

## **Inditex Group Modern Slavery and Human Trafficking Statement FY2016**

Inditex Group does not tolerate modern slavery or human trafficking in its organization or in its supply chain, and this Statement, made pursuant to Section 54 of the Modern Slavery Act 2015, addresses the steps that we have taken to eliminate, the risk of modern slavery and human trafficking.

This Statement constitutes “Inditex Group Modern Slavery and Human Trafficking Statement” for the financial year 2016, ended on 31<sup>st</sup> January 2017, (“**FY2016**”) and refers to Industria de Diseño Textil, S.A. (Inditex, S.A.) and its subsidiaries (“**Inditex**” or “**Inditex Group**”). This Statement has been approved by Inditex’s Board of Directors on 13<sup>th</sup> June 2017, following a favourable report of the Audit and Control Committee.

### **About Inditex Group**

Inditex is a fashion retailer which dates back to 1963 when it was started in a small workshop making women's clothing. As at the end of FY2016, Inditex is one of the world’s largest fashion retailers with 7,292 stores in 93 markets, and operating online stores in 41 markets around the world. It owns 8 different commercial formats: Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe.

The Inditex Group also encompasses a number of companies engaged in a range of activities in the textile and fashion design, manufacturing and distribution businesses.

Inditex’s commitment is to maintain customers’ trust in the long term by offering them responsibly and sustainably produced and manufactured fashion. Our customers include shareholders, employees, suppliers and citizens committed to society.

*More information about Inditex Group on <https://www.inditex.com/en/about-us/who-we-are> and pages 282 to 289 of Inditex 2016 Annual Report*

### **Inditex Supply Chain**

The first step towards ensuring sustainability in the supply chain and eradicate any form of modern slavery is to identify its components. In FY2016, Inditex’s supply chain was made up of 1,805 suppliers which worked with 6,959 factories. Suppliers are located in 53 countries, and 60% of factories are located in areas close to the headquarters and logistical centres in Spain. All suppliers are required to disclose all the factories involved in production, including all tiers and processes.

With an Internal Sustainability Team of more than 130 professionals and the support of almost 5,000 external experts, Inditex assumes responsibility towards its stakeholders and, in particular, towards the workers in the factories and suppliers in the supply chain.

The task ahead is complex. Therefore, the active involvement of trade unions, suppliers, governments, NGOs and other representatives of civil society is crucial in order to drive a real impact on working conditions in factories in Inditex's supply chain.

#### *Inditex 2016 Supply Chain*



More information about Inditex Supply Chain on <https://www.inditex.com/en/our-commitment-to-people/our-suppliers> and pages 57 and 61 of Inditex 2016 Annual Report

#### **Inditex Policies against Modern Slavery**

Inditex applies a zero tolerance policy on slavery, human trafficking and any form of forced labour in its supply chain.

##### ➤ **Policy on Human Rights of the Inditex Group**

Inditex Group's Policy on Human Rights (hereinafter, "**Policy on Human Rights**") was approved by the Board of Directors on 12<sup>th</sup> December 2016, following a favourable report of the Audit and Control Committee and the Social Advisory Board, which represents the Group's stakeholders.

Following the Guiding Principles on Business and Human Rights, the Policy on Human Rights sets forth Inditex's position with regard to its commitment to respecting internationally recognised Human Rights, and it lays down such values and principles that will serve as a guideline to its business activities.

Notwithstanding its commitment to all Human Rights, Inditex has identified those areas directly related to its value chain, based upon a review of the business model and the expectations of its stakeholders.

One of the rights highlighted in the Policy on Human Rights is the rejection of forced labour. The Policy on Human Rights reads: "*Inditex rejects any form of forced or compulsory labour, as defined in ILO Convention 29. This extends both to its own employees and its entire supply chain, as well as to any natural and/or legal person related to Inditex. Inditex joined UN Global Compact in 2001, and adhered to its principle 4, according to which, businesses should uphold the elimination of all forms of forced and compulsory work or work done under coercion.*"

The Policy on Human Rights is applicable to the whole Group and it shall be binding for the entire staff. The enforcement thereof may extend to any natural and/or legal person associated with Inditex, where this may be appropriate to meet its purpose, and practicable on account of the nature of the relationship.

