

**SUSTAINABLE AND RESPONSIBLE MANUFACTURING.
INDITEX PERSPECTIVE**

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2. SUSTAINABLE AND RESPONSIBLE MANUFACTURING. INDITEX PERSPECTIVE

Beyond the commitment to provide our customers with high quality articles, which are compliant with the most stringent health and safety regulations worldwide and manufactured in a responsible and a sustainable way, Inditex drive for protecting the environment and natural resources has been a core value of the group from the outset. Under the umbrella of the Sustainable Inditex Strategy, the company is focused on making further progress on integrating sustainability into the Group's supply chain.

This progress has materialized in the *Global Water Management Strategy*, which includes our Zero Discharge of Hazardous Chemicals pledge for 2020 as part of the initiative being championed by Greenpeace.

All of this has inspired the creation of inditex Green Code which applies environmental compliance assessment and control criteria to Inditex' manufacturing principles, as applied in the supply chain.

3. GREEN CODE

The Green Code is designed to bolster the adoption of environmentally sound policies for selecting, improving or substituting the industrial processes used in Inditex' supply chain. It is integrated within Inditex' Minimum Requirements statement¹ and it includes criteria for evaluating suppliers on their environmental performance.

The Green Code has the following objectives:

- To understand in depth the environmental issues specific to each productive stage and process of Inditex supply chain.
- To identify, control and reduce the environmental risks associated with the supply chain.
- To establish programs and tools for improving environmental performance throughout the supply chain.
- To anticipate and respond to the environmental concerns of the stakeholders.
- To anticipate and respond to more stringent environmental regulations in the future.

¹ Inditex Minimum Requirements is a compilation of all Inditex Standards of mandatory compliance for the suppliers including chemical restrictions, among others. Inditex Minimum Requirements must be signed by the supplier in order to be included in Inditex's production chain.

With regards to the progress towards achieving the Zero Discharge objectives, the Code is implemented through the *Guide on the use of chemicals in productive processes in order to achieve the zero discharge target*.

Inditex is fully committed to the goal of reaching Zero Discharge of Hazardous Chemicals in the manufacturing processes of its value chain by 2020. In accordance with the Zero Discharge commitment, the solutions advanced are focused on:

- the identification of hazardous chemicals using a hazards based, precautionary approach, with respect for the Right-to -Know of local populations and final consumer
- the elimination of the use of these substances at origin, as opposed to at the end of the manufacturing process, and
- the substitution of the hazardous substances for safer alternatives.

As a consequence of this focus on prevention of use, Inditex suppliers, and their manufacturing units involved in their supply chains, must have available a complete inventory of all the chemicals used in their units, and must manage them in an adequate and responsible way, so as to comply with the indications of the *Ready to Manufacture* code of manufacturing.

4. GUIDE ON THE USE OF CHEMICALS IN PRODUCTIVE PROCESSES IN ORDER TO ACHIEVE THE ZERO DISCHARGE TARGET

Inditex's guidelines on the use of chemical substances in its supply chain stipulate restrictions on the use of certain substances in manufacturing processes that must be upheld by all our suppliers. These guidelines comply with the prevailing international laws on the use of chemical substances. Additionally, they make use of the precautionary principle on a hazard based approach and the results of research performed by Inditex scientific and technological partners.

To ensure compliance with our zero discharge of hazardous chemicals pledge across Inditex's supply chain, the Group carries out audits and implements corrective action plans where necessary, as well as continually monitoring the products it sells.

The main goal of the guidelines on the use of chemical substances in Inditex's manufacturing processes is to achieve zero discharge of hazardous chemical substances from Inditex's

supply chain by 2020².

