

KnowTheChain Apparel & Footwear Benchmark Methodology Version 2 (January 2018)

SCORED DISCLOSURE

GENERAL DISCLOSURE:

- Inditex recently published its 2017 Annual Report, which can be found in <https://www.inditex.com/en/investors/investor-relations/annual-reports>.
- Corporate website (www.inditex.com) is also updated regularly.
- New statement for the UK Modern Slavery Act and California Transparency in Supply Chains Act has been published in July 2018 and can be found here:
<https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>

THEME 1 COMMITMENT AND GOVERNANCE

1.1 Commitment

The company:

(1) has publicly demonstrated its commitment to addressing human trafficking and forced labor.

Inditex comments:

Inditex commitment against forced labour is stated at the company's Policy on Human Rights:

“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.”

Inditex Policy on Human Rights is publicly available at <https://www.inditex.com/documents/10279/325624/Inditex+Policy+on+Human+Rights.pdf/0ec776a7-4b59-438b-bc2c-42415760d0b4>

Furthermore, please note that Inditex has updated its statement in line with the UK Modern Slavery Act and the California Transparency in Supply Chains Act. The statement is publicly available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>

1.2 Supply Chain Standards

The company's supply chain standard:

- (1) requires suppliers to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor;
- (2) has been approved by a senior executive;
- (3) is easily accessible from the company's website;
- (4) is updated regularly, following internal review and input from external stakeholders; and
- (5) is communicated to the company's suppliers.

Noted

1.3 Management and Accountability

The company:

- (1) has a committee, team, program, or officer responsible for the implementation of its supply chain policies and standards that addresses human trafficking and forced labor; and
- (2) has tasked a board member or board committee with oversight of its supply chain policies and standards that address human trafficking and forced labor.

Inditex comments:

As stated in the questionnaire, Inditex's Sustainability team is in charge of the implementation of the Group's supply chain policies and standards. Updated information of the activities performed in 2017 is available at Inditex Annual Report 2017, at pages 69 to 115 and 236 to 241. In 2017, the Social Sustainability team was formed by 65 internal members located in 12 countries who collaborate with 453 external experts and cooperate on local and global initiatives and platforms.

Information about the Committee of Ethics, the body in charge of ensuring compliance with the Code of Conduct and Responsible Practices and with the Code of Conduct for Manufacturers and Suppliers, is also available at the Inditex 2017 Annual Report, on pages 227 to 229. The Committee of Ethics reports to the Board of Directors through the Audit and Control Committee.

Inditex's Board of Directors is ultimately responsible for ensuring respect and protection of Human Rights, as an essential instrument for the sustainable development of the Company. Upon implementing the Human Rights strategy, the Board is supported by the Audit and Control Committee, which assists it in the discharge of its supervision and control duties.

1.4 Training

The company undertakes programs which include:

- (1) the training of all relevant decision-makers within the company on risks, policies, and standards related to human trafficking and forced labor; and
- (2) the training and capacity-building of suppliers on risks, policies, and standards related to human trafficking and forced labor, covering key supply chain contexts.

Inditex comments:

Updated information about the trainings developed in 2017 by the Sustainability team, including training to buyers, suppliers and auditors is available at Inditex Annual Report 2017 pages 104 to 105.

1.5 Stakeholder Engagement

In the last three years, the company has engaged relevant stakeholders by:

- (1) providing at least two examples of engagements on forced labor and human trafficking with policy makers, worker rights organisations, local NGOs, or other relevant

stakeholders in countries in which its suppliers operate, covering different supply chain contexts; and

(2) actively participating in one or more multi-stakeholder or industry initiatives focused on eradicating forced labor and human trafficking across the industry.

Inditex comments:

In order to update the information stated in the questionnaire, it is noteworthy that in 2017 Inditex has joined two initiatives which have the eradication of forced labour as one of their main areas of work:

- Collaboration with ILO's 8.7 Alliance:
In line with its commitment to the Sustainable Development Goals, Inditex is a partner of ILO's 8.7 Alliance. The alliance brings together governments, companies, workers' organisations and the society at large, among other relevant actors, to eradicate forced labour, modern slavery, human trafficking and child labour.
- Participation in the Decent Work in Supply Chains Platform:
Inditex is part of the United Nations Global Compact Decent Work in the Global Supply Chains Platform. This is an alliance of companies and other agents which seeks to make progress by means of collective actions to ensure decent work and namely, eradicating forced labour, modern slavery and child labour.

More information at Inditex Annual Report 2017 pages 32 and 79 and at Inditex Group Modern Slavery and Human Trafficking Statement FY2017 (available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>)

More information about the different stakeholders with whom Inditex cooperates at Inditex Annual Report 2017 pages 79 to 105 and 114 to 115. Further information also available at the company's website <https://www.inditex.com/en/how-we-do-business/right-to-wear/partnerships>

Regarding Inditex's Global Framework Agreement with IndustriALL Global Union, the text of the Agreement explicitly mentions "forced labour" as one of the standards that are covered in the Agreement and one area of work for the partnership. (http://www.industriall-union.org/sites/default/files/uploads/documents/GFAs/signed_gfa_inditex_-_english.pdf).

