

**INDITEX**



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

FY2017

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## 1. Preliminary

This document, drawn up by the Remuneration Committee of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.) (hereinafter, “**Inditex**” or the “**Company**”) in the meeting held on 11 June 2018, represents the annual activities and proceedings report of such Committee, drafted pursuant to recommendation 6 of the Good Governance Code of listed companies, approved by resolution of the Board of Directors of Comisión Nacional del Mercado de Valores [*Spanish Securities and Exchange Commission*] on 18 February 2015 (hereinafter, the “**CBG**” [*Spanish acronym*]).

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

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

### a. Origin and evolution

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

The current Remuneration Committee originates in the defunct Nomination and Remuneration Committee, following recommendation 48 of CBG. The Board of Directors resolved in the meeting held on 9 June 2015 – the effect of such resolution being conditional upon the further approval of the Annual General Meeting – to split the Nomination and Remuneration Committee into two separate and newly formed committees: the Nomination Committee and the Remuneration Committee. Such split was conditional upon the approval by the Annual General Meeting of the amendment of the Articles of Association.

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

### b. Regulations, duties and powers

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

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

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

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- (a) *To propose to the Board of Directors the policies on remuneration of the directors and senior executives as well as the regular review and update thereof;*
- (b) *To propose to the Board of Directors the system and amount of the annual remuneration of directors, to be submitted to the General Meeting of Shareholders, as well as the individual remuneration of executive directors and the remaining basic terms and conditions of their contracts, including the eventual compensation or indemnities which may be payable in the event of removal, pursuant to the provisions of the Company's corporate governance system and the remuneration policy for directors approved by the General Meeting of Shareholders;*
- (c) *To propose to the Board of Directors the basic terms and conditions of the contracts of senior executives;*
- (d) *To verify that the remuneration policy fixed by the Company is observed; and*
- (e) *To ensure that no eventual conflict of interest situation would affect the independence of the external advice given to the Committee."*

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

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

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

### c. Composition

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

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In the meeting held on 12 June 2017, the Nomination Committee gave a favourable report to the motion to re-elect Mr José Arnau Sierra as non-executive proprietary director, which was subsequently tabled by the Board of Directors to the Annual General Meeting.

The re-election of Mr José Arnau Sierra to the Board of Directors as non-executive proprietary director, was approved by the Annual General Meeting on 18 July 2017.

Likewise, the re-election of Mr José Arnau Sierra as director entailed his continuing being a member of the Remuneration Committee, pursuant to section 23.2 of the Board of Directors' Regulations.

In FY17, no member of the Remuneration Committee has been removed, following resignation or otherwise, nor any new member has been appointed.

Consequently, the composition of the Remuneration Committee as at 31 January 2018 is as follows:

Name	Office	Category	Date of appointment
Mr Rodrigo Echenique Gordillo	Chair	Non-executive independent	14-07-2015
Mr Emilio Saracho Rodríguez de Torres	Ordinary member	Non-executive independent	14-07-2015
Bns. Denise Patricia Kingsmill	Ordinary member	Non-executive independent	19-07-2016
Mr José Luis Durán Schulz	Ordinary member	Non-executive independent	14-07-2015
Mr José Arnau Sierra	Ordinary member	Non-executive proprietary	14-07-2015
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	Ordinary Member	Affiliate	14-07-2015

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

The Remuneration Committee shall be made up of a minimum of three and a maximum of seven non-executive directors appointed by the Board of Directors, the majority of whom must be independent directors. At present, four directors sitting on the Remuneration Committee, entirely made up of non-executive directors, are independent, which represents 66.66% of all its members.

The Chair of the Remuneration Committee, who must be an independent director, shall be elected for a term that does not exceed four years and must be replaced at the expiry of the aforementioned term. He may be re-elected once a period of one year has elapsed since the date of his/her removal. Mr Echenique was appointed Chair of the Remuneration Committee on 14 July 2015. He was previously the Chair of the defunct Nomination and Remuneration Committee since 15 July 2014.

The CV of all the members of the Remuneration Committee is available on the corporate website: ([www.inditex.com](http://www.inditex.com)).

## d. Proceedings

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

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

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

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

The Remuneration Committee held 5 meetings during financial year 2017.

The level of attendance of its members, whether in person, or by proxy, to the meetings held by Remuneration Committee during financial year 2017 stands at 100%.

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

The schedule of the meetings held and business transacted by the Remuneration Committee between 1 February 2017 and 31 January 2018 is provided below

DATE OF MEETING	MAIN BUSINESS TRANSACTED	REPORTS AND MOTIONS SUBMITTED TO THE BOARD OF DIRECTORS	INDITEX'S ATTENDEES
13/03/2017	<ul style="list-style-type: none"> <li>- Remuneration of the Executive Chairman</li> <li>- Remuneration of Senior Executives</li> <li>- Extraordinary Employee Profit-Sharing Plan</li> <li>- Annual Report on Remuneration of Directors</li> </ul>	<ul style="list-style-type: none"> <li>- Motion regarding the remuneration of the Executive Chairman</li> <li>- Motion regarding the remuneration of Senior Executives.</li> <li>- Report on the results of the second period of the Extraordinary Employee Profit-Sharing Plan</li> <li>- Annual Report on Remuneration of Directors</li> </ul>	<ul style="list-style-type: none"> <li>- Mr Pablo Isla Álvarez de Tejera, Executive Chairman</li> <li>- Mr Antonio Abril Abadín, General Counsel and Secretary of the Board</li> <li>- Ms Begoña López-Cano Ibarreche, Chief Human Resources Officer</li> <li>- Mr Ignacio Fernández Fernández,</li> </ul>

