

Arteixo (Spain), 7th May, 2021

Dear Mrs. Beatriz Balbin,

Thank you very much for sharing the concerns of the Working Group on the issue of human rights and transnational corporations and other business enterprises; the Special Rapporteur in the field of cultural rights; the Special Rapporteur on minority issues; the Special Rapporteur on contemporary forms of slavery, including its causes and consequences; the Special Rapporteur on torture and other cruel, inhuman or degrading treatment or punishment; and the Special Rapporteur on trafficking in persons, especially women and children.

Thank you also for the context provided according to the information that you have received and for allowing us the opportunity to provide feedback since we take any reports of improper social and labour practices in any part of the garment and textile supply chain extremely seriously.

We note that your letter did not provide specific details on how Inditex is linked to the information that you have received, meaning that we are unable to provide specific answers to facts or allegations. However, within the context, we want to stress that Inditex has conducted robust due diligence throughout our entire supply chain and has not found any evidence of direct or indirect commercial relations with any factory in the region referred in your letter.

Regarding our supply chain monitoring over the past year, Inditex has strengthened its processes both in the social and traceability field in line with the UN Guiding Principles, reaching the farthest tiers of our supply chain.

Additionally, we strongly believe that individual efforts can be significantly strengthened by a collective approach that includes governments, industry, civil society and other stakeholders.

We would like to support your inquiry by detailing in this letter the way in which we are working to prevent, mitigate and remediate when necessary any potential negative impact in human rights in our global supply chain, organized as follows:

- *Human Rights Strategy*
 - *Policy on Human Rights*
 - *Due Diligence*

- *Grievance Mechanisms*
- *Supply chain management*
- *Traceability strategy*
- *Enhancing labour rights within raw material supply chains*
- *Compliance assessment*
- *Remediation and continuous improvement*

As an introduction, it is important to note some relevant details about our Group and business model¹:

- Inditex is a global fashion retailer present in 96 countries across five continents, conducting its business through eight brands, the largest of which is Zara
- Inditex is headquartered in Spain and operates a centralised model with all of its major functions located at its headquarters in A Coruña
- We have a unique business model where the majority of our products are produced in close proximity to where we are based, primarily in Spain, Portugal, Morocco, and Turkey

As a major global retailer, Inditex is committed to playing a leadership role in sustainability going above and beyond legal commitments. This commitment governs the management of the Group as well as its relationship with stakeholders.

➤ Human Rights Strategy²

We have a zero-tolerance approach towards any kind of forced labour. To prevent modern slavery and human rights abuses in our own business and our value chain, we have developed our own Human Rights Strategy within the framework of the Guiding Principles on Business and Human Rights, approved in 2011 by the United Nations Human Rights Council. This Strategy comprises three elements: Policy on Human Rights, Due Diligence, and Grievance Mechanisms, which commits us to identify, prevent, mitigate, and account for human rights abuses that we may cause or contribute to through our own activities, or which are directly linked to our operations, products or services via a business relationship.

Policy on Human Rights³:

This outlines our commitment to respecting human rights and lists the values and principles guiding our activities. Rejection of forced labour is one of these rights singled out in the Inditex Policy on Human Rights. Specifically, the Policy reads: *“Inditex rejects any form of forced or compulsory labour,*

¹ <https://www.inditex.com/en/about-us/who-we-are>

² <https://www.inditex.com/how-we-do-business/right-to-wear/human-rights>

³ <https://www.inditex.com/documents/10279/325624/Inditex+Policy+on+Human+Rights.pdf/0ec776a7-4b59-438b-bc2c-42415760d0b4>

as defined in ILO Convention 29. This extends both to our own employees and our entire supply chain. Inditex joined the 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". Compliance with Inditex's Policy on Human Rights is mandatory for the whole Group and all manufacturers and suppliers that work with Inditex shall undertake to respect their employees' human and labour rights, and to involve their business partners and convey to them such principles.

Due diligence:⁴

Human rights due diligence at Inditex entails identifying and prioritizing potential impacts on human rights throughout the value chain, to subsequently integrate the findings into the Group's various management processes. We have partnered with respected human rights organizations to conduct our supply chain human rights risk assessment.

