

**NOMINATION AND REMUNERATION COMMITTEE
OF
INDUSTRIA DE DISEÑO TEXTIL, S.A.**

**ACTIVITIES REPORT
FY 2005**



Preliminary

The Board of Directors of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.) (hereinafter, INDITEX), in line with the changes introduced by Act 44/2002, of 22 November, on Measures for the Reform of the Financial System (“Financial Act”) regarding the regulation of corporate governance of listed companies, and with the last trends on the subject, highlighted in the Report by the Special Commission to Foster Transparency and Security in the Markets and in Listed Companies (“The Aldama Report”), resolved in its meetings held on 20 March 2003 and 10 June 2004 to amend several rules on corporate governance of the company, amongst them the Board of Directors’ Regulations.

Amongst said amendments, those aimed at enhancing the tasks of the Nomination and Remuneration Committee, shall be stressed.

This document drawn up by the Nomination and Remuneration Committee in the session held on 12 June 2006, is the first annual activities report prepared by said body.

The Nomination and Remuneration Committee of Inditex: origin and evolution, regulations and composition

Origin and evolution

The Board of Directors of INDITEX, in the meeting held on 20 July 2000, approved the Board of Directors' Regulations, under the provisions of article 29.3 of the Articles of Association and in order to adjust to the guidelines of the report drawn up by the Special Commission for the study of an Ethics Code for corporate governance (the "Olivencia Code").

Article 15 of said Regulations established the Nomination and Remuneration Committee, entrusting it with the relevant duties pursuant to the above mentioned Olivencia Code.

Subsequently, in its meeting of 20 March 2003, the Board of Directors resolved:

- 1) To propose to the General Meeting of Shareholders the amendment of the Articles of Association, through a new wording of article 32, in order to include the regulation of the Nomination and Remuneration Committee.

- 2) To approve the amendment of the Board of Directors' Regulations, clarifying and harmonising some of the duties of the Committee.

Subsequently, it was resolved by the Board of Directors in its meeting held on 10 June 2004, to approve a new Revised Text of the Board of Directors' Regulations, whereby the duties of the Nomination and Remuneration Committee were one again enhanced, with the inclusion of a new task, regarding the need for the Committee to give a report on the employment agreements of the personnel that include guarantee clauses or severance agreements, before they are subscribed.



Regulations

Article 32 of the Articles of Association currently in force provides as follows:

Article 32.- Nomination and Remuneration Committee

1. *A Nomination and Remuneration Committee shall be formed within the Board of Directors, made up of a minimum number of three directors and a maximum of five who must necessarily be independent directors.*

To this end, independent directors are understood as those that meet the requirements referred to under the second paragraph of article 31.1

- 2.- *The Chairman of the Nomination and Remuneration Committee shall be appointed by the Board of Directors from among its members.*
- 3.- *Without prejudice to any other tasks that it might be assigned from time to time by the Board of Directors, the Nomination and Remuneration Committee shall have at least the following basic responsibilities:*
 - a) *To report on the proposals to appoint directors prior to their appointment by the General Meeting of Shareholders or, where appropriate, by the Board of Directors through the co-option procedure;*
 - b) *To report on the appointment of the internal offices (Chairman, Deputy Chairman(s), CEO., Secretary and Deputy Secretary) of the Board of Directors*
 - c) *To propose to the Board the members that must form part of each one of the Committees;*
 - d) *To draw up and review the criteria that must be followed for the selection of the senior management of the Company and to report on the appointment or removal of the managers reporting directly to the Board of Directors, including the CEO.*
 - e) *To report annually to the Board on the assessment of the performance of the senior management of the Company, especially of the CEO and his remuneration;*
 - f) *To report on the systems and on the amount of the annual remuneration of directors and senior management and to prepare the information to be included in the annual public information regarding the remuneration of the directors.*

- 4.- *The Nomination and Remuneration Committee shall meet, ordinarily, once a year, in order to prepare the information on the remunerations of the Directors, that the Board of Directors must approve and include in the public annual documents. Moreover, it shall meet each time that the Board or its Chairman requests the issuing of a report or the adoption of proposals within the scope of its competences and, in any case, whenever it is thought fit for the successful performance of its functions.*
- 5.- *The request for information addressed to the Nomination and Remuneration Committee shall be made by the Board of Directors or its Chairman. Likewise, the Committee must consider the suggestions made by the Chairman, Directors, senior management or the shareholders of the Company.*

The Board of Directors may develop and complete the above-referred rules in its Regulations, pursuant to the provisions of the Articles of Association and of the Law.

Meanwhile, article 15 of the Board of Directors' Regulations, in the wording approved by the Board in the meeting held on 10th June 2004, sets forth as follows:

Article 15. The Nomination and Remuneration Committee.

