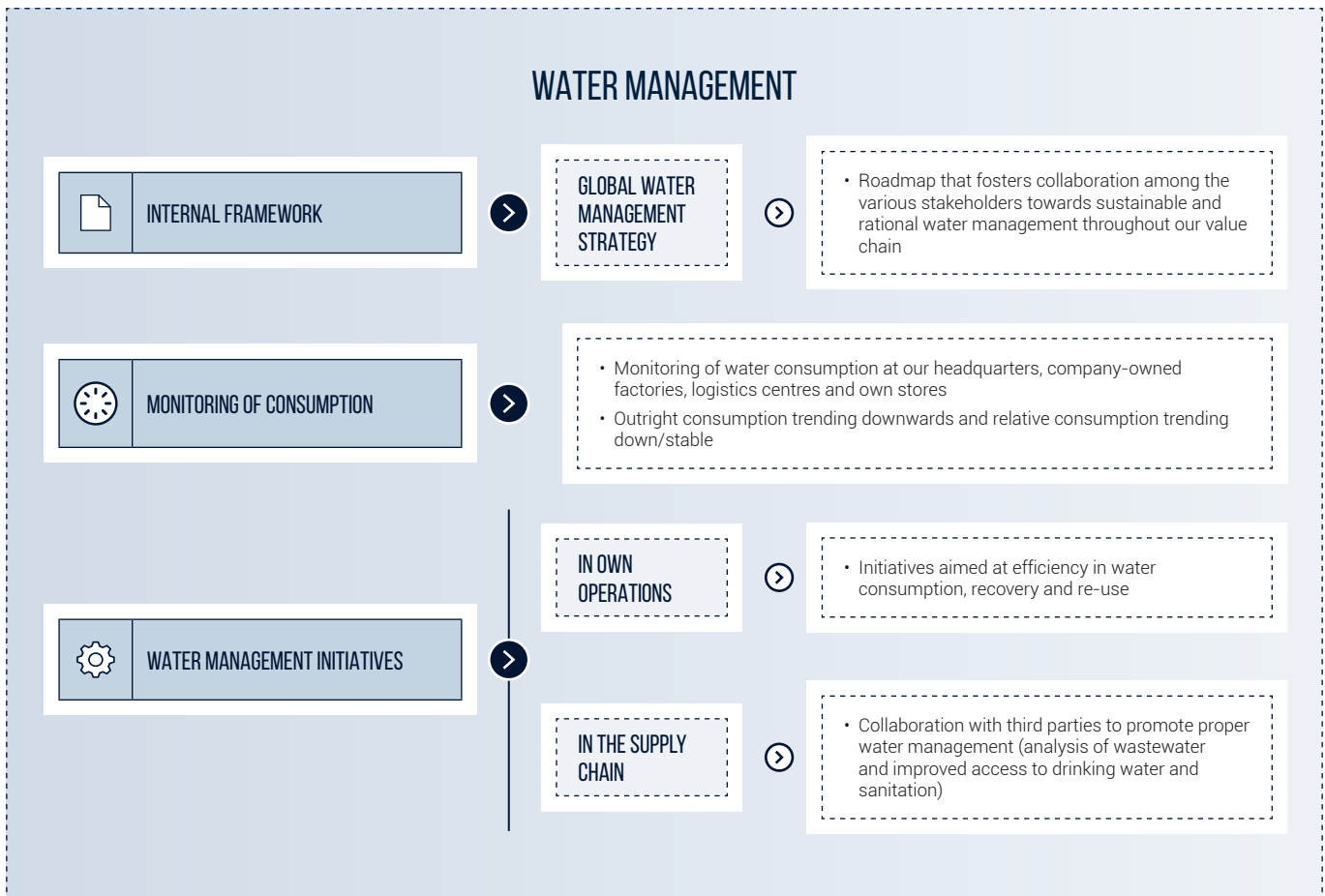
(3) Electrical consumption by electrical vehicle charging points in Group central service facilities, own logistics centres and own factories. The January-2021 consumption has been estimated for some centres.

### 3.1.3. Our approach to water management

Water is one of the most valuable resources to safeguard the sustainability of the planet and of those of us who inhabit it. We are aware of its vital importance to life and to almost all human activities, while at the same time we

are mindful of its fragility and scarcity in suitable conditions to meet the needs of many people and ecosystems worldwide.

Our supply chain uses water in the farming of cotton and other fibres, as well as in the wet processes to manufacture garments (washing, dyeing, and printing). Therefore, we devote major efforts to guaranteeing the compliance, improvement and strengthening of the environmental commitments of our supply chain.





“ We are constantly in search of innovative processes for responsible and sustainable water use.

## a) Global Water Management Strategy

The Global Water Management Strategy constitutes the roadmap that allows us to work with all our stakeholders towards sustainable and rational water management throughout our value chain.

All our guidelines are set forth in accordance with the **commitments made in the CEO Water Mandate**, which is part of the United Nations Global Compact.

**Environmental and social aspects** are associated in this initiative, given that water in the world affects the quality of river ecosystems, and **the development of many communities is dependent on this resource.**

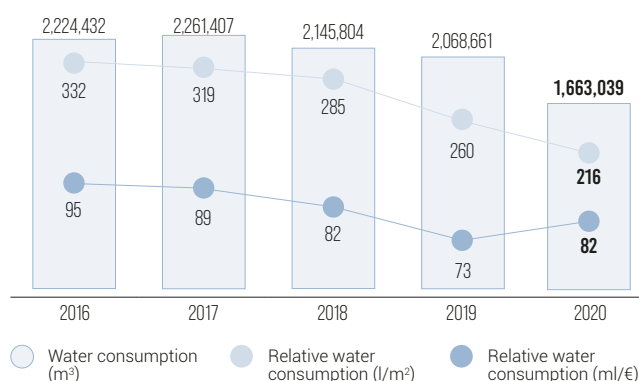
We are always in search of innovative processes for responsible and sustainable water use that enable us to be more efficient, while curbing our environmental impact and protecting marine and freshwater habitats.

## b) Consumption

We have consumed, with our activities, a total 1,663,039 m<sup>3</sup> of water at our corporate headquarters, Company-owned factories, logistics centres and own stores<sup>(4)</sup>. We calculate this consumption through direct meter readings and bill charges from public water utilities companies. The water consumption indicators have also been affected by the closure of our stores and headquarters for several months due to the health crisis. In 2020 we reduced relative water consumption per square metre by 17% at our corporate headquarters, own factories, logistics centres and own stores, compared to last year.

The largest consumption of water in our facilities corresponds to domestic use, namely cleaning and toilets, ensuring discharge through municipal wastewater systems. In industrial processes water is mainly used to generate steam and for closed-circuit cooling systems, which use recirculation systems. As the cooling systems are closed-circuit systems, the amount of water discharged can be estimated to be the same as the water used. Wastewater in all facilities is discharged to the appropriate wastewater systems. At Inditex, water consumption does not affect protected habitats.

WATER CONSUMPTION (M<sup>3</sup>)



## c) Initiatives in own operations

In order to reduce our water usage and improve reuse, we have installed storm tanks to collect roof rainwater for irrigation, road cleaning and other services. In 2020, we recovered 24,742 m<sup>3</sup> of water at our centres in Cerdanyola, Arteixo and Lelystad.

The Indipunt facility at Narón features advanced technology that enables 100% of water to be reused for irrigation of gardens and toilet systems, resulting in significant savings in water usage for the Indipunt facility. This water recovery project is the first project of its kind approved in Galicia, after having successfully passed the strict control procedures established by the Public Administration.

(4) The consumption by own stores has been calculated based on the net expenditure per store. The specific average price of 20 markets has been used. For all other markets, we have used the average of m<sup>3</sup>/m<sup>2</sup> per brand.

## d) Initiatives in the supply chain

### Collaboration with ZDHC and the Chinese Institute of Public and Environmental Affairs (IPE)

Along with ZDHC (Zero Discharge of Hazardous Chemicals) and other retailers, Inditex seeks to change the approach of the textile industry and lay down the foundations for sustainable management of chemical substances. We collaborate with our suppliers to disclose the results of wastewater analyses obtained from the *Green to Wear* assessments on the ZDHC Gateway platform.

 More information in chapter 3.4. *Sustainable management of the supply chain* of this Annual Report.

It is worth highlighting our collaboration with the Chinese Institute of Public and Environmental Affairs (IPE) in the improvement of environmental management in the China supply chain and the disclosure of the results of wastewater analyses on the IPE website. Beyond textile facilities, we have included upstream suppliers such as chemical product suppliers and centralised effluent treatment plants.

In 2020, the IPE ranked Inditex in the top 4 out of 582 brands, in the top 3 of the textile sector in its Corporate Information Transparency Index (CITI).

### Other partnerships

Water is a fundamental resource for the textile industry and we are committed to responsible water consumption. Ensuring that drinking water is available in the communities is critical for social development and economic strength, as well as for health and safety.

In light thereof, since 2015 we have worked with *Water.org* to improve access to drinking water and sanitation for low-income populations. In 2020, we signed a new four-year agreement allocated with 6 million dollars (5.2 million euros) in order to undertake the *"Empowering women and families with access to water and sanitation"* programme. Under this programme, access to drinking water and sanitation will be provided to over 2.3 million vulnerable people in Bangladesh, Cambodia and India.

 More information on the collaboration with *Water.org* in chapter 4.2. *Corporate Community Investment* of this Annual Report.



*The aim of the collaboration with Water.org is to increase access to drinking water and sanitation by providing microloans to women in developing countries.*

#### 2015-2020 DATA



Inditex's **6-million-dollar** contribution (5.2 million euros) has made it possible to mobilise 168 million dollars of additional capital, which has enabled 366,000 microcredits to be granted.



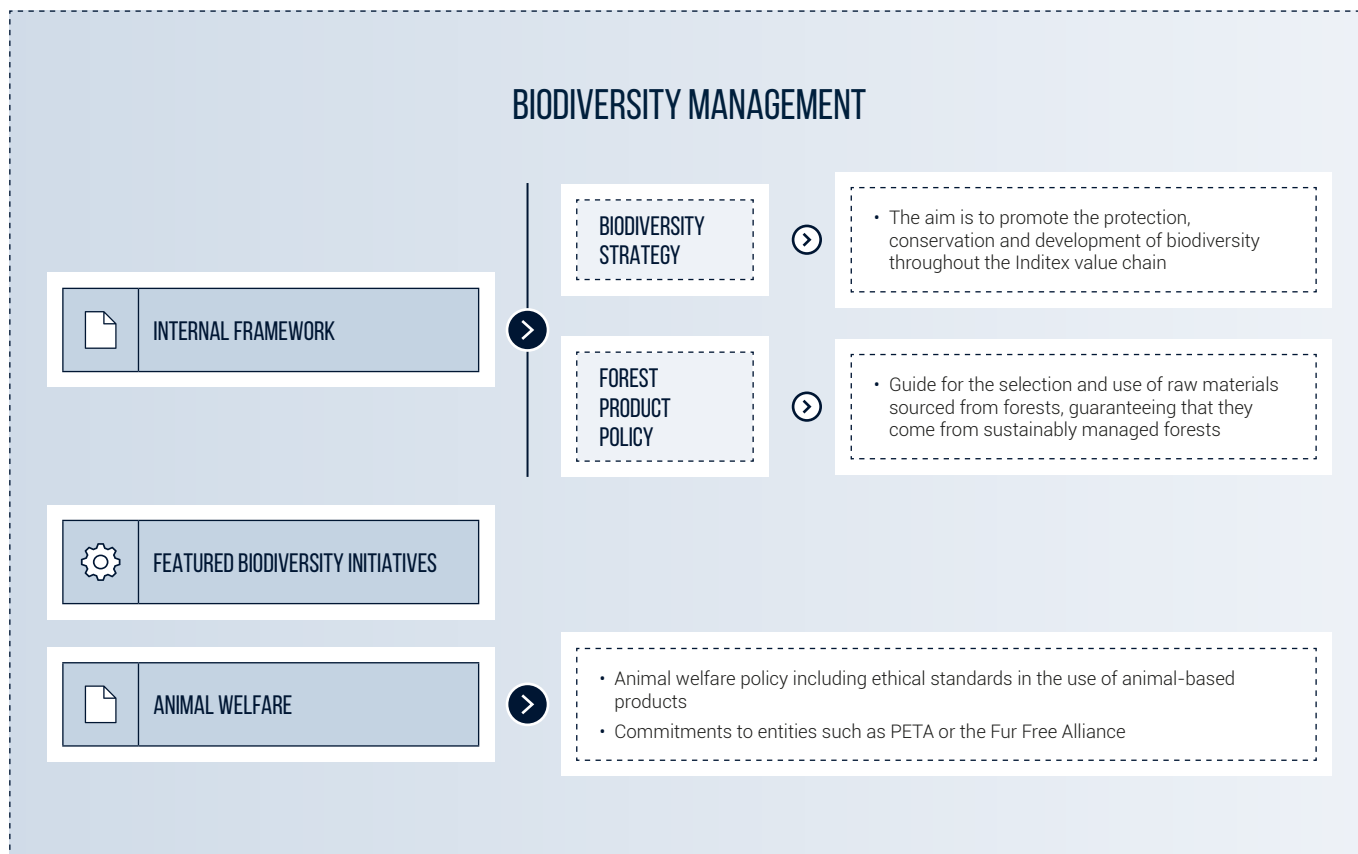
From 2015-2020, **1.5 million people** have improved their health conditions in Bangladesh and Cambodia.

## 3.1.4. Our approach to biodiversity

At Inditex we are committed to the protection and development of biodiversity through the responsible and sustainable management of natural resources.

Our Biodiversity Strategy is founded on the principles of the United Nations Convention on Biological Diversity. Its core goal is to protect biodiversity at all levels of our activity and to serve as a guide for our business decisions to meet ethical and environmental criteria.





### a) Biodiversity related initiatives

Our work in the field of biodiversity is closely related with our actions to reduce energy consumption and improve water quality.

Thus, we pay special attention to the raw materials we choose to make our products, as these decisions have a direct impact on biodiversity.

 More information on chapter 3.3. *Sustainability of our products* of this Annual Report.

Furthermore, as part of our Biodiversity Strategy and our Forest Product Policy, which was approved in March 2014, we take part in various initiatives related to forest conservation in partnership with several institutions.





## FEATURED INITIATIVES



### PARTNERSHIP WITH THE XUNTA DE GALICIA AND THE FORESTRY RESEARCH CENTRE OF LOURIZÁN

As part of our forestry strategy, we collaborate in the programme of genetic improvement of the main forest species in Galicia.



### PICO SACRO DEMONSTRATION FOREST

We continue to work to make Pico Sacro demonstration forest a model of a biological carbon sink, as well as a forestry dissemination laboratory. The initiative is aimed at supporting Galician foresters by transferring the learning from the project and defining and publishing environmental indicators for CO<sub>2</sub> absorption in partnership with the *Forest Stewardship Council (FSC)* in Spain and the Forestry Association of Galicia. The main activities carried out notably include:

- Training days and video tutorials on pruning and treatments of broad-leaf trees and conifers.
- Improved cherry plantations.
- Pruning of American oak, walnut and chestnut trees.
- Clearing and weeding the planting surface to remove competing plants.
- Maintenance tasks and replacing native dead plants in conservation areas.

With the new plantings, as at 31 January 2021, CO<sub>2</sub> absorption by trees is estimated to reach the figure of 730 tons over the next 30 years<sup>(1)</sup> (683 tons at 31 January 2020).

Furthermore, the Demonstration Forest has the FSC certificate for ecosystem services for carbon and biodiversity, the first SLIMF (*Small and Low Intensity Managed Forest*) in Spain to achieve this.

### FORESTRY ASSOCIATION OF GALICIA

In 2020, Inditex signed an agreement with the Forestry Association of Galicia for the environmental restoration of forest areas that have been affected by forest fires, have degenerated or have been severely damaged by natural disasters and on which action is necessary in order to prevent them from being abandoned.

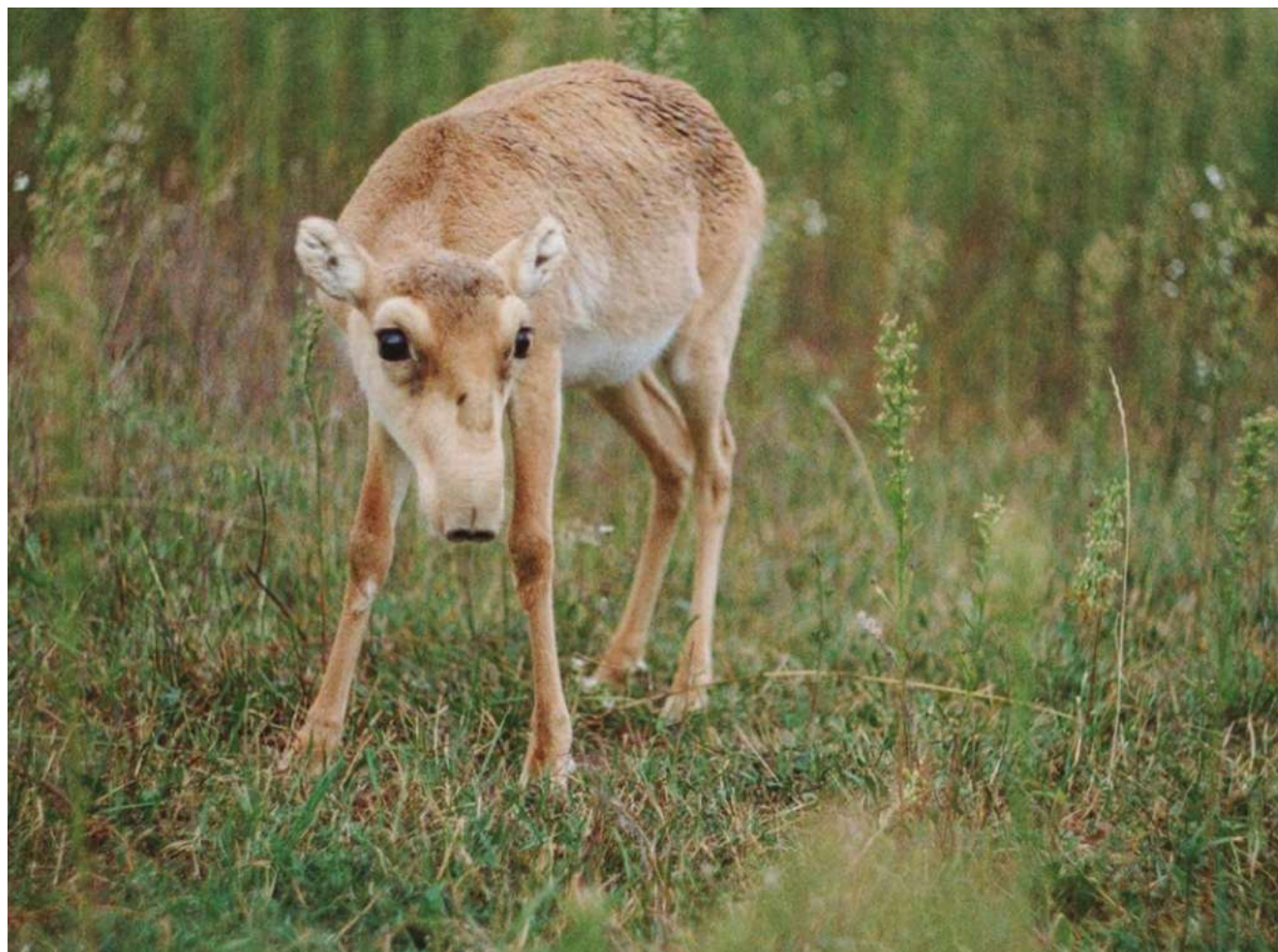
The purpose of restoration actions is to:

- Prevent erosion and maintain the fertility of soil.
- Ensure efficient water distribution in the restoration area, adapting the technical elements, infrastructure and actions taken on the soil in order to improve the availability of water;
- Optimise the CO<sub>2</sub> absorption capacity of trees introduced in the areas under restoration;
- Preserve the existing biodiversity in the area of intervention;
- Consider the connectivity and recovery of wildlife mobility;
- Consider the risk of pests and diseases;
- Plan according to forest fire risk factors.

(1) Based on the *ex ante* carbon dioxide absorption calculator of Spanish forest species recommended by the Spanish Climate Change Office.



*Inditex has an animal welfare policy including ethical standards in the use of animal-based products, pursuant to the Five Freedoms of animal welfare.*



## **b) Animal welfare**

Inditex has an Animal Welfare Policy that includes ethical standards in the use of animal-based products, pursuant to the Five Freedoms of animal welfare for the ethical and responsible treatment of animals, and it has been developed in partnership with the Humane Society of the United States (HSUS).

All animal-based components in items marketed by our brands must be sourced from ethically and responsibly

treated animals. We do not use leather or products originating from animals exclusively slaughtered to sell their leather, shells, horns, bones, feather, down, or any other material, or cosmetics tested on animals.

In this respect, and in line with our commitments to organisations such as People for the Ethical Treatment of Animals (PETA) and the Fur Free Alliance, we do not market any products with Angora wool, we eliminated mohair in the 2020 spring–summer campaign and we do not use fur.







# Alignment with the Task Force on Climate-related Financial Disclosures (TCFD)

# 3.2. Alignment with the Task Force on Climate-related Financial Disclosures (TCFD)



RELATED MATERIAL TOPICS:

CLIMATE CHANGE  
RISK MANAGEMENT AND CONTROL SYSTEMS



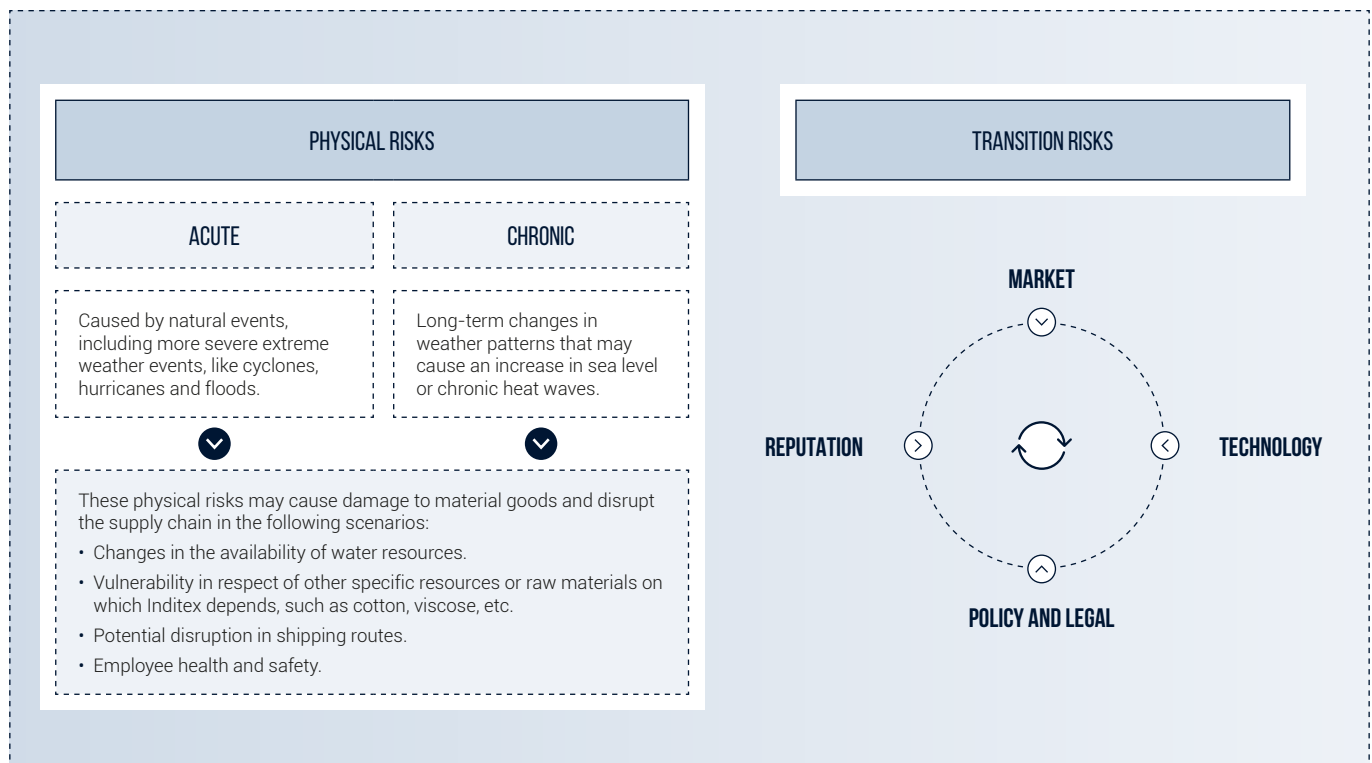
In 2020, we showed our support for the Task Force on Climate-Related Financial Disclosures (TCFD) and we undertook to include their guidelines to boost transparency concerning the risks and opportunities deriving from climate change for our Company.

