ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

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Company Name:

INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.)

Registered Office:

Avda. de la Diputación, Edificio Inditex, 15142 Arteixo (A Coruña) – SPAIN

ANNUAL REPORT ON REMUNERATION OF

DIRECTORS OF LISTED COMPANIES

A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR

The information on remuneration of directors provided in this Report (hereinafter, the "Report") covers the period running from 1 February 2018 through 31 January 2019 (financial year 2018) and offers detailed information about the applicable Remuneration Policy for Directors of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.), (hereinafter, "Inditex", the "Company" or the "Group", indistinctly) for financial year 2019.

This Report has been prepared by the Remuneration Committee (hereinafter, the "Remuneration Committee" or "the Committee", indistinctly) pursuant to the provisions of section 541 of the Spanish Companies Act (hereinafter, "**LSC**" [*Spanish acronym*]); Order EEC/461/2013 of 20 March, whereby the contents and structure of the annual corporate governance report, the annual report on remuneration, and of other information instruments of listed companies, savings banks and other entities which issue securities admitted to trading on official securities markets, are determined, as amended by Order EEC/2515/2013 of 26 December; Circular 2/2018 of 12 June of the Comisión Nacional del Mercado de Valores [*Spanish SEC*] (hereinafter, "**CNMV**" [*Spanish acronym*]) amending Circular 4/2013 of 12 June, that establishes the template of the Annual Report on Remuneration of Directors of listed companies; section 30 of the Board of Directors' Regulations and section 6 of the Remuneration Committee's Regulations.

This 2018 Annual Report on Remuneration of Directors was approved by Inditex's Board of Directors, on the proposal of the Remuneration Committee, in the meeting held on 12 March 2019. This Annual Report is expected to be submitted to the advisory say-on-pay vote of the next Annual General Meeting as a separate item on the agenda.

A.1 Explain the current director remuneration policy applicable to the current year. To the extent that it is relevant, certain information may be included in relation to the remuneration policy approved by the General Shareholders' Meeting, provided that these references are clear, specific and concrete.

The specific determinations for the current year should be described, both the remuneration of directors in their status as such and as a result of their executive functions carried out for the Board pursuant to the contracts signed with executive directors and to the remuneration policy approved by the General Meeting of Shareholders.

At any event, the following aspects should be reported:

- **Description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions.**
- **Indicate and, where applicable, explain whether comparable companies have been taken into account in order to establish the company's remuneration policy.**
- **Information on whether any external advisors took part in this process and, if so, their identity.**

A.1.1. Current director remuneration policy applicable to the current year

Inditex' Remuneration Policy for Directors (hereinafter, the "Remuneration Policy for Directors" or the "Remuneration Policy") applicable in 2019 was approved by the Annual General Meeting held on 17 July 2018 (with 99.38% of votes for) pursuant to the provisions of section 529*novodecies* LSC.

No significant changes have been made to such Remuneration Policy compared to the one in force in the previous year.

The current Remuneration Policy will be effective for financial years 2019, 2020 and 2021.

It should be noted that since the approval of the previous Remuneration Policy for Directors in 2015, the criteria therein laid down have been taken into account and described in detail in the Annual Reports on Remuneration of Directors for financial years 2016, 2017 and 2018, which have been largely supported by the shareholders in advisory-say-on-pay votes, and received positive recommendations from proxy advisors.

To establish the specific amounts and parameters of the Remuneration Policy for 2019 within the scope of the Remuneration Policy approved by the Annual General Meeting in 2018, the Remuneration Committee considered the following issues:

- Group's results and strategic challenges.
- The overarching principles and grounds of the Remuneration Policy.
- Internal equity: the relationship between the Remuneration Policy for Directors and the remuneration terms for the employees of the Company.
- The guidelines provided by institutional investors and proxy advisors and their feedback in the course of the periodic consultations made by the Company.
- The data on remuneration and remuneration practices of comparable companies.
- The provisions of the Articles of Association, the Board of Directors' Regulations, and the Remuneration Committee's Regulations.
- The applicable regulations.

A.1.2. Description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions

The procedures and company bodies involved in determining and approving the Remuneration Policy and its terms and conditions are described below:

1. **General Meeting of Shareholders**: pursuant to section 529*septdecies* & *novodecies* LSC, the General Meeting of Shareholders shall be responsible for:

   - Approving the remuneration policy for directors at least every three years.

   - Determining the maximum amount of the annual remuneration to be paid to all directors in their status as such.

2. **Board of Directors**: pursuant to sections 249 and 249*bis* LSC, the Board of Directors shall have the following powers which are non-delegable:

   - Decisions relating to remuneration of directors within the scope of the Articles of Association and of the remuneration policy approved by the General Meeting.

   - The approval of the contract with the Executive Chairman including, without limitation, the remuneration items he may be entitled to for the performance of executive functions, including the potential severance pay as a result of his early termination, and the amounts to be paid by the Company as insurance premiums or contributions to savings systems.

3. **Remuneration Committee**: it plays the main role regarding determination, enforcement and review of the remuneration policy.

   Pursuant to the powers it has been entrusted under the Board of Directors' Regulations and the Remuneration Committee's Regulations, below is a summary of the duties it has been assigned, regarding determination, enforcement, review and transparency of the Remuneration Policy.

   a) Determination of the remuneration policy

   - To propose to the Board of Directors the policies on remuneration of directors, 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.

   - To propose to the Board of Directors for approval, the individual remuneration of executive directors and the remaining basic terms and conditions of their contracts, including any potential severance pay or indemnity which may be payable in the event of 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 of the Remuneration Policy for Directors.

   b) Enforcement of the remuneration policy

   - To approve the objectives tied to the annual variable remuneration at the beginning of each year and assess the achievement thereof at the end of the year. Further to such evaluation, the Remuneration Committee prepares a proposal on annual variable remuneration that is submitted to the Board of Directors for approval.

   - To approve the objectives of each cycle of long-term variable remuneration. The Remuneration Committee carries out an annual evaluation and a global evaluation upon expiry of each cycle, of the level of achievement reached for each objective, considering the information provided by the Company, and proposes to the Board of Directors for approval, the levels of incentive associated to achievement, based upon the performance scales set, and certain extraordinary factors, as the case may be, which may have occurred during the measurement period of the objectives of the plan in question.

The evaluation of objectives to which long-term annual variable remuneration is tied is based upon the results provided by the Financial Division, which are first reviewed by the Audit and Control Committee, as well as the level of achievement of the objectives. After such review, the Remuneration Committee drafts a proposal regarding annual variable remuneration which is submitted to the Board of Directors for approval. In the proposal on variable remuneration, the Remuneration Committee also takes into account, the quality of results in the long- term as well as any risk associated thereto

- To propose to the Board of Directors the cancellation of payment or, where appropriate, the refund of the variable items of the remuneration of directors based on results, when these items have been paid on the basis of information later shown clearly to be inaccurate, as well as, if appropriate, filing claims or any other applicable measures.

c) Review of the remuneration policy

- To regularly review the remuneration policy for directors, including share based remuneration systems and the application thereof and to ensure that their individual remuneration is proportional to that of the remaining directors of the Company.

d) Transparency of the remuneration policy

- 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 provided in the corporate documents, the notes to the annual accounts and the interim financial statements of the Company.

The Remuneration Committee meets whenever it is deemed appropriate for the successful performance of its functions, and at any rate, each time the Board of Directors or its Chairman requests the issuing of a report or the passing of motions within its remit.

Requests for information to the Remuneration Committee shall be made by the Board of Directors or its Chairman. Likewise the Committee shall always take into account the suggestions made by the Chairman, board members, officers or shareholders of the Company. Moreover, the Remuneration Committee shall hold a regular meeting every year to prepare the information on the remuneration of Directors, which the Board of Directors has to approve and include as part of its annual public documentation

The Remuneration Committee shall report to the Board of Directors on the business transacted and the decisions made, accounting for the work done in the meeting that the Board of Directors holds immediately after each meeting of the Remuneration Committee. Additionally, a copy of all the minutes taken at the Committee's meetings shall be made available to all directors.

A.1.3. Indicate and, where applicable, explain whether comparable companies have been taken into account in order to establish the company's remuneration policy

The Remuneration Committee deems essential that the Remuneration Policy for Directors is subject to regular reviews, in line with best practices on corporate governance endorsed by institutional investors and the recommendations of the main proxy advisors.

In this regard, in the current year to this date, the Remuneration Committee has carried out with the support of an independent consultant in the field of compensation of directors and senior executives, the following remuneration benchmarking analysis:

- Review of market practices on long-term incentive plans in large Spanish, European and US companies. The findings of this review have been considered by the Committee as part of the decision-making process regarding the design of the 2019-2023 Long-Term Incentive Plan, which will be submitted to the 2019 Annual General Meeting for approval.

- Benchmarking analysis of the aggregate remuneration of the Executive Chairman compared to that of his peers, for the purposes of proposing appropriate levels of compensation for 2019.

In such analysis, different benchmarking groups have been considered, based upon business sector, size and geographic scope criteria, in line with the benchmarking carried out in the previous years. Such groups are:

- Dow Jones Retail Titans 30 Index, made up of the 30 leading companies of the retail sector. Such companies are selected by Dow Jones based upon ranking by market capitalization, revenue and net profit.

- STOXX All Europe 100, comprising the 100 companies with the largest market capitalization in Europe.

- The top 20 companies included in the list of the Best Performing CEOs published by Harvard Business Review in November 2018 (excluding Asian companies and companies with small market capitalization).

The findings of all benchmarking analyses have been considered by the Committee as part of the decision-making process of the Remuneration Policy for 2019.

A.1.4 Information on whether any external advisors took part in this process and, if so, their identity

To better discharge its duties, the Remuneration Committee may request from the Board of Directors, that legal, accounting, financial or other experts be hired, at the expenses of the Company.

In this regard, the Remuneration Committee has been advised by Willis Towers Watson, an independent consultant in the field of compensation of directors and senior executives, regarding (i) the definition and design of the Remuneration Policy for Directors for financial years 2019, 2020 and 2021 (and by Uría Menéndez Abogados S.L.P. law firm regarding the legal aspects of the Policy); (ii) the design and execution of the 2019-2023 Long-Term Incentive Plan; (iii) the remuneration benchmarking of the Executive Chairman compared to his peers ; and (iv) the preparation of this Report.

- **Relative importance of variable remuneration items vis-à-vis fixed remuneration (remuneration mix) and the criteria and objectives taken into consideration in their determination and to guarantee a suitable balance between the fixed and variable components of the remuneration. In particular, state the actions adopted by the company in relation to the remuneration system to reduce exposure to excessive risks and adapt this to the long-term objectives, values and interests of the company, which will include, as the case may be, mention of the measures to guarantee that the long-term results of the company are taken into account in the remuneration policy, the measures adopted in relation to those categories of staff whose professional activities have a material impact on the risk profile of the company and measures to avoid conflict of interest, as the case may be.**

Furthermore, state whether the company has established any period for the accrual or consolidation of certain variable remuneration items, in cash, shares or other financial instruments, any deferral period in the payment of amounts or the handover of accrued and consolidated financial instruments, or if any clause exists reducing the deferred remuneration or that obliges the director to return remuneration received, when such remuneration has been based on certain figures that have clearly been shown to be inaccurate has been agreed.

A.1.5 Relative importance of variable remuneration items vis-à-vis fixed remuneration (remuneration mix) and the criteria and objectives taken into consideration in their determination.

Remuneration of directors in their status as such is fully comprised of fixed components.

The compensation package of the Executive Chairman is made up of a fixed element, a short-term or annual variable element and a long-term or pluri-annual variable element, in cash and/or in shares.

In a scenario of achievement of objectives on target, the percentage of variable or at risk remuneration would be around 60% of aggregate compensation for the Executive Chairman (understanding as such fixed remuneration, annual variable remuneration and annualized long-term incentive).

In a scenario of maximum achievement of objectives, the percentage of risk remuneration would represent approximately 70% of aggregate compensation for the Executive Chairman.