1. *The Nomination and Remuneration Committee shall be made up of a number of directors being no less than three nor greater than five, and shall be made up necessarily of independent directors. Its Chairman shall be chosen among its members.*
2. *Without prejudice to other tasks that are assigned to it by the Board, the Nomination and Remuneration Committee shall have the following basic responsibilities, which are:*

- a) *To draw up and check the criteria that must be followed for the composition of the Board of Directors in addition to selecting the candidates;*
 - b) *To advise on the proposals for nominations of directors prior to the nomination by the General Meeting of Shareholders or, where appropriate, by the Board of Directors for the co-optation procedure;*
 - c) *To advise on the nomination of the internal offices of (Chairman, Deputy Chairman, CEO, Secretary and Vice-Secretary) of the Board of Directors;*
 - d) *To propose to the Board the members that must form part of each one of the Committees;*
 - e) *To draw up and check the criteria that must be followed for the selection of the senior management of the Company and to report on the appointment or removal of the managers reporting directly to the Board of Directors.*
 - f) *To annually advise the Board on the evaluation of the carrying out of functions of the Chief Executive Officer and on his annual remuneration;*
 - g) *To advise on the systems and on the amount of the annual remuneration of directors and senior management and to draw up the information to be included in the annual public documentation about the remuneration of the directors to which article 28.3 refers to.*
 - h) *To report to the Board, before it holds its meeting, on those contracts of the personnel that include golden-parachute clauses, for those cases that imply dismissal or changes in control.*
 - i) *To advise in relation to the transactions that involve or may involve conflicts of interest, the transactions with related persons or those transactions that imply the use of corporate assets and, in general, about the matters included in Chapter IX of these Regulations.*
 - i) *To draw up and keep up to date a contingency plan to fill in the vacancies of key positions within the Company and its Group*
3. *Requests for information addressed to the Nomination and Remuneration Committee shall be made by the Board of Directors or its Chairman. Likewise, the Committee must consider the*

suggestions made by the Chairman, the members of the Board, management or the shareholders of the Company.

4. *The Nomination and Remuneration Committee shall meet each time that the Board or its Chairman requests the issuing of a report or the adoption of proposals within the scope of its competences and, in any case, whenever is suitable for the successful performance of its functions. In any event, it shall meet once a year to prepare the information about the directors' remuneration that the Board has to approve and to include in its annual public documentation.*

Composition

The Executive Committee of INDITEX, S.A., in the meeting held on 27 October 2000, appointed the members of the Nomination and Remuneration Committee, resolving thus its initial composition

Said initial composition was ahead of the provisions subsequently included in the Stock Exchange Act, regarding the requirements that the Committee be formed by a majority of non-executive directors, and that the Chairman be elected amongst said non-executive directors.

Nevertheless, the amendments to the Board of Directors' Regulations that the Board resolved in its meeting of 20 March 2003 were beyond both the provisions of the Law then in force and the recommendations of the Aldama Report, since the requirement that all members of the Nomination and Remuneration Committee should be independent

directors was made an internal regulation. This resolution entailed the necessary modification to the composition of the Committee.

To meet this requirement, the only executive director of the Nomination and Remuneration Committee tendered his resignation as a member thereof, and another independent director was appointed as member of this Committee, prior report of the Nomination and Remuneration Committee.

On 9 June 2005, it was resolved by the Board of Directors of the company, prior report of the Committee, to appoint Mr. José Luis Vázquez Mariño, an independent director, as new member of the Nomination and Remuneration Committee, to replace Mr. Fred H. Langhammer, who stepped down as director on that same date.

As a result of said amendment, the current composition of the Nomination and Remuneration Committee of INDITEX is shown below:

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|--------------------------------|--|
| Chairman: | Carlos Espinosa de los Monteros y Bernaldo de Quirós |
| Ordinary Members | Irene Ruth Miller Francisco Luzón López Juan Manuel Urgoiti López de Ocaña José Luis Vázquez Mariño |
| Secretary (non member): | Antonio Abril Abadín |

A brief description of the profile of each of the members of the Audit and Control Committee is given below:

Mr. Carlos Espinosa de los Monteros y Bernaldo de Quirós (61): An independent director since May 1997 and Second Deputy Chairman since September 2005. A graduate in Law and Business Studies from ICADE, he is a Commercial Expert and State Economist and holds an MBA from Northwestern University. He has been the Deputy Chairman of the *Instituto Nacional de Industria*, Chairman of the Board of Directors of Iberia and Aviaco, member of the Executive Committee of the International Air Transport Association and Chairman of the *Circulo de Empresarios*, of the Spanish Association of Car and Truck Manufacturers and of the International Organisation of Motor-Vehicle Manufacturers. At the present time he is the Chairman of the Board of Directors of Daimler Chrysler España, of *Fraternidad – Muprespa* and Board member of Acciona, S.A.

