5.10.

Responsible risk management

Related material topics: Risk management and control systems; climate change.

At Inditex, responsible risk management permeates every level of the Company. This effective management enables us to perform strongly and generates a sustainable business performance over time, which is necessary for transformation.

5.10.1. Risk management and control framework

GRI 102-11 AND 102-29

Inditex's **Integrated Risk Management** System (IRMS) establishes the Group's risk management and control framework. The IRMS encompasses the entire Group, at both corporate level and in the various business units and subsidiaries, regardless of their geographic location. It is incorporated in the strategic planning process, in the definition of business objectives, as well as in the Group's day-to-day operations. The Integrated Risk Management System encompasses both financial and non-financial risks (including tax, operational, technology, cybersecurity, legal/regulatory, social, environmental, climate change, political, reputational, corruption-related and other risks). The Group defines a risk to be any potential event, regardless of its nature, that may have a negative impact on the achievement of the business objectives.

The Group's **Risk Management and Control Policy** establishes the basic principles, risk factors and the general action guidelines for managing and controlling the risks that affect the Group. The determination of the Risk Management and Control Policy is a non-delegable power of the Board of Directors. It is the responsibility of this body and the Group's Senior Management to promote it, although its implementation is the responsibility of each and every member of the company. Its application may be extended, in whole or in part, to any individual and/or legal person linked to Inditex. The purpose of the Policy is to provide reasonable assurance in regard to the achievement of the objectives set by the Group in response to the various challenges it faces, providing all stakeholders with an adequate level of assurance to ensure the protection of the value generated.

The Integrated Risk Management System is based on the aforementioned Policy and is developed and supplemented by internal regulations of different levels that govern the management of different risks and apply to different units or areas of the Group. This Integrated Risk Management System coexists with other functions tasked with monitoring specific risk areas. Other relevant risk management policies or regulations in place are detailed below. Inditex's Integrated Risk Management System is based on the 'COSO ERM' methodological framework and the relevant ISO standards, adapted to the Group's needs and specific characteristics. Furthermore, specific evaluation and quantification methodologies are used to tackle specific risks, in particular those relating to the climate.

The Integrated Risk Management System ensures adequate segregation of duties between the various elements of which it is comprised, i.e., between the areas or business units that assume and manage the risks, and those responsible for coordination, control and supervision. Responsibilities are differentiated between the units and bodies involved based on a **three-lines-of-defence** model. The business units act as the first line of defence, establishing adequate risk management mechanisms and reporting relevant information to the different areas that exercise supervisory functions over the adequacy of the internal control system and to the Risk Management department (reporting to the Senior Finance Management), which act as the second line of defence. The third line of defence is Internal Audit, independently and objectively monitoring the operation and efficacy of the IRMS and reporting to the Board of Directors by means of the Audit and Compliance Committee.

RISK MANAGEMENT

BOARD OF DIRECTORS

Approval of the Risk Management and Control Policy, which establishes the basic principles, key risk factors and the general framework of action for their management.

AUDIT AND COMPLIANCE COMMITTEE

- Supervision of risk control and management, verifying their proper functioning on the basis of the policy approved by the Board.
- Assessment of the efficacy of financial and non-financial risk internal control and management systems, as well as the measures envisaged to mitigate the impact of the risks identified.
- Identification and re-assessment, at least annually, of the main financial and non-financial risks and their tolerance levels.
- Risk Map identifying the main risks by category and an assessment thereof in terms of their potential impact, probability and the Group's preparedness to address them.

THREE LINES OF DEFENCE

FIRST LINE OF DEFENCE

BUSINESS UNITS

Reporting of the risks to which the Group is exposed in its respective responsibility areas, including those related to climate.

SECOND LINE OF DEFENCE

RISK MANAGEMENT/ COMPLIANCE FUNCTION

Responsible for coordinating and updating the Integrated Risk Management System to maintain maximum quality levels.

THIRD LINE OF DEFENCE

INTERNAL AUDIT

Independently and objectively supervises the Integrated Risk Management System.

ANNUAL REPORT

QUARTERLY REPORT

SENIOR MANAGEMENT

- Awareness and dissemination of the importance of the Integrated Risk Management System and its value for all the Group's stakeholders.
- Definition and validation of roles, attributions and responsibilities within the framework of the Risk Management System.
- Approval of action plans and work plans derived from the risk management process itself, and activity monitoring.
- Setting the level of risk that the Company considers acceptable, based on the objectives and interests of the Company and its stakeholders.

Uniform, standardised and systematic risk identification, assessment and prioritisation processes are in place, based on the concepts of risk appetite, risk tolerance and target risk. The risk factors to which the Group is subject are classified into **six categories,** which are subdivided into lower hierarchical classifications according to their causality: financial, geopolitical, technological, environmental, social and governance risks.

The risk identification process aims to pinpoint, recognise and describe the risks that may prevent the organisation from achieving its objectives. In the identification process, every effort is made to have the best information available, taking as a foundation the knowledge and experience of the areas directly responsible for risk management, complemented, where appropriate, by relevant external sources. Emerging risks are also considered, i.e., those risks that are new, in the process of transformation, or are a novel combination of risks, whose impact, probability of occurrence and cost are not yet well understood.

Risk criteria must be set by Senior Management, in keeping with the Group's objectives and interests, as well as those of its various stakeholders, and are updated periodically. Risks are assessed in terms of residual risk, i.e., the risk remaining after appropriate remedial measures are taken.

The assessment considers three magnitudes for each of the risks: **impact, likelihood of occurrence and level of preparedness.** The Risk Management department periodically (at least annually) asks the various management units to assess and review the different risks and the mitigation measures in place and planned, by means of a system of interviews and questionnaires. A risk register is kept, represented in a risk map, assessing risks according to their overall impact (strong, high, moderate and minor risks). The map contains the critical risks, meaning those which, if they were to materialise, could compromise the achievement of the Group's strategic objectives. The map is periodically reported to the Board of Directors.

RISK MANAGEMENT AND CONTROL FRAMEWORK

IMPACT

Effect that a risk would have if it were to materialise. Risk managers consider the worst-case impact scenario for risk materialisation and assess the impact on each strategic objective based on their own calculations, except for the 'Corporate image and reputation' variable, for which they use a standard questionnaire. To obtain the total risk impact assessment, the result of the variable with the highest impact is considered and increased according to the other affected variables on a weighted basis.

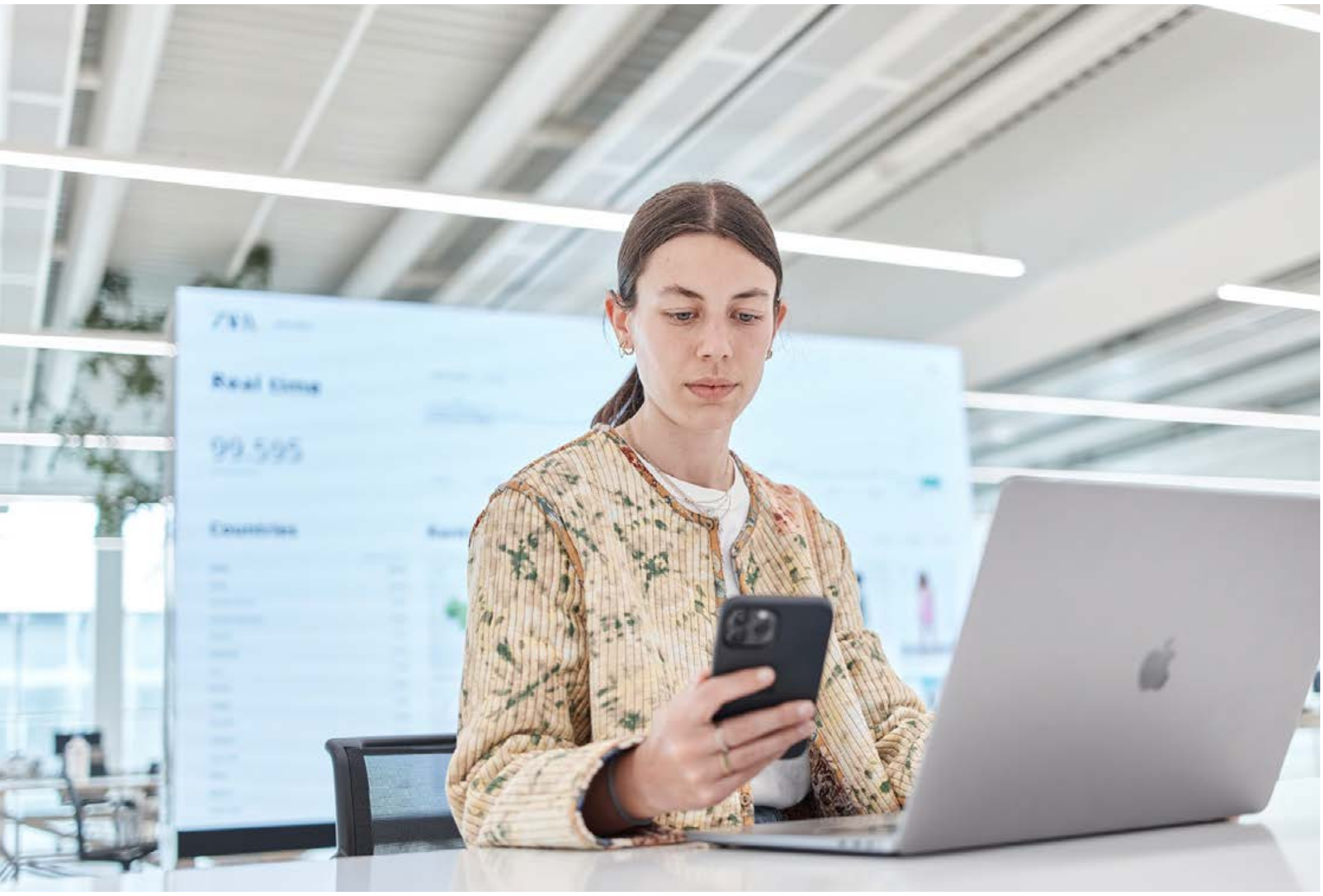
LIKELIHOOD

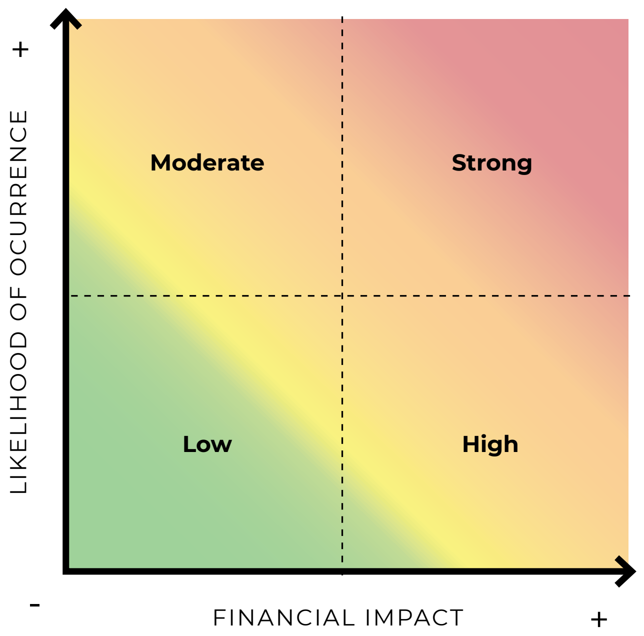
Risk managers use an average scenario to assess the probability of occurrence. The estimated probability of the risk materialising is measured, taking into account the track record of the past five years as well as the one-year expectations. The various possible scenarios are documented in terms of impact and likelihood of occurrence.

PREPAREDNESS

The level of preparedness is measured using a questionnaire on aspects related to response capacity, existing mechanisms and controls, scenario analysis and contingency plans.

These assessments are transferred to the tolerance scales defined by Senior Management for each of the variables to obtain the total impact level. Various thresholds are currently assessed for the following financial variables: change in sales, change in gross margin, change in net profit and change in cash flow generated from operating activities.





To assess climate change-related risks, methods for the financial assessment of (acute and chronic) physical and transitional risks in the short, medium and long term based on **scenario methodology**, are also used. This methodology is described in detail in section **5.10.4. Climate change: risks and opportunities.** The scenario methodology is also used to assess risks in categories not related to climate change. To analyse each scenario increasing levels of severity are factored in, so as to simulate its likelihood of occurrence, its timing, its specific recovery curve from the baseline and its aggregate and separate impact. The purpose is to calculate Earning Value at Risk over a time frame of five years discounted to obtain its present value, also enabling us to assess risks in intrinsic and residual terms, after consideration of risk mitigation and transfer measures. This method is part of the process of evolution and development of the IRMS, of which the risk taxonomy implemented last year is a part.

5.10.2. Risk map

GRI 102-11; 102-15; 102-25; 102-28; 102-30; 102-49; 103-2; 103-3 AND 201-2

The risk map represents the inventory of critical risks for the Group. There are also maps for specific risk categories that offer greater granularity.

Critical risk map

	Strong	High	Moderate	Minor	# Risks
Social					
The category of social risks includes risks arising from socio-economic trends in societies, including the evolution of preferences, social norms, demographics, as well as the prevalence of diseases and the development of public healthcare systems.	25%	50%	25%	0%	4
Financial					
Financial risks are threats originating in the macroeconomic sphere, in global value chains and in company- or industry-specific events that may prevent the proposed objectives from being achieved.	50%	0%	50%	0%	8
Geopolitical					
Geopolitical risks arise from a deterioration in the political situation, a society's crime levels, changes in the ideology, leadership and regulation of its authorities, politically motivated conflicts at home or between nation states that threaten operations or expected prospects.	66%	0%	34%	0%	3
Governance					
Governance risks include a set of risks of a different nature. These include non-compliance by the Company, and in particular by its Board of Directors and Senior Management, with: (i) the law in a formal material sense; (ii) good governance guidelines; (iii) best practices; and (iv) the commitments that Inditex voluntarily undertakes as a business, as well as the risks resulting from the tactical and strategic decisions of the Group's management that may result in the non-fulfilment of the business objectives, of the functional areas or of the Group, as well as risk of corruption or damage to the company's reputation.	58%	14%	14%	14%	7
Environmental					
Environmental risks are risks associated with natural disasters, climate change and the interactions resulting from human exploitation of the environment.	50%	0%	25%	25%	4
Technological					
The technological risk category includes targeted cyber-attacks, collapse of critical infrastructure, industrial accidents with direct or indirect impacts, as well as the inability to adapt to technological advances.	20%	60%	20%	0%	5
Total	**45%**	**19%**	**29%**	**7%**	**31**

There follows a description of the main risk factors, and the procedures for their control and management. The Group's risk taxonomy was reviewed last year as part of the process of evolution and development of the IRMS.

