

5.4.1. Our approach to circularity

GRI 103-2; 103-3 AND 306-4



As part of our commitment to sustainable development, **at Inditex we are strongly committed to circularity**, an economic, management and production model that enables growth while conserving natural resources and advancing in the decarbonisation of the value chain. For us, circularity represents a differential model for production and consumption that spans every stage of a product from design to end of life, promotes the recycling and reuse of articles to extend their life cycle and thus minimises the use of natural resources, energy consumption and waste generation.

Integrated into our corporate strategy and our Sustainability Roadmap, **circularity encompasses the entire business model**: from the various processes carried out along the value chain to the management of commercial space, including logistics, product design and the Company's offices. We therefore strive to achieve a more resilient and sustainable activity in the long term. We also believe that circularity represents a great opportunity not only for Inditex, but for the entire industry and the community as a whole, as it represents a paradigm shift that benefits people, the environment and the economy.

Consistent with this concept of circularity, the fibres and materials we use must be designed to achieve the greatest possible longevity, while at the same time being resource efficient, non-toxic and recyclable. In this way, we are focused on minimising our impact on the value chain through process efficiency and the quest for more sustainable materials, on extending the life of our products through innovation, and on promoting recycling and reuse when they reach the end of their life cycle. Innovation and technological development are, therefore, essential to meet the challenges posed by the development of new materials and new processes as we advance towards this circular model.

In order to close the life cycle of our products and the materials we use, when reuse is not possible, we work to consider waste as a **secondary raw material** and, as such, we endeavour to collect it and reintroduce it into the production processes. As an example of this, we provide locations for our customers to deposit their articles when they decide to dispose of them: our *Closing the Loop* programme. We are also committed to ensuring that by 2023 the waste generated at our own facilities —headquarters, logistics centres, factories and stores— does not end up in landfill, a goal we are working towards through our Zero Waste programme.

We are aware that achieving a fully circular model is not an issue that can be tackled by individual initiative alone; it requires a concerted effort by consumers, industry, the scientific community and governments. **Collaboration is key**, and at Inditex this occurs through our involvement in various projects and initiatives both within our industry and across multiple sectors, which add up to our individual projects. Thus, we join forces to support the production and marketing of sustainable and circular products, encourage reuse and promote collection and recycling.

As part of this holistic view of circularity, we share our experience and align positions with relevant stakeholders, thus contributing to the debates held on this subject. Accordingly, we address this issue both collectively, through sector associations or specific partnerships, and individually. We want to help define actions to overcome barriers to circularity, stimulate its collective and collaborative management and support public and private investment and innovation.

Our main lines of work on circularity revolve around minimising impact at all stages of the value chain, focusing mainly on the supply chain, product use and end-of-life. Raising consumer awareness also has a very significant part to play in the strategy. In our view, in a circular economy, consumers will play a vital role not only in making purchasing decisions, but also in sorting, recycling and reusing products. Hence, we join forces and work to obtain a harmonised framework of action for consumer empowerment and protection.

MINIMISING IMPACT...



... in the supply chain

Recycled raw material projects with less impact:

- ✓ **Programas t2t** (*textile to textile*).
- ✓ **Poliéster reciclado.**



... in the use of products

- ✓ Optimising systems and partnerships with third parties within the **Closing the Loop** programme for the **collection of used garments**.
- ✓ Research to identify materials that require less maintenance.
- ✓ Training for buying teams, on raw materials coming from more sustainable sources and wet processes, to foster a more sustainable product.
- ✓ Research into promoting maintenance with a lower impact.
- ✓ Research into measuring and reducing the release of microfibres when washing the garment.
- ✓ Research into increasing the usability of garments.



... at the end of life

- ✓ **Zero Waste** Programme
- ✓ **Green to Pack** Programme.
- ✓ **Closing the Loop** programme: Promoting **Closing the Loop** garment identification and classification systems, according to their qualities, composition and colour, in collaboration with our partners.
- ✓ Evaluation of monomaterial design through designer training.
- ✓ Driving design with recyclable colours.

RAISING CONSUMER AWARENESS

Consumer information and empowerment regarding their role in circularity.



Traceability and transparency.

The Group's commitment to traceability and transparency also plays a key role in circularity to ensure that our products are made with the most environmentally-friendly raw materials and production processes. Furthermore, traceability and transparency are two fundamental tools for empowering consumers, and we also provide them with information on the origin, impact and characteristics of the most sustainable materials in our collections on the Group's brands various websites, so that they can make more responsible choices.

Circularity poses technological, industrial, economic and regulatory challenges that cannot be overcome without a **firm commitment to innovation**. As this is a key element of our business model,

the Group devotes great efforts to research and development to bring quality products to the market with the lowest possible environmental impact. For example, we invest in obtaining raw materials from more sustainable sources and more efficient production and recycling techniques. We are mindful of the importance of transforming the concept of waste into a valuable resource that can be recovered and reintroduced as a raw material in the various production systems.