More information about Inditex's partnership with IndustriALL in pages 84 and 85 of Inditex 2017 Annual Report.

THEME 2 TRACEABILITY AND RISK ASSESSMENT

2.1 Traceability

The company discloses:

- (1) the names and addresses of its first-tier suppliers;

- (2) the countries of below first-tier suppliers (this does not include raw material suppliers);

- (3) the sourcing countries of raw materials at high risk of forced labor and human trafficking; and

- (4) some information on its suppliers' workforce.

Inditex answer:

Inditex shares all the information about its supply chain with its stakeholders. For instance:

- IndustriALL Global Union: Inditex regularly shares the complete list of our supply chain at all levels and processes with IndustriALL, including purchasing volumes and sustainability compliance levels. Inditex is the only company in its sector that provides this information to a union federation and facilitates union access to all suppliers.

- International Labour Organisation: Inditex regularly provides the ILO with information on its supply chain in countries where the Better Work Programme operates, such as Vietnam, Cambodia and Indonesia.

- Greenpeace and the Chinese Institute of Public & Environmental Affairs: The Group publishes the list of direct and indirect wet process factories - dyeing, tanning, washing and printing - declared by its suppliers and has signed up to the

IPE's Green Supply Chain. [www.wateractionplan.com and <http://wwwen.ipe.org.cn/MapBrand/Brand.aspx?q=6>]

- Customers: Inditex informs its customers where their garments were made on request. In this regard, in 2017 63 customer queries regarding the source of products were answered. In this area, the company also has specific projects in some countries, such as *Fabricado no Brasil* (Made in Brazil), which is planned to be expanded in the future.
- Investors, stock market indicators, NGOs,...: The Group provides social, economic and environmental information both on demand and on a regular basis to various organisations that represent stakeholders. This commitment has been positively acknowledged by various organisations, such as the Dow Jones Sustainability Index, FTSE4Good and the Baptist World Aid Australia, among others.
- Other companies of the sector: Inditex collaborates with other brands and companies in the sector by sharing information on supply chain management and establishing joint remediation and action paths. Examples of this are the Bangladesh Accord and the ACT living wage initiative.

Furthermore, in each Annual Report Inditex gives information about its supply chain and its characteristics such as the number of suppliers and manufacturers (1,824 and 7,210 in 2017), the number of factories per process, the number of suppliers and manufacturers per geographic area, details on the number of suppliers, manufacturers and workers located at the clusters of suppliers, among others. It is important to note that the number of factories included all factories of the supply chain, irrespective of the tier they belong to or the process they perform, as Inditex does not make differences between tiers.

In terms of traceability, raw materials have a very significant specific weight in the programmes that Inditex has developed. In this respect, it is worth emphasising the initiatives regarding cotton, one of the world's main textile fibres.

In recent years Inditex has implemented initiatives to promote cotton traceability, to gain visibility and more knowledge about the production processes, from cultivation all the way to the manufacture of fabrics.

In 2017 the company signed a public-private agreement with the International Labour Organisation (ILO) to strengthen labour rights and principles in cotton production and to contribute to the sustainability of the supply chain down to the last link. Through this

collaboration, Inditex has improved its knowledge of the supervision and control processes of the raw materials needed to produce garments, from both the perspective traceability and improvement of working conditions. In addition, the Group cooperates with other initiatives to promote cotton sustainability, for example the Better Cotton Initiative, Textile Exchange and Organic Cotton Accelerator.

Furthermore, Inditex cooperates with the Cotton Campaign, a global coalition of human rights, labour rights, 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. Inditex and all its brands are signatories of the Cotton Pledge, arranged through the Responsible Sourcing Network, stating that they will not use this cotton in any of its products until this practice is eliminated.

More information at Inditex Annual Report pages 71, 75, 77, 107 and 238 and at <https://www.inditex.com/en/how-we-do-business/right-to-wear/partnerships>

2.2 Risk Assessment

The company discloses:

(1) details on how it conducts human rights supply chain risk or impact assessments that include forced labor risks or assessments that focus specifically on forced labor risks; and

(2) details on forced labor risks identified in different tiers of its supply chain.

Inditex comments:

Updated information on the human rights risk assessments performed on the supply chain and its results are publicly disclosed at Inditex Annual Report 2017 at the chapter "Socially Responsible Supply Chain" (pages 79 to 115).

Furthermore Inditex has updated its statement in line with the UK Modern Slavery Act and the California Transparency in Supply Chains Act, which this information is also available. The statement is publicly available at

<https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>

THEME 3: PURCHASING PRACTICES

3.1 Purchasing Practices

Purchasing practices and pricing may both positively impact labor standards in the company's supply chain, and increase risks of forced labor and human trafficking. The company:

- (1) is taking steps towards responsible raw materials sourcing;
- (2) is adopting responsible purchasing practices in the first tier of its supply chain; and
- (3) provides procurement incentives to first-tier suppliers to encourage or reward good labor practices (such as price premiums, increased orders, and longer-term contracts).

