

**Industria de Diseño
Textil, S.A. and
Subsidiaries**

Report on Limited Review

Interim Condensed Consolidated
Financial Statements and
Interim Directors' Report for
the First Half of 2021

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Industria de Diseño Textil, S.A., at the request of the Board of Directors:

Report on the Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements (“the interim financial statements”) of Industria de Diseño Textil, S.A. (hereafter “the Parent”) and Subsidiaries (hereafter “the Group”), which comprise the condensed consolidated balance sheet as at 31 July 2021, and the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and notes thereto for the six-month period then ended. The Parent’s Board of directors are responsible for preparing these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 31 July 2021 are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial statements, pursuant to Article 12 of Royal Decree 1362/2007.

Emphasis of Matters

We draw attention to Note 1 to the accompanying interim financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 January 2021. Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 31 July 2021 contains the explanations which the Parent's directors consider appropriate about the significant events that took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 31 July 2021. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope and did not include a review of any information other than that drawn from the accounting records of Industria de Diseño Textil, S.A. and Subsidiaries.

Paragraph about other matters

This report was prepared at the request of the Board of Directors of the Parent in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.



Cleber H. Beretta Custodio

14 September 2021

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS AND INTERIM DIRECTORS' REPORT FOR
THE FIRST HALF OF 2021**

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 10). In the event of a discrepancy, the Spanish-language version prevails.

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INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(Amounts in millions of euros)	31/07/2021	31/07/2020
Net sales	11,936	8,033
Cost of sales	(5,029)	(3,521)
GROSS PROFIT	6,907	4,512
	<i>57.9%</i>	<i>56.2%</i>
Operating expenses	(3,786)	(3,020)
Other losses and income, net	(20)	(6)
GROSS OPERATING PROFIT (EBITDA)	3,101	1,486
Amortisation and depreciation	(1,416)	(1,684)
NET OPERATING PROFIT (EBIT)	1,685	(198)
Financial results	(67)	(76)
Results of companies accounted for using the equity method	25	11
PROFIT BEFORE TAXES	1,643	(263)
Income tax	(370)	65
NET PROFIT	1,273	(198)
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1	(3)
NET PROFIT ATTRIBUTABLE TO THE PARENT	1,272	(195)
EARNINGS PER SHARE (*), Euros	0.408	(0.062)

(*) EPS calculated on the basis of 3,114.7 million shares in 2021 and 3,114.8 million shares in 2020.

The accompanying explanatory notes 1 to 10 are an integral part of these interim condensed consolidated financial statements for the first half of 2021.

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in millions of euros)	31/07/2021	31/07/2020
Net profit	1,273	(198)
Items that will be reclassified to profit or loss in future years		
Other comprehensive income recognised directly in equity:		
Translation differences related to financial statements of foreign operations	50	(335)
Cash flow hedges		
Profit	2	-
Loss	-	(10)
Tax effect	-	2
Total	52	(343)
Transfers to profit or loss:		
Cash flow hedges		
Profit	-	(8)
Loss	3	12
Tax effect	(1)	(2)
Total	3	3
Total comprehensive income for the period	1,327	(538)
Total comprehensive income attributable to:		
Equity holders of the Parent	1,326	(535)
Non-controlling interests	1	(3)
Total comprehensive income for the period	1,327	(538)

The accompanying explanatory notes 1 to 10 are an integral part of these interim condensed consolidated financial statements for the first half of 2021.

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts in millions of euros)	31/07/2021	31/01/2021
ASSETS		
NON-CURRENT ASSETS	15,366	15,460
Rights of use	5,339	5,477
Other intangible assets	506	444
Goodwill	202	201
Property, plant and equipment	7,362	7,401
Investment property	21	21
Financial investments	281	261
Other non-current assets	368	380
Deferred tax assets	1,287	1,276
CURRENT ASSETS	11,774	10,957
Inventories	2,563	2,321
Trade and other receivables	840	715
Income tax receivable	199	257
Other current assets	135	88
Other financial assets	8	2
Current financial investments	417	176
Cash and cash equivalents	7,611	7,398
TOTAL ASSETS	27,140	26,418
EQUITY AND LIABILITIES		
EQUITY	13,652	14,550
Equity attributable to the Parent	13,621	14,520
Equity attributable to non-controlling interests	31	30
NON-CURRENT LIABILITIES	5,348	5,529
Provisions	256	252
Other non-current liabilities	264	280
Financial debt	1	3
Lease liability	4,426	4,599
Deferred tax liabilities	402	396
CURRENT LIABILITIES	8,140	6,338
Financial debt	5	11
Other financial liabilities	18	27
Lease liability	1,534	1,552
Income tax payable	207	88
Trade and other payables	6,376	4,659
TOTAL EQUITY AND LIABILITIES	27,140	26,418

The accompanying explanatory notes 1 to 10 are an integral part of these interim condensed consolidated financial statements for the first half of 2021.

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in millions of euros)	From 1 February To 31 July 2021	From 1 February To 31 July 2020
Profit before taxes and non-controlling interest	1,643	(263)
Adjustments to profit		
Amortisation and depreciation	1,416	1,684
Foreign exchange translation differences	-	(46)
Provisions for impairment	(24)	(156)
Results from companies consolidated by equity method	(25)	(11)
Lease financial expenses	48	65
Other	36	30
Income tax paid	(220)	(223)
Funds from operations	2,873	1,080
Variation in assets and liabilities		
Inventories	(205)	181
Receivables and other current assets	(241)	158
Current payables	430	(1,769)
Changes in working capital	(15)	(1,430)
Cash flows from operating activities	2,858	(350)
Payments relating to investments in intangible assets	(202)	(115)
Payments relating to investments in property, plant and equipment	(204)	(296)
Collections relating to divestments of property, plant and equipment	-	36
Payments relating investment in other assets	(5)	(2)
Collections relating investment in other assets	20	9
Changes in current financial investments	(235)	870
Cash flows from investing activities	(626)	502
Payments relating to non-current financial debt	(4)	-
Payments relating to acquisitions of treasury shares	(71)	-
Changes in current financial debt	(5)	(25)
Leases payments fixed charge	(864)	(734)
Dividends	(1,090)	-
Cash flows used in financing activities	(2,034)	(759)
Net increase in cash and cash equivalents	198	(607)
Cash and cash equivalents at the beginning of the period	7,398	4,780
Effect of exchange rate fluctuations on cash and cash equivalents	16	(125)
Cash and cash equivalents at the end of the period	7,612	4,048

The accompanying explanatory notes 1 to 10 are an integral part of these interim condensed consolidated financial statements for the first half of 2021.