5.10.2.1. Financial risks

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

The normal functioning of the Group's operations exposes it to risks of a financial nature. This category includes market risk, foreign exchange rate risk, counterparty risk, inflation and risk relating to raw material price increases, economic contraction and the competitive environment.

Risk: exchange rate volatility

Description and impact:
The Euro is the Group's functional currency. Its international transactions require the use of numerous currencies, giving rise to foreign currency exchange risk. Currency exposure manifests itself in terms of net investment, translation and transaction risks. The Group has investments overseas whose assets are exposed to the foreign currency exchange risk. Given that the Group consolidates the annual accounts of all its companies in its functional currency, i.e., in euros, it is exposed to foreign **exchange translation risk** resulting from all its entities located outside the Economic and Monetary Union. The Company is also exposed to the risk arising from the volatility in currencies other than the euro of payment and collection flows in relation to the acquisition and provision of goods and services in both Group and non-Group transactions.

Risk management:
Foreign exchange rate risk is managed in line with the corporate risk management model guidelines set forth in the **Financial Risk Management Policy** which establish the ongoing monitoring of exchange rate fluctuations and other measures designed to mitigate this risk, mainly through the optimisation of the Group's operations, including centralisation of risk and its management, in order to minimise the impact, using natural hedges, the benefits of diversification and the arrangement of financial hedges.

The Policy establishes the procedures for analysing and monitoring foreign exchange exposure, as well as potential hedging strategies. It also regulates the contracting of financial derivatives, their record and documentation. The Group uses the Cash-Flow-at-Risk (CFaR) methodology in order to estimate the potential impact of exchange rate fluctuations on consolidated profit before tax and, if applicable, determine the relevant mitigation strategies. The Group also uses the Value-at-Risk (VaR) method to manage foreign exchange risk in relation to the translation of the most relevant accounting items. Occasionally, mitigation strategies use financial derivatives like options purchased, zero-premium option combinations and currency forwards.

ⓘ More information in Note 25 of the *Consolidated Annual Accounts*.

Risk: inflation and higher raw material prices

Description and impact:
The Group is exposed to the risk of **inflation affecting costs** linked to the acquisition of the goods and services necessary to conduct our business normally. Notable is the impact of the increase in the price of raw materials (textile and non-textile) consumed directly and indirectly in the Group's operations, and in the procurement of goods, primarily of our products and services, in particular in connection with the transportation of supplies and distribution. This risk is measured using the aforementioned VaR methodologies.

ⓘ More information in Note 25 of the *Consolidates Annual Accounts* and in section *5.4.2. Design and selection of materials* of this Report.

Risk management:
The manufacturing and procurement model ensures flexibility and allows production to be adapted to market demand and to possible changes in the supply market environment. The permanent contact with stores and online teams by our team of designers, through the Product Management Department, helps them to learn about customer preferences changes. In addition, the vertical integration of operations makes it possible to shorten production and delivery times and reduce inventory volumes, while keeping sufficient manoeuvring room to introduce new products over the course of each season. Due to the importance of logistics management in managing these risks, the Group analyses all factors that could negatively affect the goal of achieving maximum efficiency in logistics management.

ⓘ More information in section *4.1.1. Business model and strategy* of this Report.

Risk: counterparty risk

Description and impact:
The Group is exposed to counterparty risk from our suppliers of goods and services, especially those that are more strategic for the continuity of our operations, as well as from our customers and business partners, which could impact the normal performance of some of our operations. The majority of revenue relates to retail sales which are collected on demand, either in cash or through a credit card. There are therefore no significant concentrations of credit risk. The Group is also exposed to the risk that financial counterparties fail to comply with their obligations in relation to investing our liquidity, credit policies or other funding and guarantee vehicles, as well as the derivative instruments arranged to hedge financial risks.

ⓘ More information in Notes 11, 20 and 25 of the Consolidated Annual Accounts.

Risk management:
The financial solvency of the Group's most important third parties is analysed and monitored as part of an analysis process that also encompasses legal, compliance, technological, operational, reputational and other aspects. The Group's **Financial Investment Policy** aims to ensure the safety, integrity and liquidity of the Company's financial assets. Based on the Financial Risk Management Policy and its implementing regulations, the maximum exposures are determined in terms of counterparty, and it regulates the procedures to ensure the control, oversight and monitoring of credit risk. The flexibility and diversification of the value chain are crucial pillars that ensure the resilience and continuity of the Group's operations in respect of potential disruptions owing to the behaviour of third parties, whether suppliers of goods and services or business partners.

ⓘ More information in section *5.5.1. Sustainable management of the supply chain* of this Report.

Risk: competitive environment

Description and impact:
Risks relating to the competitive environment refer to difficulties in adapting to the environment or market in which the Group operates, as regards both the procurement processes and the product retailing and sale activities. These risks are inherent to the fashion retailing business and consist of the Group's potential inability to continue operating and react to changes in its target market or to adapt to new situations in its supply or distribution countries. These risks derive from the possible difficulties involved in recognising and taking on board the ongoing changes in fashion trends, and in manufacturing, supplying and putting up for sale new articles that meet customer expectations. The optimal achievement of business objectives may be shaped by a decline in consumption resulting from an economic downturn, whether global or limited to one or more of the markets in which the Group operates.

Risk management:
The Group's unique business model is based on management that aims to improve the efficiency and effectiveness of existing markets, business lines and stores, **rationalising and diversifying the sales network**, within a model of organic growth of the current business. The internationalisation policy, the Group's multi- brand format and the support for total integration of channels and new technologies as alternatives for our customer communication and sales, represent a means of risk diversification that mitigates the overall exposure to risks in the market. The Group performs a feasibility analysis of each new market, business line or store, considering worst-case scenarios, and subsequently monitors compliance with the estimated figures. The Company has very strict requirements in terms of the profitability of commercial premises.

ⓘ More information in sections *3. Get to know Inditex* and *4. Transforming with a unique model* of this Report.

Other financial risks:

The current interest rate environment, particularly in the euro area, implies a potential risk of negative profitability in the Group's financial position (more information in Note 8 of the Economic and Financial Report). Another significant policy in managing financial risk is the **Payment Management Policy**. It institutes the principles aimed at ensuring compliance with the Group's obligations, safeguarding its interests and establishing the necessary procedures and processes to guarantee the efficient and swift management of payments. The Policy determines the optimal form, currency and timing of payment in economic, accounting and legal terms. Finally, the Payment Management Policy establishes the possible exceptions and the procedures for authorising them. The Policy and Procedure on Representatives and Attorneys sets out the members of the Group who may enter into financial transactions on its behalf, including payments, their levels of authorisation based on the nature and amount of the transaction, as well as the necessary combinations of attorneys contingent upon these criteria.

ⓘ More information in section *3.3. Inditex in figures, key indicators* of this Report.

5.10.2.2. Geopolitical Risks

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

Risk: socio-political unrest

Description and impact:
Potential instability in the territories where the Group's supply chains are located, as well as where products are marketed, poses a significant risk. Sometimes instability manifests itself through frictions that hinder the normal movement of goods during the transport process, whether due to political instability, infrastructure saturation, or constraints, especially on key routes, which generate bottlenecks due to supply-demand imbalances that limit access to transport and/or erode business margins.

The conflict in Ukraine has forced the temporary suspension of the Group's operations in Ukraine and in the Russian Federation. The implications that the current circumstances may have for our business due to their potential ramifications, as well as their estimated duration, are still difficult to assess in such an uncertain context.

Risk management:
The business model is based on a **value chain with multiple geographic origins** which, in addition to providing the necessary flexibility and adaptation to demand, ensures a high level of diversification and offers alternatives should it become necessary to switch between different manufacturing markets in case of severe or continuous disruptions.

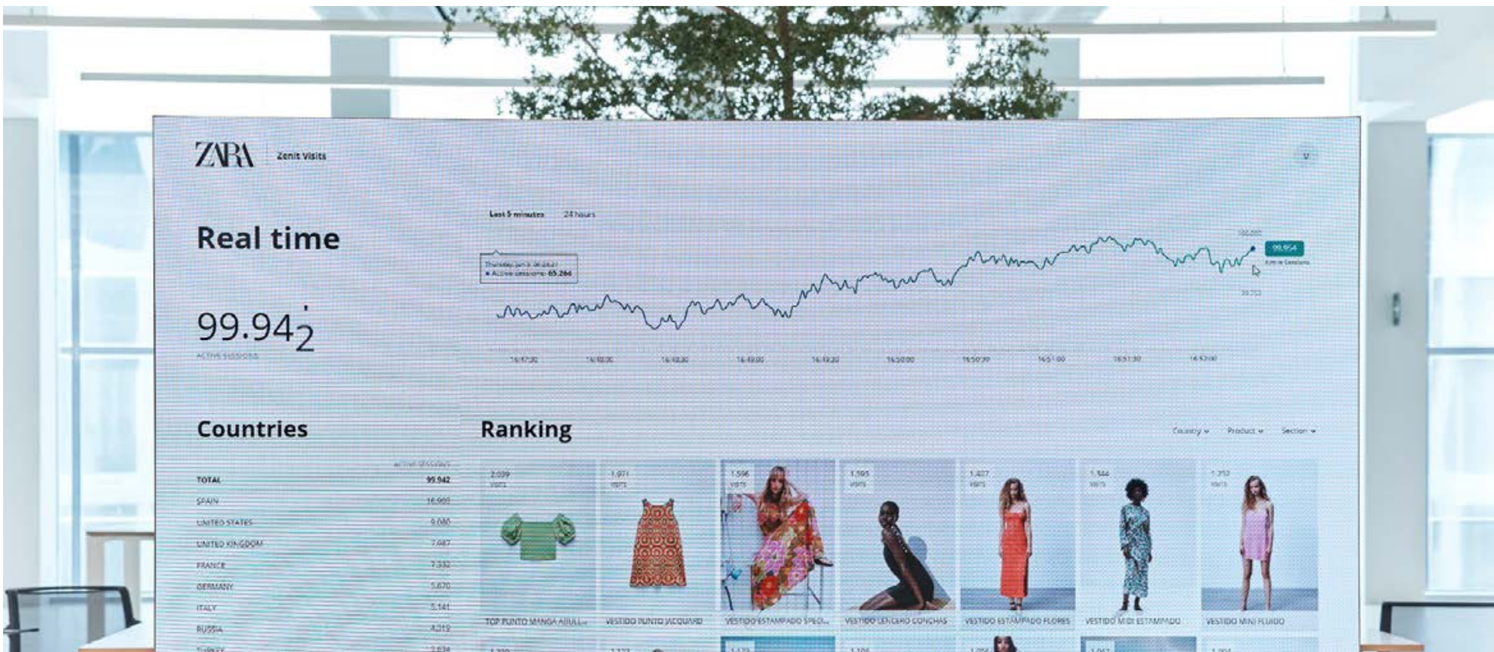
The Group's integrated sales model enables it to operate in more than 200 markets, which ensures a significant level of diversification and resilience.

The Group continues to permanently analyse the evolution of the conflict and its complex implications and implement plans to mitigate its impact, especially in relation to its workforce in the affected markets.

ⓘ More information in sections *3. Get to know Inditex*, *4. Transforming with a unique model* and *5.5.1. Sustainable management of the supply chain* of this Report.

Risk: regulatory framework

Description and impact:
As a result of its extensive direct and indirect geographic presence, the Group is exposed **to a wide range of legislation** in the countries where it operates. Regulatory changes, which are increasingly frequent and more sweeping, especially in our sector, as well as differing or even divergent treatment of legal facts in different jurisdictions, expose the Group to potential negative effects of a financial, compliance and/or reputational nature. Included in this category are risks relating to tax, customs, labour law, commerce and consumption-related regulations, industrial and intellectual property, data protection and privacy, and those relating to other types of legislation, in particular, regulations in relation to criminal risk (including potential risks of perpetrating crimes related to corruption, fraud and bribery, legislation on cybersecurity and the environment, among others), regardless of whether or not the criminal liability of legal entities is determined, and other regulatory non-compliance risk.



Risk management:
The Group's business model is based on a firm commitment to good governance, transparency and respect, aimed at generating a positive impact, promoting social and environmental sustainability, and conveying a corporate ethical culture in the performance of all its activities. The Group has a robust Compliance System that is structured as model for the organisation, prevention, detection, control and management of legal and reputational risks, deriving from potential breaches of imperative standards, internal rules and best practices applicable to it.

ⓘ More information in sections *5.8. Fiscal responsibility and transparency* and *5.9. Good governance, corporate ethics culture and solid compliance architecture* of this Report.

5.10.2.3. Technological Risks

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

Technological risk is the risk of losses stemming from the inadequate management of, or failures or deficiencies in, the security of the information systems, including all the devices and technological systems, networks and human resources devoted to processing an organisation's information.

Organisations face multiple types of technological risks, such as information security incidents, cyber attacks, service disruptions, and others.

Each type of technological risk has the potential to unleash financial, reputational, regulatory and/or strategic risks. Consequently, it is crucial to have an effective strategy for managing technological risks to anticipate potential issues.

Risk: cybersecurity

Description and impact:
Cybersecurity risk refers to internal and external exposures that might affect an organisation's objectives and values, due to its operating in digital environments. These exposures may be linked to digitalisation, the adoption of technologies, as well as the behaviour of users and the organisation's pace of modernisation. In the past, exposures to cybersecurity risks were associated with organisations' centralised information systems, but they now include external risks introduced by other organisations or by external systems in the digital world.

The Group is exposed to the possibility of a cybersecurity event that could compromise the continuity of operations and/or the confidentiality, integrity and/or availability of the Group's information, regardless of whether it is located in its own systems or those of third parties; and third parties' information located in the Group's systems.

With numerous attackers attempting to gain access to corporate information worldwide every year, the Group is aware that technological risks are evolving exponentially, unpredictably and, in some cases, in a very sophisticated way, which makes it difficult to anticipate and implement preventive measures. Thus, although Information Security is one of the Group's priorities, there is the possibility of an undetectable attack, including on its service suppliers, which might affect operations or information managed by the Company.

