

**ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF  
LISTED PUBLIC COMPANIES**

ISSUER IDENTIFICATION

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Company Name:

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

Registered Office:

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

**ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF**  
**INDUSTRIA DE DISEÑO TEXTIL, S.A.**

The information hereunder provided covers the period running from 1 February 2015 through 31 January 2016 (financial year 2015) and it includes detailed information about the remuneration policy of the Board of Directors of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.), (hereinafter, "Inditex", "the Company" or "the Group", indistinctly).

This report has been prepared by the Remuneration Committee, pursuant to the provisions of section 541 of the Spanish Companies Act (hereinafter, LSC (*Spanish acronym*)), of Order EEC/461/2013 of 20 March, whereby the contents and structure of the annual corporate governance report, the annual report on remuneration and other information instruments of listed public companies, savings banks and other entities which issue securities admitted to trading in official securities markets, are determined, of Circular 4/2013 of 12 June of the *Comisión Nacional del Mercado de Valores* [Spanish SEC] (hereinafter, CNMV) regarding the annual report on the remuneration of directors of listed public companies, which has been recently amended by CNMV's Circular 7/2015 of 22 December, and of section 30 of the Board of Directors' Regulations and section 6 of the Remuneration Committee's Regulations of Inditex.

It was resolved by the Board of Directors of Inditex in the meeting held on 8 March 2016, to approve, on the proposal of the Remuneration Committee, this Annual Report on Remuneration of Directors for FY2015. This Annual Report is expected to be submitted to the advisory say-on-pay vote of the next Annual General Meeting as a separate item of the agenda.

Pursuant to the provisions of section 529 *novodecies* of LSC and of the Transitional Provision of Act 31/2014 of 3 December amending the Companies Act to improve corporate governance (hereinafter, Act 31/2014), the Annual Report on Remuneration of Directors for FY2014 was approved further to an advisory say-on-pay vote, by the Annual General Meeting held on 14 July 2015, together with the remuneration policy for directors described in this Report for the following three years.

**A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR**

**A.1 Explain the remuneration policy of the company. Information regarding the following issues will be included in this section:**

- **General principles and grounds of the remuneration policy.**
- **Most significant changes made to the remuneration policy compared to that applied in the previous financial year, as well as any amendments made during the year to the terms for exercising options already granted.**
- **Criteria used to set the remuneration policy of the company.**
- **Relative significance of the variable items of remuneration versus fixed ones and criteria followed for determining the different components of the directors' compensation package (*remuneration mix*).**

## Explain the remuneration policy

### A.1.1. General principles and grounds of the remuneration policy

The remuneration policy for Directors seeks to compensate them in a manner that best fits the responsibility they have assumed and the dedication in their mandates, and endeavors for this remuneration to be reasonable in accordance with market demands, as provided in article 31 of the Articles of Association and section 30 of the Board of Directors' Regulations. In addition, and specifically regarding non-executive directors, it is provided that *"the Board of Directors (...) shall ensure that the remuneration of non-executive directors is such so as to offer incentives to dedication by the directors, while not compromising their independence."*

The general principles and grounds of the remuneration Policy for the Executive Chairman are:

- Link to Group's strategy: a portion of the remuneration must be linked to the achievement of the objectives which define the Group's strategy.
- Pay for performance equation: a significant part of the remuneration must vary in accordance with results.
- Long-term: remuneration policy must be aligned with the values and long-term objectives of the Company.
- Competitiveness: the remuneration of the Executive Chairman must be such as to attract and retain the most talented and appropriate professionals to achieve the strategic objectives of the Company, 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.
- Transparency: to build trust among shareholders and investors.
- Alignment with most demanded practices by international investors.
- Strict procedures: 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.
- Commitment to shareholders: the Remuneration Committee shall act in a proactive manner to understand shareholders' priorities and to explain remuneration policies and practices in a transparent manner.

### A.1.2. Most significant changes to the remuneration policy compared to that applied in the previous year

The remuneration policy is not expected to undergo any significant change in FY 2016 as

compared to the one enforced in 2015.

In FY2016, the Board of Directors has resolved, on the proposal of the Remuneration Committee, to submit to the Annual General Meeting for approval, the implementation of the 2016-2020 Long-Term Incentive Plan, in line with the current remuneration policy for directors.

#### **A.1.3. Criteria used to set the remuneration policy**

The Group's remuneration policy seeks to support the success of the strategy of the business model, setting forth appropriate levels of compensation for each situation.

The Board of Directors takes into account, on the proposal of the Remuneration Committee, the following issues upon establishing the remuneration policy:

a) The provisions of the Articles of Association, the Board of Directors' Regulations and the Nomination Committee's Regulations.

b) The following principles and criteria:

- Moderation: remunerations are 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.
- Transparency: information on remuneration is in line with the best practices in the area of corporate governance.
- Alignment with the strategic objectives of the Group based upon two components of variable remuneration, one on the short-term and the other on the long-term.
- Corporate social responsibility and environmental sustainability: progress in corporate social responsibility and environmental sustainability is a relevant yardstick within Inditex's remuneration scheme.
- Alignment with shareholders' interests.
- Evolution of the market and of competitors in the field of remuneration.

c) Applicable regulations

d) Market data, guidelines provided by institutional investors and proxy advisors, and the recommendations of the Good Governance Code of Listed Companies (hereinafter, Good Governance Code or CBG (*Spanish acronym*)).

#### **A.1.4. Relative significance of the variable items of remuneration versus fixed ones and criteria followed for determining the different components of the directors' compensation package (*remuneration mix*)**

Remuneration of Directors as such is fully comprised of fixed items.

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

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.

In a scenario of target achievement of objectives, the weight of variable remuneration would be in excess of 60% of aggregate compensation. Approximately 25% of the total variable remuneration would be paid in shares.

In a scenario of over-achievement of objectives, variable remuneration would represent upwards of 70% of aggregate compensation, with a higher weight of the long-term element. Approximately 30% of the total variable remuneration would be paid in shares.

This distribution of remuneration mix and the different remuneration scenarios based upon objectives, ensure that the fixed remuneration would represent a significant part of aggregate compensation, for the purposes of preventing taking any unnecessary risks. It also ensures that variable remuneration compensates performance, based upon achievement of the Group's objectives, and as such, variable remuneration is not guaranteed, being flexible enough to the extent that, under certain circumstances, it may entirely disappear.

**A.2 Information regarding the preparatory work and decision-making process followed to determine the remuneration policy and the role played, if any, by the Remuneration Committee and other supervisory bodies in setting up the remuneration policy. This information will include, where appropriate, the mandate given to the Remuneration Committee, its composition and the identity of the external consultants whose services have been used for defining the remuneration policy. The class of directors who, where applicable, have participated in defining the remuneration policy, shall also be stated**

**Explain the process for determining the remuneration policy**

**A.2.1. Preparatory work, decision-making process of the Remuneration Committee and its involvement in establishing the remuneration policy and mandate given to the Remuneration Committee.**

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

During FY2015 and current year 2016 to the date this report is approved, the most relevant business transacted by the Remuneration Committee (and the former Nomination and Remuneration Committee) in the field of "remuneration" have been:

- The approval, follow-up and evaluation of the achievement of the objectives linked to the annual variable remuneration of the Executive Chairman for FY2014. The achievement of such objectives was assessed by the Board of Directors in the meeting held on 17 March 2015.
- The proposal submitted to the Board of Directors on the remuneration of the

Executive Chairman for the discharge of senior management duties for FY2015, with regard to the amount and the remaining terms thereof. The Board of Directors approved such proposal during the meeting held on 17 March 2015.