The results of these innovation efforts are evidenced in the various circularity projects launched by the Group's brands.

More information in section 4.3. *Innovation, vital for transformation of this Report.*

Featured collaboration projects

At Inditex we are aware that our sustainability objectives can only be achieved through **collaboration**, both within our sector and with other industries, as well as with all our stakeholders. In this regard, we work with prestigious entities such as the Massachusetts Institute of Technology (MIT) and Cáritas, among others, to advance in our strategic circular economy focus.

MIT Spain - Inditex Circularity Seed Fund

This is a fund set up by Inditex to finance collaborative projects between research teams comprising **MIT** faculty and students (under its MISTI - MIT International Science and Technology Initiatives) together with Spanish universities and non-profit research institutions.

The projects financed are aimed at developing **recycling or transformation initiatives**, creating textile fibres by new, non-polluting methods or from waste, as well as any other sustainable initiative related to the circular economy in the textile industry.

In 2021, the fifth period for applications to this fund was opened to finance research in areas such as:

- New textile recycling techniques.
- Creating new fibres based on sustainable technologies.
- New methodologies for improving maintenance and extending the use of garments.
- Optimising the biodegradability of garments.
- Developing new fibre-level trace systems.

The second three-year edition covers the 2020-2022 period and Inditex has contributed an amount of 450,000 dollars (403,370 euros, at the exchange rate at the close of 2021 financial year).

Among the projects funded by this initiative, we highlight the **University of Vigo's Chemical Recycling project**, focused on overcoming the challenge of chemical recycling for fabrics with mixed compositions.

Additionally, also in collaboration with MIT (specifically, with the Department of Material Science and Engineering), in 2019 we set up the Inditex Materials Science and Engineering Fellowship Fund with the aim of promoting research on sustainability.

Accelerating Circularity

Accelerating Circularity is a collaborative project of the textile industry that combines efforts of various actors **to develop circular supply chains**, with a special focus on chemical and mechanical recycling of synthetic and cellulosic materials. With the support of organisation such as Textile Exchange, Euratex, Wrap, Circle Economy, Fashion for Good, ReFashion or Apparel Impact Institute, among others, the project is aimed at establishing systems that harness the value and resources in existing textiles to create new products. This reduces the amount of textile waste going to landfill annually, therefore helping reduce the environmental impacts of the industry and the need for virgin materials.

In June 2021, the European arm of Accelerating Circularity was launched, with Inditex as a founding partner and member of its Steering Committee along with other representatives of fibre manufacturers, textile waste and supply chain experts, as well as brands and retailers. We are also members of this initiative's Brand and Retailer Working Group in the United States. From our position, we work with the value chain actors such as collectors, sorters and mechanical and chemical recyclers of various technologies to identify the requirements for producing recycled fibre using post-consumer textiles. The short-term objective is to scale up pilot production of collections incorporating recycled fibres from textile waste produced in Europe.

Global Fashion Agenda: Call to Action

In 2021, we continued to work with the non-profit organisation Global Fashion Agenda, which runs the Global Fashion Summit (formerly Copenhagen Fashion Summit) and calls upon fashion brands and retailers to implement **actions to boost circularity**.

Of the projects in which we collaborate, we highlight our involvement in the Circular Fashion Partnership with GFA, BGMEA and Reverse Resources.

Circular Fashion Partnership

Inditex is one of the founding partners of this cross-sectoral project, led by *Global Fashion Agenda* with *Reverse Resources* and BGMEA (a Bangladeshi employer association) as project partners. **The aim is to develop the textile recycling industry in Bangladesh**, using secondary raw materials from post-production fashion to make new products.

This project facilitates collaboration between textile manufacturers, recyclers and fashion brands operating in Bangladesh. The workflow is structured into two stages. The first focuses on traceability and recovering waste flows. Manufacturers in Bangladesh work together with the partner brands and are supported by *Reverse Resources* to establish the sorting of cutting waste at their premises. Waste flows are combined with a recycling solution that provides an 'integrated solution' with traceability for all the parties involved. In the second stage, once the waste flows have been redirected to recycling solutions, the project's participants assess the opportunity of making these flows circulate back into production. The price of the material must be moderate (it must not exceed that of virgin material), fully traceable and of the highest possible quality.

Over the course of the year, Inditex brands Pull&Bear and Bershka have contributed to this project, involving our supply chain and bringing some of our local suppliers on board.

Also in 2021, as members of the Circular Fashion partnership we took part in an event with political leaders and textile industry executives in Bangladesh to discuss opportunities for overcoming the barriers to developing a circular industry in the country. In addition, the initiative this year published a study (*The Scale and Value of Bangladesh Textile Waste*) evidencing the importance of fostering recycling in Bangladesh.

