

# 5.5.

## Collaborating so our suppliers grow

Related material topics: Stakeholder engagement; Value chain transparency and traceability; Responsible purchasing practices; Innovation; Diversity, equality and inclusion; Human rights; Socially-sustainable production environments; Environmental footprint minimisation.



Sustainability in the supply chain requires responsible management that entails studying the challenges and circumstances in each market where we operate and engaging all our suppliers and manufacturers. By means of a relationship based on dialogue and respect for human rights, we ensure the sustainability of the supply chain by going one step further, allowing our suppliers to grow with us. This growth in turn has positive ripple effects on the markets in which our suppliers operate. Thus, the transformation we foster extends beyond the bounds of our industry.

### 5.5.1. Sustainable management of the supply chain

GRI 102-9; 102-10; 102-13; 102-48; 103-2; 103-3; 413-2; 308-1; 414-1; 414-2; AF3; AF5; AF6; AF17; AF7; AF8; 407-1; 408-1; 409-1; 412-1; AF9; AF10; AF11; AF12; AF13; AF14; AF15; AF16; AF18; AF20; 305-6 AND 303-2

At Inditex we are committed to fight against climate change, protecting the environment and respecting and promoting human rights. Our goal is not only to adapt our fashion range to our customers' needs, but to do so in a **sustainable manner**. Having a **sustainable, highly specialised, agile and flexible supply chain** is key to achieving this.

This ambitious goal necessitates a responsible management of our supply chain—including each and every supplier and manufacturer— applying



strict policies and procedures to tackle geopolitical, demographic, socio-economic and environmental challenges in all the supply chain countries.

One hallmark of our supply chain is that a large number of the factories where our articles are produced are located in markets close to our Arteixo headquarters (such as Spain, Portugal, Morocco, Turkey). More specifically, **50%<sup>65</sup> of factories** involved in end product processes are located in these nearby markets.

In 2021, our supply chain comprised 1,790 direct suppliers<sup>66</sup> located in 44 markets which, at the same time, used 8,756 factories<sup>67</sup> for their pro-

ductions, **providing employment to more than three million people** (1,805 suppliers, 50 markets and 8,543 factories in 2020 and 1,985 suppliers, 51 markets and 8,155 factories in 2019)<sup>68</sup>.

The increase in the number of factories compared to 2020 is directly linked to Inditex's efforts to reinforce the traceability of processes related to the transformation of raw materials. Thus, we have gradually incorporated the centres for processes such as spinning or weaving, for example, which we have afforded special consideration in recent years and which provide us with an increasingly accurate picture of the various stages of textile production.

65. It includes cutting, sewing, dyeing and washing, printing and finishes factories.

66. Suppliers of fashion articles with a production of over 20,000 units/year in the 2021 spring/summer and autumn/winter campaigns. Suppliers with lower productions account for 0.25% of total production.

67. Factories declared by the suppliers in the manufacturer's management system for 2021 orders.

68. The data published in 2018 are not comparable with those in 2021, 2020 and 2019 due to the extended scope in the report on the number of suppliers and manufacturers made in 2019.

## INDITEX SUPPLY CHAIN IN 2021



**1,790**

**SUPPLIERS WITH  
PURCHASE IN 2021**



**8,756**

**FACTORIES DECLARED  
BY SUPPLIERS IN 2021**

AMERICAS

**12**

**SUPPLIERS**

**38**

**FACTORIES**

EUROPEAN  
UNION

**383**

**SUPPLIERS  
1,884**

**FACTORIES**

EUROPE  
OUTSIDE THE EU

**223**

**SUPPLIERS  
1,824**

**FACTORIES**

ASIA

**978**

**SUPPLIERS**

**4,567**

**FACTORIES**

AFRICA

**194**

**SUPPLIERS**

**443**

**FACTORIES**



**3,179**

Spinning, weaving,  
and other raw  
material processes



**120**

Cutting



**4,315**

Sewing



**209**

Dyeing and  
washing



**305**

Printing



**295**

Finishing



**333**

Non-textile  
products

	Suppliers with purchase in 2020	Unused suppliers in 2021	New suppliers in 2021	Suppliers with purchase in 2021
Africa	156	16	54	194
Americas	9	4	7	12
Asia	991	177	164	978
Europe outside the EU	242	56	37	223
European Union	407	79	55	383
<b>Total</b>	<b>1,805</b>	<b>332</b>	<b>317</b>	<b>1,790</b>

Our sustainable supply chain management model rests on three pillars:

- Ensuring the traceability and thorough knowledge of our suppliers and manufacturers.
- Applying solid social and environmental sustainability standards and requirements to our suppliers and manufacturers:
  - **Social sustainability:** we ensure decent working conditions, consistent with respect for the human and labour rights of the workers in the supply chain, as provided in our Code of Conduct for Manufacturers and Suppliers.
  - **Environmental sustainability:** we implement initiatives in connection with sustainable production, responsible water management, the use of renewable energy sources and the reduction of CO2 emissions, notably including the application programme of our Green to Wear standard. Through this, we also reinforce compliance with our product health and safety standards.
  - This commitment to sustainability is also evidenced through our policies for fostering **responsible purchasing practices**.
- Verifying application of our standards and continuously improving our supply chain.