This Policy has been communicated to all business areas and it is publicly available on the company's intranet as well as on the corporate website. The implementation of the Policy involves appropriate due diligence processes, which regularly identifies current and potential impacts on Human Rights. In response to this analysis, appropriate measures are taken to prevent and reduce any potential negative consequences, fostering positive impacts throughout the entire value chain.

➤ **Corporate Social Responsibility Policy of the Inditex Group**

Inditex Group's Corporate Social Responsibility Policy (hereinafter, "**CSR Policy**") was approved by the Board of Directors on 9<sup>th</sup> December 2015, following a favourable report of the Audit and Control Committee.

The purpose of the CSR Policy is to define the principles endorsed by Inditex in its relations with all the Company's stakeholders, encouraging the inclusion of sustainability practices in its entire business model.

➤ **Policy on Criminal Risks Prevention of the Inditex Group**

Inditex Group's Policy on Criminal Risks Prevention (hereinafter, "**Policy on Criminal Risks Prevention**") was approved by the Board of Directors on 19<sup>th</sup> July 2016, following a favourable report of the Audit and Control Committee.

It obliges ethical and responsible professional conduct of all employees and of the Group itself, in particular, to prevent the commission of criminal offences, including, among others, offenses related to human trafficking.

This Policy also creates a relationship between the commitments to ethical conduct given in the Code of Conduct of Responsible Practices, and the prevention of criminal offences and acts by employees and the Group.

➤ **Code of Conduct and Responsible Practices of the Inditex Group**

Inditex Group's Code of Conduct and Responsible Practices (hereinafter, the "**Code of Conduct and Responsible Practices**") is the main policy that inspires and governs all the Group's operations and stipulates the binding principles that apply in each and every area of its activities. The goal of this Code demands ethical and responsible professional conduct from Inditex and its entire workforce in the conduct of its business anywhere in the world, as part of its corporate culture.

Approved in 2012 by the Board of Directors, this Code strengthens awareness and enforcement of Inditex's business culture, deeply rooted in respecting human and labour rights and diversity.

➤ **Code of Conduct for Manufacturers and Suppliers of the Inditex Group**

Once all our direct suppliers start working for Inditex, they are subject to Inditex Minimum Requirements, which include compliance with the Code of Conduct for Manufacturers and Suppliers, which explicitly prohibits slavery and human trafficking and is complemented by national laws and international standards.

Inditex Group's Code of Conduct for Manufacturers and Suppliers (hereinafter, the "**Code of Conduct for Manufacturers and Suppliers**") was approved by the Board of Directors in 2001 and amended in 2012 and it is applied throughout its supply chain, including all tiers and processes.

The first section of the Code of Conduct for Manufacturers and Suppliers establishes that: "*Inditex shall not allow any form of forced or involuntary labour in their manufacturers and suppliers. They may not require their employees to make any kind of "deposits", nor are they entitled to retain employees' identity documents. Manufacturers shall acknowledge the right of their employees to leave their employer after reasonable notice.*"

The Code of Conduct for Manufacturers and Suppliers specifies that "*aspects related to such limitations will be governed by Conventions 29 and 105 of International Labour Organization (ILO)*".

#### ➤ **Ten Principles of United Nations Global Compact**

Since 2001 Inditex has been a signatory of the United Nations Global Compact and it commits to respect and promote its ten universally recognised principles which include, among others, (4) the elimination of all forms of forced and compulsory labour and (5) the effective abolition of child labour.

During the historic summit held on 25<sup>th</sup> September 2015, the United Nations member States approved the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs) to transform the world. Every one of Inditex's practice areas must be aligned with the commitment to working towards the objectives set by the SDGs for 2030 which include decent work.

More information about our policies on <https://www.inditex.com/en/how-we-do-business/right-to-wear>

#### **Due Diligence and Risks Assessment**

To identify any potential Human Rights risks or impacts, Inditex develops due diligence processes throughout its business. This global due diligence is supported by the Code of Conduct and Responsible Practices: "*Therefore this Code: [...] Lays down the principle of due diligence regarding the prevention, detection and removal of irregular conducts, regardless of their nature, including, among others, risks review, definition of liabilities, training of employees and, where appropriate, of third parties linked to the company, and procedures standardization, namely to give notice and to immediately remove irregular conducts.*"

Focusing on its supply chain, in 2013 Inditex approved its "Strategic Plan for a Stable and Sustainable Supply Chain", which spans from 2014 to 2018 and builds on the work carried out by the Group over the past decade.