Risk management:
The Group is aware that its systems will require continuous improvement and investment to avoid obsolescence and to maintain their responsiveness at the standards it requires. Given how important it is for the Group's goals that the technological systems function properly, it maintains, through the Information Security department and with the support of the Information Security Committee, a permanent control focused on guaranteeing the rationalisation and coherence of these systems, as well as their security and stability, a prerequisite for the uninterrupted performance of its operations.

The Group is guided by the **Information Security Policy** as a reference framework to maintain the confidentiality, availability and integrity of information and the elements that process it.

The Policy sets out the following general principles on which the achievement of the aforementioned objectives must be based:

(i) information is classified according to its value, importance and criticality for the business;

(ii) the use of systems is limited to lawful and exclusively professional purposes;

(iii) functions are segregated in order to avoid risks;

(iv) when necessary or appropriate, information retention periods are established;

(v) procedures are in place to control access to information by third parties;

(vi) the security of information in the systems;

(vii) a continuity management process is implemented to ensure the recovery of critical information for the Group in the event of a disaster; and

(viii) the Group's information and communictions systems are in keeping with the requirements of the legislation in force and with applicable internal regulations.

It also defines the responsibilities and the scope of competence attributed to the various departments and corresponding bodies within the Organisation. This Policy must be accepted by all users accessing Group's information and may be viewed by them any time in the Company Intranet.

The inventory and risk map of technology and information security risks is updated annually, with the aim of providing an aggregate view of the Group's situation to enable the relevant mitigation and continuous improvement measures to be introduced by responsible areas.

A strategic plan was developed in the year with the help of international experts in various fields and areas in order to maintain and improve the degree of maturity of the Group's Information Security programme. This project also aimed to identify actions and initiatives based on the Company's needs and challenges for the coming years.

As a result of the increase in cyber-attacks on companies worldwide, without a significant impact on the Company's operations at the date of preparation of this report, various working groups have been maintained and developed. These groups, under the supervision of the Information Security Committee, were aimed at continuing to design and implement new initiatives and oversee existing ones in order to mitigate the risks arising from new scenarios.

On the other hand, it should be noted that the Information Security department, which exercises its second-line-of-defence control functions independently, has continuous review mechanisms, which are periodically evaluated through a range of internal and external audits with a view to the prevention, detection and response to a potential cyberattack. These controls would make it possible to anticipate and/or mitigate the consequences of the risk's materialising, together with insurance policies that would cover loss of profit, expenses arising from the attack and the Company's civil liability for damage caused to third parties. Based on the available information, the Organisation considers that these controls have worked to date. Specifically in the E-Commerce environment, the Group complies with the strict requirements of the Payment Card Industry Data Security Standard (PCI- DSS) and is ISO/IEC 27001 certified for Information Security.

Moreover, associated with various of the organisation's processes, the Group has other certifications required by international regulatory frameworks:

- K-ISMS: Korea Information Security Management System (K-ISMS) is an information security management standard operated by Korea Internet & Security Agency (KISA).

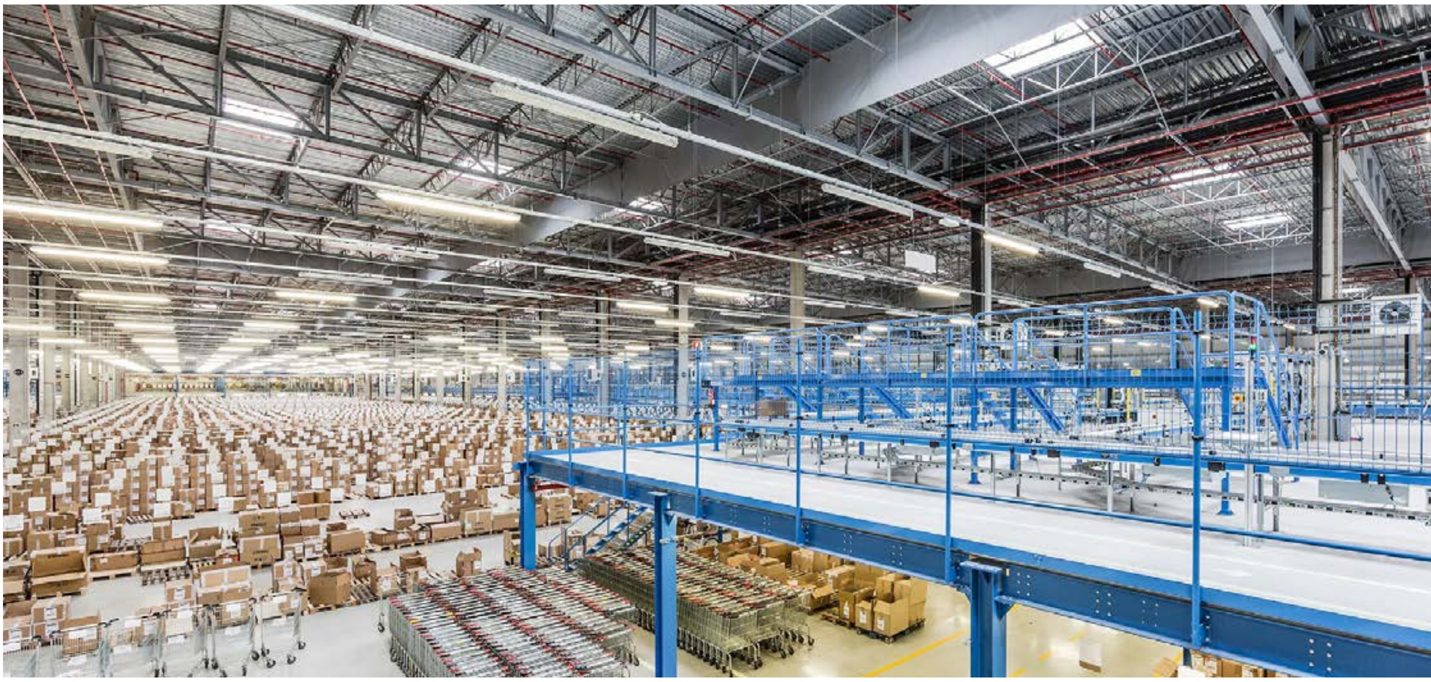
  K-ISMS was prepared to evaluate whether enterprises and organisations operate and manage their information security management system (ISMS) consistently and securely such that they protect key information assets from various threats.

- MLPS: Multi-Layer Protection Scheme (MLPS) is a regulatory classification scheme intended to protect the security of information systems located in China. China's Cybersecurity Law requires the network and system components to be protected against disruptions, damage and unauthorised access using a graded scale to prevent data leakage, manipulation and espionage.

For the specific purpose of maintaining the availability of the systems, the Group has technical contingency systems in place which, together with the associated technical procedures and their relevant evaluation tests, would reduce the consequences of an incident, breakdown or shutdown.

Technical contingency systems may be considered to include the Group's main data centre, certified as TIER IV, which guarantees high availability. The Group also has synchronous data storage in redundant locations or duplication of equipment and lines to mitigate various physical or geological risks.

More information in section *5.10.5. Information security and privacy* of this Report.



Risk: shutdown of operations and critical infrastructure and services

Description and impact:
Another technological risk is that arising from the interruption of operations associated with the possible occurrence of extraordinary events beyond the Group's control (fires, transport or key supplier strikes, interruptions in energy and fuel supplies, etc.), which could have a significant effect on the normal functioning of the Group's operations. In view of the Group's operating structure, the main operational risks are concentrated at logistics centres and at third party operators transporting goods. The concepts' clothing, footwear, accessories and household products are distributed from different logistics centres, owned by the Group and operated by third parties, located throughout Spain and complemented by a logistics connection hub in the Netherlands. There are also other smaller logistics centres located in other countries and with third party logistics operators which carry out small scale distribution operations.

Risk management:
The **scale and use** of all centres has been **optimised** according to the volume of each brand and the specific needs of the geographic area they serve. In particular, some of the aforementioned logistics centres specialise in distributing goods relating to online sales. The various centres have been configured in such a way as to be versatile enough to take over storage and delivery capacity from other centres in the event of a contingency caused by accidents or stoppages in distribution activities.

In addition, the Group works actively to reduce exposure to this type of risks, maintaining **high levels of prevention and protection** at all its distribution centres. Insurance policies cover the possible material damage to facilities and the loss of profit derived from an incident.

In order to ensure the Group's growth and reinforce the flexibility of the business model, the Logistics Expansion Plan assesses the need for, and envisages new inversions, where appropriate. Such as investments in new logistics centres or the expansion of existing ones to mitigate the risk associated with the planning and scaling of logistics, investments in improvements and automation in existing centres, aimed at increasing their capacity and efficiency, as well as improving internal control over the goods stored in them. Notable in this respect is the progressive application of Radio Frequency Identification (RFID) technology in the value chain, which allows for a very high degree of control of the goods, and the development of new mobile robotic technologies. Also noteworthy are the search for, validation and control of external logistics operators, at different strategic points, with full integration into the Company's logistics capacity.

More information in sections *4.1.1. Business model and strategy* and *4.3.1. Collaborative and transformative innovation* of this Report

Risk: governance and use of information

Description and impact:
The governance, availability, quality and value of the information generated by the Company is increasingly becoming a competitive advantage and is essential for normal business operations. The information is varied: transactional and operational, financial and accounting, management and budgeting and control. Inditex will ensure the protection of information, regardless of how it is communicated, shared, projected or stored. This protection affects both the information inside the Group and the information shared with third parties.

Risk management:
In order to reduce the exposure related to the use and governance of information, the management information distributed to the various managers is periodically reviewed, the Group invests, among other areas, in information transmission systems, data analysis and intelligence for decision-making and process optimisation (distribution, logistics, etc.), business monitoring and budgeting. The Group's various departments and particularly the Management Planning and Control and the Administration Departments, which report to the Financial Division, are directly responsible for producing and supervising the quality of this information. The Information Security Department is responsible for ensuring that this information is accessible and/or modified only by those authorised to do so, entering parameters into the systems to guarantee the reliability, confidentiality, integrity and availability of critical information.

ⓘ More information in section *5.10.5. Information security and privacy* of this Report.

With respect to financial reporting risks, the Group has established an Internal Risk Management and Control System over Financial Reporting (ICFR), with the aim of continuously monitoring and assessing the main associated risks in order to reasonably ensure the reliability of the Group's public financial information —more information in the **Report on Internal Control Systems (ICFR)** included in the Annual Corporate Governance Report, available at Inditex corporate website—. The Group also has an internal control system to ensure the reliability of non-financial reporting to the market (ICNFR).

Furthermore, the Consolidated Annual Accounts and those of all the relevant companies, as well as the Statement on Non-Financial Information, which forms part of the Directors' Report, are reviewed by the external auditors, who also perform certain audit work related to financial reporting. In addition, for the most significant companies, the external auditors are asked to make recommendations on internal controls.

ⓘ More information in the Independent verification Report included herein.

Risk: digitalisation

Description and impact:
The Group is aware that **technological innovations and evolutions** in a broad sense, both in customer interaction through the development of a satisfactory omni-channel experience resulting from the integration of the physical and digital worlds, as well as the improvement of all operating and business processes, are indispensable to ensure fulfilment of the strategic objectives.

ⓘ More information in sections *4.1.1. Business model and strategy* and *4.3. Innovation, vital for transformation* of this Report.

Risk management:
Mindful of the importance of technology and innovation, both crucial in an era in which flexible solutions are needed that adapt to continuous change, the Group has established **digital transformation,** through the introduction of the latest technologies, as one of its strategic goals. The drive for digitalisation as a key transformation tool is evident throughout all the Group's operational and business processes. Digitalisation allows a more agile, efficient and accurate management of our operations, from logistics through to in-store transactions. It facilitates sales growth by integrating channels, both digital and in- store. It ensures immediate availability and accessibility of business data, obtained thanks to our full integration, so as to continue to speed up decision-making processes, manage inventory more efficiently and improve the standard of customer services.

Digitalisation is also an indispensable tool for developing our sustainability strategy, as it is a linchpin in our supplier relations. It enables us to manage the traceability of the supply chain, allowing us to compile social, environmental and product health and safety information that can be made available to all stakeholders. Its application in the sphere of wage management and working hours promotes the financial inclusion of workers in our supply chain, and helps us make further headway towards achieving living wages. Finally, digitalisation and technological advances help us to promote new initiatives, on our own or in tandem with third parties, for innovation, research and development, aimed at the transformation of the textile industry in connection with, among other areas, wet processes, their application to dyeing and printing, and at guaranteeing the safety of the chemical compounds used.

With regard to people management, our digital tilt has enabled us to continue improving our operations, from the initial recruitment to the contract stage. Digitalisation is critical in the sphere of communication and training of our teams all over the world, providing them, in an expedient, modern and continuous manner, with a broad array of proprietary or third-party training content in a virtual forum.

ⓘ More information in sections *4.1.1. Business model and strategy* and *4.3. Innovation, vital for transformation* of this Report.

5.10.2.4. Environmental Risks

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

Risk: shutdown of operations due to natural causes

Description and impact:
As a result of natural disasters such as floods, fires, earthquakes, etc., key business operations and shipping processes could be halted. Events such as these could potentially affect the Group's critical infrastructure. Section **5.10.4. Climate change: risks and opportunities** includes a sub-section concerning the physical climate impact on the Group's value chain.

Risk management:
The approach to managing these risks, including mitigation measures and resilience plans, is discussed in the section entitled **Shutdown of operations and critical infrastructure and services.**

Risk: climate change

Description and impact:
The Group's performance is exposed to the potential impacts of climate change in its various manifestations of physical risk, whether chronic or acute, as well as the risks resulting from the transition to a low-carbon economy. Section **5.10.4. Climate change: risks and opportunities** focuses on this risk within the framework of the Task Force on Climate-related Financial Disclosures (TCFD), which the Group joined in June 2020.

Risk management:
Decarbonisation is one of the main axes of our Sustainability Roadmap, in line with the goals of the Paris Agreement. The Group has set very ambitious decarbonisation targets for our business and for our industry as a whole.

ⓘ More information in sections *5.6.1. Our approach to decarbonisation and energy management* and *5.10.4. Climate change: risks and opportunities* of this Report.

Risk: environmental degradation and scarcity of natural resources

Description and impact:
There is a risk of producing adverse effects in the environment through the release of undesirable or hazardous substances (whether biological or chemical) throughout our value chain. There is also a risk that the Group's activities could translate into negative externalities such as the loss of biodiversity, deforestation, soil degradation, scarcity of raw materials, especially those that meet our sustainability requirements, among others.