Our principles and requirements are binding upon all our suppliers and manufacturers, irrespective of the process they perform or the tier they belong to in the supply chain, including those tiers and processes furthest from the end product (such as those linked to producing raw materials).

To achieve this goal, in 2021 we have continued to collaborate with our suppliers and to support them constantly to improve their own supply chains, providing them with adequate training, helping them to implement our standards and requirements and always developing areas for improvement, among other support and backing actions.

Sustainable supply chain management and continuous support to suppliers would be impossible without the work in our **supplier clusters**, which concentrate 97% of production, as they function as spaces for cooperation and dialogue to create a suitable framework in which to develop a sustainable pro-

duction environment in each region, always respecting human rights and the environment. In 2021, we continued to have 12 such clusters: Spain, Portugal, Morocco, Turkey, India, Bangladesh, Pakistan, Vietnam, China, Cambodia, Argentina and Brazil.

## TRANSPARENCY AND ACCOUNTABILITY

Transparency is one of the pillars of our sustainability strategy, as provided in our Sustainability Policy. To achieve it, we share comprehensive information regarding our supply chain with stakeholders.

### INDUSTRIALL GLOBAL UNION

We share the complete and updated list of our manufacturers and their degree of sustainability compliance with IndustriALL, as part of our Global Framework Agreement. In addition, we provide IndustriALL and its local affiliates with access to all the factories in our supply chain.

[More information in section 4.4.2. Partnerships of this Report.](#)

### INTERNATIONAL LABOUR ORGANIZATION (ILO)

In those countries where we take part in the Better Work programme, we provide the ILO with information about our supply chain in order to work together to advise and improve factory conditions.

In the case of cotton, we also have a public-private partnership with the ILO to protect labour rights in this raw material's supply chain.

[More information in section 4.4.2. Partnerships of this Report.](#)

### ZERO DISCHARGE OF HAZARDOUS CHEMICALS (ZDHC) AND CHINA'S INSTITUTE OF PUBLIC & ENVIRONMENTAL AFFAIRS (IPE)

We share environmental information concerning our supply chain with various bodies. We work with our suppliers to publish the results of wastewater analyses—obtained from the Green to Wear audits—on the ZDHC Gateway platform.

We share information with the IPE and work actively and concertedly to improve the environmental management of the supply chain in China.

[More information in section 4.4.2. Partnerships of this Report.](#)

### NGOs

We work with various non-profit organisations such as Greenpeace, Textile Exchange, Clean Clothes Campaign, Fashion Revolution and Baptist World Aid, and provide them with social, economic and environmental information, regularly and on request.

① More information in sections 3.4. *Acknowledgements* and 4.4.2. *Partnerships* of this Report.

### INVESTORS, STOCK MARKET INDICES

International organisations such as the Dow Jones Sustainability Index, FTSE4Good, Sustainalytics and Corporate Knights have very positively recognised our level of commitment to transparency and accountability.

① More information in section 5.3. *Collaborating with our shareholders, allies in transformation* of this Report.

### CUSTOMERS

There is information available to our customers on the sustainability parameters of our products, in particular through the Join Life label standard. However, we also respond to specific requests for information on sustainability, such as the origin of our articles or the conditions of the workers involved in their production. In fact, in 2021 more than 10,800 of our customer information requests regarding the sustainability of our articles and our Join Life standard were handled.

① More information in section 5.2. *Collaborating with our customers, the force driving transformation* of this Report.

### INDUSTRY

In line with our commitment to collaborate to help drive industry transformation, we share sustainability information with other companies and industry stakeholders, within the framework of our participation in collaborative initiatives such as ACT (Action, Collaboration, Transformation), among others.

① More information in section 4.4.2. *Partnerships* of this Report.

#### 5.5.1.1. Traceability of the supply chain

Enforcing and monitoring compliance with our sustainability standards and requirements, in both our products and the facilities where they are manufactured, is made possible by traceability, meaning **the ability to identify and trace the history, application, location and distribution of products, parts and materials**<sup>69</sup>. Inditex manages supply chain traceability through two main lines of action: its traceability management system and traceability assessment.

