

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% ⁽¹⁾ 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

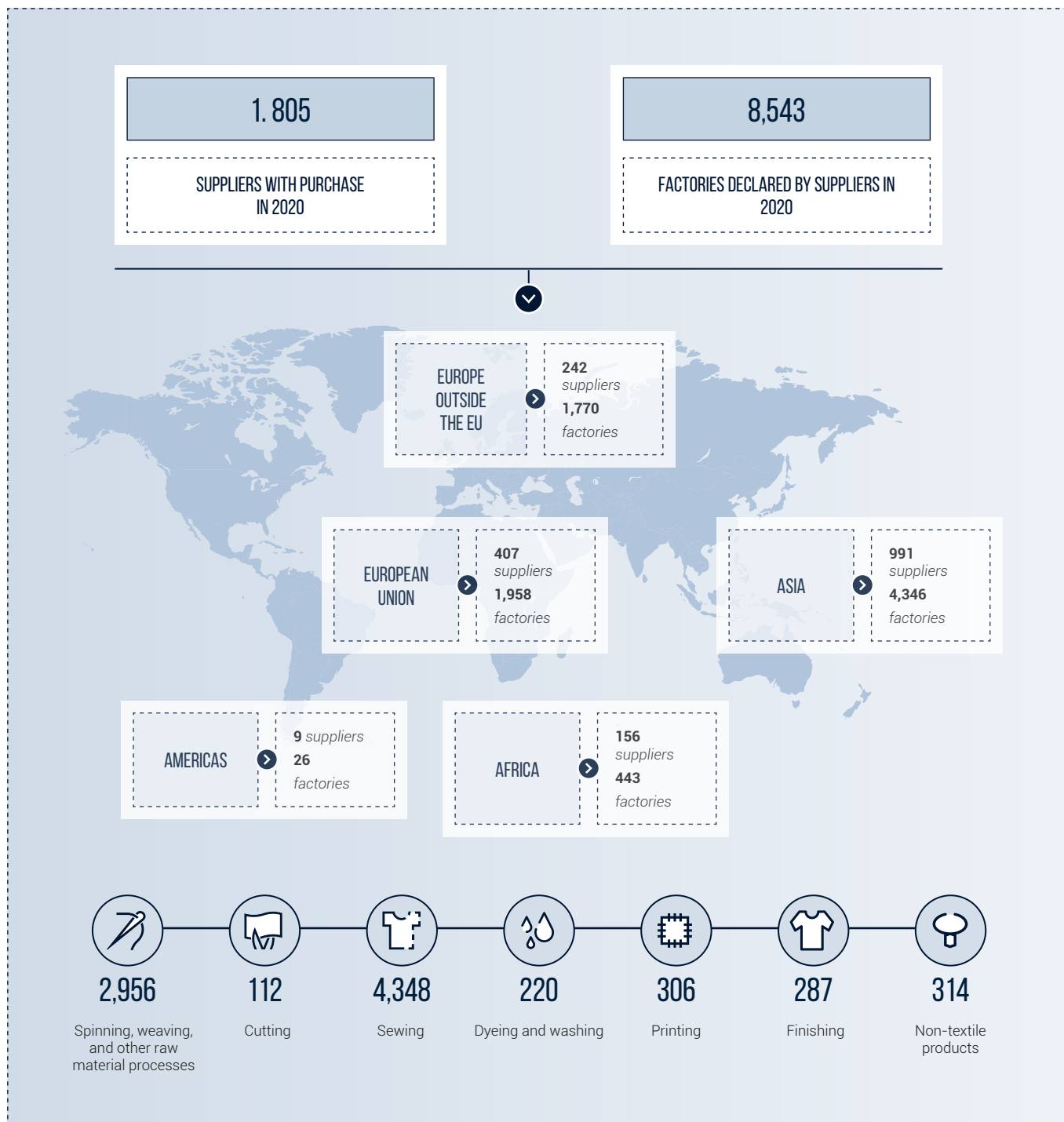
placed on those levels and process that are further away from the finished product.

