

Letter from the Chairman

Dear friends:

2018 was a very important year for the Inditex digital transformation strategy, which has been underway for several years now. We are on course to deliver the vision we set out for Inditex in 2020: a sales platform that is fully integrated (physical points of sale fully interconnected with our online outlets); fully sustainable (with all our stores meeting our eco-efficiency standards); and fully digital (with all our products available online in any corner of the world).

I will never tire of saying that our people are the most important part of that entire process. They are consistently at the heart of all our decisions. Our proposition is designed and managed by a team of over 170,000 professionals who share their creativity and passion for fashion with millions of customers. Indeed it is the diversity of our team that makes our Company what it is. We aspire to being known for our customer focus, our humility, our refusal to conform, and our capacity for teamwork so that we constantly do better.

In this report we will give an update on our key business model indicators along with those that explain how we create social, economic and environmental value. To do that we have framed our reporting within the United Nations 2030 Agenda and ambitious delivery of those Sustainable Development Goals (SDGs) most closely related to our value chain. Moreover, we reaffirm our adherence to the United Nations Global Compact and to the Guiding Principles on Business and Human Rights.

Quality, traceability and sustainability are the watchwords of our model, which encompasses the entire product life cycle end to end, from the selection of raw materials through to the very end of the cycle, with the clear goal of achieving a circular model capable of recycling both waste and used garments.

Our high standards also characterise our store selection strategy: our stores are located on the world's best shopping streets in landmark buildings in order to deliver the best possible shopping experience. We have been forward-thinking in adapting our stores to meet our customers' emerging needs. They have become larger, higher-tech and smarter places. One of the key enablers of this strategy has been our constant reinvestment in the business, year after year - over 1.6 billion euros in 2018 and a total of 9.4 billion euros in the last six years,

2 billion euros of which was devoted to technology and logistics innovation.

That investment has been targeted at our longstanding strategic commitment to research and development which differentiates Inditex from its peers. A particular example is our internally-developed radio frequency identification technology (RFID), but our commitment includes constant innovation aimed at improving every process in every area of the business. That spirit of continuous improvement is a hallmark of Inditex's culture and is only possible thanks to the enterprising nature and capacity for self improvement of the people who work here.

By placing the customer at the heart of this model we are better positioned to help them make informed decisions and enjoy the shopping experience. With the customer in mind, several years ago we embarked on an ambitious project for leveraging our RFID technology to integrate our store and online stock, an initiative which is delivering unprecedented inventory management

efficiency. Our brands have adapted seamlessly to this new environment, receiving around 3 billion visits online and amassing more than 150 million social media followers between them.

We firmly believe that our model only works if it is sustainable. For years, we have required that our suppliers comply with industry-leading sustainability criteria, based on the best possible social and environmental

practices. Traceability is a key element of this in this respect. We constantly monitor all processes, and have placed the workers in our supply chain at the centre of our systems of control in order to foster initiatives that promote social progress. Because the majority of those workers are women, the measures are particularly concentrated on female empowerment and the promotion of gender equality.

Our garments are made by the best specialists in the industry. Most are made near to our base, in Spain, Portugal, Morocco and Turkey, but wherever the manufacturing takes place, it is always framed by a requirement to embrace best practices, underpinned by constant dialogue with all stakeholders (unions, NGOs and institutions), which means everyone must be constantly open to learning.

One such organisation is IndustriALL Global Union, which represents over 50 million workers. Inditex signed a pioneering Framework Agreement with IndustriALL in 2007 which has translated in practice into a joint plan

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for monitoring all the factories we source from. We also work hand-in-hand with the ILO, the Sustainable Apparel Coalition, the Ethical Trading Initiative and a plethora of third sector organisations involved in the industry.

The 2016-2020 Environmental Sustainability Plan, the overriding objective of which is to circularise our processes, is entering its final year. It has led to the creation of the Closing the Loop Programme for the collection, reuse and recycling of used garments in 1,382 stores in 24 markets, and recovered over 34,158 tonnes of clothing for reuse and recycling since it started in 2016. Last year, we also implemented a scheme for picking up used clothing at home when delivering online orders in Beijing and Shanghai, a pioneering initiative through which we have already collected over 850,000 used garments.

We are working intensely on the reuse of raw materials. We are championing the recycling of cotton and researching new ways of separating fabrics with Tsinghua University in China and MIT in the US, through MISTI, with which a number of Spanish universities are collaborating. I am particularly proud to note that our commitment to more sustainable raw materials and processes has led to the commercialization of over 136 million garments distinguished with the Join Life label in 2018.

Our investments are supporting the growth of our suppliers. In Spain alone, our procurement effort generated 55,000 direct jobs at over 7,500 small and medium-sized enterprises which invoiced us for more than 5 billion euros of goods and services in 2018. They are similarly evident in our tax contribution, which in 2018 reached 6.2 billion euros worldwide, 1.7 billion euros of which was paid in Spain.

We create fashion and that is what we are known for. Our 700 designers, alongside all the 170,000-plus people who work at the Company, use their creative passion and put it at our customers' fingertips. Their success continues to explain our record top and bottom line performance: 26.15 billion euros in net sales and 3.44 billion euros in net profit. And that is why we continue to share that growth with our employees, with total remuneration of 4.1 billion euros in 2018.

Making a positive contribution to community wellbeing, education and the employability of at-risk groups, and the provision of emergency relief, remain at the top of our list of priorities. In 2018, we opened a new for&from store by Uterqüe, managed by people with disabilities. Overall, our community investment during the year directly benefitted 2.4 million people and was channelled through organisations such as MSF, Caritas, Entreculturas, the Red Cross and Water.org.

We plan to continue to work hard on all these areas of focus. Our priority will continue to be the generation of customer-centred social, economic and environmental value, framed by principles that always place people at the centre of all of our thinking. Thank you to all those people who, with their attitude, hard work, creativity and talent, continue to make Inditex such an exciting endeavour.

P. Isla

Pablo Isla

Chairman