Our traceability strategy factors in the provisions of Recommendation 46 of the United Nations Economic Commission for Europe (UNECE), issued in July 2021, concerning the implementation of a global approach to traceability that responds to the increasing demand for policies and legislative

## TRACEABILITY STRATEGY

TRACEABILITY  
MANAGEMENT SYSTEM



TRACEABILITY  
ASSESSMENT

### Guaranteeing traceability

This is a key factor in sharing our sustainability culture and ensuring these principles are applied by our suppliers.

### TRACEABILITY OF:



Production  
facilities

More sustainable  
materials



69. Recommendation No. 46 of the United Nations Economic Commission for Europe: Enhancing traceability and transparency of sustainable value chains in the garment and footwear sector.





action to foster responsible business conduct in global value chains. We have collaborated with the UNECE project to enhance the traceability of the garment textile and footwear sector value chain since its inception, and in 2021 we supported its launch by committing to evolving our traceability management to a new level, a pledge embodied in a call to action sent to UNECE.

The first aspect of this commitment has been to complete in 2021 the actions commenced in previous years aimed at preparing and publishing the *Traceability Requirements for Suppliers*, a document that encompasses the actions that suppliers were in fact already implementing based on our sustainability requirements. Our goal in publishing this document is to

convey to our suppliers, as partners in developing our sustainability strategy, just how important traceability is as a global vision.

#### 5.5.1.1.1. Traceability management system

Inditex's traceability management system is based on:

- Requiring each supplier to know and share with us **all the data of their own supply chain** in the traceability management system. Factories registered in the system must pass the relevant filters to be approved and authorised. The management system itself includes social, environmental and product safety information for each of the facilities.

- Requiring that our suppliers inform us, at all times, of the **factories involved in our production** (from raw materials to finishing processes). For every order received, suppliers must designate the participating factories, detailing units and processes. Each supplier is responsible for the factories they use and must work with Inditex to ensure compliance with our sustainability standards, with any factories that fail to comply being excluded from the manufacture of our products. They must digitalise the information using an in-house developed Traceability Management System, which has evolved to facilitate its use by stakeholders (both internal teams and suppliers), as well as to broaden the scope of the information compiled, with a particular emphasis on raw materials traceability.
- Analyse the traceability management system information to identify the productions to be checked.
- Unannounced visit to the reported factory's facilities to verify the production processes it can perform, as well as production in progress and completed production.
- Compare the findings from the visit with the information entered in the traceability tool, to verify both the processes and the units completed by the factory.

In 2021, we began implementing our new i-Trust management system, which is an enhancement of the previous version. The main goal is to enable suppliers to reflect the reality of their own supply chain in a flexible, usable and simple way. The system's scope will cover all possible variations of the supply chain set-up.

We have also developed a proof-of-concept in connection with a new traceability system based on blockchain methodology: i-Dots. This new system covers a first use case for improving order traceability information in a simplified way.

To select productions for verification, we perform a risk analysis, based on the information provided by the suppliers in the management system and the data gathered by the clusters. In the event of any indication of the existence of deviations in the traceability of the production, the clusters' traceability teams carry out additional investigations.

In 2021, **6,119 traceability audits** were performed, and 553 traceability breaches were discovered. The traceability team manages these breaches with suppliers and buying teams, analysing their root cause to prevent their repetition. The increase in the number of audits performed shows the importance of supply chain traceability for Inditex. In this regard, in 2021 we increased the human and technological resources devoted to traceability, by designing and piloting i-Trace, our new application for conducting traceability visits. This application provides all the necessary data to perform the traceability checks on our productions. Auditors can easily access and configure the app, and Inditex teams can oversee the process online.

#### 5.5.1.1.2. Traceability assessment

To confirm *in-situ* that the Group's production takes place in properly declared and authorised factories, the information entered by suppliers in the traceability management system is verified through **traceability audits**, which follow three steps:

#### Traceability audits

	2021	2020	2019	2018
Africa	2,128	139	184	554
Americas	181	28	299	561
Asia	2,031	642	484	481
Europe outside the EU	1,111	385	258	733
European Union	668	148	171	217
<b>Total</b>	<b>6,119</b>	<b>1,342</b>	<b>1,396</b>	<b>2,546</b>

Of the 6,119 traceability audits conducted in 2021, 5,804 were conducted by external auditors belonging to independent audit firms.

## ASSESSMENT OF THE TRACEABILITY OF MATERIALS

Inditex's traceability strategy includes the definition and implementation of the necessary procedures to enable us to approve the most sustainable materials used in our products, so as to ensure compliance with the standards approved by our Join Life collections. Traceability is also a key in ensuring the circularity of our products.

In line with our aim to cooperate with the rest of the industry players, we are committed to achieving the standardisation and integration of homogeneous data in our sector. Consequently, we support organisations and contribute in projects and committees that work to improve the way in which sustainable fibres are certified.

