

INDITEX

VIDYA PROJECT

SEE HOW INDITEX'S CSR TEAM IS WORKING IN INDIA



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Inditex's Corporate Social Responsibility policy regarding suppliers is primarily channelled through its Code of Conduct for External Manufacturers, of compulsory compliance by all suppliers. In addition to suppliers' express commitment to comply with the Code, they must also agree to submit to the company's monitoring system, which guarantees compliance.

Said monitoring is conducted largely through periodic audits, carried out by both Inditex's in-house CSR teams and by well-known external auditing firms, whose goal is to identify areas in need of improvement. Inditex has a zero-tolerance policy for certain practices, including child labour, forced labour and failure to enact proper wage policies.

When a non-compliance issue is identified, a Corrective Action Plan is immediately implemented to set a series of extremely strict targets and deadlines. If a supplier wishes to maintain its business relationship with Inditex, it must follow through on these corrective action plans, and Inditex's CSR teams are fully engaged to help the supplier meet its targets.



Inditex's goal with this policy is not only to abolish unwanted practices throughout the supply chain, but also to promote ongoing improvement in working conditions at its supplier companies. To this end, Inditex's commitment to these priorities is also expressed through its work with organisations fostering international dialogue, such as the Ethical Trading Initiative, which engages corporations, trade unions and non-governmental organisations (NGOs) in the struggle to improve working conditions globally, and its global action agreement with the International Textile, Garments and Leather Workers Federation (ITGLWF).

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Among emerging markets, India is a global benchmark thanks to its pace of growth and rapid economic transformation. The swift growth of recent years has enabled the country to notably improve its infrastructure and fuelled the expansion of its industry, trade and exports.

Much of this success is attributable to the textile trade, India's most important industry and one of the country's largest sources of revenue. The textile sector accounts for 14 percent of India's industrial production, 4 percent of its GDP and more than 10 percent of export revenue.

The textile trade employs more than 35 million people and is India's No. 2 industry in terms of jobs, second only to agriculture.

While Inditex sources most of its manufacturing in European countries and neighbouring countries, it manufactures about 5 percent of its products in India. The Group currently has more than 100 non-exclusive suppliers in India, which together employ 65,000 workers.

These Indian suppliers have grown alongside Inditex, forging closer trade ties and, at the same time, jointly cooperating to improve their working processes. To this end, Inditex has carried out a wide range of activities to improve working conditions at factories, in accordance with its global Corporate Social Responsibility policy. An example of Inditex's commitment to its suppliers is the Vidya Project.



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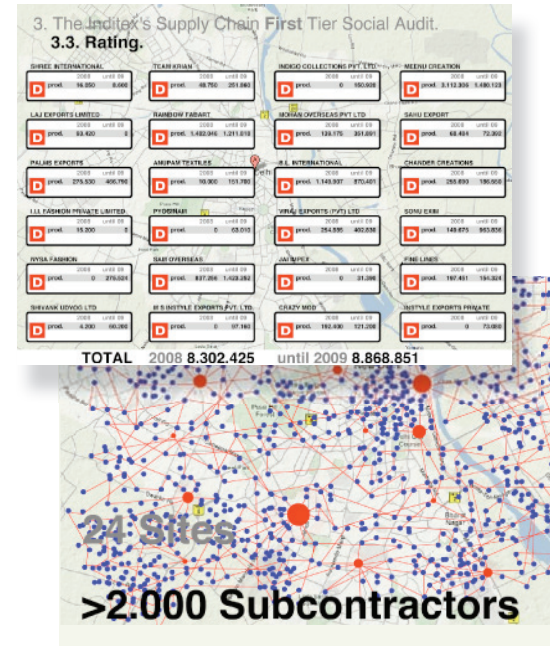
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THE ORIGIN OF THE PROJECT

The Vidya Project, an initiative of the Inditex Group's Corporate Social Responsibility teams, is intended to correct risks associated with the use of unauthorised outsourced work in northern India.

*Vidya is the hindi word for
“total knowledge”*

Most of Inditex's manufacturing is based in Europe and neighbouring countries. India accounts for only 5% of its total manufacturing, and as of 2009 the company had 135 Indian suppliers. CSR teams assigned 24 suppliers in the Delhi area – which did not work exclusively for Inditex yet did some work for the Group – with a D rating, the lowest possible grade according to the Group's standards. The low ratings persuaded Inditex's specialised CSR teams to launch a wide-ranging correction and training programme targeting these suppliers.

