REPORT ISSUED BY THE REMUNERATION COMMITTEE OF INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.) REGARDING THE MOTION TO APPROVE THE DIRECTORS' REMUNERATION POLICY FOR FY2019, FY2020 AND FY2021 INCLUDED IN ITEM SIX ON THE AGENDA OF THE ANNUAL GENERAL MEETING CALLED TO BE HELD ON 17 AND 18 JULY, ON FIRST OR SECOND CALL, RESPECTIVELY

I. PURPOSE

The Board of Directors of Industria de Diseño Textil, S.A. (hereinafter, "**Inditex**" or the "**Company**") expects in the meeting to be held on 12 June 2018, to table to the Annual General Meting for approval the draft Directors' Remuneration for financial years 2019, 2020 and 2021 (hereinafter, the "**Remuneration Policy**") attached hereto as Annex, pursuant to section 529 *novodecies* of the revised text of the Companies Act (hereinafter, "**LSC**" [*Spanish acronym*] or the "**Companies Act**"), and article 31 of the Articles of Association (hereinafter, the "**Articles**").

Pursuant to article 30.3(a) of the Articles, section 17.2(a) of the Revised Text of the Board of Directors' Regulations, and section 5(a) of the Remuneration Committee's Regulations, this Committee is responsible for proposing to the Board of Directors the Directors' Remuneration Policy, to be tabled to the Annual General Meeting for approval.

This document is also issued in accordance with section 529 *novodecies* paragraph 2) of LSC, which sets forth that the directors' remuneration policy shall be reasoned and accompanied by an explanatory report of the Remuneration Committee.

In the discharge of its duties, the Remuneration Committee has been advised by Willis Towers Watson, an independent consultant in the field of compensation of directors and senior executives, regarding the definition and design of the Remuneration Policy, and by law firm Uría Menendez Abogados S.L.P. with regard to the applicable legal issues.

The proposed Remuneration Policy and this report will be made available to shareholders on the Company's corporate website from the date the Annual General Meeting is called.

The current directors' remuneration policy, included in the Annual Report on Remuneration of Directors for FY2014, was approved by the Annual General Meeting on 14 July 2015 for the following three financial years, i.e., 2016, 2017 and 2018, with the approval further to an advisory say-on-pay, of the Annual Report on Remuneration of Directors for financial year 2014, pursuant to the provisions of the Transitional Provision of Act 31/2014 of 3 December whereby the Companies Act is amended for the purposes of improving corporate governance. Therefore, such policy will expire on 31 January 2019.

II. OVERARCHING PRINCIPLES OF THE REMUNERATION POLICY

The Remuneration Policy seeks to support the success of the business model, setting levels of reward consistent with each situation. Thus, as a general principle, the Remuneration Policy seeks to reinforce creation of value and the alignment with the long-term interests of the Company and its Stakeholders.

In this regard, the Remuneration Policy has been defined based upon the following yardsticks:

✓ **With regard to remuneration for directors standing as such.**

- Moderation: remuneration is adequate to the description of the Company and its business model, always on the basis that such remuneration is neither excessive nor insufficient, to prevent taking any inappropriate risks.

- Appropriateness: the Remuneration Policy for directors standing as such is appropriate considering the balanced membership on the Board, and it sufficiently compensates them for their abilities, dedication and responsibilities, ensuring their loyalty and dedication to the Company, without compromising the independent judgement of its members.

- Transparency: information on remuneration is in line with best practices on good governance for the purposes of building trust among shareholders and investors.

- Commitment to investors and shareholders: the Remuneration Committee acts in a proactive manner to understand shareholders and investors' preferences and to explain remuneration policies and practices in a transparent manner.

✓ **With regard to the remuneration for executive directors**

- Link to Group's strategies: a portion of the remuneration is linked to the achievement of the objectives which make up the Group's strategy.

- "*Pay for Performance*": A significant part of the remuneration is linked to the evolution of the Group's results.

- Long-term: the Remuneration Policy must be aligned with the values and long-term objectives of the Company.

- Competitiveness: the remuneration must be such as to attract and retain the most talented and appropriate professionals to achieve Inditex's strategic objectives, through the establishment of competitive compensation packages, under the premises that such compensation is neither excessive nor insufficient, to prevent assuming any inappropriate risks and considering market references of comparable companies.

- Strict procedures and informed decisions: the objectives which achievement determines variable remuneration must be established at the beginning of the year and monitored by the Remuneration Committee at the end thereof. Likewise, Inditex's management by objectives systems, and among them, the short-term and long-term variable remuneration systems, are reviewed on an annual basis.

- Informed decisions: decisions shall be made based upon quantitative and qualitative assessment of results.

- Social and environmental Sustainability: progress in corporate social and environmental sustainability are a relevant standard of Inditex's remuneration package.

III. OUTLINES OF THE REMUNERATION POLICY

The Remuneration Policy meets all the requirements laid down in LSC. Thus:

- Pursuant to section 529 *septdecies* of LSC, the Remuneration Policy provides the maximum amount of the annual remuneration to be paid to directors standing as such.

