

**INDITEX**



**Report on the Proceedings and Activities of the  
Remuneration Committee**

FY2018

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## 1. Preliminary

This document, drawn up by the Remuneration Committee of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.) (hereinafter, “Inditex” or the “Company”) in the meeting held on 10 June 2019, represents the annual report on the proceedings and activities of such Committee, drafted pursuant to Recommendation 6 of the Good Governance Code of listed companies, approved by resolution of the Board of Directors of Comisión Nacional del Mercado de Valores [*Spanish Securities and Exchange Commission*] on 18 February 2015 (hereinafter, “CBG” [*Spanish acronym*]).

This report has been issued on an annual basis since FY2005 with regard to the now defunct Nomination and Remuneration Committee. Further to the split thereof into two Committees, as explained in section 2 below, and to the assumption by the Remuneration Committee of part of its duties, the report that strictly addresses the proceedings of such Committee was issued for the first time in FY2016.

## 2. The Remuneration Committee: origin and evolution, regulations and composition

### a. Origin and evolution

The Board of Directors has been amending its regulations on corporate governance, in line with the most demanding trends in the area and in accordance with the good governance codes and the regulations approved.

The current Remuneration Committee originates in the defunct Nomination and Remuneration Committee. Following Recommendation 48 CBG, the Board of Directors resolved in the meeting held on 9 June 2015 to split the Nomination and Remuneration Committee into two separate and newly formed committees: - the Nomination Committee and the Remuneration Committee.

Subsequently, the Annual General Meeting held on 14 July 2015 approved the amendment of the Articles of Association in order to meet the latest regulatory development and to follow the Recommendations of CBG, and therefore, (i) the split of the Nomination and Remuneration Committee into two separate committees: the Nomination Committee and the Remuneration Committee; (ii) the composition of such new committees; and (iii) the regulations of each of them, were formally approved.

### b. Regulations, duties and powers

The regulation of the Remuneration Committee is provided in article 30 of the Articles of Association, section 17 of the Board of Directors’ Regulations and more specifically, in the Remuneration Committee’s Regulations.

Namely, section 5 of this last set of rules explains the mission of the Remuneration Committee:

*“Without prejudice to other tasks it may be entrusted by the Board of Directors, and to other powers it may be reserved by these Regulations, the Remuneration Committee shall have the following basic responsibilities:*

- (a) *To propose to the Board of Directors the policies on remuneration of the directors and senior executives as well as the regular review and update thereof; To propose to the Board of Directors the system and amount of the annual remuneration of directors, to be submitted to the General Meeting of Shareholders, as well as the individual remuneration of executive directors and the remaining basic terms and conditions of their contracts, including the eventual compensation or indemnities which may be payable in the event of removal, pursuant to the provisions of the Company’s corporate governance system and the remuneration policy for directors approved by the General Meeting of Shareholders;*

- (b) *To propose to the Board of Directors the basic terms and conditions of the contracts of senior executives;*
- (c) *To verify that the remuneration policy fixed by the Company is observed; and*
- (d) *To ensure that no eventual conflict of interest situation would affect the independence of the external advice given to the Committee.”*

Meanwhile, section 6 addresses the powers of the Remuneration Committee regarding remuneration and the remuneration policy for directors and senior executives

*“With regard to remuneration, remuneration policy for directors and senior officers, the Committee shall have the following main duties:*

- (a) *To regularly review the remuneration policy for directors and senior executives, including share based remuneration systems and the application thereof and to ensure that their individual remuneration is proportional to that of the remaining directors and senior executives of the Company.*
- (b) *To propose the individual remuneration of executive directors and the remaining terms and conditions of their contracts, to be approved by the Board of Directors, including any eventual compensation or indemnity which may be payable in the event of early removal from office and the amounts to be paid by the Company as insurance premiums or contributions to savings schemes, pursuant to the provisions of the internal regulations of the Company and to the remuneration policy approved by the General Meeting of Shareholders;*
- (c) *To prepare and submit to the Board of Directors, for approval, the Annual Report on Remuneration of Directors, and to verify the information on the remuneration of directors and senior executives provided in the corporate documents, the notes to the annual accounts and the interim financial statements of the Company; and*
- (d) *To propose to the Board of Directors the cancellation of payment or, if appropriate, the refund of variable items which make up the remuneration of directors based upon results, where such items have been paid on the basis of information later shown clearly to be inaccurate; likewise, to propose the termination of the relation with the relevant supervisor(s) and the filing of the relevant claims.”*

#### c. Composition

Members of the Remuneration Committee, and namely its Chair, have the appropriate background, qualifications and experience to discharge the duties they are called upon to perform.