[Inditex comments:](#)

[Updated information on Inditex Responsible Purchasing Practices strategy is available Inditex Annual Report 2017 pages 90 to 93.](#)

3.2 Supplier Selection

The company:

- (1) assesses risks of forced labor at potential suppliers prior to entering into any contracts with them.
- (2) addresses risks of forced labor related to sub-contracting.

[Inditex comments:](#)

[In order to update the information included on the questionnaire, please note that in 2017 Inditex carried out 2,252 pre-assessment audits to verify compliance with Inditex's Code of Conduct for Manufacturers and Suppliers and make sure that only those complying can join the supply chain. Of those, some 79% had an approved result, meaning that the company involved can receive orders from Inditex's purchasing teams and, from that moment, is subject of the standards set out in the document Inditex Minimum Requirements, which includes requirements related to social issues, traceability, and product health and safety.](#)

On the other hand, in 2017, a total of 2,621 traceability audits were carried out. In these audits, internal and external Inditex teams worked on-site in order to ensure traceability of the production and to verify that garments were being produced in the factories named by our suppliers and authorised by Inditex. 263 non-compliances were detected, the majority related to a lack of information. In this regard, it is vital that suppliers internalise the need for traceability of their own supply chain, not simply as an Inditex requirement but rather as a tool for internal control and improvement. Among other measures, the Group asks its suppliers for a Production Control Plan to resolve any weak points in the supply chain that are of mutual interest to the supplier and Inditex. A supplier is only blocked in the event of repeated non-compliances. Since the Production Control Plans were started to be applied in June 2017, a total of 81 plans have been requested and nine suppliers have been blocked for this reason.

More information at Inditex Annual Report pages 73 to 75, 107 to 109 and 241.

3.3 Integration into Supplier Contracts

The company:

(1) integrates supply chain standards addressing forced labor and human trafficking into supplier contracts.

Inditex comments:

The acceptance and signing of Inditex Minimum Requirements is a *sine-qua-non* condition for any supplier to start working with Inditex.

Both the Code of Conduct for Manufacturers and Suppliers and Inditex Human Rights Policy is included in the Inditex Minimum Requirements (which includes other Inditex's policies and procedures). Both Policy and Code of Conduct count with a specific clause in relation to the prohibition of forced labour:

“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.” (Inditex Code of Conduct)

Therefore, these standards are integrated in suppliers' contracts since it is a mandatory requirement for them to sign before any commercial relationship can begin.

More information at Inditex Annual Report 2017 at page 108

[<https://www.inditex.com/documents/10279/563475/2017+Inditex+Annual+Report.pdf/f5bebfa4-edd2-ed6d-248a-8afb85c731d0>]

and Inditex Code of Conduct for Manufacturers and Suppliers page 3

[<https://www.inditex.com/documents/10279/241035/Inditex+Code+of+Conduct+for+Manufacturers+and+Suppliers/e23dde6a-4b0e-4e16-a2aa-68911d3032e7>]

3.4 Cascading Standards through the Supply Chain

The company:

(1) requires its first-tier suppliers to take steps to ensure that their own suppliers implement standards that are in-line with the company's supply chain standards addressing forced labor and human trafficking.

Inditex comments:

The Inditex monitoring model contemplates a follow-up of every tier in the supply chain not only the first-tier suppliers. Complete traceability becomes the main aim of the model.

THEME 4: RECRUITMENT

4.1 Recruitment Approach

(1) has a policy that requires direct employment in its supply chain;

(2) requires employment and recruitment agencies in its supply chain to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor; and

(3) discloses information on the recruitment agencies used by its suppliers.

Inditex comments:

All suppliers must disclose all companies that they are using, and this includes any possible recruitment agency. The Code of Conduct has to be observed (included the provisions related to the prohibition of forced labour) and workers' rights shall be upheld

as stated in the Code by any possible recruitment agency also during the recruitment process.

The Code of Conduct for Manufacturers and Suppliers states 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. (point 1, No forced labour)*

In relation to the employment formulas applied, the Code of Conduct states that suppliers and manufacturers should comply with applicable laws and respect their workers’ rights while promoting regular employment:

Manufacturers and suppliers undertake that all the employment formulas they use are part of the applicable local laws. Thus, they shall not impair the rights of workers acknowledged under labour and social security laws and regulations by using schemes that have no real intention to promote regular employment in the framework of regular employment relationships. (SECTION 9 of the Code of Conduct)

The Code of Conduct for Manufacturers and Suppliers is available at <https://www.inditex.com/documents/10279/241035/Inditex+Code+of+Conduct+for+Manufacturers+and+Suppliers/e23dde6a-4b0e-4e16-a2aa-68911d3032e7>

4.1 Recruitment Fees

The company:

(1) requires that no worker in its supply chain pay for a job—the costs of recruitment should be borne not by the worker but by the employer ("Employer Pays Principle"); and

(2) takes steps to ensure that such fees are reimbursed to the workers, in the event that it discovers that fees have been paid by workers in its supply chain.