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in millions of euros)

	Equity attributable to the Parent										
	Capital	Share premium	Retained earnings	Other reserves	Reserves of companies accounted for using the equity method	Treasury shares	Translation differences	Cash flows	Subtotal	Non-controlling interests	Total equity
Balance at 1 February 2020	94	20	14,993	58	214	(60)	(402)	(4)	14,913	36	14,949
Profit for the year	-	-	(195)	-	-	-	-	-	(195)	(3)	(198)
Distribute results	-	-	(251)	190	61	-	-	-	-	-	-
Distribute dividends	-	-	25	-	(25)	-	-	-	-	-	-
Transfers	-	-	(4)	-	(8)	-	12	-	-	-	-
Other movements	-	-	(7)	-	(2)	-	-	-	(9)	(3)	(12)
Argentina reexpression	-	-	3	-	-	-	-	-	3	-	3
Other comprehensive income for the year	-	-	-	-	-	-	(335)	(5)	(340)	-	(340)
· Translation differences related to foreign operations	-	-	-	-	-	-	(335)	-	(335)	-	(335)
· Cash flow hedges	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Operations with equity holders or owners	-	-	(1,069)	(35)	-	9	-	-	(1,095)	-	(1,095)
· Share-based payments	-	-	22	(35)	-	9	-	-	(5)	-	(5)
· Dividends	-	-	(1,090)	-	-	-	-	-	(1,090)	-	(1,090)
Balance at 31 July 2020	94	20	13,497	212	240	(51)	(726)	(9)	13,277	30	13,307
Balance at 1 February 2021	94	20	14,703	221	240	(51)	(704)	(3)	14,520	30	14,550
Profit for the year	-	-	1,272	-	-	-	-	-	1,272	1	1,273
Distribute results	-	-	(283)	250	33	-	-	-	-	-	-
Distribute dividends	-	-	18	-	(18)	-	-	-	-	-	-
Transfers	-	-	(34)	-	-	-	34	-	-	-	-
Other movements	-	-	(6)	1	1	-	-	-	(4)	-	(4)
Argentina reexpression	-	-	6	-	-	-	-	-	6	-	6
Other comprehensive income for the year	-	-	-	-	-	-	50	4	54	-	54
· Translation differences related to foreign operations	-	-	-	-	-	-	50	-	50	-	50
· Cash flow hedges	-	-	-	-	-	-	-	4	4	-	4
Operations with equity holders or owners	-	-	(2,180)	24	-	(71)	-	-	(2,227)	-	(2,227)
· Treasury shares	-	-	-	-	-	(71)	-	-	(71)	-	(71)
· Share-based payments recognition	-	-	-	24	-	-	-	-	24	-	24
· Dividends	-	-	(2,180)	-	-	-	-	-	(2,180)	-	(2,180)
Balance at 31 July 2021	94	20	13,496	496	256	(122)	(620)	2	13,621	31	13,652

The accompanying explanatory notes 1 to 10 are an integral part of these interim condensed consolidated financial statements for the first half of 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see notes 1 and 10). In the event of a discrepancy, the Spanish-language version prevails.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT 31 JULY 2021

1 Basis of presentation

The interim condensed consolidated financial statements of the Inditex Group, the parent of which is Industria de Diseño Textil, S.A (“the Group“, “the Group Inditex“, “the Company“ or “Inditex“) for the six-month period ended 31 July 2021 (“interim financial statements“) were prepared in accordance with International Accounting Standard (“IAS 34“), on Interim Financial Reporting and pursuant to Article 12 of Royal Decree 1362/2007. Accordingly, they do not include all the information and additional disclosures required in a complete set of annual consolidated financial statements and, in order to be interpreted properly, they must be read in conjunction with the Consolidated Financial Statements for the year ended 31 January 2021. These interim financial statements were prepared by the Board of Directors at its meeting held on 14 September 2021.

Inditex’s financial year and that of most of its subsidiaries starts on 1 February of each year and ends on 31 January of the following year. The six-month period ended 31 July 2021 will hereinafter be referred to as the “first half of 2021” and the six-month period ended 31 July 2020 as the “first half of 2020”.

Unless otherwise stated, the amounts shown in these interim financial statements are expressed in millions of euros.

The interim condensed consolidated financial statements are presented in euros.

The interim condensed financial statements of the Inditex Group for the first half of 2021 were prepared on the basis of the accounting records of Inditex and the other Group companies.

The comparison of information in the interim financial statements refers to the six-month periods ended 31 July 2021 and 2020, except with respect to the interim condensed consolidated balance sheet, which compares 31 July 2021 with 31 January 2021.

There have been no significant changes in the consolidation scope in the first half of 2021.

COVID-19

The activity and results of the first six-month period of 2021 are affected by the COVID-19 pandemic, especially in the first quarter, in which there were significant restrictions to the opening of markets that are important to the Group. In the second quarter, the vaccination plans and measures to reopen the economy supported in most countries have enabled the easing of many of the restrictions imposed due to COVID, providing a resulting boost to economic recovery and a resurgence in consumption.

The technological infrastructure, digitalisation initiatives and integration of the physical and digital store on which the Group's integrated strategy hinges, have enabled it to continue to operate as normal in this context. Business model flexibility, efficient management of the integrated inventory, and control over operating expenses have been and continue to be crucial to the Group's operational and financial performance in the period.

The comparison of the first six-month period of 2021 and the same period of the previous year has been heavily affected by the pandemic, since it had a material impact in the first six-month period of 2020 on the majority of markets where the Group operated, as a result of lockdown measures and restricted mobility, whereby up to 90 % of the stores closed in that period.

The Group's Business Plan remains in effect as the pandemic is considered to be a temporary situation that does not alter its long-term expectations. Thus, there has been no change in the method used for analysing the impairment of non-financial assets, which is described in note 2.2.f Impairment of non-financial assets of the Inditex Group's Consolidated Annual Accounts for 2020.

The outcome of the analysis of the impairment corresponding to the first six months of the year has shown an additional provision of 0.5 million euros (1 million euros in 2020). In addition, the Group has performed a sensitivity analysis on the result of the impairment test in the light of the following assumptions:

- A 100 basis point increase in the discount rate.
- A 5 % reduction on future flows.

These sensitivity analyses performed separately for each assumption do not imply any additional impairment in 2021 (0.2 million euros in 2020).

From a financial standpoint, the pandemic has led to greater volatility in some of the currencies to which the Group is exposed; however, its negative impact cannot be considered to be exceptional. Although the pandemic has resulted in a general credit crunch in the markets, the potential loss expected did not evolve significantly.

The Group has a solid financial position, and a negative working capital as a result of the business model.

The Alternative Performance Measures (Gross Profit, EBITDA, EBIT, PBT, ROE, ROCE, working capital, net financial position, average financial position, store operating profit and quarterly results for separate quarters) are defined in the initial Note to the Consolidated Annual Accounts for 2020.