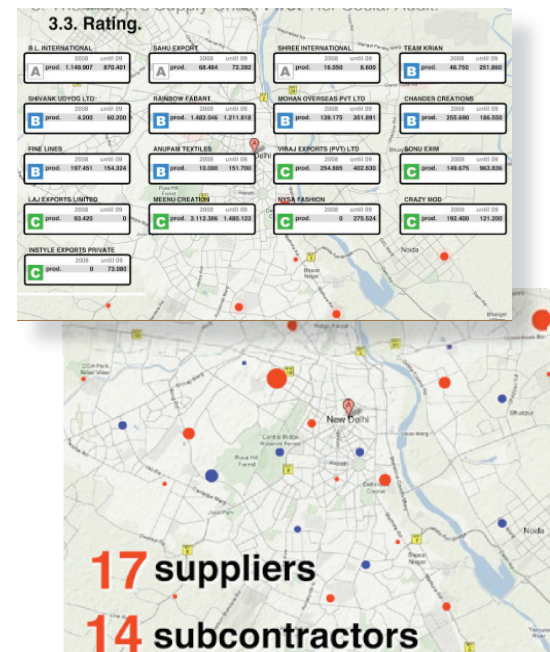


2009

24 suppliers

Risk of hidden outsourced work

All received a “D” rating



2011

17 suppliers

Three suppliers were discarded for failure to comply with regulations

14 authorised and monitored outsourcing arrangements

None of the remaining companies finished the process with a “D” rating

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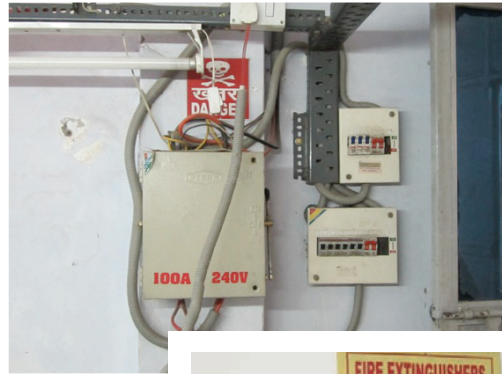
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The CSR teams discovered that the real risk lay at the secondary level of the production chain, specifically subcontractors, many of which were not disclosed by suppliers and consequently were not authorised by Inditex.

To begin their research, Inditex's teams recorded, filmed and photographed numerous examples of unacceptable working conditions at subcontractor facilities and raised the alarm about the risks of some of the company's manufacturing ending up in these workshops.



Inditex in 2009 filmed and photographed examples of the risks of the possibility that some of its manufacturing could be outsourced to unaudited subcontractors



2011

One area to which teams devoted particular attention was the Health and Safety policy, particularly fire protection systems. Similarly, the company encouraged the roll-out of sanitation systems to control drinking water quality

2009

The project faced real challenges during its launch, as health and safety systems had been neglected

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In light of the risk that such workshops could become a part of the Group's supply chain, Inditex enacted the Vidya Project, a key element of which was abolishing unauthorised outsourcing and implementing processes for ongoing improvement in working conditions at workplaces of suppliers and their subcontractors.

Following two years of hard work, the project's 17 suppliers still working for Inditex have all managed to shed their "D" ratings: three suppliers received an A rating in 2011, seven received a B score, while the remainder received a C. Three of the 24 companies initially targeted by the project were discarded for repeated Code of Conduct compliance breaches, while another four suppliers ceased participating for business reasons.

Following the Vidya Project, all participating suppliers shed their D ratings. Three of the original 24 companies were discarded for repeated compliance breaches



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The Vidya Project's priorities included employee health and safety in the workplace, limits on the length of the workday and guaranteed payment of proper wages.

From the Project's inception through its implementation, Inditex shared the details with international venue the Ethical Trading Initiative (ETI), which is made up of corporations, trade unions and non-governmental organisations (NGOs) which join forces to improve working conditions worldwide, as well as with the International Textile, Garments and Leather Workers Federation (ITGLWF). Both entities share the Vidya Project's goals and methods.