The remuneration mix of the different remuneration scenarios based upon achievement of objectives, ensures that the fixed remuneration represents a significant part of aggregate compensation, for the purposes of preventing taking any unnecessary risks.

Variable remuneration items to compensate the performance of the Executive Chairman, tied to the achievement of the Group's objectives, are flexible enough to allow their shaping, to the extent that it is possible that no amount is paid in terms of variable remuneration; in such case, fixed remuneration would represent 100% of aggregate compensation. Under no circumstances is variable remuneration guaranteed.

A.1.6 Actions adopted to adapt the Remuneration Policy to the long-term objectives, values and interests of the Company. Mention of the measures to guarantee that the long-term results of the company are taken into account in the remuneration policy

The measures taken to ensure that the Remuneration Policy is aligned with the long-term results of the Company are:

- The design of the remuneration scheme shows an efficient balance between fixed and variable items, as indicated above. Namely, in annualized terms, the long-term or pluri-annual variable remuneration, represents approximately 20% of aggregate compensation (considering for such purposes fixed, short-term variable and annualized long-term variable remuneration) for a scenario of performance on target, and 30% for a scenario of overachievement.

- Long-term variable remuneration plans are part of a pluri-annual framework to ensure that the assessment process is based upon long-term results and that the underlying economic cycle of the Company is considered therein. Part of this remuneration is allocated and paid in shares, based upon value creation, so that the interests of the Executive Chairman and the officers are aligned with those of the shareholders. Namely, in a scenario of overachievement, more than 25% of the aggregate variable remuneration of the Executive Chairman would consist of delivery of shares.

- The Executive Chairman must retain a number of shares equivalent to the incentive received in shares, net of any applicable taxes, for the 2 years following delivery thereof.

- Additionally, the Executive Chairman has committed to the Company to maintain in his own assets, while he remains in office, a number of shares equivalent to at least 2 years of fixed remuneration. Such measures contribute to ensure that the interests of the Executive Chairman are aligned with those of the shareholders.

A.1.7 Actions adopted by the Company to reduce exposure to excessive risks and avoid conflicts of interest and if any clause exists reducing the deferred remuneration or that obliges the director to return remuneration received,

The measures taken by the Company to reduce exposure to excessive risks are:

- The aggregate compensation of the Executive Chairman comprises different remuneration items, mainly consisting of: (i) a fixed remuneration, (ii) a short-term variable remuneration (annual), and (iii) a long-term (pluri-annual) variable remuneration. The remuneration mix in the different remuneration scenarios based upon achievement of objectives, ensure that the fixed remuneration represents a significant part of aggregate compensation, for the purposes of preventing taking any unnecessary risks.

- No guaranteed variable remunerations exist. Variable remuneration items are flexible enough to allow their shaping, to the extent that it is likely that no amount is paid in terms of variable remuneration.

The measures taken in respect of those categories of staff whose professional activities have a material impact on the Company's risk profile are:

- The Remuneration Committee is responsible for considering and reviewing the Remuneration Policy for directors and senior executives and for enforcing it. Those professionals whose activity may have a material impact on the Company's risk profile are included in this group.

- Members of the Remuneration Committee also sit on the Audit and Control Committee. Therefore, the Chair of the Remuneration Committee is a member of the Audit and Control Committee and in turn, the Chair of the Audit and Control Committee sits on the Remuneration Committee. This ensures that risks associated to remuneration are considered in the course of the deliberation of the Remuneration Committee and of the Audit and Control Committee and in the motions tabled by both Committees to the Board of Directors, regarding the determination and the process to assess annual and pluri-annual incentives.

With regard to the measures set to detect, determine and resolve any potential conflicts of interest situations, the conflict of interest scenarios are defined in section 34 of the Board of Directors' Regulations which also provides the rules which govern such conflicts. Sections 33 and 35 to 37 thereof cover the obligation of non-competition, the use of corporate assets, the use of non-public information for private purposes and the taking advantage of business opportunities corresponding to the Company. Meanwhile, section 39 covers such specific issues that Directors must report to the Company.

Additionally, section 1 of the Board of Directors' Regulations provides that the rules of conduct for directors shall apply, insofar as they are compatible with their specific nature, to senior executives of the Company, namely, the following sections: 32 (duty of confidentiality); 34 (conflicts of interest), with regard to the duty to inform the Company; 35 (use of corporate assets); 36 (non-public information); 35 (business opportunities), and 38 (prohibition to make undue use of the office.

Moreover, with regard to significant shareholders, section 40 of the Board of Directors' Regulations provides the rules governing "Transactions with Directors and significant shareholders". One of the duties assigned to the Audit and Control Committee consists of reporting on related-party transactions. In light of such report, it falls on the Board of Directors to approve such transaction, if appropriate.

Meanwhile, section 4.8 of the Code of Conduct and Responsible Practices of the Group addresses how Inditex's employees must act when faced with a conflict of interest between their personal interests and those of the Company, as well as the situations which need to be reported to the Committee of Ethics.

With regard to the clauses reducing the deferred remuneration or that force directors to return remuneration received when such remuneration has been based on certain figures that have clearly been shown to be inaccurate:

- The Remuneration Committee may propose to the Board of Directors the cancellation of payment or, where appropriate, the refund of the variable items of the remuneration of directors based on results, where these items have been paid on the basis of information later shown clearly to be inaccurate, as well as the termination of the relationship with the relevant supervisor and the filing of the relevant claims, pursuant to the terms of section 6 of the Remuneration Committee's Regulations.

- A clawback provision is included in the contract executed with the Executive Chairman, where variable remuneration items have been paid on the basis of certain figures that have clearly been shown to be inaccurate.

In this regard, should (i) any event or circumstance occur that would result in the negative change or variation, in final terms, of the financial statements, results, economic data, performance data or otherwise, upon which the accrual and payment to the Executive Chairman of any amount in terms of variable remuneration would have been based, and, (ii) should such change or variation determine that, if they had become known at the date when the accrual or payment would become due, the Executive Chairman would have received a lesser sum than the one initially paid, the Company shall be entitled to claim from him the full refund or the refund of any excess paid.

- With regard to the 2016-2020 Long-term Incentive Plan and the 2019-2023 Long-term Incentive Plan, as well as any outstanding variable remuneration while the Remuneration Policy is in effect, the Company may cancel before payment and/or claim refund of the incentive paid, in full or in part, (clawback) in the event that any of the following circumstances would occur during (i) the period immediately before consolidation, or (ii) the 2 years following settlement of the incentive for the proceedings of each cycle, as the case may be:

(i) losses in the Group (negative EBIT) in the 2 years after the expiry of each cycle, attributable to management decisions made in the performance period of each cycle;

(ii) material restatement of the Group's financial statements, when so considered by the external auditors and when this is to the detriment of the Company, except where this is appropriate pursuant to a change in accounting standards;

(iii) serious breach of the internal regulations on the part of the Executive Chairman, as supported by the Committee of Ethics.

- **Amount and nature of fixed components that are due to be accrued during the year by directors in their status as such.**

Pursuant to section 529*septdecies* LSC, the maximum amount of the annual remuneration to be paid to all the directors in their status as such must be necessarily included in the Remuneration Policy for Directors. It is incumbent on the Board of Directors to determine the remuneration of each director.

According to article 31 of the Articles of Association, the remuneration of directors shall consist of an annual fixed remuneration for each director, the amount of which shall be decided by the Annual General Meeting for each financial year, or which shall be valid for the number of financial years that the General Meeting would establish. This system means that the General Meeting of Shareholders is recognized as the supreme and sovereign body of expression of the will of the Company, namely in the area of remuneration, and ensures the maximum transparency of such remuneration. This entails that, while the Remuneration Policy for Directors is in effect, any increase in the remuneration of directors as such shall be resolved by the Annual General Meeting.

At the present time, the following amounts remain valid. They were fixed further to a resolution of the Annual General Meeting held on 19 July 2011 and subsequently covered in the Remuneration Policy for Directors, both of which were approved with the following votes for (in percentage terms) 99.59% and 99.38% respectively:

-Each director will receive an annual fixed remuneration in the amount of €100k for their directorship;

-The Deputy Chairman or Deputy Chairmen of the Board of Directors will receive an additional fixed remuneration of €80k;

-The Chairs of the Audit and Control Committee, the Nomination Committee and the Remuneration Committee, will receive an additional fixed remuneration of €50k; and

-Directors who in turn sit on the Audit and Control Committee, the Nomination Committee and/or the Remuneration Committee (including the Chair of each Committee) will receive an additional fixed remuneration of €50k.

Such amounts are fully independent and compatible.

Except for the remuneration of the Executive Chairman for the performance of senior management functions, the amounts shown represent the only remuneration paid to directors of the Company for membership on the Board of Directors of Inditex or of any Group company. No per diem allowances, benefits or variable remuneration are paid, without prejudice to the refund to the directors of any traveling and accommodation fees incurred upon attending the meetings of the Board of Directors or of the Committees where they sit.

- **Amount and nature of fixed components that are due to be accrued during the year for the performance of senior management functions of executive directors**

Without prejudice to the remuneration he is entitled to as board member as indicated above, the fixed remuneration that the Executive Chairman can be paid for the performance of senior management functions is determined based upon the following criteria:

- The experience and personal contribution to the office.
- The consistency with the responsibility and leadership within the organization and in line with the remuneration paid in the market by comparable companies.

This fixed remuneration must represent a sufficient part of the aggregate remuneration for the sake of achieving an appropriate balance between fixed and variable remuneration items.

Namely, the Board of Directors resolved on 12 March 2019, on the proposal of the Remuneration Committee, that fixed remuneration for 2019 be established in the annual amount of €3,250k, to be paid in monthly instalments.

This sum has remained unchanged since 2013 and, pursuant to the Remuneration Policy it willl remain the same for the three financial years in which the Policy is valid (that is, until 2021).

- **Amount and nature of any component of remuneration in kind that will accrue during the year, including, but not limited to, insurance premiums paid in favour of the director.**

No remuneration in kind exists other than the delivery of shares referred to in the following section regarding variable items of remuneration.

- **Amount and nature of variable components, differentiating between those established in the short and long term. Financial and non-financial, including social, environmental and climate change parameters selected to determine variable remuneration in the year in progress, explaining the extent to which these parameters are related to performance, both of the director and of the company, together with their risk profile, and the methodology, deadline necessary and techniques established to determine the degree of compliance with the parameters used in the design of the variable remuneration at the end of the year.**

  State the range, in monetary terms, of the different variable components according to the degree of compliance with the objectives and parameters established, and whether any maximum monetary amounts exist in absolute terms

With regard to directors in their status as such, the fixed remuneration items referred to above are the only remuneration paid to them for membership on the Board of Directors of Inditex, or of any Group companies. There is no remuneration under a profit-sharing scheme, nor any remuneration systems or schemes covering a variable remuneration.

As regards the Executive Chairman, the variable items of his remuneration for the performance of senior management functions are the following:

- Short-term or annual variable remuneration.

- Long-term or pluri-annual variable remuneration.

Below is a description of the main features of each variable item of the remuneration of the Executive Chairman above mentioned:

(A) <u>Short-term or annual variable remuneration</u>

Annual variable remuneration is tied to the achievement of annual specific, pre-established and quantifiable quantitative and qualitative objectives, in line with the interest of the Company and consistent with the medium to long-term strategy.

Quantitative objectives represent at least 50% of the aggregate incentive. They consist of metrics which ensure an appropriate balance between financial and operational elements of the management of the Company. Qualitative objectives represent at least 30% of the aggregate incentive.

A performance scale is associated, where reasonably possible, to quantitative and qualitative objectives. Such scale, fixed at the beginning of each financial year, includes a minimum threshold below which no incentive is paid, a level of achievement on target, which corresponds to the standard level of achievement of objectives, and a maximum level, that determines the increase of incentive. All such levels are specific for each metric.