Risk management:
The firm commitment to the highest sustainability standards is one of the Group's strategic pillars, as it aims to play a transformational role in the industry. The Group's **Sustainability Policy** sets out its environmental commitments, which are applied transversally across all its business areas and throughout its supply chain. **Three environmental strategies** are derived from this Policy which seek to ensure the best possible protection of environmental resources: the Biodiversity Strategy, the Global Water Management Strategy and the Global Energy Strategy. In line with such three strategies, Inditex is also committed to protecting forest products, as specifically addressed in the Forest Product Policy. We highlight the commitment to clean energy and the implementation of circular management models in our headquarters, logistics centres, factories and stores, such as the Closing the Loop project, among others. Sections **5.4. Collaborating to transform through sustainable management of our products** and **5.6. Collaborating to safeguard the planet** describes in detail the multiple strategies, governance structures, projects and objectives related to this risk.

5.10.2.5. Social Risks

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

Risk: talent and people management

Description and impact:
Human resource-related risks pertain to the potential dependency on key personnel, the inability to adapt the organisational culture with the required speed and flexibility to the needs of staff in a new and complex environment, where the sustainability of human capital becomes more relevant and which aims to ensure the quality of employment, health and well-being of staff, work-life balance, diversity, teleworking culture, etc.

Moreover, there has recently been a growing demand in the labour market related to the social responsibility of companies, which has become a key factor in the choice of companies as a preferred employment destination.

Risk management:
The People Department is guided by a series of principles that are presented in detail in section **5.1. Collaborating with our people, the engine of that transformation.** The working system implemented at the Organisation fosters the transmission of knowledge and the involvement of all people in the Group's culture and way of operating. Professional development, training and compensation policies are aimed at developing teams as a whole, providing growth opportunities to the most talented people and retaining key employees. The Group also carries out selection and recruitment processes for new staff to ensure a continuous inflow of talent in all areas of the Company. These measures, combined with the continuous improvement of the Group's policies concerning people, minimise the risk derived from concentrating know-how in certain key people.

The Group has rolled out various initiatives in several lines of action. The Diversity and Inclusion Policy applies throughout the Company. The Inditex Group devises equality plans with measures to promote the commitment to and effective application of the principle of equality between women and men, helping to reduce inequalities and imbalances, preventing discrimination in the workplace, guaranteeing a healthy working environment and establishing measures that help maintain a work-life balance.

Teams are also encouraged to engage in solidarity projects so that they can channel their social concerns wherever the Company operates. For this purpose, a number of programmes and projects have been implemented in which people can participate with varying degrees of engagement.

ⓘ More information in section *5.1. Collaborating with our people, the engine of that transformation* of this Report.

Risk: stakeholder perception

Description and impact:
The social risks category also includes risks that have a direct influence on the perception of the Group by its stakeholders (customers, employees, shareholders and suppliers) and society in general (more information in sections **4.4.3. Materiality analysis and 5.2. Collaborating with our customers, the force driving transformation**). They arise from the possibility of the inappropriate management of issues relating to corporate ethics, social and environmental sustainability, responsibility for the health and safety of the products, the corporate image of the Group, as well as its image in social networks, and any other potential regulatory breach or good practices that might have an impact on the Organisation's reputation.

In organisations of the scale and visibility of the Group, conflicts may emerge as a result of inappropriate relations with third parties outside the Group's operational activity (CNMV, media, investors, financial analysts, public authorities, etc.).

Risk management:
Several departments, including Communications and Institutional Relations, are responsible for monitoring the Group's image in all areas, including social media. Communications and Institutional Relations, as well as the Sustainability Department, establish the Group's necessary procedures and protocols for mitigating this risk. In addition, given its importance, the General Secretariat-Regulatory Compliance Management and the Investors Relations Department are specifically responsible for managing relations with the CNMV and, by extension, with investors and financial analysts.

ⓘ More information in sections *5.3. Collaborating with our shareholders, allies in transformation* and *5.9. Good governance, corporate ethics culture and solid compliance architecture* of this Report

Risk: infectious diseases

Description and impact:
This category also includes the risks posed by infectious and contagious diseases. It corresponds to the potential disruption caused by a local, regional or global pandemic as a result of infectious diseases against which there is little or no pre-existing immunity in the human population. As evidenced by the experience of the last two years, pandemics may trigger multiple impacts that are difficult to foresee and variable in intensity, both over time and in extension, that can sometimes prove systemic due to the way their ramifications manifest.

Risk management:
The section **5.10.3 Risks that materialised over the course of the year** covers in detail the impact of the covid-19 virus and the measures to mitigate it. For information concerning the management of the impact of covid-19 on customers, suppliers and other stakeholders, see section 5.1.6. Health, safety and wellbeing of our people of this Report.

5.10.2.6. Governance Risks

Governance risks include a set of risks of a different nature. Among them is non-compliance by the Company and, in particular, by its Board of Directors and Senior Management with (i) the law in a formal or material sense; (ii) good governance recommendations; (iii) best practices; and (iv) the commitments that Inditex voluntarily undertakes as a company. Risks of this kind also include those arising from the tactical and strategic decisions of the Group's Management that may result in the non-achievement of business, functional area or Group objectives, as well as risks of corruption or damage to the company's reputation.

Risk: ethical behaviour and good governance

Description and impact:
The risks included in this category are risks relating to tax, customs, labour law, commerce and consumption-related regulations, industrial and intellectual property, data protection and privacy and risks relating to other types of legislation, in particular, regulations in relation to criminal risk (including potential risks of perpetrating crimes related to corruption, fraud and bribery, legislation on cybersecurity and environment, among others), regardless of whether or not the criminal liability of legal entities is determined, and other regulatory non-compliance risk.

ⓘ More information in section *5.9. Good governance, corporate ethics culture and solid compliance architecture* of this Report.

Risk management:
The General Counsel's Office and Compliance Office (SG-DCN, by its acronym in Spanish) is responsible for the operational management of the Company's Compliance model. Specifically, this department is tasked with the three-fold function of regulatory stewardship, coordination and reporting.

The General Counsel's Office and Compliance Office is tasked with coordinating the compliance functions of other departments or areas responsible for compliance risks, by means of a periodic reporting system.

In order to mitigate exposure to compliance risks in a broad sense and, in particular, to criminal risks, including risks related to potential corruption, fraud and bribery, the Group has a structure of high-level basic standards and a number of organisational documents which constitute the main pillars of the Company's transversal Compliance System. These high-level standards are the Code of Conduct and Responsible Practices and the Code of Conduct for Manufacturers and Suppliers of the Inditex Group, the full description of which is included in section F.1.2 of the Annual Corporate Governance Report.

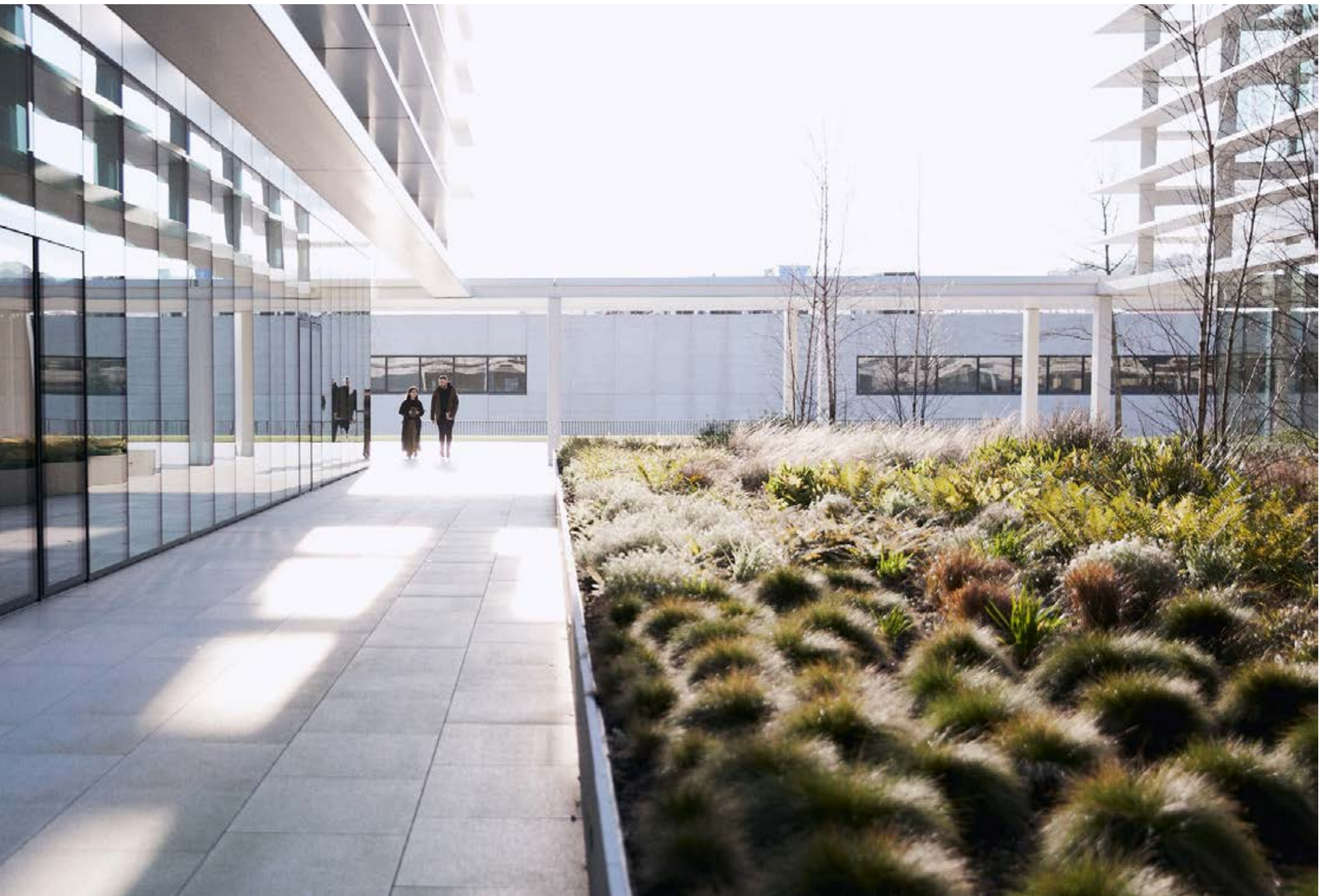
The General Counsel's Office and Compliance Office reports to the Audit and Compliance Committee at least half-yearly concerning the monitoring of the system and the main Compliance issues reported.

Inditex has an organisation and management model for the prevention of criminal offences or Criminal Risk Prevention Model, comprising **three documents:** the Criminal Risk Prevention Policy, the Criminal Risk Prevention Procedure and the Scoping Matrix of Criminal Risks and Controls (hereinafter, 'Criminal Risk Prevention Model'). This Model sets out the main ethical conduct commitments undertaken pursuant to the Code of Conduct and the organisational measures to prevent criminal activity. The Scoping Matrix of Criminal Risks and Controls, which sets out the criminal risks and controls established to prevent perpetration of offences.

This Criminal Risk Prevention Model was approved by the Board of Directors in 2016, but is subject to a continuous process of evaluation and improvement. In particular, the Scoping Matrix of Criminal Risks and Controls, which is permanently updated by means of: (i) the periodic analysis of the possible risks inherent to the various business processes; and (ii) the monitoring of the controls implemented, taking into account the prioritisation of risks as determined in the risk map.

The main policies approved within the framework of the Criminal Risk Prevention Model are as follows:

- Policy on Donations and Sponsorships.
- Policy on Gifts and Business Courtesies.
- Policy on Dealings with Public Servants.
- Conflicts of Interest Policy.



- Anti-Money Laundering and Terrorist Financing Policy.

- Due Diligence Policy.

- The Procedure for Limiting Trade Relations with Suppliers in Restricted or Unauthorised Markets.

The Ethics Committee, which reports to the Board of Directors through the Audit and Compliance Committee, is the internal body responsible for supervising compliance with the Criminal Risk Prevention Model and the effectiveness and correct execution of the controls established therein, with the General Counsel's Office and Compliance Office being responsible for its material execution, as well as for ensuring compliance with the legal requirements in force. The so-called Compliance Function comprises the Ethics Committee, as the decision-making body, and the General Counsel's Office and Compliance Office.

At least every six months, the Ethics Committee submits a report to the Audit and Compliance Committee analysing the results of the supervision of the Criminal Risk Prevention Model. In turn, the Audit and Compliance Committee reports to the Board of Directors on a quarterly basis and whenever the Board so requests.

There is a grievance channel (currently formally called the 'Ethics Line') described in section F.1.2. of the Annual Corporate Governance Report (ACGR).

Inditex allocates the highest priority to the **protection of the personal data of its customers and employees,** including privacy by design and by default in its processes. Consequently, Inditex has a model of compliance in connection with data protection and privacy, managed by the Data Protection and Privacy Department and with the supervision of the Group's global Data Protection Officer (DPO). Its basic standard is the Compliance Policy on Personal Data Protection and Privacy, approved by the Board of Directors. The Policy outlines the principles and commitments that the company applies to ensure compliance with data protection and privacy regulations in all jurisdictions where it operates and to guarantee the rights of all stakeholders (customers, users, employees, etc.).

ⓘ More information in section *5.10.5.2. Personal data protection and privacy* of this Report.

The Group implements a Programme for Compliance with the Code of Conduct for Manufacturers and Suppliers by means of social audits and pre-assessment based on the verification, carried out by qualified social auditors, of the facilities necessary for the production of the fashion articles it distributes, in order to minimise the potential risks of damage to its image due to improper behaviour by third parties. This programme provides the specific review procedures to ensure that information and evidence is obtained on the minimum working conditions with which all manufacturers and suppliers must comply. The Compliance Programme is supplemented with the Workers at the Centre 2019-2022 strategy, which focuses on workers in the supply chain and their well-being, as well as collaborations with various stakeholders, notably including the Global Framework Agreement with the IndustriALL Global Union federation of industry trade unions, and partnerships with the International Labour Organization (ILO), among others. Section **5.5. Collaborating so our suppliers grow** contains detailed information regarding the strategy and initiatives in connection to this risk.

To mitigate the risks associated with the characteristics of the finished product, ensuring that they do not pose a risk to customers' health and safety, the Group carries out controls and verifications of product health and safety standards (Clear to Wear and Safe to Wear), which are generally applicable and mandatory in the supply chain for all marketed products.