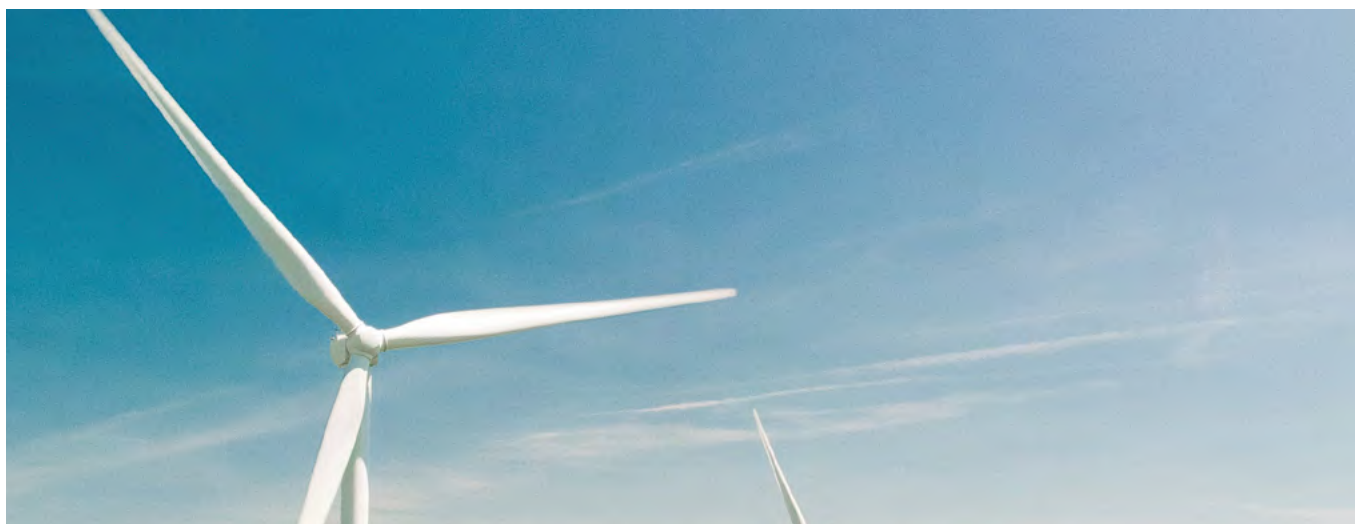
Stemming from this commitment, in 2019 Inditex set up a cross-disciplinary working group tasked with analysing, managing and adapting our framework of disclosure and management in connection with climate to the TCFD guidelines. In 2020, the TCFD working group has made progress on this mission, evaluating the starting position of Inditex with respect to the recommendations identifying focus areas for the next few years. This 2020

Annual Report is the first to incorporate a TCFD chapter and index.

### Introduction to the TCFD recommendations

Led by Michael Bloomberg, the *Task Force on Climate-Related Financial Disclosures* (TCFD) emerged in 2015 at the behest of G20 leaders. As the chart below shows, the TCFD goes beyond the traditional understanding of the risks linked to the climate that typically refer to the physical impacts resulting from extreme weather events, and includes transition risks, as well as the risks and opportunities associated with the shift to a low-carbon economy.





The TCFD recommendations are structured around four reference areas for organisations' business management (governance, strategy, risk management and metrics and targets), and build the information framework which can help investors and other stakeholders to understand how to tackle climate change from a business perspective. In each of these areas, two or three recommendations are included when it comes to reporting in connection with the description of processes, measures and objectives.



The Inditex Group's performance is exposed to the potential impact of climate change in its various manifestations of physical risk. These may be chronic, catastrophic or transitional (political, legal, technological and market changes). In this regard, in 2021 the working group is advancing in the process of integrating these recommendations in the Company's Integrated Risk Management System, as well as developing climate scenarios in order to assess the financial impact of physical and transition-related climate risks.

Furthermore, in its firm commitment to introducing increasingly stringent sustainability and climate change standards, the Group has set ambitious goals for reducing emissions approved by the Science Based Target Initiative (SBTi).

The goal is to reduce our scope 1 and 2 emissions by 90% and to reduce scope 3 (purchased goods) emissions by 20%, in both cases in the 2018-2030 period, with the ultimate aim of achieving net zero emissions by 2050.

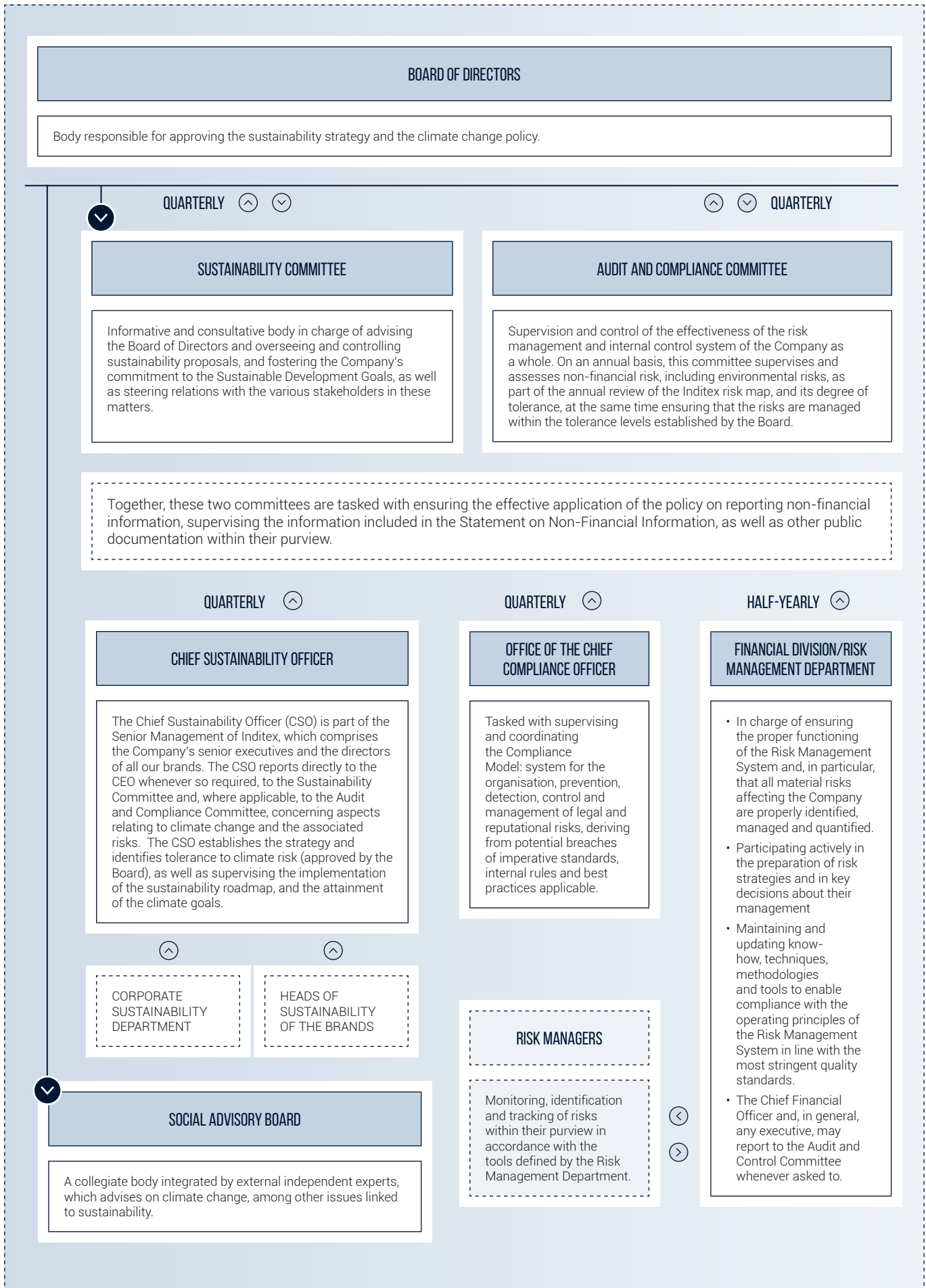
**i** More information on these goals, initiatives and projects in the chapters 3.1. *Minimising environmental impact across the value chain*, 2.8. *Circularity*, and 3.3. *Sustainability of our products* of this Annual Report.

### 3.2.1. Climate governance

The Board of Directors is the body ultimately responsible for approving the Company's strategic plans, which includes the Sustainability Roadmap that will lead Inditex to be a net zero-emissions company by 2050. Consequently, on a quarterly basis, the Board of Directors monitors compliance with the goals established in the Strategic Plan, analysing, among other things, the indicators relating to sustainability. Sustainability, and in particular climate change, is an ever-present factor in our business model and in our decision-making process. This becomes patently clear with the creation of the Sustainability Committee as a delegate committee of the Board of Directors in 2019.

The Inditex Group's climate governance is a shared responsibility across all levels of the organisation, as evidenced by the following infographic:





### 3.2.2. Strategy

#### Our focus on decarbonisation

In 2019 we became one of the founding members of the Fashion Pact, to drive environmental sustainability in the textile and fashion industries to attain net zero emissions by 2050. At Inditex we are working to be an active part of this transition and we are aligning our strategy with this goal. In this regard, we highlight our Sustainability Roadmap, which outlines the milestones and commitments we have set for ourselves until 2025, in addition to the actions aimed at achieving our long-term objectives.

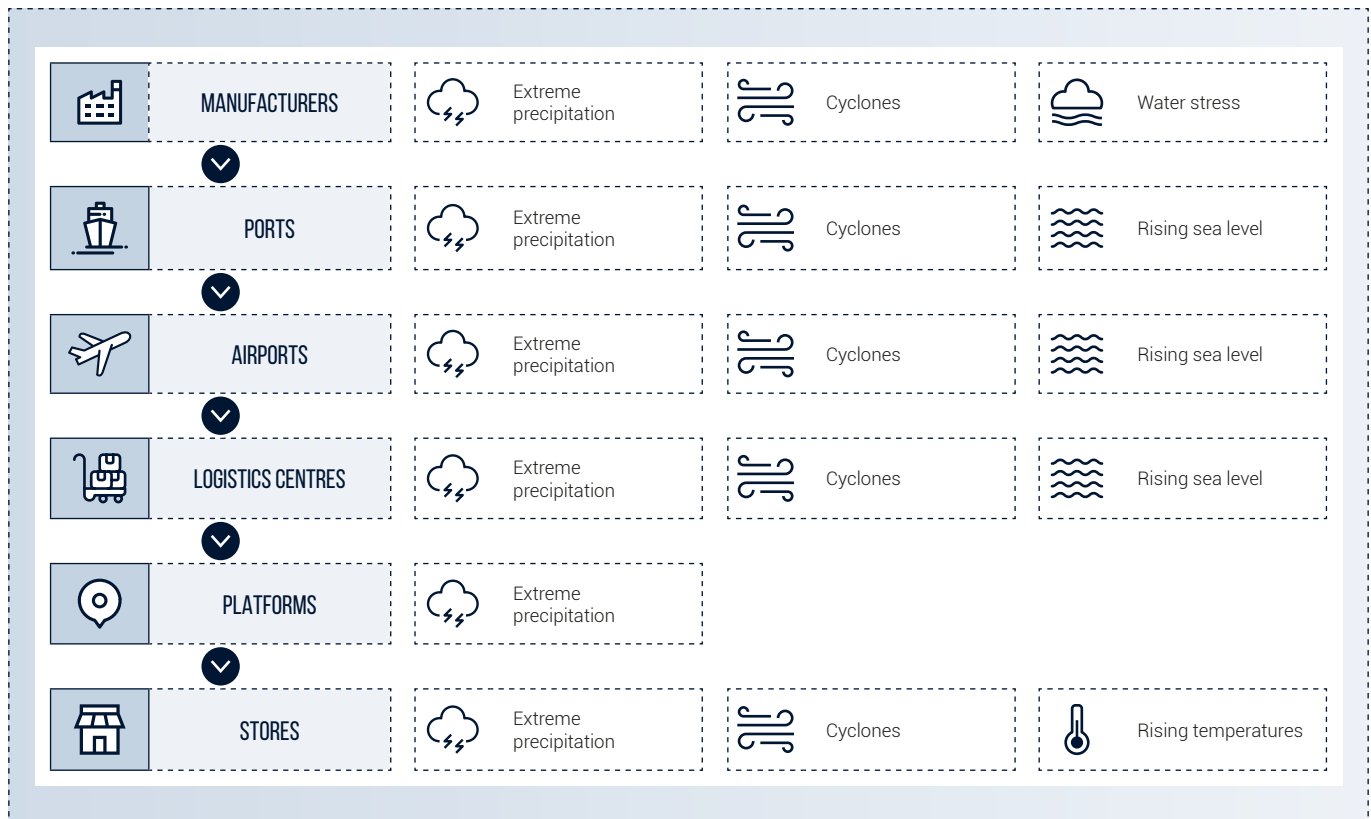
*More information in chapter 3.1. Minimising environmental impact across the value chain.*

In order to develop a resilient strategy that enables us to achieve net zero emissions, a holistic approach is required that involves the analysis of future climate scenarios and the identification of the associated risks and opportunities. Due to the time scale and nature of the challenge posed by climate change, these risks and opportunities have been assessed in the short (0-5 years), medium (5-10 years) and long (more than 10 years) term.

#### Scenario analysis










To make progress in this regard, since 2019 preliminary analyses of the physical risks of climate change are performed based on two climate scenarios – RCP 8.5 and RCP 2.6<sup>(1)</sup> – in accordance with the TCFD guidance. This analysis of physical risks yielded results on the impact that climate change could have on the conditions for the production and distribution of our products in the various regions in which we operate. The aim of this initial analysis was to gauge the resilience of our business model in different climate scenarios, and to obtain a preliminary estimate of the impact of these climate risks on our medium- and long-term models.

The analysis covered more than 11,000 locations of different kinds over the course of all the stages of our value chain, including various natural raw materials. Accordingly, climate change risk was assessed on the basis of probability and the Group's preparedness. The findings, which in this initial phase were qualitative, enable us to classify risk into one of five categories of impact by type of risk in each region and stage in the value chain.




(1) AR5, Synthesis Report, Intergovernmental Panel on Climate Change (IPCC), available here: [https://www.ipcc.ch/site/assets/uploads/2018/05/SYR\\_AR5\\_FINAL\\_full\\_wcover.pdf](https://www.ipcc.ch/site/assets/uploads/2018/05/SYR_AR5_FINAL_full_wcover.pdf).

CLIMATE CHANGE RISKS

RISK	DESCRIPTION	RISK MANAGEMENT	TYPES OF IMPACT	PHASE	TIME FRAME
<b>Availability and price of natural raw materials</b>	Cotton is the most common raw material used to produce our garments. Water stress and extreme precipitation may affect the production capacity of this raw material, especially in certain of the main regions where it is produced.	We are strongly committed to ecologically or organically grown cotton, cultivated using the most sustainable practices that include less use of water and that use only non-GMO seeds.  Our commitment is embodied in the ambitious goal of using 100% recycled or sustainably-sourced cotton by 2025.	  		Medium term
<b>Disruption of operations</b>	As a result of acute weather events and natural disasters such as floods, fires, cyclones, etc. the key operations of the business and shipping processes could be disrupted or halted. These events could also affect the Group's critical infrastructure, such as the centres and logistics platforms.	Inditex has technical contingency systems that would reduce the consequences of a disruption or standstill. In addition, there are continuous review systems that, along with the insurance policies, would cover loss of profit and derivative expenses.  In the specific case of logistics centres, these are configured so as to be able to undertake storage and distribution capacity for other centres in the event of a contingency caused by extreme weather events.	  	  	Medium term
<b>Increase in the operating costs of our stores</b>	Inditex has more than 6,800 stores worldwide. The widespread temperature increase will affect a considerable portion of our stores, especially in certain locations. According to the climate scenarios examined, the energy requirements for heating, ventilation and air conditioning at our premises will rise sharply, thereby increasing the associated energy costs.	Eco-efficiency is a priority at all facilities of the Group, and therefore major investments are being made in this area. This is an essential aspect in the design of our stores and we have ensured that all stores are eco-efficient in 2020.  To achieve this, we rely on the <i>Eco-efficient Store Manual</i> , which seeks to ensure that its efficiency and sustainability requirements are fulfilled.  Thanks to the eco-efficiency measures implemented in Inditex-owned stores, significant energy savings have been achieved, particularly in heating, ventilation and air conditioning systems, as these are able to achieve an energy yield and efficiency that are at least 20% better compared to conventional equipment.			Medium term

Types of impact

-  Increase in production costs
-  Increase in capital cost
-  Increase in operating costs
-  Loss of profit due to decreased sales
-  Delays and disruptions in the supply chain

Stages of the value chain





## Opportunities deriving from climate change

The Group's positioning in terms of sustainability and the definition of long-term milestones is in turn enabling us to boost the opportunities associated with a transition to a zero-emissions economy. Consequently, using resource efficiency, renewable energy, energy efficiency and new product development as levers to generate value and competitive advantage, we may mitigate our exposure to physical risks.

In this regard, at Inditex we take an innovative approach throughout our value chain that fosters sustainability and circularity, implementing actions and undertaking commitments to reduce our global environmental impact. These actions and commitments are developed through various action lines linked to energy management, the circular economy, the protection of biodiversity by means of the development and use of more sustainable fibres, as well as managing the impacts on the supply chain. We developed the *Join Life* standard to identify all garments made of the most sustainable raw materials and the most environmentally friendly production processes. Furthermore, our *Green to Wear* standard encourages sustainable environmental behaviour in our supply chain, fostering best practices in manufacturing and encouraging efficiency of resources and the reduction and proper management of waste.

**i** More information on these goals, initiatives and projects in the chapters 3.1. *Minimising environmental impact across the value chain*; 2.8. *Circularity*; 3.3. *Sustainability of our products*; and 3.4. *Sustainable management of the supply chain* of this Annual Report.

## 3.2.3. Risk management

Inditex has an Integrated Risk Management System ("IRMS") covering the entire Group. The IRMS is grounded on the Risk Management and Control Policy and other internal rules governing the management and control of risks. Risk management in the Group is a process promoted by the Board of Directors and senior management, the purpose of which is to provide reasonable assurance that the objectives established as a response to the social and environmental challenges will be achieved, furnishing all stakeholders with sufficient guarantee to ensure that the value generated will be protected.

Within this integrated framework for management and control, there are three lines of defence. The business units constitute the *first* line of defence. The Risk Management Department and other areas with management and control responsibilities constitute the *second* line of defence. Internal Audit is the *third* line of defence, independently monitoring the IRMS and reporting to the Board of Directors by means of the Audit and Compliance Committee.

The IRMS encompasses all risks, both financial and non-financial. The risk factors to which the Group is exposed are classified into six categories: financial, geopolitical, technological, social, governance and environmental (including climate change-related) risks. In addition to the risk factors, the Risk Management and Control Policy establishes the general framework for standard and systematic management, as well as the processes for the identification, assessment and prioritising of risks. Risks are assessed in terms of impact, probability of occurrence and degree of preparedness, considering residual risk in the wake of the adoption of appropriate mitigation and control measures. Risks deriving from climate change are managed in the same way as the rest of risks to which the Group is exposed.

**i** More information in the section *Enterprise Risk Management Systems of the Annual Corporate Governance Report for 2020*.



## RISK MANAGEMENT

### BOARD OF DIRECTORS

Approval of the Risk Management and Control Policy, which establishes the basic principles, key risk factors and the general framework of action for their management.



### AUDIT AND COMPLIANCE COMMITTEE

- Supervision of risk control and management, verifying their proper functioning on the basis of the policy approved by the Board.
- Assessment of the efficacy of financial and non-financial risk internal control and management systems, as well as the measures envisaged to mitigate the impact of the risks identified.
- Identification and re-assessment, at least annually, of the main financial and non-financial risks and their tolerance levels.
- Risk Map identifying the main risks by category and an assessment thereof as a function of their potential impact, probability and the Group's preparedness for tackling them.

### SENIOR MANAGEMENT

- Awareness and dissemination of the importance of the Risk Management System and its value for all the Group's stakeholders.
- Definition and validation of roles, attributions and responsibilities within the framework of the Risk Management System.
- Approval of action plans and work plans derived from the risk management process itself, and activity monitoring.
- Establishing the level of risk that the Company considers acceptable, based on the objectives and interests of the Company and its stakeholders.

### THREE LINES OF DEFENCE

#### FIRST LINE OF DEFENCE

##### **BUSINESS UNITS**

Reporting of the risks to which the Group is exposed in its various areas of responsibility, including those related to climate.

#### SECOND LINE OF DEFENCE

##### **RISK MANAGEMENT/COMPLIANCE FUNCTION**

Tasked with coordinating and updating the Integrated Risk Management System to maintain maximum quality standards.

#### THIRD LINE OF DEFENCE

##### **INTERNAL AUDIT**

Independently and objectively supervising the Risk Management System.

ANNUAL

QUARTERLY



*Risk management is a process promoted by the Board of Directors and Senior Management to provide reasonable security in achieving objectives in response to the social and environmental challenges.*

### 3.2.4. Metrics and targets

At Inditex we are committed to actively protecting the environment by reducing the impact of our activity and taking steps to help keep our planet below the global warming threshold established in the Paris Climate Agreement.

#### Targets

With this goal in mind, Inditex has set ambitious emissions reduction targets approved by the Science Based Target Initiative (SBTi), which envisage a 90% reduction in Scope 1 and 2 emissions and a 20% reduction in Scope 3 (purchased goods) emissions, in both cases for the 2018-2030 period. These targets are the first milestone in Inditex's ambitious emissions reduction strategy, whose purpose is to achieve decarbonisation by 2050.