Ms. Irene Ruth Miller (53): An independent member of the Board since April 2001. She is a graduate of the University of Toronto with a Bachelor in Science and of Cornell University with a Master of Science in chemistry. She began her career at General Foods Corporation and later worked as an investment banker for Rothschild Inc. and Morgan Stanley & Co. In 1991 she joined Barnes & Noble, Inc. as Senior Vice President of Corporate Finance and in 1993, in advance of its flotation, became Chief Financial Officer. In 1995, she was appointed director and Vice-Chairman of the Board of Directors of Barnes & Noble. At the present time, she is the CEO of Akim, Inc., an American investment and consulting firm, which she joined in 1997. She is also a member of the Boards of Directors of Coach Inc.,(where she is *lead director*), Barnes & Noble, Inc. and TD Bank Financial Group. She previously served on the Boards of Oakley Inc., Benckiser N.V. and The Body Shop International Plc.

Mr. Francisco Luzón López (58): An independent director since February 1997. He is a graduate in Business Studies and Economics from the University of Bilbao, and has been a lecturer at the University of Deusto (Bilbao). He joined the Banco de Vizcaya in 1972, gaining wide experience in that Group in different Units and functions, becoming General Manager and Board member in 1986. In 1988 and after its merger with the Banco de Bilbao, he went on to become a member of the Board of Directors of the Banco Bilbao Vizcaya. At the end of the same year, he was appointed President of the Banco Exterior de España, office which he held from 1988 to 1996. In 1991 he was the impulse behind the creation of the new Grupo Bancario Argentaria of which he was the founder and was Chairman until 1996. After that year, he joined the Banco Santander Central Hispano as Director-General Manager, Deputy to the Chairman and in charge of Strategy, Communication and Institutional Relations. At the present time, he is responsible for the area of Latin America for the aforementioned financial institution. He is the world Deputy Chairman of Universia and Chairman of the Social Board at the University of Castilla-La Mancha.

Mr. Juan Manuel Urgoiti López de Ocaña (66): He has been an independent director since January 1993. He is a graduate in Law from the University of Madrid, beginning his career in the Banco de Vizcaya in 1962. After holding various executive positions, he was appointed General Manager in 1978, director in 1984 and CEO in 1986. In 1988, after its merger with the Banco Bilbao he was appointed CEO of the Banco Bilbao Vizcaya. He has been President of Ahorrobank, *Banco de Crédito Canario*, *Banco Occidental*, *Instituto de Biología y Sueroterapia* and *Laboratorios Delagrangé* and Board member of *Antibióticos*, S.A. At the present time he is the Chairman of the Banco Gallego, Deputy Chairman of Acciona, S.A., member of the Board of Necso, S.A., and member of the European Advisory Board of Citigroup. He is Chairman of the Board of Trustees of the Reina Sofia National Museum and Art Centre and a member of the Board of Trustees of the Prado Museum. He is President of the private foundation *Fundación José Antonio de Castro* and is a member of other foundations and institutions. He holds the *Gran Cruz de Mérito Civil* and has been awarded the honour of Commander of the Order of the British Empire. (C.B.E.).

Mr. José Luis Vázquez Mariño (61) : An independent Director since March 2005. A Commerce professor, he holds a B.Sc in Economic and Business Studies and is a certified public accountant. He has spent his professional career at Arthur Andersen where he was in charge of the Financial and Human Resources divisions worldwide and was made Area Managing Partner for Latin America. AT the present time, he is member of the Boards of Directors of Banco Pastor and La Voz de Galicia, S.A.

At the present time, the Nomination and Remuneration Committee is comprised of independent directors exclusively.

Activities of the Nomination and Remuneration Committee

Sessions held and business discussed

The sessions held by the Nomination and Remuneration Committee throughout FY2005 and the main business discussed are shown below:

| DATE OF SESSION | AGENDA |
|------------------------|--|
| 03/29/2005 | <ul style="list-style-type: none"> - Appointment of new member to the Board of Directors. - Appointment of new members to the Social Advisory Board. - Appointment of new Kiddy´s Class Director. - Transactions with related parties. - Report on the remuneration of senior officers. |