Inditex comments:

The Code of Conduct for Manufacturers and Suppliers states 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." (page 3). These “deposits” include recruitment fees.

In the event that any non-compliance related with the recruitment process (including situations where workers are required to pay recruitment fees) is discovered, a

Corrective Action Plan would be carried out in order to correct the non-compliance and ensure remediation for all potentially affected workers. In case it is needed, this will include the reimbursement of fees to workers.

These plans are closely monitored by Inditex internal teams and other stakeholders may participate. The purpose of the corrective action plans 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. More information about Corrective Action Plans and their development is available at Inditex Annual Report 2017 pages 112 and 113.

4.3 Monitoring and Ethical Recruitment

The company:

(1) takes steps to ensure employment and/or recruitment agencies used in its supply chain are monitored to assess and address risks of forced labor and human trafficking; and

(2) provides details of how it supports ethical recruitment in its supply chain.

Inditex comments:

According to the Code of Conduct, all suppliers must disclose all companies they are using, and this includes any possible recruitment agency. Also, as the same Code establishes, suppliers should ensure the enforcement of the Code by any company engaged in their supply chain, and this includes recruitment agencies “Manufacturers and suppliers shall communicate the Code to all employees and those in any way involved in the Inditex Supply Chain.” (page 6 of the Code).

In case a supplier or manufacturer uses a recruitment agency, this information is checked during social audits, where all the aspects related with the recruitment process are also assessed in order to verify that the requirements of the Code of Conduct have been followed and the rights of the workers have been respected.

Furthermore, updated information about the activities done under the framework of the Sowbhagyam Project in Tamil Nadu in cooperation with the organisation SAVE is available at Inditex Annual Report 2017 page 96 and <https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/sumangali-in-india> . In 2017, work was carried out with a total of 79

employment agencies at Tamil Nadu to train them on best practices, developing guidelines for action and encouraging them to associate and share learning, and facilitate the identification of spinning mills that do not engage in any kind of abusive employment practice.

4.4 Migrant Worker Rights

The company:

(1) takes steps to ensure migrant workers understand the terms and conditions of their recruitment and employment, and also understand their rights;

(2) takes steps to ensure its suppliers refrain from restricting workers' movement, including through the retention of passports or other personal documents against workers' will;

(3) takes steps to ensure migrant workers are not discriminated against, and not retaliated against, when they raise grievances; and

(4) provides evidence of how it works with suppliers to ensure migrant workers' rights are respected.

Inditex comments:

Inditex does not allow any form of exploitation or discrimination of the workers in its supply chain and pays special attention to working conditions of migrants. The enforcement of this policy begins with the training of the internal Sustainability team for the purposes of detecting any potential irregularities, implementing accompanying programmes for migrants and refugees and remediation practices, for the purposes of guaranteeing decent working conditions for migrant employees. It is important to note that protection of migrants is one of the strategic lines of work under Inditex's Worker at the Centre strategy, which develops projects and programmes focusing on workers and their well-being.

As an example of the work that is being developed in relation to protection of migrants, in 2017 Inditex continued with the migrant and refugee remediation programmes initiated in 2016 in collaboration with the NGO Refugee Support Center/MUDEM in Turkey. The NGO also offers Turkish language courses, and translates supplier documentation for workers. With the support of that organisation, the Group carries out an individual study of the working situation of each migrant detected in the supply chain in order to attend to

their needs and support them and their families to guarantee their well-being. In 2017, some 155 advice and remediation cases were initiated, where suppliers also participated.

Meanwhile, a seminar was organised for suppliers with the title Integration of the Syrian Refugees under Temporary Protection into the Turkish Labour Market in collaboration with the Ethical Trading Initiative, local NGOs under the auspices of the UN Refugee Agency (UNHCR) and the ITKIB-Exporters' Association. The aim of this seminar was to train and raise awareness among suppliers regarding refugee issues, regular employment, the regulations in force on work permits, and the initiatives and programmes of the UNHCR. The main focus of the seminar, which was attended by 90 Inditex suppliers, was the importance of integrating migrants and refugees into the workplace.

Another country where the Group has created specific programmes on migration is China, based on the country's high levels of internal migration. In 2017, and in collaboration with the Ethical Trading Initiative, Inditex developed the Promising Future project, which involved the creation of a video explaining social security coverage to workers in China with a view to raising awareness among suppliers and workers in this area.

More information about the work done to protect and promote migrant workers' rights is available at Inditex Annual Report 2017 pages 102 and 103, <https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/syrian-refugees-in-turkey> , <https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/migrant-workers-in-brazil> and Inditex Group Modern Slavery and Human Trafficking Statement FY2017 page 11 (available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>)

THEME 5: WORKER VOICE

5.1 Communication of Policies

The company takes steps to ensure:

(1) its policies and standards, which include human trafficking and forced labor, are available in the languages of its suppliers' workers; and

(2) its human trafficking and forced labor policies and standards are communicated to workers in its supply chain.

Inditex comments:

As stated, the Code of Conduct establishes that suppliers should display the same in the workers' local language. Inditex has translated the Code into more than twenty languages and makes these translations available to its suppliers.