Ellen MacArthur Foundation. Make Fashion Circular

In 2021 we have strengthened our strategic alliance with the *Ellen MacArthur Foundation*, becoming a partner. At the same time:

- We have renewed our participation as a member of the Advisory Board for its Make Fashion Circular initiative.
- We have joined the Jeans Redesign initiative with six of our brands.

- We have ramped up our ambition on reducing plastics by signing a new pledge through the Global Commitment, led by the Ellen MacArthur Foundation.

Our collaboration with Make Fashion Circular has led us to participate in **developing a common vision of the circular economy for fashion** that we have integrated into our strategy. This vision was defined thanks to the contribution of over 100 experts and aims to develop a common language for the fashion industry: *Used more, Made to be made again* and *Made from safe and recycled or renewable inputs*.

Moreover, we have contributed to the Foundation's research project *Circular business models: Redefining growth for a thriving fashion industry* (2021), along with Boston Consulting Group, which compiles growth forecasts and circular business models, examining strategic topics necessary for these models to be able to develop their economic and environmental potential.

We have also contributed to the *Circular Design for Fashion Book* (2021), the Ellen MacArthur Foundation's new eco-design guide for the fashion world, based on the principles of the circular economy and in the development of the Product Design Tool, aimed at affording key insight into how to make design decisions to ensure products last longer and can be repaired, recycled and, at the same time, manufactured using the most environmentally-friendly materials and processes.

Lastly, with respect to the Jeans Redesign initiative, we also contributed to compiling its eco-design guide for producing denim articles in keeping with the principles of the circular economy.

Euratex recycling ReHubs

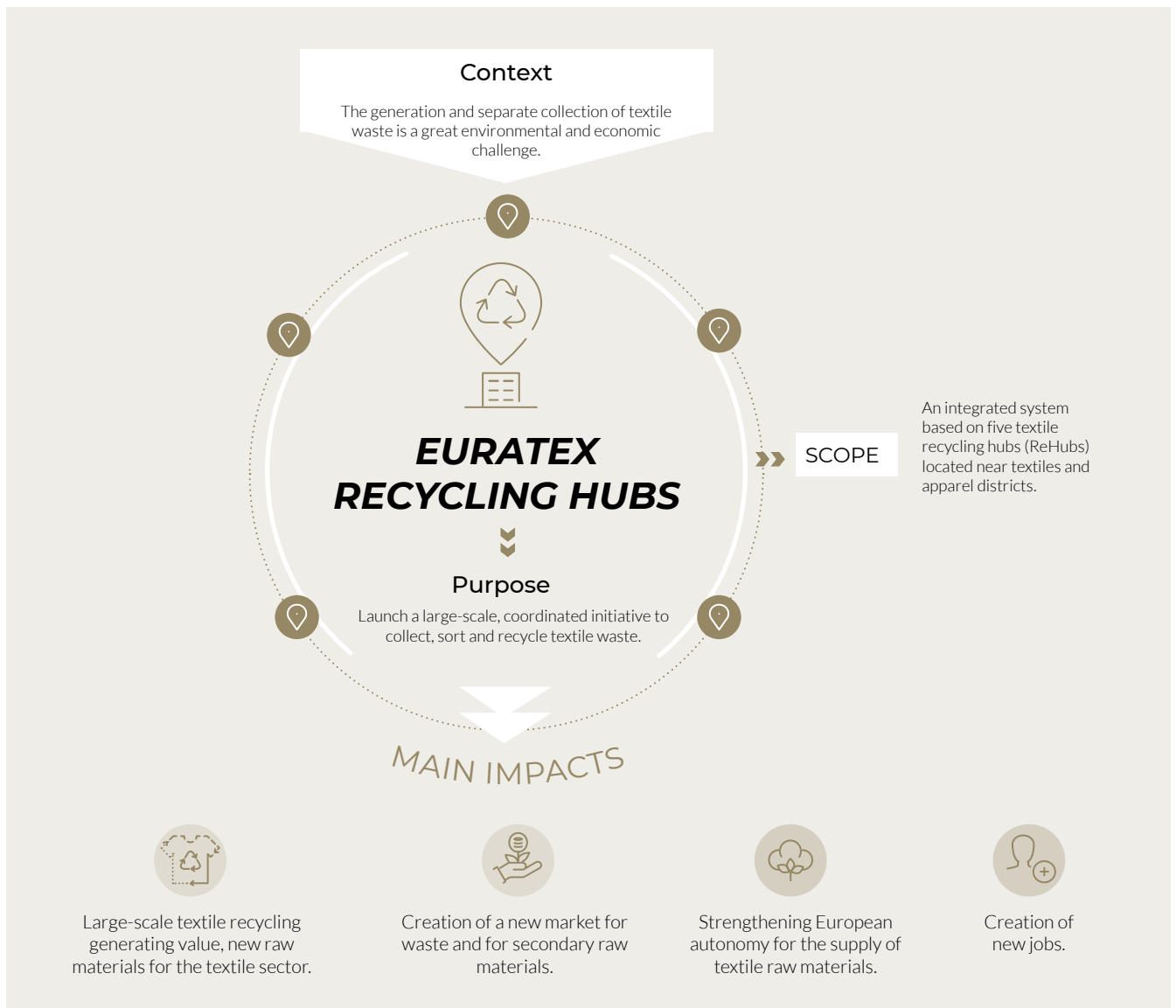
We support Euratex in the development of a proposal to create five recycling centres or ReHubs in Europe for the purpose of **collecting, processing and recovering textile waste**. This project was submitted by Euratex to the European Commission in November 2020 with the backing of Inditex and other key European businesses. In 2021, we also joined the initiative's business council.