*Graphic material and goals of the Vidya Project
were submitted to independent organisations
ETI and ITGLWF in 2009*

*A foundation for the future can only be
established from a standpoint of cooperation
and commitment*

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PROJECT OBJECTIVES

The Vidya Project has five main purposes:

1. – Eliminate any chance that workshops might employ workers who are under the age of 18. Inditex introduced specific age verification measures, given the practical obstacles posed by such efforts, particularly in the case of workers from rural areas, who often lack identification documents.

2. – Guarantee a supply of safe drinking water at all workplaces and periodic testing of the safety of water supplies. This issue is especially important given the country's scarcity of safe drinking water sources and the prevalence among the Indian populace of diseases spread by contaminated water.

3. – Introduce appropriate standards in all areas related to workplace health and safety. The company particularly emphasised fire prevention plans, the need for fire extinguishing equipment and its proper maintenance and suitable employee training, in addition to all issues related to the safe handling and storage of chemical substances.



**EMPLOYMENT BELOW
18 YEARS OF AGE IS
STRICTLY PROHIBITED**
18 वर्ष से कम उम्र

4. – Guarantee that wages are set and paid in accordance with prevailing legislation and that a minimum wage is established that enables a dignified living for workers and their families. To this end, encouraging appropriate workers' representation schemes plays a key role in resolving any conflicts through dialogue.

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5. – Help Inditex manufacturers to boost their direct production capacity as a means of reducing to a minimum or fully eliminating suppliers' need to outsource work to subcontractors. In this regard, in the Vidya Project's first two years, the number of workshops receiving outsourced orders from Inditex suppliers fell by 95%.

These improvement plans were crafted following detection of shortcomings in the Inditex production chain based on more than 700 unannounced audits conducted at supplier facilities. These audits paved the way for the implementation of corrective action plans for each of the suppliers found to be out of compliance.

In addition, Inditex's India-based CSR team made more than 400 competence visits, in which they tailored their efforts with suppliers to assist them in introducing required improvements. The team also held more than 70 workshops for suppliers to discuss specific areas of compliance with the Code of Conduct.

The Vidya Project particularly stressed the need to upgrade technology and boost the production capacity of all suppliers as a vital tool for exerting control over the outsourcing process.



*The cornerstones of the project include:
Verifying workers' ages, payment of proper wages and factory hygiene conditions*



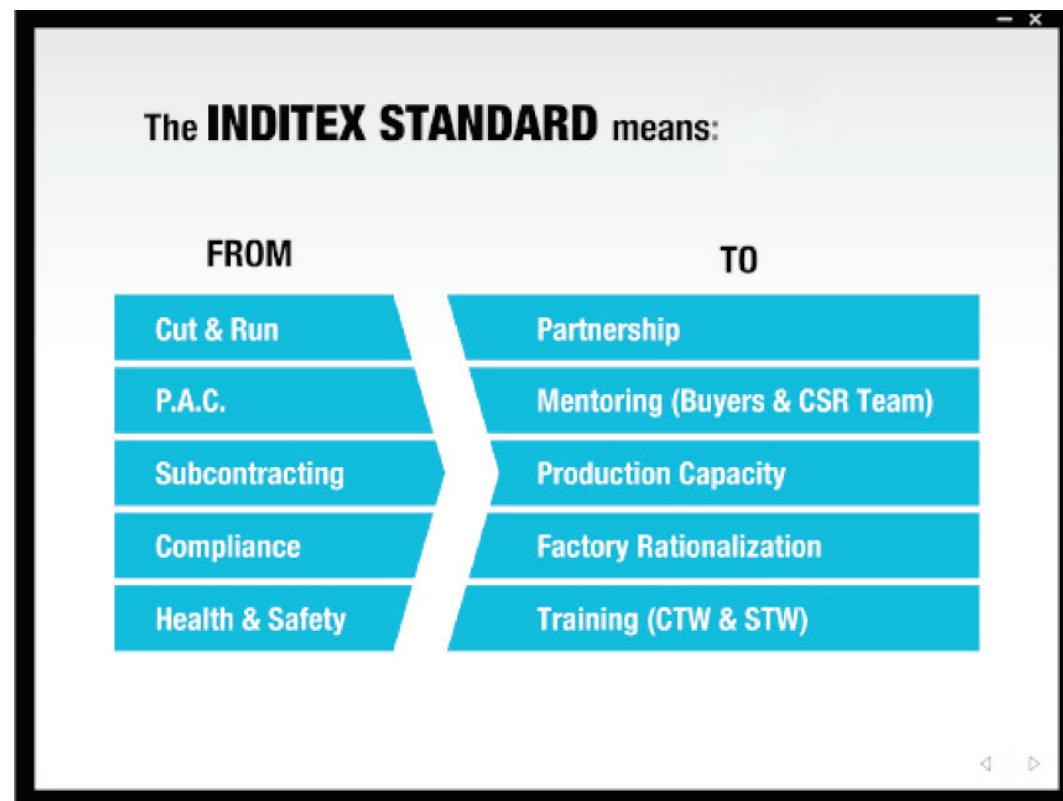
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Any supplier's failure to commit to these plans triggers the immediate loss of its business relationship with Inditex. The Inditex Group has a zero-tolerance policy on child labour, forced labour, non-compliance with payment of minimum wage and unauthorised outsourced work.