In 2021 we joined the pilot initiative to be developed by Textile Exchange with the technology supplier Textile Genesis. The aim is to develop a new platform to certify sustainable fibres, using a ground-breaking digital system that enables approval between parties and leverages third-party certification bodies in the transaction verification process. The pilot programme was launched in November and the first phase will focus on the Global Recycling Standard (GRS) and the Recycling Claim Standard (RCS).

We also participate in Textile Exchange's International Working Group (IWG) on the Content Claim Statement (CCS), a chain of custody standard. This is a tool to verify that a final product actually contains one or more specific input materials. The IWG is designed to be a pre-competitive collaborative environment where participants can share their knowledge and experience. The purpose of the Group is to work together to ensure the standard continues to meet the needs of the industry.

More information in section 5.4. *Collaborating to transform through sustainable management of our products* of this Report.

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

#### 5.5.1.2.1. Code of Conduct for Manufacturers and Suppliers

The framework governing our relationships with suppliers is the Code of Conduct for Manufacturers and Suppliers (hereinafter, CCMS or the Code of Conduct, available on our website). Its main purposes are:

- To provide **mandatory compliance standards** in matters of labour rights, product health and safety and environmental aspects.
- To define minimum standards **of ethical behaviour** to be observed by all suppliers and manufacturers throughout the supply chain, under the umbrella of respect for human and labour rights.

All manufacturers and suppliers wishing to form part of the Inditex supply chain are required to undertake to comply with the Code of Conduct, as well as to pass audits verifying such compliance. The breach of any of the above-mentioned requirements may entail the



**FOR MORE INFORMATION**  
on the Code of Conduct for Manufacturers and Suppliers



termination of the business relationship with the supplier and/or factory.

To ensure that it is always fully aligned with best practices, Inditex has envisioned the Code of Conduct as a dynamic document subject to constant review so as to ensure it remains valid. Its conceptual framework is based on Organisation for Economic Cooperation and Development (OECD) principles, the Ethical Trading Initiative's Base Code, the United Nations Global Compact principles 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.

#### 5.5.1.2.2. Green to Wear

In line with our commitment to fight against climate change and to easing the pressure on natural resources, at Inditex our operations and actions are guided by a strategy of environmental sustainability based on control and improvement throughout our supply chain, thus guaranteeing that our articles adhere to the most exacting standards of health, safety and environmental sustainability.

An example of this commitment is our own Green to Wear standard, which aims to minimise the environmental impact of wet process factories and to improve health and safety of articles, while promoting best practices.

Green to Wear includes **indicators that gauge the sustainable and efficient management of raw materials, water, technology and processes, chemical products, waste and wastewater**, and focuses on using the most advanced technologies to properly manage water and reduce its consumption. All the suppliers and manufacturers in our supply chain that perform wet processes are obliged to comply with this standard.

This standard is also a fundamental part of our strategy to manage chemicals in production, together with our programme The List, by Inditex, which in turn is key in the selection of the chemicals used and in ensuring the absence of hazardous substances both in emissions into the environment and in the product. Thus, in 2021 we have included new requirements in the Green to Wear standard related to the prevention of hexavalent chromium formation in post-tanning facilities that process chrome tanned leather.

Broadly, the Green to Wear standard, which is also available on our website, and the use of environmental audits to verify its compliance, allow a comprehensive control of the facilities carrying out wet processes in the supply chain. By applying this standard throughout the supply chain, together with the development of our The List by Inditex programme in the chemical industry that manufactures dyes, pigments and ancillary chemicals, we also aim to meet the objectives linked to Greenpeace's Clean Factory Approach and fulfil our commitments as part of Zero Discharge of Hazardous Chemicals (ZDHC).

① More information in section 5.4.4. *Health and safety of our products of this Report.*

#### 5.5.1.2.3. Responsible purchasing practices

One of the key aspects of sustainable supply chain management is responsible purchasing practices, which **guide the way we interact and negotiate with suppliers**. These practices cover strategic planning, sourcing, development, purchasing and the underlying values and principles that affect workers, thus facilitating living wages and better working conditions as well as sustainable development in the apparel, textile and footwear sector.

**Responsible purchasing practices are fundamental to ensure the sustainability of the supply chain.**

The Inditex Group is a member of the ACT on Living Wages initiative and under its umbrella we undertake to develop purchasing practices that facilitate the payment of a living wage. In fact, Inditex is an active participant in the ACT working group on purchasing practices.