2 Accounting policies and basis of consolidation

The accounting policies and basis of consolidation adopted to prepare these interim financial statements at 31 July 2021 are the same as those used to prepare the consolidated annual accounts for 2020, although in addition we have considered the standards and interpretations whose date of application for the group was 1 February 2021:

Standards and Amendments approved for application in the European Union as from 1 January 2021

- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments, IFRS 4 Insurance Contracts and IFRS 16 Leases: Information for disclosure. These amendments provide specific guidance on the recognition of financial assets and liabilities whose basis for determining contractual cash flows changes as a result of the Benchmark Interest Rate Reform.
- Amendment to IFRS 4 which extends the obligatory application of IFRS 9 until 1 January 2023.
- Amendment to IFRS 16 Leasehold Improvements. This amendment extends the time limit for the processing of rent concessions obtained as a result of COVID-19 until 30 June 2022. Obligatory application, retrospectively from 1 January 2021, from 1 April 2021.

The Group applies the previous amendments since 1 February 2021 even though they have had no relevant impact on the condensed consolidated financial statements.

- Amendments to IFRS 3 Business combinations, updating the definitions of assets and liabilities in a business combination in line with the contents of the Conceptual Framework, adding new disclosure requirements in connection with the obligations set forth in IAS 37 Provisions, Contingent Liabilities and Contingent Assets in the framework of a business combination and explicitly prohibiting the recognition of contingent assets in a business combination. Mandatory in the years beginning on 1 January 2022.

This standard is not expected to have any relevant impact on the consolidated financial statements of the Group at the time of application.

Standards and Amendments issued and not approved for use in the European Union

- Amendment to IAS 16 – Property, Plant and Equipment, prohibits a company from deducting from the acquisition cost of property, plant and equipment any amounts received while the company is preparing the asset for its intended use. Mandatory in the years beginning on 1 January 2022.
- Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent assets, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Mandatory in the years beginning on 1 January 2022.
- Annual improvements to the 2018-2020 cycle: Establishing minor amendments to IFRS 1 first-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. Mandatory in the years beginning on 1 January 2022.
- Amendment to IAS 1 Presentation of Financial Statements, modifying and clarifying certain aspects of the classification of liabilities as current and non-current, as well as certain aspects of the breakdown of information on accounting policies. Mandatory in the years beginning on 1 January 2023, with the possibility of early adoption.
- Amendment to IAS 8 Accounting Policies, changes in accounting estimates and errors, modifying and clarifying certain aspects regarding what should be understood by a change in an accounting estimate. Mandatory in the years beginning on 1 January 2023, with the possibility of early adoption.
- Amendment to IAS 12 Income Taxes, clarifying certain aspects on deferred tax associated with assets and liabilities that arise in a single transaction. Mandatory in the years beginning on 1 January 2023, with the possibility of early adoption.
- IFRS 17 - Insurance contracts. It replaces IFRS 4, setting out the principles of registration, valuation, presentation and disclosure of insurance contracts to enable the entity to provide relevant and reliable information that allows users of the information to determine the effect that the contracts have on Financial Statements. It was initially mandatory in the years beginning on 1 January 2021, although in 2020 the IASB decided to extend the temporary period of mandatory application of IFRS 9 until 1 January 2023.

On the basis of the analyses made, these standards and amendments are not expected to have any relevant impact on the consolidated financial statements of the Group at the time of application.

In preparing the interim condensed consolidated financial statements at 31 July 2021 estimates were made in order to measure certain assets, liabilities, income, expenses and obligations reported herein. The estimates are affected by the sources of uncertainty. The estimates made by the Management are the same as those used in the consolidated annual accounts for 2020, and basically refer to:

- The determination of inventory costs and its net realizable value.
- The useful life of property, plant and equipment, intangible assets and investment property.
- The fair value of certain assets, mainly financial instruments.
- The assumptions used in the actuarial calculation of liabilities for pensions and other obligations with employees.
- The calculation of the provisions required for contingencies relating to litigation in progress and doubtful debts.
- With regard to the lease agreements, the lease term and the discount rate.
- The specific stores that will be affected by the store optimisation plan and the specific time of their closure.
- Assessment of counterparty credit risk of financial institutions in which the Group holds Cash and cash equivalents and Current financial investments.

These estimates were made using the best information available at 31 July 2021. However, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively in accordance with IAS 8.

In view of the business activities in which the Group companies engage, their transactions are not substantially cyclical or seasonal in nature. Therefore, no specific disclosures are included in this connection in these explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 31 July 2021.

3 Activity and description of the Group

Inditex, S.A. with registered office in Spain (Avenida de la Diputación s/n Edificio Inditex, Arteixo, A Coruña), is the parent of a global group of companies present in 5 continents, in both hemispheres, North and South.

Inditex is listed on all the four Spanish stock exchanges.

Its main activity consists of offering the latest fashion trends (clothing, footwear, accessories and household textile products) to meet customer demands, using high quality and sustainability standards and at attractive prices.

Inditex carries out its activity through various retail concepts such as Zara, Zara Home, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Uterqüe. Each concept is carried out through a store and online integrated model, managed directly by companies over which Inditex exercises control through the ownership of all or the majority of the share capital and of the voting rights, with the exception of certain markets where, for various reasons, the activity is performed through franchises.

The operation of this business model would not be feasible without the integration and flexibility of every stage of our value chain: design, production, logistics, stores and customers (with integrated points of sale, both physical and online).

The sales and design teams of Inditex are strongly focused on the customer and firmly committed to sustainability in the processes and materials used in our products. The permanent contact with stores and online teams by our team of designers, through the Product Management Department, helps them to learn about customer preferences. In addition, their active promotion and search for more sustainable

materials and production processes help to raise standards of quality and to reduce the social and environmental impact of our activity.

The logistics and distribution system enables the Company to make continuous shipments to physical and online stores from the logistics centres of every retail concept throughout every season.

At 31 July 2021, the various Group concepts had stores in 95 markets with the following geographical distribution:

	Number of stores		
	Company managed	Franchises	Total
Spain	1,297	38	1,335
Rest of Europe	3,079	151	3,230
America	637	158	795
Rest of the World	578	716	1,294
Total	5,591	1,063	6,654

4 Segment reporting

The principal activity of the Inditex Group comprises the retail and online distribution of clothing, footwear, accessories and household textile products through various retail concepts targeted at different sectors of the public.

The origin and predominant nature of the risks and rewards of the Inditex Group's business units are influenced mainly by the particular retail concepts to which the units belong. The internal structure of the Inditex Group, the business decision-making process and the system for communicating information to the Board of Directors and Group Management are organised by retail concepts and geographic area.

The key business indicators, understood as those that are part of the periodic segment reporting to the Board of Directors and the Group Management, and used in the decision-making process, are the sales figure and the profit before taxes by segment.