ⓘ More information in section *5.4.4. Health and safety aspects of our products* of this Report.

General Counsel´s Office and the Compliance Office supervises and manages the Inditex Group's regulatory compliance system in order to prevent legal and reputational risks arising from possible regulatory breaches. In order to minimise these risks, it is essential to ensure that the Company's Corporate Governance System (comprising the Articles of Association, the Regulations of the Board of Directors and of the Annual General Meeting, the Audit and Compliance Committee, the Nomination Committee, the Remuneration Committee, the Sustainability Committee, the Internal Regulations of Conduct in the Securities Markets, the corporate policies devised to control and manage risks, and the Group's internal rules of conduct) are consistent with the relevant regulations in force at any given time in the area of corporate governance.

Accordingly, the Audit and Compliance Committee performs an **annual assessment** of its Corporate Governance System in order to verify its degree of compliance with and adaptation to new legislation, recommendations, standards and best practices in this respect, and to systematically reinforce good corporate governance practices in its governing bodies.

Furthermore, the performance of, among others, the Board of Directors, its directors and delegated committees and the executive directors, is subject to an annual self-assessment.

Inditex's Internal Regulations of Conduct in the Securities Markets (IRC) establish the principles and criteria to guarantee (i) that the information supplied to the market and to the CNMV is truthful, clear, quantified and complete, avoiding subjective judgements that are or could be misleading; as well as (ii) the appropriate use of privileged information and other material information of the Company. Overseeing and implementing the IRC is the responsibility of the Compliance Committee and the Chief Compliance Officer, who reports to the Audit and Compliance Committee every six months.

The application and interpretation of the Code of Conduct and Responsible Practices for Manufacturers and Suppliers are attributed to the Ethics Committee, which also has a mechanism in place to present complaints in regard to irregularities and non-compliances.

Moreover, the Audit and Compliance Committee, through the General Counsel's Office and Compliance Office, periodically checks for the existence of potential conflicts of interest or related-party transactions contrary to the interests of the Company and/or its shareholders, in accordance with a regulated analysis and assessment procedure, and subsequent approval by the Board of Directors.

In short, risk is minimised by ensuring that the governing and management bodies function properly and by improving the Company's internal control, transparency and corporate responsibility, thus generating confidence among shareholders and investors.

As regards supervision, the main governing bodies with responsibilities for risk control are the **Board of Directors and the Audit and Compliance Committee**.

1. Board of Directors
The Board of Directors is ultimately responsible for the identification of the Group's main risks and the organisation of appropriate internal control and reporting systems.

2. Audit and Compliance Committee
Among other duties, the Audit and Compliance Committee assists the Board of Directors in its supervision and control of the Group, by reviewing the internal control systems in place. The competences of the Audit and Compliance Committee is provided in the Articles of Association, the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee.

The Regulations of the Audit and Compliance Committee establish that the Committee, composed exclusively of external directors, is responsible for, among other duties: supervising the effectiveness of the Company's internal control, internal audit and financial and non-financial risk management systems, including tax and corruption-related risks, as well as analysing with the auditor any significant weaknesses in the internal control system detected during the course of the audit, and overseeing the process of preparing and presenting the mandatory financial and non-financial information.

The Audit and Compliance Committee is also tasked with supervising the Group's Internal Audit department, ensuring the function's independence and efficacy. Accordingly, the Committee undertakes to: (i) evaluate the Internal Audit function and the performance of its head; (ii) ensure that it has sufficient human and material resources, both internal and external, to carry out its duties; approving the budget of the Internal Audit department; and (iii) approve the Internal Audit Plan and its annual activity report (receiving periodic information on the activities carried out by Internal Audit), ensuring that its activity is mainly focused on the material risks of the Company and its Group.

The Internal Audit department is part of the current organisational structure, directly linked to the Board of Directors, to which it reports functionally through the Chairwoman of the Audit and Compliance Committee, thus guaranteeing full independence in its actions.

The Group's Internal Audit Charter defines the mission of the Internal Audit Department, which is to contribute to the proper running of the Group by ensuring effective and independent oversight of the internal control system and providing the Group with recommendations that help to reduce to reasonable levels the potential impact of risks that might hamper the achievement of the Organisation's objectives.

The Charter also establishes as objectives of Internal Audit, among others, to make such recommendations as it deems appropriate to improve the governance process, to assess the effectiveness of risk management processes and contribute to their improvement, to ensure the proper functioning of internal control and information systems and to guarantee the homogeneous and efficient application of the policies and procedures that make up the internal control system.

In addition, there are areas or departments that exercise supervisory functions over the adequacy of the internal control system. Among others, the Compliance Function, which reports to the SG-DCN, is responsible for the Criminal Risk Prevention and Corruption Prevention Models; the ICFR/ICN-FR Internal Control area, reporting to the Senior Finance Management, is responsible for supervising internal control over the integrity of financial reporting (ICFR) and for supervising internal control over the Statement on Non-Financial Information (ICN-FR); the Information Security area is responsible for internal control over cybersecurity risks; the Data Protection and Privacy area is responsible for managing the personal data control systems; and the Fiscal area is responsible for supervising the fiscal risk management system.

ⓘ More information in section *5.8. Fiscal responsibility and transparency* of this Report.

5.10.3. Risks that materialised over the course of the year

GRI 102-11; 102-15 AND 102-29

The covid-19 pandemic continued to shape performance in the year. Many countries and regions have continued to experience continuous or sporadic restrictions on mobility of varying intensity and these have affected both the Group's stores and the value chain (the Group's own and that of third parties) necessary for the normal operation of our business.

At the height of the pandemic this year, from February to May, a maximum of 28% of all the Group's stores remained closed or subject to restricted opening hours and/or number of people allowed inside. These restrictions sometimes also affected other internal and external services necessary for the Group's operations to work normally. As the year progressed the situation has tended to normalise. The number of stores affected by restrictions has gradually decreased to a broadly insignificant figure.

At the outset of the health crisis, Inditex set up an information system that would afford it the **best possible knowledge of all the guidelines and recommendations** issued by the various authorities and public bodies in order, not only to ensure compliance with the regulations in force, but also to harness the best practices being implemented in the different geographic areas. The Group's foremost concern has continued to be to **ensure the health and well-being of its employees, customers and all persons** who directly or indirectly provide services or goods necessary for the operation of the business, taking the appropriate preventive measures and, where necessary, mitigating measures, at all times.

At the time of writing this Report, very few territories were subject to restrictions as a result of the pandemic. However, thanks to the experience gleaned since the start of the health crisis, the implementation of protocols and the provision and strengthening of technical resources for remote working, the Group's management and administration infrastructures in all geographies guarantee normal operations. Mechanisms have been reinforced to ensure the proper working of the means necessary to guarantee the continuity of the Group's operations in this new context and measures to protect information systems have been stepped up.

The **integrated sales model** has enabled us to continue to meet customer demand in all markets , even during the strictest lockdowns. Online sales have continued to develop strongly and have offset the impact of hindrances to the physical retail channel.

The value chain has also been hit by the pandemic. Some procurement markets have continued to endure sporadic disruptions, resulting in delays in lead times. **The flexibility of the business model** shone through again, enabling the Group to mitigate the impact of these disruptions by leveraging the diversification of its proximity and long-cycle sources, as well by forecasting demand to adapt procurements in an expedient manner. The pandemic has also hampered supply and distribution shipping networks. The collapse in demand for passenger transport coupled with extraordinary incidents in some communication infrastructure, led to a shortage of routes and/or higher freight rates. The Group has sought versatile transportation alternatives in keeping with the unforeseen circumstances to ensure the continuity of its freight transport model. In this context, the environmental, social and governance (ESG) goals established by the Company were unaffected. Inditex's degree of ambition when it comes to sustainability throughout its value chain remains intact or has even increased, with new commitments unveiled at the Annual General Meeting in July 2021. The pandemic may have affected the annual performance of certain particular indicators relating to ESG, in which case the impact is detailed separately in this Report where applicable, but it has not affected the Group's sustainability goals and commitments.

The pandemic and the recovery process, which has sometimes led to unexpected spikes in demand, has also affected market risks. Some of the currencies in which the Group operates have experienced considerable volatility and, on occasions, ongoing depreciation. Over the year inflation processes have been observed in many regions. There is considerable uncertainty as to whether the consumer price increases are transitory or more long-term. The inflationary spiral has affected many of the costs of goods and services that make up our value chain. Particularly, raw material prices have risen across the board, due, on the one hand to the global increase in demand, and, on the other, to temporary shortages due to bottlenecks or transitory disruptions in value chains, as a result of the pandemic and its repercussions. Energy and transport fuel costs have risen sharply and stayed high over the year, and there is so far no visibility regarding their reversal to average levels of the last few years. In these exacting circumstances, spending has been systematically and rigorously controlled.

Foreign exchange risk has been particularly concentrated in the Turkish lira, the Argentine peso, the US dollar, the Japanese yen and the Russian ruble. During financial year 2021, the depreciation of non- euro currencies has had a negative impact on the Company's sales growth rate and a slightly positive impact on the cost of sales. Exchange rate risk has continued to be actively managed in accordance with the Group's guidelines based on centralized management, operational optimization of foreign exchange exposures, maximization of the benefit of diversification of the exposure portfolio and continuous monitoring of the risk.

Although the Group **has a strong cash position**, additional measures have been taken to ensure and safeguard the Company's liquidity. The Group also has external sources of financing through lines of credit, largely committed, for a total of 7,665 million euros.

5.10.4. Climate change: risks and opportunities

GRI 102-11; 103-2; 103-3 AND 201-2

2021 MILESTONE

During the year, Inditex has continued to make progress in more closely adopting the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

In 2021 we continued to work to further our alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). In this regard, our *TCFD VISION* group, created in 2019 with the mission to manage and adapt our climate-related management and disclosure framework to the recommendations of the TCFD, has made progress in its mission by designing the Group's 2023 alignment plan, which includes a series of lines of action aimed at making further progress in the management and disclosure of the risks and opportunities arising from climate change throughout our Company.

Progress in alignment with TCFD recommendations

In a rapidly changing climate context, consideration and transparency in respect of climate issues is an increasingly critical part of decision-making. Indeed, as the latest status report by the Task Force on Climate-Related Financial Disclosures[110] indicates, 2021 was a year of great significance as multiple jurisdictions have proposed or finalised laws and regulations to require climate disclosures in keeping with these recommendations, some of which will come into force in 2022. Likewise, international accounting standard bodies are developing standards to include global ambitions for climate risk disclosure.

The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) were designed so that information on climate-related financial risks and opportunities could be used for

110. More information in the *Task Force on Climate-Related Financial Disclosures 2021 Status Report*.

strategic decision-making, beyond the traditional understanding of catastrophic climate risks that affect corporate assets and operations. In this respect, the Group's performance is exposed to the potential financial impact of climate change in its various manifestations, not only in the form of acute or chronic physical risks, but also in terms of the risks of transitioning to a low-carbon economy.

PHYSICAL RISKS

ACUTE

Caused by natural events, including more severe extreme weather events, like cyclones, hurricanes and floods.

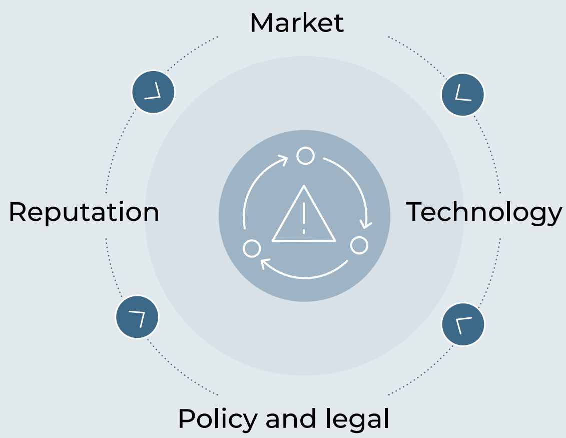
CHRONIC

Long-term changes in weather patterns that may cause an increase in sea level or chronic heat waves.

These physical risks may cause damage to material goods and disrupt the supply chain in the following scenarios:

- Changes in the availability of water resources.
- Vulnerability in respect of other specific resources or raw materials on which Inditex depends, such as cotton, viscose, etc.
- Potential disruption in shipping routes.
- Employee health and safety.

TRANSITION RISKS



The Company's actions on the four TCFD benchmarks of **governance, strategy, risk management, and metrics and goals** is presented below:

Governance	The organisation's governance in respect of climate-related risks and opportunities.
Strategy	The actual and potential impact of climate-related risks and the opportunities in the organisation's businesses, strategy and financial planning.
Risk management	The processes used by the organisation to identify, measure and manage climate-related risks.
Metrics and goals	The metrics and goals used to measure and manage material climate-related risks and opportunities.

As part of our firm commitment to decarbonisation, the Inditex Group has ramped up its ambition and accelerated its pledges, bringing forward its goal of achieving **net zero emissions to 2040,** ten years earlier than initially planned. Also consistent with this important challenge, we are making progress on our science-based reduction targets for the period 2018-2030: a 90% reduction in our scope 1 and 2 emissions and a 20% reduction in our scope 3 emissions (in the supply chain category). These targets, validated by the Science Based Targets initiative, are consistent with the Paris Climate Agreement aspiration of limiting the global temperature increase to 1.5°C above pre-industrial levels by the end of the century.

ⓘ More information on these goals and the initiatives being implemented to achieve them in section *5.6. Collaborating to safeguard the planet* of this Report.

ⓘ More information on our specific efforts in circularity and sustainability of our products in section *5.4. Collaborating to transform through sustainable management of our products* of this Report.

Climate governance

The Group's sustainability strategy and its policy on climate change is approved at the highest level by the Board of Directors of Inditex. To guarantee that the Sustainability Roadmap will lead Inditex to be a net zero emissions company by 2040, the Board of Directors monitors, on a quarterly basis, the fulfilment of the objectives included in the Strategic Plan, analysing, among others, the indicators related to sustainability and climate change, which are integrated into our business model and our decision-making processes. The Inditex Group's climate governance is a shared responsibility across all levels of the Organisation:

CLIMATE GOVERNANCE

QUARTERLY

BIANNUAL

BOARD OF DIRECTORS

Body responsible for approving the sustainability strategy and the climate change policy.

SUSTAINABILITY COMMITTEE

Informative and consultative body responsible for advising the Board of Directors and overseeing and controlling sustainability proposals, and fostering the company's commitment to the Sustainable Development Goals as well as steering relations with the various stakeholders in these matters.