#### Scope 1, 2 and 3 emissions

The set of measures launched by Inditex to reduce emissions has resulted in a 76% reduction in Scope 1 and 2 emissions since 2018. In 2020, we continued to work on improving the calculation and reporting of our Scope 3 emissions.



More information on the method used to calculate greenhouse gas emissions in the section on *Minimising environmental impact across the value chain indicators* in the Appendices to this Annual Report. More information on the breakdown of emissions by category established in the GHG Protocol in chapter 3.1. *Minimising environmental impact across the value chain*.





	2018	2019	2020	2018-20 % CHANGE
<b>ENERGY</b>				
<b>ELECTRICITY</b>				
Global consumption (MWh)	1,865,074	1,807,556	1,206,543	-35%
% Renewables	45%	63%	81%	81%
<b>NATURAL GAS (MWh)</b>				
	103,724	84,627	63,905	-38%
<b>DIESEL (MWh)</b>				
	329	764	256	-22%
<b>Emissions (tCO<sub>2</sub>e)</b>				
<b>SCOPES 1 AND 2</b>				
Scope 1	21,055	17,311	12,986	-38%
Scope 2 Location-Based	766,968	750,638	472,510	-38%
Scope 2 Market-Based	486,957	332,789	108,006	-78%
<b>TOTAL SCOPES 1 AND 2 LOCATION-BASED</b>	<b>788,023</b>	<b>767,950</b>	<b>485,496</b>	<b>-38%</b>
<b>TOTAL SCOPES 1 AND 2 MARKET-BASED</b>	<b>508,012</b>	<b>350,101</b>	<b>120,992</b>	<b>-76%</b>
<b>SCOPE 3</b>	-	20,151,227	14,888,172	-
<b>Material metrics</b>				
<b>REVENUE (€)</b>				
Scope 1 and 2 Location-Based per €	30	27	24	-21%
Scope 1 and 2 Market-Based per €	19	12	6	-69%
<b>TOTAL AREA (M<sup>2</sup>)</b>				
Scope 1 and 2 Location-Based per m <sup>2</sup>	105	96	63	-40%
Scope 1 and 2 Market-Based per m <sup>2</sup>	68	44	16	-77%

As a result of the methodology update, the categories reported in 2019 were also updated. Total Scope 1+2+3 emissions in 2019 amounted to 20,501KT CO<sub>2</sub>eq (vs. 20,530 KT CO<sub>2</sub>eq reported in the previous Annual Report).

Emission indicators have also been affected by the closure of our stores and headquarters for several months of the year, and by the promotion of teleworking, due to the health crisis arising from covid-19.

## Mechanisms to incentivise decarbonisation

### Variable remuneration

At Inditex we have internal mechanisms to incentivise decarbonisation actions at the Company. In accordance with our values of transparency and our orientation towards results and simplicity, we link our people's variable remuneration to the Company's goals and the sustainability commitments for all employees.

Receipt of variable annual remuneration at Inditex is linked to compliance with sustainability goals. Specifically, in the

corporate year 2021, the weighting of sustainability goals in total variable remuneration is at least 15%.

In addition, Inditex has a long-term incentive scheme for members of the management team and other employees covering the 2019-2023 period. This incentive includes, among other sustainability criteria, a reduction in the ratio of greenhouse gas emissions in the Company's own operations with respect to the volume of the Group's total sales. This index has a maximum weighting of 10% over the total.

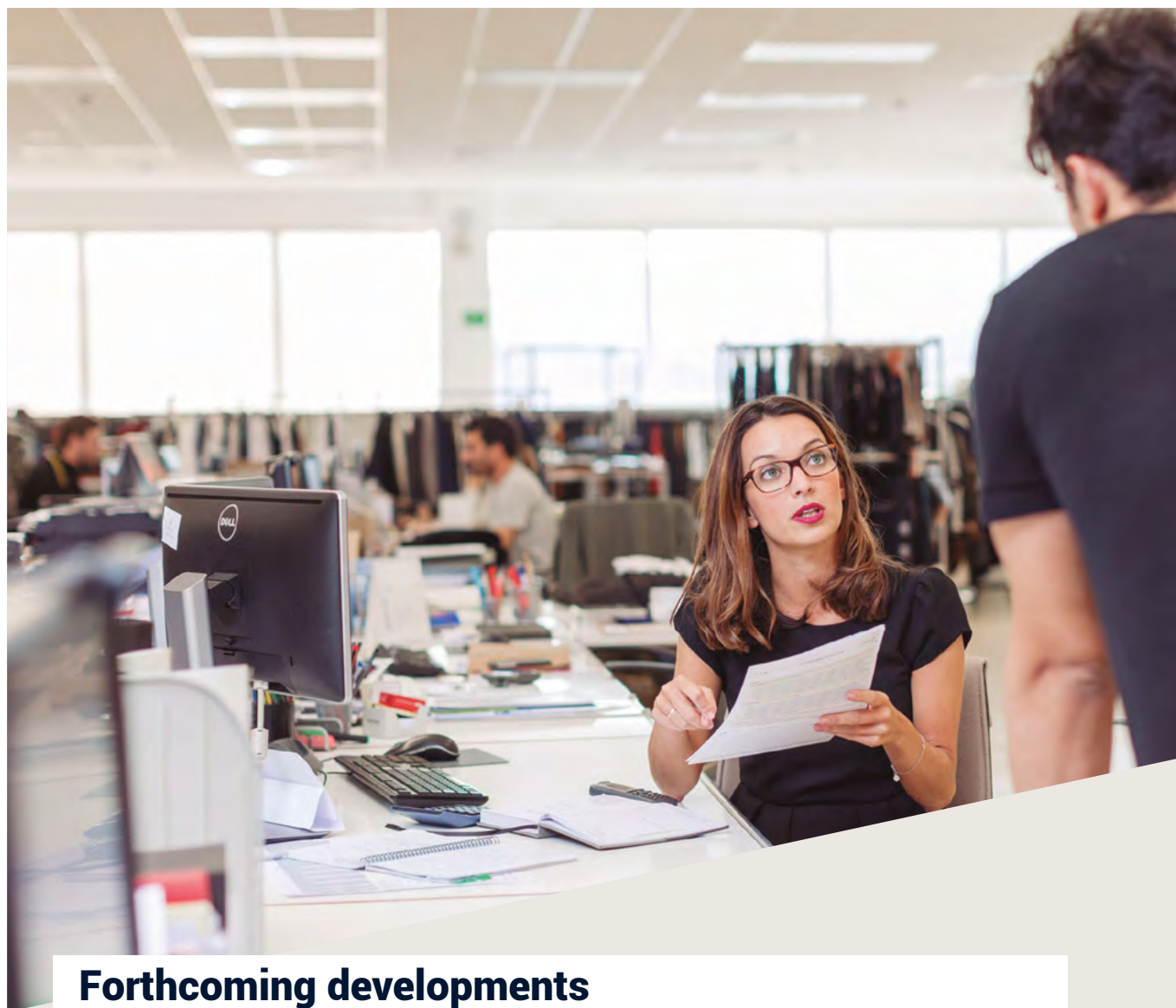
### Join Life label

We use the *Join Life* label to identify all garments made of the most sustainable raw materials and the most environmentally friendly production processes. This standard enables us to advance in our endeavours to curb our impact and steadily boost the level of demand for sustainability criteria in our garments. In 2020, 38% of our products were *Join Life*, and all of our brands include a variable linked to goals relating to this label.

 More information at chapter 3.3. *Sustainability of our products* of this Annual Report.

Our commitment in the fight against climate change has been recognised for the third consecutive year with the Leadership A- category in the CDP Climate Change index. This list integrates companies that comply with the maximum criteria of the Carbon Disclosure Project regarding strategy,

objectives and actions related to the risks and opportunities of climate change. Moreover, Inditex featured in the Dow Jones Sustainability Index as leader in the environmental section, evidencing its position as one of the retail companies with the best performance in this regard.



## Forthcoming developments

Key areas we will be working on in the coming months include formalising the process of monitoring and controlling climate risks and opportunities to ensure continuity and support from the Board of Directors.

Building on the work done so far, we will address the formalisation of processes and quantification of the financial impact associated with the climate risks and opportunities identified in the short, medium and long term. Likewise, we will expand the use of the Integrated

Risk Management System so that it can also be used as a detailed tool for Inditex's climate risks, and for the related management processes.

With regard to physical risks, the analysis of scenarios will be further developed. And with regard to transition risks and opportunities, an analysis of climate scenarios will commence. Both activities will be carried out with a prestigious scientific institution.





# Sustainability of our products

# 3.3. Sustainability of our products

RELATED MATERIAL TOPICS:

PRODUCT SUSTAINABILITY;  
ENVIRONMENTAL FOOTPRINT MINIMISATION;  
PROTECTION OF NATURAL RESOURCES;  
STAKEHOLDER ENGAGEMENT



## 3.3.1. Design

Placing a new garment on the market involves a design process and a manufacturing process. Inspiration and creativity are essential to design. In this regard, we consider that the choice of the different raw materials to manufacture an article and to improve its life cycle, either by providing greater durability or by facilitating its recyclability, has a major bearing on the design process.

### Training

Circularity means, particularly during the design phase, designing to reduce waste at every stage of development and extending the life cycle of a product. This enables better supply and choice of materials, promotes the care and repair of the product, and at the same time creates greater opportunities for reuse and recycling.

We have a **training programme** to help our designers further integrate circularity into their daily tasks. This training features different modules:

- Approach to sustainability
- Sustainable raw materials
- Sustainable wet processes
- Traceability tools and corporate systems
- Circular design by garment type

In 2020, we conducted scheduled training to ensure that our designers have been trained in the Principles of the Circular Economy, in line with the commitment we made to the *Global Fashion Agenda*.



*In 2020, we have fulfilled our commitment to train all the Group's designers in the Principles of the Circular Economy.*



*Sustainability is integrated into the very first stages of design of our products.*

## Article evaluation

The supervision of our articles and compliance with standards is a process that, at Inditex, is tackled from the design phase, since that is when decisions are made such as the choice of raw materials, of critical importance for subsequent stages of manufacturing. In this connection, and to ensure that our items are safe from the outset, we provide our suppliers with in-depth information on the design, the raw materials chosen (fabrics, sewing threads and interlinings) and the accessories (buttons, zips, and appliqués), as well as the manufacturing processes to be employed and the dimensions of cords or drawstrings, if applicable.

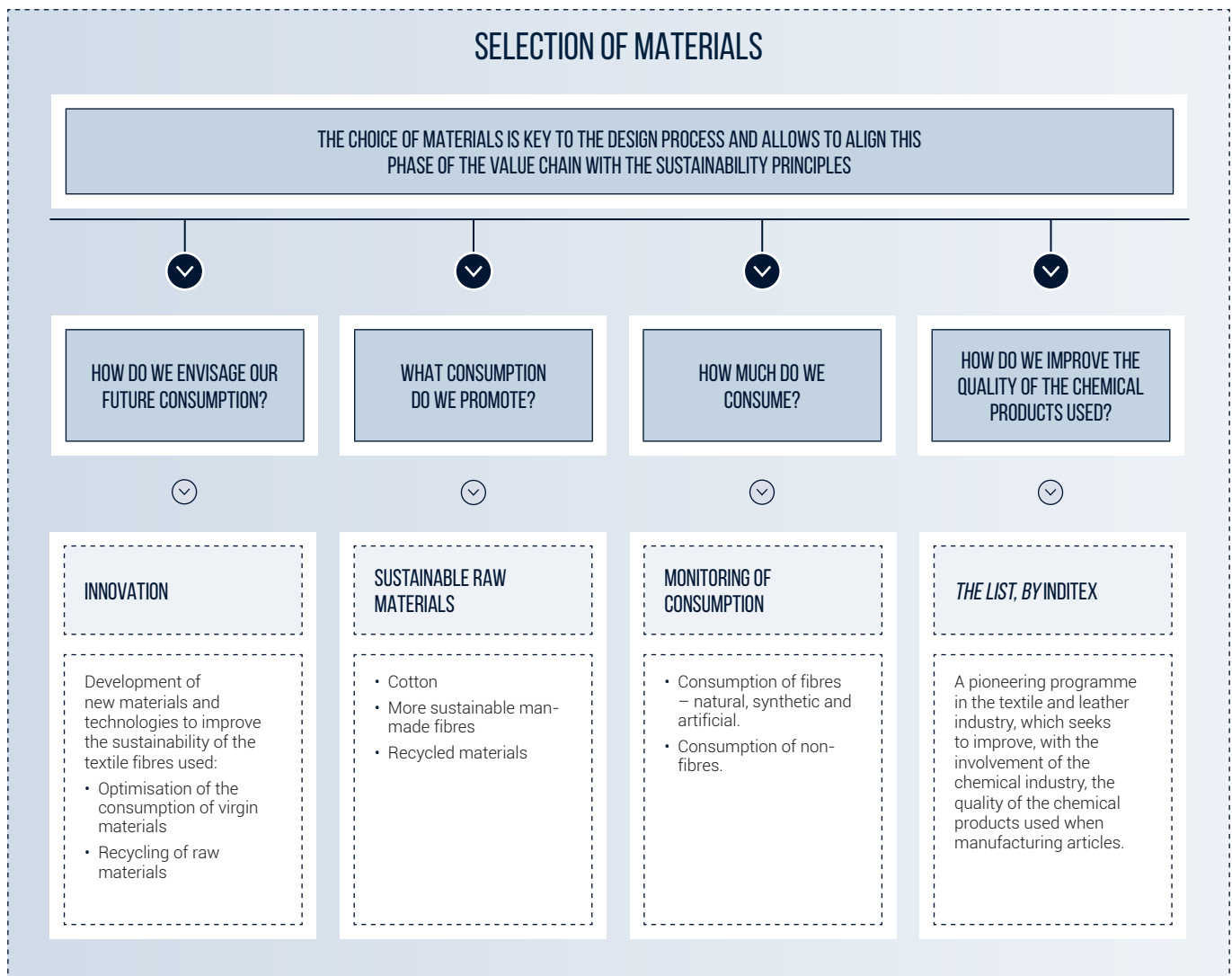
**i** More information about Health and Safety standards on paragraph 3.3.4. *Health and safety of our products* of this Annual Report.

## 3.3.2. Selection of materials

The selection of materials is a core element of the design process. In line with the principles of our Sustainability Policy and our Sustainability Roadmap, one of our priorities is to champion the use of more sustainable fibres that have a better environmental performance and involve more efficient consumption of resources.

Furthermore, our Biodiversity Strategy, which is based on the principles of the United Nations Convention on Biological Diversity, and the Forest Product Policy includes our commitment to forest ecosystem and nature conservation. We thus pay special attention to the raw materials we choose to make our products, as these decisions have a direct impact on biodiversity and the use of natural resources.

**i** More information in the chapter 3.1. *Minimising environmental impact across the value chain* of this Annual Report.





We are committed to ensuring 100% of the cotton, polyester and linen used in our products will be recycled or will come from more sustainable sources by 2025.

Our commitment in this area has enabled us to achieve the following results of tons of sustainable raw materials used for the garments made available for sale, with goals for 2025.

**THIS YEAR, WE HAVE CONTINUED TO WORK TO:**

**Increase the use of sustainable raw materials**, such as sustainable cotton and recycled fibres.

**Training our supply chain** to manage their resources responsibly.

Using sustainable sources in our **wooden furniture** and **paper products**.

RAW MATERIAL	2020 TONS	2019 TONS	2018 TONS	2020-2019 CHANGE (%)	2019-2018 CHANGE (%)
<b>MORE SUSTAINABLE COTTON (ORGANIC, BCI &amp; RECYCLED)</b>	73,874	38,676	18,851	91%	105%
<b>RECYCLED POLYESTER</b>	9,594	5,332	1,881	80%	183%
<b>SUSTAINABLE LINEN</b>	1,245	1,813	266	-31%	581%
<b>VISCOSE AND OTHER MORE SUSTAINABLE CELLULOSE FIBRES</b>	8,379	6,692	3,178	25%	111%

*The consumption of more sustainable raw materials represents 21% of the total consumption of raw materials in 2020.*



## a) Innovation

In order to advance in the fulfillment of the goals set, during 2020 we have continued to foster innovation in the development of new materials and technologies to improve the sustainability of the textile fibres used, focusing both on optimising the consumption of virgin materials and their subsequent recycling.

This year we have continued to promote various lines of collaboration, both with renowned academic institutions, as well as with local and international organisations, in the interest of advancing the sustainable development of the materials we use in our value chain.



### **Sustainability Innovation Hub**

Innovation is present from the very first moment our products are conceptualised, with special emphasis on the search for and continuous development of new raw materials and more sustainable fibres. In this respect, we have launched the Sustainable Innovation Hub initiative, which consists of an open innovation platform based on collaborative technological monitoring with the following key strategic areas:

- Raw material circularity
- Improving availability of sustainable raw materials
- Raw material traceability
- Renewable origin

- Development of new technologies and more sustainable materials that minimise the needs for water, energy and use of chemical products

This platform will allow us to select those initiatives of sufficient technological maturity to evaluate their effectiveness through pilot tests, in order to apply successful outcomes to the commercial phase and to the industry in general.

The platform was created to drive major relevant impacts on the Group's strategy on raw materials and/or circularity, assuming that it is required to comply with our sustainability commitments.



#### **CIRCULAR CARBON**

The purpose of the project, which is also based on the Sustainability Innovation Hub initiative, is to transform carbon emissions or different sources of carbon feedstock into a resource for the production of new fibres to be used in textile. The pressing aspect of climate change means it is vital to use new technologies in order to capture carbon emissions from industrial facilities, and syngas generated from any biomass resource (e.g. urban solid waste (USW)), organic industrial waste, agricultural waste and textile waste.

This initiative offers an opportunity to convert emissions into fibre, with a reduced carbon footprint thanks to the use of an alternative to fossil sources and directly participating in capturing emissions. The fibres researched are synthetic fibres such as PET and acetate fibres.

## b) Sustainable raw materials

### Cotton

Cotton is the most common raw material used to produce our garments. For this reason, we have decidedly committed to organically grown cotton, enabling us to improve our environmental performance, since it is grown with more sustainable practices and solely use non GMO (genetically modified organisms) seeds.

Our commitment is summarised as a collaboration with the most relevant international initiatives that foster the

sustainability of the cotton sector. Thus, we are members of the Textile Exchange, we partner with the Better Cotton Initiative (BCI) and we are one of the founders of the Organic Cotton Accelerator (OCA) initiative. Since 2017, we have also held a public-private partnership with the International Labour Organization to improve the working conditions of workers in the cotton supply chain.

*More information in paragraph 2.7.7. Protection of labour rights in the production of raw materials of this Annual Report.*



**Our goal: 100% sustainable cotton (organic, Better Cotton Initiative and recycled) in 2025.**

### FEATURED INITIATIVES



#### ORGANIC COTTON

Organic cotton is premised on the optimal use of natural resources, without using synthetic chemicals or genetically modified organisms (GMOs) and only uses natural fertilizers and pesticides. Using this type of cotton increases biodiversity and enables more fertile soils for future generations.

As members of the Textile Exchange, we partner with this independent and non-profit organisation, that is an international benchmark in the sector. It is a platform to promote the growing of organic cotton, and global sustainability within the textile sector.

Our goal: to promote organic cotton based on its environmental virtues, reaching the source of the fibre in our supply chain, and strengthening and guaranteeing its traceability through to our garments.

#### 2025 SUSTAINABLE COTTON CHALLENGE

In line with the goal of all the cotton we use in manufacturing our products coming from more sustainable sources by 2025, we have joined the Textile Exchange foundation's 2025 Sustainable Cotton Challenge.

#### BETTER COTTON INITIATIVE

We partner with the Better Cotton Initiative (BCI), which shares our holistic (environmental and social) approach to sustainability and through which we seek to foster a more sustainable cotton supply chain. This initiative develops and promotes best practices in the traditional growing of cotton to benefit the farmers and the environment, and to ensure the future of the sector.

Within BCI, we are members of the Chain of Custody Advisory Group, a task force involved in driving chronological documentation and evidence tracing in order to track the movement of products throughout the supply chain. This guarantees that the BCI volume sought by retailers and members of the BCI brand does not exceed the volume produced by licensed farmers within a specific period.





#### INVESTMENT COMMITTEE OF THE ORGANIC COTTON ACCELERATOR (OCA)

We are one of the founding members of *Organic Cotton Accelerator (OCA)*, a multi-sectorial initiative that supports organic cotton producers to ensure the sustainable growth of the industry and that all players are benefited, from the grower to the end consumer.

In spite of the exceptional situation in 2020, we have increased the number of farmers involved in the different FED (Farmer Engagement and Development) Programme projects by 57%, reaching the direct collaboration figure of more than 9,300 small farmers. This collaboration and training initiatives on organic practices help preserve local biodiversity and encourage soil enrichment, eliminate pesticides and synthetic chemical fertilizers, and prevent the use of genetically modified seeds. Part of the goal of Inditex's approach is to promote the organic cotton sector, which currently accounts for less than 1% of global cotton production, and which can result in significant benefits such as:

- Increased organic matter of soil, due to organic pesticides and fertilizers, a higher diversity of seeds, as well as the rotation of crops that encourage organic practices.
- Improved water quality, with cleaner aquifers for farmers and their communities.
- Improved animal welfare, due to water and food that is free of synthetic elements. Furthermore, also noteworthy is the relevance of livestock as a generator of inputs necessary for organic practices.
- Greater economic stability and equity for farmers and their families.

This initiative has been propagated within the Group and various brands are participating in the project, producing their items using this raw material.

## More sustainable man-made fibres

Our commitment to forest protection is inseparable from our endeavours to guarantee the sustainability of our products and our business.

Lyocell, viscose and modal are classed among a group of fibres obtained from cellulose pulp from certain trees. In 2020, we subscribed a new commitment with CanopyStyle on the Next Generation of Viscose. Consequently, Inditex will only work with the best cellulose fibres (viscose, modal, lyocell) manufacturers that correspond to producers classified as "green shirts" in CanopyStyle's *Hot Button Report*. These manufacturers prove that their fibres do not pose a supply risk to primary or threatened forests.

In this regard, we have made a commitment, guaranteeing that, from 2020, all our cellulose fibres will come from sources that do not pose a risk to the planet's primary and threatened forests.

At present, over 300 brands are adhered to this initiative, thanks to which we have made the following achievements in 2020:

- 90% of the world's fibre production comes from manufacturers who are committed to eliminating the supply of materials from primary and protected forests and to advance in innovative solutions that reduce pressure on forests (89% and 72% of production in 2019 and 2018, respectively).
- 72% of the world's production comes from manufacturers who have completed the audit process (65% and 52% of the world's production in 2019 and 2018, respectively).
- 52% of the world's production is free from the risk of being supplied from primary and endangered forests (42% and 28% of the world's production in 2019 and 2018, respectively).