- The review of the terms of the contractual relationship of the Executive Chairman and of the main terms and conditions of the contracts and the remuneration policy for Senior Executives.
- The proposal of the Annual Report on Remuneration of Directors for FY2014. Further to the approval thereof by the Board of Directors, said Annual Report was put to the advisory say-on-pay vote of the Annual General Meeting held on 14 July 2015 as a separate item of the Agenda (item 9), and was voted for by 98.39%.
- The report on the performance of the Remuneration Committee and its members that the Committee submitted to the Board of Directors for the annual evaluation thereof.
- The design of the 2016-2020 Long-Term Incentive Plan, approved by the Board of Directors on 8 March 2016, on the proposal of the Remuneration Committee, which will be submitted to the upcoming Annual General Meeting for approval.
- The approval, follow-up and assessment of the achievement of the objectives linked to the annual variable remuneration of the Executive Chairman for FY2015. The achievement of such objectives was assessed by the Board of Directors in the meeting held on 8 March 2016.
- The proposal submitted to the Board of Directors regarding the remuneration of the Executive Chairman for the discharge of senior management duties for FY2016, with regard to the amount and the remaining terms thereof. Such proposal was approved by the Board of Directors on 8 March 2016. To prepare the proposal on the remuneration of the Executive Chairman, the Remuneration Committee has been advised by Willis Towers Watson.
- The proposal of the Annual Report on Remuneration of Directors for FY2015, to be submitted to the Board of Directors for approval and to be subsequently put to the advisory say-on-pay vote of the Annual General Meeting. Such report was approved by the Board of Directors on 8 March 2016.

The information on the remaining activities of the Remuneration Committee during FY2015 will be included in the Annual Corporate Governance Report and/or the annual activities report of the Remuneration Committee, which will be published in June as part of the Annual Report for FY2015.

As part of the decision-making process regarding the design of the 2016-2020 Long-Term Incentive Plan, the Remuneration Committee has taken into account a research on market practices in the field of long-term incentive schemes in Spain, Europe and the US, as well as the recommendations and guidelines of institutional investors, proxy advisors and the Good Governance Code, on the design of the variable remuneration. The Committee has been advised by Willis Towers Watson.

For the purposes of proposing appropriate levels of compensation for the Executive Chairman for FY2016, and on the advice of Willis Towers Watson, the Remuneration

Committee has carried out a remuneration benchmarking, wherein different benchmarking groups have been considered, based upon geographical scope, business sector and size criteria, which are detailed below:

- The Dow Jones Retail Titans 30 Index, comprised of the 30 leading companies in the retail sector. Such companies are selected by Dow Jones based upon ranking by float-adjusted market capitalization, revenue and net profit.
- The FTSE Eurotop 100, made up of the 100 most highly capitalized companies in Europe.
- The top 20 companies included in the “Best Performing CEOs in the World” list published by Harvard Business Review in November 2015 (excluding Asian companies and those with a small market capitalization).
- A sample of 20 companies included in the Dow 30 and in Eurotop 100 (10 from Europe and 10 from the US) with market capitalization equal to approximately €100bn at median level. Such peer companies are: Home Depot, Intel, Novo Nordisk, Royal Dutch, Merck, Cisco, Unilever, IBM, Sanofi, United Health, Total, McDonald’s, British American Tobacco, Nike, Bayer, GlaxoSmithKline, Sabmiller, SAP, Boeing and 3M.

#### **A.2.2. Composition of the Remuneration Committee**

During FY2015, Inditex’s internal regulations were subject to a far-reaching amendment for the purposes of adapting them to the new developments introduced by Act 31/2014 and the Good Governance Code of Listed Companies.

Thus, in accordance with recommendation 48 of the Good Governance Code, the former Nomination and Remuneration Committee has been split into two separate bodies: a Nomination Committee and a Remuneration Committee.

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

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

As at 31 January 2016 and as at the date of this report, the composition of the Remuneration Committee is as follows:

- Chair: Mr Rodrigo Echenique Gordillo (non-executive independent).
- Ordinary members: Mr José Arnau Sierra (non-executive proprietary), Ms Irene Ruth Miller (non-executive independent), Mr Carlos Espinosa de los Monteros Bernaldo de Quirós (non-executive affiliate), Mr Emilio Saracho Rodríguez de Torres (non-executive independent) and Mr José Luis Durán Schulz (non-executive independent).

Secretary non-member: Mr Antonio Abril Abadín.

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

During FY2015, the former Nomination and Remuneration Committee met 3 times, with the attendance of all its members, and the new Remuneration Committee met once, with the attendance of 5 members. This represents an aggregate attendance of 95.83%.

During the meeting that the Board of Directors holds immediately after each meeting of the Remuneration Committee (or of the former Nomination and Remuneration Committee), the Chair of this latter informs Board members of the business transacted in the course of such meeting.

According to the calendar scheduled for FY2016, the Remuneration Committee is expected to meet at least 4 times, without prejudice to any extraordinary meeting that might be held in the course of the year.

#### **A.2.3. External advice**

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

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

**A.3 State the amount and nature of the fixed components, with a breakdown, where appropriate, of compensations of executive directors for the performance of senior management duties, additional remuneration as chairman or member of any Board committee, the per diem allowances for participating in the Board and its committees or any other fixed remuneration for the directorship, as well as an estimate of the annual fixed remuneration to which they give rise. Identify other benefits which are not paid in cash and the basic parameters according to which they are granted.**

#### **Explain the fixed components of the remuneration**

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



the remuneration for each director.

According to article 31 of the Articles of Association, the remuneration of Directors shall consist of an annual fixed remuneration for each director, the amount of which shall be decided by the Annual General Meeting for each financial year or which shall be valid for the number of financial years that the General Meeting would establish. This system represents that the General Meeting of Shareholders is recognized as the supreme and sovereign body of expression of the will of the Company, namely in the area of remuneration, and ensures the maximum transparency of such remuneration. This entails that, while the remuneration policy is in effect, any increase in the remuneration of directors as such shall be resolved by the Annual General Meeting. Thus, during FY2005, FY2006, FY2008 and FY2011, the above referred remuneration was approved by the Annual General Meeting with the following votes for (in percentage terms): a) 2005: 99.98%; b) 2006: 99.99%; c) 2008: 99.96%; and d) 2011: 99.59%

The Annual General Meeting held on 14 July 2015 resolved that, further to the split of the Nomination and Remuneration Committee into two separate committees (a Nomination Committee and a Remuneration Committee), the remuneration fixed by the Annual General Meeting on 19 July 2011 for the Chair and the members of the former Nomination and Remuneration Committee (including the Chair thereof) shall hereinafter apply to the Chairs and the members (including the Chairs thereof) of the new Nomination Committee and Remuneration Committee.