The segment liabilities, financial results and taxes are not disclosed, as they do not form part of the key business indicators defined above, or of the segment information reported periodically to the Board of Directors and to Group Management.

Group Management believes there are no differentiated income categories with respect to the manner in which the nature, amount, timing and uncertainty of revenues from ordinary activities and cash flows are affected by economic factors.

The Inditex Group segment information is as follows:

1H2021

	Zara/Zara Home	Bershka	Other	Inter-segment	Total
Sales to third parties	8,537	920	2,529	(50)	11,936
Profit before taxes	1,193	126	353	(28)	1,643
Amortisation and depreciation	990	114	312	-	1,416
Segment total assets	21,878	1,375	3,888	-	27,140

1H2020

	Zara/Zara Home	Bershka	Other	Inter-segment	Total
Sales to third parties	5,584	693	1,809	(53)	8,033
Profit before taxes	(185)	(23)	(57)	2	(263)
Amortisation and depreciation	1,095	161	431	(3)	1,684
Segment total assets	20,395	1,377	3,945	-	25,717

For presentation purposes Inditex has integrated the reporting of Zara Home into Zara due to the existing synergies between both concepts. The goal is to leverage the operational and brand management of the combined store and online platform.

In addition, the retail concepts other than Zara, Zara Home and Bershka have been grouped into a single reporting segment due to the similarities in the nature of the products sold and their management and monitoring model.

For the purpose of reconciliation with the interim condensed consolidated financial statements, the sales to third parties relate to "Net sales" in the interim condensed consolidated income statement and the depreciation and amortisation charge corresponds to "Amortisation and depreciation" in the interim condensed consolidated income statement.

The segment's Profit/loss before taxes refers to "Profit/loss before taxes" in the interim condensed consolidated income statement. Income and expenses which might be considered to be corporate in nature or as belonging to all segments were allocated to each of the segments based on distribution criteria considered reasonable by Group Management. Inter-segment transactions are carried out on an arm's length basis.

"Segment total assets" relates to "Total Assets" in the interim condensed consolidated balance sheet.

Zara was the first concept created by the Inditex Group and its positioning is based on a fashion offering featuring a wide range of products. Zara Home sells fashionable household products.

Bershka targets the younger consumers and its aim is to offer the latest fashion at affordable prices.

5 Property, plant and equipment and intangible assets

The main net additions made in the first half of 2021 amount to 694 million euros (first half of 2020: 449 million euros) and relate basically to those made in 2021 in the opening of new stores or the

refurbishment of existing ones, recognised under “Property, plant and equipment” in the accompanying interim condensed consolidated balance sheet.

Inditex has decided to absorb between 1,000 and 1,200 stores during 2020 and 2021. The plan includes 500-600 units each year. The streamlining plan is focussed on stores at the end of their useful life, especially those in the younger formats, whose sales can be recuperated in local shops and online. The impact of this initiative is 308 million euros, which was recorded under the heading “Amortisation and depreciation” on the income statement for the first half of 2020. In the first half of 2021, no significant additional impact arising from this optimisation plan has been recorded.

6 Capital and reserves

Share capital

At 31 July 2021 and at 31 January 2021, the Company' share capital amounted to 94 million euros and was divided into 3,116,652,000 fully subscribed and paid-in shares with an individual par value of 0.03 euros. All shares are of a single class and series, carry the same voting and dividend rights and are represented by book entries and listed on the four Spanish stock exchanges.

However, pursuant to Section 497 of Royal Legislative Decree 1/2010, of 2 July, approving the Revised Text of the Spanish Companies Act, Inditex has commissioned the daily share ownership notification service from Sociedad de Gestión de Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear).

According to the Company's register of Shareholders and also pursuant to public information registered at the Spanish National Securities Market Commission (CNMV), at 31 January 2021 and at 31 July 2021 the members of the Board of Directors directly or indirectly owned 59.375% of the Company's share capital. Pontegadea Inversiones, S.L. owns 50.010%.

Treasury shares

The Annual General Meeting held on 16 July 2019, approved a Long-Term Incentive Plan 2019-2023 (Note 26 of the consolidated financial statements for 2019) and authorised the Board of Directors to derivatively acquire treasury shares to cater for this plan. Similarly, the Annual General Meeting held on 13 July 2021 approved a new Long-Term Incentive Plan 2021-2025.

At 31 January 2021, the Company owned 1,726,305 treasury shares, representing 0.055% of the share capital.

In the first half of 2021, as part of the Temporary Buyback Programme and with the authorisation in force granted by the Annual General Meeting, 2,500,000 treasury shares have been acquired, reaching a total of 4,226,305, representing 0.136% of the share capital, in order to enable the Parent to meet its obligations to deliver shares to the beneficiaries of the abovementioned Long-Term Incentive Plan 2019-2023.

Dividends

The Group's dividend policy, which comprises a combination of the 60% ordinary payout and the payment of an extraordinary dividend, remains in force.

On 13 July 2021, the Annual General Meeting approved the distribution of a dividend charged to profits for 2020 amounting to a maximum of 2,181 million euros (0.70 euros gross per share corresponding to

an ordinary dividend of 0.22 euros per share and a bonus dividend of 0.48 euros (gross) per share for all the outstanding shares).

Of this amount, 0.35 euros per share were paid on 3 May 2021, as an ordinary interim dividend and an extraordinary dividend, and 0.35 euros (gross) per share will be paid on 2 November 2021, as a complementary extraordinary dividend, through the companies holding interests in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) in which the shareholders have deposited their shares; at 31 July 2021, under the heading "Payables" on the accompanying interim condensed consolidated balance sheet, the total amount pending payment is shown.

7 Income taxes

The accrued income tax expense for the first half of 2021 was calculated using the tax rate that would be applicable to the expected total annual profits or losses expected for the year, that is, the interim period income tax expense is the result of applying the estimated average annual effective tax rate to the pre-tax profit or loss for the interim period. However, the tax effects arising from one-off events or unique transactions performed in the reporting period are taken into consideration in full in the calculation.

The income tax expense/income recognised in the interim condensed consolidated income statement for the period ended 31 July 2021 and 2020 was calculated by applying an effective tax rate of 22.5% and 24.7%, respectively.

Certain Group companies are being audited for tax purposes, including most notably those domiciled in Spain, Germany and Russia.

The Group does not expect any significant additional liabilities to arise as a result of these audits or those that could be carried out in the future in relation to periods that are not yet statute-barred.

8 Remuneration of the Board of Directors and related party transactions

Remuneration of the Board of Directors

The remuneration earned by the Board of Directors and Senior Management of the Parent Company in the first half of 2021 is shown in the section on related party transactions.

Related party transactions

Related parties are the subsidiaries, jointly controlled entities and associates, the significant or controlling shareholders, the members of the Board of Directors of Inditex and Senior Management of the Inditex Group, as well as their close family members.

The transactions with related parties were performed on an arm's length basis.