More information at <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/fundamental-rights-at-work>

5.2 Worker Voice

The company:

(1) works with relevant stakeholders to engage with and educate workers in its supply chain on their labor rights;

(2) takes steps to ensure that there are worker-to-worker education initiatives on labor rights in its supply chain;

(3) provides evidence of the positive impact of worker engagement in its supply chain; and

(4) provides at least two examples of worker engagement initiatives covering different supply chain contexts.

Inditex comments:

- Worker-to worker education initiatives: As an example, the actions planned for 2018 under the umbrella of the Sakhi Health programme include to train workers themselves so that they could engage in peer education. The Sakhi Health programme is developed in the three Indian factories in collaboration with St. John's Medical College. The aim of the programme is promoting women's health, in particular reproductive health and feminine hygiene, and it is framed under Inditex's Women Empowerment Strategy in the Supply Chain, which was approved in 2017.

More information about the Sakhi Health programme at Inditex Annual Report 2017 page 96 and at the corporate website, where the NGO with whom Inditex collaborates for the development of the programme explains the same and its experience

<https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/womens-empowerment>

- Positive impact of worker engagement: One of the main tools that Inditex has in place to promote worker engagement and participation in the supply chain is the Global Framework Agreement that the company has with IndustriALL Global Union. For instance, one of these projects is the joint Turkey Programme, which aims to strengthen worker participation in a large Turkish factory to bring long-term benefits to labour conditions, productivity, pay, and employment relations. By opening new channels of communication between workers and managers, local union representatives and the employer, all sides are building trust and finding common purpose for positive change. Workers selected their own representatives who were trained in the principles of collective bargaining. The representatives meet with company management every month to raise concerns and suggest improvements in working practice.

Since the scheme began in 2013, developments have included a reorganisation of work according to professional classification and the introduction of an incentive system. The factory itself is expecting a dramatic boost in productivity, forecasting a 40 to 50% increase in its workforce alongside a 250% increase in production in the coming years.

Information about the Joint Turkey Programme is available at Inditex corporate website, including a video where the stakeholders involved in the project, included workers themselves, share their views and experiences during the project <https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/joint-turkey-programme>

5.3 Freedom of Association

The company:

(1) describes how it works with suppliers to improve their practices in relation to freedom of association and collective bargaining;

(2) works with local or global trade unions to support freedom of association in its supply chain;

(3) takes steps to ensure workplace environments in which workers are able to pursue alternative forms of organizing (e.g., worker councils or worker-management dialogues) where there are regulatory constraints on freedom of association; and

(4) provides at least two examples covering different supply chain contexts of how it improved freedom of association for supply chain workers.

Inditex comments:

In addition to the information already reflected in the questionnaire, we would like to point out that the year 2017 saw the 10th anniversary of the signing of the Global Framework Agreement (GFA) between Inditex and IndustriALL Global Union. Over the last 10 years, the GFA has afforded a shared approach to the reality of each country, promoting the right to union access in the workplace. Programmes have been carried out in over 100 factories in our main production markets, tackling a wide variety of aspects, from the right to organise to decent working conditions; from a healthy workplace to women' empowerment issues.

The GFA is implemented through four lines of work that in 2017 have materialised on the following activities, among others:

- Supply chain transparency: Inditex shares complete and up-to-date information on its supply chain with IndustriALL on a regular basis. This information includes the results of its assessments from social and labour perspectives.
- Collaboration on the ground: In 2017 alone, Inditex and IndustriALL have carried out joint programmes in 22 factories in Bangladesh (5), Bulgaria (2), Morocco (4), Turkey (9), and Tunisia (2).
- Promotion of worker participation: Raising awareness on the importance of freedom of association and collective bargaining and the value of social dialogue (the main vehicle for achieving mature labour relations) constituted the mainstays of the training activities carried out in 2017. As an example of the activities carried out, worker representatives from 25 factories in Vietnam attended a seminar on labour relations held in October and organised by IndustriALL in Hanoi in order to provide follow-up to the creation of the Inditex suppliers union network in 2016. As another example, in Morocco, training on labour relations for representatives of 30 factories and local trade unions was carried out.
- Promotion of global initiatives in the textile industry: Inditex and IndustriALL have been at the forefront of global projects and initiatives in the textile industry, such as the Accord on Fire and Building Safety in Bangladesh (the Accord) and the ACT (Action, Collaboration, Transformation) initiative, whose participants work to promote collective bargaining between employers and trade unions in countries in

the brands' supply chains with the aim of achieving decent working conditions and wages.

More information at Inditex Annual Report pages 84 to 86 and at <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/shared-challenges>

5.4 Grievance Mechanism

The company:

(1) takes steps to ensure a formal mechanism to report a grievance to an impartial entity regarding labor conditions in the company's supply chain is available to its suppliers' workers and relevant stakeholders;

(2) takes steps to ensure that the existence of the mechanism is communicated to its suppliers' workers;

(3) takes steps to ensure that workers or an independent third-party are involved in the design or performance of the mechanism, to ensure that its suppliers' workers trust the mechanism;

(4) discloses data about the practical operation of the mechanism, such as the number of grievances filed, addressed, and resolved, or an evaluation of the effectiveness of the mechanism; and

(5) provides evidence that the mechanism is available and used by workers below tier one in its supply chain, or by relevant stakeholders in key supply chain contexts.