Members of the Remuneration Committee shall hold their office for a 4-year term, being eligible for re-election upon expiry of such term.

The Remuneration Committee shall be made up of a minimum of three and a maximum of seven non-executive directors appointed by the Board of Directors, the majority of whom must be independent directors. At present, five directors sitting on the Remuneration Committee, entirely made up of non-executive directors, are independent, which represents 83.33% of all its members.

The Annual General Meeting approved on 17 July 2018, on the proposal of the Board of Directors, the re-election of Mr Rodrigo Echenique Gordillo to the Board of Directors as non-executive independent director, as well as the appointment of Ms Pilar López Álvarez as new non-executive independent director.

The re-election of Mr Echenique to the Board of Directors entailed his continuance as member of the Remuneration Committee, pursuant to section 23.2 of the Board of Directors' Regulations.

The Board of Directors approved in the meeting held on 17 July 2018, on the proposal of the Nomination Committee, the appointment of Ms Pilar López as member of the Remuneration Committee.

Mr Carlos Espinosa de los Monteros Bernaldo de Quirós stepped down from the Board of Directors and consequently, from the Remuneration Committee, upon expiry of the 4-year term for which he had been re-elected at the Annual General Meeting held on 15 July 2014.

Consequently, the composition of the Remuneration Committee as at 31 January 2019 is as follows:

<b>Name</b>	<b>Office</b>	<b>Category</b>	<b>Date of first appointment</b>
Mr Rodrigo Echenique Gordillo	Chair	Non-executive independent	14-07-2015
Mr Emilio Saracho Rodríguez de Torres	Ordinary member	Non-executive independent	14-07-2015
Bns. Denise Patricia Kingsmill	Ordinary member	Non-executive independent	19-07-2016
Mr José Luis Durán Schulz	Ordinary member	Non-executive independent	14-07-2015
Mr José Arnau Sierra	Ordinary member	Non-executive proprietary	14-07-2015
Ms Pilar López Álvarez	Ordinary Member	Non-executive independent	17-07-2018

Mr Antonio Abril Abadín, General Counsel and Secretary of the Board, acts as the Secretary-non-member of the Remuneration Committee.

Mr Echenique was appointed Chair of the Remuneration Committee on 14 July 2015 and re-elected to such office on 17 July 2018. He had previously chaired the defunct Nomination and Remuneration Committee since 15 July 2014.

The CV of all the members of the Remuneration Committee, with full information about their profile, experience and knowledge, is available on the corporate website: ([www.inditex.com](http://www.inditex.com)).

### **3. Proceedings of the Remuneration Committee: Meetings held, business transacted, reports and attendees**

#### a. Proceedings

The Remuneration Committee shall meet at least once a year, and each time that its Chair calls it. The Chair of the Remuneration Committee shall call it each time that the Board of Directors or the Chairman thereof requests the issuing of a report or the adoption of proposals and in any case, whenever this is suitable for the successful performance of its functions.

Ordinary meetings shall be called by letter, fax, telegram or e-mail and the call shall be authorised by the signature of the Chair. A valid quorum for Committee meetings shall be established when at least half plus one of its members, present or represented, are in attendance. The Committee may also pass resolutions in writing, without holding a meeting, pursuant to statutory provisions.

The deliberations and the resolutions passed by the Committee are recorded in the relevant minutes of the meeting taken by the Secretary thereof.

#### b. Activities: meetings held, business transacted, reports and attendees

The Remuneration Committee held 3 meetings in 2018.

The level of attendance of its members, whether in person, or by proxy, to the meetings held by Remuneration Committee during financial year 2018 stands at 100%.

The average duration of each meeting has been of approximately two hours.

The schedule of the meetings held and business transacted by the Remuneration Committee between 1 February 2018 and 31 January 2019 is provided in Annex I attached hereto.

### **4. Main lines of action**

During financial year 2018, the main lines of action of the Remuneration Committee have focused on the following:

#### A. Contract and remuneration of the Executive Chairman

The Remuneration Committee approved in the meeting held on 12 March 2018 the motion regarding the remuneration of the Executive Chairman for the performance of executive functions, to be subsequently submitted to the Board of Directors, which approved it in the meeting held on 13 March 2018.