  The remuneration for directors consists of a fixed annual remuneration for each of them, depending on their membership and the offices held in the Board and its Committees. The amount of the fixed annual remuneration will be decided by the Annual General Meeting for each financial year, or for the number of years that the General Meeting may determine. Such amount is expressly provided in the Remuneration Policy, this being the only remuneration paid to directors for their membership on the Board and its Committees.

  Such remuneration system, set out in the Remuneration Policy, is also consistent with article 31 of the Articles.

  On the other hand, the Policy provides the possibility for the Company to take out a public liability insurance policy on the directors, the executives and staff with similar duties at the Company.

- Likewise pursuant to section 529 *octodecies* of LSC, the Remuneration Policy establishes the following structure regarding the remuneration of the Executive Chairman for performance of executive duties during the valid term of the Remuneration Policy:

  - The amount of the fixed annual remuneration;
  - The different parameters to determine the variable components; and
  - The main terms and conditions of his contract. Namely, the term, severance pay in case of early termination or termination of the contractual relationship and covenants or agreements on exclusivity, non-competition after termination of the agreement and tenure or loyalty.

In this regard the compensation package for the Executive Chairman ensures an appropriate balance between fixed and variable items of his remuneration:

- The fixed remuneration of the Executive Chairman has remained unchanged since 2013.

  Such sum is competitive in respect of other comparable companies in the market.

- The annual variable remuneration is linked to the achievement of quantitative and qualitative objectives, consistent with the mid to long-term strategy of the Company.

  Quantitative objectives represent at least 50% of the aggregate incentive, whereas qualitative objectives represent at least 30% of the aggregate incentive.

  A performance scale, fixed at the beginning of each financial year, is associated with each objective, and includes a minimum threshold below which no incentive is paid, and a maximum level. The level of achievement reached is disclosed every year in the relevant Annual Report on Remuneration of Directors.

  Additionally, payment of the relevant incentive can be made in cash and/or include delivery of shares.

- Long-term variable remuneration seeks to reward the sustainable achievement of the critical strategic objectives and to create value for shareholders.

  These are predetermined and quantifiable financial, business and value creation for shareholders objectives.

  To achieve this, long-term incentive plans remain in effect within the Company, divided into performance cycles, each of them with a duration of at least three years.

  Additionally, the relevant incentive may be paid in cash and/or include delivery of shares, share options or remuneration rights linked to their value. Shares delivered stemming from the relevant plan shall be held for at least one year.

  A performance scale, fixed at the beginning of each financial year, is associated with each objective, and includes a minimum threshold below which no incentive is paid, and a maximum level. The level of achievement reached is disclosed every year in the relevant Annual Report on Remuneration of Directors.

- Certain additional forms of remuneration are provided, such as long-term savings systems and insurance, and other remuneration concepts in cash or deferred, such as a severance pay in case of termination or resignation.

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

It should also be noted that in line with best practices, the Remuneration Policy establishes the necessary yardsticks to determine the maximum annual amount to be paid to all the directors, regardless of their classification.

Likewise, a “malus” and “clawback” clause is included in the contract executed with the Executive Chairman regarding cancellation before payment or refund of the variable items of his remuneration (i) in the event of occurrence of certain circumstances; or (ii) when such items have been paid on the basis of information later shown clearly to be inaccurate.

Considering the foregoing, it can be concluded that upon drafting the Remuneration Policy, the Remuneration Committee has taken into account both the yardsticks and requirements of the Companies Act, and the recommendations of the Good Governance Code of Listed Companies approved by CNMV [*Spanish Securities and Exchange Commission*] on remuneration, as well as the voting guidelines of institutional investors and their proxy advisors.

IV. OTHER CONSIDERATIONS

No significant variations from the current remuneration policy are expected in the proposed Remuneration Policy.

In this regard, mention should be made of the fact that since the approval in 2015 of the current directors’ remuneration policy, the Annual Reports on Remuneration of Directors for FY2016, FY2017 and FY2018 have taken into account and described in detail its features, having been broadly supported by shareholders on the occasion of the advisory say-on-pay vote, and also by institutional investors and proxy advisors. Ultimately, the Company makes efforts to reach the highest levels of compliance on corporate governance in the field of remuneration, and to align with the interests of its stakeholders.

As most significant development, the above referred Remuneration Policy introduces the possibility that (i) the annual variable remuneration be paid both in cash and in shares; and, (ii) of linking the long-term variable remuneration to objectives related to sustainability, environment or good corporate governance, which so far applied to annual variable remuneration, and representing a maximum 10% of the aggregate incentive.

V. FINDINGS

The Remuneration Committee considers that the proposed Remuneration Policy is in line and consistent with regulatory provisions, recommendations and best practices on good governance existing in the market in the field of remuneration.

Ultimately, the remuneration for Inditex's directors envisaged in the proposed Remuneration Policy (i) is reasonably proportional to the importance of the Company, its financial situation and the market standards of comparable companies; (ii) establishes the channels to prevent taking unnecessary risk, thus permitting an appropriate and effective risk management; and (iii) is aligned with the Company's long-term strategic objectives and the interests of its shareholders and remaining stakeholders.

Considering the foregoing, pursuant to section 529 *novodecies* paragraph 2 of the Companies Act, the Remuneration Committee issues this explanatory report on the proposed Remuneration Policy, to be tabled to the Annual General Meeting.

Done in Arteixo (A Coruña), on 11 June 2018