At the present time, and effective for an indefinite period until another resolution is passed on this matter, the remuneration of Directors was fixed by the Annual General Meeting held on 11 July 2011 in the following amounts, which are fully independent and compatible:

- Each director will receive an annual fixed remuneration in the amount of €100k for their directorship;
- The Deputy Chairman or Deputy Chairmen of the Board of Directors will receive an additional fixed remuneration of €80k;
- The Chairs of the Audit and Control Committee, the Nomination Committee and the Remuneration Committee, will receive an additional fixed remuneration of €50k; and
- Directors who in turn sit on the Audit and Control Committee, the Nomination Committee and/or the Remuneration Committee (including the Chair of each Committee) will receive an additional fixed remuneration of €50k.

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

On the other hand, as stated above, the Executive Chairman is paid a Fixed Remuneration for the performance of senior management duties. Such remuneration is

fixed based upon the following criteria:

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

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

Fixed remuneration is not expected to change while the remuneration policy addressed herein is in effect.

Namely, the Fixed Remuneration for FY2016 was approved by the Board of Directors on 8 March 2015, on the proposal of the Remuneration Committee, in the amount of € 3,250k. This sum has remained unchanged since FY2013.

#### **A.4 Explain the amount, nature and the main description of the variable items of remuneration system**

**Namely:**

- **Identify each of the remuneration plans in which the directors are beneficiaries, their scope, date of approval, date of implementation, dates of effectiveness and also their main features. In the case of share option plans and other financial instruments, the general features of the plan will include information on the conditions established in each plan for exercising these options or financial instruments for each plan.**
- **State any remuneration made under profit-sharing or bonus schemes, and the reason why they were granted.**
- **Explain the basic parameters and grounds for any annual bonus scheme.**
- **The classes of directors (executive directors, non-executive proprietary directors, non-executive independent directors or other affiliate directors) who are beneficiaries of remuneration systems or plans that incorporate a variable remuneration.**
- **The rationale for these variable remuneration systems or plans, the criteria selected for assessing performance, and also the assessment components and methods for determining whether these assessment criteria have been complied with or not, and an estimate of the absolute amount of the variable remunerations to which the proposed remuneration plan would give rise, according to the level of compliance with the hypotheses or targets taken as a reference.**
- **Where appropriate, give information on deferred payment periods that have been established and/or holdback periods for shares or other financial instruments, if any.**

## Explain the variable items of the remuneration systems

The amounts provided in section A.3 above are the only remuneration paid to Directors of the Company for their membership on the Board of Directors of Inditex, or of any Group companies. There is no remuneration under a profit-sharing scheme, nor any remuneration systems or schemes covering a variable remuneration.

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

### **(i) Short-term or annual variable remuneration**

It is linked to the achievement of the annual quantitative and qualitative objectives set by the Company, which are consistent with the medium to long-term strategy.

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

Qualitative objectives represent at least 30% of the aggregate incentive.

The performance scale, fixed at the beginning of each financial year, includes a minimum threshold below which no incentive is paid, a level on target, which corresponds to the standard level of achievement of objectives, and a maximum level, specific for each metric.

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

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

For the purposes of the remuneration policy for directors, which will be applicable in the following years, the objective amount of the annual variable remuneration of the Executive Chairman, i.e., the one which corresponds to a level of achievement of the objectives on target, is tantamount to 100% of the Fixed Remuneration. A scale is associated with objectives, which allows rewarding over-achievement up to a certain limit; therefore, annual variable remuneration might reach up to 120% of fixed remuneration.

The terms of the annual variable remuneration system which apply to the Executive Chairman, including the structure, maximum levels of remuneration, objectives established and the weight of each of them, are reviewed every year by the

Remuneration Committee, considering the Company's strategy, its needs and the business status. Such terms are submitted to the Board of Directors for approval.

Namely, for FY2016, the Board of Directors has resolved, on the proposal of the Remuneration Committee, that the annual variable remuneration be determined in accordance with the following yardsticks: 70% based upon the net sales and the contribution margin, in equal proportion, with the same yardsticks as those established for senior executives according to the budget of the Company; and the remaining 30% based upon the following yardsticks: the strategic development of the Company; the personal performance of the Executive Chairman; the observance of the expansion plans, in terms of increase of retail floor area in square meters, pursuant to the Group's objectives; the progress in corporate social responsibility policies and the progress in environmental policies, in terms of the number of new stores which meet eco-efficiency parameters and the number of audits and control on wet processes, in the framework of the Zero Discharge of Hazardous Chemicals Plan.

For FY2016, this short-term variable remuneration shall be paid in cash.

Pursuant to the resolution passed by the Board of Directors on 8 March 2016, on the proposal of the Remuneration Committee, in a scenario of achievement on target of 100% of objectives, the annual variable remuneration for FY2016 would amount to 100% of the fixed salary, i.e., €3,250k. In the event of over-achievement, annual variable remuneration may reach up to 120% of fixed salary.

#### **(ii) Pluri-annual or Long-term variable remuneration**

The Long-term Performance Shares Plan approved by the Board of Directors on 12 March 2013 on the proposal of the former Nomination and Remuneration Committee, and by the Annual General Meeting on 16 July 2013, remains in effect during FY2016. A thorough description of such Plan is provided in section C.1.2 below.

In 2016, Inditex has decided to launch the 2016-2020 Long-Term Incentive Plan (hereinafter, the Plan), in line with the current remuneration policy for directors. Such Plan has been approved by the Board of Directors in the meeting held on 8 March 2016, following a favourable report of the Remuneration Committee. It will be subsequently submitted to the Annual General Meeting for approval, for the purposes of the provisions of section 219 of LSC.

The Executive Chairman is included among the beneficiaries of such Plan.

The total duration of the Plan is 4 years. It is structured in 2 independent cycles. The first cycle of the Plan runs from 1 February 2016 through 31 January 2019. The second cycle runs from 1 February 2017 through 31 January 2020.

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

Under the 2016-2020 Plan, the Executive Chairman will receive, if appropriate, an incentive which will be paid as follows: 60% in shares and 40% in cash. For a level of achievement on target, the total incentive for the two cycles of the Plan amounts to €8,810k, equivalent to an annualized amount of €2,202k (68% of the annual fixed remuneration). In a scenario of over-achievement, the incentive for the two cycles of the Plan would amount to 187% of the incentive for a level of achievement on target (which annualized, would represent 127% of the annual fixed remuneration).

With regard to 60% of the incentive to be paid, if appropriate, in shares, the maximum number of shares to be delivered will be determined based upon the average weighted closing price of the Inditex share on the 30 trading days immediately prior to the latest trading day (inclusive) of the week immediately prior to that during which the meeting of the Board of Directors would approve the notice calling the Annual General Meeting for FY2016 (as regards the first cycle of the Plan) and for FY2017 (as regards the second cycle). At the end of each cycle, the Remuneration Committee will assess the level of achievement of the objectives and propose the number of shares to be delivered.

The Executive Chairman must retain a number of shares equivalent to the incentive received in shares, net of any applicable taxes, for the 2 years following delivery thereof. Additionally, the Executive Chairman has committed to the Company to maintain in his own assets, while he continues in the role, a number of shares equal to at least 2 years of fixed remuneration.