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⁽²⁾, which, in turn, used 8,543 factories⁽³⁾ 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 ⁽⁴⁾	232	41	51	242
EUROPEAN UNION	468	101	40	407
TOTAL	1,985	444	264	1,805

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

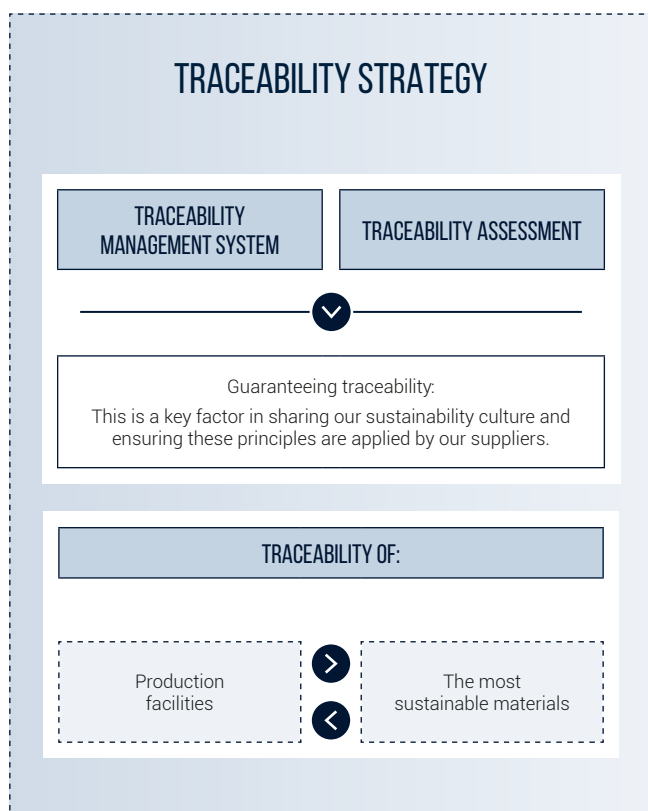
Within the framework of our cooperation in initiatives such as ACT (*Action, Collaboration, Transformation*) or the Bangladesh Accord, we share information concerning sustainability with other companies and stakeholders in the sector with the aim of collectively improving and maximising our contribution 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
TOTAL	1,342

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.