① More information in section 5.5.2. *Workers at the Centre of this Report.*



#### FOR MORE INFORMATION

on our own standard Green to Wear

### 5.5.1.3. Assessment and Continuous Improvement

#### 5.5.1.3.1. Pre-assessment

In order to ensure that only those suppliers and manufacturers that meet our sustainability standards are part of our supply chain, we carry out an initial verification of compliance with our environmental and social requirements through pre-assessment audits **before they even enter into a business relationship with us.**

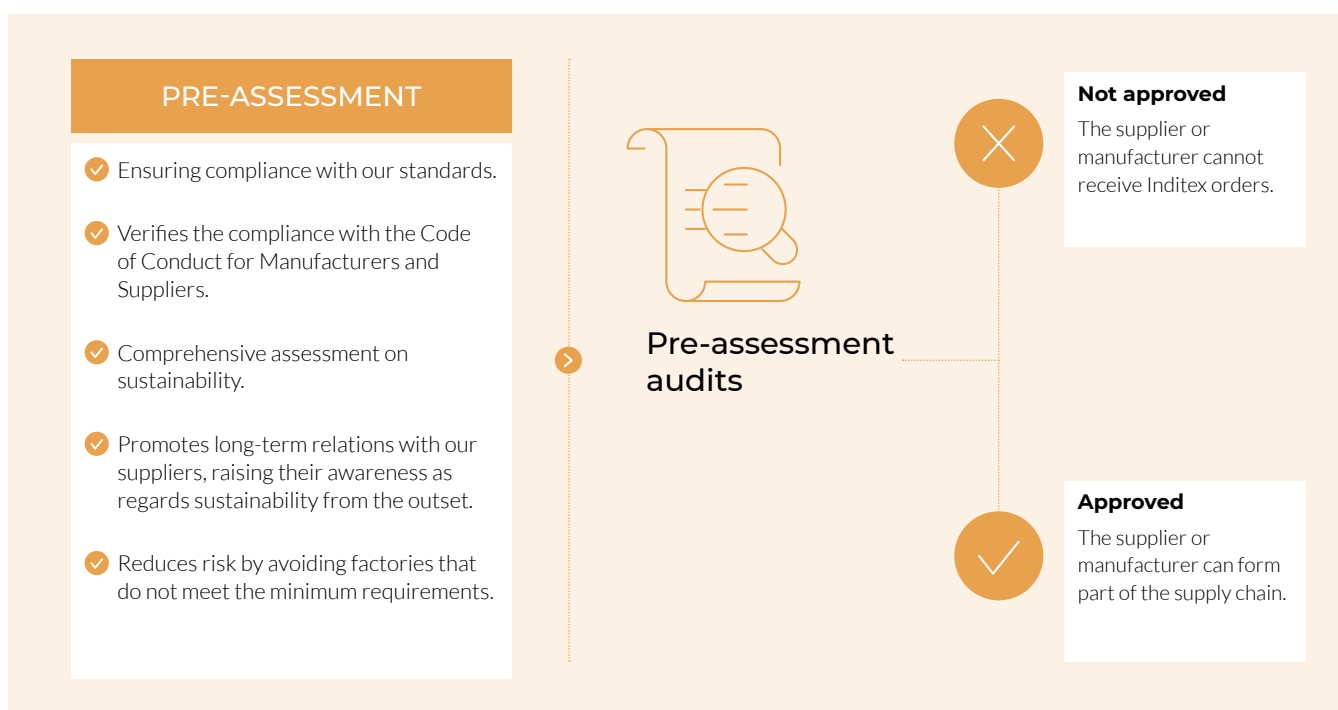
If a potential supplier or manufacturer is ranked as approved after this audit, they can receive orders from the Inditex buying teams and are subject

henceforth to the standards provided in the *Inditex Minimum Requirements* document, which includes the mandatory social, environmental and product health and safety requirements.

Inditex carried out **2,397 pre-assessment audits** during 2021 (3,062, 2,789 and 2,177 audits in 2020, 2019 and 2018, respectively). A total of 2,374 of these were conducted by external auditors, who are trained to correctly apply the Inditex methodology.

#### Pre-assessment audits in 2021

	Pre-assessment audits	Approved %
Africa	81	86%
Americas	27	89%
Asia	1,599	76%
Europe outside the EU	325	83%
European Union	365	98%
<b>Total</b>	<b>2,397</b>	<b>81%</b>



### 5.5.1.3.2. Social Audits

Once the pre-assessment has been approved, social audits **are carried out periodically and regularly** at each and every one of the suppliers and factories in our supply chain to check that the Code of Conduct is being applied, as it is mandatory for everyone we work with. These audits enable us to verify the degree of compliance with the Code of Conduct and establish Corrective Action Plans based on the results.

**The purpose of social audits is to ensure that the fundamental rights of workers in our supply chain are respected.**

Our social audit methodology was 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 University. 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 facilities.
- Interviews with management.

Auditors may be either internal or external, but they always perform audits without prior notice to the company that is to be audited. In 2021, **5,840 social audits<sup>70</sup>** were carried out.