The Remuneration Committee is responsible for approving the objectives at the beginning of each financial year, and assessing the achievement thereof at year end. This evaluation is done based upon the results, provided by the Financial Division, which are first reviewed by the Audit and Control Committee, as well as upon the level of achievement of such objectives. After such review, the Remuneration Committee drafts a proposal regarding the annual variable remuneration which is submitted to the Board of Directors for approval. With regard to such proposal, the Remuneration Committee also takes into account the quality of results in the long-term, as well as any associated risk.

For the purposes of ensuring that the annual variable remuneration is effectively in line with the performance of the Executive Chairman, any positive or negative economic effects arising from any extraordinary events which might introduce distortions into the results of the evaluation, may be removed upon determining the level of achievement of the objectives.

Pursuant to the Remuneration Policy for Directors approved by the Annual General Meeting in 2018, effective from the current year, the target amount of the annual variable remuneration of the Executive Chairman, which corresponds to a level of achievement of objectives on target, shall be equivalent to 100% of the fixed remuneration. In case of overachievement of the pre-established objectives, annual variable remuneration might reach up to 120% of fixed remuneration for the performance of senior executive functions.

The terms of the annual variable remuneration system which apply to the Executive Chairman, including the structure, maximum levels of remuneration, objectives established and the weight of each of them, are reviewed on an annual basis by the Remuneration Committee, considering the Company's strategy, business needs and its status. Such terms are submitted to the Board of Directors for approval.

Namely, the Board of Directors resolved on 12 March 2019, on the proposal of the Remuneration Committee that the annual variable remuneration for financial year 2019 will be determined in accordance with the following criteria:

- 70% based upon the net sales and the contribution margin, in equal proportion, with the same criteria as those established for senior executives according to the budget of the Company;
- 15% based upon the following criteria: the personal performance of the Executive Chairman and the strategic development of the Company, in terms of the boost of store and online integration, through the development and implementation of new processes and tools allowing to provide a differentiated customer experience, pursuant to the Groups' objectives;
- And the remaining 15% based upon the following criteria: the progress in environmental and social sustainability policies, in terms of the number of new stores which meet eco-efficiency parameters and the number of audits and control of discharges at dyeing facilities (wet processes), in the framework of the Commitment to Zero Discharge of Hazardous Chemicals (ZDHC) Programme; the progress in corporate governance, in terms of the degree of compliance with the recommendations of the Good Governance Code of Listed Companies and the alignment with international best practices, and the progress in implementing compliance and diversity programmes, in terms of approval of internal regulations and the degree of international roll-out.

As indicated above, pursuant to the current Remuneration Policy for Directors, in a scenario of achievement on target, the annual variable remuneration of the Executive Chairman for 2019 would amount to 100% of the fixed remuneration for the performance of senior management functions, i.e., €3,250k. In the event of overachievement, annual variable remuneration might reach up to 120% of fixed remuneration for the performance of senior management functions.

The short-term variable remuneration on account of results achieved in 2019 shall be paid in 2020, either in cash or through the delivery of shares.

(B) <u>Pluri-annual or Long-term variable remuneration</u>

The Board of Directors approved on 12 March 2019, on the proposal of the Remuneration Committee, the 2019-2023 Long-term Incentive Plan which will be submitted to the 2019 Annual General Meeting for approval. This Plan continues with the same approach as the previous 2016-2020 Long-term Incentive Plan, and it embraces certain developments which improve the level of alignment with the recommendations of institutional investors and proxy advisors.

The Plan consists of the combination of a pluri-annual bonus in cash and the promise to deliver free shares, which, once a specific period of time has elapsed and the achievement of the specific objectives has been verified, shall be paid to the beneficiaries of the Plan, either in full or in the relevant applicable percentage. The Executive Chairman is included among the beneficiaries of such Plan.

The total duration of the Plan is 4 years. It is structured in 2 independent cycles. The first cycle of the Plan runs from 1 February 2019 through 31 January 2022. The second cycle extends from 1 February 2020 through 31 January 2023.

The Plan is tied to critical business, shareholder value creation and sustainability objectives. Upon expiry of the measurement period for each cycle, the Remuneration Committee shall assess the level of achievement reached in respect of each objective and in the entire cycle, considering the information disclosed by the Company and audited, and it shall propose to the Board of Directors for approval the levels of incentive associated to achievement, based upon the performance scales set, and certain extraordinary factors which, if any, may have occurred during the measurement period of the Plan's objectives.

Under such Plan, the Executive Chairman will receive, if appropriate, an incentive which will materialize as follows: 60% in shares and 40% in cash. The aggregate amount of the incentive assigned to the Executive Chairman in a scenario of achievement on target for the two cycles of the Plan would be €6,800k, equivalent in annualized terms to €1,700k (52% of the annual fixed remuneration for the performance of senior management functions). In a scenario of overachievement, the incentive would be equivalent to 185% of the above referred target incentive (equivalent, in annualized terms, to 97% of annual fixed remuneration for the performance of senior management functions).

With regard to 60% of the incentive which would, if appropriate, materialize in shares, the number of shares to be delivered will be determined based upon the average weighted closing price of the Inditex share on the 30 trading days immediately prior to the commencement date of each cycle. Upon expiry of each cycle, the Remuneration Committee will assess the level of achievement of objectives and propose the number of shares to be delivered.

The Executive Chairman must retain a number of shares equivalent to the incentive received in shares, net of any applicable taxes, for the 2 years following delivery thereof.

With regard to the Executive Chairman, the Company may cancel before payment and/or claim refund of the long-term incentive paid, in full or in part, (clawback) in the event that certain circumstances would occur during the 2 years following the delivery of the incentive for the proceedings of each cycle: Such specific circumstances have been addressed in section A.1.7 above.

The description of the first cycle of the Plan is as follows:

The first cycle of the Plan runs from 1 February 2019 through 31 January 2022.

In this first cycle, the aggregate amount of the incentive assigned to the Executive Chairman in a scenario of achievement on target would amount to €1,360k and 87,667 shares (equivalent to 105% of annual fixed remuneration for the performance of senior management functions). In a scenario of overachievement, the incentive would be equivalent to 185% of the above referred target incentive (equivalent to 193% of the annual fixed remuneration for the performance of senior management functions).

Upon expiry of the cycle, the Remuneration Committee will evaluate the level of achievement of objectives and propose the cash amount and the number of shares to be handed out. Achievement of the objectives will be measured through identifiable and quantifiable parameters known as metrics. The incentive will vary depending upon the following metrics, with the following weight:

-30% PBT growth: defined as the growth of profit before taxes in a certain period of time.

-30% Same-store Sales growth (MMTT): defined as the growth of sales in comparable physical and online stores, according to the information released by the Company, expressed in percentage terms.

-30% Relative Total Shareholder Return (TSR), defined as the comparison of the evolution of an investment in Inditex's shares with the evolution of an investment in shares of any of the companies included in the Benchmark Group of companies (as defined below), determined by the ratio (expressed as a percentage) between the final value of an hypothetical investment in shares (reinvesting the dividends from time to time) and the initial value of that same hypothetical investment.

-10% Sustainability index, comprising four indicators:

1) Percentage of factories within Inditex's supply chain where wet processes (such as washing, dyeing and printing) are carried out, that use *The List, by Inditex* standard as a reference to select the chemical products used in their processes.

2) Percentage of waste reduction (in terms of waste similar to urban waste and hazardous waste) internally generated at Inditex headquarters, and at all own factories and logistics centres, that are appropriately recycled and managed to be recovered, preventing their discharge to a landfill.

3) Greenhouse Gas direct emissions reduction ratio in own operations in respect of total net sales of the Group.

4) Percentage of Inditex's suppliers of goods ranked A and B following their social audit.

In order to calculate the incentive achieved for each level of achievement of objectives of the Executive Chairman, a Maximum Incentive level and a performance scale have been determined for each metric, as provided below:

a) Regarding PBT and MMTT Growth:

-A below 50% level of achievement of objectives entails that no incentive is paid.

-A 50% level of achievement of objectives ("minimum level of achievement") represents a payout percentage of 50% of the Maximum Incentive.

-A 75% level of achievement of objectives ("level of achievement on target") represents a payout percentage of 75% of the Maximum Incentive.

-A 100% level of achievement of objectives ("maximum level of achievement") represents a payout percentage of 100% of the Maximum Incentive.

-An above 125% level of achievement of objectives ("overachievement) represents a payout percentage of 125% of the Maximum Incentive.

Intermediate figures are calculated by linear interpolation.

b) Regarding the evolution of relative TSR

-The Benchmark Group is made up of the companies included in the *Dow Jones Retail Titans 30* index as at 1 February 2019.

-For the purposes of Inditex's TSR and the TSR of each company within the Benchmark Group, Initial Value shall be understood as the average weighted closing price of the share of each company in the 30 Trading Days immediately prior to 1 February 2019 (excluded).

-For the purposes of Inditex's TSR and the TSR of each of the companies included in the Benchmark Group, Final Value shall be understood as the average weighted closing price of the share of each company in the 30 Trading Days immediately prior to 31 January 2022 (inclusive).

-To this end, for calculating such Final Value, the dividends or other similar amounts received by shareholders on said investment during the respective period of time will be considered, as if the gross amount thereof (before taxes) would have been reinvested in more shares of the same class on the first date on which the dividend or any similar amount is payable to shareholders and at the closing price of the share on that date.

-At the end of the cycle, Inditex's TSR and the TSR of each company included in the Benchmark Group will be calculated. The companies within such Benchmark Group will be ranked in descending order, based upon the highest or lowest TSR of each of them. A payout coefficient ranging from 0% to 125% is assigned to each position in the ranking, in accordance with the following payout scale:

(i) For a position below median within the Benchmark Group, the payout percentage will be 0% of the Maximum Incentive.

(ii) For a position at the median within the Benchmark Group (ranked 15th) ("minimum level of achievement"), the payout percentage will be 30% of the Maximum Incentive.

(iii) For a position at the 75th percentile within the Benchmark Group but below 90th percentile (ranked 5th to 8th), the payout percentage will be 100% of the Maximum Incentive.

(iv) For a position at 90th percentile or above within the Benchmark Group (ranked 1st to 4th) ("overachievement"), the payout percentage will be 125% of the Maximum Incentive.

For intermediate positions between median and 75th percentile within the Benchmark Group, the payout percentage will be calculated by linear interpolation.

-Afterwards, Inditex's TSR shall be compared with the TSR of the companies within the Benchmark Group to identify between which positions Inditex is ranked. Subsequently, the portion of the incentive to be delivered shall be calculated, interpolating between the payout coefficients of such positions, according to the difference between the values of TSR.

c) Regarding the Sustainability index: the Remuneration Committee will jointly assess the four indicators above referred based upon the results achieved, disclosed by the Company's Sustainability Department, in accordance with the following performance scales defined for each of them.

- Indicator no. 1: Ensuring the use of the *The List by Inditex* standard for chemical products used in the textile industry:

(i) A 125% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 55% of the factories across Inditex's supply chain where wet processes are carried out use *The List, by Inditex* as reference standard.

(ii) A 100% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 51% of the factories across Inditex's supply chain where wet processes are carried use *The List, by Inditex* as reference standard.

(iii) A 75% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 48% of the factories across Inditex's supply chain where wet processes are carried use *The List, by Inditex* as reference standard.

(v) A 50% level of achievement of objectives: where upon expiry of the term of each cycle of the 2019-2023 Plan, 45% of the factories across Inditex's supply chain where wet processes are carried The List, by Inditex as reference standard.

- Indicator no. 2: Improvement of own waste management:

(i) A 125% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 95% of waste similar to urban waste and 88% of hazardous waste are appropriately managed to be recovered.

(ii) A 100% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 91% of waste similar to urban waste and 85% of hazardous waste are appropriately managed to be recovered.

(iii) A 75% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 88% of waste similar to urban waste and 82% of hazardous waste are appropriately managed to be recovered.

(iv) A 50% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 85% of waste similar to urban waste and 80% of hazardous waste are appropriately managed to be recovered.