 **EXTERNAL RECOGNITIONS**

According to the study *Dirty Fashion: Crunch time* prepared by the *Changing Markets Foundation*, Inditex is included, for the third year in a row, in the frontrunner category in the retail industry thanks to its strong support of production and sale of responsible viscose. The latest release of this report, published in December 2020, assesses responsible production plans, commitments and progress in the transparency of 100 brands and retailers (91 in 2019) and the most relevant viscose manufacturers and initiatives, showing the point at which the world textile industry is in the transition to responsible viscose.



*In 2023, 100% of the cellulose fibres we use will be more sustainable, supporting the responsible viscose commitment by the Changing Markets organisation in its Roadmap Towards Responsible Viscose and Modal Fibre Manufacturing.*

## Recycled materials

The production of recycled fabrics is more efficient in terms of consumption, since it requires less water, energy and natural resources than the production of new fibres, resulting in a reduced environmental impact.

As stated by Textile Exchange, recycling polyester and polyamide curtails the consumption of natural resources, since it is not necessary to extract oil to manufacture them, water consumption in obtaining them is low and a reduced amount of waste ends up in landfill.

The urge to incorporate recycled materials into our collections is reflected in their increased use.



*During 2020, we have launched into the market articles made with a total of 14,413 tons of recycled materials, which means an increase in the use of these materials of 90% over 2019.*

## Consumption of raw materials

In the context of the global consumption of raw materials, we have consumed hundreds of different types of raw materials during 2020. For information purposes, all these raw materials have been grouped, according to their origin, into two main categories: fibres and non-fibres.

PERCENTAGE OF RAW MATERIALS TOTAL CONSUMPTION

	2020	2019	2018
<b>FIBRES</b>	88%	89%	88%
<b>NON-FIBRES</b>	12%	11%	12%

Furthermore, the fibres category has been subdivided into three groups: natural fibres<sup>(1)</sup>, synthetic fibres<sup>(2)</sup> and lastly, man-made fibres<sup>(3)</sup>, the weight of which in terms of consumption has been as follows in 2020:

PERCENTAGE OF TOTAL FIBRE CONSUMPTION

	2020	2019	2018
<b>FIBRES</b>			
<b>NATURAL</b>	52%	50%	49%
<b>SYNTHETIC</b>	38%	38%	39%
<b>MAN-MADE</b>	10%	12%	12%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The "non-fibres" category includes many different raw materials from natural (vegetable, animal and mineral) and man-made sources, with scarcely any relative importance in the Group's overall consumption, thus, there is no individual breakdown.

(1) Natural fibres are natural filaments that can be threaded to obtain strands, threads or twine.  
 (2) Synthetic fibres are made of polymers that are not naturally produced, but fully created in a chemical plant or a laboratory, almost always using petroleum or natural gas by-products.  
 (3) Man-made fibres are made using a natural component as a raw material that undergoes a number of processes in a chemical plant or a laboratory.

## c) Raw material control

Once the raw material has been chosen, we verify – from the sourcing stage (in fabrics, leather, piping and appliqués, among others) – their compliance with our product health and safety standards. The dyeing, printing, and finishing are also verified.

In order to ensure the thorough inspection of the product in the initial phases of its cycle, we supplement the control of our Picking Programme with a network of internal control laboratories that conduct testing pursuant to the most-demanding international standards. These laboratories, thus, become an effective instrument to foresee possible breaches of our product health and safety standards – *Clear to Wear* and *Safe to Wear*.

We currently have an internal analytical structure with six laboratories and with the necessary technology to be able to analyse up to 18 substances and parameters regulated under the *Clear to Wear* and *Safe to Wear* standards. At these facilities we are also tasked with overseeing the conformity of fabrics with our standards' health, safety, and quality parameters.

 More information in paragraph 3.3.4. *Health and safety of our products* of this Annual Report.

### ***The List, by Inditex***

In 2013, we designed and implemented *The List by Inditex*, a pioneering programme in the textile and leather industry, which seeks to improve, with the involvement of the chemical industry, the quality of the chemical products used when manufacturing items.

*The List, by Inditex* ensures compliance with the chemical restrictions covered under the product health standard *Clear to Wear* and the commitment of Inditex to achieve the Zero Discharge of Hazardous Chemicals (also known as Zero Discharge or the ZDHC Commitment).

By conducting a thorough assessment of the manufacturers and the chemical substances they use, *The List, by Inditex* classifies the chemical products pursuant to their degree of compliance with the *Clear to Wear* standard and the Zero Discharge commitment.

 More information in paragraph 3.4. *Sustainable management of the supply chain* of this Annual Report.

Likewise, work is also done to perfect the existing production processes, as this has a direct impact on the improvement of chemical products. Where such an improvement cannot be achieved, R+D programmes are defined to create new chemical products, alternative to the existing ones.

In 2020 we made progress in **exploratory studies to add new substances not included in previous editions of *The List, by Inditex*** in the interests of broadening the scope of the programme **in response to our commitments in the Strategic Environmental Plan**. At present, the **IV edition of *The List by Inditex***, published in **2019, and regulating 23,373 chemical products, remains in force**.

We are currently working toward the convergence of the textile industry by partnering with other renowned international brands, retailers, and bodies. In this context, it is worth highlighting our partnership with the ZDHC Foundation, through the publication of the IV edition of *The List, by Inditex* on its platform (*ZDHC Gateway*). Accordingly, the project's visibility has now increased, since the ZDHC is a global platform to improve the management of chemical products in the facilities and afford greater transparency in the industry. At the same time, it has implied the ZDHC foundation's recognition of *The List, by Inditex* as the most stringent degree of compliance with ZDHC MRSL (level 3) limits, for the 3 certification categories included in *The List, by Inditex* (baby, direct contact with skin and all uses).

It is also worth highlighting the design and carrying out of application studies that reveal the relationship between content of restricted substances in chemical products and the content after its industrial application. These studies are vital to understanding the risks associated with the chemical product, as well as the manufacturing processes in which they are used, which boosts progress in their classification within our programme and strengthens our environmental commitment.

In parallel, following the same principles and methodology, *The List, by Inditex* has been developed for adhesives used in the footwear industry, premised on characterising products (adhesives and products related to their application) mainly used in this industry, which has approved the product portfolio of the two leading manufacturers of adhesive products for the footwear industry.



## The List adhesives in 2020

- Three new applications to be included in the programme.
- 3 audits and 4,940 analyses have been conducted, making it possible to classify 199 chemical products belonging to two manufacturers.

 The Appendices of this Annual Report contains additional information on the indicators of the various editions of The List.



## Research on chemical safety

**We collaborate in the development of pioneering research programmes, unprecedented in the sector, aimed to increase the knowledge about chemicals used throughout the supply chain and to improve the chemical safety assessment. Specifically, we innovate on the lines of data mining, chemical security measurements (In Vivo, In Vitro and In Silico) and standardisation, and we support scientific research in the area.**

In this connection, in partnership with *Universitat Pompeu-Fabra* and the University of Santiago de Compostela, we

have collaborated in the development of computational methods and tools to characterise chemical security in the chemicals used in the textile and leather industry. This project has involved building a database to facilitate access to the available information, a high-performance protocol to generate new experimental information and a predictive computational model to characterise the risk of different chemicals. The focus is to facilitate access to chemical safety information and obtain reliable estimates for chemicals for which information is not available, as well as to facilitate the replacement of chemicals with potentially harmful effects.

### 3.3.3. Join Life programme

Our *Join Life* label identifies the Group's garments made of the most sustainable raw materials and the most environmentally friendly production processes.

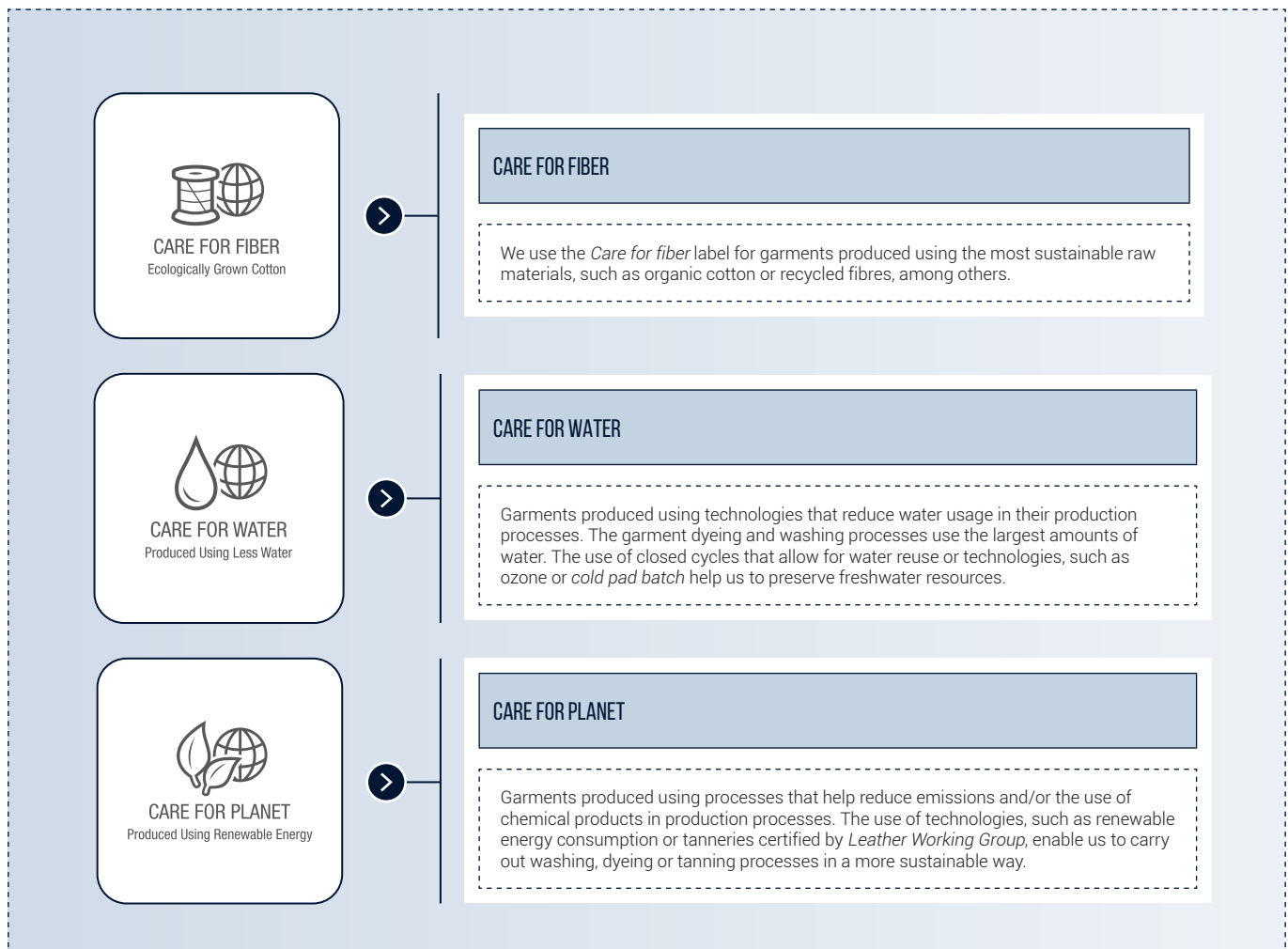
At Inditex, we strive to make our raw materials more environmentally friendly, using recycled materials and materials that are produced more sustainably. Under our *Join Life* standard, we classify all garments that have been produced using processes and raw materials that help us to curb our impact, such as organic cotton, man-made cellulose fibres and recycled polyester. What is more, this standard is based on the Life Cycle Analysis (LCA) methodology for assessing the environmental and social impact of the textile sector. This year, we have reviewed and improved the standard, making it more demanding, and more flexible labelling options have been provided; for instance, the combination of several more sustainable raw materials in a single product, the combination of different types of sustainable filling, and garments designed using different defective models (*Remade*).



*In 2020, we went beyond our commitment to reach 25% of garments placed on the market under the Join Life standard, manufacturing 38% of units under this label.*

All our *Join Life* garments are produced by suppliers classified with the best rankings (A or B) or those with a firm commitment to improvement by conducting a Corrective Action Plan, both on a social and an environmental level. They use raw materials and production processes that curb the environmental impact, fulfilling at least one of the following three requirements:

*i* More information about our assessment processes and Corrective Action Plans in the chapter 3.4. *Sustainable management of the supply chain* of this Annual Report.



In an ongoing monitoring process on the evolution of raw material standards, in 2020, we included *Join Life* feather/down (RDS), *Join Life* wool (RWS) and – particularly relevant for its ongoing evolution – the latest sustainable options of viscose, among others.

Since 2012, we have been members of the LWG (*Leather Working Group*), the leather industry's benchmark for the control of chemicals, effluents, traceability, animal care and transparency with regard to the supply chain of this material. We encourage our leather providers to join the LWG in all its categories, and more strictly, only those

members with the highest scores may be part of our *Join Life* programme. In 2020, we joined this association's Executive Committee in order to continue to work towards identifying and sharing the best practices in the leather industry, and to improving environmental performance and impact reduction.

Inditex is updating its *Join Life* initiative in relation to non-textile products. The procedure for Zara Home has been amended, with standard materials that can be used in its products to make them *Join Life* (ceramic, glass, or wood, among others).

### FEATURED INITIATIVES

**TRAINING**

During 2020, we have prepared training material on more sustainable raw materials, wet processes and tools to continue training our buyers, suppliers and brands. This training has been given to Zara's buyers, designers and other profiles, and also to various heads of *Join Life* in the brands in order to continue to train their teams throughout the year; i.e. a total of 2,016 employees. Training has also been given in local offices to a total of 200 employees, to enable them, in turn, to train suppliers.

**SUSTAINABLE PRODUCT GUIDE**

A sustainable product guide has been provided to buyers and suppliers using our internal information tool. This guide provides knowledge to stakeholders ranging from our social strategy to the classification of raw materials and wet processes. Furthermore, a *Join Life* manual has been developed for suppliers.

**COMMERCIAL INITIATIVES**

In 2020, we carried out a number of commercial initiatives where the design of collections was based on the selection of especially sustainable materials:

BRAND	COMMERCIAL INITIATIVE	LINE	ACTIONS
BERSHKA	<b>Hack Denim I and II</b>	A unique garment	Fully manufactured using old stock items. <i>Join Life RE-MADE</i> labelling.
	<b>B3 Collection</b>	Timeless and unisex line with high quality garments	Made from 100% organic cotton. Water consumption reduction technologies. <i>Care for Fiber</i> and <i>Care for Water</i> labelling.
OYSHO	<b>Join Life – Summer Collection</b>	Swimsuits, trikinis and bikinis	Garments composed of recycled materials. Recycled polyamide, carpets or production samples. And recycled polyester produced from recycling used plastic bottles.
ZARA	<b>Kids Perfume Join Life Cosmetics</b>	Line comprising five unisex fragrances	50% bioalcohol from organic crops. 100% recyclable bottle. <i>Packaging</i> comprising 100% recycled FSC certified paper and 30% recovered glass.
ZARA HOME	<b>Join Life Objects</b>	Cutlery and crockery	Stainless steel cutlery and stoneware crockery, produced by renewable energy and low emission technologies. Recycled glass.
PULL&BEAR	<b>Join Life Collection circularity project: Story of a shirt</b>	Shirt	<i>Care for Fiber</i> labelling: at least 50% recycled cotton. An example of black fibre obtained by shredding other unusable garments. This fibre does not need dyeing. A second life for a thread that could have ended up in a landfill, and thus new garments are created. Interior alarms and cardboard have been reused. Employment created for waste management in a Special Employment Centre.



### 3.3.4. Health and safety of our products

WHAT DO WE DO AT INDITEX?	CONTENT DEVELOPED	FEATURED INITIATIVES
We established <b>strict requirements</b> on the health and safety of our products.	OUR PRODUCT HEALTH AND SAFETY STANDARDS	<ul style="list-style-type: none"> <li>• Safe to Wear</li> <li>• Clear to Wear</li> <li>• I+Cosmetics</li> <li>• I+FCM</li> <li>• I+Home Fragrance &amp; Candles</li> <li>• I+Child Care Furniture</li> </ul>
We conduct various <b>control procedures</b> in the various stages of the supply chain to ensure compliance with the established requirements.	PRODUCT HEALTH AND SAFETY CONTROL PROCEDURES	<ul style="list-style-type: none"> <li>• Picking programme</li> <li>• New evaluation before being distributed</li> <li>• Approval of Laboratories Programme (APPLABS)</li> <li>• Root Cause Analysis</li> <li>• Analysis optimisation</li> <li>• Recovery of non-compliant production</li> </ul>
We continually <b>train</b> our employees and we offer <b>technical assistance</b> to our teams to maintain our standards at the cutting edge.	TRAINING AND AWARENESS-RAISING	<ul style="list-style-type: none"> <li>• Training for buying and design teams</li> <li>• Implementing technical assistance on-site to buying and design teams</li> <li>• Cutting the time required to detect potential breaches and providing solutions best suited to the specific type of product.</li> </ul>
We <b>innovate</b> to improve the manufacturing technologies and instrumental techniques.	RESEARCH, DEVELOPMENT AND INNOVATION	<ul style="list-style-type: none"> <li>• Creation of a method to determine volatile perfluorinated compounds</li> <li>• Ion chromatography with post-column derivatization</li> <li>• Application of antioxidant lipid products in chromium (VI) prevention</li> <li>• Study of the possibilities of a new methodology to measure the presence of fungicides in leather.</li> </ul>



Inditex has in place the most exacting product health and safety standards, which are mandatory and which apply to all the goods<sup>(4)</sup> we sell, and are a benchmark for manufacturing practices of all the suppliers across our supply chain. Our product policies ensure that in no case do the articles we market pose a risk to the health or physical safety of our customers.

We uphold our commitments to the Sustainable Development Goals, including to Good Health and Well-being and Responsible Consumption and Production. Our health and safety standards endeavour to guarantee quality and safety of chemical products used in the supply chain and to foster safer alternatives for human health and the environment.



In partnership with technology companies, research centres and international laboratories of reference, we verify the appropriate implementation of our standards using own and innovative programmes that include:

- The analysis of both the goods and the chemical products used in the production thereof.
- Conducting recurrent audits both at the facilities involved in manufacturing the goods, and at the factories that produce the chemical products used to produce our goods.

We are aware that there are various stages and processes in the textile and leather industry that use chemical products to transform the raw material from the earliest stages of production to the final stage of manufacturing. Therefore, our requirement is applicable to the chemical industry, responsible for producing dyes, pigments and ancillary chemicals used in the textile and leather industries under the framework of *The List, by Inditex* programme.

*i* More information on paragraph 3.3.2. *Selection of materials* section c) *Raw material control* of this Annual Report.

Based on the premise of working towards the excellence of our products, we have a team of scientists and technology experts that monitors any novelties and revisions related to regulations on health and safety. They are also in charge of identifying the chemical substances used in the industry and evaluating every manufacturing process of our products.

(4) With regard to articles outside the scope of the product health and safety standards of Inditex, they are subject to minimum requirements reports especially created pursuant to the statutory requirements which apply to the type of product and the markets where they are sold.





***This effort ensures that our articles meet the highest levels of health and safety, regardless of the specific regulations and legislation that may apply in each market.***

As a result of this process, we have managed to go beyond the Restricted Substances List, aligning with the uses to which they are applied in the textile industry in the preparation of our product standards. We have provided additional knowledge, which identifies regulated substances and controls manufacturing processes, while at the same time we have proposed the use of alternative technologies to prevent non-conformities. This knowledge becomes a very useful reference for our manufacturers and for the industry as a whole with regard to ensuring health and safety in production.

Our policies are contained in the various internal standards developed in terms of health, safety and environmental sustainability, and encompass a wide variety and classification of articles manufactured and marketed by the Group.

In 2020, we reviewed all the health and safety standards for our products (garments, footwear and accessories, cosmetics, products in contact with food, children's furniture, candles and fragrances), working on updates in response to the new legal requirements and our

commitments to sustainability, therefore increasing their scope to the new product typologies that we market.

Likewise, in order to comply with our environmental commitments, particularly the ZDHC Commitment (Zero Discharge of Hazardous Chemicals), we have our own Manufacturing Restricted Substances List (MRSL). Our MRSL, available on our corporate website and applicable to all manufacturing processes of our products, specifies the chemical substances that are subject to specific restrictions or whose use is prohibited.

In 2020, we worked to align our *Clear to Wear* product health standard with the rest of the textile and leather industry by means of our involvement in the AFIRM group. We firmly believe that these efforts to be aligned will strengthen the identification and elimination of hazardous chemical substances from the chemical industry and from the entire supply chain. Accordingly, we will be able to ensure the same level of requirements and management of chemical substances used in manufacturing at all the facilities in the supply chain regardless of which brand they work for (*Clean Factory Approach*). These new developments and updates to the standard will apply from 2021.

With the information generated in our control programmes and in the processes of updating our standards, we can identify new substances that are used in the textile and leather industry and can continuously evaluate their safety. Thus, if we identify a new substance that has a direct impact on the environment or on health, we integrate it in our product standards.





## a) Our product health and safety standards



### Safe to Wear

**SAFE TO WEAR (STW) IS OUR PRODUCT SAFETY STANDARD, WHICH APPLIES AND IS MANDATORY FOR THE APPAREL, FOOTWEAR, ACCESSORIES, TRIMMINGS AND FABRICS SUPPLIED.**

It has been developed in partnership with international experts in children safety, in accordance with the most demanding product safety legislation. In addition to covering the design, the fastening degree of small parts, sharp points and sharp edges in clothing for children, the standard restricts parameters such as flammability in goods for both children and adults.

✓ *Throughout 2020, we have continued working to include changes and new regulations for the next version. Similarly, we have worked on a new, more user-friendly and visual production guide within the process of ongoing training and advice to our suppliers, putting forward the potential risks of the designs, as well as their alternatives and best practices for manufacturing.*

### Clear to Wear

**CLEAR TO WEAR (CTW) IS OUR PRODUCT HEALTH STANDARD, WHICH APPLIES AND IS MANDATORY FOR THE APPAREL, FOOTWEAR, ACCESSORIES, TRIMMINGS AND FABRICS SUPPLIED.**

*Clear to Wear* has been developed in partnership with scientific and technological advisers, research centres and academic institutions, pursuant to the most exacting laws and regulations regarding health of the product. In addition to covering parameters and substances whose use is restricted, it limits the use of certain substances not addressed in the prevailing laws and regulations which could be potentially hazardous, and encompasses the provisions of REACH, (European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals), being the EU regulation that all our suppliers must observe.

Note that our *Clear to Wear (CtW)* product health standard was broadly redefined in 2019, with a much more ambitious scope to regulate both the substances included in international regulations and those that, despite not being specifically regulated, generate considerable environmental and health concerns. This overhaul of the foundations of our standard resulted in a new line of work in accordance with our Sustainability Roadmap.

In order to update our product health standard and maintain our commitment to maximum responsibility and quality requirements, it is important to assess concepts such as the safety of chemical substances of which chemical products are comprised and the possibility for use over the various stages of production in our supply chain. This assessment is important to ensure that the control programmes focus on hazardous substances and only on those that are effectively used in the textile and leather industry.

Consequently, in designing the CtW 2021, we worked with a team of experts and advisers, on the one hand to evaluate the available knowledge in toxicity databases and, on the other hand, to confirm whether these substances are actually used in the textile and leather industry.