#### Social audits

	2021	2020	2019	2018
Africa	244	197	406	380
Americas	63	14	19	55
Asia	3,139	3,259	3,020	2,473
Europe outside the EU	1,326	1,074	1,660	1,241
European Union	1,068	1,145	1,306	1,210
<b>Total</b>	<b>5,840</b>	<b>5,689</b>	<b>6,411</b>	<b>5,359</b>

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

In order to ensure the quality of the audits and that our methodologies are correctly applied, we devote a great deal of effort to training external auditors<sup>71</sup>, 743 of whom were trained in the same year. Of the more than 5,800 social audits conducted in 2021, 5,578 were conducted by external auditors belonging to various audit firms.

**Based on the social audits, suppliers and manufacturers are rated** in accordance with their degree of compliance with the Code of Conduct. In 2021, the active suppliers are classified as follows:



	2021		2020		2019		2018	
Classification	Number of suppliers <sup>(72)</sup>	Percentage (%)	Number of suppliers	Percentage (%)	Number of suppliers	Percentage (%)	Number of suppliers	Percentage (%)
A	653	37%	575	32%	784	40%	661	35%
B	1,077	60%	1,152	64%	1,051	53%	1,045	56%
C	18	1%	27	2%	44	2%	80	4%
Subject to CAP	23	1%	24	1%	38	2%	47	3%
PR	19	1%	27	1%	68	3%	33	2%
<b>Total</b>	<b>1,790</b>	<b>100%</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 inconclusive aspect of the CCMS
SUBJECT TO CAP	Breaches of the CCMS triggering the immediate implementation of a corrective action plan
PR	Undergoing an auditing process

As evidence of the influence of sustainability criteria on purchasing practices, it is worth mentioning that this year **98% of purchases were made from suppliers rated A or B**, the highest sustainability compliance ratings.

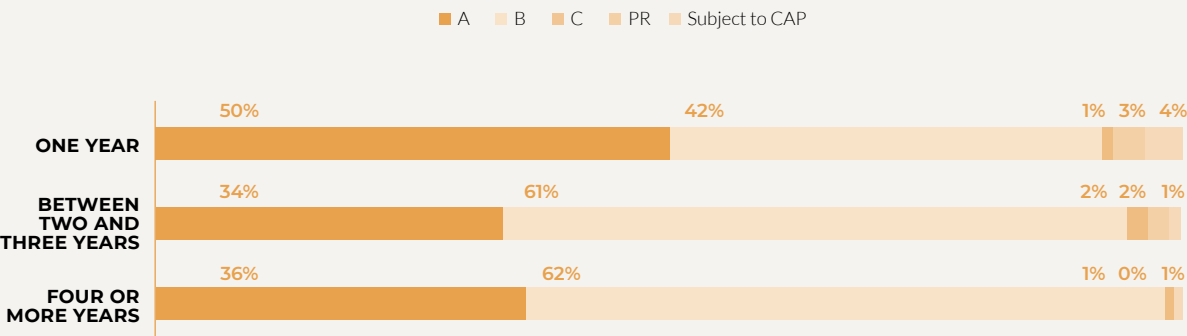
71. Includes auditors that conducted social, environmental, pre-assessment, traceability, and special audits in 2021. The auditors are specialised in accordance with the scope of the audit.

72. It includes suppliers with more than 20,000 production units in the 2021 spring/summer and autumn/winter campaign. Suppliers with production of less than 20,000 units represent 0.25%.





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



The initiatives for continuous improvement carried out with our supply chain are not confined to audits, but include training, advice, individual support or the implementation of Workers at the Centre programmes, among others, all of which are integrated into the day-to-day relationships between our sustainability teams and suppliers. An example of the result of this work dynamic is that the percentage of suppliers that achieve an A or B rating, which are the highest compliance ratings within our methodology, is higher among those that have been part of our supply chain for a higher number of years, and that have therefore been involved in our programmes for a longer period of time.

Each social audit triggers, where necessary, the instant application of a Corrective Action Plan (CAP) that includes measures that the supplier must apply to improve its degree of compliance with the Code of Conduct, as well as the terms for its implementation.

Social audits also allow us to determine and identify the main challenges in each country in relation to the different aspects of the Code of Conduct, and this is also a valuable source of information for activities that are part of the Workers at the Centre 2019-2022 strategy.

More information in section 5.5.2. *Workers at the Centre* of this Report.