- Indicator no.3: GHG emissions reduction:

(i) A 125% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 8% reduction of GHG emissions is achieved.

(ii) A 100% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 6% reduction of GHG emissions is achieved.

(iii) A 75% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 5% reduction of GHG emissions is achieved.

(iv) A 50% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, 4% reduction of GHG emissions is achieved.

- Indicator no. 4: Concentrating production in suppliers ranked A and B following their social audits

(i) A 125% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, concentration of production in suppliers ranked A and B stands at 95%.

(ii) A 100% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, concentration of production in suppliers ranked A and B stands at 93.5%.

(iii) A 75% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, concentration of production in suppliers ranked A and B stands at 92%.

(iv) A 50% level of achievement of objectives: where upon expiry of each cycle of the 2019-2023 Plan, concentration of production in suppliers ranked A and B stands at 90%.

With regard to the first cycle, the delivery will take place within the month following the publication of the 2021 annual accounts.

In order to be eligible to receive the relevant incentive for the cycle, as a general rule beneficiaries must remain in the Company until expiry of the accrual period.

Detailed information on the description of the second cycle will be provided in the Annual Report on Remuneration of Directors for financial year ended 31 January 2020.

Additionally, the 2016-2020 Long-term Incentive Plan approved by the Board of Directors on 8 March 2016 on the proposal of the Remuneration Committee, and by the Annual General Meeting on 19 July 2016, also remains in effect in 2019.

The Plan consists of the combination of a pluri-annual bonus in cash and the promise to deliver free shares which, once a specific period of time has elapsed and the achievement of some specific objectives has been verified, shall be paid to the beneficiaries of the Plan, either in full or in the relevant applicable percentage. The Executive Chairman is included among the beneficiaries of such Plan.

The total duration of the Plan is 4 years. It is structured in 2 independent cycles.

-The first cycle of the Plan runs from 1 February 2016 through 31 January 2019. Detailed information on the level of achievement of the objectives to which this first cycle is tied, and on the relevant incentive is broken down in section B below.

-The second cycle runs from 1 February 2017 through 31 January 2020. Detailed information on the level of achievement of the objectives to which this second cycle is tied, and the relevant incentive will be broken down in the Annual Report on Remuneration of Directors that will be published in 2020.

The first and second cycles of the Plan began in 2016 and 2017, respectively.

The Plan is tied to critical business and shareholder value creation objectives. Upon expiry of the measurement period for each cycle, the Remuneration Committee shall assess the level of achievement in respect of each objective and within the entire cycle, considering the information provided by the Company, and it shall propose to the Board of Directors for approval the levels of incentive associated to achievement, based upon the performance scales set, and certain extraordinary factors, as the case may be, which may have occurred during the measurement period of the Plan's objectives.

Under the Plan, the Executive Chairman will receive, if appropriate, an incentive which will materialize as follows: 60% in shares and 40% in cash.

Further to the reduction of the incentive assigned to the Executive Chairman for the 2016-2020 Long-term Incentive Plan, resolved at the behest of the Executive Chairman himself, following favourable report of the Remuneration Committee, the aggregate amount of the incentive he has been assigned for the two cycles of the Plan is:

-In a scenario of achievement on target, €6,167k, equivalent in annualized terms to €1,542k (47% of the annual fixed remuneration for the performance of senior management functions).

-In a scenario of maximum achievement of objectives, the Maximum Incentive Assigned is 148% of the target incentive (which in annualized terms would represent 70% of the annual fixed remuneration for the performance of senior management functions).

-In a scenario of overachievement, 125% of the Maximum Incentive Assigned, (which in annualized terms would represent 88% of the annual fixed remuneration for the performance of senior management functions).

With regard to each cycle of the Plan, the aggregate amount of the incentive per cycle would amount to:

-For a level of achievement on target, €3,083k (95% of the annual fixed remuneration for the performance of senior management functions).

-For a level of maximum achievement, 148% of the target incentive (140% of the annual fixed remuneration for the performance of senior management functions).

In a scenario of overachievement, 187% of the target incentive (175% of the annual fixed remuneration for his senior management functions).

With regard to 60% of the maximum incentive assigned which would, if appropriate, materialize in shares, the maximum number of shares to be delivered was determined based upon the average weighted closing price of the Inditex share on the 30 trading days immediately prior to the latest trading day (inclusive) of the week immediately prior to that during which the meeting of the Board of Directors would approve the notice calling the 2016 Annual General Meeting (as regards the first cycle of the Plan) and the 2017 Annual General Meeting (as regards the second cycle).

At the end of each cycle, the Remuneration Committee will assess the level of achievement of the objectives and propose the number of shares to be delivered. The achievement of the objectives will be assessed through identifiable and quantifiable parameters called metrics. The incentive to be delivered will depend upon the following metrics, each with a 1/3 weigh:

-EBIT Growth: defined as the growth of the value of earnings, before interest and taxes, in a certain period of time.

-Same-store Sales Growth (MMTT): defined as the growth of sales in comparable physical and online stores, according to the information released by the Company, expressed in percentage terms.

-Relative Total Shareholder Return (TSR), defined as the comparison of the evolution of an investment in Inditex's shares with the evolution of an investment in shares of any of the companies included in the Benchmark Group of companies (as defined below), determined by the ratio (expressed as a percentage) between the final value of an hypothetical investment in shares (reinvesting the dividends from time to time) and the initial value of that same hypothetical investment.

In order to calculate the payout coefficient achieved by the Executive Chairman for each level of achievement of objectives, a performance scale will be determined for each metric, as detailed below:

a) With regard to EBIT and MMTT Growth, the performance scale is as follows:

-A below 50% level of achievement of objectives entails that no incentive is paid.

-A 50% level of achievement of objectives ("minimum level of achievement") represents a payout percentage of 50% of the Maximum Incentive Assigned.

-A 75% level of achievement of objectives ("level of achievement on target") represents a payout percentage of 75% of the Maximum Incentive Assigned.

-A 100% level of achievement of objectives ("maximum level of achievement") represents a payout percentage of 100% of the Maximum Incentive Assigned.

-An above 125% level of achievement of objectives ("overachievement) represents a payout percentage of 125% of the Maximum Incentive Assigned.

Intermediate figures are calculated by linear interpolation.

b) With regard to the evolution of the relative TSR:

-The Benchmark Group is made up of the companies included in the Dow Jones Retail Titans 30 index as at 1 February 2016, for the first cycle, and as at 1 February 2017, for the second cycle.

-For the purposes of Inditex's TSR and the TSR of each company within the Benchmark Group, Initial Value shall be understood as the average weighted closing price of the share of each company in the 30 Trading Days immediately prior to 1 February 2016 (excluded), for the first cycle, and prior to 1 February 2017 (excluded), for the second cycle).

-For the purposes of Inditex's TSR and the TSR of each of the companies included in the Benchmark Group, Final Value shall be understood as the average weighted closing price of the share of each company in the 30 Trading Days immediately prior to 31 January 2019 (inclusive) for the first cycle, and to 31 January 2020 (inclusive) for the second cycle.

-To this end, for calculating such Final Value, the dividends or other similar amounts received by the shareholder on said investment during the respective period of time will be considered, as if the gross amount thereof (before taxes) would have been reinvested in more shares of the same class on the first date on which the dividend or any similar amount is payable to the shareholders and at the closing price of the share on that date.

-At the end of each cycle, Inditex's TSR and the TSR of each of the companies included in the Benchmark Group will be calculated. The companies within such Benchmark Group will be ranked in descending order, in accordance with the highest or lowest TSR of each of them. Afterwards, Inditex's TSR shall be compared with the TSR of the companies within the Benchmark Group to identify between which positions Inditex is ranked. Subsequently, the portion of the incentive to be delivered shall be calculated, interpolating between the payout coefficients of such positions, according to the difference between the values of TSR.

-A payout coefficient is assigned to each position in the ranking, in accordance with the following payout scale:

(i) For a position below median within the Benchmark Group, the payout percentage will be 0% of the Maximum Incentive Assigned.

(ii) For a position at the median within the Benchmark Group (ranked 15th) ("minimum level of achievement"), the payout percentage will be 30% of the Maximum Incentive Assigned.

(iii) For a position at the 75th percentile within the Benchmark Group but below 90th percentile (ranked 5th to 8th), the payout percentage will be 100% of the Maximum Incentive Assigned.

(iv) For a position at 90th percentile or above within the Benchmark Group (ranked 1st to 4th) ("overachievement"), the payout percentage will be 125% of the Maximum Incentive Assigned.

(For intermediate positions, between median and 75th percentile within the Benchmark Group, the payout percentage will be calculated by linear interpolation.

The delivery shall take place with regard to the first cycle in 2019, within the month following the publication of the 2018 annual accounts, and with regard to the second cycle in 2020, within the month following the publication of the 2019 annual accounts.

The Executive Chairman must retain a number of shares equivalent to the incentive received in shares, net of any applicable taxes, for the 2 years following delivery thereof..

With regard to the Executive Chairman, the Company may cancel prior to payment, and/or claim the refund of the long-term incentive paid, in full or in part, (clawback) in the event or certain circumstances occurred within the 2 years following the delivery of the incentive for the proceedings of each cycle. Detailed information on such specific circumstances has been provided in section A.1.7 above.

The maximum number of shares under the 2019-2023 Plan amounts to 9,700,000 ordinary shares, which represent 0.3% of the share capital. In order for the Company to count on the necessary number of shares to be delivered to the beneficiaries of the 2016-2020 Plan and within the scope of the authorizations for the derivative acquisition of own shares granted to the Board of Directors by the Annual General Meetings held on 16 July 2013 and 19 July 2016, the Company has, as at 31 January 2019 an aggregate number of 2,950,143 own shares representing 0.095% of the share capital. Consequently, in order for the Company to count on the necessary number of shares to be delivered to the beneficiaries of both Plans, a resolution shall be passed at the 2019 Annual General Meeting regarding the authorization to the Board of Directors for the derivative acquisition of own shares.

In order to be eligible to receive the relevant incentive, as a general rule beneficiaries must remain in the Company until expiry of the accrual period.

- **Main characteristics of long-term savings systems. Among other information, state the contingencies covered by the system, whether through defined contributions or benefits, the annual contribution that needs to be made to the defined contribution system, the benefits directors are entitled to in the event of defined benefit systems, the conditions under which economic rights are consolidated for directors and their compatibility with any other type of payment or severance pay as a result of the early termination or dismissal of the director, or deriving from the termination of the contractual relation, in the terms provided, between the company and the director. –**

State if the accrual or consolidation of any of the long-term savings plans is linked to achieving certain objectives or parameters related to the short- or long-term performance of the director.

Except for the Executive Chairman, directors are not beneficiaries of any long-term saving system, including retirement or any other survivor benefit, partly or wholly funded by the Company.

From 2011 through 31 January 2015, the Executive Chairman was the beneficiary of a defined Money Purchase Pension Scheme Plan, implemented through a Group Life insurance policy taken out by Inditex with a carrier of repute in Spain (hereinafter, the “Policy”).

Contributions to such Money Purchase Pension Scheme Plan were made by Inditex in the month of September of each of the years referred to in the paragraph above. The amount of the annual contributions each year was equivalent to 50% of the fixed salary paid each financial year by Inditex to the Executive Chairman.

In 2018, no contributions were made to the Money Purchase Pension Scheme for the Executive Chairman, without prejudice to the fact that new contributions may be made throughout 2019, further to a resolution of the Board of Directors.

In case of termination at Inditex prior to the retirement age, the Executive Chairman will keep 100% of the entitlement to the accumulated funds under the Policy. However, this being a pension commitment, the Executive Chairman or his successors, as the case may be, shall not materialize such rights until any of the contingencies covered by the Policy would occur. General contingencies covered are retirement (regular or early), permanent disability while in performance of professional duties (ranked as Total/Absolute and Severe Disability) and death while in performance of professional duties. As an exception, acute illness and long-term unemployment will also be considered.