- ✓ *In 2020, we examined more than 1,800 substances particularly subject to environmental and human health concerns; and we assessed their potential use in the different stages of manufacturing in the textile and leather industry. These actions are geared towards guaranteeing our commitment within the Strategic Environmental Plan and commitment to our customers.*

## I+Cosmetics

**I+COSMETICS IS OUR PRODUCT HEALTH STANDARD, WHICH APPLIES AND IS MANDATORY FOR ALL OUR COSMETIC PRODUCTS.**

This standard has been developed in partnership with scientific and technological advisers, research centres and academic institutions, pursuant to the most exacting laws and regulations regarding health of the product in the cosmetics sector. In addition to regulating parameters and substances of legally limited use, it limits the maximum level of impurities allowed in starting materials.

- ✓ *A new updated version was implemented in 2020, including regulatory developments in cosmetics and updating the first edition released in 2017.*

## I+FCM

**I+FCM IS THE PRODUCT HEALTH STANDARD, WHICH IS MANDATORY FOR ALL THE PRODUCTS DESIGNED TO BE IN CONTACT WITH FOOD.**

It has been prepared in partnership with scientific and technological advisers, research centres and academic institutions, pursuant to the most exacting laws and regulations regarding food safety. In addition to regulating parameters and substances of legally limited use for all types of materials used in goods in contact with food (plastic, crockery, glass, metal, paper, or wood, among others), it restricts the transmission, in ordinary or foreseeable use conditions, of chemicals comprising the goods to the food they are in contact with.

- ✓ *Following the consolidation of the implementation of its first release, the standard was updated with a second edition in 2020, including regulatory developments in this field.*

## i+Home Fragrances & Candles

**I+HOME FRAGRANCE & CANDLES IS OUR PRODUCT HEALTH AND SAFETY STANDARD THAT IS APPLICABLE TO CANDLES, INCENSE AND OTHER AMBIANCE PRODUCTS FOR THE HOME. IT REGULATES HEALTH PARAMETERS AND SUBSTANCES WHOSE USE IS LEGALLY LIMITED.**

As with all other standards, it seeks to ensure that our products meet the necessary characteristics to avoid risks to customer health.

- ✓ *The first release, designed in 2019, was consolidated in 2020 and work remains ongoing on possible updates to this standard for the coming release.*

## I+Child Care Furniture

**I+CHILD CARE FURNITURE IS THE INDITEX PRODUCT HEALTH AND SAFETY STANDARD THAT IS APPLICABLE TO CHILDCARE ARTICLES SUCH AS CHANGING TABLES, HIGH CHAIRS AND CRIBS. IT REGULATES HEALTH PARAMETERS AND SUBSTANCES WHOSE USE IS LEGALLY LIMITED.**

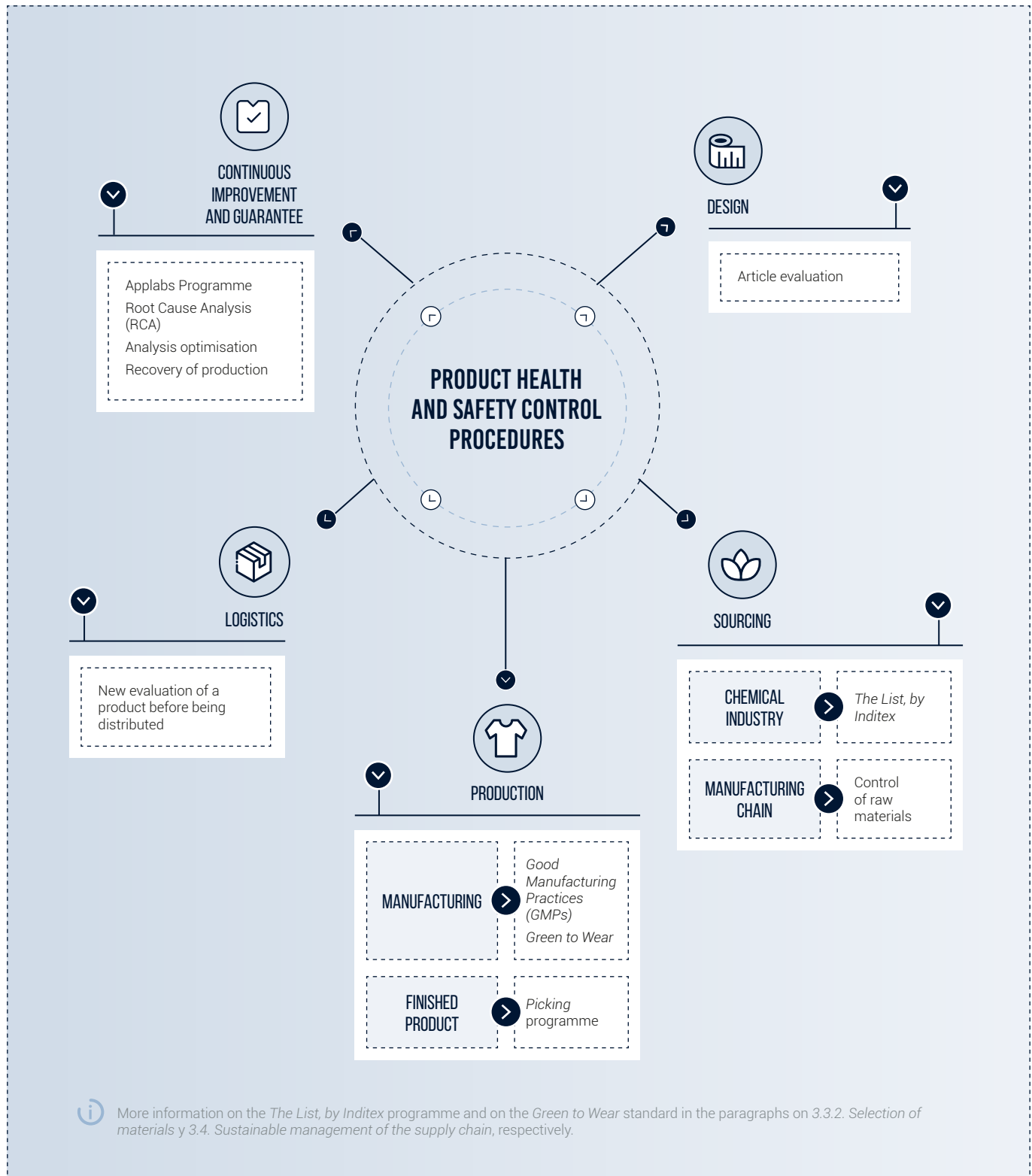
As with all other standards, it seeks to ensure that our products meet the necessary characteristics to avoid risks to customer health.

- ✓ *The first release, which has already been published in 2019, was consolidated in 2020 and work remains ongoing on possible updates to this standard for the coming release.*

## b) Product health and safety control procedures

Inditex's collections are present in over 200 markets. To ensure that all our products comply with the most demanding standards of health, safety and environmental sustainability, we have developed a comprehensive control

and improvement programme that covers all production phases and with which compliance is mandatory for our entire supply chain.





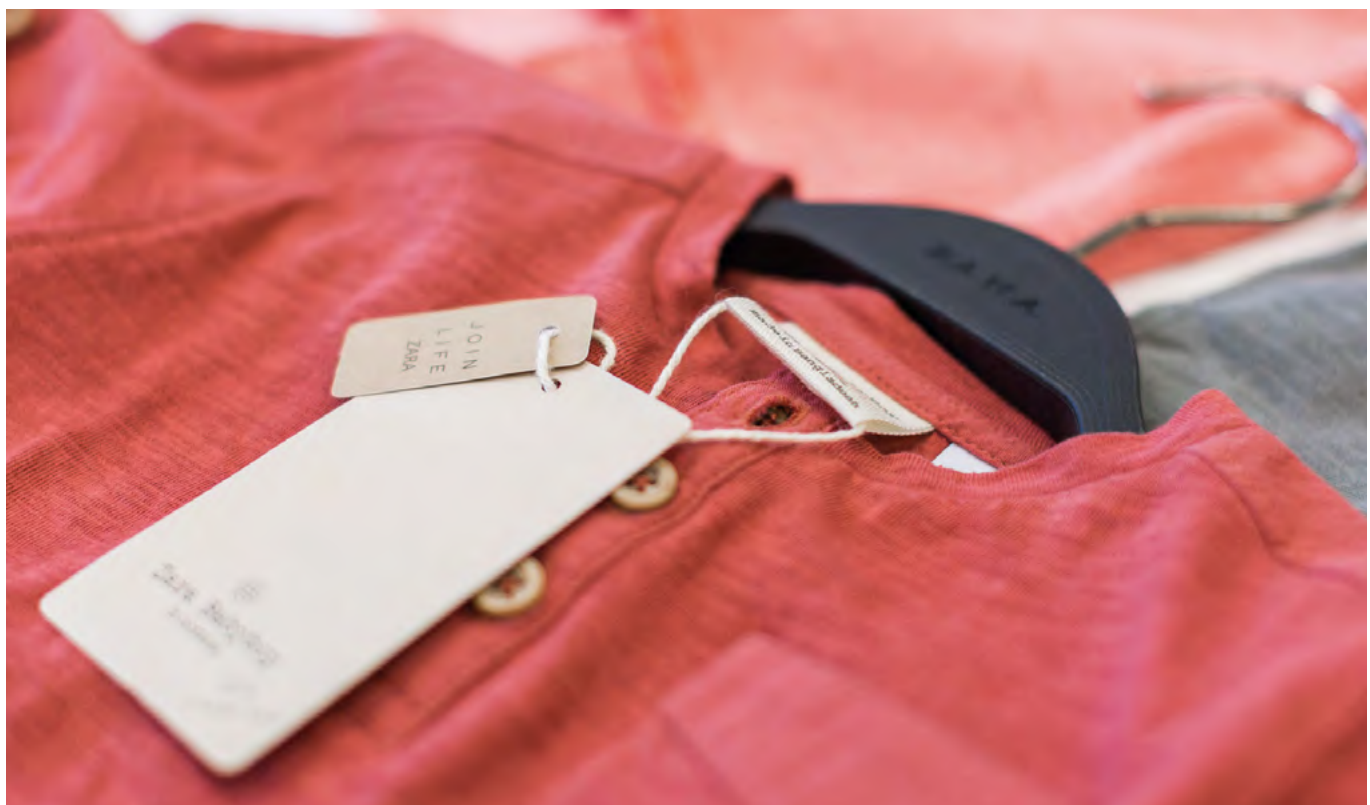
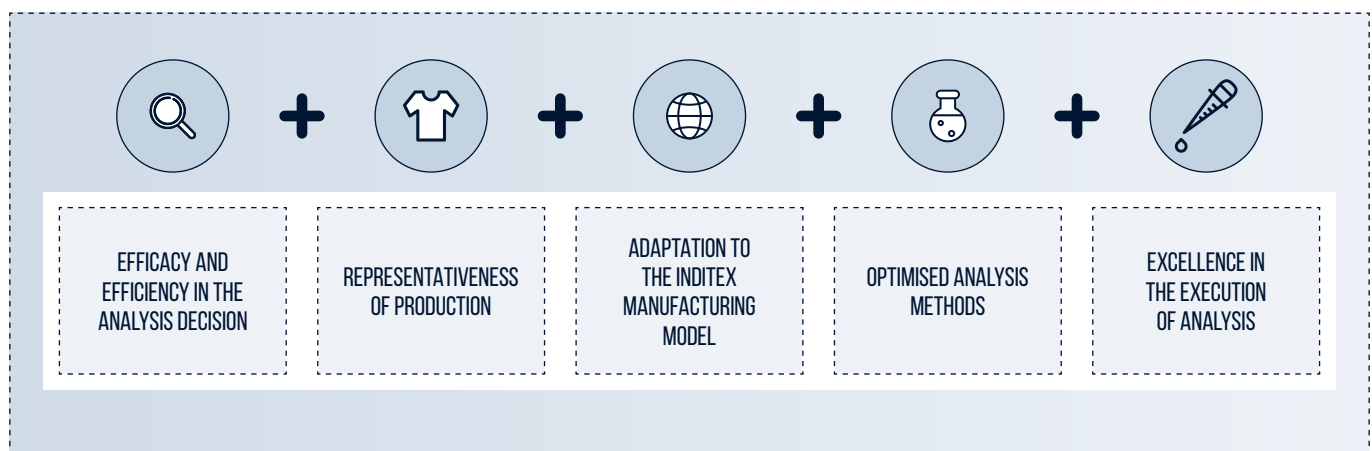
## Good Manufacturing Practices

As part of the process to ensure the quality of our products, and to guarantee their proper manufacturing, at Inditex, we have created a procedure for verifying compliance with Good Manufacturing Practices (GMP) in cosmetic products and food contact materials. The purpose of this procedure is to define and control the various activities that must be carried out at each phase of production so as to obtain a product that complies both with our own exacting product health and safety standards and the characteristics defined for each article.

## Picking programme

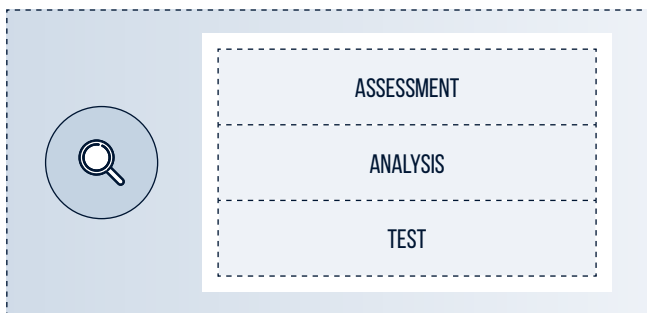
In 2011, we designed and implemented, *Picking*, a control and analysis programme which seeks the effective identification of non-conformities in articles, with the involvement of scientific and technological advisers and the support of benchmark international suppliers of analytical services.

Specifically, *Picking* is our benchmark instrument because it is constantly adapting to our production and logistics model. It thus guarantees that all the articles we market comply with our product health and safety standards.



Due to the global covid-19 pandemic, in the first quarter of 2020 we changed the *Picking* programme to the "*Picking by Supplier*" programme in those manufacturing countries affected by the coronavirus. Under this programme, we deliver precise instructions to manufacturing facilities for taking representative samples of production and shipping them to the *Picking* support laboratories. The aim was to avoid the spread of the virus and guarantee the health of workers at our supply chain and that of the health and safety teams, without compromising the standards of the control process. Thanks to this adaptation of the control programme, we managed to ensure the stringency of the *Picking* process in the established time frames and with no impact on the supply chain. This was a one-off and transitory measure in the manufacturing countries in a critical situation during the pandemic until they improved and, as soon as the safety of the service was guaranteed, the usual *Picking* programme was reactivated.

**Design and manufacturing stage**



In the design stage, units of experts on product health and safety of each one of our brands assess the risk of articles.

In the **manufacturing phase**, external inspectors **take representative samples of the on-site production**, at the facilities, of all risk articles, on which laboratories **perform analyses and tests**.

A detailed evaluation of such inspected samples determines whether the product is approved, rejected, or requires recovery processes to be compliant with Inditex standards.



**A total of 42,856<sup>(5)</sup> inspections have been carried out in 2020, with the performance of 744,404 analysis and tests.**



*Degree of initial compliance by geographical area in relation to the manufacture of our products is included in the chapter of Appendices of this Annual Report.*

The laboratories that provide support for the programme, distributed in different geographic clusters of suppliers, are relevant players in the *Picking* programme. Their work is therefore standardised, using innovative and optimised analytical methods that are subject to strict follow-up on the quality of their results and on the service they provide.

**MINILABS**

Having control instruments that quickly and accurately establish the conformity with our standards is a constant challenge for Inditex. Therefore and to supplement the *Picking* Programme, we have implemented so-called **Minilabs**, portable laboratories the size of a carry-on luggage case, which allow conducting screening tests of six substances and parameters regulated in the *Clear to Wear* standard at any given time.

Thanks to the *Minilabs*, we conduct testing at the factories themselves, thereby improving the efficiency of our control systems.



**In 2020, a total of 2,671 *Picking* inspections were performed with Minilabs, which involved 27,431 analyses and screening tests<sup>(6)</sup>.**

(5) The number of inspections and analyses have decreased significantly due to the impact of the pandemic on the closure of certain manufacturing countries, and is not due to a change in the risk assessment strategy. In 2019 56,352 inspections and 899,046 analyses were performed, and in 2018 63,420 inspections and 933,980 analyses.

(6) 2,977 inspections and 36,929 screening tests and analyses carried out in 2019; 1,276 inspections and 17,212 analyses and tests in 2018.

In addition to this and in order to increase the coverage of this system, we want to expand the scope to all manufacturing countries, as well as increase the number of substances and parameters. It is currently being implemented at the production points in Portugal, Spain, Pakistan, Morocco, Turkey, Bangladesh and Cambodia.

This development enables us to fast-track decision-making linked to the *Picking* programme, such as the possibility to recover and salvage affected production before it is completed. This also generates a major benefit in sustainability by minimising energy and water consumption. Another important aspect of this process is to raise supplier awareness, given that the analyses are always conducted in their presence and at their own facilities.

In 2020, work was ongoing on new screening methodologies to be included in the mini-lab, such as for example a method for determination of extractable nickel and a method for determining rub-through fastness in leather.

#### **New evaluation of a product before being distributed**

With the design and production concluded, all items are sent from manufacturing countries to our distribution centres. This is when our health and safety technicians evaluate the products physically, supervise the results of all the analyses performed and conduct product safety inspections, especially on small parts, cords and drawstrings.

In addition, we conduct random verification analyses of the productions we receive at distribution centres, for which we also use our internal laboratories and the analytical support network of the *Picking* Programme.

If design modifications or incidents in the initial risk evaluation of the production are detected, then any additional analyses and corrections that are needed are performed at that time to guarantee compliance with Inditex's standards.


### ***Approval of Laboratories Programme (APPLABS)***

To establish whether a production complies with our standards, in Inditex we rely on testing by external analysis laboratories of our analytical network. Given the production model and the strict limits of our standards, we seek precision and maximum accuracy from the various laboratories. The purpose of analysing reference samples for correlation is to monitor laboratory practices with respect to our standards.


Confidence in these laboratories is cemented in an external laboratory approval programme called *Applabs*. It was designed and developed together with the University of Santiago de Compostela and has several stages:








Conducting on-site **audits** that verify, among other aspects, the **technical competency of the laboratory's personnel and their diligence with the analyses**.



**Monitoring of the results** of each laboratory by comparing them. Those whose **results deviate from the quality levels** we demand undergo **corrective actions and, if they fail to comply, the proper actions are taken**.



The creation of mixed **technical committees** for discussing matters such as the detected problems, any optimisation actions or the **introduction of new analysis methods**, among others.

Overall, a total of 20 on-site audits of external laboratories were conducted, in addition to 32 correlation exercises, which involved analysing 6,915 samples (13 audits, 30 correlation exercises and analyses of 7,763 samples in

2019; 9 audits, 17 correlation exercises and analyses of 8,565 samples in 2018). The aim is to continue increasing the scope to be able to audit all the laboratories we work with.

In 2020, the external laboratory audit process was outsourced to a multinational expert audit company with staff in most of our production clusters. For the process, we designed a specific audit procedure to inspect the most critical in-laboratory processes, and the auditors received training for its proper execution. This has generated a significant increase in the number of external laboratories inspected and it is therefore expected that in the next year the list of approved laboratories will expand.

Likewise, in 2020 the number of cross-comparison samples for new substances and parameters in the *Clear to Wear* programme increased, correlating, among other substances, organochlorinated compounds, organotin compounds, perfluorocarbon compounds (PFCs) or heavy metals like chromium.





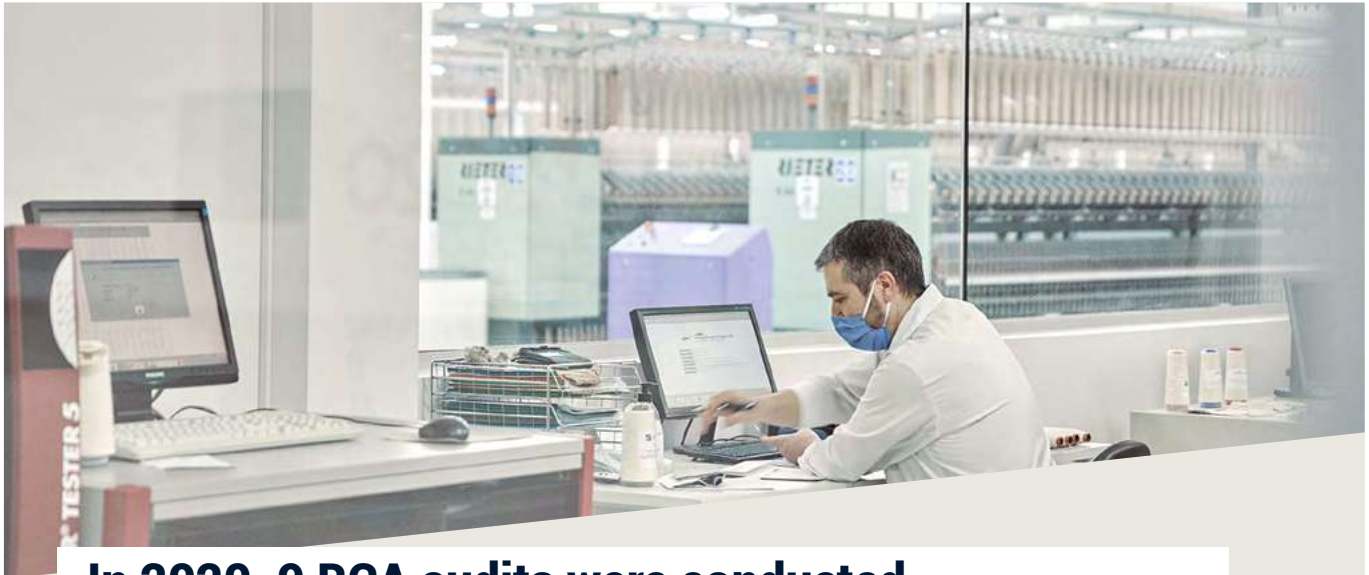
## Root Cause Analysis (RCA)

Whenever an article does not comply with *Clear to Wear* requirements, Inditex conducts a *Root Cause Analysis* (RCA) to understand what has happened and to study new improvement strategies.

In such RCAs, textile or leather experts evaluate the facilities (dyeing mills, washing mills, printing mills and tanneries)

that are involved in manufacturing the affected article to determine that origin of the problem. Once it has been identified, a Corrective Action Plan (CAP) is determined for the factory in order to avoid future incidents.

This information allows us to enrich and provide feedback to our *Green to Wear* and *The List, by Inditex* programmes, thereby ensuring the ongoing improvement of those programmes.