Inditex comments:

In order to update the information related with Inditex Whistle Blowing Channel managed by the Committee of Ethics please note that, in FY17, the Committee of Ethics has processed 181 cases, 159 of them further to a report and the remaining 22 ex-officio.

The notices received mainly referred to conducts which might infringe the ethical commitments or values covered in the Code of Conduct and Responsible Practices or in the Code of Conduct for Manufacturers and Suppliers, and to requests for clarification regarding the enforcement of this latter Code. All the reports received by the Committee of Ethics were duly attended.

Workers of the supply chain have access to the company's Whistleblowing channel as information about it is disclosed at the Code of Conduct For Manufacturers and Suppliers and as it is stated at the Code itself, suppliers have to communicate the Code to all its workers and a copy of it has to be available for them in its own language. Consequently, all workers of the supply chain have access to the information about the company's Whistle Blowing channel and can use it.

Supply chain stakeholders have also access to information about this Whistleblowing Channel and the address to where they can direct their complaints or concerns as all information about it is publicly disclosed at Inditex Annual Report, which is available for all interested parties at Inditex's corporate website: <https://www.inditex.com/en/investors/investor-relations/annual-reports>

Furthermore, Inditex's Policy on Human Rights, the Code of Conduct and Responsible Practices and the Code of Conduct for Manufacturers and Suppliers (which include information about the Whistleblowing channel) are publicly available at Inditex corporate website.

Apart from this main channel, Inditex's active relationship with stakeholders (pages 28-29 of Inditex 2017 Annual Report) permits continuous dialogue which enables affected or potentially affected stakeholders to easily reach the company to express concerns or grievance. A good example of this is the relationship with trade unions, legitimate representatives of workers, through the Global Framework Agreement signed with IndustriALL Global Union in 2007 (pages 84 to 86 of Inditex 2017 Annual Report) and which allows workers to channel their demands and expectations.

More information about Inditex grievance mechanisms at Inditex Annual Report 2017 pages 227 to 229 and 354 to 355 and at Inditex Group Modern Slavery and Human Trafficking Statement FY2017 page 17 (available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>)

THEME 6: MONITORING

6.1 Auditing Process

The company has a supplier audit process that includes:

(1) non-scheduled visits;

- (2) a review of relevant documents;
- (3) interviews with workers;
- (4) visits to associated production facilities and related worker housing; and
- (5) supplier audits below the first tier.

Inditex comments:

In addition to the information included at the questionnaire, it is important to point out that Inditex audits are performed towards all suppliers and manufacturers of the supply chain, including all tiers and types of processes. In fact, the first evaluation is done prior any company enters into the Group's supply chain by means of a pre-assessment audit, which is performed irrespective of the process or tier of the company.

Inditex Compliance Programme entails the performance of different types of audits such as pre-assessment audits (2,252 in 2017), social audits (4,215), special audits (2,159) and traceability audits (2,621). All factories of the supply chain are included in the scope of these audits. Please see page 70 of Inditex 2017 Annual Report for evidence.

Inditex's social audit methodology includes evaluation of workers housing.

More information at Inditex Annual Report 2017 pages 108-109 and <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/continuous-improvement>

6.2 Audit Disclosure

The company discloses:

- (1) the percentage of suppliers audited annually;
- (2) the percentage of unannounced audits;
- (3) the number or percentage of workers interviewed during audits;
- (4) information on the qualification of the auditors used; and
- (5) a summary of findings, including details regarding any violations revealed.

Inditex comments:

Updated information about the audits performed in 2017 is available at Inditex Annual Report 2017 pages 73, 107 to 115 and 241.

Audits can be performed rather by Inditex internal teams or by external auditors belonging to renowned and independent audit firms. All audits are unannounced and include common features such as the performance of workers interviews.

A summary of the findings of social audits disclosed by geographical area is available at page 111.

THEME 7: REMEDY

7.1 Corrective Action Plans

The company's corrective action plans include:

- (1) potential actions taken in case of non-compliance, such as stop-work notices, warning letters, supplementary training, and policy revision;
- (2) a means to verify remediation and/or implementation of corrective actions, such as record review, employee interviews, spot-checks, or other means;
- (3) potential consequences if corrective actions are not taken; and
- (4) a summary or an example of its corrective action process in practice.

Inditex comments:

In addition to the information stated at the questionnaire and specifically in relation with point 4, in its Annual Report 2017 pages 112-113 Inditex summarizes how a corrective action plan is implemented, including an example of the general actions and milestones.