The guidelines on the use of chemical substances in Inditex's manufacturing processes are based on the following programs and tools that must be upheld by manufacturers and suppliers:

- List of restricted product substances in articles. Inditex regulates the use of chemical substances in its products under its Clear to Wear standard (see RSL).
- List of restricted substances in manufacturing. In addition to the substances regulated in the Clear to Wear protocol, Inditex bans its factories and suppliers from using other hazardous substances, or materials containing hazardous substances, in the product manufacturing processes (see MRSL).
- Promotion of chemical substances based on green chemistry³. There are numerous alternatives for substituting substances. Suppliers and manufacturers are obliged to use alternative products in their processes that are free of the substances banned by Inditex (see The List by Inditex among others).
- Adequate management of chemicals in the manufacturing process. All chemical products must be handled, transported, stored, monitored, recycled/reused and eliminated in the prescribed manner. Chemical product containers must be correctly labelled and the substances' safety data sheets readily available (see RTM among others).
- Adequate water management. Manufacturers and suppliers must supervise the water used in their business operations with a view to rationalizing its use. Waste water must be handled adequately and treated before discharge. Raw wastewater must be tested upstream of any treatment to inform the compliance with the MRSL requirements and the Clean Factory approach and allow progress monitoring and corrective action.

² For more details on Inditex Zero Discharge Commitment, please go to http://www.inditex.com/documents/10279/91101/Inditex+GP+Detox+Solution+Commitment_EN+G.pdf/3acf9338-10a4-4fc9-b5e7-245ae6cdcc72.

³ This program is related exclusively on chemicals management, to see other programs focused on other aspects of Green Chemistry please go to <http://www.inditex.com/en/sustainability/environment>.

5. PARTNERS, INSTRUMENTS, AND STEPS TOWARDS ZERO DISCHARGE

5.1 Partners

Inditex approach to achieving the Zero Discharge of Hazardous Chemicals involves a great deal of teamwork with external scientific, technological and supervisor partners:

- *Scientific partners* scan and analyze the relevant literature and regulations on the health and environmental effects of the substances used in the manufacturing of apparel and footwear. They also carry out research projects aimed at determining the origins and toxicity levels of specific substances, to carry out substitution programs of substances or manufacturing processes. Our main partners in these tasks are the Universities of Santiago de Compostela and A Coruña and the Politechnic University of Catalonia.
- *Technological partners* design commercially viable substitutions processes or materials, based on the information provided by the research programs. Our main partners in this task are Technical Advice, S.L., Pulcra Chemicals, S.L., and the Asociación Española de Químicos y Coloristas Textiles.
- *Supervisor partners* provide the analytical and testing capabilities required to supervise the compliance of the products and installations with the RSL and MRSL. Our main partners in this task are, STS (Sustainable Textile Solutions), SGS, TÜV SÜD, Bureau Veritas, Intertek, and UL.

5.2 Instruments

Regarding the key instruments to be developed and used in fulfilling the goals of the Zero Discharge commitment, Inditex stresses the following:

Communication and transparency

In keeping with our commitment to transparency and credibility, Inditex discloses its Production Chain Water Master Plan on www.wateractionplan.com. This website aims to provide a dynamic, up-to-date, and accessible platform for suppliers, customers and other stakeholders. It includes information on the following areas:

- Inditex's Global water management strategy
- Inditex's zero discharge pledge

- Other initiatives related to the zero discharge pledge⁴
- More specifically:
 - The detail of the disclosure of results of testing discharges of hazardous chemicals in the supply chain, performed by using the Institute for Policy and Environmental Affairs (IPE) online platform (www.ipe.org.cn/en): facility discharges data a recognized and signed by the CEO/General Manager of the facility.
 - RSL and MRSL, including all the protocols⁵ followed by Inditex to compile these lists, as well as the related information and documentation used in the process for including substances in these lists.
 - The substitution of hazardous substances or processes performed, including the relevant studies developed to achieve them.
 - The programs (tools) for chemical management across the entire supply chain:
 - Ready to Manufacture, Inditex program for wet processing units (such as: dyeing and printing mills, laundries, tanneries, among others), which establishes and supervises Good Manufacturing Practices related to the use of chemical substances and formulations in these installations.
 - The List, by Inditex, Inditex program for Chemical Suppliers of dyestuff, pigments and auxiliary chemicals, which classifies thousands of commercially available chemical products according to:
 - their level of compliance with the RSL and MRSL, as established annually by chemical analysis of several of their production batches,
 - the level of compliance of the installations in which the chemical formulations are manufactured with responsible environmental practices, as established by audit visits,

⁴ All Chemical programs are key instruments in both Global Water Management Strategy and Global Product Health Compliance Strategy

⁵ For more details on the protocols followed by Inditex, please refer to document titled "Methodology for the screening of substances to be used in manufacturing and accompanying policies".