Inditex Group companies

The transactions between Inditex and its subsidiaries form part of the normal course of business in terms of their purpose and terms and conditions and were eliminated in full on consolidation. Therefore, they are not disclosed in this Note.

The following tables detail the transactions and the outstanding balances between Inditex and its jointly controlled entities (group formed by the parent company Tempe S.A.) in the consolidated balance sheet:

Transactions:

Company	1H2021	1H2020
Jointly controlled entities	(414)	(303)

Balances:

	31/07/2021	31/07/2020
Current financial investments	7	1
Trade and other receivables	14	14
Non-current financial	278	247
Trade and other payables	335	205

The transactions with significant shareholders, members of the Board of Directors and Senior Management are detailed below.

Significant Shareholders

In the first half of 2021, the transactions performed by the Inditex Group with Pontegadea Inversiones, S.L., Partler 2006, S.L. or with persons or companies related to them, or with Rosp Corunna Participaciones Empresariales, S.L.U. or with persons or companies related to it were as follows:

1H2021			
Company name of significant shareholder	Nature of relationship	Type of operation	Amount
Pontegadea Inversiones, S.L., Partler 2006, S.L. or related entities or persons	Contractual	Payments related to leases	(18)
Pontegadea Inversiones, S.L., Partler 2006, S.L. or related entities or persons	Contractual	Services	6
Rosp Corunna Participaciones Empresariales, S.L. U. or related entities or persons	Contractual	Payments related to leases	(1)

1H2020

Company name of significant shareholder	Nature of relationship	Type of operation	Amount
Pontegadea Inversiones, S.L., Partler 2006, S.L. or related entities or persons	Contractual	Payments related to leases	(18)
Pontegadea Inversiones, S.L., Partler 2006, S.L. or related entities or persons	Contractual	Services	2
Rosp Corunna Participaciones Empresariales, S.L.U. or related entities or persons	Contractual	Payments related to leases	(1)

Several Inditex Group companies have leased commercial premises belonging to companies related to the controlling shareholder or to significant shareholders.

Members of the Board of Directors and Senior Management

The amounts indicated in the following tables referring to remuneration and termination benefits are expressed in thousands of euros in both years.

The remuneration (and termination benefits) due to the Directors and Senior Management of Inditex during the first half-year 2021 are as follows:

	Thousands Euros	
	Directors	Senior Management
Remuneration	3,615	9,997
Termination benefits	-	8,678
Total	3,615	18,675

The amount shown in the “Directors” section includes the remuneration due to the eleven (11) Directors for being members of the Board, and of the various Delegate Committees, where applicable in each case. It also includes the proportional part of the fixed remuneration due to the two (2) executive directors in the performance of their executive functions.

The amount specified in the “Senior Management” section refers to the fixed remuneration due to the twenty-two (22) members of Senior Management for the performance of their duties proportional to the time in which they have held their positions of Senior Management.

The variable remuneration earned by the members of the Board of Directors and Senior Management in 2020 has been paid during the first half of 2021 and is shown in the annual financial information of 2020. Similarly, the variable remuneration due, where applicable, to the Directors and Senior Management in 2021, and which will be subject to the approval of the Board of Directors, will be shown in the annual financial information of 2021 in progress.

In the first half of 2020 Inditex’s members of the Board of Directors and Senior Management earned the following remuneration and termination benefits:

	Thousands Euros	
	Directors	Senior Management
Remuneration	3,615	9,605
Termination benefits	-	-
Total	3,615	9,605

The amount shown in respect of members of the Board of Directors includes the remuneration due to the eleven (11) Directors for being members of the Board, and of the delegate committees, including the new Sustainability Committee, where appropriate. It also includes the proportional part of the fixed annual remuneration due to the two (2) executive directors in the performance of their executive functions.

The amount specified in the “Senior Management” section includes the fixed remuneration due to the twenty-one (21) members of Senior Management for the performance of their duties.

Also, the variable remuneration earned by the members of the Board of Directors and Senior Management in 2019 was paid in the first half of 2020.

9 Events after the reporting period

Within the digital anticipation and transformation strategy, the Group has decided to integrate Uterqüe into Massimo Dutti over the coming year. The entire Uterqüe product range will be available on the website and at selected Massimo Dutti stores, and will no longer be sold in-store. It is deemed that this integration process will not have a material impact on the Group's Consolidated Income Statement for 2021.

10 Explanation added for translation to English

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

INDUSTRIA DE DISEÑO TEXTIL, S.A. AND SUBSIDIARIES

INTERIM DIRECTORS' REPORT

FOR THE FIRST HALF OF 2021

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Interim Directors' Report

(Amounts expressed in millions of euros)

Situation of the entity

Inditex is a global fashion group operating on five continents, in the Northern and Southern hemispheres alike.

Our main activity consists of offering the latest fashion trends (clothing, footwear, accessories and household textile products) to meet customer demands, using high quality and sustainability standards and at attractive prices.

This activity is carried out through eight retail concepts: Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. Each concept operates through an online and store integrated model, managed directly by companies over which Inditex exercises control through the ownership of all or the majority of the share capital and of the voting rights, except in certain markets where, for several reasons, the business is carried out through franchises.

In order to offer the latest fashion trends at the right time, meeting high standards of sustainability and with the required quality, at Inditex we have developed an integrated and flexible business model that is clearly customer-oriented.

This model helps face business environment challenges. The strong competitiveness in the sector, driven by new technologies and an increasingly awareness of environmental challenges, defines a context with a constantly evolving customer profile.

The operation of this business model would not be feasible without the integration and flexibility of every stage of our value chain: design, production, logistics, stores and customers (with integrated points of sale, both physical and online).

The logistics and distribution system enables the Company to make continuous shipments to physical and online stores from the logistics centres of every commercial format throughout every season. This system operates mainly with centralised logistics centres for every brand, where stocks are kept and which distribute the products to stores and online stores worldwide.

Organizational structure

Inditex's corporate governance is articulated through the following institutional and operational bodies and mechanisms:

- General Shareholders' Meeting
- Board of Directors
- Executive Committee
- Audit and Compliance Committee
- Appointments Committee
- Remunerations Committee
- Sustainability Committee
- Compliance Committee and Office of the Chief Compliance Officer
- Committee of Ethics

Business performance and results

Key financial and non-financial indicators

Inditex's differentiation and strategic transformation towards a fully integrated, digital and sustainable business model accelerates.

This strategic transformation is based on three key pillars:

- ♦ The full integration of the business model, with the single inventory (SINT) a key part of the strategy.
- ♦ Digitalisation: The migration of the Inditex Open Platform (IOP) is close to 95% complete. Online sales continue to grow at very high rates.
- ♦ Inditex continues to make progress in its sustainable development approving new demanding targets in its last AGM.