AUDIT AND COMPLIANCE COMMITTEE

Supervision and control of the effectiveness of the risk management and internal control system of the Company as a whole. On an annual basis, this committee supervises and assesses non-financial risks, including environmental risks, as part of the annual review of the Inditex risk map, and its degree of tolerance, while ensuring that the risks are managed within the tolerance levels established by the Board.

Together, these two committees are responsible for ensuring the effective application of the policy on reporting non-financial information, supervising the information included in the Statement on Non-Financial Information, as well as other public documentation within their purview.

CHIEF SUSTAINABILITY OFFICER

The Chief Sustainability Officer belongs to Senior Management of Inditex, which comprises the company's senior executives and directors of all our brands. The CSO reports to the COO & Head of Digital and Sustainable Transformation and to the CEO whenever so required, to the Sustainability Committee and, where applicable, to the Audit and Compliance Committee, concerning aspects relating to climate change and the associated risks. The CSO also establishes the strategy and identifies tolerance to climate risk (approved by the Board), as well as supervising the implementation of the sustainability roadmap, and the attainment of the climate goals.

CORPORATE SUSTAINABILITY DEPARTMENT

HEADS OF SUSTAINABILITY OF THE BRANDS

OFFICE OF THE CHIEF COMPLIANCE OFFICER

Responsible for supervising and coordinating the Compliance Model: system for the organisation, prevention, detection, control and management of legal and reputational risks, deriving from potential breaches of mandatory regulations, internal rules and best practices applicable to it.

FINANCIAL DIVISION/ RISK MANAGEMENT DEPARTMENT

- In charge of ensuring the proper functioning of the Risk Management System and, in particular, that all material risks affecting the Company are properly identified, managed and quantified.
- Participating actively in the preparation of risk strategies and in key decisions about their management.
- Maintaining and updating know-how, techniques, methodologies and tools to enable compliance with the operating principles of the Risk Management System in line with the most stringent quality standards.
- The Chief Financial Officer and, in general, any executive, may report to the Audit and Compliance Committee whenever the latter so requires.

RISK MANAGERS

Monitoring, identification and tracking of risks within their responsibility in accordance with the tools defined by the Risk Management Department.

SOCIAL ADVISORY BOARD

A collegiate body integrated by external independent experts, which advises on climate change, among other issues linked to sustainability.

Moreover, Inditex has established the *TCFD VISION* group to monitor and align with TCFD. The group comprises heads of areas such as Sustainability, Risk Management, Internal Audit and Corporate Development, among others.

Strategy

Our focus on decarbonisation

At Inditex we are unwaveringly committed to being **drivers of change** to promote sustainability in the textile sector, which is why we place it at the core of our business strategy. Collaboration and joint work with all our stakeholders is essential to make progress on this front, and that is why we establish partnerships and cooperate with different organisations, institutions and representatives of our various stakeholder groups. For example, we are founding members of The Fashion Pact, and signatories of the UN Fashion Industry Charter for Climate Action, participating in the drafting of new, more ambitious targets that were unveiled at the 26th Conference of the Parties to the Framework Convention on Climate Change (COP26) held in November 2021 in Glasgow (UK).

With the aim of leading this mission, the Inditex Group has a Sustainability Roadmap, which includes the milestones and commitments that we have set ourselves in this area, and which was updated in 2021 with renewed actions and more ambitious objectives, as well as initiatives aimed at achieving our long-term objective.

ⓘ More information in section *5.6. Collaborating to safeguard the planet* of this Report.

We believe it is necessary to adopt a **holistic approach** involving the analysis of future climate scenarios and the identification of associated risks and opportunities in order to guarantee a resilient short- and long-term strategy. Building on the work carried out in previous years, the Inditex Group has joined forces with the University of Cambridge's Centre for Risk Studies to design a climate risk assessment model under different scenarios.

At Inditex, we define risk as any potential event that could have a negative impact on the achievement of the business objectives or that could affect the company's normal course of business. Based on this, we categorise the risk in accordance with its potential impact, likelihood of occurrence and our level of preparedness for addressing it. Due to the large scale and long-term challenge posed by climate change, these risks and opportunities were assessed in the short (0-5 years), medium (5-10 years) and long (more than 10 years) term.

Analysis of the scenarios

Analysis of the scenarios gives us a better understanding of the potential impacts of climate change on our Company. We see it as a valuable tool for strategic planning, risk management and for gauging our resilience. Hence, we have been using this methodology for some years now. In 2021 we went a step further by initiating a project with the University of Cambridge's Centre for Risk Studies to explore the resilience of our value chain under different scenarios and greenhouse gas emissions pathways. Part of this work examined transition risks especially closely.

Five emissions pathways were used to assess the potential impacts on the Group of physical and transition risks. Each pathway has its own socio-economic narrative based on assumptions in respect of regulatory changes, energy outlooks and technological advances on the basis of existing data, and a probability of occurrence. For example, emissions pathways are aligned with the Shared Socio- economic Pathways of the Intergovernmental Panel on Climate Change (IPCC's SSPs). The **five emissions pathways** used are described below in more detail:

ANALYSED SCENARIOS

No policies	Current policies	Policies announced	Paris Agreement limit	Paris Agreement Ambition
Assumes an increase in energy consumption and emissions by the end of the century, with contrary policies	Continuation of the current trend, with no new policies or changes to the existing ones	Includes the current commitments and objectives published, such as those defined in the Nationally Determined Contributions (NDCs)	In line with the Paris Agreement, which requires rapid and global change in the energy system, technology and behaviour	Urgent and radical political response, requiring a swift and systemic overhaul of the energy system and sweeping changes in society, as well as more investment in technological innovation

Effect on GHG emissions

200% in 2100	-50% in 2100	-75% in 2100	0 Neto in 2070	0 Neto in 2050
>4°C	3°C	2.5°C	2°C	1.5°C

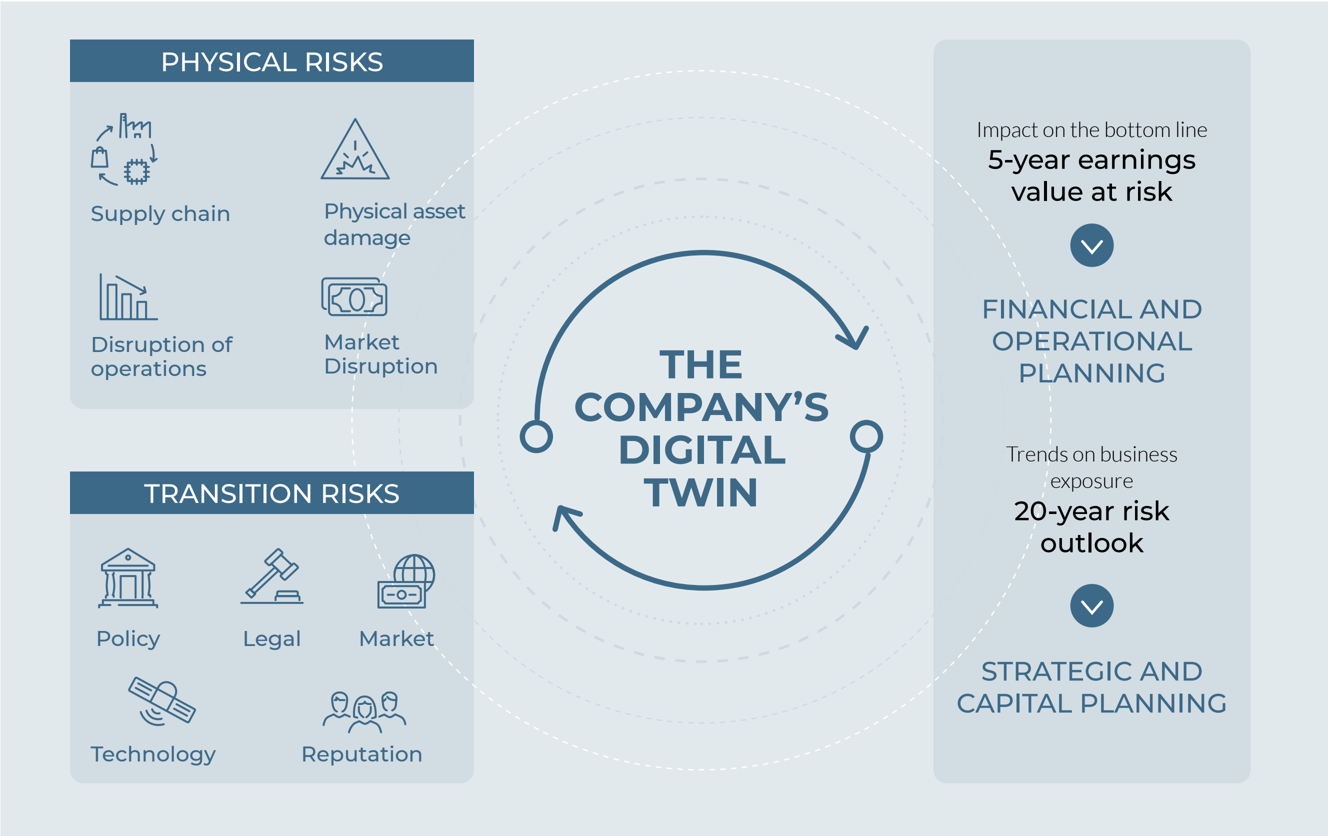
In the short term, the most significant impacts relating to climate change stem from transition risks. Consequently, in the next five years transition risk is likely to evolve swiftly as a result of regulatory changes, energy supply and demand, legal processes, etc. Transition risks vary widely depending on the emissions pathway. The most ambitious scenarios in terms of emissions reductions result in potentially higher risks.

In the short term (five years), **physical risk** deriving from climate change practically does not vary across the five emissions pathways and, as a result, its impact is broadly equal in all of them. Since over longer time frames there is more uncertainty with regard to the behaviour of climate change over physical risk, there is a greater divergence between the various pathways, and the probability of the materialisation of these risks increases. These findings evidence the importance of establishing measures in our Sustainability Roadmap in the short, medium and long term.

Method of analysing financial impacts

To quantify the potential impacts of these scenarios, a financial representation (or digital twin) of the Group was created. The **digital twin** is a representation of the Group's business, including its financial statements, key facilities, its value chain, including raw materials, a breakdown of the business by market and the greenhouse gas (GHG) emissions. The model captures the geographic presence of our value chain (origins of raw materials, factories, distribution centres, transport hubs, etc.), our commercial presence and our carbon footprint in respect of scopes 1, 2 and 3. The model allows a short-term quantification, over a five-year time frame, and also provides a 20-year outlook.

The results show the potential losses in future 'at risk' cash flows. Earning Value at Risk, discounted to obtain its present value, makes it possible to quantify the total financial impact of each scenario. The impacts are assessed from the standpoint of the physical and transition risks facing the Group. Each risk is modelled independently, assuming there are no interdependencies or trade-offs between them.



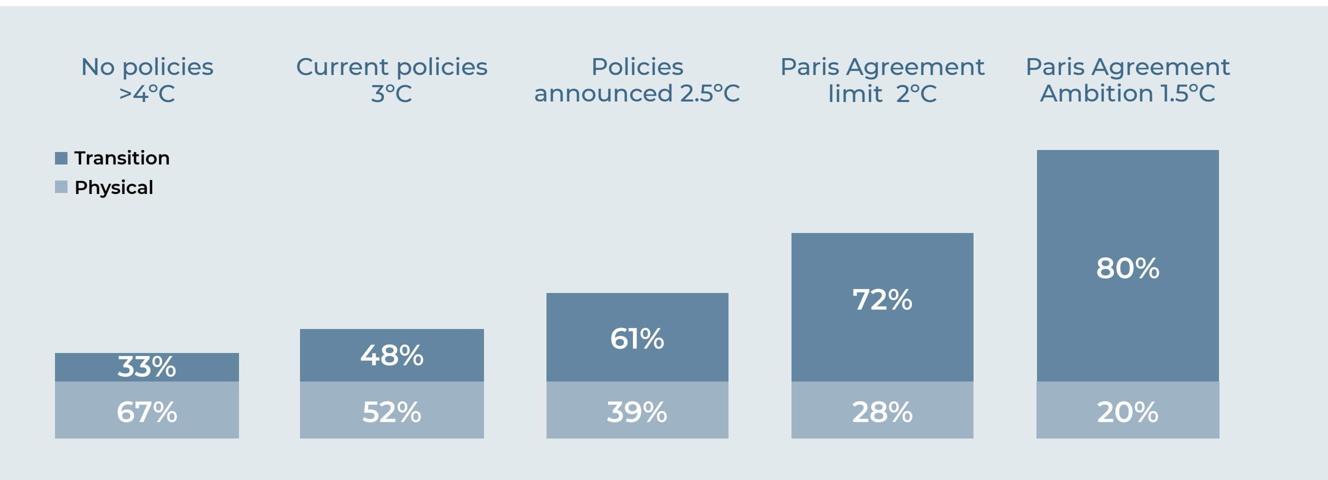
Earning Value at Risk

The Group's estimated global earning value at risk for the next five years that results from the risks linked to climate was modelled assuming no mitigation actions are undertaken. The project underway with the University of Cambridge involves including the various mitigation measures emanating from our sustainability commitments. In the 'Current policies' emissions pathway, aggregate risk from climate change, in both its manifestations, is considered strong in the Group's critical risk map based on its impact and probability of occurrence. The 'Current policies' scenario is the second least severe in terms of transition risk.

ⓘ More information in sections *5.10.1. Risk management and control framework* and *5.10.2. Risk map* of this Report.

With respect to total estimated risk, the table below shows the profile of each of the risk dimensions of the five pathways used, distinguishing between physical and transition risks in the short term.

There follows a description of the various dimensions of risk under the different greenhouse gas emissions pathways and their relative impact:



Physical Risks

Physical risks resulting from climate change can be owing to extreme weather events (acute risks) or gradual changes in longer-term weather patterns (chronic risks). The analysis of physical risks was conducted for a total of more than 14,000 facilities, belonging to both the Group and third parties, throughout our value chain and of different types (factories, logistics centres, offices, airports, ports, logistics hubs, stores, etc.) considering eight climate phenomena: heatwave, freeze, water stress, flash flooding, river flooding, coastal flooding, 'extratropical' and tropical storms. Each threat is evaluated using a base-case scenario and a change forecast. The base-case scenario is compiled using the historical meteorological series of the last 40 years, while the forecasts are based on a risk estimate through 2040. In order to weigh the financial impacts of extreme weather events caused by climate change, the changing probability and severity of each event is used to quantify the increase or reduction of the physical impacts expected.