- the mechanisms for controlling the quality of raw materials and finished formulations implemented in the manufacturing installations, as established by audit visits.

Skills training in the supply chain

With a view to enhancing the environmental performance of our supply chain, Inditex works closely with its suppliers on a skills training program for the employees in charge of environmental management and health and safety compliance at each facility.

Building focused teams

In cooperation with our main scientific partners, Inditex has set up stable teams charged with the tasks of:

- *Compilation, updating and revision of the MRSL/RSL.*
 - *RSL.* In cooperation with the University of Santiago de Compostela, Inditex has set up a team of 6 chemists (five Ph. D. and one M. Sc.) dedicated to continuously scanning the relevant national and international regulations applicable in all the markets where Inditex has commercial presence. The output of the work of this team is channeled into the compilation of updated/revised versions of Inditex Product Health Standards:
 - Clear to Wear, for textile and footwear articles,
 - i+Cosmetics, for cosmetic articles,
 - i+FCM, for food contact material articles,which contain the Restricted Substance Lists with which all articles commercialized by Inditex must be compliant.
The latest versions of these manuals (RSLs) have been published in 2016.
 - *MRSL.* In cooperation with the University of Santiago de Compostela, Inditex has set up a team of 2 Ph. D. chemists dedicated to evaluate the toxicity and toxicological information available for the substances included in the RSL and MRSL, as well as for the candidates selected for inclusion in the lists.

- *Toxicity studies*

In cooperation with the University of Santiago de Compostela, Inditex has set up a team of 4 biologists (two Ph. D. and two B. Sc.) to develop and implement a

quantitative toxicity screening methodology⁶ to determine the levels of toxicity of banned and non-banned⁷ substances, to guide the substances and processes substitution studies.

- *Establishing the origins of banned substances in manufacturing processes*

In cooperation with the University of Santiago de Compostela, Inditex has set up a team of 3 mathematicians (two Ph. D and one M. Sc.) and 2 chemists (Ph. D) to develop methods to establish how processes in the textile and footwear manufacturing industry, as well as in their supply industries, may give rise to banned substances, to guide the substances and processes substitution studies.

- *Developed focused, cleaner alternative manufacturing methods or technologies*

In cooperation with the Polytechnic University of Catalonia, Inditex has set up a team of three textile engineers (one Ph. D. and two M. Eng.) to develop cleaner methods for leather processing.

- *Evaluation and data mining of test results*

In cooperation with the Universities of Santiago de Compostela and A Coruña, Inditex has set up a team of 5 mathematicians (4 Ph. D. and one M. Sc.) to develop statistical tools for evaluation of the test results of the analysis performed on articles, substances and effluents.

- *Design of commercially viable substitutions for specific manufacturing processes*

In cooperation with Technical Advice, S.L., the Sociedad Española de Químicos y Coloristas, and Pulcra Chemiclas, S.L., Inditex has set up a team of 5 technologists (textile and chemicals engineers) to develop processes to substitute, for instance, the use of PFCs in hydrophobic textile finishes

⁶ A non-banned substance is selected as a candidate to the determination of its level of toxicity based on: 1) specific definition of hazard after a comprehensive revision of the literature; and, 2) those substances for which there is no available reliable toxicity information carry out an ad hoc experimental determination of their toxicity by using the best available techniques. For more details on Inditex screening method please refer to chapter 2.2 Screening methodology of substances for their inclusion in the MRSL from document titled Methodology for the screening of substances to be used in manufacturing and accompanying policies.

