

Dear Sir/Madam,

With regard to the article published by Duurzaam Ondernemen referring to supposed labour rights violations among our suppliers in Brazil, we would like to remark that the claim we face is a purely administrative process that has been appealed. We truly believe that one claim like that cannot be sustained. Please let us point out the following:

- i) All the cases, which are minor infringements that could be easily solved when reported, are referred to previous years, mostly 2012 and 2013, and cannot be defined as 'new'.
- ii) In any case, it is not understandable why they have not been reported previously during all these years.
- iii) Following the Law and the Inditex's Agreement, the Labour inspection had the obligation of reporting any finding to Inditex, which would have then days to solve the case.
- iv) Inditex's production represents only the 15% of the whole manufacturing capacity of the Brazilian companies mentioned in the Labour Inspection report, the rest being dedicated to other Brazilian brands.
- v) The filing presents many other inaccuracies and unfairly targets Inditex (please see below analysis about the 'findings').
- vi) For all these reasons it has been challenged by Inditex.

We truly believe that one claim like that cannot be sustained.

As a matter of fact, since 2012 Inditex has carried out more than 2,800 audits to the Brazilian companies that manufacture its products, supported by the most demanding international procedures based on our Framework Agreement with the Global Federation of Unions (IndustriALL, which represents 50 million workers in 144 Countries) and performed by prestigious international and independent agencies as Intertek, SGS and Apcer. Inditex can firmly guarantee the correct performance of this Brazilian supply chain in terms of labour standards.

As it has been mentioned beforehand, Inditex's production represents only the 15% of the whole manufacturing capacity of this supply chain, the rest being dedicated to other Brazilian brands. It is surprising both that no other brand has been appointed in this sense and the fact that in all this period since 2012 there has not been any report from the authorities. Should they be right now –even all being minor administrative cases-, it is not understandable why did they not communicate any issue on time. Mainly because Inditex's 2011 Agreement with the Labour Inspection in Brazil obliges them to do so: to communicate it, should they find any issue, and afterwards Inditex had 10 days to solve the case.

In the meantime, every Inditex audit had previously detected and, what is more important, solved these cases through the Inditex Compliance Programme.

Analysis about the 'findings'

- ✓ All of these cases are administrative infringements. There is not a single case of violation of fundamental rights.

All of the cases presented concern administrative matters that can be easily corrected when the irregularity is discovered.

With regard to the cases you refer to in your question we can confirm you that in all cases the corresponding audits have been implemented with its own correction plans.

- Employees working without a formal contract in eight different companies

- After checking the information sent by the MTE, we can only see 17 workers not registered. The information sent by the SRTE/SP does not clarify as the list of all the companies with not registered workers does not fit with actual non-compliance of in the single files of each of these companies.
- Apparently, some or many of these workers could be in the five companies that were not part of the supply chain
- Also, our the audits show that it is not eight but six companies who were actually part of the supply chain. Two of them, even being listed in the TAC suppliers' list, they were blocked for different reasons prior to manufacture any garment.
- All these six companies were audited between July 2012 and July 2014
- The audits show that there was also one not registered worker issue in 2013 that was of course solved.
- None of these eight Companies work anymore in the scope of Inditex. They have left to be suppliers between December 12 and July 14.

- Companies with excess of working hours

- We could only confirm 16 of the Companies with these issues from the information sent by the MTE.
- One of them is blocked and never manufactured in the supply chain.
- Of the other 15, one does not work anymore in the supply chain.
- The audits for the other 14, suggested to two of them correction plans to eliminate any excess of working hours, which has been implemented.
- No other issues remain in this sense

- Companies with FGTS debts

- In this case we could confirm all the 23 companies listed by the Labour Authority.
- Six of them were blocked and never manufactured in the supply chain.
- The other 17 have been audited between July 2012 and April 2015.
- These audits also have found and corrected five FGTS debts.
- Six of these companies with no major current issues remain in the supply chain.

- Companies with Health and Safety deficiencies

- We can confirm that the audits of all these companies have been performed correctly and on time and that the audits show a permanent task for improving health and safety standards.

✓ Current situation: only 34 of the Brazilian companies mentioned in the report work in our supply chain.