The implementation of the Code of Conduct for Manufacturers and Suppliers, which also protects other fundamental labour rights, such as freedom of association or right to legal employment, among others, is enforced by Inditex's Compliance Programme. In this sense, evaluation of risks of human trafficking and slavery is part of the Company's response to the "assessment of the real and potential impact of [its] activities", presented in the UN Guiding Principles on Business and Human Rights.

This risk assessment is carried out both from the perspective of a global supply chain and the engagement with relevant stakeholders, specialised NGOs and international platforms, as well as from the local work of Sustainability teams in Spain, Portugal, Morocco, Turkey, India, Pakistan, China, Bangladesh, Vietnam, Cambodia, Argentina and Brazil. These teams engage with local actors from the communities and evaluate where the possible risks could be. For this analysis, geographical and sociocultural factors are considered (such as gender, migrant labour, young workers, among others) and the traceability and identification of the supply chain is crucial.

With a global supply chain, Inditex identifies its suppliers and manufacturers using various tools. One of those are traceability audits, of which the main objective is to verify the traceability of the supply chain based on the analysis of information gathered via the online system where suppliers must disclose all the factories involved in production for Inditex. In FY 2016, a total of 2,776 traceability audits took place in which internal and/or external Inditex teams worked in situ to verify that production of the Group's brands was taking place in correctly declared and authorised factories.

All of Inditex's suppliers are obliged by the Code of Conduct for Manufacturers and Suppliers to cascade down its implementation to their workers and their own supply chain. To ensure this implementation, different types of Sustainability assessments are performed, covering all suppliers and factories that form part of Inditex's supply chain. The Group works to ensure a maximum quality of audits to guarantee that they cover all levels of production and that audit outcomes serve as the basis for continual improvement programmes.

The first verification occurs even before the supplier has commenced its relationship with Inditex, or in event a supplier proposing the use of a new factory for production. This pre-assessment consists of a preliminary assessment of potential suppliers and factories in order to verify that there is no latent risk of human rights, including specifically forced labour. Inditex has performed 2,302 pre-assessment audits during FY2016.

Every supplier and factory in Inditex's supply chain is subject to periodic social audits, which are carried out according to Inditex's own methodology, jointly designed in 2007 by the former International Trade Union Federation, ITGLWF (now integrated within the industry's new international federation, IndustriALL Global Union), the Cambridge Centre for Business and Public Sector Ethics and Inditex.

Social audits include specific and detailed sections to identify any form of forced labour using all sources of information available to the auditor. The audits are primarily performed by independent certified external auditors but also by internal auditors, without prior notification of the date the visit is to be performed. In FY2016, we performed 4,011 social audits.

*More information about our due diligence and risks assessment on <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/continuous-improvement> and pages 83 to 93 of Inditex 2016 Annual Report.*

### **Effectiveness**

Inditex's commitment to continual improvement places both remedial and preventative measures at the heart of the company's Sustainability Strategy. It adopts corrective action plans – designed by Inditex – and their purpose is two-fold (i) establishing measures intended to mitigate and/or remedy breaches of the Code of Conduct for Manufacturers and Suppliers and, in parallel, (ii) prevent repeated breaches in the future.

Discovery of a compliance breach triggers the immediate rollout of a corrective action plan that imposes stringent targets and timelines. If a supplier wants to preserve its business relationship with Inditex it must carry out these corrective plans, to which end it can count on the full support and engagement of Inditex's Sustainability teams.

The Group's philosophy is to help its suppliers grow and improve alongside Inditex, meaning that the audits undertaken are always followed-up on with constructive proposals to remedy any identified shortfalls. Nevertheless, and given Inditex's zero tolerance on forced labour and human trafficking, if the breach is not corrected, Inditex will immediately cease business relationships with the supplier.