Pursuant to the provisions of *Real Decreto* 681/2014 of 1 August 2014, whereby the Regulations on Pension Plans and Funds approved by *Real Decreto* 304/2004 of 20 February were amended, the Policy also covers the possibility of receiving retirement benefit upon attaining 65 years where the National Social Security retirement benefit is not available, as well as receiving the retirement benefit in advance on account of termination of the employment agreement and joining the ranks of unemployed following the loss by the company of its legal personality, collective dismissal, dismissal on objective grounds and insolvency proceedings. These benefits are separate from any other to which the Executive Chairman may be entitled on other grounds

- **Any type of payment or severance pay for early termination or dismissal of the director, or deriving from the termination of the contractual relation, in the terms provided, between the company and the director, whether voluntary resignation by the director or dismissal of the director by the company, as well as any type of agreement reached, such as exclusivity, post-contractual non-competition, permanence or loyalty, which entitle the director to any type of remuneration**

No severance pays have been agreed in case of termination of duties as director, except for that provided in subparagraphs iii) and iv) of the next section regarding the Executive Chairman for the performance of senior management functions.

- **State the conditions that contracts should respect for those exercising senior management functions as executive directors. Among others, information should be provided on the duration, limits on amounts of severance pay, minimum contract term clauses, notice periods and payment in lieu of these notice periods, and any other clauses relating to hiring bonuses, compensation and golden parachute clauses for early termination of the contractual relationship between the company and the executive director. Include, among others, the pacts or agreement on noncompetition, exclusivity, permanence and loyalty, and post-contractual noncompetition, unless these have been explained in the previous section**

Pursuant to the provisions of sections 249 and 529*octodecies* LSC and section 30.3 of the Board of Directors' Regulations, the relevant terms of the contract entered into with the executive who performs senior management functions as Executive Chairman are detailed below:

(i) **Term**

The contract executed with the Executive Chairman is for an indefinite period.

(ii) **Notice period**

Both in case of termination of the contract on account of certain grounds attributable to Inditex, and on account of voluntary resignation of the Executive Chairman, notice shall be given at least three months in advance. Such notice may be replaced with an amount equivalent to the fixed remuneration of the non-observed term of notice.

(iii) **Severance or golden parachute clause**

The Executive Chairman shall be entitled to receive gross compensation in an amount equal to the remuneration of two years calculated based upon the fixed remuneration established for the year in course, where the contract is terminated by unilateral decision of the Company, and in case of resignation tendered by the Executive Chairman under certain premises (among which is the succession in the company or a change in control in the Company that affects more than 50% in the share capital or 50% of the voting rights, provided that a significant renewal of the governing bodies of the Company or a change in the contents or purpose of the main activity of the Company takes place at the same time, if such request for termination takes place within six months of the occurrence of such succession or change. For such purposes, no succession or change in control shall be deemed to have taken place in the event of direct or indirect family succession in the ownership of the Company).

Meanwhile, apart from the Executive Chairman, golden parachute clauses are provided in the contracts executed with 22 senior executives and officers, in the event that their contractual relationship, whether ordinary or senior management, is terminated further to withdrawal by Inditex, wrongful or unreasonable dismissal, or resignation based upon certain grounds, pursuant to the terms and conditions of their contracts. In such cases, the senior executive or officer shall be entitled to receive gross compensation in an amount equivalent to the remuneration of two years, calculated on the basis of the fixed and variable remuneration established for the year in course.

(iv) **Agreement on exclusivity and post-contractual non-competition**

For as long as his contractual relationship with Inditex remains in force, the Executive Chairman shall perform senior management functions exclusively for the Company and the Inditex Group, and he shall refrain from working either directly or indirectly for any third parties, or for his own account, even where the activities he may carry out would not compete with those of the Inditex Group. This provision does not apply to the office of non-executive director on the board of other companies which do not compete with Inditex, subject to the restrictions set out in the Board of Directors' Regulations.

With regard to the post-employment non-competition agreement and as regards all members of the Board of Directors, regardless of their classification as director, section 24.3 of the Board of Directors' Regulations provides that "the director who ends his/her mandate or for any other cause should cease to hold his/her office may not render service in another entity having a corporate purpose that is similar to that of the company for a period of two years.

(v) **Clawback provision**

Pursuant to the provisions of section A.1 above, should (i) any event or circumstance occur that would result in the negative change or variation, in final terms, of the financial statements, results, economic data, performance data or otherwise, upon which the accrual and payment to the Executive Chairman of any amount in terms of variable remuneration would have been based, and, (ii) should such change or variation determine that, if they had become known at the date when the accrual or payment would become due, the Executive Chairman would have received a lesser sum than the one initially paid, the Company shall be entitled to claim from him the refund of any excess paid.

Additionally, as explained in section A.1 above referred, the Company may cancel and/or claim the refund of the long-term incentive paid to the Executive Chairman, in full or in part, in the event of occurrence of certain circumstances during the 2 years following the delivery of the incentive.

- **Other remunerative items or by-products, as the case may be, of the company granting the director advance payments, loans, guarantees or any other remuneration**

The granting of advanced payments, loans or guarantees to directors is not covered in the Remuneration Policy.

As at the date of this Report, no advanced payment, loans or guarantees have been granted to any director.

- **The nature and estimated amount of any other planned supplementary remuneration accrued by directors in the year in progress that are not included in the previous sections, whether payment is satisfied by the company or another group company.**

No supplementary remuneration other than the one explained above is provided in the remuneration policy.

As at the date of this Report, no supplementary remuneration has been accrued to directors in consideration for services rendered other than those inherent in their office.

A.2 Explain any significant change in the remuneration policy applicable in the current year resulting from:

-A new policy or a modification of the policy already approved by the General Meeting.

-Significant changes in the specific determinations established by the board for the current year regarding the remuneration policy in force with respect to those applied in the previous year.

-Proposals that the board of directors has agreed to submit to the general shareholders' meeting to which this annual report will be submitted and which are proposed to be applicable to the current year

The remuneration policy for directors addressed in the 2014 Annual Report on Remuneration of Directors expired on 31 January 2019. Such policy was approved by the Annual General Meeting on 14 July 2015 for the following three financial years, i.e., 2016, 2017 and 2018, further to the advisory say-on-pay on the 2014 Annual Report on Remuneration of Directors, in accordance with the provisions of the Transitional Provision of Act 31/2014 of 3 December, amending the Companies Act to improve corporate governance.

Further to the expiry of such remuneration policy, the Board of Directors approved on 12 June 2018, on the proposal of the Remuneration Committee, to submit the new Remuneration Policy for Directors for financial years 2019, 2020 and 2021 to an advisory say-on-pay vote, by the Annual General Meeting held on 17 July 2018, as a separate item on the agenda, pursuant to section 529*novodecies* of the Revised Text of the Companies Act approved by *Real Decreto Legislativo* 1/2010, of 2 July. The Remuneration Policy was approved with 99.38% of votes for.

No significant changes to the previous policy in force in 2018 are covered in the above referred Remuneration Policy. However, it introduces the possibility of (i) paying the annual variable remuneration both in cash and in shares; and (ii) tying the long-term variable remuneration to objectives related to sustainability, the environment or good corporate governance which to this date only applied to annual variable remuneration. Such objectives shall have a maximum weight of 10% as a whole.

In the meeting held on 12 March 2019, the Board of Directors resolved, on the proposal of the Remuneration Committee, to table to the Annual General Meeting to be held in 2019: (i) the 2019-2023 Long-term Incentive Plan, and; (ii) this Report, which will be put to an advisory say-on-pay vote to be approved by the Annual General Meeting.

A.3 Identify the direct link to the document where the current company remuneration policy is posted, which must be available on the web page of the company

Please find the link below**:**

https://www.inditex.com/documents/10279/589107/11.+Remuneration+Policy.pdf/c513e6ac-9787-9899-fb0a-54bf8c16edfe

A.4 Explain, taking into account the data provided in Section B.4, the outcome of voting, of a consultative nature, by shareholders at the General Shareholders' Meeting on the annual report on remuneration for the previous year

The overarching principles and general parameters of the former remuneration policy for directors valid for financial years 2016, 2017 and 2018, have been taken into account and adhered to upon designing and drafting the Remuneration Policy for Directors approved by the Board on 12 June 2018 and put to an advisory say-on-pay vote at the Annual General

Meeting held on 17 July 2018. The Remuneration Policy for Directors was approved with 99.38% of the votes for.

It should also be noted that following the approval of the former remuneration policy for directors in 2015, the Annual Reports on Remuneration of Directors for financial years 2016, 2017 and 2018 were largely supported by the shareholders in the advisory say-on-pay vote, as well as by institutional investors and proxy advisors. This reflects the Company's efforts to be aligned with the interests of its stakeholders.

B OVERALL SUMMARY OF HOW REMUNERATION POLICY HAS BEEN APPLIED DURING THE YEAR ENDED

B.1 Explain the process followed to apply the remuneration policy and determine the individual remuneration contained in Section C of this report. This information will include the role played by the remuneration committee, the decisions taken by the Board of Directors and, as the case may be, the identity and the role of the external advisors whose services have been used in the process to apply the remuneration policy in the year ended.

B.1.1 Process followed to apply the Remuneration Policy and determine the individual remuneration

The duties of the Remuneration Committee are covered in article 30 of the Articles of Association, section 17 of the Board of Directors' Regulations and sections 5 and 6 of the Remuneration Committee's Regulations.

In 2018 and current year 2019 to the date this report is approved, the most relevant business transacted by the Remuneration Committee regarding the remuneration policy have been the following:

a) In the meeting held on 12 March 2018:

-The evaluation of the level of achievement of the objectives tied to the annual variable remuneration of the Executive Chairman for financial year 2017. The Board of Directors assessed the achievement of such objectives in the meeting held on 13 March 2018.

- The motion submitted to the Board of Directors regarding the remuneration of the Executive Chairman for the discharge of senior management functions in 2018, with regard to the amount and the remaining terms thereof. Such motion was approved by the Board of Directors on 13 March 2018.

- The proposed Annual Report on Remuneration of Directors for 2017. Further to the approval thereof by the Board of Directors in the meeting held on 13 March 2018, said Annual Report was put to the advisory say-on-pay vote of the Annual General Meeting held on 17 July 2018 as a separate item on the Agenda (item 7), and was voted for with a 98.78% affirmative vote.

b) In the meeting held on 11 June 2018, the Nomination Committee approved the proposed Remuneration Policy for Directors for financial years 2019, 2020 and 2021, to be tabled to the Annual General Meeting, following a reasoned report regarding such Remuneration Policy whereby its appropriateness and consistency with existing regulatory provisions, recommendations and best practices on governance were assessed. Such report was issued pursuant to section 529*novodecies* (2) LSC, article 30.3(a) of the Articles of Association, section 17.2(a) of the Board of Directors' Regulations and section 5(a) of the Nomination Committee's Regulations.

The Remuneration Policy for Directors was subsequently put to an advisory say-on-pay vote at the Annual General Meeting held on 17 July 2018 as a separate item on the agenda (item 5) and was approved with 99.38% votes for.

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

c) In the meeting held on 11 December 2018, the report on the performance of the Remuneration Committee and its members, that such Committee tabled to the Board of Directors to carry out the annual evaluation.

d) In the meeting held of 11 March 2019:

-The evaluation of the level of achievement of the objectives tied to the annual variable remuneration of the Executive Chairman for 2018. The Board of Directors assessed the achievement of such objectives in the meeting held on 12 March 2019.

-The evaluation of the level of achievement of objectives for the different metrics to which the first cycle (2016-2019) of the 2016-2020 Long-term Incentive Plan is tied. The Board of Directors approved the achievement of such objectives in the meeting held on 12 March 2019.

-The design of the 2019-2023 Long-term Incentive Plan, approved by the Board of Directors on 12 March 2019, on the proposal of the Remuneration Committee, to be subsequently submitted to the 2019 Annual General Meeting for approval.