This year, ReHubs focused on identifying adequate financial resources to develop technological and economic feasibility studies for the five ReHubs and trigger a broader public-private partnership. Inditex, as a member of the business council, took part in the definition of the technical requirements for carrying out those feasibility studies.

Located close to Europe’s textile and garment hubs, these ReHubs will bring the benefits of the circular economy to these areas by recycling textile waste and offering a completely new, coordinated and large-scale process for materials management. At the same time, they will enable the creation of a new European market for recycled raw materials that will save additional costs linked to waste, also boosting cooperation between manufacturers and buyers throughout the

value chain by pooling know-how about products, recyclability and design.

In Spain, Inditex works with the Spanish Intertextile Council, *Consejo Intertextil Español* (CIE), to define the properties, needs and network of synergies of Euratex’s Spanish *ReHub*.



PEF Pilot for Apparel and Footwear

This European Commission project is aimed at developing a shared methodology to **calculate the environmental impact of clothing and footwear**, based on Life Cycle Analysis (LCA).

Inditex we have taken part in the pilot edition of this programme as members of the Technical Secretariat, helping to define such a methodology and a simplified approach to Life Cycle Analysis.

Convinced that a common methodology based on standard industry principles can help accelerate the transition towards more sustainable products, at In-

In 2021, the secretariat submitted for public consultation the first version of the PEFCR (*Product Environmental Footprint Categories Rules*), a doc-



ument that includes specific methodological rules for clothing and footwear products, for review by the stakeholders.

Keeping Workers in the Loop with BSR

The goal of this initiative, in which Inditex is actively involved, is to **map and explore the impact on labour of the transition to a circular economy** model in the fashion industry –primarily in the United States, India and Europe–.

This is a global collaborative project, backed by the Laudes Foundation and led by Business for Social Responsibility (BSR), in partnership with CMS – Social Impact Specialists and economists from the University of Lincoln. Its mission is to analyse how the shift towards circular fashion may affect job opportunities, quality and consumption-production dynamics, developing potential future scenarios including, for example, automation and climate change.

After compiling all this information, the project aims to develop recommendations for fashion industry leaders, policy makers and other stakeholders to promote circular models with decent and inclusive employment opportunities that are resilient to future changes.

Fashion for Good

Fashion for Good is a global initiative for accelerating innovation specialising in the textile sector. Through this platform, brands, producers suppliers, non-profit organisations and innovators work together to **scale sustainable solutions**.

At Inditex we participated in a study on the actual typology of post-consumer textile waste according to its characteristics and composition. The aim is to gauge textile waste sorting capacities in Europe.

In addition, in December 2021 we signed an agreement with Fashion for Good to accelerate various sustainability projects for our industry and society in general.

5.4.2. Design and selection of materials

GRI 102-13; 103-2; 103-3; 413-2; 306-1; 306-2; 306-3; 301-1; 301-2; 301-3; AF18; AF19; AF20 AND 304-2

5.4.2.1. Design

At Inditex we work to offer **high-quality, healthy, safe and environmentally-sustainable** products. Our designers set about making their drawings taking these considerations into account, as well as the availability of more sustainable raw materials and the aim of maximising the life cycle of our articles, prolonging their durability or facilitating their subsequent recycling.

To ensure that our designers and buying and product teams master the best practices in circularity and sustainability, we provide them with training focused primarily on sharing with them Inditex's vision of sustainability, inspiring them, and informing them of the variety of available more sustainable raw materials, the most efficient and cutting-edge manufacturing processes, circular design by article type and the corporate tools we have to ensure, for example, the traceability of the processes, among other aspects.

Article evaluation

Ensuring that our products are healthy and safe, both for consumers and for the workers involved in their production, **begins at the design stage**, since aspects such as the raw materials chosen or the processes necessary for their manufacture are parameters that influence their health and safety.