1H2021 results (February-July) show a strong recovery in operations. 2Q2021 sales, EBITDA and net income reached historic highs. During 2Q2021, sales growth in constant currency continued accelerating to reach 51% versus 2Q2020 and 7% versus 2Q2019.

Over the 1H2021 store sales have steadily improved. Online sales continue to grow strongly. Online sales in constant currency increased 36% over 1H2020 and 137% over 1H2019. Inditex expects online sales to be more than 25% of sales in FY2021.

Inditex continues to be very active in differentiating its retail space. The growth of space in 1H2021 is in line with management's expectations. In 1H2021 openings have been carried out in 27 markets. At the end of the period Inditex operated 6,654 stores. Total stores by concept is included in the table below:

Concept	31 July 2021	31 July 2020
Zara	1,979	2,133
Zara Kids	73	116
Zara Home	509	580
Pull&Bear	864	946
Massimo Dutti	654	728
Bershka	987	1,086
Stradivarius	931	994
Oysho	575	665
Uterqüe	82	89
Total	6,654	7,337

The Spring/Summer collections were very well received by our customers. Throughout 1H2021 store sales have progressively improved and online sales continue growing strongly.

In 1H2021 net sales reached €11.9 billion, 49% higher than in 1H2020. Sales in local currencies grew 53%. Online sales in constant currency increased 36% over 1H2020 and 137% over 1H2019. Inditex expects online sales to be above 25% of total sales by the end of FY2021.

Net sales by concept in 1H2021 and 1H2020 are shown in the table below:

	1H2021	1H2020
Zara (Zara & Zara Home)	8,488	5,532
Pull&Bear	786	578
Massimo Dutti	607	490
Bershka	919	692
Stradivarius	782	502
Oysho	305	208
Uterqüe	48	31
Total	11,936	8,033

Inditex operates a global sales platform. Store and online sales by geographical area are shown in the table below. The change in percentage weights is mainly due to the different timing of lockdowns and re-openings.

Area	1H2021
Europe ex-Spain	46.1%
Asia & RoW	22.5%
Spain	14.1%
Americas	17.3%
Total	100%

Gross profit came to €6.9 billion, 53% higher than 1H2020. Gross margin reached 57.9% (+170bps).

All expense lines have shown a favourable evolution. Operating expenses increased by 25% over 1H2020 and were below 1H2019 levels.

In 1H2021 EBITDA increased 109% to €3.1 billion and EBIT reached €1.7 billion (-€198 million in 1H2020).

A breakdown of financial results can be found in the table below:

	1H2021	1H2020
Net financial income (losses)	(9)	4
Lease financial expenses	(48)	(65)
Foreign exchange gains (losses)	(11)	(15)
Total	(67)	(76)

The tax rate for 1H2021 is the best estimate for FY2021 according to current information.

Net income in 1H2021 came to €1.3 billion (-€195 million in 1H2020).

Issues relating to sustainability and employees

During the first half of FY2021, there have been no significant events and/or changes in terms of sustainability and employees, in relation to the content of Appendix of the consolidated Directors' Report for the 2020 financial year that ended on 31 January 2021, which contains the "Statement on Non-Financial Information" of the Inditex Group.

During the Annual General Meeting held on 13 July 2021, Inditex announced new sustainability goals, and the advancing of several already existing relevant goals. The goals announced notably include bringing forward the net zero emissions goal by 10 years, to 2040. Similarly, the more sustainable cotton usage goal has been brought forward to 2023, two years ahead of schedule. Furthermore, in 2022, 100 % of the electricity needs of the Group's own operations will be covered by renewable energy, and in the same year, more than 50% of garments will have a Join Life label. A new goal for Inditex includes its commitment to cutting the impact on water by 25% by 2025 in the supply chain.

In any case, the consolidated Directors' Report for FY2021, under the heading "Statement on Non-Financial Information", will contain full information on the sustainability and employee issues of the Inditex Group, referring to the current FY2021.

Liquidity and capital resources

Net cash increased by 24% to €8 billion due to the operating performance and efficient working capital management.

	31 July 2021	31 July 2020
Cash & cash equivalents	7,611	4,048
Short term investments	417	2,451
Current financial debt	(5)	(9)
Non current financial debt	(1)	(3)
Net financial cash (debt)	8,023	6,486

Due to the flexibility of the business model, the working capital dynamics remain normal. As a result of the operating performance and the active management of the supply chain, inventory increased 19% over 1H2020, and is below 1H2019 levels. The closing inventory is considered to be of high quality.

	31 July 2021	31 July 2020	31 July 2019
Inventories	2,563	2,158	2,664
Receivables	840	667	841
Payables	(6,583)	(4,978)	(6,632)
Operating working capital	(3,180)	(2,153)	(3,127)

The Group's capital structure is characterised by the low debt/equity ratio as a result of the practically non-existent financing and the strength of its equity.

The Group's organic growth and its CAPEX needs have been financed substantially with the funds generated by the business, which has enabled the Group to maintain its solid cash position.

The Group has credit facilities available that guarantee access to such additional funds as might be required.

Analysis of contractual obligations and off balance sheet transactions

Commitments exist in relation to investments in future store openings in the present year, the amount of which is included in the figure for capital expenditure detailed under "Information on the outlook for the Group".

Main risk and uncertainties

In order to facilitate unified and comprehensive risk management, the Group has established a common definition of risk for the Organisation as a whole. Accordingly, the Group defines a risk as “any potential event that may have a negative impact on the achievement of the business objectives”.

The risks reviewed are classified and grouped in the following categories:

1. Financial risks

Financial risks are threats originating in the macroeconomic sphere, financial markets, global value chains and industry- or company-specific events that may prevent the proposed objectives from being attained.

The normal functioning of the Group's operations exposes it to risks of a financial nature. This category includes market risk, foreign exchange rate risk, counterparty risk and commodity price increases. The Euro is the Group's functional currency. Its international transactions require the use of numerous non-euro currencies giving rise to foreign currency exchange risk. The Group has investments overseas whose assets are exposed to the foreign currency exchange risk. Given that the Group consolidates the annual accounts of all its companies in its functional currency, i.e. in euros, it is exposed to foreign currency exchange risk in the translation of the results of all its entities located outside the Economic and Monetary Union. The Company is also exposed to the risk arising from the payment and collection flows in currencies other than the euro in relation to the acquisition and provision of goods and services in both Group and non-Group transactions.

The Group is exposed to counterparty risk from its suppliers of goods and services as well as from its customers and business partners which could impact the normal development of some of its operations. The majority of its revenue relates to retail sales which are collected on demand, either in cash or through credit card. There are therefore no significant concentrations of credit risk. The financial solvency of the Group's most important third parties is analysed and monitored as part of an analysis process that also encompasses legal, compliance, reputational and other aspects. The Group is also exposed to the risk that counterparties (mainly financial) fail to comply with their obligations in relation to investing the company's cash, credit policies or other funding and guarantee vehicles or the derivatives arranged to hedge financial risks.