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| 05/13/2005 | - Appointment of new member to the Board of Directors and of new Chief Executive Officer of the company. |
| 06/08/2005 | - Report on the re-election of directors. Report on the co-option of a new member of the Board of Directors and on the appointment of a new Chief Executive Officer. Appointment of members to the Executive Committee and of member to the Audit and Control Committee and to the Nomination and Remuneration Committee. - Amendment of Senior Management employment agreements. - Remuneration of the members of the Board of Directors. - Relationship Scheme between the Human Resources Department and the Committee. |
| 08/31/2005 | - New management structure of the company. - Appointment of senior managers. |
| 09/19/2005 | - Report on the Appointment of the new Internal Audit Department Director. - Appointment of new members to the Social Advisory Board. - Report on the employment agreements of the Senior Management that include guarantee clauses or severance agreements. |
| 09/26/2005 | Appointment of the First Deputy Chairman and the Second Deputy Chairman of the Board of Directors. |
| 12/12/2005 | - Stock options plan. - Transactions with related parties. |

Lines of action

As for the lines of action of the Nomination and Remuneration Committee during FY 2005, they have revolved around the following aspects:

Appointment of members and officers to the Board of Directors

In compliance with the provisions of the Board of Directors' Regulations, the Committee reviewed and issued the pertaining reports on the appointment, re-election and ratification of directors, as well as on the appointment of internal offices of the Board of Directors.

With this respect, the Committee held on 29 March 2005, gave a favourable report to the appointment of Mr. José Luis Vázquez Mariño as new independent director of INDITEX, and in its session held on 8 June it gave a favourable report to his appointment as new member of the Audit and Control Committee, of the Nomination and Remuneration Committee and of the Executive Committee.

The Nomination and Remuneration Committee, in its sessions held on 13 May and 8 June 2005, gave a favourable report to the appointment of Mr. Pablo Isla Álvarez de Tejera as new member of the Board of Directors, Chief Executive Officer of this Body and member of the Executive Committee; in a further session held on 26 September, it gave a

favourable report on his appointment as First Deputy Chairman of the Board of Directors and also, of its Executive Committee.

Likewise, a favourable report was given to the appointment of Mr Carlos Espinosa de los Monteros Bernaldo de Quirós, an independent director, as Second Deputy Chairman of the Board of Directors.

Likewise, a favourable report was given to the proposal to be submitted by the Board of Directors to the Annual General Meeting of Shareholders, on the re-election of three directors, including that of the Chairman of the Board himself, and the ratification of three directors appointed to the Board of Directors by-co-option.

Transactions with related parties

Pursuant to the provisions of the internal regulations of the company, the Committee, in its sessions held on 29 March and 12 December, gave a report on the transactions with related parties carried out between Inditex, or any company within the Inditex Group, and Gartner, S.L., the controlling shareholder, or its affiliates.

The transactions with related parties were assessed from the perspective of market conditions applicable to similar transactions, as well as from the perspective of an equal treatment to all shareholders, pursuant to the provisions of article 38 of the Board of Directors' Regulations.

All transactions conducted were of minor relevance, in that making them public is not necessary to reflect the true image of the assets, the financial situation and the results of Inditex; however, they were duly reported, for transparency reasons, in the relevant documents (Annual Corporate Governance Report, Consolidated and Individual Annual Report and the Half-Yearly Public Periodic Information).

Senior Management Employment Agreements

In compliance with the provisions of article 15 of the Board of Directors' Regulations, the Nomination and Remuneration Committee reported to the Board of Directors, prior to the session held by the latter, on the employment agreements with the personnel that include guarantee clauses or severance agreements in the event of dismissals or changes of control.

Appointment of new members to the Social Advisory Board

The Nomination and Remuneration Committee, in its session held on 29 March 2005, considering the existence of two vacancies in the Social Advisory Board of Inditex, gave a favourable report to the nomination of Mr. Viñuales Edo as new member of the Social Advisory Board, as well as to not filling the other vacancy for the time being; all the

foregoing, pursuant to the provisions of article 15 of the Regulations of the Social Advisory Board approved by the Board of Directors on 12 December 2002.

Main relationships of the Nomination and Remuneration Committee

With the Board of Directors

At the beginning of each session of the Board of Directors, the Chairman of the Nomination and Remuneration Committee informs of the main business transacted in the last meeting of the Committee.

With the Chief Executive Officer and the Senior Management

The Committee encourages the appearance in its sessions of the First Deputy Chairman and the Second Deputy Chairman, and of the senior managers of the Company to explain their view on certain issues directly linked with the field of responsibility of the Committee and which are recurrent, so that the Nomination and Remuneration Committee may have a direct knowledge of the situation of business.

With the Human Resources Department

In order to keep the Nomination and Remuneration Committee duly informed, the Human Resources Department, and as of 31st August 2005, the new Human Resources Division, regularly informs the Committee on the changes, if any, in the global remuneration systems, market researches on the pay of Senior Management, annual pay adjustments and the review of the adjustment guidelines for each country, a summary of the annual adjustments carried out, global programs for the detection and development of potential in the matter of personnel, and succession plans.