

## California Transparency in Supply Chains Act

Pull and Bear (ITX USA, LLC) part of the Inditex Group is 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.

This Statement, made pursuant to the California Transparency in Supply Chains Act 2010 (SB657), addresses the measures that the Group relies on to prevent and mitigate the risk of modern slavery and human trafficking.

This Statement constitutes “Inditex Group Modern Slavery and Human Trafficking Statement” for the financial year 2017, ended on 31st January 2018, and refers to Industria de Diseño Textil, S.A. (Inditex, S.A.) and its subsidiaries (“Inditex” “the Group” or “Inditex Group”).

Below please find a summary of Inditex’s programs and initiatives. To see the full statement please click [here](#).

For Inditex, it is essential to rely on a socially responsible supply chain where the fundamental Human and Labor rights of each person within it are respected. In this regard, work is based on two main pillars: firstly, the implementation of programs and projects that revolve around workers and their welfare. This is embodied in the [Workers at the Centre strategy](#). Secondly, the implementation of [the Strategic Plan for a Stable and Sustainable Supply Chain 2014 – 2018](#), including different measures taken regarding four action lines: identification, assessment, optimization and sustainability, in order to ensure compliance with [Inditex Group’s Code of Conduct for Manufacturers and Suppliers](#).

In 2018, Inditex’s supply chain comprised of 1,824 suppliers and 7,210 factories.

### VERIFICATION AND SUPPLIER AUDITS

In order to ensure compliance, Inditex subjects all its suppliers and factories to different procedures and assessments regarding Human and Labor Rights.

The first verification of the level of compliance with the Code of Conduct for Manufacturers and Suppliers occurs even before the supplier has commenced its relationship with Inditex. When a supplier decides to propose a new factory, a preliminary assessment known as pre-assessment is conducted, to verify that there is no risk of violation of Human Rights of its workers. One of the items reviewed is the existence of forced labor. In 2017, Inditex has performed 2,253 preassessments, as a result of which 79% of new factories were approved.

Every supplier and factory in Inditex’s supply chain is subject to periodic social audits. Such audits are carried out according to Inditex’s own methodology, jointly designed with the international federation of the industry, IndustriALL Global Union the Cambridge Centre for Business and Public Sector Ethics and the University of Northumbria (UK).

Social audits are conducted without prior notice by both external and internal auditors. Each audit includes tools allowing to identify any form of forced labor, and verify such issues as retention of

documentation, freedom of movement and the termination of the agreement, the use of agents for recruiting staff and their relationship with the workers, including payment of fees, among others. 4,215 social audits were performed throughout FY2017.

Inditex also conducts special audits, which focus on verifying compliance with a certain section of the Code of Conduct for Manufacturers and Suppliers, where a potential breach is detected, for the purposes of preventing, monitoring or remedying any risk.

Discovery of a compliance breach triggers the immediate rollout of a corrective action plan that imposes stringent targets and timelines. During FY2017 a number of 2,159 special audits were performed.

Given Inditex's zero tolerance on forced labor and human trafficking, if the breach is not corrected, Inditex will cease its business relationships with the supplier.

Inditex also engages in "beyond auditing" initiatives to monitor and optimize its supply chain, such as the Global Framework Agreement with the International Federation of Trade Unions IndustriALL, signed in 2007, which allows joint actions with local trade unions to uphold workers' rights, including the right to work freely.

## **INTERNAL ACCOUNTABILITY AND CERTIFICATION**

Inditex applies a zero tolerance policy on slavery, human trafficking and any form of forced labor in its supply chain. This Policy is covered in the Code of Conduct for Manufacturers and Suppliers, implemented in the Group's internal regulations and in its commitments in the area.

### **Policies and Internal Regulations**

- **[Policy on Human Rights of Inditex Group](#)**: Following the United Nations Guiding Principles on Business and Human Rights, the Policy on Human Rights sets forth Inditex's position with regard to its commitment to respecting internationally recognized Human Rights, and it lays down such values and principles that will serve as a guideline to all its business activities.
- **[Code of Conduct and Responsible Practices of Inditex Group](#)**: Inditex Group's Code of Conduct and Responsible Practices is the main policy that inspires and governs all the Group's operations and stipulates the binding principles that apply in each and every area of its activities.
- **[Code of Conduct for Manufacturers and Suppliers of Inditex Group](#)**: Upon commencing work for Inditex, all direct suppliers accept and undertake to meet Inditex Minimum Requirements, which include compliance with the Code of Conduct for Manufacturers and Suppliers, which explicitly prohibits slavery and human trafficking and is complemented by national laws and international standards.