With regard to the Executive Chairman, the Company may cancel and/or claim refund of the long-term incentive paid, in full or in part, (clawbacks) in the event that any of the following circumstances would occur during the 2 years following the delivery of the incentive for the proceedings of each cycle:

- Losses in the Group (negative EBIT) in the 2 years after the ending date of each cycle, attributable to management decisions taken in the performance period of each cycle;
- Material restatement of the Group's financial statements, when so considered by the external auditors, except where this is appropriate pursuant to a change in accounting standards;
- Serious breach of the internal regulations on the part of the beneficiary, as accredited by the Committee of Ethics.

The specific description of the first cycle of the Plan is provided below:

The first cycle runs from 1 February 2016 through 31 January 2019. The achievement of objectives will be measured by means of identifiable and measurable metrics. Inditex has set the following metrics for this first cycle, each with a 1/3 weight:

- EBIT Growth: defined as the value of earnings, before interest and taxes, during a given period of time.
- Same-store sales Growth (MMTT): defined as the sales growth in comparable stores, both physical and online, pursuant to the information released by the company, expressed as a percentage.
- Relative Total Shareholder Return (TSR), defined as the evolution of an investment in

Inditex's shares compared to the evolution of an investment in shares of any of the companies included in the Benchmark Group of companies, determined by the difference (expressed as a percentage) between the final value of a hypothetical investment in shares (reinvesting the dividends from time to time) and the initial value of that same hypothetical investment.

In order to calculate the incentive achieved for each level of achievement of objectives for the Executive Chairman, a Maximum Incentive Level and Performance Scale have been established for each metric, as follows:

(i) With regard to EBIT and MMTT Growth:

- A below 50% level of achievement of objectives entails that no incentive is paid.
- A 50% level of achievement of objectives ("minimum level of achievement") represents a payout percentage of 50% of Maximum Incentive
- A 75% level of achievement of objectives ("level of achievement on target") represents a payout percentage of 75% of Maximum Incentive
- A 100% level of achievement of objectives ("maximum level of achievement") represents a payout percentage of 100% of Maximum Incentive
- A 125% level of achievement of objectives ("over-achievement") represents a payout percentage of 125% of Maximum incentive.

Intermediate figures are calculated by linear interpolation.

(ii) With regard to the relative TSR:

- The Benchmark Group is made up of the companies included in the Dow Jones Retail Titans 30 as at 1 February 2016.
- For the purposes of Inditex's TSR and the TSR of each company within the Benchmark Group, Initial Value shall be understood as the average weighted closing price of the share of each company in the 30 Trading Days immediately prior to 1 February 2016 (excluded).

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

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

companies included in the Benchmark Group will be calculated. The companies within the Benchmark Group will be ranked in descending order, in accordance with the highest or the lowest TSR corresponding to each of them. A payout percentage, ranging from 0% to 125% of the Maximum Incentive, is assigned to each position in the ranking, in accordance with the following scale:

- For a position below median within the Benchmark Group, the payout percentage will be 0% of the Maximum Incentive.
- For a position at the median within the Benchmark Group (ranked 15<sup>th</sup>) (“minimum level of achievement”), the payout percentage will be 30% of the Maximum Incentive.
- For a position at the 75<sup>th</sup> percentile within the Benchmark Group but below 90<sup>th</sup> percentile (ranked 5<sup>th</sup> to 8<sup>th</sup>), the payout percentage will be 100% of the Maximum Incentive.
- For a position at 90<sup>th</sup> percentile or above within the Benchmark Group (ranked 1<sup>st</sup> to 4<sup>th</sup>) (“over-achievement”), the payout percentage will be 125% of the Maximum Incentive.
- For intermediate positions, between median and 75<sup>th</sup> percentile within the Benchmark Group, the payout percentage will be calculated by linear interpolation.
- Then, Inditex's TSR will be compared with the TSR of the companies included in the Benchmark Group, in order to identify between which positions it is ranked. Subsequently, the part of the incentive to be paid will be calculated by interpolation of the payout percentages of such positions, according to the difference between TSR values.

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

**A.5 Explain the main features of the long-term saving systems, including retirement and any other survivor benefit, partly or wholly funded by the company, whether endowed internally or externally, with an estimate of their value or equivalent annual cost, stating the type of plan, whether it is a defined contribution or benefit type, the conditions for the vesting of economic rights in favor of the directors and their compatibility with any other type of severance payment for early cancellation or termination of the contractual relationship between the company and the director.**

**Also state the contributions made in favor of the director to defined contribution pension schemes; or the increase in the director's vested rights, in case of contributions to defined benefit plans.**

<b>Explain the Long-term saving systems</b>
Except for the Executive Chairman, directors are not beneficiaries of any long-term saving system, including retirement or any other survivor benefit, partly or wholly funded

by the Company.

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

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

During FY2016, no contributions will be made to the Money Purchase Pension Scheme Plan for the Executive Chairman, without prejudice to the fact that they may be resumed in any future year further to a decision of the Board of Directors. During FY2015, no contributions to such Plan were made either.

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

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

**A.6 State any indemnity payments that are agreed or paid in the event of termination of duties as a director.**

**Explain the indemnity payment**

No indemnity payments have been agreed in case of termination of duties as Director, except for that provided in the next section for the Executive Chairman for the discharge of senior management duties.



**A.7 State the conditions that must be respected in the contracts of those who perform senior management duties as executive directors. Among other things, information will be given regarding the duration, limits to indemnity amounts, tenure clauses, notice periods and also payment as substitution for the above-mentioned notice period, and any other clauses relating to contract signing bonuses, as well as severance or golden parachute in case of early cancellation or termination of the contractual relationship between the company and the executive director. Include, among others, covenants or agreements on non-competition, exclusivity, tenure or loyalty and non-competition after termination of a contract.**

**Explain the terms of the agreements entered into with executive directors**

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

(i) Term

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

(ii) Notice period

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

(iii) Severance or golden parachute clause

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

Meanwhile, apart from the Executive Chairman, golden parachute clauses are provided in the contracts executed with 21 senior executives and officers, in the event that their contractual relationship, whether ordinary or senior management, is terminated further to withdrawal by Inditex, wrongful or unreasonable dismissal, or resignation based upon certain grounds, pursuant to the terms and conditions of their contracts. In such cases, the senior executive or officer shall be entitled to receive gross compensation in an

amount equivalent to the remuneration of two years, calculated on the basis of the fixed and variable remuneration determined for the year in course.

(iv) Non-competition agreement and exclusivity

For as long as his contractual relationship with Inditex remains in force, the executive director shall perform senior management duties exclusively for the Company and the Inditex Group, and he shall refrain from working either directly or indirectly for any third parties, or for his own account, even where the activities carried out by him would not compete with those of the Inditex Group. This provision does not apply to the office of non-executive director in other companies which do not compete with Inditex, within the scope provided in the Board of Directors' Regulations.

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

(v) Clawbacks clause

Pursuant to the provisions of section A.13 below, should (i) any fact or circumstance occur that would result in the negative change or variation, in final terms, of the financial statements, results, economic data, performance data or otherwise, upon which the accrual and payment to the Executive Chairman of any amount in terms of variable remuneration would have been based, and, (ii) should such change or variation determine that, if they had become known at the date the accrual or payment would become due, the Executive Chairman would have received a lesser sum than the one initially paid, the Company shall be entitled to claim from him the refund of any excess paid.