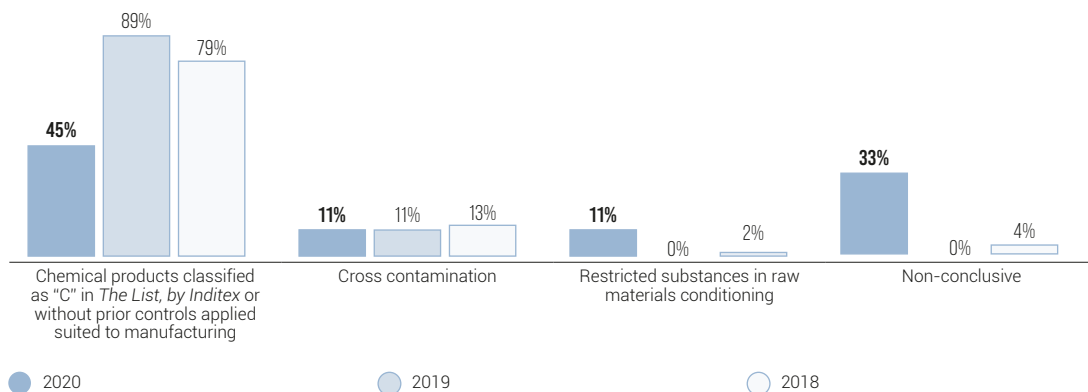
### In 2020, 9 RCA audits were conducted

The results showed that in 45% of the cases, the supplier, in their manufacturing, had used chemical products not permitted (classified as C) by *The List, by Inditex* and/or had not applied adequate controls to these products prior to manufacturing. The cross-contamination between different productions that did not follow adequate

manufacturing conditions caused the 11% of detected non-conformities.

The presence of restricted substances originating from the raw materials conditioning stages was the cause of 11% of non-conformities. Lastly, in the remaining 33% of the audits, the results were inconclusive.

EVOLUTION OF NON-CONFORMITIES DETECTED





*Through RDI activities, we continue to make progress toward healthy, safe and sustainable products.*

## Analysis optimisation

Within the framework of *Picking*, Inditex is collaborating with specialised researchers in the textile industry on the development of prediction tools for manufacturing technologies with a greater risk of generating non-conformities.

Thus, and in accordance with a continuous updating and improvement process, we can compare conformity with standards in a greater number of references and with a fewer number of analyses. All without varying the commitment to and maximum responsibility for the health and safety aspects of our products.

## Recovery of non-compliant production

In order to be able to reduce productions that are discarded due to non-conformities with our standards, we work with our scientific and technology partners on recovering productions by eliminating the substances that are the causes of non-conformities. Due to this collaboration, we have implemented production recovery protocols for cases in which substances such as arylamines, phenols, formaldehyde and phthalates are present, as well as protocols correcting pH in excess or deficiency.

In 2020, the re-operation protocols were broadened with satisfactory results for organochlorinated compounds and heavy metals like chromium (VI) and extractable copper.

## c) Training and awareness-raising

The Group relies on scientific teams and technology experts who identify regulatory developments, construe the restrictions thereof, select analytical methodologies and carry out in partnership with the chemical industry, a thorough evaluation of chemical products and manufacturing processes where non-conformities might appear.

As part of this careful process, the design of our standards goes beyond the limitations of a classic Restricted Substances List (RSL), bringing in additional expertise that allows us first to identify hazardous chemicals and manufacturing processes and secondly, to propose alternative products or manufacturing technologies to avoid non-conformities. This information is very helpful for our manufacturers and is a key strategic element of the training and information actions across our supply chain.

Thus, we regularly give training on specific and relevant elements of the health and safety standards addressed to technical and managerial staff of suppliers. In 2020, experts on product health and safety from our Sustainability Department provided training and gave technical advice in the main manufacturing clusters: Portugal, Morocco, Turkey, China, Bangladesh, India and Pakistan.

At the same time, regarding awareness-raising among internal design and buying teams, we have reinforced the department of product health and safety across all our brands for the purposes of:

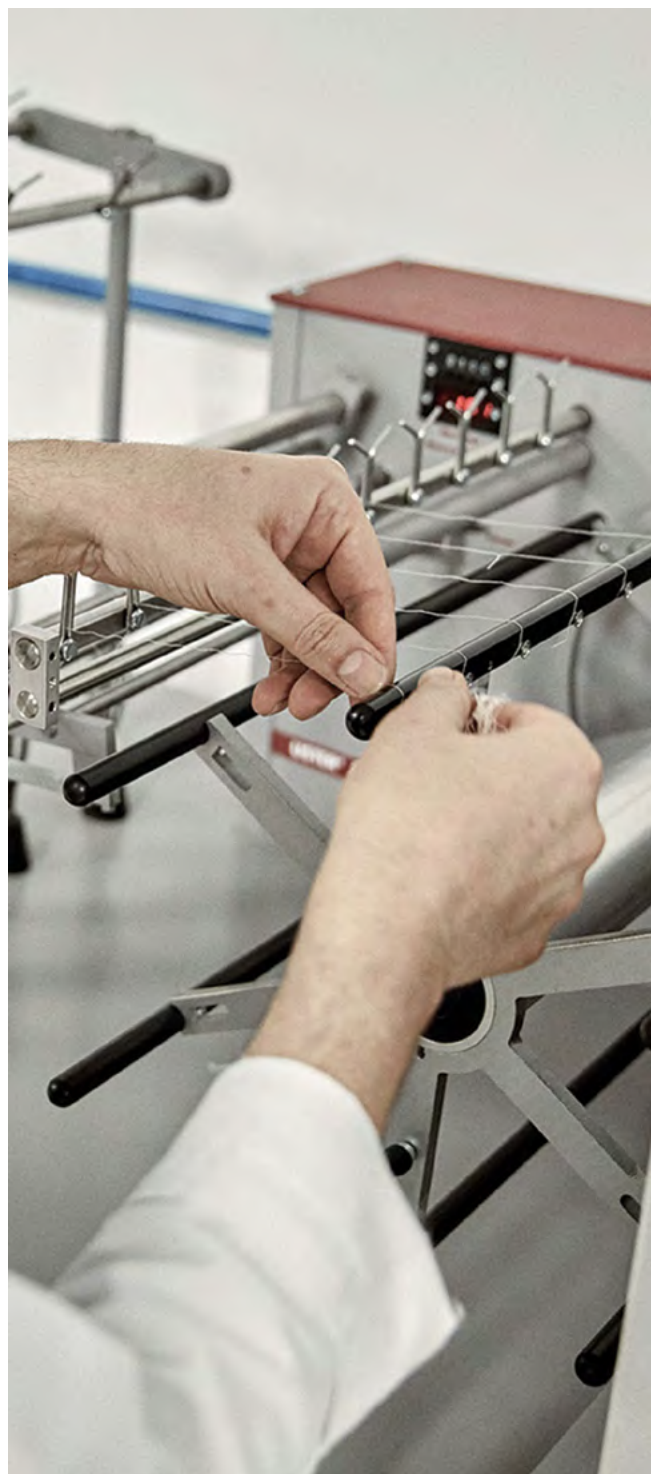
- Giving ongoing training to commercial and design teams on product health and safety issues.
- Providing technical assistance on-site to commercial and design teams.
- Cutting the time required to detect potential breaches and providing solutions best suited to the specific type of product.

Refreshment training is provided to these units of experts in partnership with academic institutions and scientific and technology companies. Training has been given to new internal teams in the own product health and safety area in 2020.

Similarly, and due to restricted mobility as a result of the exceptional situation of global pandemic, the mode of training has had to be adapted from in-person format to online format in the case of external training provided by our product health and safety teams in different countries.

## d) Featured RDI initiatives related to product health and safety

Through RDI activities, we continue to make progress toward healthy, safe and environmentally sustainable products. Below is an overview of some of the notable initiatives in the fiscal year 2020:



### CREATION OF A METHOD TO DETERMINE VOLATILE PERFLUORINATED COMPOUNDS

In the absence of an international methodology for determining perfluorinated compounds (PFCs) in textiles and chemical products, Inditex, in partnership with the University of Lleida, has developed a **new method for determining** these compounds **that includes, as a novelty, the determination of volatile PFCs with a very high degree of sensitivity** to comply with the strictest current limits.

### APPLICATION OF ANTIOXIDANT LIPID PRODUCTS IN CHROMIUM (VI) PREVENTION

In 2020, Inditex, in partnership with the University of Lleida, has researched the application of treatments with antioxidant lipid products to prevent the appearance of chromium (VI) in leather products. The research showed that **antioxidant lipids are highly efficacious in the lasting protection of leather from the formation of chromium (VI)**, including in highly radical environmental conditions. Once the research has concluded, the findings will be shared throughout the supply chain via the *Green to Wear* standard.

### ION CHROMATOGRAPHY WITH POST-COLUMN DERIVATIZATION

Inditex, in collaboration with the University of Lleida, has developed the application of an advanced method for the determination of chromium (VI) that represents considerable progress in the analysis of leather. This methodology incorporates a technology that allows **unprecedented sensitivity levels** to be reached and therefore generates **full confidence and trust in the final result**, regardless of how complex the leather matrix is.

### STUDY OF THE POSSIBILITIES OF A NEW METHODOLOGY TO MEASURE THE PRESENCE OF FUNGICIDES IN LEATHER

Inditex, together with the University of Lleida, has investigated a new method for **detecting the presence of residues of preservative substances in leather** (fungicides in leather) that is much **more representative of the real conditions of use than conventional procedures**. This improvement is compatible with the ability to detect very small amounts of these substances, well below regulatory limits.







# **Sustainable management of the supply chain**

# 3.4. Sustainable management of the supply chain



RELATED MATERIAL TOPICS:

VALUE CHAIN TRANSPARENCY AND TRACEABILITY; SOCIALLY SUSTAINABLE PRODUCTION ENVIRONMENTS; HUMAN RIGHTS; ENVIRONMENTAL FOOTPRINT MINIMISATION; RESPONSIBLE PURCHASING PRACTICES; STAKEHOLDER ENGAGEMENT



Having a stable, sustainable, highly specialised, agile and flexible supply chain is one of the key factors in Inditex's business model and one of our competitive advantages.

Thus, we are able to adapt to our customers' needs and to offer them a range of fashion in keeping with their preferences and manufactured in a sustainable way. During 2020, a high number of factories where our articles have been produced are located in countries that are close to our headquarters in Arteixo (in countries such as Spain, Portugal, Morocco or Turkey). Furthermore, 53% <sup>(1)</sup> of those that perform end product processes are located in these nearby markets. This means we have the capacity and flexibility to adapt production to changes in trends and market demands.

Supply chain management requires strong policies and procedures in order to address geopolitical, demographic, socio-economic and environmental challenges faced in the supplying countries, such as the situation brought about by the covid-19 pandemic. As part of this management, we apply strict standards both in our own Company and our suppliers. We have nurtured stable relationships of trust and joint responsibility with our suppliers, fostering a culture of sustainability.

Our responsible management of the supply chain encompasses all suppliers and manufacturers and rests on the following pillars:

- 1 **Ensuring the traceability and in-depth knowledge of our suppliers and manufacturers.**
- 2 **Applying sound social and environmental sustainability standards and requirements to our suppliers and manufacturers.**
  - **In the social sphere:** we work to ensure decent working conditions, consistent with respect for the human and labour rights of the workers of suppliers and factories that are a part of our supply chain, as evidenced by our **CODE OF CONDUCT FOR MANUFACTURERS AND SUPPLIERS**.
  - **In the environmental sphere:** we devise sustainable production initiatives and foster the use of renewable energy sources and the reduction of emissions, and we guarantee the health and safety of our products, ensuring application of our **Green to Wear 2.0** standard.
  - These standards are accompanied by a commitment by us to apply **RESPONSIBLE PURCHASING PRACTICES**.
- 3 **The verification of our standards and continuous improvement of the supply chain.**

(1) It includes cutting, sewing, dyeing and washing, printing and finishing facilities.



*Our supply chain is characterized for its sustainability, agility and flexibility.*

In order to apply our sustainability policies and procedures throughout the supply chain, the work of our 12 supplier clusters – comprising 97% of the total production – is crucial: Spain, Portugal, Morocco, Turkey, India, Bangladesh, Pakistan, Vietnam, China, Cambodia, Argentina and Brazil. These clusters are spaces for cooperation and dialogue, the purpose of which is to foster a sustainable production environment in a strategic geographic area and within a framework of compliance with human rights and environmental friendliness.

In 2020 we have continued to work to ensure compliance with these principles by all our suppliers and manufacturers, irrespective of the process they carry out or the level of the supply chain they are located, with particular emphasis

placed on those levels and process that are further away from the finished product.

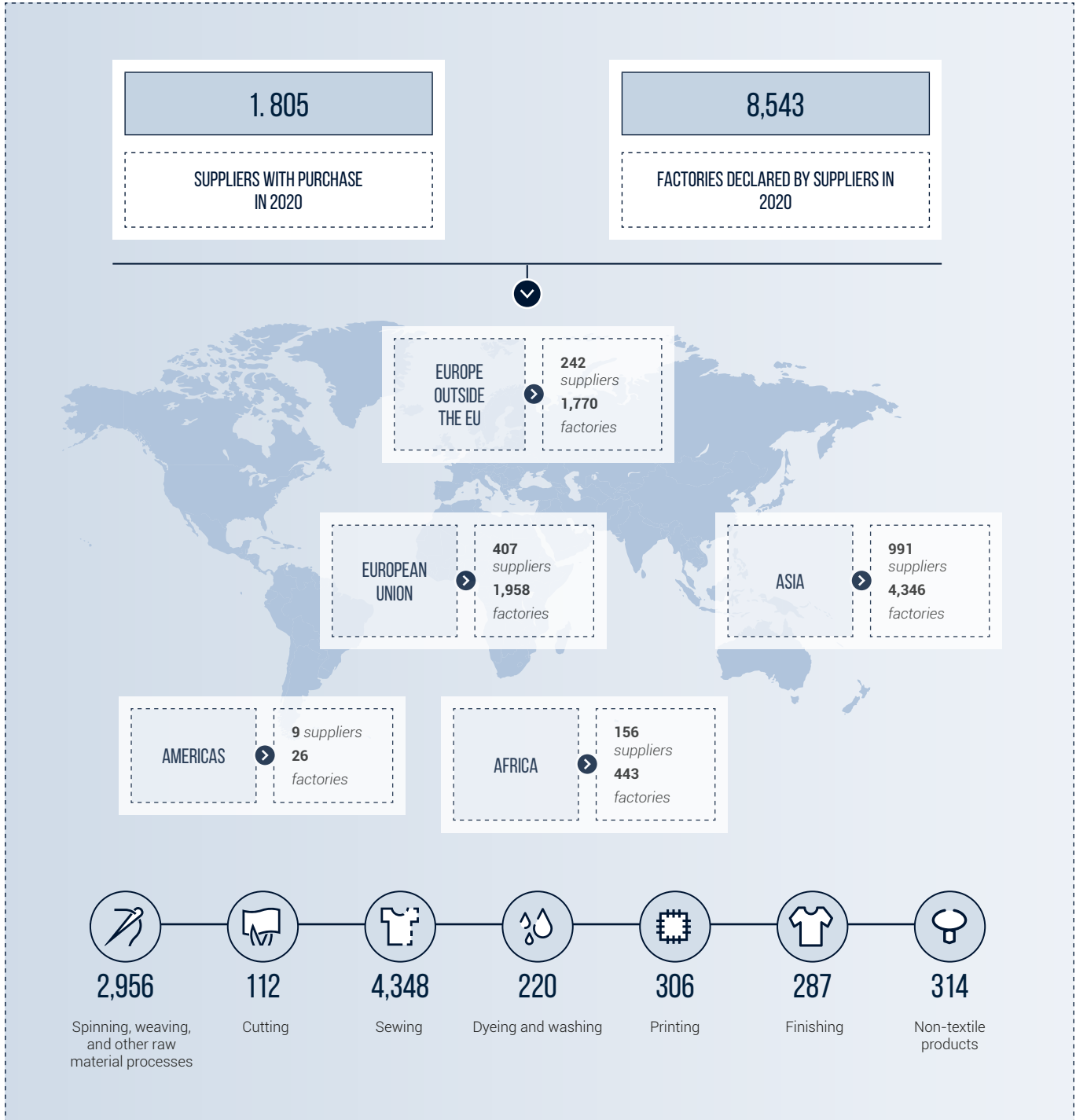
One of the goals is to engage in ongoing collaboration and support throughout our relationship with suppliers, and to cooperate with them to improve their own supply chains. Thus, we train our suppliers, support them in the application of our standards and requirements, and work with them towards ongoing improvement. We are even developing pilot projects to analyse the willingness and need for technical assistance of our supply chain, with a view to achieving the sustainability goals defined at Inditex. And we endeavour to provide our suppliers with technical support to achieve these goals and facilitate access to sustainable financing.





In 2020, our supply chain was comprised by 1,805 direct suppliers<sup>(2)</sup>, which, in turn, used 8,543 factories<sup>(3)</sup> for production and employ more than three million people.

The increase in the number of factories compared to 2019 (when there were 8,155 factories) is linked to Inditex's efforts to reinforce the traceability of processes related to the processing of raw materials (for instance, spinning or weaving processes), a field to which the Company has given special consideration in recent years.



(2) Suppliers of fashion items with a production of over 20,000 units/year in the 2020 spring/summer and autumn/winter campaigns. Suppliers with lower productions account for 0.3% of total production.

(3) Factories declared by the suppliers in the product traceability system for 2020 orders.

THE SUPPLY CHAIN AT INDITEX IN 2020

	SUPPLIERS WITH PURCHASE IN 2019	SUPPLIERS NOT USED IN 2020	NEW SUPPLIERS 2020	SUPPLIERS WITH PURCHASE IN 2020
AFRICA	161	33	28	156
AMERICAS	17	9	1	9
ASIA	1,107	260	144	991
EUROPE OUTSIDE THE EU <sup>(4)</sup>	232	41	51	242
EUROPEAN UNION	468	101	40	407
<b>TOTAL</b>	<b>1,985</b>	<b>444</b>	<b>264</b>	<b>1,805</b>

## TRANSPARENCY AND ACCOUNTABILITY

We share comprehensive information regarding our supply chain with various organisations and stakeholders, in line with our commitment to transparency.

### INDUSTRIALL GLOBAL UNION

Under the umbrella of our Global Framework Agreement, we regularly share with IndustriALL the full and updated list of our manufacturers, including details such as their addresses and degree of compliance with sustainability standards.

We provide IndustriALL and its local affiliates with access to all the companies in our supply chain.

 More information on section 2.7.1. *Worker Participation* of this Annual Report.

### INTERNATIONAL LABOUR ORGANIZATION

In order to work on advising and improving the conditions of the factories, we share with the ILO information on our supply chain in countries where we take part in the *Better Work* programme.

We also have a public-private partnership with the ILO to protect labour rights in the cotton supply chain.

 More information on section 2.7.7. *Protection of labour rights in the production of raw materials* of this Annual Report.

### ZERO DISCHARGE OF HAZARDOUS CHEMICALS AND INSTITUTE OF PUBLIC & ENVIRONMENTAL AFFAIRS IN CHINA

We provide access to environmental information on our production. We collaborate with our suppliers to publish the results of wastewater analyses obtained from the *Green to Wear* assessments on the ZDHC Gateway platform and the website of the IPE, with whom we work to improve the environmental management of the supply chain in China.

 More information on section 3.1.3. *Our approach to water management* of this Annual Report.

### NGO

We provide social, economic and environmental information both on demand and regularly to various non-profit organisation with whom we collaborate. These include, among others, Greenpeace, Textile Exchange, Clean Clothes Campaign, Fashion Revolution and Baptist World Aid.

 More information on section 4.3. *Partnerships and commitments with civil society* of this Annual Report.

### INVESTORS, STOCK MARKET INDICES

Inditex's commitment to transparency and accountability has been positively acknowledged by various organisations, including Dow Jones Sustainability Index, FTSE4Good, Sustainalytics and Corporate Knights, among others.

 More information on section 4.4. *Acknowledgements* of this Annual Report.

### CUSTOMERS

Our *Join Life* label standard is the main information point for our customers with regard to the sustainability parameters of our articles. However, we also respond to specific requests for information regarding sustainability, such as the origin of our articles or the labour conditions involved in their production.

In 2020, more than 2,600 of our customer information requests regarding the sustainability of our articles and our *Join Life* standard were fielded.

### INDUSTRY

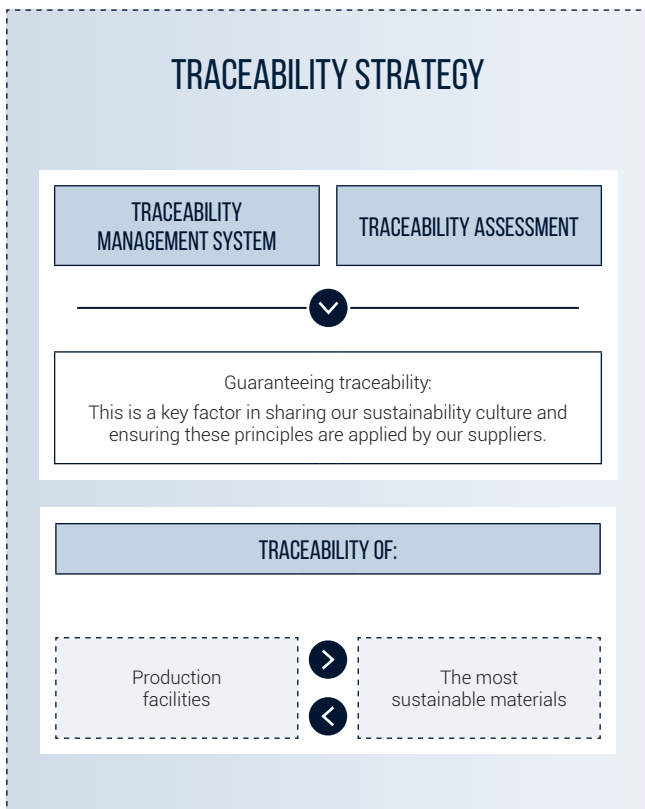
Within the framework of our cooperation in initiatives such as ACT (*Action, Collaboration, Transformation*) or the Bangladesh Accord, we share information concerning sustainability with other companies and stakeholders in the sector with the aim of collectively improving and maximising our contribution to sustainability.

(4) Due to the United Kingdom's leaving the European Union, active UK suppliers in 2019 were reclassified as Europe outside the EU and the figures for the previous year were recalculated to maintain their comparability with the current year.

### 3.4.1. Traceability of the supply chain

The cornerstone to ensuring compliance with our sustainability standards and requirements, both those applicable directly to the product and those applicable to the facilities involved in manufacturing them, is traceability. Thus, our focus and emphasis on ensuring traceability allows us to guarantee compliance with the social and environmental criteria regarding the materials and factories used to produce our articles through various tools and processes.

Inditex manages the traceability of its supply chain via two main lines of action: its traceability management system and the traceability assessment.



In addition to the development of our traceability strategy as a Company, in 2020 we have collaborated with the United Nations Economic Commission for Europe (UNECE) in its project to define a Traceability Policy with a holistic view in response to the growing demand for policies and legislative action to bring about responsible business conduct in supply chains worldwide.

### a) Traceability management system

We demand that our suppliers inform us, at all times, of the factories involved in our production, from textile raw material processing through to finishing processes. We also digitalise the information using an in-house developed Traceability Management System. This system has developed so as to facilitate its use to interested parties (both internal teams and suppliers). Likewise, the scope of the information compiled has broadened, with a particular emphasis on the traceability of raw materials.