-The motion submitted to the Board of Directors regarding the remuneration of the Executive Chairman for the performance of senior management functions in 2019, with regard to the amount and the remaining terms thereof. Such motion was approved by the Board of Directors on 12 March 2019.

-The proposed Annual Report on Remuneration of Directors for 2018 to be tabled to the Board of Directors for approval, to be subsequently put to the advisory say-on-pay vote of the 2019 Annual General Meeting. The Board of Directors approved such Report on 12 March 2019.

The information on the remaining activities of the Remuneration Committee in 2018 will be included in the Annual Corporate Governance Report and in the Annual Activities Report of the Remuneration Committee, which will be published in July as part of the 2018 Annual Report.

B.1.2 Composition of the Remuneration Committee

As provided in article 30 of the Articles of Association, section 17 of the Board of Directors' Regulations, and section 7 of the Remuneration Committee's Regulations, the Remuneration Committee shall be made up of a number of at least 3 and at most 7 non-executive directors, a majority of whom must be independent directors.

Members of the Remuneration Committee are appointed by the Board of Directors following a report of the Nomination Committee. The Chair of the Remuneration Committee is also appointed by the Board of Directors, out of the independent members of such Committee.

As at 31 January 2019 and as at the date of this report, the composition of the Remuneration Committee is as follows:

-Chair: Mr Rodrigo Echenique Gordillo (non-executive independent).

-Ordinary members: Mr José Arnau Sierra (non-executive proprietary), Bns. Denise Patricia Kingsmill (non-executive independent), Ms Pilar López Álvarez (non-executive independent), Mr Emilio Saracho Rodríguez de Torres (non-executive independent) and Mr José Luis Durán Schulz (non-executive independent).

-Secretary non-member: Mr Antonio Abril Abadín.

The Remuneration Committee meets whenever it is deemed appropriate for the successful performance of its functions, and at any rate, each time the Board of Directors or its Chairman requests the issuing of a report or the passing of motions within its remit. Moreover, the Remuneration Committee shall hold a regular meeting every year to prepare the information on the remuneration of Directors, which the Board of Directors has to approve and include as part of its annual public documentation.

The Remuneration Committee met 3 times in 2018, with the attendance of all its members (either in person or by proxy). This represents a 100% attendance ratio.

During the meeting that the Board of Directors holds immediately after each meeting of the Remuneration Committee, the Chair of the latter informs Board members of the business transacted in the course of such meeting.

According to the calendar scheduled for 2019, the Remuneration Committee is expected to meet at least 4 times.

B.1.3 The identity and the role of the external advisors whose services have been used in the process to apply the remuneration policy in the year ended.

To better perform its functions, the Remuneration Committee may request from the Board of Directors, that legal, accounting, financial or other experts be hired, at the expenses of the Company.

Upon preparing this Report, the Remuneration Committee has been advised by Willis Towers Watson, an independent consultant in the field of compensation of directors and senior executives.

B.2 Explain the different actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and adapting them to the long-term objectives, values and interests of the company, including a reference to the measures that have been adopted to guarantee that the long-term results of the company have been taken into consideration in the remuneration accrued and that a suitable balance has been attained between the fixed and variable components of the remuneration, the measures that have been adopted in relation to those categories of staff whose professional activities have a material repercussion on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if appropriate

The measures taken to ensure that long-term results of the Company are considered in the Remuneration Policy are described below:

-The aggregate compensation of the Executive Chairman comprises different remuneration elements, mainly consisting of: (i) a fixed remuneration, (ii) a short-term variable remuneration (annual), and (iii) a long-term variable remuneration (pluri-annual). This long-term element represents approximately 20% of aggregate compensation (fixed + short-term variable + long- term variable remuneration) for a scenario of performance on target, and 30% for a scenario of overachievement.

-Long-term variable remuneration plans are part of a pluri-annual framework to ensure that the assessment process is based upon long-term results and that the underlying economic cycle of the Company is considered therein.

Part of this remuneration is allocated and paid in shares, based upon shareholder value creation, so that the interests of the Executive Chairman and the officers are aligned with those of the shareholders.

-The Executive Chairman shall retain a number of shares equivalent to the incentive received in shares, net of any applicable taxes, for the 2 years following delivery thereof. Additionally, the Executive Chairman has committed to the Company to maintain in his own assets, while he remains in office, a number of shares equivalent to at least 2 years of fixed remuneration. These courses of action result in a better alignment of the interests of the Executive Chairman with those of the shareholders.

The remuneration policy strikes an appropriate balance between fixed and variable items of the remuneration as described below:

-The design of the remuneration scheme shows an efficient balance between fixed and variable items, as described in section A.1.4 above.

-Variable remuneration items are flexible enough to allow their shaping, to the extent that it is possible that no amount is paid on the grounds of variable remuneration; in such case, fixed remuneration would represent 100% of aggregate compensation.

-No guaranteed variable remunerations exist.

The measures with regard to those members of staff whose professional activity has a material impact on the risks profile of the Company are shown below:

-The Remuneration Committee is responsible for considering and reviewing the remuneration policy for directors and senior executives and for enforcing it. Those professionals whose activity may have a material impact on the risks' profile of the Company are included in this group.

-Members of the Remuneration Committee also sit on the Audit and Control Committee.

Therefore, the Chair of the Remuneration Committee is a member of the Audit and Control Committee and in turn, the Chair of the Audit and Control Committee sits on the Remuneration Committee. This ensures that risks associated to remuneration are considered in the course of the debates of the Remuneration Committee and of the Audit and Control Committee and in the submission of motions by said Committees to the Board of Directors, both regarding the determination and the process to assess annual and pluri-annual incentives.

With regard to clawback provisions in order to be entitled to claim the refund of variable items of the remuneration that are based on results, when these items have been paid on the basis of information later shown clearly to be inaccurate:

-A clawback provision is included in the contract executed with the Executive Chairman; additionally, the Company may cancel and/or claim the refund of the long-term incentive paid to the Executive Chairman, in full or in part, upon occurrence of certain circumstances, as described in section A.1 above.

-The Remuneration Committee may propose to the Board of Directors the cancellation of payment or, where appropriate, the refund of the variable items of the remuneration of directors based on results, when these items have been paid on the basis of information later shown clearly to be inaccurate, as well as the termination of the relationship with the relevant supervisor and the filing of the relevant claims, pursuant to the terms of section 6 of the Remuneration Committee's Regulations.

B.3 Explain how the remuneration accrued over the year meets the provisions contained in the current remuneration policy.

Furthermore, report on the relationship between the remuneration obtained by the directors and the results or other performance measures of the company in the short and long term, explaining, as the case may be, how the variations in the performance of the company have influenced changes in the remuneration of directors and how the latter contribute to the short- and long-term results of the company

The Remuneration Policy for directors in their status as such applied in 2018 was approved by the Annual General Meeting on 14 July 2015 further to an advisory say-on-pay vote regarding the Annual Report on Remuneration of Directors for 2014.

The amounts set out in section A.1 above are the only remuneration paid to directors for membership on the Board of Directors of Inditex, or of any Group companies, except for the remuneration of the Executive Chairman for the performance of senior management functions. Directors receive no other remuneration under a profit-sharing scheme or bonus, nor any remuneration systems or schemes covering a variable remuneration or based on results or other indicators of performance.

As regards the Executive Chairman, certain items of his remuneration for the performance of senior management functions are tied to results and other indicators of performance of the Company. In particular, in 2018:

(i) <u>Short-term or annual variable remuneration</u>

As explained below, the Board of Directors resolved, on the proposal of the Remuneration Committee, that the annual variable remuneration for 2018 should be determined in accordance with the following criteria:

-70% based upon the net sales and the contribution margin, in equal proportion, with the same criteria as those established for senior executives according to the budget of the Company;

-15% based upon the following criteria: the personal performance of the Executive Chairman and the strategic development of the Company, in terms of the boost of store and online integration, through the development and implementation of new processes and tools allowing to provide a differentiated customer experience, pursuant to the Groups' objectives;

-and the remaining 15% based upon the following criteria: the progress in environmental and social sustainability policies, in terms of the number of new stores which meet eco-efficiency parameters and the number of audits and control of discharges at dyeing facilities (wet processes), in the framework of the Commitment to Zero Discharge of Hazardous Chemicals (ZDHC) Programme; the progress in corporate governance, in terms of the degree of compliance with the recommendations of the Good Governance Code of Listed Companies and the alignment with international best practices, and the progress in implementing compliance and diversity programmes, in terms of approval of internal regulations and the degree of international roll-out.

In the consideration of the above mentioned criteria for the purposes of determining the annual variable remuneration for 2018, the Remuneration Committee has taken into account the following issues:

(i) Inditex Group's net sales amounted to €26.145bn in 2018, which represents a 75% level of achievement of objectives.

(ii) The contribution margin has reached €4.357bn in 2018, with represents a 94% level of achievement of objectives.

(iii) With regard to the remaining objectives, the Remuneration Committee has considered the following:

-The findings of the evaluation of the performance of the Executive Chairman carried out by the Board of Directors in the meeting held on 11 December 2018 following a report of the

Nomination Committee, which was qualified as “excellent”, in line with the evolution of the Company.

-Progress in strategic development. Further progress has been made by the Company upon rolling out its fully integrated store and online business strategy. In this sense, the implementation of RFID technology has been completed in Zara and is in progress regarding the formats. Likewise, the pool of online sale devices at stores or of automated collection points for online orders at stores (click & collect) has been extended, which allows further improving the customer experience. Examples of such initiatives are the Zara stores in Stratford (London), Vittorio Emanuele (Milan) or Roppongi Hills (Tokyo) which offer a differentiated customer experience by integrating customer service technology, both regarding collection of online orders and optimization of the following processes: (i) search (tablets and mobile devices); (ii) fitting rooms (intelligent mirrors), and (iii) shopping (possibility of paying with the mobile).

2018 has marked a milestone for the expansion of the company’s online business, with the launching (in addition to Australia and New Zealand) of the global Zara store in 106 new markets. Likewise, Inditex announced that all its brands will be selling online worldwide by 2020.

With regard to observance of the expansion plans. Total retail floor area has reached upwards of 4.9 million m², which represents a 5% increase, in the medium term range of objectives set. The Company’s global expansion process has continued with 370 openings in 57 markets in 2018. Contemporaneously, an active policy has been implemented to optimize the retail floor area, mainly focused on prime locations and materialized in the absorption of 355 stores and the conduct of 226 refurbishments and extensions of existing business premises. At year-end, the aggregate number of stores was 7,490.

-Progress in social sustainability policies. The following can be underscored, inter alia: progress has continued in respect of traceability of production, by promoting the use of the “Orders Management application in the Suppliers Portal”, a new version of which has been implemented with an increased level of detail of the information gathered. 2,546 traceability audits were carried out in 2018, out of which 158 were specific assessment audits of the management systems of suppliers, to prevent potential production deviations. The monitoring level of the production units which are part of the supply chain has been kept, through the Compliance Programme, included in the “2014-2018 Strategic Plan for a Stable and Sustainable Supply Chain”. 5,359 social audits were conducted in 2018. Additionally, 1,982 special audits were carried out, with inspection visits to follow-up on the corrective action plans and specific health and safety evaluations. 2,177 pre-assessment audits were conducted in 2018 Inditex has continued working in close collaboration with IndustriALL and with the International Labour Organization (ILO). Mention should be made of Inditex’s participation in different ILO programmes, such as Better Work or SCORE. In 2018, the company has become a member of *Better Than Cash Alliance*, an alliance of governments, companies and different international organizations based in the UN, that seeks to globally promote the transition to digital economy. Within the scope of ACT (*Action, Collaboration, Transformation*) initiative, progress has been made towards identifying and promoting commitments to responsible purchasing practices. Inditex has continued its active participation in Shift’s Business Learning Program. A framework agreement has been executed with *Universidade do Minho (Guimaraes)* in Portugal, to implement the Lean project that seeks to improve workers’ conditions across the supply chain, by improving the management systems regarding suppliers’ production. As for the proceedings regarding the “*Ready to Manufacture*” (RtM) manufacturing standard, and the commitment to eliminate APEOs and PFCs, 2,008 audits were conducted this year at 1,385 facilities with a global 65% improvement versus their prior initial and/or follow-up audit. The scope of production control in the chemical industry has been extended to 26 suppliers who put on the market some 25,943 chemical products, which represents a 31% increase versus the previous edition. In 2018, 31 new requests were received to be included in *The List by Inditex* programme, and progress has been made in its 4th edition, as 15 audits and 57,267 analysis were conducted. Regarding proceedings carried out in respect of creation and update of health and safety of the product standards, the *Clear to Wear* standard encompasses now 62 new regulations and 77 new individual chemicals and/or parameters. Regarding the *Safe to Wear* standard, 3 new regulations have been included that amend existing restrictions. Work has continued in the year regarding the implementation of the first version of the health standard for cosmetic (*i+COSMETIC*) and for food contact materials (*i+FCM*). Additionally, significant progress has been made in the standards applicable to air fresheners (*I + Air Fresheners*), candles (*I + Candles*) and childcare articles (*I + Childcare Article*). Social initiatives developed in 2018 have directly benefited more than 2.4 million people, which represents a 45% increase versus the previous year. The scope of the projects that embody Inditex's contribution to community welfare has been extended through proceedings aimed at promoting education, social welfare and emergency relief.