Additionally, as explained in section A4 above, the Company may cancel and/or claim the refund of the long-term incentive paid to the Executive Chairman, in full or in part, in the event of occurrence of certain circumstances during the 2 years following the delivery of the incentive.

**A.8 Explain any supplementary remuneration paid to the directors as consideration for services rendered other than those that are inherent in their office.**

**Explain supplementary remuneration**

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

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

**A.9 State any remuneration in the form of advanced payments, loans or guarantees granted, with an indication of the interest rate, their main features and the amounts ultimately returned, as well as the obligations assumed on their behalf as guarantee**

<b>Explain advanced payments, credits and guarantees granted</b>
<p>The granting of advanced payments, loans or guarantees to Directors is not provided in the remuneration policy.</p> <p>As at the date of this Report, no advanced payment, loans or guarantees have been granted to any Director.</p>

**A.10 Explain the main features of remunerations in kind.**

<b>Explain remunerations in kind</b>
<p>Not applicable.</p>

**A.11 State the remuneration accrued to the director by virtue of payments made by the listed company to a third party in which the director provides services, when such payments are intended to remunerate the director's service in the company.**

<b>Explain the remuneration accrued to the director by virtue of payments made by the listed company to a third party in which the director provides services</b>
<p>As at the date of this Report, no remuneration of this kind has been accrued.</p>

**A.12 Any other remuneration item other than the above, whatever its nature or the group entity that pays it, particularly when it is considered a related-party transaction or its issue distorts the true image of the total remuneration accrued to the director**

<b>Explain other remuneration items</b>
<p>As at the date of this Report, no additional remuneration item other than those addressed in the sections above is provided in the remuneration system in respect of Directors.</p>

**A.13 Explain the actions taken by the company as regards the remuneration system for reducing exposure to excessive risks and adapting it to the long-term goals, values and interests of the company which will, where appropriate, include a reference to: steps to be taken to guarantee that attention is paid in the remuneration policy to the long-term results of the company, measures that establish an appropriate balance between the fixed and variable items of remuneration, measures adopted in relation to the categories of staff whose professional activities have a material impact on the company's risk profile, formulas or clauses for recovery in order to be able to claim the return of variable items of the remuneration that are based on profits when these components have been paid on the basis of information later shown clearly to be inaccurate and measures to be taken to avoid conflicts of interest, where appropriate.**

<b>Explain the measures taken to reduce risks</b>
<p>Courses of action taken to ensure that long-term results of the Company are considered in the remuneration policy are described below:</p> <ul style="list-style-type: none"> <li>- The aggregate compensation of the Executive Chairman comprises different remuneration elements, mainly consisting of: (i) a fixed remuneration, (ii) a short-term variable remuneration (annual), and (iii) a long-term variable remuneration (pluri-annual). This long-term element represents 25% of aggregate compensation (fixed + short-term variable + long-term variable remuneration) for a scenario of performance on target, and 35% for a scenario of over-achievement.</li> <li>- Long-term variable remuneration plans are part of a pluri-annual framework to ensure that the assessment process is based upon long-term results and that the underlying economic cycle of the Company is considered therein. Part of this remuneration is allocated and paid in shares, based upon value creation, so that the interests of the Executive Chairman and of the officers are aligned with those of the shareholders.</li> </ul> <p>The remuneration policy strikes an appropriate balance between fixed and variable items of the remuneration as described below:</p> <ul style="list-style-type: none"> <li>- The design of the remuneration scheme shows an efficient balance between fixed and variable items, as described in section A.1.4 above.</li> <li>- Variable remuneration items are flexible enough to allow their shaping, to the extent that it is likely that no amount is paid on the grounds of variable remuneration; in such case, fixed remuneration would represent 100% of aggregate compensation.</li> <li>- No guaranteed variable remunerations exist.</li> </ul> <p>The measures with regard to those members of staff whose professional activity has a material impact on the risks profile of the Company are shown below:</p> <ul style="list-style-type: none"> <li>- The Remuneration Committee is responsible for considering and reviewing the remuneration policy for directors and senior executives and for enforcing it. Those</li> </ul>

professionals whose activity may have a material impact on the risks' profile of the entity are included in this group.

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

With regard to clawbacks formulas or clauses in order to be entitled to claiming the refund of variable items of the remuneration that are based on results, when these items have been paid on the basis of information later shown clearly to be inaccurate:

- A clawbacks clause is included in the contract executed with the Executive Chairman, and additionally, the Company may cancel and/or claim the refund of the long-term incentive paid to the Executive Chairman, in full or in part, upon occurrence of certain circumstances, as described in section A.7 above.
- The Remuneration Committee may propose to the Board of Directors the cancellation and/or, where appropriate, the refund of the variable items of the remuneration of directors based on results, when these items have been paid on the basis of information later shown clearly to be inaccurate, as well as the termination of the relations with the relevant supervisor and the filing of the relevant claims, pursuant to the terms of section 6 of the Remuneration Committee's Regulations.

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

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

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

On the other hand, section 5 of the Internal Regulations of Conduct regarding

Transactions in Securities lists the principles which must govern the conduct of the affected persons with regard to conflicts of interest, and provides that such persons must undertake in writing to act independently in their activities and to report to the Code Compliance Office any conflicts of interest to which they are subject due to their activities outside the Inditex Group, the relationship with their family, their personal assets, or on any other grounds, with suppliers, agents and franchisees, external advisers, etc.,

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

## **B REMUNERATION POLICY FORECAST FOR FUTURE YEARS**

This section has been repealed pursuant to the terms of the Single Transitional Provision of Circular 7/2015 of 22 December of CNMV, amending Circular 5/2015 of 12 June which provides the standard forms of the annual report on corporate governance of listed companies, savings banks and other entities which issue securities admitted to trading in official securities markets, as well as Circular 4/2013 of 12 June which provides the standard forms of the annual report on director remuneration of listed public companies, and on the remuneration of members of the board of directors and of the supervisory committee of savings banks which issue securities admitted to trading in official securities markets.

## **C OVERALL SUMMARY OF HOW REMUNERATION POLICY HAS BEEN APPLIED DURING THE YEAR ENDED**

**C.1 Briefly explain the main description of the structure and remuneration items of the remuneration policy applied during last financial year ended resulting in the breakdown of the individual remunerations accrued to each of the directors listed in Section D in this report, as well as a summary of the resolutions passed by the board to implement these items.**

**Explain the structure and remuneration items of the remuneration policy applied during the year**

**C.1.1. Remuneration policy for Directors for the discharge of their supervisory and collective decision-making functions.**

The remuneration policy for Directors as such applied in 2015 fully matches that described under section A.3 hereof.

In FY2015, the aggregate sum received by Directors as such for the discharge of their supervisory and collective decision-making functions has amounted to €1,869k out of which €100k were received by the Executive Chairman.

**C.1.2. Remuneration policy for the Executive Chairman for the performance of senior management duties.**

With regard to the remuneration of the Executive Chairman for the performance of senior management duties:

a) Fixed remuneration or salary

The fixed remuneration of the Executive Chairman for the performance of senior management duties was resolved by the Board of Directors on 17 March 2015 on the proposal of the former Nomination and Remuneration Committee.