In 2017, a total of 514 factories with breaches of sensitive aspects of the Code of Conduct initiated a Corrective Action Plan, while 121 of those demonstrated improvement by the end of the fiscal year. In these cases where there are breaches of the most sensitive aspects of the Code of Conduct the duration of the Corrective Action Plan is restricted to 6 months, while monitoring from the Group's internal teams is much more exhaustive. Once this period is over, a new social audit is carried out to verify whether the corrections required have been implemented. If during this audit it is found that the Plan has not been fulfilled, the factory or supplier will be rejected and will no longer be allowed to produce for Inditex.

During the Corrective Action Plan, sustainability teams collaborate with the supplier to offer them advice and support, as well as monitor whether the measures detailed in the plan are going to be completed on time. In this sense, it is very important that purchasing teams participate in the process. Apart from these internal teams, other stakeholders may participate in plans, including NGOs, trade unions or other civil society organisations.

Inditex uses its own internal Corrective Action Plan procedure which, while it gives a certain margin for adaptation to the situation of each factory, contains certain standard actions applicable in all cases. The most important of these is the performance of a competence visit in which Inditex's internal teams can assess the level of compliance with the Plan before it comes to an end. This means that where the improvement has not been sufficient there is still a margin for correction. In 2017, some 512 competence visits were carried out.

7.2 Remedy Programs / Response to Allegations

A. If no allegation regarding forced labor in the company's supply chain has been identified in the last three years, the company discloses:

(1) a process for responding to the complaints and/or reported violations of policies and standards; and

(2) at least two examples of outcomes for workers of its remedy process in practice, covering different supply chain contexts.

Inditex comments:

The process for responding to the complaints received through the Whistle Blowing Channel is described at the 2017 Annual Report (page 228-229):

Upon receipt of any report, the Committee of Ethics verifies first whether it falls under its remit. If such were the case, the Committee of Ethics shall refer such report to the relevant department or area so that it would launch the relevant investigation. If not, the Committee shall order the closing of proceedings.

In light of the conclusions drawn from the relevant investigation, and having heard first the interested party, the Committee of Ethics shall take one or more of the following measures, having considered and weighted them where appropriate, with the relevant department or departments:

- - The remedy of the breach;
- - The relevant sanctions or actions; and/or;
- - The closing of proceedings, where no breach whatsoever has occurred.

Decisions of the Committee of Ethics are binding for the Company and its employees.

Aspects related to the responding of the complaints (for example, timeframes) will vary from case to case, as well as the actions done in order to provide remedy. Affected stakeholders will be engaged in the remediation process.

As examples of outcomes for workers of remedy processes carried out, we would like to point out the two following cases:

- Remediation in Jeans Plus factory in Bangladesh:

In 2015 Inditex received information from the NGO Institute for Global Labour and Human Rights on 11th March regarding breaches against Inditex's Code of Conduct on factory Jeans Plus. After receiving it, Inditex Sustainability team visited the factory and worked along with his management to implement a plan that prevented any situation like the ones in the future.

As a result of that, on 15th of March a letter of commitment was received from factory management as well as the Group was informed by referred NGO about below measures implemented in the factory:

- Jeans Plus management guarantees that all workers will receive their Friday holiday off each week.
- Factory will remain open no later than 7:00 p.m. (50% of the workers were released at 5:00 p.m., while the other 50% worked work until 7:00.)
- Pregnant women workers are to receive their full legal maternity benefits as stipulated in Bangladeshi law.
- All workers will receive legal sick leave and earned leave benefits.
- Jeans Plus management guarantees full compliance with all Bangladeshi labor laws.
- Jeans Plus will undergo a factory audit in the coming days.
- Mid-level managers and supervisors have been instructed to assure an appropriate treatment to workers.

Inditex highly appreciates the commitment of the management with the implementation of this measure as well as the NGO Global Labour and Human Rights which has actively follow the issue. The Group will continue doing necessary follow-up to guarantee the sustainability of the above measures and commitment showed by factory management.

Information about this remediation case is publicly available at <https://www.business-humanrights.org/en/bangladesh-labour-rights-abuses-violations-reported-at-factory-supplying-to-inditex-lc-waikiki-responses-included-from-companies>

- Remediation to Syrian Refugees in Turkey:

Turkey is one of the main recipient countries for migrants and refugees in recent years, as well as being one of Inditex's most important production areas. For this reason, in 2017 the company continued to implement migrant and refugee remediation programmes in collaboration with the NGO Refugee Support Center/MUDEM. With the support of that organisation, the Group carries out an individual study of the working situation of each migrant detected in the supply chain in order to attend to their needs and support them and their families to guarantee their well-being. In 2017, some 155 advice and remediation cases were initiated.

The aim of the plan is to help refugees obtain work permits and supports their integration at factories. The Refugee Support Centre helps each individual on a case-by-case basis, educating the workers of their rights and the value of obtaining work permits. They offer Turkish language courses and translate important company documentation, such as rules, procedures, and health and safety information. Both the worker and supplier are also supported while the necessary work permit registration is processed.

The philosophy behind these remediation plans is, rather than dropping problem suppliers out of hand, to do what is possible to support them while they improve conditions. Inditex believes, that washing its hands of problems leaves workers vulnerable; following a remedial plan, on the other hand, delivers the best outcomes to them.