The effect of physical risks is assessed for **four types of key risk:**

Dimension	Risk description	Financial impact	Risk management
Physical *Acute*	**Key facility operations:** disruption to output of production and activities from extreme weather phenomena. **Physical asset damage:** cost to repair and replace property, equipment and inventory damaged by extreme weather events.	Earnings: estimated total loss of earnings attributed to the risk of market disruption. Earnings: the disruption of production capacities generates loss of earnings depending on the products and services at each facility. In addition, assets may deteriorate as a result of the damage.	Most of the facilities are linked to the supply chain and our sales network. Technical contingency systems are in place that would reduce the consequences of a disruption or standstill. In addition, there are continuous review systems which, along with the insurance policies, would cover loss of profit and resulting expenses. In the specific case of logistics centres, these are configured so as to be able to take on storage and distribution capacity for other centres in the event of a contingency caused by extreme weather events.
Physical *Acute and Chronic*	**Disruption of earnings:** extreme weather events affect consumers' buying habits.	Earnings: extreme weather events can cause short-term disruptions to normal earnings flows. Sales may be affected by changes to demand if consumers change their behaviour due to the weather, reduced retail traffic or if the value chain experiences local disruptions.	All of the Group's areas are oriented towards meeting customers' needs and ensuring the best shopping experience. Our activity begins with actively listening to our customers and identifying their demands and expectations. Our flexible, integrated and innovative business model affords us a competitive advantage when it comes to analysis and response in the short, medium and long terms.
Physical *Chronic*	**Raw materials supply:** agricultural products and water supply are affected by extreme weather phenomena and chronic climate changes.	Earnings: loss of supply of agricultural raw materials (hitherto solely considering cotton) disrupts the production chain and can trigger potential losses when it is not possible to offset the deficit in supply.	The Group works with other organisations and institutions to increase the range of materials with better environmental performance, which make more efficient use of natural resources with recycled content. By 2023, all the cotton we use in our products will be organic, recycled or from more sustainable sources. We also work to foster the development of technologies to improve the sustainability of the raw materials and their subsequent recycling.

Transition Risks

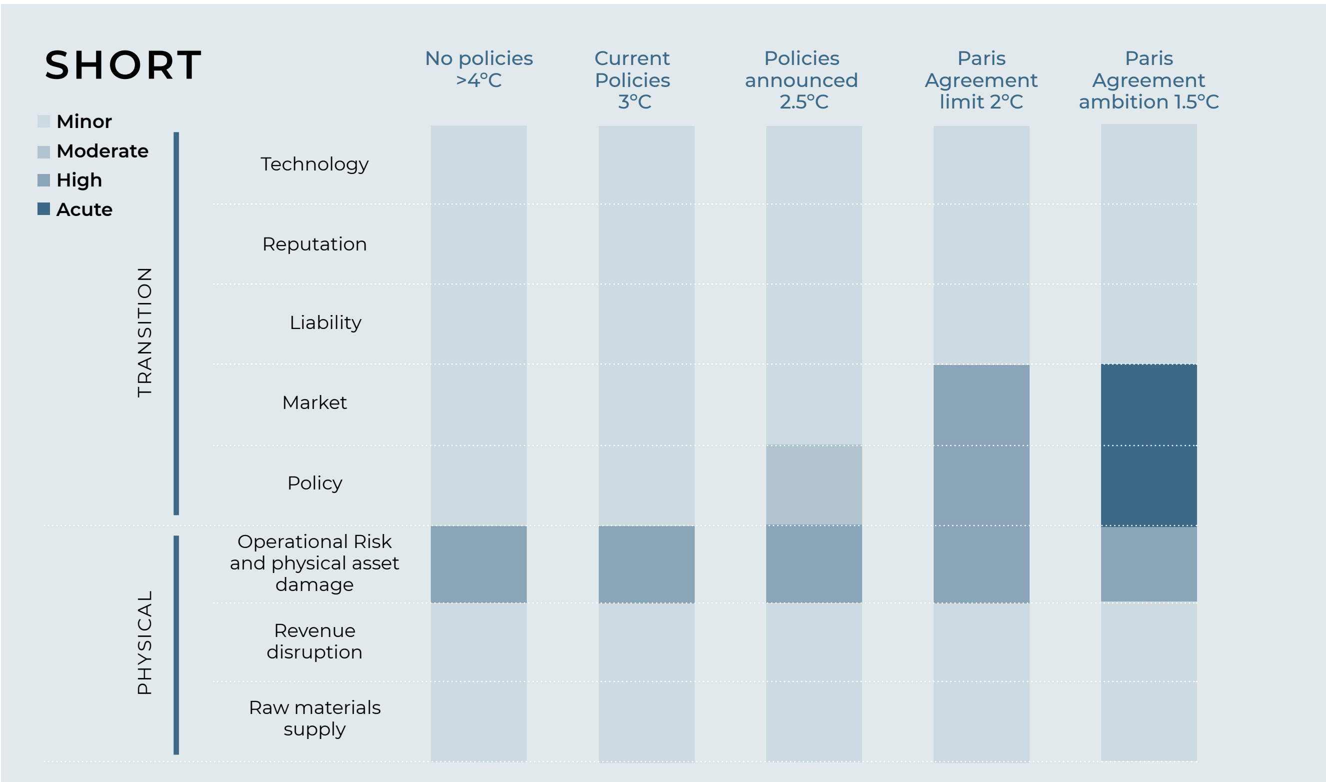
Transition risks are financial and reputational risks associated with the nature, speed and trend of changes in policies, legal frameworks, technologies and markets as society transitions to a low-carbon economy. Transition risks vary broadly depending on the level of ambition expressed in the various greenhouse gas emissions pathways. Five dimensions of transition risks were assessed in accordance with the five GHG emissions pathways in the short, medium and long terms:

Dimension	Risk description	Financial impact	Risk management
Transition Risk *Regulatory*	**Carbon pricing:** carbon pricing policies vary in each of the jurisdictions so as to incentivise decarbonisation. Organisations pay a price for emissions throughout their value chain. **Carbon markets:** the development of emissions markets, still largely voluntary, is experiencing an increase in demand and in the prices of carbon emissions allowances to obtain credible reductions.	Earnings and costs: the Group's total emissions footprint in each of the jurisdictions is subject to their carbon pricing. The financial impact stems from the increase in production and distribution costs, and the cost of raw material procurements, in terms of the increase per unit of product.	The Group has an ambitious Sustainability Roadmap which reflects Inditex's strong commitment to progressing towards a low-carbon economy and generating a positive impact in the industry and in society in general. The Group has set itself the goal of net zero greenhouse gas emissions by 2040, science-based decarbonisation targets (SBTs) by 2030, and it is committed to using 100% renewable energy at its own facilities by 2022.
Transition Risk *Legal liability*	**Lawsuits from emissions and climate damage:** a generalisation of lawsuits against companies for their liability in emitting greenhouse gases and the damaging economic and environmental consequences thereof.	Cost: the Group may face lawsuits linked to greenhouse gas emissions and climate change. Their scale and number will vary in accordance with the different emissions pathways. Their probability of occurrence and potential impact will also vary depending on the associated costs (settlement, legal damages, legal costs, etc.).	Inditex's Sustainability Policy establishes that all the Group's activities will be conducted in the most environmentally-friendly way possible, fostering the conservation of biodiversity and the sustainable management of natural resources. We have a solid Compliance System and a robust corporate governance system that ensures compliance with regulations, guidelines and best practices in this connection.
Transition Risk *Technological*	**Disruptive technological innovation:** the pace of adoption of low-carbon technologies, and the resulting 'green premium', may affect the competitiveness of companies as a consequence of the impact in terms of operating expenses and the value of the assets. Investments must seek a balance between innovation and profitability.	Cost: the model explores the cost for the Group of investing in low-carbon technologies and seeking efficiencies in its operating and distribution assets.	Innovation is an inherent value that cuts across Inditex's entire business model. Moreover, we collaborate with our suppliers and other organisations to find innovative solutions that may be applied throughout the value chain and life cycle of our products. Inditex's Sustainability Innovation Hub is clear evidence that it is seeking to foster the circular economy, contribute to decarbonisation and maximise environmentally-friendly development.

Dimension	Risk description	Financial impact	Risk management
Transition Risk *Market*	**Consumers preference for sustainability:** consumers tend to prefer alternative products and services that are sustainable. Competitors may emerge who propose innovations that transform demand and threaten to capture market share from the established players.	Earnings and costs: the demand impacts are expressed as the loss of earnings and/or failure to comply with growth targets. Investor sentiment translates into an increase in the cost of capital and in the cost of financing. The various emissions pathways will determine the scale of these impacts.	The Group's commitment to our customers also implies anticipating their demands in matters such as diversity, sustainability or transparency, issues in which we want to involve them in our efforts and progress. Our Join Life label identifies the Group's products that use more sustainable raw materials and more environmentally-friendly manufacturing processes. By 2022, 50% of the Group's products will be Join Life.
Transition Risk *Reputation*	**Climate activism and stigmatisation by consumers:** a negative change in public opinion towards companies with carbon-intensive activities. Consumer demand is affected by climate activism, which also affects investor confidence and access to capital.	Earnings: the impacts on demand translate into loss of earnings (or failure to comply with growth targets). Investor sentiment affects the cost of capital and of servicing debt. The scale of these impacts on demand will depend on the emissions pathway.	Inditex's Sustainability Roadmap was updated in 2021 to include more ambitious goals and actions aimed at achieving the long-term goal as a lever of transformation. We collaborate with all the actors in our value chain and our stakeholders to tackle global challenges from a holistic standpoint.

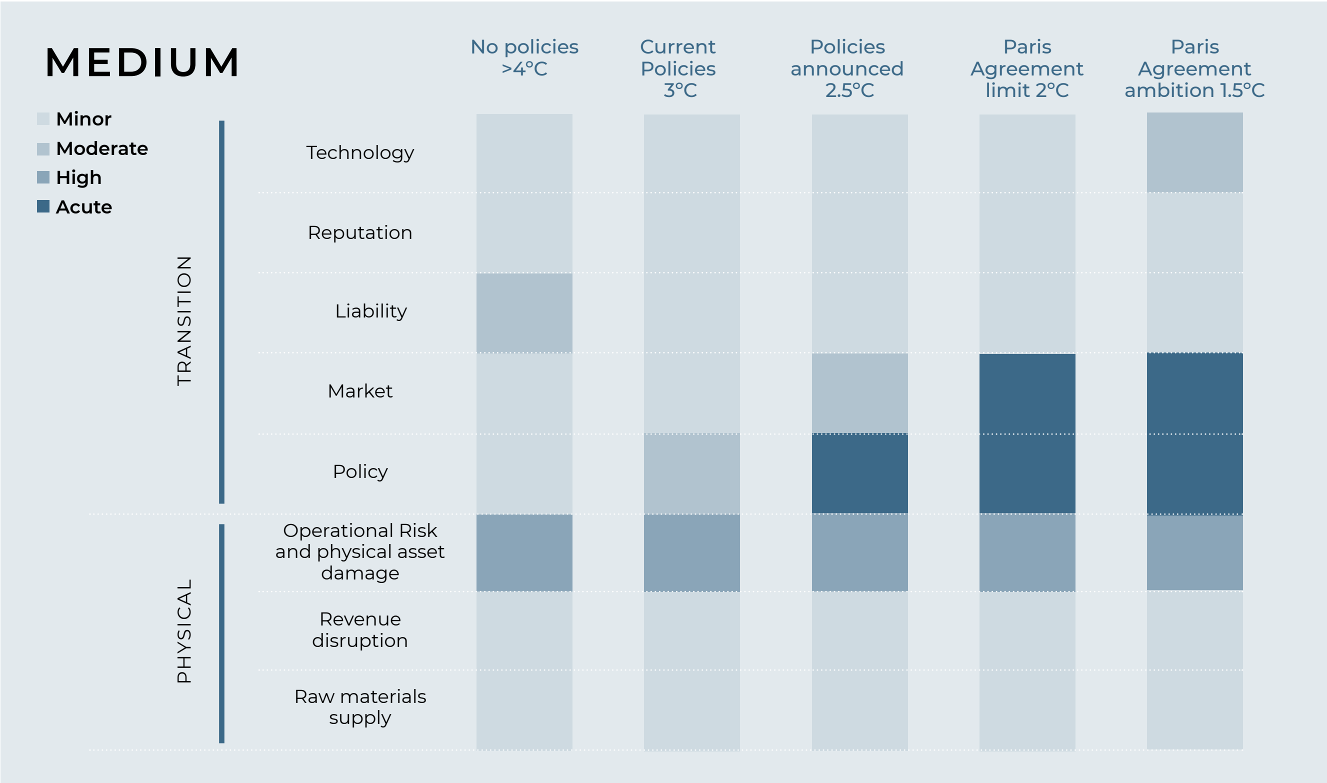
The tables below show the evaluation of the climate change risk dimensions as per the five greenhouse gas emissions pathways for the Inditex Group.