During FY2015 the fixed remuneration of the Executive Chairman for the performance of senior management duties amounted to €3,250k, which represents a significant portion of his aggregate remuneration.

b) Short-term or annual variable remuneration

The performance of the Executive Chairman is assessed on an annual basis by the Board of Directors following a report of the Nomination Committee, pursuant to the provisions of sections 5.3 and 16.2. of the Board of Directors' Regulations and section 7 of the Nomination Committee's Regulations.

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

As recorded in section A.4 of the Annual Report on Remuneration of Directors for FY2014, the Remuneration Committee has considered, in the course of the assessment process to determine the annual variable remuneration for FY2015, the following yardsticks: *"70% based upon net sales and the contribution margin, in equal proportion, with the same yardsticks as those established for senior executives according to the budget of the Company, and the remaining 30% based upon the following yardsticks: the strategic development of the Company; the personal performance of the Chairman and Executive Director; the observance of the expansion plans, in terms of increase of retail floor area in square meters, pursuant to the Group's goals; the progress in corporate social responsibility policies and the progress in environmental policies, in terms of the*

*number of new stores which meet eco-efficiency parameters and the number of audits and control on wet processes, in the framework of the Zero Discharge of Hazardous Chemicals Plan”.*

Further to the assessment of the degree of achievement of objectives, the Board of Directors resolved on 8 March 2016, on the proposal of the Remuneration Committee, a 101.5% global level of achievement of objectives, equivalent to an annual variable remuneration for FY2015 in the sum of €3,300k. The detail is provided in section D.2 below.

c) Pluri-annual variable remuneration

During FY2015, the Long- term Performance Plan approved by the Board of Directors on 12 March 2013 on the proposal of the former Nomination and Remuneration Committee has been in effect. This plan, approved for the following 4 years, is addressed to members of the management, including the Executive Chairman and other employees of the Inditex. Group. It consists of a Long-term Performance Cash Plan and a Long-term Performance Shares Plan (the main description of each of them is provided in sections 1 and 2 below, respectively). The Long-term Performance Shares Plan was approved by the Annual General Meeting on 16 July 2013.

1. Long- Term Performance Cash Plan: Its main description is provided below:

- It is a pluri-annual cash bonus which, once three years have elapsed and the achievement of some specific objectives is verified, will be paid, in full or in a given percentage, depending on the level of achievement of said objectives. Such percentage may be 0% if minimum objectives set are not reached.
- The plan has two periods of calculation. The first one runs from 1 February 2013 through 31 January 2015 and the second one from 1 February 2013 through 31 January 2016 (both periods have already expired).
- There will be only one overall award that will be delivered in two payments: an initial payment in May 2015 and a final payment in May 2016.
- The achievement of the objectives shall be measured by means of two identifiable and measurable metrics:
  - EBIT Growth: value of earnings, before interest and taxes, during a given period of time.
  - Like for Like Growth: information released by the Company, expressed in percentage terms, showing the increase in operating revenue under a constant perimeter
- A 50% weight will apply to each metric.
- In order to calculate the incentive achieved for each level of achievement of objectives for the Executive Chairman, a performance scale has been established for each metric, as follows:
  - A level of achievement of objectives below 50% entails that no incentive is



paid.

- A 50% level of achievement of objectives (“minimum level of achievement”) represents a payment of 50% of incentive (€3,000k).
- A 75% level of achievement of objectives (“level of achievement on target”) represents a payment of 75% of incentive (€4,500k).
- A 100% level of achievement of objectives (“maximum level of achievement”) represents a payment of 100% of incentive (€6,000k).
- A 125% level of achievement of objectives (“over-achievement”) represents a payment of 125% of incentive (€7,500k).

Intermediate figures are calculated by linear interpolation.

- For the Executive Chairman, the annualized remuneration for a level of achievement on target would amount to €1,500k.
- For the rights awarded to the Plan Beneficiaries to vest, a period of continued employment in the Company until completion of each of the cycles of the Long-Term Performance Cash Plan is required, as a general rule.

2. Long-Term Performance Shares Plan: Its main description is provided below:

- It is a pluri-annual shares bonus which revolves around two independent three-year performance cycles. The first performance cycle runs from 1 July 2013 through 30 June 2016. The second cycle runs from 1 July 2014 through 30 June 2017.
- The number of shares to be delivered to each beneficiary will depend on the comparison of the Total Shareholder Return (“TSR”) performance of Inditex with that of a comparator group of companies (the “benchmark group”). TSR will be determined by the difference (expressed as a percentage) between the final value of an hypothetical investment in shares and the initial value of that same hypothetical investment.
- The benchmark group is made up of the companies included in the Dow Jones Retail Titans 30 as at 1 July 2013, with regard to the first performance cycle and as at 1 July 2014, with regard to the second performance cycle.
- For the purposes of Inditex’s TSR and the TSR of each company within the Benchmark Group, Initial Value shall be understood as the average weighted closing price of the share of each company on the 30 Trading Days immediately prior to 1 July 2013 (excluded) (for the first performance cycle of the Plan) and 1 July 2014 (excluded) (for the second performance cycle of the Plan).
- For the purposes of Inditex’s TSR and the TSR of each company within the Benchmark Group, Final Value shall be understood as the average weighted closing price of the share of each company on the 30 Trading Days immediately prior to 30 June 2016 (inclusive) (for the first performance cycle of the Plan) and 30 June 2017 (inclusive) (for the second performance cycle of the Plan).
- For such purposes, for calculating such Final Value, the dividends or other similar

amounts received by the shareholder on said investment during the respective period of time will be considered as if their gross amount (before taxed) would have been reinvested in more shares of the same type on the first date on which the dividend or any similar amount is payable to the shareholders and at the closing price of the share on that date.

- At the expiry of each performance cycle of the Plan (30 June 2016 for the first cycle and 30 June 2017 for the second), Inditex's TSR and the TSR of each of the companies included in the Benchmark Group will be calculated. The companies within the Benchmark Group, excluding Inditex, will be ranked in descending order, in accordance with the highest or the lowest TSR corresponding to each of them. Then Inditex's TSR will be compared to the TSR of the companies in the Benchmark Group. The percentage of shares to be delivered will be calculated pursuant to the following parameters:
  - Should Inditex's TSR be the same or above the 75<sup>th</sup> percentile within the Benchmark Group, the percentage of shares to be delivered will be 100%.
  - Should Inditex's TSR be at least the same as the TSR of the median company within the Benchmark Group, the percentage of shares to be delivered will be 30%.
  - Should Inditex's TSR be between the TSR of the median company within the Benchmark Group and the TSR of the 75<sup>th</sup> percentile within the Benchmark Group, the percentage of shares to be delivered will be calculated by linear interpolation between the relevant TSR values.
  - Should Inditex's TSR be below the TSR of the median company within the Benchmark Group, the percentage of shares to be delivered will be 0%
- In order to be eligible to receive the shares of the Plan, the Beneficiary must have been actively employed by Inditex or a company belonging to its Group for an uninterrupted period from the date he/she receives notice of his/her Beneficiary status until the expiry date of each performance cycle of the Plan.
- The status of the Executive Chairman as Beneficiary (i) of the Long-term Performance Cash Plan and of the first cycle of the Long-term Performance Shares Plan, and (ii) of the second cycle of the Long-term Performance Shares Plan was recognized further to the resolutions passed by the Board of Directors on 13 September 2013 and 16 September 2014, respectively, after favourable report of the former Nomination and Remuneration Committee.
- Under the Long-term Performance Shares Plan, the Executive Chairman might receive a maximum incentive of 130,000 shares for the first cycle of the Plan and up to 122,180 shares for the second cycle thereof.