Inditex's due diligence process is based on the guidelines and recommendations included in the UN Guiding Principles on Business and Human Rights. This process includes the following steps:

- Identification of potential negative impacts of our operations or relations: We identify the potential impacts of our operations or relations by analysing all links of the value chain. Several sources of information are used to inform this process such as, but not limited to: internal analysis lead by the company department in charge of the management of the value chain specific area, international and national legislation, international best practices in relation to human rights, information from reliable sources about potential and actual human rights impacts within different contexts, information about the supply chain gathered through all the types of assessments regularly performed (namely, traceability, social, pre-assessment and special audits), the experience and learnings gathered in the field by Inditex's local sustainability teams, or the inputs collected through the interactions and communication with all the stakeholders that we regularly cooperate with (for instance, IndustriALL Global Union or the International Labour Organization).

Stakeholder engagement is key in this process to understand the perspective of potentially affected stakeholders or their legitimate representatives to improve the quality of the company's analysis of actual and potential human rights.

All the information gathered through these inputs is consolidated on a preliminary potential human rights impacts map.

⁴ <https://www.inditex.com/documents/10279/664163/Statement+on+non-financial+information.pdf/1ee4c16c-9622-0ca1-d3d0-ce287ee131a5> (page.194)

- Prioritisation based on severity and likelihood: Once the potential human rights impacts are identified they are then prioritized according to their severity and likelihood.
 - Severity: based on the scale, scope and irremediability of the impact.
 - Likelihood: in terms of the nature of the business relationships, operating context, and the business activity.
- Integration of the results into already existing processes of the company or the creation of new processes where appropriate: Once the most salient issues are identified, an analysis is carried out to evaluate the existence of mechanisms in place to prevent, mitigate or remediate the potential impact, accordingly. When mechanisms are already in place, we evaluate whether they need further development or reinforcement.

Key areas of the Group, such as Sustainability, Internal Audit, Human Resources or Risk Management in coordination with the Compliance process are involved in designing due diligence processes, along with dialogue with relevant stakeholders and our local clusters – one of our most valuable tools to perform this process.

These clusters are areas of cooperation created with the aim of promoting a sustainable production environment within a core geographic region to facilitate development of Inditex's business model, framed by strict compliance with fundamental labour rights. We have clusters in our main sourcing markets to cover 96% of our supply chain. Each cluster includes an Inditex team dedicated to the due diligence process in the field of human rights. Specifically, these teams cooperate with local stakeholders from unions, NGOs, worker associations, governments, and civilian associations to foster engagement with our suppliers and manufacturers. In the past years, 12 countries were responsible for the due diligence process in the field of human rights across Inditex's supply chain, in partnership with numerous external and internal collaborators.

This due diligence is continuously reviewed and updated and informs our social sustainability strategy for the responsible management of the supply chain. The latest version of this strategy – Workers at the Centre⁵ - is based on the premise of understanding and responding to the needs of workers, their families and the communities in which they live, to foster decent work and sustainable working environments. It highlights four priority impact areas which are closely related to the prevention of forced or involuntary labour, namely: protection of migrants, women's empowerment, social protection and protection of workers' rights in the production of raw materials.

⁵ <https://www.inditex.com/documents/10279/664163/Statement+on+non-financial+information.pdf/1ee4c16c-9622-0ca1-d3d0-ce287ee131a5> (page 113 to 127)

Grievance Mechanisms⁶:

Inditex's grievance mechanism is underpinned by the Ethics Line which is managed by the Committee of Ethics. It is available to any employee, manufacturer, supplier or third party with a direct relation and a lawful business or professional interest at all levels and in all geographies and can be used in an anonymous manner. It can be used to report any concerns about wrongdoing or malpractice relating to breaches of the Group's Codes and internal regulations of conduct by employees, manufacturers, suppliers or third parties with whom Inditex is engaged in an employment, business or direct professional relationship. The Committee of Ethics is responsible for launching any necessary investigation, and for proposing the relevant remediation, prevention, and awareness-raising measures. The Line works on the basis of confidentiality and non-retaliation.