This motion was approved by the Board of Directors in the meeting held on 13 March 2018.

#### B. Annual Report on Remuneration of Directors for FY2017

The Remuneration Committee resolved in the meeting held on 12 March 2018 to table the Annual Report on Remuneration of Directors for FY2017 to the Board of Directors for approval. Such report was submitted to CNMV as a relevant fact and is available on CNMV's website: ([www.cnmv.es](http://www.cnmv.es)).

Additionally, pursuant to section 541 LSC, the Annual Report on Remuneration of Directors for FY2017 was approved by the Annual General Meeting held on 17 July 2018, having been put to an (advisory) say-on-pay vote.

In 2018, the Remuneration Committee has been advised by Willis Towers Watson, an independent consultant, regarding the preparation of the Annual Report on Remuneration of Directors for FY2018.

#### C. Remuneration Policy.

Pursuant to the provisions of section 529*novodecies*(2) LSC, and consistent articles of the Articles of Association, the Board of Directors' Regulations and the Remuneration Committee's Regulations, the Board of Directors approved in the meeting held on 12 June 2018 to table the Remuneration Policy for Directors for FY19, FY20 and FY21, to an (advisory) say-on-pay vote by the Annual General Meeting, following a reasoned report on such Policy issued by the Remuneration Committee.

The Remuneration Policy for Directors was subsequently approved by the Annual General Meeting held on 17 July 2018.

The Remuneration Policy and the reasoned report issued by the Remuneration Committee have been made available to the shareholders on the corporate website since the date the notice calling the Annual General Meeting was published.

#### D. Remuneration of Senior Executives

The Remuneration Committee gave a favourable report to the remuneration of Senior Executives in the meeting held on 12 March 2018 and submitted it to the Board of Directors, which approved it on 13 March 2018.

Additionally, in the meetings held on 12 March, 11 June and 11 December 2018, it gave a favourable report to the motions regarding the economic terms and conditions of the Senior Executive contracts entered into with Mr Antonio Flórez de la Fuente, Mr Carlos Crespo González, Ms Paula Mouzo Lestón and Ms Lorena Mosquera Martin.

#### E. Employee Profit-sharing Plan.

The defunct Nomination and Remuneration Committee gave a favourable report to the extraordinary plan for employees participating in the increase of economic benefits of the Inditex Group in the meeting held on 16 March 2015. Such plan is addressed to certain employees of the Group worldwide and seeks to boost and reward, on an exceptional basis, their contribution to the improvement of results and their permanence with the Inditex Group within the Plan's term. The Plan was approved by the Board of Directors in the meeting held on 17 March 2015. Subsequently, on 14 March 2017, the Board of Directors approved on an exceptional basis, following report of the Remuneration Committee, the extension of the duration of such Plan for financial years 2017 and 2018.

On 12 March 2018, the Remuneration Committee gave a favourable report to the result of the first period of the extended term of the Plan for FY2017 and to the global incentive. Likewise, it gave a favourable report to the payment of an extraordinary incentive that seeks to cement throughout 2018 the collective commitment, efforts and contribution of the beneficiaries of such plan to the achievement of the objectives set by the Group, in particular, improving the results for such year, 2018, and ensuring talent retention within the Company. The above referred global and extraordinary incentives were approved by the Board of Directors in the meeting held on 13 March 2018.

#### F. Annual activities report of the Remuneration Committee

The Remuneration Committee issues on an annual basis a report on its activities during the year. Such report has been made available to shareholders on the Company's website ([www.inditex.com](http://www.inditex.com)) since the date when the notice calling the Annual General Meeting was published.

## **5. Main relations of the Remuneration Committee**

### **A. With the Board of Directors**

At the beginning of each meeting of the Board of Directors, the Chair of the Remuneration Committee apprises all Directors on the main business transacted in the last meeting of the Committee.

### **B. With the advisory Committees of the Board of Directors**

Directors sitting on the Remuneration Committee also sit on the Audit and Control Committee and on the Nomination Committee.

### **C. With the Executive Chairman and with Senior Executives**

For the purposes of allowing the Remuneration Committee to be directly apprised of the major business concerns, the Committee encourages the presence in its meetings of the Executive Chairman and of the executives and supervisors of the business areas of the Company, so that they would explain their view on certain issues directly linked with the remit of the Committee.