-Progress in environmental sustainability policies. The implementation of the 2016-2020 Environmental Strategic Plan has continued in 2018. All Group formats have continued working in the year under the *Join Life* labeling programme, a standard that identifies collections made using the most sustainable raw materials as well as better technologies at the service of production. In 2018 the Company has offered on the market 136.32 million items under the *Join Life* seal. Inditex has continued supporting projects in BC cotton farming communities, along with BCI and Farm Investment. In furtherance of the Forest Product Policy, the Company works closely with Canopy Planet in the *CanopyStyl*e initiative. Inditex and other brands of the textile sector promote the adoption among the leading suppliers of forest raw materials in the world, of positions aligned with the philosophy to protect primary and HCV forests. Work has continued to ensure that Inditex's supply chain implements the Green to Wear programme (www.wateractionplan.com). From the beginning of the programme, Inditex has carried out 1,364 environmental audits and control of discharges at dyeing facilities (wet processes) in the framework of its commitment to *Zero Discharge of Hazardous Chemicals* (ZDHC). Inditex also works with the Chinese Institute of Public and Environmental Affairs (IPE), to improve the environmental management of its supply chain. With regard to the Perfluorocarbons-free Policy (PFC), Inditex is the global leader in the *Detox Catwalk 2016* ranking. To improve the effectiveness of its logistics operations, the *Green to Pack* programme has been further developed. In 2018, 5,494 stores meet the eco-efficiency requirements and 38 own stores have been certified under LEED and Breeam: sustainable building standards: 27 under Gold LEED certificate, 10 under LEED Platinum, and 1 under the Breeam seal. In 2018, 8 new flagship stores have been certified under such standards: (Massimo Dutti - Colón Valencia store; Uterqüe – Serrano store; Zara - Kangnam Seoul store; Pull and Bear – Preciados store; Zara Home - Paseo del Borne store; Zara Home - The Place store; Zara - Oslo Karl Johansgate store and Zara - Plaza de Cataluña store). Containers to collect used garments, footwear and accessories have been installed at logistics centres and headquarters, as well as in 834 Zara stores in 24 markets. The programme has also extended to other brands, such as Pull & Bear, Bershka, Oysho and Tempe, with 524 stores of all such formats having implemented it in Spain. Likewise, a pilot test is under way in 24 Zara Home, Stradivarius and Massimo Dutti stores in Spain. Regarding e-commerce, the program to manufacture boxes from recycled boxes continues in place for Zara online orders, and online customers are offered the service of free collection of used clothes at home. This repair and reuse programme has also been made available in the year to Zara's online customers in Beijing and Shanghai. Inditex collaborates with a number of academic institutions, such as MIT, through its MISTI initiative, with different Spanish universities and with Austrian company Lenzing, to make progress in textile recycling processes and technologies that contribute to the circular economy.

-Progress in corporate governance. the Audit and Control Committee has reviewed the appropriateness of the Corporate Governance system, with a positive outcome, as it has found that the Company fully complies with the regulatory requirements laid down in the applicable laws and regulations, and meets almost all the recommendations of the Good Governance Code of Listed Companies, approved by CNMV in February 2015, as provided in section G “Extent of compliance with corporate governance recommendations” of the 2018 Annual Corporate Governance Report. It should be pointed out that the re-election and appointment to the Board of Directors of Mr Rodrigo Echenique Gordillo and Ms Pilar Lopez Álvarez, respectively in 2018, contributed to reinforcing the balanced composition of the Board of Directors, and namely: (i) the majority presence of non-executive independent directors on the supreme governing body of the Company and its committees; (ii) a more balanced distribution of male and female directors, the 30% representation goal for the least represented gender having been achieved ahead of schedule; and (iii) the addition of a new board member with experience in the technology and digital sector, in line with the corporate strategy regarding the Company’s digitalization process.

-Progress in the roll-out of the diversity and compliance programmes. Upon implementing the Model of Compliance developed during the year, the Scoping Matrix of Criminal Risks and Controls has been updated, by reviewing the potential risks inherent in the processes of the different proceedings carried out, taking into account the latest regulatory developments, the approval and/or amendment of internal regulations and the changes to the organizational structure and to certain processes of the Company. Such process has been completed with a new reasonable assurance review of the Model of Criminal Risk Prevention, in order to establish that the controls included in the Scoping Matrix of Criminal Risks and Control are effective and appropriate and that the Model complies with the requirements laid down in the Criminal Code and in UNE 19601 standard. Likewise, the Training Plan on Criminal Compliance was launched this year. The Board of Directors approved in the year the following corporate global policies, intended to bring the company’s internal regulations into line with certain regulatory developments existing in the different markets, international standards and best practices, as well as recommendations on Corporate Governance and Corporate Compliance: (i) the Anti-Money Laundering and Terrorist Financing Policy, that marks Inditex’s unwavering commitment against money-laundering and terrorist financing and its will to collaborate with competent authorities in this field. Such Policy defines the due diligence processes in place within the Company, considering the different business activities Inditex conducts, including: (a) limiting payments in cash at stores by customers; and (b) identifying and researching business partners, suppliers and other third parties, by means of the due diligence measures laid down in its internal regulations and, as the case may be, in the applicable law; (ii) the new Policy on Internal Control over Financial Reporting System (ICFR); and (iii) the Policy on Management of Insurable Risks.

-Significant progress is also noted regarding the international roll-out of the Corporate Compliance Model. New local Compliance Delegates have been appointed in the Nordic countries, Poland and Kosovo, the current number of local Compliance Delegates standing at 34 in 56 markets in America, Asia and Europe. The first annual Compliance Report for FY2017, prepared with the assistance of local Compliance Delegates, was reported to the Audit and Control Committee on 12 March 2018. On the other hand, progress has been made in France regarding the implementation of a specific anti-corruption model, to comply with the statutory requirements in such country, and in Italy, the current model of criminal risk prevention has been subject to review and update. Both anti-corruption models have been subject to an audit, on the advice of an external facilitator, to review their adjustment to regulations, recommendations and best practices, and confirm the effectiveness and appropriate operation of a selection of their controls. Likewise, in 2018 the new Code of Conduct for the US and Puerto Rico, inspired by the Group’s Code of Conduct and Responsible Practices, has been launched, in line with local regulations and best practices. Following its posting on the corporate website and the local intranet in May 2018, an intensive plan was launched regarding the circulation and acceptance of the Code by the employees of the subsidiary.

Positioning: Inditex has been ranked for the third straight year as the most sustainable company in the global retailing industry by the *Dow Jones Sustainability Index* (DJSI).

Likewise, Inditex has been included in the ranking of the *Global 100 Most Sustainable Corporation*s, disclosed by Corporate Knights, in the 54th position. Such index assesses economic, social and governance indicators. Inditex is ahead of the other three Spanish companies included in the ranking.

Last, Inditex is the leader in climate change, according to *Carbon Disclosure Project* (CDP), (an international non-profit organization that assesses more than 5,600 companies every year), pointing out the Group's efforts to reduce Greenhouse Gas (GHG) emissions as well as in risk management and governance.

Having assessed all the foregoing objectives as a whole, the Remuneration Committee has considered a 95% overall level of achievement. As a result, the Board of Directors resolved, on the proposal of the Remuneration Committee, an annual variable remuneration of €3,087k for the Executive Chairman (95% of his annual fixed remuneration for the performance of senior management functions).

(ii) <u>Pluri-annual or Long-term variable remuneration</u>

As indicated in section A.1 above, the first cycle of the 2016-2020 Long-term Incentive Plan expired on 31 January 2019.

To determine the level of achievement of objectives reached as well as the amount of the relevant incentive, the Board of Directors considered in the meeting held on 12 March 2019, on the proposal of the Remuneration Committee, the following issues:

- Inditex Group's Same-store sales growth (MMTT) in the period running from 1 February 2016 through 31 January 2019 was 19.32%.

- Inditex Group's EBIT growth in the period running from 1 February 2016 through 31 January 2019 was 18.48%.

Consequently, the overall level of achievement of objectives stands at 73.10%. Therefore, the Board of Directors resolved, on the proposal of the Remuneration Committee that the Executive Chairman would receive:

- An incentive in cash in the amount of € 1,348k.

- An incentive in shares equivalent to 69,985 shares. Further information on this topic can be found in section C below.

B.4 Report on the result the advisory say-on-pay vote of the Annual General Meeting on the annual remuneration report of the previous year, stating the number of votes against that may have been cast:

The 2017 Annual Report on Remuneration of Directors was put to the advisory say-on-pay vote of the Annual General Meeting last 17 July 2018, as item number five on the agenda, with the following outcome:

	Number	% of total
Votes cast	2,750,287,442	88.25%

	Number	% cast
Votes against	17,561,070	0.64%
Votes for	2,716,843,164	98.78%
Abstentions	15,882,013	0.58%
Blank votes	1,195	0.00%

B.5 Explain how the fixed components accrued during the year by the directors in their capacity as such have been determined and how they have changed with respect to the previous year

To determine the remuneration accrued by the directors in their capacity as such in 2018 the amounts fixed further to a resolution passed by the Board of Directors on 19 July 2011 have been considered. Such amounts were subsequently included in the remuneration policy for directors approved by the Annual General Meeting on 14 July 2015, further to an advisory say-on-pay vote regarding the Annual Report on Remuneration of Directors for 2014. The different items and amounts are those referred to in section A.1.7 above.

Pursuant to the foregoing and given the current composition of the Board of Directors and its Committees, the aggregate sum accrued by the directors in their capacity as such for the discharge of supervisory and collective decision-making functions has amounted to €2,030k out of which €100k was accrued by the Executive Chairman.

B.6 Explain how the salaries accrued by each one of the executive directors over the past financial year for the performance of management duties were determined, and how they have changed with respect to the previous year

Remuneration of the Executive Chairman for the performance of senior management functions:

a) Fixed remuneration or salary

The fixed remuneration of the Executive Chairman for the performance of senior management functions was resolved by the Board of Directors on 12 March 2018 on the proposal of the Remuneration Committee.

In 2018 the fixed remuneration of the Executive Chairman for the performance of senior management functions amounted to €3,250k, which represents a significant portion of his aggregate remuneration.

This sum has remained unchanged since 2013 and according to the Remuneration Policy, it shall remain the same for the three years during which the Plan will be valid (2019, 2020 and 2021).

B.7 Explain the nature and the main characteristics of the variable components of the remuneration systems accrued in the year ended.