⁷ Inditex Chemical Toxicity Screening methodology classifies banned or non-banned substances according to legal restrictions and other restrictions above and beyond any regulation if toxicity is proven after fulfilling all criteria included in the aforementioned Screening methodology. For more details on Inditex screening method please refer to chapter 2.2 Screening methodology of substances for their inclusion in the MRSL from document titled Methodology for the screening of substances to be used in manufacturing and accompanying policies.

Building analytical and testing strength

In cooperation with SGS, TÜV SÜD, Bureau Veritas, UL, Intertek and other reputed international analytical service providers, Inditex build up a network of more than 50 laboratories in 3 continents to check our articles, the substances used in their manufacturing, as well as the samples of the effluents taken from our supply chain.

Building technical audit strength

In cooperation with STS, Inditex has set up audit teams in charge of the technical evaluation of the wet processing units used by our suppliers. These teams are charged with the responsibility of finding the specific root cause of any non-compliance detected with our RSL and MRSL.

5.3 Steps

Evaluation of compliance of articles with the RSL

A detailed description of the specific procedure followed to control quality and product health and safety issues during manufacturing is provided below to further clarify Inditex philosophy and praxis in these matters:

- Following the directions of the Reasonable & Responsible Testing Program, a dedicated team from Inditex Sustainability Department selects a number of articles to be tested during manufacturing.
- A Third Party Certifier is contacted and instructed to send inspectors to the manufacturing factories to pick up to 18 representative samples of the production of the selected articles and send them for analysis to Third Party Analytical Services Providers.
- The production samples are analyzed for the relevant product health parameters (as established by Inditex standard *Clear to Wear*, which contains Inditex RSL) and the results are sent to the Sustainability Department at Inditex headquarters (Spain). The dedicated Sustainability team takes the appropriate action course if any non-compliances are detected.
- The Third Party Certifiers are highly reputed international Certifiers which possess great experience and a global network of inspection offices and laboratories in the

main production countries. The Third Party Certifiers currently used by Inditex are: SGS, Bureau Veritas and TÜV SÜD.

6. IMPROVING COMPLIANCE WITH THE RSL AND MRSL.

Inditex is committed to continuously improve the level of compliance of all units in its supply chain with the RSL and MRSL. Inditex recognizes that the best and more thorough approach to achieve this goal is by “cleansing” the manufacturing units of the supply chain. This “Clean Factory Approach” is implemented in the supply chain mainly through three programs pioneered by Inditex: *The Ready to Manufacture*, *The List*, by Inditex and The Green To Wear programs.