### **D. With the Lead Independent Director**

Mr Rodrigo Echenique Gordillo, Lead Independent Director, is the Chair of the Remuneration Committee.

### **E. With the Human Resources Department**

In order to keep the Remuneration Committee duly and permanently informed, the Human Resources Department regularly apprises the Committee of the changes, if any, in the global pay systems, researches on the salary market of Senior Executives, annual pay review and review of the guidelines on salary increase per country, overview of annual increases carried out and global talent management programmes.

### **F. With the external advisors**

In order to receive assistance in the performance of their duties, non-executive directors may request that legal, accounting, financial or other experts be engaged at the Company's expenses. The assignment entrusted to such external advisors must necessarily address specific issues of certain weight and complexity that the above referred directors might face in the discharge of their duties.

## **6. Findings**

The provisions of CNMV's Technical Guide 1/2019, on nomination and remuneration committees, have been considered upon preparing this Report on the Proceedings and Activities of the Remuneration Committee for FY2018, as provided in section 11 thereof.



DATE OF MEETING	MAIN BUSINESS TRANSACTED	REPORTS AND MOTIONS SUBMITTED TO THE BOARD OF DIRECTORS	OCCASIONAL INDITEX'S ATTENDEES <sup>1</sup>
12/03/2018	<ul style="list-style-type: none"> <li>- Remuneration of the Executive Chairman</li> <li>- Basic terms and conditions of the contracts and the remuneration of senior executives (sec. 5(c) of the Remuneration Committee's Regulations and sec.17.2(c) of the Board of Directors' Regulations).</li> <li>- Remuneration of Senior Executives</li> <li>- Extraordinary Employee Profit-Sharing Plan</li> <li>- Annual Report on Remuneration of Directors</li> </ul>	<ul style="list-style-type: none"> <li>- Motion regarding the remuneration of the Executive Chairman</li> <li>- Motion regarding the remuneration of Senior Executives.</li> <li>- Report on the results of the second calculation period of the Extraordinary Employee Profit-Sharing Plan</li> <li>- Annual Report on Remuneration of Directors</li> </ul>	<ul style="list-style-type: none"> <li>- Mr Pablo Isla Álvarez de Tejera, Executive Chairman</li> <li>- Mr Ignacio Fernández Fernández</li> <li>- Ms Begoña López Cano Ibarreche, CHRO</li> <li>- Mr Antonio Abril Abadín, General Counsel and Secretary of the Board.</li> </ul>
11/06/2018	<ul style="list-style-type: none"> <li>- Draft Directors' Remuneration Policy.</li> <li>- Remuneration of Senior Executives.</li> <li>- Annual Report on the Proceedings of the Remuneration Committee.</li> </ul>	<ul style="list-style-type: none"> <li>- Remuneration Policy for Directors</li> <li>- Annual Report on the proceedings of the Remuneration Committee</li> </ul>	<ul style="list-style-type: none"> <li>- Mr Pablo Isla Álvarez de Tejera, Executive Chairman</li> <li>- Mr Antonio Abril Abadín, General Counsel and Secretary of the Board</li> </ul>

<sup>1</sup> Occasional attendees were never present at the meeting at the to,e the business corresponding to the items on the agenda were subject to deliberation and put to vote.

11/12/2018	<ul style="list-style-type: none"> <li>- Report on the evaluation of the Remuneration Committee and the performance of its members.</li> <li>- Change in ZARA HOME management. Relevant reports on the basic terms and conditions of the contracts and the remuneration of senior executives (sec. 5(c) of the Remuneration Committee's Regulations and sec, 17.2).</li> <li>- Report of the HR Department.</li> </ul>	<ul style="list-style-type: none"> <li>- Reports on the basic terms and conditions of the contracts and the remuneration of senior executives.</li> <li>- Report of the HR Department.</li> </ul>	<ul style="list-style-type: none"> <li>- Mr Pablo Isla Álvarez de Tejera, Executive Chairman</li> <li>- Mr Antonio Abril Abadín, General Counsel and Secretary of the Board.</li> <li>- Ms Begoña López Cano Ibarreche, CHRO</li> <li>- Ms Virginie Reiss Banchini and Ms Elena Rega Ramos, members of the HR Department.</li> </ul>
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