In order for the Company to count on the necessary number of shares to be delivered to the beneficiaries of the first cycle of the Long-term Performance Shares Plan and within the scope of the authorization for the derivative acquisition of own shares granted to the Board of Directors by the Annual General Meeting held on 16 July 2013, the Company has acquired 3,500,000 own shares representing 0.112% in the share capital.

No deferred payment periods have been established, and no holdback periods for shares

or other financial instruments exist.

In accordance with the foregoing, the second calculation period of the Long-term Performance Cash Plan expired on 31 January 2016. According to the achievement of objectives (determined pursuant to the above referred metrics and performance scale) a payment in the amount of €5,520k was accrued. Payment will be made in May. The detail of the level of achievement is provided in section D.2 below.

d) Benefits

During FY2015 no contributions were made by Inditex to the Money Purchase Pension Scheme Plan.

**D** DETAIL OF INDIVIDUAL REMUNERATIONS ACCRUED TO EACH DIRECTOR

Name	Type	Accrual period FY2015
Mr Pablo Isla Álvarez de Tejera	Executive	From 01/02/2015 to 31/01/2016
Mr José Arnau Sierra	Proprietary	From 01/02/2015 to 31/01/2016
Mr Amancio Ortega Gaona	Proprietary	From 01/02/2015 to 31/01/2016
Gartler, S.L. (represented by Ms Flora Pérez Marcote)	Proprietary	From 01/02/2015 to 09/12/2015
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	Proprietary	From 09/12/2015 to 31/01/2016
Ms Irene Ruth Miller	Independent	From 01/02/2015 to 31/01/2016
Mr Nils Smedegaard Andersen	Independent	From 01/02/2015 to 14/07/2015
Mr José Luis Durán Schulz	Independent	From 14/07/2015 to 31/01/2016
Mr Rodrigo Echenique Gordillo	Independent	From 01/02/2015 to 31/01/2016
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	Affiliate	From 01/02/2015 to 31/01/2016
Mr Emilio Saracho Rodríguez de Torres	Independent	From 01/02/2015 to 31/01/2016

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

**a) Remuneration accrued in the company covered by this report:**

**i) Payment in cash (in €K)**

Name	Salary	Fixed remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of Board's committees	Indemnity	Other grounds	Total FY2015	Total FY2014
Mr Pablo Isla Álvarez de Tejera	3,250	100	0	3,300	5,520	0	0	0	12,170	7,930
Mr José Amau Sierra	0	100	0	0	0	127	0	80	307	280
Mr Amancio Ortega Gaona	0	100	0	0	0	0	0	0	100	100
Gartler, S.L. (represented by Ms Flora Pérez Marcote)	0	85	0	0	0	0	0	0	85	100
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	0	15	0	0	0	0	0	0	15	0
Ms Irene Ruth Miller	0	100	0	0	0	127	0	50	277	250
Mr Nils Smedegaard Andersen	0	45	0	0	0	45	0	0	90	200
Mr José Luis Durán Schulz	0	55	0	0	0	82	0	0	137	0
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	0	100	0	0	0	127	0	0	227	223
Mr Rodrigo Echenique Gordillo	0	100	0	0	0	127	0	50	277	137
Mr Emilio Saracho Rodríguez de Torres	0	100	0	0	0	127	0	27	254	200

**ii) Share-based remuneration systems**

Mr Pablo Isla Álvarez de Tejera												
Remuneration system: First cycle of the Long-term Performance Shares Plan												
Implementation date	Ownership of options at the beginning of FY2015					Options allocated during FY2015						
	No. options	No. affected Shares	Strike price (€)	Strike period		No. options	No. affected Shares	Strike price (€)	Strike period			
13/09/2013	130,000	130,000	0	3 years		0	0	0	0			
Conditions for exercise of options: Those set forth in section C.1.2 of this report												
Shares delivered during FY2015			Options exercised during FY2015				Op due and not exercised	Options as at FY2015 end				
No. shares	Price	Amount	Strike price (€)	No. options	No. affected Shares	Gross Profit (€k)	No. options	No. options	No. affected Shares	Strike price (€)	Strike period	
-	-	-	-	-	-	-	-	130,000	130,000	0	3 years	
Other requirements of the financial year												

Mr Pablo Isla Álvarez de Tejera												
Remuneration system: Second cycle of the Long-term Performance Shares Plan												
Implementati on date	Ownership of options at the beginning of FY2015					Options allocated during FY2015						
	No. options	No. affected Shares	Strike price (€)	Strike period		No. options	No. affected Shares	Strike price (€)	Strike period			
16/09/2014	122,180	122,180	0	3 years		0	0	0	0			
Conditions for exercise of options: Those set forth in section C.1.2 of this report												
Shares delivered during FY2015			Options exercised during FY2015				Op due and not exercised	Options at FY2015 end				
No. shares	Strike price	Amount	Strike price (€)	No. options	No. affected shares	Gross Profit (€k)	No. options	No. options	No. affected shares	Strike price (€)	Strike period	
-	-	-	-	-	-	-	-	122,180	122,180	0	3 years	
Other requirements of the financial year -												

**iii) Long-term saving systems**

Name	Contribution for the year by the company (€k)		Amount of accumulated funds (€k)	
	FY2015	FY2014	FY2015	FY2014
Mr Pablo Isla Álvarez de Tejera	0	1,625	7,294	6,994

**iv) Other benefits (€k)**

Remuneration in the form of advanced payments, loans granted			
Name	Interest rate on the transaction	Main description of the transaction	Amounts eventually repaid
-	-	-	-

Name	Life insurance premium		Severance or golden parachute clause agreed by the Company for Directors	
	FY2015	FY2014	FY2015	FY2014
-	-	-	-	-



**b) Remuneration accrued to the directors of the company for their directorship in other group companies:**

**i) Payment in cash (€)**

Name	Salary	Fixed remuneration	Per diem payments	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership on Board Committees	Indemnity	Other items	Total FY2015	Total FY2014
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	-	-	-	-	-	-	-	-	-	73

**ii) Share-based remuneration systems**

Name												
Implementation date	Ownership of options at the beginning of FY2015					Options allocated during FY2015						
	No. options	No. affected Shares	Strike price (€)	Strike period		No. options	No. affected Shares	Strike price (€)	Strike period			
-	-	-	-	-		-	-	-	-			
Shares delivered during FY2015			Options exercised during FY2015				Op due and not exercised	Options as at FY2015end				
No. shares	Price	Amount	Strike price (€)	No. Options	No. affected options	Gross Profit (€k)	No. options	No. options	No. affected shares	Strike price (€)	Strike period	
-	-	-	-	-	-	-	-	-	-	-	-	
Other requirements of the financial year												

**iii) Long-term saving systems**

Name	Contribution for the year by the company (€k)		Amount of accumulated funds (€k)	
	FY2015	FY2014	FY2015	FY2014
-	-	-	-	-

**iv) Other benefits (in €k)**

Remuneration in the form of advanced payments, loans granted			
Name	Interest rate on the transaction	Main description of the transaction	Amounts eventually repaid
-	-	-	-

Name	Life insurance premium		Severance or golden parachute clause agreed by the Company for Directors	
	FY2015	FY2014	FY2015	FY2014
-	-	-	-	-

**c) Summary of remunerations (€k):**

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

Where there are long-term Saving Systems, include the contributions or endowments made to these types of system shall be included.