Inditex suppliers' ratings tend to steadily improve as suppliers boost their ratings the longer they work for our Group: among suppliers working for Inditex for less than one year, those with A and B scores accounted for 40% of the total. This percentage rises to 60% among suppliers working for the Group for at least three years, and to 80% among suppliers working for Inditex for more than three years. The manufacturing volumes produced by A- and B-rated suppliers increase yearly, and accounted for 85% of the total in 2011.

Approximately 85% of Inditex's manufacturing in 2011 came from factories rated either A or B



The Inditex Group's approach to suppliers is to assist them in introducing and internalising all of its best practices throughout the production chain. The supplier is thus seen more as an integrated partner than as a "contracted party," and is helped to overcome unsuitable workplace conditions.

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FREQUENTLY ASKED QUESTIONS

Inditex's commitment to the geographic areas in which it conducts its manufacturing and to the economic development and improvement of social and working conditions is daily expressed by the work of its CSR teams, both in-house and external, which together consist of more than 200 people worldwide. Inditex advocates constant improvement in working conditions. Detection of non-compliance with the Code of Conduct prompts the short-term launch of corrective action plans.

In contrast to the "cut and run" option of immediately dropping any supplier that fails in any way to comply with the Code of Conduct, Inditex's policy focuses on promoting its principles and ongoing training to achieve continuous improvement in social and working conditions throughout its supply chain.

The Vidya Project's implementation and results provide excellent evidence of the achievements this policy can generate.

What is the Vidya Project?

Following an extensive on-the-ground review in 2009 in the New Delhi area, Inditex's CSR team found anomalies at a network of workshops to which garment manufacturing might have been outsourced. The team documented and filmed practices that violated the Inditex Code of Conduct. The Vidya Project is Inditex's response to these shortcomings, and it was enacted with a dual purpose:

- To apply a zero-tolerance policy on child labour, forced labour, non-compliance with payment of the minimum wage and unauthorised outsourced work.
- To begin a process of steady improvement in working conditions at facilities operated by Inditex suppliers in the region.



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What percentage of Inditex's manufacturing is based in India?

Inditex's business model is based on what is known as proximity manufacturing, as the company aims to adapt to changing consumer tastes in a highly flexible manner. The bulk of its production is concentrated in countries such as Spain, Portugal, Morocco, Turkey and other European countries.

Our India-based manufacturing accounts for no more than 5% of the total and is associated with the Indian textile industry's specialisation in certain types of garments. Approximately more than 100 suppliers currently work for the Group in India.

Are these suppliers owned by Inditex?

Inditex does not seek exclusivity in its suppliers, and all of these suppliers also work for other customers.

How can Inditex be sure that the factories supplying it in the region do not use child labour?

Inditex has a zero-tolerance policy on child labour. CSR and audit teams make unannounced visits to the supplier network regularly to monitor compliance with the requirements contained in the Code of Conduct. In the event that they detect a serious infraction, such as the use of minors under the age of 18 -even though the legal working age in India is 15- these teams spring into action immediately and decisively.