Each supplier must know its supply chain and declare it to be complete in the traceability management system. Informed factories must pass the relevant filters to be approved and authorised. The management system itself includes social, environmental and product safety information about each of the factories.

Subsequently, for each order they receive, suppliers must assign the factories that are going to be involved, specifying units and processes, from the raw material to the finished product. Each supplier is responsible for the factories it uses, and it must work with Inditex to ensure compliance with our sustainability standards. Factories that do not comply with sustainability requirements cannot be used in our productions.

In 2020, work continued to identify spinning, weaving and raw material wet process facilities, developing new functionalities to enhance quality and detail in the information provided on the manufacture of fabrics. Furthermore, a supplier assistance programme was implemented to identify and regulate knitwear manufacturing facilities in Asia.

The traceability team is available to accompany and support suppliers in the process of declaring the facilities, also monitoring compliance with traceability requirements.

### b) Traceability assessment

Supplier declarations submitted in the traceability management system are verified by traceability audits. The main aim comprises verifying *in situ* that the Group's production is undertaken in duly declared and authorised factories.

The traceability audits methodology features three-step deployment. The first of these is the analysis of the traceability management system information to identify the productions to be checked. There is then an



unannounced visit to the declared factory's facilities to verify the production processes it can carry out, as well as the production underway and completed production. Lastly, the findings from the visit are compared with the information entered by the suppliers in the traceability tool, to demonstrate both the processes and the units completed by the factory.

In 2020, 1,342 traceability audits were conducted (1,396 in 2019 and 2,546 in 2018) and the number of traceability breaches was 206, fewer than in previous years. The traceability team manages these breaches with suppliers and buying teams, analysing their root cause to prevent their repetition. The Company made a significant effort in 2020 to maintain the pace of traceability audits as compared to 2019, despite the challenges posed by the covid-19 pandemic. To adapt to the restrictions in place, the methodology had to be adapted, with virtual checks being conducted for the first time in 2020.

The selection of productions for verification is made on the basis of risk analysis, in accordance with the information provided by the suppliers in the management system and the data gathered by the clusters. In addition, cluster traceability teams conduct investigations if they receive any indication of the existence of deviations in the traceability of the production.

#### TRACEABILITY AUDITS

	2020
AFRICA	139
AMERICAS	28
ASIA	642
EUROPE OUTSIDE THE EU	385
EUROPEAN UNION	148
<b>TOTAL</b>	<b>1,342</b>

Of the 1,342 traceability audits conducted in 2020, 1,070 were conducted by external auditors belonging to independent audit firms.

The traceability strategy is completed with the definition and implementation of the necessary procedures to approve the most sustainable materials used in our products, enabling us to ensure compliance with the standards approved by our *Join Life* programme. Traceability is also a crucial factor in ensuring the circularity of our products.



More information on section 3.3.3. *Join Life* programme of this Annual Report.





*The Code of Conduct for Manufacturers and Suppliers and the Green to Wear standard set forth mandatory compliance standards for suppliers and manufacturers in matters of human and labour rights, product health and safety and environmental aspects.*

### 3.4.2. Policies, standards and principles on which our supply chain management is based

#### a) Code of Conduct for Manufacturers and Suppliers

The Code of Conduct for Manufacturers and Suppliers (hereinafter CCMS or the [Code of Conduct](#), available on our website) is the fundamental cornerstone on which our activity and our relations with suppliers are based. It sets forth mandatory compliance standards in matters of labour rights, product health and safety and environmental aspects. In this respect, it lays down the minimum standards of ethical conduct to be observed by all the suppliers and manufacturers in the supply chain. These values and practices are based on respect for Human and Labour Rights.

The express acceptance of all the Code standards is required for a manufacturer or supplier to form part of the Inditex supply chain, as well as passing audits to verify compliance with the Code of Conduct for Manufacturers and Suppliers. The breach of any of the above referred standards may entail the termination of the business relationship with the supplier.

The Code of Conduct has been designed to be a dynamic document, subject to continuous review in order to strengthen its applicability and ensure it incorporates best practices at all times. As a conceptual framework, it is based on OECD principles, the *Ethical Trading Initiative's Base Code*, the principles of the United Nations Global Compact and, among others, the following International Labour Organization (ILO) conventions: 1, 14, 26, 29, 79, 87, 98, 100, 105, 111, 131, 135, 138, 142, 155, 164 and 182.

#### b) Green to Wear

At Inditex, we are committed to stop climate change and to reducing the pressure on natural resources. To do so, we have an environmental sustainability strategy in place based on the control and improvement of quality throughout the supply chain, ensuring that all our items meet the exacting health, safety and environmental sustainability standards.

In line with this commitment, we have our own *Green to Wear* standard. Its goal is to minimise the environmental impact of factories in the supply chain and improve health and safety aspects of articles, as well as to foster best practices. Particular emphasis is placed on proper water management in order to reduce consumption using the most advanced technology. It also includes indicators that assess sustainable and efficient management of raw materials, water, technology and processes, chemical products, waste and wastewater.

At the start of 2020, after considerable development, the standard became *Green to Wear 2.0* (or *GtW 2.0*). We included the management of chemical substances (included to date in the *Ready to Manufacture* code), so that it became a fundamental part of our strategy along with our programme *The List, by Inditex*, which plays a key role in the selection of chemicals used and ensures the absence of hazardous substances in emissions as well as in the products.

Through this standard, which applies to all suppliers and manufacturers in our supply chain that perform wet processes, and through our environmental audits, we measure the degree of compliance with the Zero Discharge in 2020 commitment (also known as ZDHC – *Zero Discharge of Hazardous Chemicals* – commitment).



More information in section c) *Raw material control* in the paragraph 3.3.2. *Selection of materials* of this Annual Report.

The new standard, also available on our [website](#), allows more thorough control of the supply chain facilities. By implementing it throughout our supply chain and in the chemical industry that manufactures dyes, pigments and ancillary chemicals, we also aim to comply with Greenpeace's *Clean Factory Approach*.

## c) Responsible purchasing practices


Responsible purchasing practices are fundamental for the sustainability of the supply chain. They are defined by the way we interact and negotiate with the suppliers in our supply chain. They encompass strategic planning, procurement, development, purchasing and the underlying values and principles that affect workers. The improvement of our purchasing practices helps towards sustainable development and establishment of living wages and better working conditions in the garment, textile and footwear industries.

With this goal, we have developed management systems that allow buying teams to know the performance of each supplier and each factory in terms of their social, environmental and product health and safety aspects, to incorporate these in their buying decisions. Furthermore, to strengthen our commitment, our employees' variable remuneration also includes targets linked to sustainability.

## Response to covid-19

In accordance with our policy of responsible purchasing practices, we have guaranteed the payment of all orders already placed and in progress. This measure was taken immediately and in accordance with the original terms, speeding up payments in cases with logistics difficulties in the delivery of the goods. Constant communication with our suppliers has been key to identifying their needs, protecting their revenues, and safeguarding the health and jobs of their employees. This has enabled suppliers to plan and organise their productions and staff, and thereby to minimise the impact as far as possible.

In addition, we have worked actively with various financial institutions to create financing mechanisms for our suppliers and manufacturers to enable them to overcome the economic impact of the pandemic, with the priority of guaranteeing the payment of salaries and strengthening the health and safety measures necessary to prevent the spread of covid-19.

 More information on section 1.1.2. *Protection of workers in the supply chain* of this Annual Report.



Inditex is aware that a responsible approach to purchasing practices is a vital part to achieve a more sustainable supply chain, which includes living wages for workers. In this regard, in March 2015, we signed a Memorandum of Understanding (MoU) with IndustriALL, evidencing our commitment to purchasing practices.

Moreover, as a member of the ACT on Living Wages initiative, Inditex is committed to ensure that its purchasing practices facilitate the payment of a living wage. In this connection, we have agreed to transparency in respect of stakeholders in the ACT priority countries (Bangladesh, Myanmar, Turkey and Cambodia) regarding the milestones for the implementation of our labour costing strategy (identifying the wage component in price negotiations with suppliers).

As part of our responsible purchasing practices (including cementing a sustainability culture throughout the Company, purchasing teams included), Inditex takes an active part in the ACT Working Group on purchasing practices, which provides tools to assess and improve these practices.

Work on responsible purchasing practices is not only aimed at buyers, but also at suppliers. Over the course of the year, we have been in constant contact with our suppliers and buyers to implement new parameters for measuring purchasing practices, in line with the *Accountability*

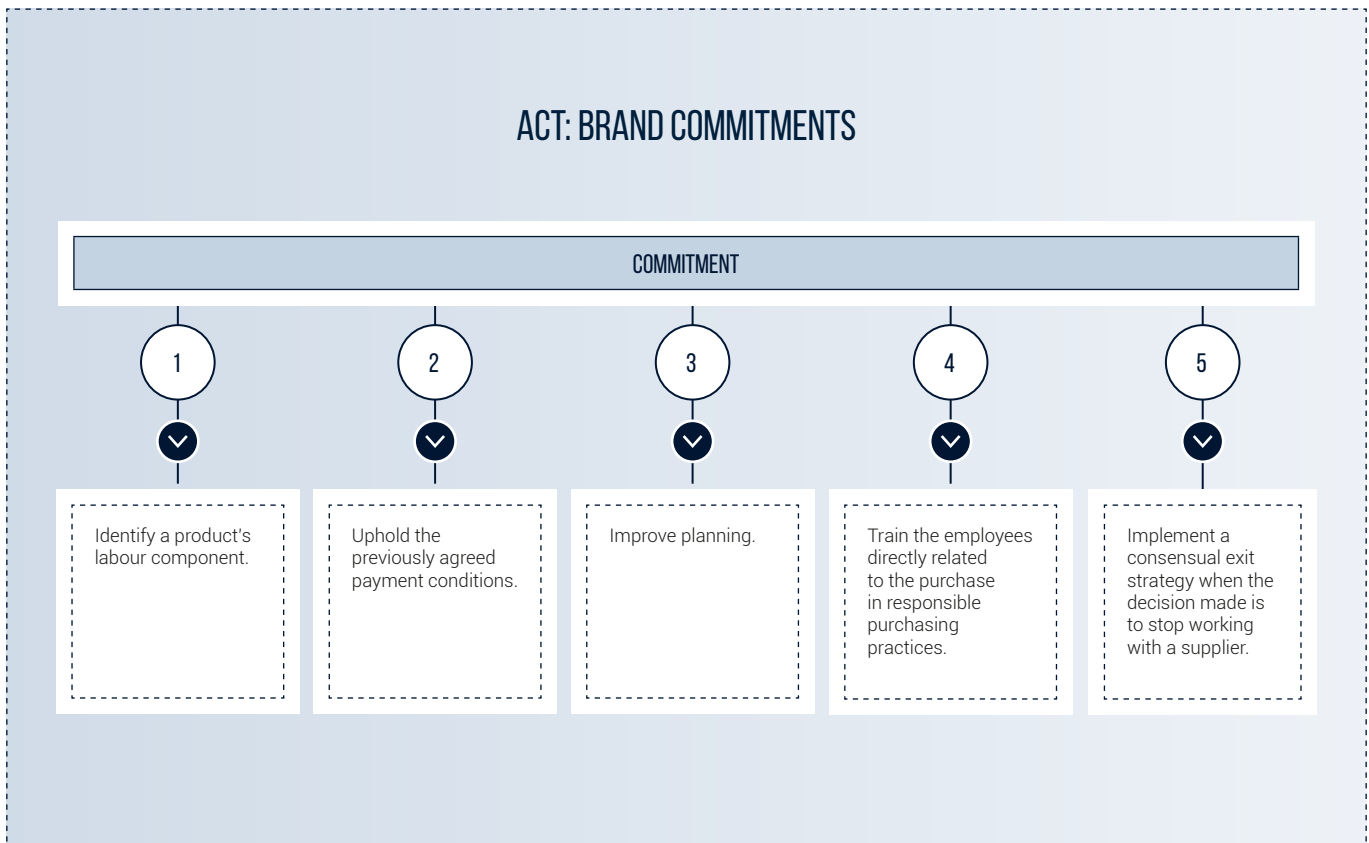
& *Monitoring Framework* agreed by ACT brands. This framework is a step forward in due diligence in connection with purchasing practices that enables us to assess and monitor compliance with the principles established in the MoU signed with IndustriALL.

 More information on section 2.7.2. *Living wages* of this Annual Report.

## Goals in 2021

In accordance with the commitment signed with ACT, Inditex and the rest of brands undertake to conduct surveys among buyers (Purchasing Practices Self-Assessment – PPSA) and suppliers (Purchasing Practices Assessment – PPA) in the supply chain. The goal is to evaluate the practices with our suppliers in the purchasing process and to analyse and formulate personal, departmental and Company action plans in order to implement a training programme with common guidelines on ACT's commitments to purchasing practices.

In addition, work will continue with the commercial team on a common scheme to identify the wage component of products so as to exclude it from the negotiation process. The idea is to reflect wage increases in the labour components and thus facilitate at the brand level our supplier's compliance with collective bargaining agreements.



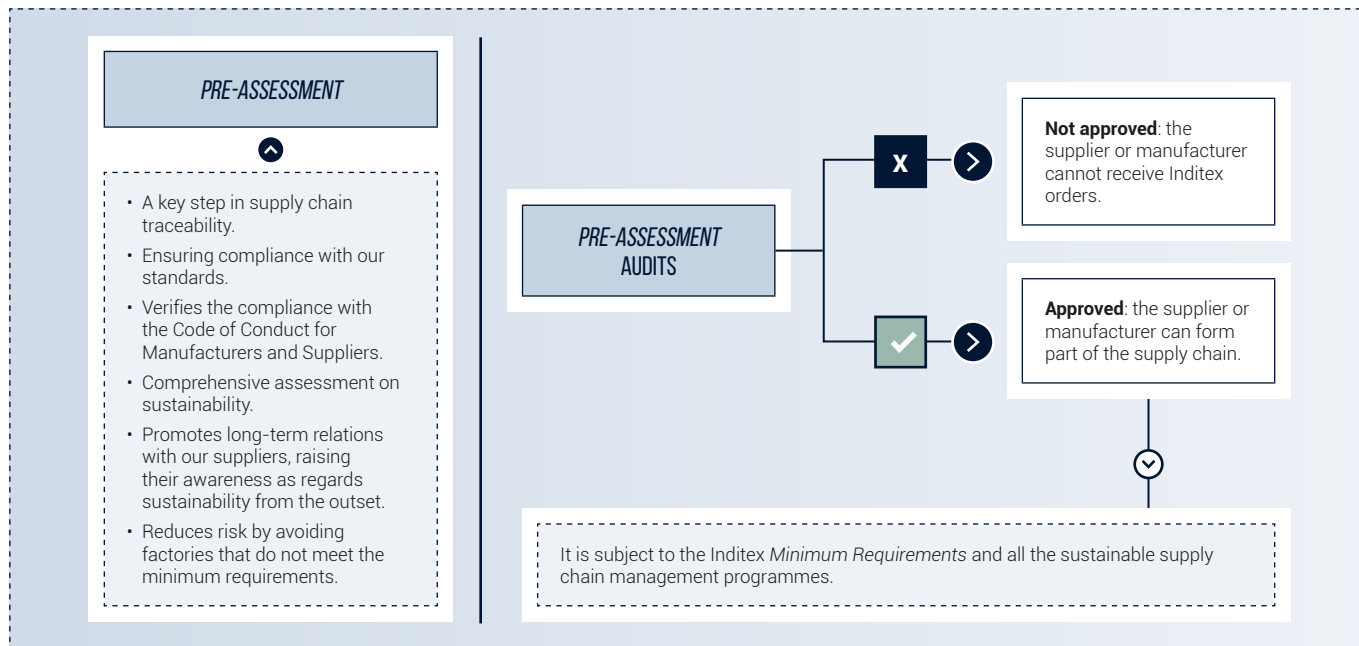


### 3.4.3. Assessment and continuous improvement

#### a) Pre-Assessment

The first verification of compliance with Inditex requirements on environmental and social management takes place even before the supplier begins its business relationship with us. Thus, before becoming part of

the Inditex supply chain, all potential suppliers and manufacturers are evaluated through a pre-assessment audit that ensures that only those that comply with our sustainability standards, and in particular with our Code of Conduct for Manufacturers and Suppliers, can become part of our supply chain.





The pre-assessment audit is conducted by external or internal auditors and without prior notification. Inditex carried out 3,062 pre-assessment audits during 2020 (2,789 and 2,177 audits in 2019 and 2018, respectively). A total of 2,767 of these were conducted by external auditors, who are trained to correctly apply the Inditex methodology. The increase of pre-assessment audits in 2020 is in relation to the effort made to reinforce traceability in terms of factories with processes related to the processing of raw materials.

Companies classed as approved can receive orders from the buying teams and are subject – from then on – to the standards laid down in the Inditex Minimum Requirements, which includes the social, environmental and product health and safety requirements of the Inditex Group.

PRE-ASSESSMENT AUDITS IN 2020

GEOGRAPHIC AREA	PRE-ASSESSMENT AUDITS	APPROVED %
AFRICA	63	92%
AMERICAS	15	73%
ASIA	2,123	79%
EUROPE OUTSIDE THE EU	394	78%
EUROPEAN UNION	467	93%
<b>TOTAL</b>	<b>3,062</b>	<b>81%</b>

## b) Social Audits

All the facilities we work with must comply with the Code of Conduct for Manufacturers and Suppliers. Once the pre-assessment has been passed, compliance with the Code of Conduct is evaluated through social audits, which are carried out periodically on each and every one of the suppliers and factories that make up our supply chain.

The purpose of social audits is to ensure that the fundamental rights of the workers involved in our supply chain are respected. Hence, the audit verifies the degree of compliance with the Code of Conduct and, based on the findings, Corrective Action Plans are established.

The methodology of the social audits implemented in Inditex was initially designed in 2007 in partnership with the former International Textile, Garment and Leather Worker’s Federation (currently integrated in IndustriALL Global Union), the University of Northumbria and the Centre for Business and Public Sector Ethics of Cambridge (UK). This methodology has been updated several times and includes among other protocols:

- Interviews with the workers and their representatives
- Review of documentation related to the working conditions of workers
- Visits to the facilities of the audited Company
- Interviews with management

Social audits can be conducted either by internal or external auditors, but always without notifying the Company to be audited in advance. During 2020, 5,689 social audits<sup>(1)</sup> were carried out (6,411 and 5,359 audits in 2019 and 2018, respectively). The audit data for this year should be read in conjunction with the Corrective Action Plans data displayed in the following section, since our accompanying work to improve suppliers and factories has intensified this year.

SOCIAL AUDITS IN 2020

GEOGRAPHIC AREA	NUMBER
AFRICA	197
AMERICAS	14
ASIA	3,259
EUROPE OUTSIDE THE EU	1,074
EUROPEAN UNION	1,145
<b>TOTAL</b>	<b>5,689</b>

Of the more than 5,500 social audits conducted in 2020, 5,411 were conducted by external auditors belonging to various audit firms. To ensure the quality of the audits and that our methodologies are correctly applied, we make major efforts in training external auditors. Last year we worked with 677 external auditors<sup>(2)</sup>, of which 545 were trained in 2020.

As a result of the social audits, suppliers and manufacturers are classified based on their degree of compliance with the Code of Conduct. In 2020, the active suppliers are classified as follows:

(1) A company may receive more than one social audit during a fiscal year. Each audit carried out is considered when accounting for audits.

(2) Includes auditors that conducted social, environmental, pre-assessment, traceability, and special audits in 2020.

“ In 2020, 98% of the Group's purchases were from A or B-ranked suppliers.

CLASSIFICATION	2020		2019		2018	
	NUMBER OF SUPPLIERS <sup>(3)</sup>	PERCENTAGE (%)	NUMBER OF SUPPLIERS	PERCENTAGE (%)	NUMBER OF SUPPLIERS	PERCENTAGE (%)
A	575	32%	784	40%	661	35%
B	1,152	64%	1,051	53%	1,045	56%
C	27	2%	44	2%	80	4%
SUBJECT TO CAP	24	1%	38	2%	47	3%
PR	27	1%	68	3%	33	2%
<b>TOTAL</b>	<b>1,805</b>	<b>100%</b>	<b>1,985</b>	<b>100%</b>	<b>1,866</b>	<b>100%</b>

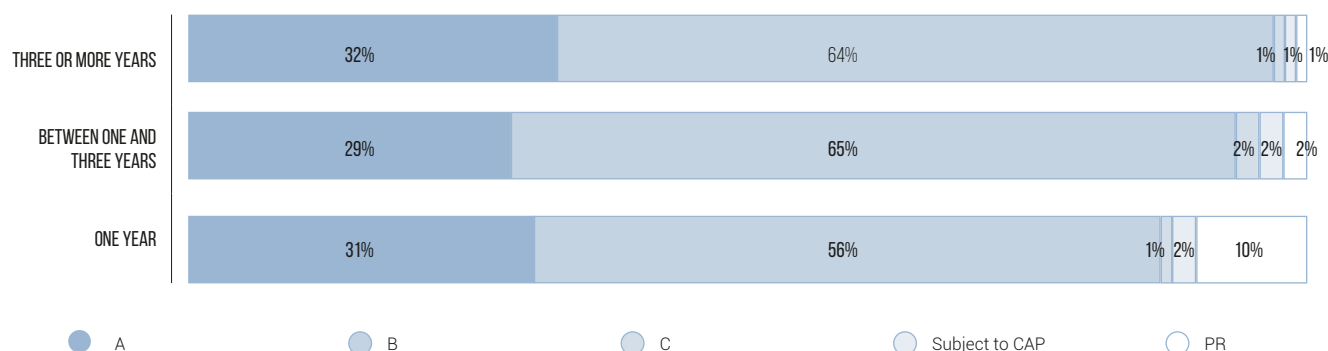
CLASSIFICATION	AUDIT RESULTS
A	COMPLIES WITH THE CCMS
B	DOES NOT COMPLY WITH SOME NON-RELEVANT ASPECT OF THE CCMS
C	DOES NOT COMPLY WITH SOME SENSITIVE, BUT NOT CONCLUSIVE, ASPECT OF THE CCMS
SUBJECT TO CAP	BREACHES OF THE CCMS TRIGGERING THE IMMEDIATE IMPLEMENTATION OF A CORRECTIVE ACTION PLAN
PR	AUDIT IN PROGRESS.

Note that this year 98% of purchases were from A or B-classified suppliers, which represent the highest degrees of compliance in terms of social sustainability. This demonstrates how sustainability criteria are fundamentally relevant in purchasing practices.

Supplier classification improves every year as a function of their years of relations with Inditex, thanks to our efforts to ensure that workers' conditions comply with

the Code of Conduct, and due to the joint work with suppliers and our stakeholder groups to continuously improve our supply chain. This can be seen in the fact that the percentage of A or B-classified suppliers (the highest degrees of compliance within our methodology) is higher in those that have formed part of our supply chain for longer and, therefore, those with whom we have spent more years undertaking improvement programmes and initiatives.

CLASSIFICATION OF SUPPLIERS ACCORDING TO THEIR BUSINESS RELATIONSHIP WITH INDITEX (%)



(3) It includes suppliers with more than 20,000 purchasing units in the 2020 spring/summer and autumn/winter campaign. Suppliers with production of less than 20,000 units represent 0.3%.