Name	Remuneration accrued in the Company				Remuneration accrued in Group companies				Totals		
	Total cash remuneration	Amount of shares granted	Gross profit of options exercised	Total FY2015 company	Total cash remuneration	Amount of shares granted	Gross profit of options exercised	Total FY2015 group	Total FY2015	Total FY2014	Contribution to the savings systems during the year
Mr Pablo Isla Álvarez de Tejera	12,170	0	0	12,170	0	0	0	0	12,170	7,930	0
Mr José Arnau Sierra	307	0	0	307	0	0	0	0	307	280	0
Mr Amancio Ortega Gaona	100	0	0	100	0	0	0	0	100	100	0
Gartler, S.L. (represented by Ms Flora Pérez Marcote)	85	0	0	85	0	0	0	0	85	100	0
Pontegadea Inversiones, S.L. (represented by Ms Flora Pérez Marcote)	15	0	0	15	0	0	0	0	15	0	0
Ms Irene Ruth Miller	277	0	0	277	0	0	0	0	277	250	0
Mr Nils Smedegaard Andersen	90	0	0	90	0	0	0	0	90	200	0
Mr Jose Luis Durán Schulz	137	0	0	137	0	0	0	0	137	0	0
Mr Rodrigo Echenique Goardillo	277	0	0	277	0	0	0	0	277	137	0
Mr Carlos Espinosa de los Monteros Bernaldo de Quirós	227	0	0	227	0	0	0	0	227	296	0
Mr Emilio Saracho Rodríguez de Torres	254	0	0	254	0	0	0	0	254	200	0
Total:	13,939	0	0	13,939	0	0	0	0	13,939	9,565 <sup>(1)</sup>	0

(1) Included in this amount is the sum of €72k corresponding to the remuneration of former director, Mr Juan Manuel Urgoiti López de Ocaña

**D.2 Give information on the relationship between the remuneration received by directors and the results or other company performance indicators, explaining, where appropriate, how variations in the company's performance may have been able to influence the variation in directors' remunerations.**

The sums provided in section A.3 are the only remuneration received by Directors of the Company for their membership on the Board of Directors of Inditex or of any Group company, except for the remuneration of the Executive Chairman for the performance of senior management duties. No remuneration exists on the grounds of profit-sharing schemes or bonus, nor remuneration systems or plans which include variable remuneration, nor any system based on results or other indicators to measure performance of the company.

Certain items of the remuneration of the Executive Chairman for the performance of senior management duties are linked to results and other indicators of the performance of the Company, as it has been described in sections C.1.2.b) and c) above.

i) Short-term or annual variable remuneration

As stated in section C.1.2.b) above, the Remuneration Committee has considered the following yardsticks:

- a) 70%, based upon net sales and contribution margin, in equal proportion, with the same yardsticks as those established for senior managers according to the budget of the Company, and
- b) the remaining 30% based upon the following yardsticks: the strategic development of the Company; the personal performance of the Executive Chairman; the observance of the expansion plans, in terms of increase of retail floor area in square meters, pursuant to the Group's objectives; the progress in corporate social responsibility policies and the progress in environmental policies, in terms of the number of new stores which meet eco-efficiency parameters and the number of audits and control on wet processes, in the framework of the Zero Discharge of Hazardous Chemicals Plan.

In the consideration of the above mentioned yardstick, for the purposes of determining the annual variable remuneration for FY2015, the Remuneration Committee has taken into account the following issues:

- (i) 117.2% level of achievement of the net sales objective during FY2015.
- (ii) 115.3% level of achievement of the contribution margin objective during FY2015.
- (iii) With regard to the remaining objectives, the Remuneration Committee has considered the following:
  - The strategic development: further progress has been made by the Company upon implementing its strategy regarding the integrated online and physical stores business. In 2015, the company's online business has reached new markets, such as Taiwan, Hong Kong, Macau and Australia, and five new online logistics platforms have been launched. Contemporaneously, an active policy regarding

refurbishment and extension of business premises has been set in train, which has materialized in an investment of upwards of €500m allocated to store extension and refurbishment, namely in prime locations.

- The outcome of the evaluation of the performance of the Executive Chairman carried out by the Board of Directors in the meeting held on 9 December 2015 following a report of the Nomination Committee and which was qualified as excellent.
- The observance of the expansion plans, as the aggregate retail floor area is in excess of 4,086,904 m<sup>2</sup>, which represents a 7.94% growth, in line with the objectives set for FY2015. The Company's global expansion process has continued, with 330 net openings in 56 markets in FY2015, for an aggregate number of 7,013 stores at year-end.
- The progress in corporate social responsibility policies, underscoring the approval of a Corporate Social Responsibility Policy and the conduct of 3,693 social audits,
- The progress in environmental policies, underscoring the approval of an Environmental Sustainability Policy and the addition of 387 new stores that meet the eco-efficiency standards, and the 450 audits of control of wet processes carried out in FY2015 in the framework of the Zero Discharge of Hazardous Chemicals Plan.

Following the assessment of all the foregoing objectives, the Remuneration Committee has considered a global achievement of 101.5%. Consequently, the Board of Directors has resolved, on the proposal of the Remuneration Committee, an annual variable remuneration in the amount of €3,300k.

#### ii) Pluri-annual or Long-term variable remuneration

As provided in section C.1.2 above, the second calculation period of the Long-term Performance Cash Plan expired on 31 January 2016. To determine the level of achievement obtained and the applicable amount of incentive, the Remuneration Committee has taken into account the following issues in the meeting held on 7 March 2016:

- LFL sales growth of the Inditex Group during the period running from 1 February 2013 through 31 January 2016 stands at 16.1 %.
- EBIT growth of the Inditex Group during the period running from 1 February 2013 through 31 January 2016 stands at 18%.

Following the assessment of all the foregoing objectives, the Remuneration Committee has considered that the level of over-achievement has been attained. As a result, the incentive, to be paid in May 2016 amounts to €5,520. This amount is detailed in a table shown in section D hereof.

### **D.3 Give information on the outcome of the advisory say-on-pay vote of the Annual General Meeting on the annual remuneration report of the previous year, stating the number of votes cast against, if any:**

The Annual Report on Directors' Compensation for FY2014 was put to the advisory say-on-pay vote of the Annual General Meeting last 14 July 2015, as item number nine of the Agenda, with the following outcome:

	Number	% on total
Votes cast	2,694,431,169	86.45 %

	Number	% on votes cast
Against	27,818,236	1.03%
For	2,651,164,165	98.39%
Abstentions	15,448,593	0.57%

Additionally 175 blank votes were cast (0.00% on total)

**E** OTHER INFORMATION OF INTEREST

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

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This annual remuneration report has been approved by the Board of Directors of the Company on 8 March 2016.

State whether any director has voted against or abstained with respect to the approval of this Report

Yes  No

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