When accepting our Code of Conduct for Suppliers and Manufacturers⁷, suppliers must post a copy in all the facilities in their supply chains available for factory workers in their local language. These actions are verified through our social audits. The Code includes the relevant information for workers to directly contact the Ethics Line. Our Ethics Committee will analyze, evaluate, take the necessary steps in order to address any information arriving to the Ethics Line, and remediate any human rights abuse in case it is needed.

Furthermore, since 2007, Inditex holds a Global Framework Agreement with IndustriALL Global Union⁸, an international union federation representing more than 50 million worker members of almost 600 unions worldwide. The agreement, renewed in 2019, is testament to the Group and IndustriALL's commitment to the promotion of labour rights in the textile and footwear industry, as well as compliance with international labour standards and our own Code of Conduct for Manufacturers and Suppliers. Our agreement and relationship with IndustriALL include mechanisms to hear and escalate issues related to working standards. We work collaboratively using social dialogue as the key mechanism for the promotion of mature industrial relations within our supply chain.

Finally, we belong to a number of different multistakeholder groups and initiatives which play an integral role in sharing supply chain challenges and risks, particularly those related to human rights,

⁶ <https://www.inditex.com/corporate-ethics>

⁷ <https://www.inditex.com/documents/10279/241035/Inditex+Code+of+Conduct+for+Manufacturers+and+Suppliers/e23dde6a-4b0e-4e16-a2aa-68911d3032e7>

⁸ <http://www.industrialunion.org/inditex>

throughout the industry. Should any potential impacts arise, we collaborate with different sectorial initiatives to collectively prevent, mitigate or, where necessary, remediate such impacts.

Supply chain management:

In addition to our Human Rights strategy, all of our suppliers and manufacturers must comply with our stringent Code of Conduct for Suppliers and Manufacturers to form part of our supply chain which explicitly outlaws all forms of forced or involuntary labour.

We have in place robust monitoring and evaluation tools and systems in order to assure that none of our suppliers are directly or indirectly engaged in labour rights abuses. We believe that working with suppliers to improve delivers the best outcome for workers, but we will also take action should suppliers not make changes when necessary. We also go further than monitoring and evaluation, and work on the basis of continuous improvement.

As part of this process, we are committed to working with expert stakeholders at both local and international levels to uphold and safeguard labour standards throughout our supply chain.

Our traceability and compliance approach which feeds our due diligence process is applied throughout the entire supply chain, including all tiers and processes, and therefore provide relevant insights on the supply chain reality, its main challenges and areas requiring improvement. We do this through three main actions: traceability strategy, compliance assessment and remediation and continuous improvement.

➤ Traceability strategy⁹

This consists of the steps we are taking to have visibility of our supply chain and it is based on three main pillars: raising awareness among suppliers, supplier traceability management, and traceability audits.

- Raising awareness among suppliers: All suppliers are required to embrace the Group's sustainability policy as a pre-requisite to be able to produce the items that Inditex places on the market. Criteria used are stringent to ensure a sustainable supply chain which protects and upholds human and labour rights, as well as environmental standards. Suppliers are provided with training, awareness-raising and support, to jointly have a positive impact on the entire supply chain and use leverage within the industry to uphold these stringent standards.

⁹ <https://www.inditex.com/documents/10279/664163/Statement+on+non-financial+information.pdf/1ee4c16c-9622-0ca1-d3d0-ce287ee131a5> (page 185)

- **Supplier traceability management:** Suppliers must register in our traceability management system every factory that they intend to use for each stage of production. These units must each undergo the Inditex screening process to be approved and authorised for every order. This requires suppliers to identify the factories which will be involved in production, detailing processes used and facilities from raw material processes to finished product.
- **Traceability audits:** The traceability team monitors the assignment of manufacturers by the suppliers in each order placed. Based on this analysis, traceability audits are triggered, the methodology of which is continuously strengthened. The main aim is to verify in situ that the Group's production is undertaken in the factories and units declared by the supplier and authorised by Inditex. The traceability audit methodology features two-steps:
 - The first step comprises an unannounced visit to the factory's facilities to verify the production processes it can carry out, ongoing production and completed production.
 - In the second step, the result of the visit is compared with the information recorded by the suppliers in the platform (traceability management system), to demonstrate that both the processes and the units completed by the factory align with what was declared and approved.

Repeated traceability noncompliance can lead to terminating the relationship with the supplier.