*We take part in initiatives designed to promote consensus frameworks in the industry for supplier assessment, such as the Social & Labour Converge Program.*

## Social & Labour Convergence

Inditex supports and belongs to the *Social & Labor Convergence Program* (SLCP), aimed at creating an efficient, scalable and sustainable solution to avoid overlapping in social audits. Together, we are working to implement the first framework for industry-wide consensus to assess social and labour conditions so that data can be shared and analysed. This saves time and resources which can be channelled to foster improvements.

In 2020, we have made progress in adopting the SLCP framework in markets such as India, Turkey and China, promoting the verification of our suppliers and manufacturers

according to the basic principles of this initiative and supporting them during the process.

Through the SLCP, we also aim to strengthen suppliers' awareness of their responsibility to comply with international human rights and labour standards.



Social audits are also a very important source of information for the development of the activities of the Workers at the Centre 2019-2022 strategy, as they make it possible to determine and identify the main challenges in each country in relation to the different aspects of the Code

of Conduct. In doing so, our teams can assess and identify which actions to take to overcome them.

More information on section 2.7. *Contribution to the socio-economic development of workers and the industry* of this Annual Report.

PERCENTAGE OF COMPLIANCE WITH THE CODE OF CONDUCT IN THE ACTIVE FACTORIES<sup>(4)</sup> OF SUPPLIERS WITH PURCHASES IN 2020:

	AFRICA	AMERICAS	ASIA	EUROPE OUTSIDE THE EU	EUROPEAN UNION
NO FORCED LABOUR.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
NO WORK BY YOUTHS OR CHILD LABOUR <sup>(5)</sup> .	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
NO DISCRIMINATION.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
RESPECT FOR FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
NO HARSH OR INHUMANE TREATMENT.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
HYGIENE AT WORK.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
WAGE COMPLIANCE.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
WORKING HOURS.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
ENVIRONMENTAL AWARENESS.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
REGULAR WORK.	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%
IMPLEMENTATION OF THE CODE <sup>(6)</sup> .	Over 90%	Over 90%	Over 90%	Over 90%	Over 90%

● Over 90%      ● Between 70% and 90%      ● Between 50% and 70%      ● Less than 50%

(4) Factories blocked in 2020 not included.  
 (5) Includes the lack of suitable systems for verifying the age of workers.  
 (6) Includes the lack of suitable systems for registering and communicating with workers.

## c) Environmental Audits

Verification of compliance with the GtW 2.0 standard is regularly assessed using environmental audits on suppliers and factories that belong to the Inditex supply chain and carrying out wet processes. These audits are carried out by independent external auditors and 1,123 audits were carried out in 2020<sup>(7)</sup>.

### ENVIRONMENTAL AUDITS IN 2020

GEOGRAPHIC AREA	NUMBER
AFRICA	26
AMERICAS	1
ASIA	670
EUROPE OUTSIDE THE EU	237
EUROPEAN UNION	189
<b>TOTAL</b>	<b>1,123</b>

In addition to an announced visit to the facilities of the announced Company and a review of documentation, these audits include an unannounced analysis of wastewater samples from each of the audited facilities, which is posted on the *ZDHC Gateway* platform set up for this purpose.

These audits allow us to assess compliance with several of our environmental sustainability commitments, which include notably our Zero Discharge Hazardous Chemicals (ZDHC) commitment. In addition, we collaborate with our suppliers to disclose the results of wastewater analyses obtained from the *Green to Wear* assessments on the *ZDHC Gateway* platform.

 More information on section c) *Raw material control* in the chapter 3.3.2. *Selection of materials* of this Annual Report.

## Facility environmental module (SAC)

Developed within the *Sustainable Apparel Coalition* (SAC), an organisation of which we are a member and with which we actively collaborate, the *Facility Environmental Module* (or FEM) makes it possible to assess the environmental impact of suppliers and factories, covering aspects such as water consumption, waste management, chemical product management, emissions and energy consumption.

This framework makes it possible to create a common language when assessing the environmental impact and therefore helps prevent audit overlap.

Since the start of 2021, at Inditex we have promoted the application of this tool by our suppliers and manufacturers.



## d) Special Audits

Special audits focus on a specific area for improvement. Examples of objectives included are structural and technical assessments or the assessment of working conditions of the workers exclusively from a health and safety perspective. Like social audits, they can be carried out by external or internal auditors. 781 special audits<sup>(8)</sup> have been performed in 2020 (1,619 and 1,982 audits in 2019 and 2018, respectively).

### SPECIAL AUDITS IN 2020

GEOGRAPHIC AREA	NUMBER
AFRICA	36
AMERICAS	2
ASIA	673
EUROPE OUTSIDE THE EU	43
EUROPEAN UNION	27
<b>TOTAL</b>	<b>781</b>

(7) The number of audits conducted in 2019 and 2018 is not included, since due to the update of GtW 2.0 standard and the consolidation of the previous *GtW and Ready to Manufacture* standards therein, the number of audits reported in previous years is not comparable.

(8) The drop in the number of special audits performed is related to restrictions as a result of the covid-19 pandemic.



## e) Continuous Improvement

A cornerstone of sustainable supply chain management is ongoing improvement, with Corrective Action Plans (CAP) being one of the main tools we use to this end. These are undertaken after identifying breaches in both social and environmental audits conducted on suppliers and factories in our supply chain.

The two main objectives of the CAPs are:

- The establishment of measures aimed at mitigating and/or remedying potential breaches of the CCMS or the GtW 2.0 standard.
- Prevention to avoid further breaches in future.

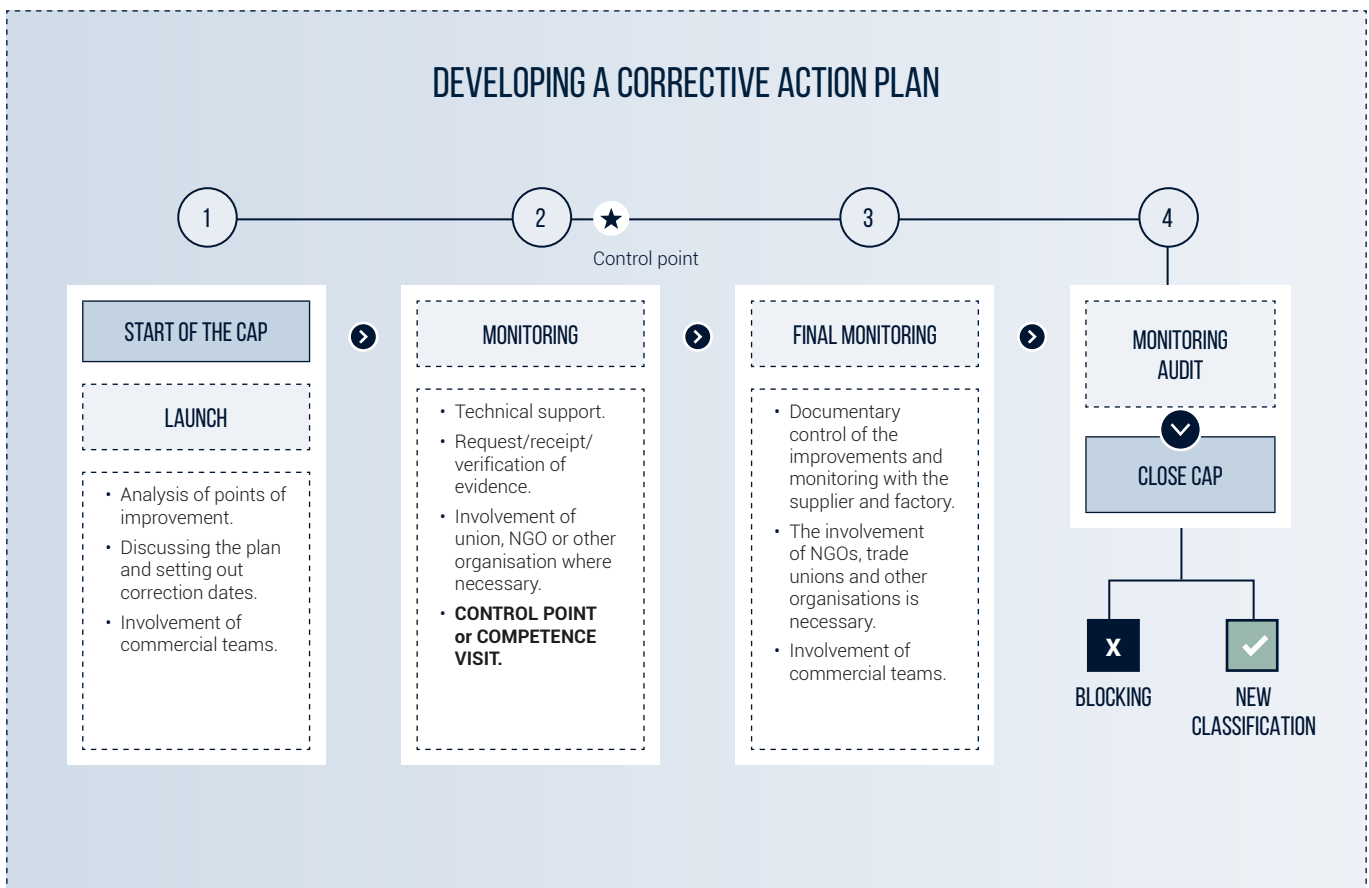
They are a clear example of Inditex’s philosophy of always helping suppliers to improve and how we offer them our support. Our sustainability teams, as well as the commercial teams, offer constant support to suppliers throughout the duration of the Plan in order to improve workers’ conditions and seek a positive environmental and social impact. On the one hand, they provide advice on the best way to implement corrective measures. On the other hand, they continuously monitor it to be able to influence the supplier and take action before the stipulated time has

elapsed, if it is detected that the plan is not progressing at the pace required to meet the terms.

Furthermore, in the case of breaches of the Code of Conduct, they can also have the support of other stakeholders, such as non-governmental organisations, trade unions or other civil society organisations to help develop the CAP. For example, in 2020 we collaborated with organisations such as *Refugee Support Centre (MUDEM)* to roll out these plans.

The CAPs include exacting goals and deadlines that must be met properly and promptly by the supplier and their duration will depend on the severity of the breaches detected. In the case of the most sensitive breaches (Subject to CAP ranking), the approximate duration of the CAP is six months, during which time our teams provide support to suppliers and manufacturers in order to implement the necessary corrective measures. Upon completion of this period, a new audit is conducted. In the event of verifying that the plan has not been fulfilled, and critical breaches are again identified, the factory or supplier will be blocked and its commercial relationship with Inditex will be suspended.

Our control methodology includes support and monitoring of the evolution and compliance of these CAPs by our teams, including competence visits or control points performed by our staff.





It is worth mentioning that, in line with our philosophy of ongoing improvement, in 2020, the scope of the comprehensive follow-up conducted through these Corrective Action Plans has been extended to other ratings, not solely to factories with more sensitive breaches.

- Social CAPs: in 2020, 715 Corrective Action Plans were conducted. 303 of these plans were carried out in factories subject to a CAP, and 412 in factories with other ratings.<sup>(9)</sup>

- Environmental CAPs: in 2020, 490 Corrective Action Plans were conducted. 132 of these plans were carried out in factories subject to a CAP, and 358 in factories with other ratings.<sup>(10)</sup>

If the result states that the necessary measures have not been implemented, the factory or supplier is blocked and it cannot continue working for Inditex. We have a zero tolerance stance towards those which do not make good use of improvement opportunities and which, despite our efforts, still do not comply with our Code of Conduct and our requirements. Thus, in 2020, 23 suppliers were rejected for reasons related to breaches of the Code of Conduct, and were barred from continuing to receive orders from any brands in the Group.

	SUPPLIERS WITH PURCHASES <sup>(11)</sup>	REJECTED DUE TO A BREACH OF THE CODE OF CONDUCT	REJECTED FOR COMMERCIAL REASONS	SUPPLIERS IN OPERATION AT 31/1/2021
AFRICA	156	4	7	145
AMERICAS	9	0	3	6
ASIA	991	6	6	979
EUROPE OUTSIDE THE EU	242	8	2	232
EUROPEAN UNION	407	5	3	399
<b>TOTAL</b>	<b>1,805</b>	<b>23</b>	<b>21</b>	<b>1,761</b>

Similarly, carrying out a responsible exit strategy for removing suppliers from the supply chain is one of the commitments in the field of purchasing practices that we have agreed with brands belonging to the ACT initiative. This means that, in the event that – for duly-grounded reasons – we decide to cease operations with a supplier, the relationship will be terminated in a committed manner. In doing so, we carry out a prior accompaniment and monitoring task, in order to attempt to curb the impact this may involve.

Blocking a supplier or factory is the last resort. In this regard, our support to suppliers and factories is not limited to simply performing the CAPs, but we also conduct a number of actions to prevent breaches and we pro-actively seek the continuous improvement of the supply chain. Our aim is to establish a continuous collaboration and dialogue based on mutual trust with our suppliers. Accordingly, we offer them support and cooperation to improve their own supply chains both from the point of view of minimising environmental impact and promoting the human and labour rights of their workers.

Our clusters play a key role in strengthening relations with suppliers, since they comprise local professionals with considerable experience in sustainability and with a variety of skills and abilities, who make up multidisciplinary teams in order to understand and address local realities in the supply chain and support suppliers in addressing global challenges.

(9) In 2019 and 2018, only Corrective Action Plans of a social nature conducted in factories or suppliers Subject to CAP were reported. (400 and 417 in 2019 and 2018, respectively)

(10) 136 and 135 Corrective Action Plans in 2019 and 2018, respectively.

(11) Suppliers of fashion items with a production of over 20,000 units in the 2020 spring/summer and autumn/winter campaigns. Suppliers with lower productions account for 0.3% of total production.



# Human Rights

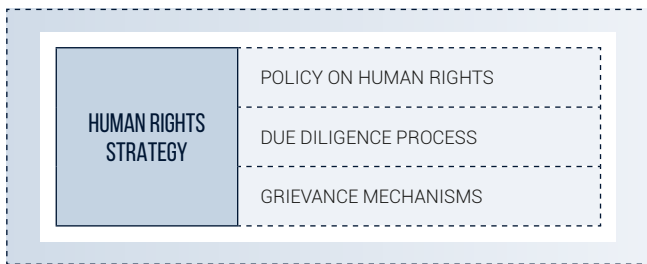


# 3.5. Human Rights

RELATED MATERIAL TOPICS: HUMAN RIGHTS



Inditex's Human Rights strategy encompasses the operations of the entire Group and is based on three pillars: the Human Rights Policy, the Due Diligence Process, and the Grievance Mechanisms. This is a true reflection of our alignment with the UN Guiding Principles on Business and Human Rights. All our policies, plans and strategies are built on these, in an effort to promote and foster respect for Human Rights of the people involved in our activity.



In this regard, we would like to highlight our collaboration with the organisation Shift, a non-profit organisation directed by Mr. John Ruggie, author of the Guiding Principles and a leader in the field. In addition to the support and joint collaboration with Shift, Inditex belongs to the *Business Learning Program*, developed by the organisation and which includes companies from different sectors that are also committed to promoting Human Rights. The group is a space for exchanging practices and lessons which drive to a real and positive change.

2020 has highlighted more than ever the importance of having a Human Rights strategy that is strong and integrated in the Company's DNA in order to provide a real, fast, flexible and sustainable response to the challenges faced by our people and the workers in our supply chain.

## a) Policy on human rights

The [Policy on Human Rights](#) was approved in December 2016 by the Inditex Board of Directors, after favourable reports were issued by the Audit and Control Committee (now known as the Audit and Compliance Committee) and the Social Advisory Board. It applies to the entire Group and reflects our commitment to the promotion and respect for Human Rights. It also attests to the relevance of the contribution made to the 17 UN Sustainable Development Goals.

The Human Rights policy is based on the Universal Declaration of Human Rights, on the main ILO conventions and the UN Guiding Principles on Business and Human Rights, among others, and reflects the Group's action principles and the priority placed on rights related to our business model.



*The Human Rights Policy of Inditex is based on the Universal Declaration of Human Rights, ILO conventions and the Guiding Principles on Business and Human Rights.*

## RESPECT FOR ALL UNIVERSALLY RECOGNISED HUMAN RIGHTS



### PRIORITISATION OF RIGHTS MOST CLOSELY LINKED TO THE BUSINESS MODEL



#### NON-LABOUR HUMAN RIGHTS

- Respect for the rights of minorities and communities.
- Right to privacy.
- Right to health.
- Right to freedom of opinion, information and expression.
- Right to security of the person.
- Contribution to fight against corruption.
- Right to environment and water.



#### LABOUR HUMAN RIGHTS

- Forced or compulsory labour is rejected.
- Child labour is rejected.
- Discrimination is rejected and diversity is promoted.
- Respect for freedom of association and collective bargaining.
- Protecting workers' health and safety.
- Fair, just and favourable working conditions.

Additionally, the Sustainability Policy, which had been approved in 2015, was modified in December 2020 to reinforce the Company's commitment to respect of human rights and sustainable development as principles governing the sustainability of the Company.

### b) Due diligence process

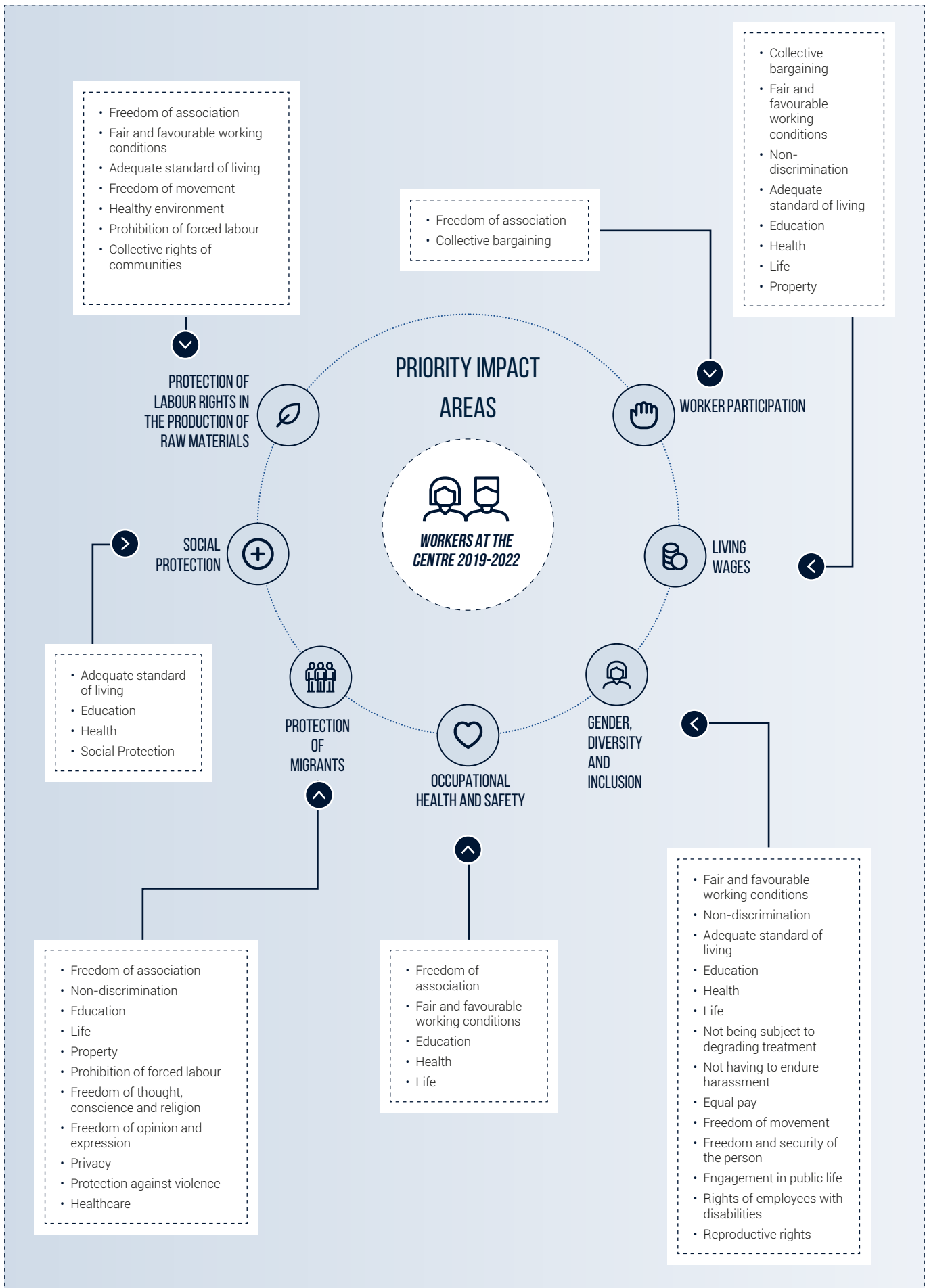
Our Human Rights' due diligence process is <sup>(1)</sup> under constant review thanks to the information and interaction with our stakeholders and our sustainability teams on the ground. Proof thereof is the adaptation in 2020 of our programmes and projects, for the purpose of minimising

the impact of the pandemic on our people and on the workers in the supply chain, principally in areas like occupational health and safety.

In this regard, we have continued to address the due diligence process via our two main lines of action:


**- Supply Chain:** Our sustainability strategy Workers at the Centre 2019-2022, which in 2020 reached its halfway point, seeks to generate a positive impact among the workers as the main beneficiaries of its programmes and projects. The strategy came about following the due diligence process developed with Shift, where we identified the seven priority impact areas which have become its focus.

(1) These are due diligence processes that are complementary to others implemented in the Company, such as those described in the section on the Criminal Risk Prevention Model.



**- Value Chain:** We understand the importance of identifying the potential impacts in our value chain, beyond supply chain. In this regard, we work with different corporate areas like transportation which in 2020 and in collaboration with Shift has received training on due diligence and Human Rights and which is actively working in the development of mechanisms and strategies.

Moreover, in September 2020 we signed a public statement along with other brands and organisations to support the initiative driven by the European Commission on mandatory legislation that regulates the obligation of companies to develop due diligence processes. This legislation will help to level the playing field and to increase the legal certainty on the standards expected from businesses in terms of respect for human rights.

 For more information: [https://media.business-humanrights.org/media/documents/EU\\_Business\\_Statement\\_Mandatory\\_Due\\_Diligence\\_02092020.pdf](https://media.business-humanrights.org/media/documents/EU_Business_Statement_Mandatory_Due_Diligence_02092020.pdf)

## c) Grievance mechanisms

Grievance mechanisms are a fundamental tool within our human rights strategy as they feed into the due diligence process by supporting us in identifying potential negative impacts, allowing us to respond and to mitigate any risks in advance.

Inditex's main grievance mechanism on which the Group relies is the Ethics Line available to the employees as well as any third party with a lawful interest. They can all address to the Channel, confidentially and, if need be, anonymously, any consultations and communications related to the interpretation and compliance of the internal conduct regulations. Consultations will be managed by the Ethics Committee and, if necessary, appropriate measures shall be taken to solve the detected situation.

 More information on section 1.6. *Robust Compliance architecture* of this Annual Report.

### TIMETABLE OF OUR HUMAN RIGHTS STRATEGY