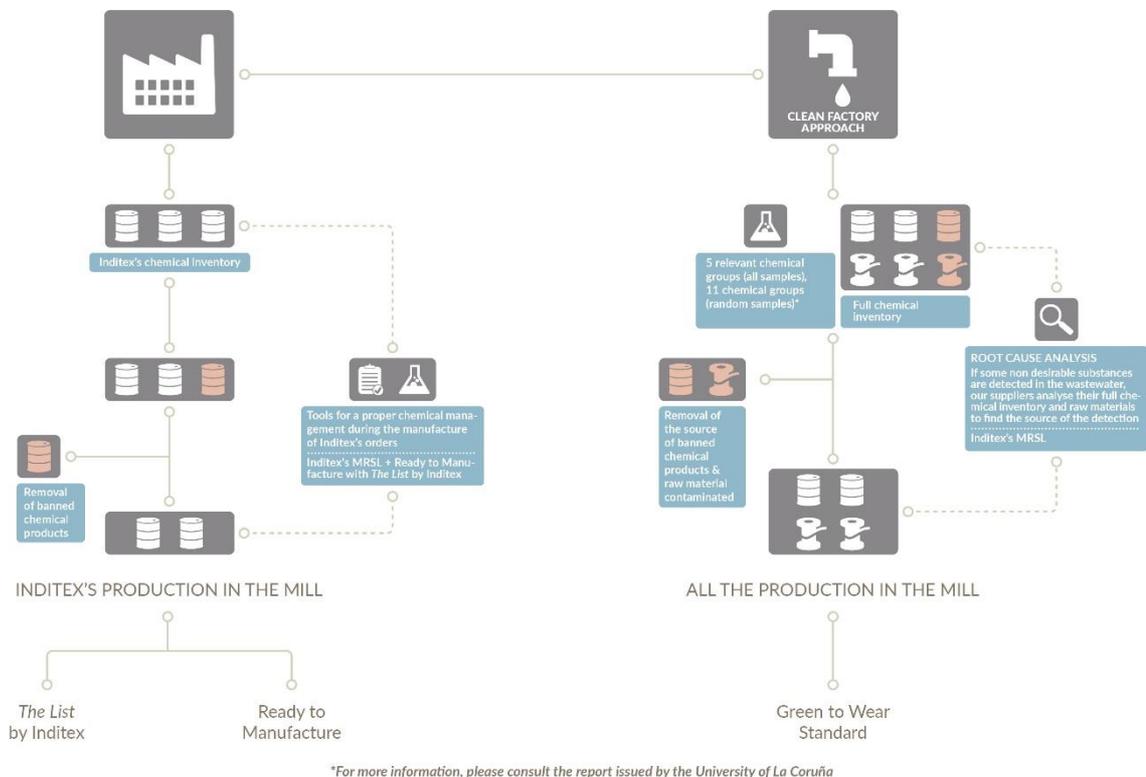


Figure 1: Clean Factory Approach

6.1 The Ready to Manufacture program

Ready to Manufacture is a Good Manufacturing Practices program aimed at wet processing units (such as: dyeing and printing mills, laundries, tanneries, among others) of the supply chain.

The Ready to Manufacture (RTM) is the Inditex Good Manufacturing Practices (GMP) program for the processes of dyeing, printing, washing and finishing textile and leather

articles, with emphasis on how to select adequate chemical products and apply them without generating health and environmental hazards, as well as a program for training, monitoring and evaluating the correct implementation of those GMPs in the supply chain. RTM is intended specifically to prevent the inclusion or production of hazardous substances during product manufacturing as a consequence of the technological processes or the composition or quality of the chemical substances used.

Ready to Manufacture consists of two instruments:

- The Guide to Good Manufacturing Practices is oriented towards guaranteeing the traceability of the items manufactured in the wet processing units (dyeing and printing mills, tanneries and laundries). It has been elaborated in collaboration with the best professionals in the fields of dyeing, printing, tanning, washing and finishing textile and leather items, and it has been widely regarded as a positive contribution to the sector⁸.
- The training and audit protocols in the Guide provide information and training directly in the facilities which comprise the value chain of the suppliers. In this way, the implementation model is adapted to the specific conditions of each facility and to the level of experience of the personnel working in them.

After the processes of training and auditing, the facilities are classified as Green, and Red, depending on the level of implementation and compliance with Ready to Manufacture and corrective or improvement programs are designed for the facilities that have not reached adequate results⁹.

Up to 2015, more than 1.500 audits to wet processing units had been performed to check for their compliance with the RTM program.

⁸ RTM has made a positive contribution to the sector in the following levels: 1) at the manufacturing level by reducing the right first time, the non compliance and the chemical consumption; 2) at the suppliers level by establishing a proactive tool focused on factories selection according to their good performance.

⁹ Apart from being a verification tool on the production chain performance, the RTM classification is also a valid instrument to be used by the Commercial Department in order to decide - in a proactive way - in which suppliers to place the order.

6.2 The List, by Inditex program

The List, by Inditex is the Group's response to the most common cause of non-compliances with the RSL or MRSL: the use of dyestuffs, pigments or auxiliary chemicals of inadequate quality or composition for the manufacturing of apparel and footwear articles.

The List, by Inditex represents the first time that an international fashion retailer proactively tackles this problem and drafts a research program and quality controls for products and processes which lay outside of what is traditionally considered as the textile manufacturing chain¹⁰. In doing so Inditex has assumed a leading role by directly interacting with the chemical industry sector which manufactures dyestuffs, pigments and auxiliary chemical products for the textile and footwear manufacturing industries.