## Percentage of compliance with the Code of Conduct in the active factories<sup>73</sup> of suppliers with purchases in 2021

	Africa	Americas	Asia	Europe outside the EU	European Union
No forced labour					
No work by youths or child labour <sup>74</sup>					
No discrimination					
Respect for freedom of association and collective bargaining					
No harsh or inhumane treatment					
Hygiene at work					
Wage compliance					
Working hours					
Environmental awareness					
Regular work					
Implementation of the Code <sup>75</sup>					



73. Factories blocked in 2021 not included.

74. Includes the lack of suitable systems for verifying the age of workers.

75. Includes the lack of suitable systems for registering and communicating with workers.

## SOCIAL & LABOR CONVERGENCE PROGRAM

Inditex is a member and supporter of the Social & Labor Convergence Program (SLCP), in which we work to implement the first framework of industry-wide consensus to assess the social and labour conditions of workers at suppliers and manufacturers.

The process consists of a self-assessment performed by the factory itself, which is verified by a third party. The resulting information is shared among the various stakeholders.

The **main goals** of the initiative are:

- To strengthen suppliers' awareness of their responsibility to comply with international human rights and labour standards.
- To create an efficient, scalable and sustainable solution to prevent the various stakeholder groups from each performing their own social audits.
- To save time and resources which can be redirected into fostering improvements.

In 2021, we continued to make progress in our commitment to adopting the SLCP framework, promoting the verification of our suppliers and manufacturers according to the basic principles of this initiative and supporting them during the process. During this year, we added Bangladesh, Pakistan and Vietnam to the existing markets of China, India and Turkey.

### Social audits of external distribution centres

Within the framework of our human rights strategy and the application of due diligence processes in our value chain, during 2021 we audited a number of the distribution centres we work with, both in Spain and abroad.

The procedure is the same as for our social audit of the factories in our supply chain. Thus, Corrective Action Plans are put in place if needed as a result of these audits.

#### 5.5.1.3.3. Environmental Audits

The suppliers and factories that belong to our supply chain and perform wet processes must follow the Green to Wear standard, and compliance is regularly verified through environmental audits. This kind of audit is **performed by independent external auditors** during pre-announced visits which include a review of the documentation, and unannounced analyses of wastewater.

In 2021, 1,713 environmental audits were carried out<sup>76</sup>.

	2021	2020
Africa	67	26
Americas	4	1
Asia	936	670
Europe outside the EU	441	237
European Union	265	189
<b>Total</b>	<b>1,713</b>	<b>1,123</b>

Moreover, these audits enable us to gauge compliance with several of our environmental sustainability commitments. Likewise, we collaborate with our suppliers to publish the results of wastewater analyses obtained from the Green to Wear assessments on the ZDHC Gateway platform.

## FACILITY ENVIRONMENTAL MODULE (FEM)

To measure the environmental impact of suppliers and factories on aspects such as water and energy consumption, waste management and chemicals and emissions management, the Sustainable Apparel Coalition (SAC) —of which Inditex is an active member— has developed the Facility Environmental Module (FEM).

This is a process for the factory to carry out a self-assessment, which is then verified by a third party. The data resulting from this assessment is shared with the various stakeholders.

Its **main goals** are:

- To strengthen suppliers' awareness of their responsibility to comply with international environmental standards.
- To create an efficient, scalable and sustainable solution to prevent the various stakeholder groups from each performing their own environmental audits.
- To save time and resources which can be redirected into fostering improvements.

76. The number of environmental audits conducted in 2019 and 2018 is not included, since due to the update of the Green to Wear 2.0 standard in 2020 and the consolidation of the previous Green to Wear and Ready to Manufacture standards therein, the number of audits reported in previous years is not comparable.

## LEATHER WORKING GROUP

We have been members of the Leather Working Group (LWG) since 2012. This is a non-profit organisation responsible for the leading environmental certification for the leather manufacturing industry, and has more than 1,300 members among brands, manufacturers, chemical suppliers, associations, etc.

LWG is a standard-bearer in the leather industry. Its goal is to guarantee the responsible supply of leather to the industry and consumers. The LWG standards includes environmental best practices for the industry, and drives continuous improvement.

We encourage our leather suppliers 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.

### 5.5.1.3.4. Special Audits

Special audits focus on a specific area for improvement and may be performed by external or internal auditors. For example, structural technical assessments performed of the facilities, verifications of the workers' labour conditions from a health and safety perspective specifically, or follow-up visits to monitor Corrective Action Plans.

1,408 special audits were performed in 2021.

#### Special audits

	2021	2020	2019	2018
Africa	91	36	57	130
Americas	5	2	112	132
Asia	1,066	673	1,117	1,398
Europe outside the EU	233	43	236	201
European Union	13	27	97	121
<b>Total</b>	<b>1,408</b>	<b>781</b>	<b>1,619</b>	<b>1,982</b>



### 5.5.1.3.5. Continuous Improvement

At Inditex, we believe in continuous improvement as a key to advancing towards our goals and strategies. Sustainable management of the supply chain is also consistent with this philosophy. One of Inditex's main tools in this regard are the **Corrective Action Plans (CAPs)**, which are developed when non-compliances are detected in an audit, not only to establish measures to mitigate or remedy the non-compliances, but also to prevent them from occurring in the future.