In particular:

-Identify each one of the remuneration plans that have determined the different types of variable remuneration accrued by each of the directors in the year ended, including information on their scope, their date of approval, their date of incorporation, the periods of accrual and validity, the criteria used to evaluate performance and how this has affected the establishment of the variable amount accrued, as well as the measurement criteria used and the period necessary to be in a position to suitably measure all the conditions and criteria stipulated.

-In the case of share options and other financial instruments, the general characteristics of each plan will include information on both the conditions to acquire unconditional ownership (consolidation) and to exercise these options or financial instruments, including the price and term to exercise them.

-Each one of the directors, together with their category (executive directors, proprietary external directors, independent external directors and other external directors), that are beneficiaries of remunerations systems or plans that include variable remuneration.

As the case may be, information is to be provided on periods for the accrual or deferment of payment applied and/or the periods for withholding/unavailability of shares or other financial instruments, if they should exist-

Explain the short-term variable components of remuneration systems

As explained in section A.4 of the 2017 Annual Report on Remuneration of Directors, the following criteria have been considered by the Remuneration Committee upon evaluating the determination of the annual variable remuneration for 2018:

-70% based upon the net sales and the contribution margin, in equal proportion, with the same criteria as those established for senior executives according to the budget of the Company;

-15% based upon the following criteria: the personal performance of the Executive Chairman and the strategic development of the Company, in terms of the boost of store and online integration, through the development and implementation of new processes and tools allowing to provide a differentiated customer experience, pursuant to the Groups' objectives;

-and the remaining 15% based upon the following criteria: the progress in environmental and social sustainability policies, in terms of the number of new stores which meet eco-efficiency parameters and the number of audits and control of discharges at dyeing facilities (wet processes), in the framework of the Commitment to Zero Discharge of Hazardous Chemicals (ZDHC) Programme; the progress in corporate governance, in terms of the degree of compliance with the recommendations of the Good Governance Code of Listed Companies and the alignment with international best practices, and the progress in implementing compliance and diversity programmes, in terms of approval of internal regulations and the degree of international roll-out.

Further to the assessment of the level of achievement of objectives, the Board of Directors resolved on 12 March 2019, on the proposal of the Remuneration Committee, a 95% overall level of achievement which corresponds to an annual variable remuneration in 2018 of €3,087k The assessment of each of the objectives has been explained in detail in section B.3 above.

Explain the long term variable components of remuneration systems

Current long-term incentive plans have been explained in detail in section A1 above.

The first cycle of the 2016-2020 Long-term Incentive Plan expired on 31 January 2019. Having assessed the level of achievement of all the objectives to which the cycle is tied, the Remuneration Committee has considered an overall level of achievement of objectives standing at 73.10%. Detailed information on the objectives to which this first cycle is tied and the assessment carried out by the Committee can be found in section B.3 above.

Consequently, the Board of Directors resolved on the proposal of the Remuneration Committee for the Executive Chairman:

- An incentive in cash in the amount of € 1,348k.

- An incentive in shares equivalent to 69,985 shares, which corresponds to a gross amount of €1,704k. It should be noted that in order to quantify the part of the incentive that will materialize in shares, the closing price of Inditex share as at the accrual day of the first cycle of the 2016-2020 Plan (i.e.31 January 2019) has been taken into account.

The Executive Chairman must retain such shares, net of any applicable taxes, for the 2 years following delivery thereof**.**

B.8 Indicate whether certain variable components have been reduced or clawed back when, in the case of the former, payment has been consolidated and deferred or, in the case of the latter, consolidated and paid, on the basis of data that have subsequently proved to be inaccurate. Describe the amounts reduced or clawed back through the application of the reduction or clawback clauses, why they were implemented and the years to which they refer

No such proceedings have taken place in 2018.

B9.Explain the main characteristics of the long-term savings systems where the amount or equivalent annual cost appears in the tables in Section C, including retirement and any other survivor benefit that are financed, totally or partially, by the company, whether through internal or external contributions, indicating the type of plan, whether it is a defined contribution or benefit, the contingencies covered, the conditions to consolidate economic rights for directors and their compatibility with any type of severance pay for early termination or termination of the contractual relationship between the company and the director

In 2018 Inditex has made no contributions to the Money Purchase Pension Scheme Plan.

B.10 Explain, where appropriate, the severance pay or any other type of payment deriving from early dismissal or early resignation, or from the termination of the contract in the terms provided for therein, accrued and/or received by directors during the year ended

As at the date hereof, no such remuneration has been accrued.

B.11 Indicate whether there have been any significant changes in the contracts of persons exercising senior management functions, such as executive directors, and, where appropriate, explain such changes. In addition, explain the main conditions of the new contracts signed with executive directors during the year, unless these have already been explained in Section A.1.

The contract with the Executive Chairman has not been subject to any amendment in 2018.

B.12 Explain any supplementary remuneration accrued by directors as consideration for services rendered outside of their post.

No supplementary remuneration other than the ones herein addressed is provided in the Remuneration Policy.

As at the date hereof, no supplementary remuneration has been accrued by the directors in consideration for any services rendered outside of their post.

B.13 Explain any remuneration deriving from advance payments, loans or guarantees granted, indicating the interest rate, their key characteristics and the amounts eventually returned, as well as the obligations taken on by way of guarantee or collateral

The granting of advance payments, loans or guarantees to directors is not provided in the Remuneration Policy.

As at the date of this Report, no advance payment, loans or guarantees have been granted to any director.

B.14 Itemise the remuneration in kind accrued by the directors over the year, briefly explaining the nature of the different salary components

No remunerations in kind exist other than the delivery of shares referred to in the foregoing sections.

B.15 Explain the remuneration accrued by directors by virtue of payments settled by the listed company to a third company at which the director renders services when these payments seek to remunerate the director's services to the company

No such remuneration has been accrued by any director as at the date hereof.

B.16 Explain any other items of remuneration other than those mentioned in the previous sections, whatever their nature or the group company that settles the payment, particularly when this is a related operation or its settlement distorts the true image of the total remuneration accrued by the director

No other additional item of remuneration other than the ones mentioned in the previous sections are provided in the remuneration system for directors.

C ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Type	Accrual period FY2018
Mr Pablo Isla Álvarez de Tejera	Executive	From 01/02/2018 to 31/01/2019
Mr José Arnau Sierra	Proprietary	From 01/02/2018 to 31/01/2019
Mr Amancio Ortega Gaona	Proprietary	From 01/02/2018 to 31/01/2019
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	Proprietary	From 01/02/2018 to 31/01/2019
Bns. Denise Patricia Kingsmill	Independent	From 01/02/2018 to 31/01/2019
Mr José Luis Durán Schulz	Independent	From 01/02/2018 to 31/01/2019
Mr Rodrigo Echenique Gordillo	Independent	From 01/02/2018 to 31/01/2019
Ms Pilar López Álvarez	Independent	From 17/07/2018 to 31/01/2019
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	Affiliate	From 01/02/2018 to 17/07/2018
Mr Emilio Saracho Rodríguez de Torres	Independent	From 01/02/2018 to 31/01/2019

C.1 Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.

a) Remuneration from the reporting company:

i) Remuneration in cash (in €K)

Name	Fixed remuneration	Remuneration for membership on Board's committees	Salary	Per diem allowances	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total FY2018	Total FY2017
Mr Pablo Isla Álvarez de Tejera	100	0	3,250	0	3,087	1,348	0	0	7,785	6,570
Mr José Arnau Sierra	100	150	0	0	0	0	0	80	330	330
Mr Amancio Ortega Gaona	100	0	0	0	0	0	0	0	100	100
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	100	0	0	0	0	0	0	0	100	100
Bns Denise Patricia Kingsmill	100	150	0	0	0	0	0	0	250	250
Mr José Luis Durán Schulz	100	150	0	0	0	0	0	50	300	300
Ms Pilar López Álvarez	54	80	0	0	0	0	0	0	134	-
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	46	70	0	0	0	0	0	0	116	250
Mr Rodrigo Echenique Gordillo	100	150	0	0	0	0	0	50	300	300
Mr Emilio Saracho Rodríguez de Torres	100	150	0	0	0	0	0	50	300	300

ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of year 2018		Financial instruments granted at start of year 2018		Financial instruments consolidated during the year				Instruments matured but not exercised	Financial instruments at end of year 2018	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares / handed over	Price of consolidated shares	Net profit from shares handed over or consolidated financial instruments (€k)	No. of instruments	No. of instruments	No. of equivalent shares
Mr Pablo Isla Álvarez de Tejera	First cycle of the 2016-2020 Long-term Incentive Plan	119,754	119,754	-	-	69,985	69,985	24.35*	1,704	69,985	69,985	69,985
	Second cycle of the 2016-2020 Long-term Incentive Plan	95,651	95,651	-	-	-	-	-	-			

Remarks
*For the purposes hereof, it should be noted that in order to quantify the gross profit from consolidated shares, the closing price of Inditex share as at the accrual day of the first cycle of the 2016-2020 Plan (i.e.31 January 2019) has been taken into account)

iii) Long-term saving systems

	Contribution over the year from the company (€k)				Amount of accumulated funds (€k)			
Name	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights					
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018		FY2017	
					Systems with consolidated economic rights	Systems with unconsolidated economic rights	Systems with unconsolidated economic rights	Systems with unconsolidated economic rights
Mr Pablo Isla Álvarez de Tejera	0	0	0		8,285	-	7,939	-

iv) Details of other items

Name	Item	Amount remunerated
Director 1		

Remarks

b) Remuneration of the company directors for seats on the boards of other group companies:):

i) Remuneration in cash (€k)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Longt-term variable remuneration	Severance pay	Other items	Total in year t	Total in year t-1
Director 1										
Director 2										

Remarks

ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of year t		Financial instruments granted at start of year t		Financial instruments consolidated during the year				Instrumen ts matured but not exercised	Financial instruments at end of year t	
		No. instruments	No.equivalent shares	No. instruments	No. equivalent shares	No. instruments	No. of equivalen t shares/ha nded ove	Price of consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand	No. instruments	No. instruments	No. equivalent shares
Director 1	Plan 1											
	Plan 2											

Remarks

iii) Long-term savings systems

	Remuneration from consolidation of rights to savings syste
Director 1	

Name	Contribution over the year from the company (€k)				Amount of accumulated funds (€k)			
	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights		Year t		Year t-1	
	Year t	Yeart t-1	Year t	Yeart t-1	Systems with consolidated economic rights	Systems with unconsolidated economic rights	Systems with unconsolidated economic rights	Systems with unconsolidated economic rights
Director 1								

Remarks

Details of other items

Name	Item	Amount remunerated
Director 1		

Remarks

c) Summary of remunerations (€k):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (in €k).

	Remuneration accrued in the company					Remuneration accrued in group companies				
Name	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Remuneration for savings systems	Remuneation for other items	Total FY2018 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Remuneration for savings systems	Remuneation for other items	Total FY2018 group
Mr Pablo Isla Álvarez de Tejera	7,785	1,704	0	0	9,489					
Mr José Arnau Sierra	330	0	0	0	330					
Mr Amancio Ortega Gaona	100	0	0	0	100					
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	100	0	0	0	100					
Bns Denise Patricia Kingsmill	250	0	0	0	250					
Mr Jose Luis Durán Schulz	300	0	0	0	300					
Mr Rodrigo Echenique Goardillo	300	0	0	0	300					
Ms Pilar López Álvarez	134	0	0	0	134					
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	116	0	0	0	116					
Mr Emilio Saracho Rodríguez de Torres	300	0	0	0	300					
Total:	9,715	1,704	0	0	11,419					

Remarks
Regarding the gross profit from consolidated shares herein indicated, see “Remarks” under section C.1.a).ii) above

D OTHER INFORMATION OF INTEREST

If there are any relevant issues relating to directors' remuneration that you have not been able to address in the previous sections of this report, but which are necessary to provide more comprehensive and fully reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

This annual remuneration report has been approved by the Board of Directors of the Company in the meeting held on 12 March 2019.

State whether any director has voted against or abstained from approving this Report

Yes **No** ☒

Name or company name of the member of the board of directors who has not voted for the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons
-	-	-