The List, by Inditex has four objectives:

- To analyze the colourants and auxiliary products commercially available and to classify them according to the levels of hazardous substances that they contain.
- To audit the facilities and processes used in the manufacture of the commercial chemical products to verify that they comply with the most demanding international regulations related to health and environmental control.
- To evaluate the commitment of the chemicals supply companies with excellence in manufacturing, sustainability and environmental respect in the production of their products.
- To work together with the chemical industry to bring about improvements in their formulations, the manufacturing procedures and the control of the quality of their products, in order to raise the levels of compliance with the RSL and MRSL. Additionally, to promote research and development in the chemical sector in order to new developments on safer chemical alternatives

In the practical implementation of *The List, by Inditex*, commercial dyestuffs, pigments and auxiliaries are subjected to tests and assessed based upon their contents of controlled substances listed in the RSL and MRSL. Once the products have been tested and the

¹⁰ The List is based on the following principles: 1) prevention principle because it forbids the use of hazardous chemicals and 2) transparency because discloses publicly the information.

manufacturing processes and installations audited and assessed, the products are classified as “A” (no residue of the controlled substances), B (low probability of residue of the controlled substances) or C (unacceptable levels of the controlled substances). The use of products classified as B in the manufacture of items for Inditex is subject to severe restrictions, including an exhaustive analysis of the finished articles produced. The use of products classified as C is prohibited. The products classified as A can be used freely.

The List, by Inditex is updated once yearly, with a full evaluation of the listed products being performed.

In its latest version, *The List, by Inditex* includes the classification of more than 8,000 commercial products, manufactured by the 15 largest chemical suppliers worldwide.

7. EVALUATION OF THE COMPLIANCE WITH THE DISCHARGES OF THE WET PROCESSING UNITS WITH THE ZERO DISCHARGE COMMITMENT

Following the signature of the Zero Discharge commitment, a program was set up for taking effluent samples of selected wet processing units in the more critical Inditex manufacturing hubs, namely China, India, Bangladesh and Pakistan. The raw wastewater samples were picked up by Third Party certifiers and analyzed at one of their laboratories for the presence of any substance included in the MRSL. The results of the analyses are sent to Inditex Sustainability Department for appropriate action.

The Certifiers currently performing the testing of effluent samples are SGS, Intertek, Bureau Veritas and TÜV SÜD.

Additionally, Inditex shall audit the wet processing units to check the compliance of their inventories of Commercial Chemical Formulations (chemical products) with *The List, by Inditex*, and their manufacturing practices with the Ready to Manufacture program.

8. DISCLOSURE OF DISCHARGES OF HAZARDOUS CHEMICALS

Fully transparent public disclosure of discharges of hazardous chemicals in the supply chain is performed by using the Institute for Policy and Environmental Affairs (IPE) online

platform (www.ipe.org.cn/en): facility data and discharges data recognized and signed by the CEO/ General Manager of the facility.

9. PHASING OUT AND/OR SUBSTITUTION OF HAZARDOUS CHEMICALS

Inditex has developed two types of protocols for phasing out hazardous substances:

- *Immediate substitution of hazardous chemicals included in the RSL or MRSL, found in the supply chain, for which proven safer substitution substances or processes are known.*
- *Put in place time-bound research, development and innovation actions to search for adequate substitutes of the hazardous chemicals, found in the supply chain, for which less hazardous replacement substances are not yet available.*

10. UPDATES OF RSL AND MRSL

As detailed above, Inditex has two dedicated teams focused on the evaluation of the toxicity and toxicology information available on the chemicals included in the RSL and MRSL, as well as on substances which may be considered as candidates for inclusion in the RSL and/or MRSL (updated once a year¹¹).

¹¹ To consult the latest RSL version, please refer to http://www.inditex.com/en/sustainability/product/health_quality_standards. To consult the latest MRSL version, please refer to http://www.wateractionplan.com/documents/186210/186312/RSL_MRSL_Inditex_ENG_v7.pdf/faa2e964-ecdc-4367-8044-03cf98992710