Embroidery and lacework are a speciality of Indian textile manufacturing.

In this respect, Inditex demands that its suppliers employ appropriate and reliable age verification systems and that every one of their workers is of the minimum stipulated age, with each supplier required to maintain a complete registry of its staff. The aforementioned lack of reliable identification documents is habitually one of the major shortfalls in this area, and the company now requires biometric certification to confirm workers' ages. The absence of such systems represents a non-compliance issue which triggers a D rating for a supplier and the immediate implementation of a corrective action plan. All Inditex suppliers in the New Delhi area now use suitable age verification systems.

Which was the situation of the supply chain in India in 2009?

During the launch of the Vidya Project in 2009, Inditex researched the situation and found a network of 2,000 interlinked workshops and manufacturing centres prepared to receive any garment order. Of these, Inditex's CSR team identified 222 workshops with ties to the company's production chain. It uncovered a variety of deficiencies involving standards for health and safety, payment of minimum wages and failure to verify the minimum age threshold for workers as required by Inditex (18 years).

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What did Inditex do to eliminate these problems?

The primary objective called for boosting the production capacity of direct suppliers as a means of dramatically reducing outsourcing. Indeed, of the 222 workshops handling outsourced orders in 2009, only 14 remain involved in the Inditex supply chain. Other measures in the Vidya Project include:

- The creation of specific worker age verification tools at companies to prevent the hiring of workers under the age of 18, even though the legal working age in India is currently 15 years.
- Guarantee a supply of safe drinking water at all workplaces to help avoid outbreaks of illness among workers.
- Improvements in workplace safety and hygiene.
- Ensure the payment of fair wages.

How does Inditex monitor working conditions at its suppliers?

Suppliers are regularly audited during unannounced verification visits. Any deficiencies uncovered during these audits are targeted by corrective action plans which include deadlines for compliance. In the past three years the company has conducted more than 700 supplier audits, 400 scoring visits to support the implementation of corrective action plans and more than 70 workshops for suppliers in India.

What do the ratings Inditex assigns to its suppliers mean?

The ratings reflect each supplier's degree of compliance with the Inditex Code of Conduct: an A rating means that the supplier is in

proper compliance; a B rating indicates minor breaches of compliance; a C rating indicates that the supplier is out of compliance in some area; and a D signals failure to comply with an important stipulation of the Code of Conduct.

How did Inditex's suppliers in New Delhi rate in 2009 and how have they performed since?

Twenty-four Inditex suppliers in the region in 2009 received a D rating. In contrast, three suppliers are currently A rated, seven have a B rating and the others have a C rating. Four companies stopped supplying Inditex for trade reasons, while three others were discarded because they failed to properly follow corrective action plans. Accordingly, no Inditex providers in the New Delhi region are currently D rated.

Does this mean that in 2009 these suppliers relied on child labour?

No, it just means that the investigation conducted by the CSR teams detected a very high risk that suppliers might outsource their production to workshops that did not respect the Inditex Code of Conduct.

Why does Inditex keep D-rated suppliers in its supply chain?

Inditex's philosophy is geared towards improving working conditions at its suppliers. Consequently, D-rated suppliers are obliged to follow corrective action plans intended to resolve any failures to comply with the Code. Dropping suppliers in many cases only serves to further worsen conditions for those suppliers' workers. Inditex is convinced that its approach is the right way to change these situations.

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What sort of publicity does Inditex give its suppliers?

Inditex shares all information regarding its suppliers with the counterparties involved in processes for improving conditions throughout the production chain: international organisations, trade unions, NGOs associated with specific projects, etc. Inditex believes that this degree of transparency is sufficient to guarantee appropriate implementation of its policy for improving the production chain.

Have any schemes similar to the Vidya Project been enacted in other regions of the world?

Inditex deploys a similar strategy in all areas of the world in which it manufactures its products.

Why doesn't Inditex concentrate its manufacturing in areas that are free of the risk of unacceptable practices?

Inditex chooses the best specialised suppliers in each family of textile products. Once it makes a decision, it makes a commitment to each geographic area in which it does business. This commitment takes the form of a strategy for ongoing improvement in its suppliers' working conditions. The roll-out and results of the Vidya Project provide an excellent example of the achievements such a policy is capable of generating.