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

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

## **Commitments and Initiatives**

- Commitment to Ten Principles of United Nations Global Compact
- Commitment to the Sustainable Development Goals (SDGs)
- Ethical Trading Initiative (ETI)
- Global Framework Agreement with IndustriALL Global Union
- Collaboration with ILO's 8.7 Alliance
- Participation in the Decent Work in Supply Chains Action Platform by United Nations Global Compact

More information about our commitments and initiatives on <https://www.inditex.com/en/how-we-do-business/right-to-wear/human-rights>

## **Human Right Strategy**

Inditex's Human Rights strategy relies on three pillars: policy commitment, due diligence and grievance mechanisms. Further to the approval of the Policy on Human Rights in 2016, progress has been made throughout 2017 to implement the strategy.

Additionally, priority areas have been identified and defined in the supply chain in respect of which programs and strategies have been created following an essential premise: placing "[Workers at the Centre](#)".

During 2017, three priority areas have been identified to further the efforts made to oversee the supply chain regarding forced and involuntary labor: protection of migrants, women's empowerment and supply chain of raw materials.

### **1. Protection of Migrants**

Inditex does not allow any form of exploitation of the works in its supply chain and pays special attention to working conditions of migrants.

In 2017 we have continued rolling out the remediation programs for migrants and refugees in Turkey launched in 2016, in close collaboration with non-profit Refugee Support Centre/MUDEM. Together with this NGO, we treat each case individually, considering the employment status of each migrant detected in the supply chain in Turkey, attending to both their own needs and those of their families, and supporting them to ensure their welfare.

Furthermore, a roundtable for suppliers entitled "Integration of the Syrian Refugees under Temporary Protection into the Turkish Labor Market" was organized together with Ethical Trading Initiative, local NGOs reporting to the United Nations High Commissioner for Refugees (UNHCR) and ITKIB-Exporters' Association, with the goal of training and raising awareness among suppliers

in the field of refugees, regular work, existing regulations regarding work permits and initiatives and programs made available by UNHCR. The roundtable was attended by 90 of Inditex's suppliers and revolved around the importance of labor market integration of refugees.

## **2. Women's Empowerment**

The large majority of workers in the global garment supply chains are women.

Based upon SDG 5, that seeks to ensure gender equality and empowerment of women and girls, a [Strategy for the Empowerment of Women in the Supply Chain](#) was approved in 2017, based upon three main pillars: Empowerment, Health and Protection.

## **3. Raw Materials**

Raw materials are a key element in the manufacturing of the finished products that Inditex sells. Cotton, being one of the most used textile fibers globally, represents a challenge in terms of traceability considering the fragmentation and geographical spread of the industry from the spinning process and the subsequent preparation of the fabric, which may give rise to a potential situation of vulnerability of labor rights of the workers involved in the different production processes.

Inditex does not use cotton sourced in Uzbekistan and Turkmenistan. In this regard, the Group has worked with the Responsible Sourcing Network's Cotton Campaign Platform, having previously adhered to the Cotton Campaign, a global coalition of human rights, labor, investor and business organizations dedicated to improving the working conditions of the cotton sector in Uzbekistan and Turkmenistan.

In 2017, a Public-Private Partnership has been executed with the International Labour Organization (ILO) aimed at promoting respect for the fundamental principles and rights at work in the cotton sector.

## **Whistle Blowing Channel**

A Whistle Blowing Channel is available to all Inditex employees, manufacturers, suppliers or third parties with a direct relationship and a lawful business or professional interest, regardless of their tier or their location. This is in place in order to report any breach of Inditex's Codes of Conduct, the internal policies of the Company, or the Policy on Human Rights, by any employee, manufacturer, supplier or third party engaged in an employment, business or direct professional relationship that affects the Group, or send any queries regarding the construction or application of the Codes of Conduct or the Company's internal policies, including the Policy on Human Rights.

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

## **TRAINING AND AWARENESS**

Inditex provides company employees, who have direct responsibility for supply chain management, training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

In July 2017, specialized training was imparted by SHIFT to all the supervisors of the sustainable management of the supply chain, on how to carry out a due diligence of Human Rights according to the United Nations Guiding Principles on Business and Human Rights.

In January 2018, Inditex became a participant of SHIFT's Learning Business Program, a leading Human Rights program that brings together 18 companies of all sectors and regions worldwide, to jointly work towards implementing the Guiding Principles, under the guidance of SHIFT, a leading organization in the field of human rights.

In 2017, some 1,122 suppliers were trained on the Code of Conduct for Manufacturers and Suppliers and some 754 individual sessions carried out.

*In the upcoming years, we will continue implementing the commitments described above. We will namely make progress with the reinforcement of the identification and mitigation tools to ensure the sustainability of the entire supply chain and the collaboration with other stakeholders, with the common goal of ensuring respect for Human Rights, and particularly, the eradication of modern slavery in all its forms.*