Interest rate and liquidity risk are also assessed. The Group manages cash at corporate level based on a highly active repatriation policy aimed at reducing the aforementioned risks to a minimum, also taking into account sovereign or jurisdiction risk. The current negative interest rate environment, especially in the Economic and Monetary Union, poses a potential risk of negative profitability in the Group's financial position. Consideration is also given to the potential impact resulting from the increase in the price of the many raw materials consumed indirectly in the Group's operations and in its procurement of goods and services. The Group is monitoring the evolution of the commodity markets. It actively manages their impact, taking advantage of the flexibility of our business model, which enables the diversification of sources and the adaptability of the value chain based on expected demand forecasting.

Lastly, this category includes risks relating to the competitive environment, meaning the difficulties in adapting to the environment or market in which the Group operates, as regards both the procurement processes and the product retailing and sale activities. It consists of the Group's possible inability to follow and respond to changes in its target market or to adapt to new situations in its supply or distribution countries, considering the difficulties involved in recognising and taking on board the ongoing changes in fashion trends, and in manufacturing, supplying and marketing new items that meet customer expectations. The optimal achievement of business objectives may be shaped by a decline in consumption resulting from an economic downturn, whether global or limited to one or more of the markets in which the Group operates.

2. Geopolitical Risks

Geopolitical risks arise from a deterioration in the political situation, a society's crime levels, changes in the ideology, leadership and regulation of its authorities, politically motivated conflicts at home or between nation states that threaten operations or forecast performance.

Potential instability in the territories where the Group's supply chains are located, as well as where products are marketed, is a significant risk. The business model is based on a value chain with multiple geographic origins. The Group's integrated sales model enables it to operate in more than two hundred markets, which ensures a significant level of diversification and resilience. As a result of its broad geographic presence, the Group is directly or indirectly exposed to multiple legislations in the countries where it operates (tax, customs, labour, trade and consumer, industrial and intellectual property, data protection and privacy regulations, as well as regulatory risks of a criminal nature, crimes related to corruption, fraud and bribery, cybersecurity and environmental legislation, among others. Regulatory changes as well as differing or even divergent treatment of legal facts in different jurisdictions expose the Group to potential negative effects of a financial, compliance and/or reputational nature.

On 1 May 2021, the EU-UK Trade and Cooperation Agreement came into force. Although this agreement cannot be prepared at the economic integration level existing before Brexit, when the United Kingdom was a member of the Union, it goes beyond the terms of a standard free trade agreement and sets out a solid and secure basis in various fields, not only in relation to the exchange of goods and services.

The Group has continued to work to adapt to this new environment, implementing the action plans set out in the UK's EU withdrawal process with respect to the supply chain, distribution and labour field, as well as to adapt the likes of the administrative, accounting, tax and customs processes, among other, in order to guarantee continued operations as normal in that market.

3. Technological Risks

The technological risk category includes targeted cyber-attacks, collapse of critical infrastructure, industrial accidents with direct or indirect impacts, as well as the inability to adapt to technological advances.

These include the risks associated with the technological infrastructure, the effective management of information, IT and robotic networks and communications. They also include those relating to the physical and technological security of systems, in particular, the risk of cyberattacks on information systems, which could potentially affect the confidentiality, integrity and availability of critical data.

These risks may significantly affect the normal functioning of the Group's operations. Some of the operational risks are concentrated at logistics centres and at third-party operators transporting goods. Clothing, footwear, accessories and household products for all the chains are distributed from 14 logistics centres located all around Spain. Logistics distribution is complemented by the Lelystad logistics connection point, in the Netherlands, as well as other smaller logistics centres located in other countries and with third party logistics operators which carry out small scale distribution operations.

The ability to adapt to technological innovations and evolutions in a broad sense, both in customer interaction through the development of a satisfactory omni-channel experience, as well as in the improvement of operational processes, is essential to ensure the Group's commercial success in a highly competitive environment.

4. Environmental Risks

Environmental risks are risks associated with natural disasters, climate change and the interactions resulting from human exploitation of the environment.

Key operations pertaining to business and transport processes could be paralysed as a result of natural disasters (floods, fires, earthquakes, etc.), especially if they affect the Group's critical infrastructures. The Group's performance is exposed to the potential impact of climate change in its various manifestations of physical risk, whether chronic or catastrophic.

In this connection, significant changes in weather cycles may affect consumer demand patterns and the supply and demand of textile raw materials used to manufacture the garments, among others. There are potential financial and reputational risks associated with the nature, speed and focus of policy, legal, technological and market changes as society transitions to a low-carbon economy.

There is also a risk arising from the potential adverse effects of the Group's value chain due to the discharge of undesirable or hazardous substances into the environment, or potentially resulting in the loss of biodiversity, deforestation, soil degradation, shortage of raw materials, among others.

5. Social Risks

The category of social risks includes risks arising from socio-economic trends in societies, including the evolution of preferences, social norms, demographics, as well as the prevalence of diseases and the development of public healthcare systems.

The main risks relating to human resources are those arising from potential dependence on key employees and from the failure to keep an adequate work environment in all the work centres.

This category includes the risk of infectious diseases. It corresponds to the potential disruption caused by a local, regional or global pandemic as a result of infectious diseases against which there is little or no pre-existing immunity in the human population. The note on COVID-19 details its impact during the year and the mitigation measures implemented.

Lastly, this category also includes risks which have a direct influence on the perception of the Group by its stakeholders (customers, employees, shareholders and suppliers) and society in general. They arise from the possibility of the inappropriate management of issues relating to social and environmental sustainability, responsibility on account of health and safety of the products, the corporate image of the Group, as well as its image in social networks, and any other potential regulatory breach or good practices that might have an impact on the Organisation's reputation.

6. Corporate governance

Governance risks include a set of risks of various kinds. These include non-compliance by the Company, and in particular by its Board of Directors and Senior Management, with (i) the law in a formal or material sense; (ii) good governance guidelines; (iii) best practices; and (iv) the commitments that Inditex voluntarily undertakes as a business, as well as the risks resulting from the tactical and strategic decisions of the Group's management that may result in the non-fulfilment of the business objectives of the functional areas or of the Group, as well as risks of corruption or damage to the reputation of the company.

Risk management in the Group is a process promoted by the Board of Directors and Senior Management and is the responsibility of all members of the Group, the purpose of which is to provide reasonable assurance that the objectives established by the Group will be achieved as a response to the social and environmental challenges, furnishing all stakeholders with sufficient guarantees to ensure that the value generated will be protected.

In this context, the Group's Integrated Risk Management System ("IRMS") is based on the Risk Management and Control Policy, which sets out the basic principles, key risk factors and the general framework for risk management and control.