More information at Inditex Annual Report 2017 pages 102 and 103 and at <https://www.inditex.com/web/guest/our-commitment-to-people/our-suppliers/workers-at-the-center/syrian-refugees-in-turkey>

B.1. If one or more allegations regarding forced labor in the company's supply chain have been identified in the last three years, the company discloses:

- (1) a process for responding to the complaints and/or reported violations of policies and standards;
- (2) a public response to the allegation, which covers each aspect of each allegation;
- (3) outcomes of the remedy process in the case of the allegation(s); and
- (4) evidence that remedy(ies) are satisfactory to the victims or groups representing the victims.

B.2. If one or more allegations regarding forced labor in the company's supply chain have been identified in the last three years, and the company denies the allegation, the company discloses:

- (1) a process for responding to the complaints and/or reported violations of policies and standards;
- (2) a public response to the allegation, which covers each aspect of each allegation;
- (3) a description of what actions it would take to prevent and remediate the alleged impacts; and
- (4) that it engages in a dialogue with the stakeholders reportedly affected in the allegation, or requires its supplier(s) to do so.

NON-SCORED DISCLOSURE

THE FOLLOWING WILL BE DISPLAYED ON A COMPANY'S SCORECARDS.

Commitment(s) to address forced labor in the supply chain

The company has developed measurable and time-bound commitment(s) to address forced labor in the supply chain.

Inditex comments:

The Inditex Group has always been fully committed to respecting, promoting and protecting Human Rights within its entire value chain, this being one of the main pillars of our business model. The Inditex Group does not tolerate modern slavery or human trafficking in its organisation or in its supply chain, and undertakes to proactively promote Human Rights and the respect thereof.

This commitment is publicly disclosed at the Inditex Group Modern Slavery and Human Trafficking Statement FY2017 (available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>)

This Statement, made pursuant to Section 54 of the UK Modern Slavery Act 2015 and to the California Transparency in Supply Chains Act 2010 (SB-657), addresses the measures that the Company relies on to prevent and mitigate the risk of modern slavery and human trafficking.

Compliance with Regulatory Transparency Requirements

UK Modern Slavery Act

Where applicable, the company discloses annual statements under the Modern Slavery Act which fulfils the three minimum requirements (director signature, board approval, link on homepage).

Inditex comments:

Please note that Inditex has updated its statement in line with the UK Modern Slavery Act and the California Transparency in Supply Chains Act. The statement is publicly available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>

California Transparency in Supply Chains Act

Where applicable, the company discloses a statement under the California Transparency in Supply Chains Act which fulfils the minimum requirements (conspicuous link on homepage, reporting against five areas).

Inditex comments:

Please note that Inditex has updated its statement in line with the UK Modern Slavery Act and the California Transparency in Supply Chains Act. The statement is publicly available at <https://www.inditex.com/documents/10279/364755/Inditex+Modern+Slavery+Statement/82b2f138-5bfe-9134-bcf4-8a7fbf16e470>

THE FOLLOWING WILL BE DISPLAYED ON THE COMPANY'S SCORECARD ONLY IF A COMPANY PROVIDES SUCH INFORMATION.

Business model

To put the KnowTheChain analysis into context, companies are invited to disclose relevant information on their business model, such as sourcing countries, owned versus outsourced production, etc. [Note KnowTheChain reserves the right to edit the information provided]

Inditex comments:

Inditex is a global fashion retailer present in 5 continents, in the North and South hemispheres. Its main business consists of offering the latest fashion trends (apparel, footwear, accessories and home textiles), at affordable prices, at the right time and with high standards of quality and sustainability. The company sells its products through an integrated model of stores and online.

The company conducts its business through different brands: Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. Each of them is operated based upon a directly managed model of physical stores and online, except in certain countries where, for different reasons, the business operates through franchises.

In 2017, Inditex's supply chain was made up of 1,824 suppliers and 7,210 factories. 57% of the factories are concentrated in proximity countries such as Spain, Portugal, Morocco and Turkey.

Although these factories and suppliers do not work exclusively for Inditex, they have a close relationship with the Group based on responsibility, which allows them to design and sell fashion that guarantees respect for the fundamental Human and Labour Rights of each person within the supply chain.

The company has established "clusters" of suppliers in its core production regions to facilitate development of its business model, framed by strict compliance with fundamental labour rights. Currently Inditex has clusters in Spain, Portugal, Morocco, Turkey, India, Pakistan, Bangladesh, Vietnam, Cambodia, China, Brazil and Argentina; they encompass over 95% of the production chain and help ensure the Group's social compliance and labour standards are applied locally.

More information available at Inditex Annual Report pages 12, 13, 14, 27, 107, 114, 115 and 238 and at <https://www.inditex.com/en/about-us/who-we-are> and at <https://www.inditex.com/en/our-commitment-to-people/our-suppliers/shared-challenges>

Addressing forced labour risks related to third-party products

Where a company--in addition to own branded products--sells third party products, the company discloses how it assesses and addresses forced labor risks related to third party products (relevant for retail companies).

Inditex comments:

This question is not applicable as Inditex does not sell third party products.