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			Chief Financial Officer
13/06/2017	- Annual Report on the proceedings of the Remuneration Committee	- Annual Report on the proceedings of the Remuneration Committee	- Mr Antonio Abril Abadín, General Counsel and Secretary of the Board.
18/07/2017	- Report on the 2014-2017 Long-term Performance Shares Plan.	- Report on the settlement of the second cycle (2014-2017) of the 2013-2017 Long-term Performance Shares Plan	- Mr Pablo Isla Álvarez de Tejera, Executive Chairman - Mr Antonio Abril Abadín, General Counsel and Secretary of the Board - Ms Begoña López-Cano Ibarreche, Chief Human Resources Officer - Mr Ignacio Fernández Fernández, Chief Financial Officer
18/09/2017	- List of Beneficiaries of the Second Cycle of the 2017-2020 Long-term Incentive Plan addressed to members of management, including the Executive Chairman and other employees of the Inditex Group	- Report on the beneficiaries of the second cycle (2017-2020) of the 2016-2020 Long-term Incentive Plan	- Mr Pablo Isla Álvarez de Tejera, Executive Chairman - Mr Antonio Abril Abadín, General Counsel and Secretary of the Board - Ms Begoña López-Cano Ibarreche, Chief Human Resources Officer - Mr Ignacio Fernández Fernández, Chief Financial Officer

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12/12/2017	<ul style="list-style-type: none"> <li>- Report on the evaluation of the Remuneration Committee and the performance of its members.</li> <li>- Report of the HR Department.</li> </ul>	<ul style="list-style-type: none"> <li>- Report on the evaluation of the Committee and the performance of its members.</li> <li>- Report of the HR Department.</li> </ul>	<ul style="list-style-type: none"> <li>- Mr Pablo Isla Álvarez de Tejera, Executive Chairman.</li> <li>- Ms Begoña López-Cano Ibarreche, Chief Human Resources Director.</li> <li>- Ms Cristina Vega López, member of the HR Department.</li> <li>- Ms Rocío Casal Comendador, member of the HR Department.</li> <li>- Ms Eva Ferreiro, member of the HR Department.</li> </ul>
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#### 4. Main lines of action

During FY2017 the main action lines of the Remuneration Committee have focused on the following:

##### A. Remuneration of the Executive Chairman

The Remuneration Committee approved in the meeting held on 13 March 2017 the motion regarding the remuneration of the Executive Chairman for the discharge of his executive duties, to be subsequently submitted to the Board of Directors.

Such motion was approved by Board of Directors in the meeting held on 14 March 2017.

##### B. Drafting the Annual Report on Remuneration of Directors for FY2016.

Pursuant to the regulations then in force and the Recommendations of the Good Governance Code of Listed Companies, and on the advice of external consultant Towers Watson, the Committee approved on 13 March 2017 the Annual Report on Remuneration of Directors for FY2016.

Such report was tabled to the Board of Directors, which approved it on 14 March 2017, and sent it to CNMV as a relevant fact. The Annual Report on Remuneration of Directors for FY2016 is available on CNMV's website ([www.cnmv.es](http://www.cnmv.es)).

It was subsequently submitted to an advisory say-on-pay vote at the Annual General Meeting last 18 July 2017 and approved with an aggregate 98.63% of votes for.

**C. Remuneration of Senior Executives****D. Long-term Incentive Plan.**

The Committee acknowledged the settlement of the second cycle (2014-2017) of the 2013-2017 Long-term Performance Shares Plan in the meeting held on 18 July 2017.

Finally, on 19 September 2017, the Remuneration Committee acknowledged the list of beneficiaries of the second cycle (2017-2020) of the 2016-2020 Long-term Incentive Plan.

**E. Extraordinary Employee Profit-Sharing Plan**

In the meeting held on 13 March 2017, the Remuneration Committee gave a favourable report to the results of the second calculation period of the Extraordinary Plan, and to the extension of the terms of the Plan, on an exceptional basis for financial years 2017 and 2018, and resolved to submit it, together with its governing terms, to the Board of Directors, which approved it in the meeting held on 14 March 2017.

**5. Main relationships of the Remuneration Committee****A. With the Board of Directors**

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

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

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

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

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

**D. With the Lead Independent Director**

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

**E. With the Human Resources Department**

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

**F. With the external advisors**

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

During FY2017, the Committee has been advised by Willis Towers Watson, an independent consultant, regarding the design and drafting of the 2016-2020 Long-term Incentive Plan, the conduct of the remuneration benchmarking for the position of Executive Chairman and the preparation of the Annual Report on the Remuneration of Directors for FY2016.