➤ **Enhancing labour rights within the raw materials supply chain**

Inditex relies on a strategy to protect labour rights upon producing raw materials. This strategy was consolidated within the framework of the "Workers at the Centre" programme. The Group takes a holistic approach regarding the protection of the rights of the workers involved in such production, joining forces with several actors, including local and international organizations, and communities themselves. By way of an example, in order to foster sustainability across the cotton supply chain, Inditex collaborates with other experts in the sector, such as the International Labour Organization (ILO), Textile Exchange or Organic Cotton Accelerator. Of note, beginning in 2017 Inditex funded a public private partnership (PPP) with the ILO¹⁰ to promote the wellbeing of the workers involved in the production of raw materials, in particular of cotton. The PPP seeks to promote the fundamental

¹⁰ https://www.ilo.org/islamabad/whatwedo/projects/WCMS_647836/lang--en/index.htm

labour principles and rights in cotton-producing communities and contribute to the sustainability of the cotton supply chain. So far Inditex has collaborated with the ILO in cotton producing regions in China, India, Pakistan and Mali. For example, training programmes were launched in cotton farming communities in Pakistan¹¹ to raise awareness of fundamental labour rights, social dialogue, applicable laws and regulations as well as specific health and safety issues. <https://www.inditex.com/en/how-we-dobusiness/right-to-wear/partnerships>.

➤ **Compliance assessment**¹²

Prior to becoming part of Inditex's supply chain, every potential supplier and manufacturer is subject to a pre-assessment audit, to verify that no violation of human rights of its workers exists, and to ensure that only those who meet the Group's sustainability standards may become part of the supply chain. During pre-assessment audits, one of the elements reviewed is the prohibition of forced labour.

Should a supplier or facility pass a pre-assessment audit to become part of Inditex's supply chain they will be subject to periodic social audits in order to verify the level of compliance with the Code of Conduct for Manufacturers and Suppliers. Social audits can be conducted both by Inditex teams and renowned approved external auditors. Each audit includes tools allowing for the identification of any form of forced labour, and for the verification of issues such as retention of documentation, freedom of movement and the termination of agreements, the use of agents for recruiting staff and their relationship with the workers, including any potential payment of hiring fees, among others. Audit methodology is constantly reviewed and updated to include best practice. Suppliers continue to receive training in order to strengthen compliance with the Code of Conduct

➤ **Remediation and continuous improvement**¹³

Inditex works on the basis of continuous improvement meaning that remediation is an integral tool in the sustainable management of the supply chain and the protection of workers through respect and promotion of human and labour rights.

Should any breach of the Code be identified at a supplier or facility in Inditex's supply chain through an audit, a Corrective Action Plan is launched with different time frames attached depending on the severity of the breach. In addition to Inditex teams, other stakeholders such as NGOs, trade unions or other civil society organisations can be involved in the setting and implementation of these plans. We

¹¹ https://www.ilo.org/islamabad/info/public/pr/WCMS_646286/lang-en/index.htm

¹² <https://www.inditex.com/documents/10279/664163/Statement+on+non-financial+information.pdf/1ee4c16c-9622-0ca1-d3d0-ce287ee131a5> (pages 189 to 192)

¹³ <https://www.inditex.com/documents/10279/664163/Statement+on+non-financial+information.pdf/1ee4c16c-9622-0ca1-d3d0-ce287ee131a5> (page 191)

believe that working with factories to improve delivers the best outcome for workers. However, should a supplier or facility not be willing to make necessary improvements we take action.

We also continuously strengthen our engagement with stakeholders at every level of the supply chain to prevent any kind of forced labour. These stakeholders include the Ethical Trading Initiative, the International Labour Organization or IndustriALL Global Union¹⁴, among other international and local organizations.

In summary, Inditex is committed to preventing forced labour at every level in its garment and textile supply chain. We also strongly believe that this individual commitment can be significantly strengthened through a collective approach that includes governments, industry, civil society and other stakeholders. We hope that we will continue to engage with you and expert stakeholders at both local and international levels to uphold and safeguard labour standards in supply chains.



JAVIER LOSADA

Chief Sustainability Officer

¹⁴ <https://www.inditex.com/how-we-do-business/right-to-wear/partnerships>