Inditex also engages in “beyond auditing” initiatives to control its direct and indirect supply chain, such as a Global Framework Agreement with the International Federation of Trade Unions IndustriALL, which allows joint actions with local trade unions to uphold workers' rights, including the right to work freely.

As a result of the continuous work, in FY2016, compliance with the provision for the prohibition of forced labour laid down in the Code of Conduct for Manufacturers and Suppliers reached the highest level.

Our “beyond auditing” work is based on the premise that the workers and their protection is at the centre of all programmes. To cite some lines of work, in FY2016, we have developed programmes to promote worker participation, living wages or other relevant issues, such as occupational health and safety. Among those programmes, we have worked to protect migrant workers, especially in Turkey, and have developed actions to empower women in countries such as India, Morocco or Turkey.

In terms of cotton cultivation, Inditex does not use cotton sourced from Uzbekistan and Turkmenistan. Inditex has worked together with Responsible Sourcing Network's Cotton Campaign, and formally joined the Cotton Campaign, a global coalition on human rights, labour, investor and business organisations dedicated to eradicating child labour and forced labour in cotton production. Its goals are to end the state systems of forced labour in Uzbekistan and Turkmenistan's cotton sectors.

### **Grievance Mechanisms**

A Whistle Blowing Channel is available to all Inditex employees, manufacturers, suppliers or third parties with direct relationship and a lawful business or professional interest. Regardless of their tier or geographical or functional location, they shall report any breach of the Codes of Conduct or of a regulatory compliance policies, namely of the Policy on Human Rights, through this Whistle Blowing Channel. This also applied to any queries regarding the construction or application of the Codes of Conduct or regulatory compliance policies, namely the Policy on Human Rights. The confidentiality of such reports is ensured.

This Whistle Blowing Channel is managed by the Ethics Committee, composed of the General Counsel and Code Compliance Officer, the Human Resources Director, the Sustainability Director and the Chief Internal Audit Officer.

The Ethics Committee submits a report twice a year to the Audit and Control Committee, reviewing its proceedings and the enforcement of the Codes of Conduct. The Audit and Control Committee reports to the Board of Directors on an annual basis (twice during FY2016) as well as whenever the latter so requires, of the enforcement of the Codes of Conduct and of the additional documents which comprise the Corporate Compliance policy of the group from time to time in force.

*More information about effectiveness, the Committee of Ethics and the Whistle Blowing Channel on <https://www.inditex.com/en/how-we-do-business/right-to-wear> and pages 322 and 323 of Inditex 2016 Annual Report.*

### **Training and awareness**

Raising awareness and capacity building are fundamental to aligning sustainability policies in all business areas and with our stakeholders. Our training activities are divided into:

- **Internal training**

Purchasing practices have a direct impact on the working conditions of suppliers' and manufacturers' employees, including modern slavery. To this end, Inditex actively delivers regular training to the purchasing teams for each of its brands from the Group's Sustainability teams. In FY 2016, 1,005 people were trained internally in Human Rights and compliance with the Code of Conduct for Manufacturers and Suppliers. Of those, 64 employees were specifically trained on the prevention of modern slavery.

➤ **Auditor training**

Training and awareness is one of the cornerstones of the Compliance Programme. Our Sustainability professionals are accredited by Social Accountability International (SAI) as SA8000 auditors. This standard is a certification of reference in terms of fundamental labour rights, including prohibition of human trafficking.

➤ **Supplier training**

Inditex works collaboratively with its suppliers, organising training and awareness sessions for the prevention of forced labour and other prohibited practices. With a view to continuing to comply with the objective of the Strategic Plan 2014-2018 to include all suppliers in regular training and capacity building programmes, Inditex allocates substantial resources in providing training to suppliers.

During FY2016, a total of 30 training sessions were held with groups of suppliers, while 384 individual training sessions were run by the sustainability teams in the range of its supplier clusters. A total of 927 suppliers received training on sustainability issues such as forced labour.

More information about training on <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/continuousimprovement> and pages 80 to 82 of 2016 Annual Report.

The present Statement has been approved by the Board of Directors and signed by the General Counsel and Secretary of the Board.

*Antonio Abril Abadín*

*General Counsel and Secretary of the Board*