Zara currently only works with 34 of the 62 Brazilian companies the SRTE/SP's orders concern. Zara can confirm that there are no relevant irregularities, as shown by the audit reports produced by international firms that specialise in such inspections: SGS, Intertek and Apcer.

SOMO Report

In this same line, the SOMO and Repórter Brasil report that you mention reviews the efforts carried by Inditex since 2012 to guarantee the correct performance in terms of labour rights in the Brazilian companies that manufacture its

products. It is completely unlinked to the Labour inspection, and it is important to insist on saying that Zara only represents a 15% of the production of these companies.

Indeed, the SOMO Report benchmarks the efforts and procedures implemented as a reference model in reviewing the supply chain. We kindly ask you to review the conclusions of the report itself (From moral responsibility to legal liability?, Stichting Onderzoek Multinationale Ondernemingen (SOMO), May 2015, Page 55; <http://www.somo.nl/>):

7.1 Improvements and persisting issues

- The slave labour scandal in workshops producing for Zara Brasil has clearly had an awareness raising effect, leading to a number of improvements in the company's operations, including the following:*
- Since 2011, Inditex has reported a significant increase in the number of inspections performed at its Brazilian suppliers and subcontractors, either by the company's own staff or by outside consultants. Not only did the company increase the number of audits, it also strengthened its monitoring mechanisms, in cooperation with the Brazilian Textile, Garment, Leather and Footwear Workers' Federation.*
- Inditex undertook efforts to stimulate suppliers' compliance with the Inditex code of conduct by creating a good practices manual for suppliers; by adopting a social compliance certification scheme; and by implementing pilot projects at suppliers in cooperation with UNIETHOS.*
- Together with Brazilian civil society organisations, the company has also promoted investments in immigrant communities' projects.*
- Zara Brasil announced in May 2014 the launch of the 'Manufactured in Brazil' ('Fabricado no Brasil') initiative. All the labels of garments made in the country will have a QR code to allow full access to information about the manufacturing details of each and every garment, including social and working conditions across the production line.*
- Zara Brasil's complaint hotline was significantly strengthened when the company outsourced the operation of the service to the Center for Human Rights and Immigrant Citizenship (CDHIC), thereby providing an avenue for "legal and social referrals of accounts by immigrants of any nationality who want[ed] to report cases of discrimination and/or working conditions analogous to slavery".¹¹⁹ It should be noted, however, that while it has been a clear improvement for the immigrant community, the complaints hotline does not yet meet all of the effectiveness criteria.*

Inditex's stance on the "dirty list" is clear-cut: Inditex considers the list itself a useful tool to fight against labour rights violations. Inditex is only arguing that the procedures that lead to be included in the list, the right to self-defense must be assured.

Inditex will always defend the democratic right to legitimately uphold your defense as an individual or as a company. The current procedure of the 'Dirty List' does not give this right to a legitimate defence along the process, as it is only an administrative procedure, not a Court's case.

From our perspective the possibility that Zara Brazil could be included on this list would be highly unfair and contradictory as it threatens punishing a company that has shown, an unprecedented commitment to the same objectives which the "dirty list" sets out to achieve. Let us to also clarify that the "dirty list" is now suspended by a decision of the Brazilian Supreme Court after the request of entities totally alien to Inditex.

Initiatives in Brazil

At the same time, Inditex is implementing one of the most innovative projects in its sector in Brazil in order to ensure the traceability of products. Zara is the only retail enterprise in Brazil that includes, in all the products manufactured within the country, a label specifying the manufacturing company and exact location where the garments were made,

as well as the date when the supplier last underwent an audit. The project, which is called "Fabricado no Brasil" ("Made in Brazil") is pioneering on a global level.

This commitment is backed for the common efforts with unions (IndustriALL), organisms (Ethical Trading Initiative), institutions (ILO), NGOs (Clean Clothes Campaign) co-operating with them with clear standards as the Code of Conduct and the UN Global Compact agreement, in the joint aim of this never ending task of improving conditions in the supply chain worldwide.

Inditex shall continue its sincere efforts to ensure continual improvement, contributing practical and realistic measures to continue to offer the highest quality products in conjunction with Brazilian companies in apparel manufacturing sector

We hope the information above is helpful. Don't hesitate to contact us again in case you need further details.
Best regards.

Communication and Corporate Affairs Division

INDITEX