ACT: BRAND COMMITMENTS

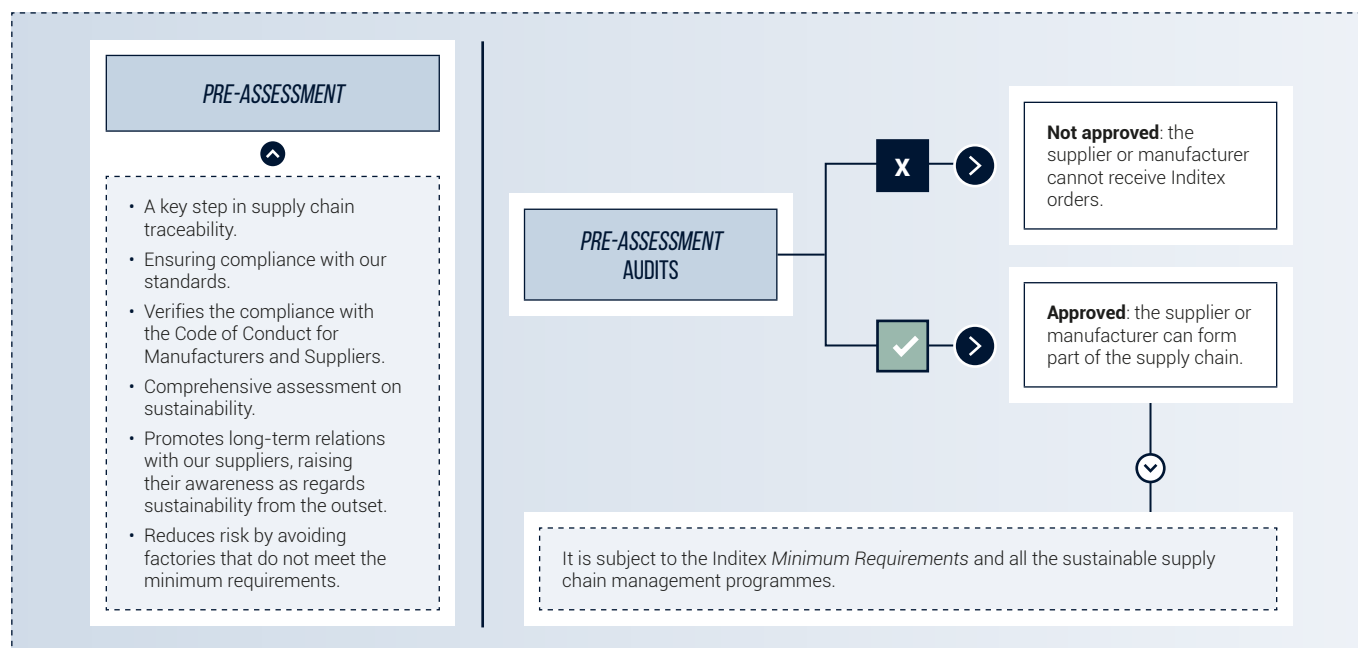


3.4.3. Assessment and continuous improvement

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%
TOTAL	3,062	81%

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⁽¹⁾ 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
TOTAL	5,689

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⁽²⁾, 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.

	2020		2019		2018	
CLASSIFICATION	NUMBER OF SUPPLIERS ⁽³⁾	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%
TOTAL	1,805	100%	1,985	100%	1,866	100%

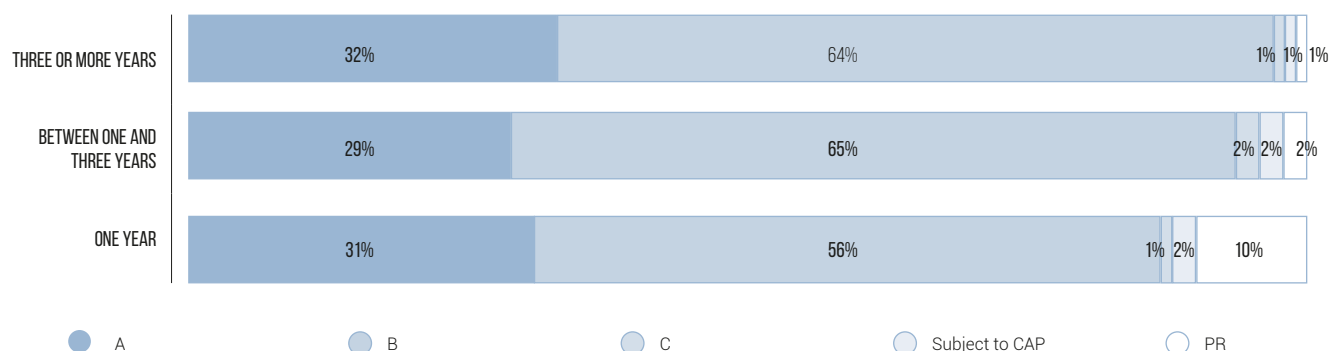
CLASSIFICATION	AUDIT RESULTS
A	COMPLIES WITH THE CCMS
B	DOES NOT COMPLY WITH SOME NON-RELEVANT ASPECT OF THE CCMS
C	DOES NOT COMPLY WITH SOME SENSITIVE, BUT NOT CONCLUSIVE, ASPECT OF THE CCMS
SUBJECT TO CAP	BREACHES OF THE CCMS TRIGGERING THE IMMEDIATE IMPLEMENTATION OF A CORRECTIVE ACTION PLAN
PR	AUDIT 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⁽⁴⁾ OF SUPPLIERS WITH PURCHASES IN 2020:

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

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⁽⁷⁾.

ENVIRONMENTAL AUDITS IN 2020

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

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⁽⁸⁾ 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
TOTAL	781

(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.