The Risk Management and Control Policy is implemented and complemented by specific policies and internal regulations relating to certain units or areas of the Group. The policies and internal regulations developed and implemented by these areas for the management of the different types of risk include most notably:

- The Investment Policy.
- The External Financing Policy.
- The Payment Management Policy.
- The Financial Risk Management Policy.
- The Insurable Risks Management Policy.
- The Code of Conduct and of Responsible Practices.
- The Criminal Risk Prevention Policy.
- The Internal Regulations of Conduct regarding Transactions in Securities.
- The Code of Conduct of Manufacturers and Suppliers.
- The Occupational Health and Safety Policy.
- The Sustainability Policy.
- The Information Security Policy.
- The Purchasing and Contracting Policy.
- The Policy on Communications and Contact with Shareholders, Institutional Investors and Proxy Advisers Communication and Relations.
- The Policy and Procedure on Representatives and Attorneys.
- The Policy on Human Rights.
- The Diversity and Inclusion Policy.
- The Compliance Policy.
- The Tax Strategy and the Tax Policy.

- The Anti-Money Laundering and Terrorist Financing Policy.
- The Due Diligence Policy.
- The Conflict of Interest Policy.
- The Policy on Donations and Sponsorships.
- The Policy on Gifts and Business Courtesies.
- The Policy on Dealings with Public Servants.

For more details, see Section E “Risk control and management systems” of the Annual Corporate Governance Report for 2020.

Events after the reporting period

Within the digital anticipation and transformation strategy, the Group has decided to integrate Uterqüe into Massimo Dutti over the coming year. The entire Uterqüe product range will be available on the website and at selected Massimo Dutti stores, and will no longer be sold in-store. It is deemed that this integration process will not have a material impact on the Group's Consolidated Income Statement for 2021.

Information on the outlook for the Group

The Autumn/Winter collections have been very well received by our customers.

Store and online sales in constant currency between 1 August and 9 September 2021 increased 22% versus the same period in 2020 and 9% versus the same period in 2019.

Based on current information Inditex expects a gross margin of around 57.5% (+/-50 bps) for FY2021.

At current exchange rates, the currency impact on sales in 2H2021 is expected to be around +0.5% versus 2H2020 and -5.5% versus 2H2019.

Currently, 99% of stores are open. Sales are returning to normal levels and online sales continue to grow.

On 30 September Zara Man will launch the sports collection Zara Athleticz, available online and in selected stores.

Investments in the period 2020-2022 will be around €900 million per year. The investment plan includes a digital investment of €1 billion over the 3 years.

R&D+I activities

The Inditex Group carries out research, development and innovation activities in all areas of its business with the aim of improving the manufacturing and distribution processes and developing technologies that facilitate business management, either using its own resources or with the help of third parties. In

particular, special mention is made of designing garments, accessories and household goods, logistics and activities related to point-of-sale technology, inventory management and administration systems, delivery systems in the distribution centres, in-store communication systems, garment labelling systems and lastly the activity related to the digital transformation of the business.

Acquisition and sale of treasure shares

The Annual General Meeting held on 16 July 2019, approved a Long-Term Incentive Plan 2019-2023 (Note 26 of the consolidated financial statements for 2019) and authorised the Board of Directors to derivatively acquire treasury shares to cater for this plan. Similarly, the Annual General Meeting held on 13 July 2021 approved a new Long-Term Incentive Plan 2021-2025.

At 31 January 2021, the Company owned 1,726,305 treasury shares, representing 0.055% of the share capital.

In the first half of 2021, as part of the Temporary Buyback Programme and with the authorisation in force granted by the Annual General Meeting, 2,500,000 treasury shares have been acquired, reaching a total of 4,226,305, representing 0.136% of the share capital, in order to enable the Parent to meet its obligations to deliver shares to the beneficiaries of the abovementioned Long-Term Incentive Plan 2019-2023.

Other salient information

Stock market information

Inditex's market price stood at 28.59 euros per share at 31 July 2021, accumulating an increase of 17% since the beginning of the year, while the Ibex 35 index posted a 10% rise in the same period. The average daily trading volume was approximately 4.3 million shares.

Inditex's market capitalisation stood at 89,105 million euros at the end of the six-month period, up 872% on its capitalisation when its shares were admitted to trading on 23 May 2001, as compared with a 10 % decrease in the Ibex 35 index in the same period.

Dividends policy

The Group's dividend policy, which comprises a combination of the 60% ordinary payout and the payment of an extraordinary dividend, remains in force.

On 13 July 2021, the Annual General Meeting approved the distribution of a dividend charged to profits for 2020 amounting to a maximum of 2,181 million euros (0.70 euros gross per share corresponding to an ordinary dividend of 0.22 euros per share and a bonus dividend of 0.48 euros (gross) per share for all the outstanding shares).

Of this amount, 0.35 euros per share were paid on 3 May 2021, as an ordinary interim dividend and an extraordinary dividend, and 0.35 euros (gross) per share will be paid on 2 November 2021, as a complementary extraordinary dividend, through the companies holding interests in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) in which the shareholders have deposited their shares; at 31 July 2021, under the heading "Payables" on the accompanying interim condensed consolidated balance sheet, the total amount pending payment is shown.

Other disclosures

Related party transactions

Related party transactions are described in Note 8 to this interim condensed consolidated financial statements. The Company did not carry out any related party transactions during the year that substantially affected its financial position or results.

Risk and uncertainties

Other than those described above, there are no significant risks or uncertainties for the second half of 2021.

Alternative performance measures

The Alternative Performance Measures (Gross Profit, EBITDA, EBIT, PBT, ROE, ROCE, working capital, net financial position, average financial position, store operating profit and quarterly results for separate quarters) are defined in the initial Note to the Consolidated Annual Accounts for 2020.

This document may contain statements regarding intentions, expectations or forecasts. All statements other than statements of historical facts included herein, including, without limitation, those regarding our financial position, business strategy, management plans and objectives for future operations, are forward-looking statements. These statements represent the Company's best estimate on the basis of the information available as at the date hereof, but do not constitute a guarantee of future performance. Any such forward-looking statements may be subject to risks, uncertainties and other relevant factors which could cause them to differ materially from actual results. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements.

Some of these risks include, amongst others, ongoing competitive pressure in the sector, consumer tastes and spending trends, macro-economic, political, regulatory and trade conditions, foreign exchange risks, the surge of infectious diseases such as COVID-19, technological risks, restrictions to free trade and political volatility in the markets where the Inditex Group is present or in the countries where the Group's products are manufactured or distributed.

The risks and uncertainties that could affect the forward-looking statements are difficult to predict. Except where the prevailing regulations require otherwise, the company assumes no obligation to publicly revise or update its forward-looking statements in the case of unexpected changes, events or circumstances that could affect them.