These Action Plans are also evidence of our commitment to helping our suppliers and manufacturers to improve, offering them constant support throughout the duration of the CAP in two ways:

- Providing them with **advice and expertise** in regard to the best way to implement the corrective measures. In this regard, they may also have the support of other stakeholders, such as non-governmental organisations, trade unions or other civil society organisations to help implement the CAP. In 2021 we collaborated with organisations

## DEVELOPING A CORRECTIVE ACTION PLAN

### START OF THE CAP

Involvement throughout the process of buying teams, trade, unions, NGOs or other organisations where necessary

1



### Launch

- ✓ Analysis of points of improvement.
- ✓ Discussing the plan and setting out correction dates.

2



### Monitoring

- ✓ Request/receipt/verification of evidence
- ✓ Technical support
- ✓ Desk review of the improvements and follow-up with the supplier and manufacturer

CONTROL POINT or



COMPETENCE VISIT

3



### Follow-up audit

### CLOSE CAP

⊗ Blocking      ✓ New rating

such as Refugee Support Centre (MUDEM) to roll out these Action Plans.

- **Continuously monitoring the plan**, including competence visits or control points, so as to act with the supplier before the established deadline if progress is not fast enough.

The goals and deadlines established in the Corrective Action Plans are exacting and the supplier must execute them in a proper and timely manner (its duration will depend on the severity of the non-compliances detected). In the most sensitive breaches —Subject to CAP— the plan lasts approximately six months, during which time **our teams provide support to suppliers and manufacturers** in order to implement the corrective measures.

Moreover, since 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 2021, 570 Corrective Action Plans were conducted. 294 of these plans were carried out in factories with a 'Subject to CAP' rating, and 276 in factories with other ratings (715 plans in 2020: 303 of these plans were carried out in factories with a 'Subject to CAP' rating, and 412 in factories with other ratings)<sup>77</sup>.
- **Environmental CAPs:** in 2021, 583 Corrective Action Plans were conducted. 171 of these plans were carried out in factories with a 'Subject to CAP' rating, and 412 in factories with other ratings (490 plans in 2020: 132 of these plans were carried out in factories with a 'Subject to CAP' rating, and 358 in factories with other ratings)<sup>78</sup>.

At the end of the Plan's period, a new audit is carried out and, if critical non-compliances are verified again and the necessary measures are therefore found not to have been implemented, the factory or supplier will be blocked and will not be able to continue working for Inditex. This evidences our **zero tolerance policy with those who do not show a willingness to improve** and instead persist in their disregard for our Code of Conduct and our requirements.

In 2021, 16 suppliers were rejected for reasons related to breaches of the Code of Conduct, and ceased to receive orders from any brands in the Group (23, 25 and 26 in 2020, 2019 and 2018, respectively).



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

78. 136 and 135 total Corrective Action Plans in 2019 and 2018, respectively.



	Suppliers with purchase in 2021 <sup>(79)</sup>	Rejected due to a breach of the Code of Conduct	Rejected for commercial reasons	Active suppliers at 31/01/2022
Africa	194	0	5	189
Americas	12	0	0	12
Asia	978	7	4	967
Europe outside the EU	223	7	0	216
European Union	383	2	0	381
<b>Total</b>	<b>1,790</b>	<b>16</b>	<b>9</b>	<b>1,765</b>

79. Suppliers of fashion items with a production of over 20,000 units in the 2021 spring/summer and autumn/winter campaigns. Suppliers with lower productions account for 0.25% of total production.



Blocking a supplier is a last resort, and that is why our support to suppliers and factories is not limited merely to performing CAPs, but we also take various actions to prevent non-compliances in the first place. At Inditex we believe in **collaboration and ongoing dialogue with our suppliers** as the basis of a relationship of mutual trust for the benefit of both parties. In this way, we offer them support and cooperation to improve their own supply chains, from the environmental point of view as well as to promote human and labour rights for their workers.

Due to the particularities of each region, clusters play a key role in this task of providing support and advice to suppliers. Comprised of local professionals with extensive experience in the field of sustainability, as well as varied skills and abilities, these multidisciplinary teams are equipped to identify the specific needs of each supply chain and to help suppliers meet global challenges.

Furthermore, ACT member brands have signed up to a series of commitments on purchasing practices that also involve supplier relations, including a responsible exit. As a result, in the event that we decide to stop working with a supplier for justified reasons, the relationship is terminated in a committed way, with prior monitoring and follow-up work to minimise any potential impact.