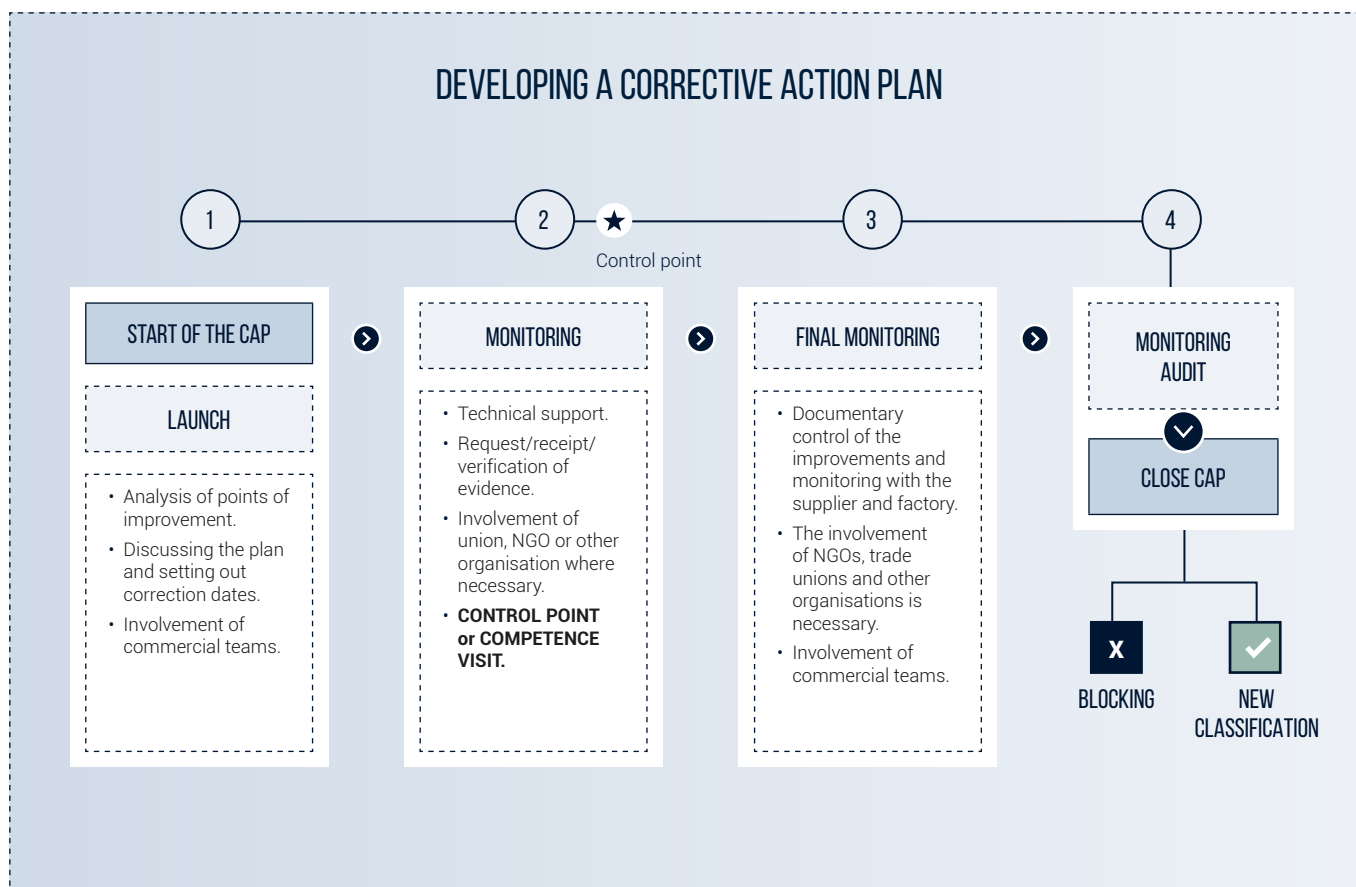
They are a clear example of Inditex's philosophy of always helping suppliers to improve and how we offer them our support. Our sustainability teams, as well as the commercial teams, offer constant support to suppliers throughout the duration of the Plan in order to improve workers' conditions and seek 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.⁽⁹⁾

- 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.⁽¹⁰⁾

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 ⁽¹¹⁾	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
TOTAL	1,805	23	21	1,761

(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.

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.