In the short term (0-5 years):

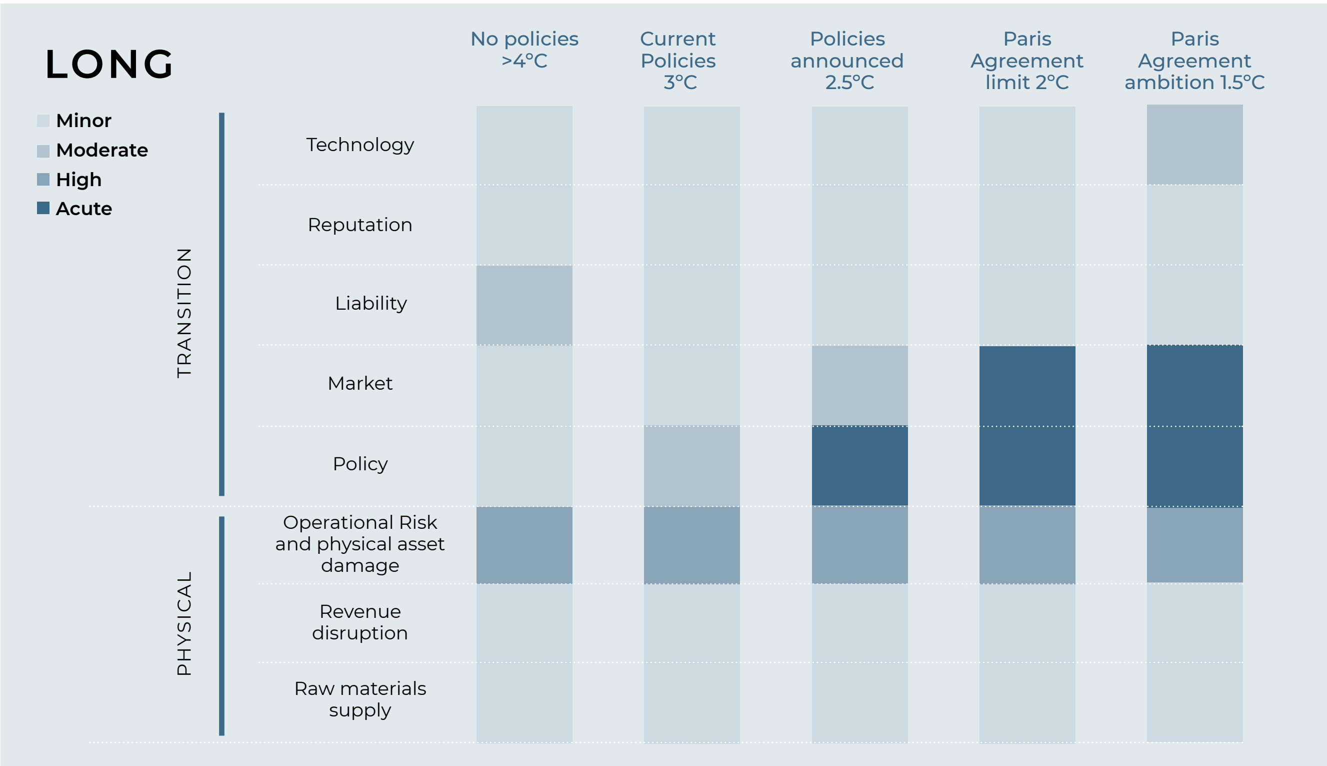


The estimated financial impact of physical risks is relatively limited for the next five years, although there is a low probability of acute events potentially causing significant losses ('catastrophic physical tail risks'). The most vivid manifestations of physical risks resulting from climate change will, in principle, take longer to emerge.

In the medium term (5-10 years):



In the long term (more than 10 years):



Opportunities arising from climate change[111]

In order to create the social, environmental and economic value pursued by our Sustainability Roadmap, in addition to its milestones and objectives, we have installed a culture of sustainability that permeates all areas of the Group. We maintain a permanent commitment to innovation and we collaborate with all our stakeholders.

This concept of sustainability also allows us to move towards a **three-pronged objective:** minimising potential environmental and social impacts in our value chain, mitigating our exposure to potential climate change risks, and finally, being able to identify and leverage the opportunities associated with a low-carbon economy and generating a positive impact.

Our hope is that these benefits and opportunities will benefit not only our Company and our business model, but also the entire industry and society at large.

Opportunity	Description of the opportunity
Integrated business model	All our formats continue to introduce cutting-edge technology into their integrated stores and online platform, creating an efficient, sustainable and integrated economic model. We generate opportunities for improvement for our entire ecosystem while minimising resource consumption, thus decoupling economic performance from its impact. ⓘ More information in section 4. *Transforming with a unique model* of this Report.
Continuous strategic transformation	Our integrated business model gives us an overview of our customers and their demands at all times. Our strategy harnesses this advantage to evolve our model towards economic, sustainable and inclusive improvements. The starting point is to try to maintain the level of commercial success achieved to date, building on the opportunities afforded by digitalisation and our sustainability ambitions. ⓘ More information in section 4. *Transforming with a unique model* of this Report.
Innovation	The complexity of the global challenges we face and the path towards a positive impact require an increasingly prominent presence of innovation, science and technology in our actions. For example, through our collaborative platform called the Sustainability Innovation Hub, Zara teamed with the start-up LanzaTech to launch a capsule collection of party dresses made with fabric from captured CO_2 emissions. In 2021, Inditex was recognised by Boston Consulting Group as one of the world's 50 most innovative companies. ⓘ More information in section 4.3. *Innovation, vital for transformation* of this Report.
Customer orientation	We have a process of interaction with our customers as the main tool to identify the latest trends and create the products they want (clothing, footwear, accessories and household items), maintaining our high standards through a combination of design, quality and sustainability, at affordable prices. This constant connection has also enabled us to pinpoint new needs that we have gradually incorporated in the form of new services, technologies or channels. ⓘ More information in section 5.2. *Collaborating with our customers, the force driving transformation* of this Report.
Transformation of the sector	We have developed a unique business model the hallmarks of which are flexibility and efficiency, ceaseless innovation, the creativity of our staff and our focus on sustainability in every process involved. This is the starting point from which we work to effect, through determination and collaboration, the transformation of the sector, generating a positive impact on society, the industry and our environment. ⓘ More information in section 5. *Collaborating to have a positive impact* of this Report.

111. More information in our answer to the CDP Climate Change Questionnaire.

Opportunity	Description of the opportunity
Collaboration	To address the paradigm shift needed to face the challenges posed by the fight against climate change, circularity or the sustainable development of communities, we have to join forces with all the actors involved. Hence, we take an open approach in which collaboration is a pillar of transformation. Examples of this are our engagement with entities such as the United Nations Global Compact, The Fashion Pact, Ellen MacArthur Foundation or Zero Discharge of Hazardous Chemicals, among others. ⓘ More information in section *4.4. Collaboration, the essence of transformation* of this Report.
Join Life products	At Inditex we believe that our commitment to our customers also implies anticipating their demands in matters such as diversity, sustainability or transparency, issues in which we want to involve them in our efforts and progress. In this regard, of particular importance is our Join Life label, which tells our customers which are the most sustainable articles and highlights their environmental properties. Our commitment is that 50% of the products we offer our customers will be Join Life by 2022. ⓘ More information in sections *5.4.2. Design and selection of materials* and *5.4.3. Join Life programme* of this Report.
Efficient consumption of natural resources	As part of our commitment to sustainable development, at Inditex we are strongly committed to circularity, an economic, management and production model that enables growth while conserving natural resources and advancing in the decarbonisation of the value chain. For us, circularity represents a differential model for production and consumption that spans every stage of a product from design to end of life, promotes the recycling and reuse of articles to extend their life cycle and thus minimises the use of natural resources, energy consumption and waste generation. ⓘ More information in section *5.4. Collaborating to transform through sustainable management of our products* of this Report.

Opportunity	Description of the opportunity
Energy efficiency	Energy efficiency is a priority in both our designs and our day-to-day operations. In this regard we are constantly reviewing our standards to guarantee that they are in line with cutting-edge practices and implementing new programmes to advance on the path of continuous improvement and sustainability in our operations. We work closely with our suppliers and other organisations to promote the rational and efficient use of energy throughout the value chain. ⓘ More information in section 5.6.1. *Our approach to decarbonisation and energy management* of this Report.
Generation of renewable energies	The generation and acquisition of energy from renewable sources is a core pillar of the architecture of our business model. To achieve this, we invest in generating renewable energy at our own operating centres. We use our own solar thermal, solar photovoltaic or wind energy, as well as facilities to harness geothermal energy. Furthermore, by means of our Join Life standard, we promote the generation of renewable energies in our supply chain. ⓘ More information in sections 5.6.1. *Our approach to decarbonisation and energy management* and 5.4.3. *Join Life programme* of this Report.
Sustainable building	We make the necessary investments in all our headquarters, platforms and stores to control the consumption of resources, to reduce that consumption and to mitigate its impact. For example, when building our headquarters, they are designed in accordance with bioclimatic criteria, encouraging the installation of photovoltaic panels, harnessing rain water for non-drinking uses and ensuring that lighting systems are self-regulating in accordance with external light conditions. In 2021, we highlight the new Zara.com building, with a surface area of 67,000 m^2 and equipped with the latest advances in technology and sustainability. ⓘ More information in section 5.6. *Collaborating to safeguard the planet* of this Report.
Acknowledgements	The relationship with NGOs, governments and other civil organisations is key to implementing our sustainable business model throughout the value chain. The recognition from some of these organisations of our work in 2021 is an incentive to continue making progress. Notable recognitions obtained in 2021 include our listing in the FTSE4Good, CDP, DJSI or the Global 100 Most Sustainable Corporations in the World rankings. ⓘ More information in section 3.4. *Acknowledgements* of this Report.

Risk management

Inditex has an Integrated Risk Management System (IRMS) covering the entire Group. The IRMS encompasses all risks, both financial and non-financial. The risk factors to which the Group is exposed are classified into six categories: financial, geopolitical, technological, social, governance and environmental (including climate change-related) risks. In addition to the risk factors, the Risk Management and Control Policy establishes the general framework for standard and systematic management, and the processes for the identification, assessment and prioritising of risks. Risks arising from climate change are managed in the same way as the rest of risks to which the Group is exposed, taking into consideration its characteristics for the purpose of assessing and quantifying these risks.

ⓘ More information in section *5.10. Responsible risk management* of this Report.

Metrics and goals

Protecting the environment and reducing our impact on it are core pillars of our business strategy. We are actively committed to this, taking action to help our planet to remain below the global warming limit established in the Paris Climate Agreement.

Goals

We have ambitious emissions reduction targets approved by the Science Based Target Initiative (SBTi) to reduce scope 1 and 2 GHG emissions by 90% in 2018-2030, and by 20% the GHG emissions resulting from the acquisition of our goods and services for the same period. These objectives are the first milestone in Inditex's ambitious emissions reduction strategy, whose purpose is to achieve net zero emissions by 2040, ten years earlier than initially planned.

ⓘ More information on the commitments and measures taken by Inditex, and other metrics used to measure our performance in this area, in section *5.6. Collaborating to safeguard the planet* of this Report.

Scope 1, 2 and 3 emissions

Thanks to the initiatives launched by Inditex to reduce emissions, we have slashed Scope 1 and 2 emissions by 86% since 2018. More information in this respect in section **5.6. Collaborating to safeguard the planet.** For more information on the methodology used to calculate greenhouse gas emissions, see the section **6.1.3. Environmental impact management indicators.**

	2021	2020	2019	2018	2018-2021 % change
ENERGY					
Global consumption (MWh)	1,756,210	1,270,704	1,892,947	1,969,127	-11%
% Renewables	91%	81%	63%	45%	+103%
EMISSIONS (tCO_2 eq)[112]					
Scopes 1 and 2					
Scope 1	14,575	11,859	15,804	19,172	-24%
Scope 2 Location-Based	541,493	363,718	589,547	651,266	-17%
Scope 2 Market-Based	47,770	98,676	293,981	419,448	-89%
Total scopes 1 and 2 Location-Based	556,068	375,577	605,351	670,438	-17%
Total scopes 1 and 2 Market-Based	62,345	110,535	309,785	438,620	-86%
Scope 3	17,097,801	13,341,462	17,988,897	18,325,553	-7%
MATERIAL METRICS					
Relative emissions based on revenue (€)					
Scopes 1 and 2 Location-Based (g CO_2eq/€)	20	18	21	26	-22%
Scopes 1 and 2 Market-Based (g CO_2eq/€)	2	5	11	17	-87%
Relative emissiones based on total area (m^2)					
Scope 1 and 2 Location-Based (kg CO_2eq/m^2)	71	49	76	89	-20%
Scope 1 and 2 Market-Based (kg CO_2eq/m^2)	8	14	39	58	-86%

Mechanisms to incentivise decarbonisation

Variable remuneration

In accordance with our values of transparency, results-orientation and commitment to sustainability, we link our people's variable remuneration to the Company's goals and the sustainability objectives for all employees.

- Variable annual remuneration at Inditex is **linked to compliance with sustainability goals.** Specifically, in the financial year 2021, the weighting of sustainability goals in total variable remuneration is at least 10%.

- In addition, Inditex has a **long-term incentive (LTI)** scheme for Senior Management covering the 2019- 2023 period. This incentive includes, among other sustainability criteria, a reduction in greenhouse gas emissions in the company's own operations with respect to the volume of the Group's total sales, with this index having a maximum weighting of 10% over the total. The new LTI, approved in 2021 for the 2021-2024 period, not only maintains the sustainability criteria, but increases their weighting to 25%.

Join Life label

Our Join Life label identifies the Group's products made of more sustainable raw materials and the most environmentally friendly production processes. This standard enables us to advance in our commitment to curb our impact and steadily boost the level of demand for sustainability criteria in our products. In 2021, 47% of our products were Join Life, and all of our brands include a variable linked to goals relating to this label. Our goal is for over 50% of our products to feature the Join Life label in 2022.

112. Due to updates of the emission factors, the historical scopes 1 and 2 data have been recalculated using the emission factors of the International Energy Agency, 2021 (scope 2) and the DEFRA factors, 2021 (scope 1). More information on the methodology in section *6.1.3. Indicators for managing the environmental impact* of this Report.

CLIMATE CHANGE RISK ASSESSMENT

PHYSICAL RISKS

Heatwave

Freeze

Water stress

Key facility operational risk
disruption to output of production and activities from extreme weather events

Physical asset damage
repair and replacement costs of damage to property, plant, equipment and inventory from extreme weather events

TRANSITION RISKS

POLICY DIMENSION

Carbon pricing: carbon pricing policies vary across jurisdictions in order to incentivise decarbonisation. Organisations pay a price for emissions along their entire value chain.

Carbon markets: the development of emissions markets, still largely voluntary, is experiencing an increasement in terms of demand.

MARKET DIMENSION

Preference for sustainability among consumers: consumer preferences are trending towards alternative products and services of a sustainable nature. Competitors may emerge, coming up with innovations that transform demand and threaten to capture market share from established firms.

SUMMARY OF CLIMATE CHANGE RISK

TCFD FRAMEWORK	DIMENSIONS	UPSTREAM RAW MATERIALS SUPPLY
Physical risks	**Acute:** extreme weather events	Disruptions in the supply of raw materials in the short term
	Chronic: gradual changes in climate patterns	Feasibility of raw material supply in some geographies
Transition risks	**Policy:** carbon pricing	Increased cost of upstream emissions in the value chain
	Technology: innovation in low-carbon technologies	Cost of upstream decarbonisation in the value chain
	Market: preference for sustainability among consumers	
	Reputation: climate activism and stigmatisation	
	Market: investor sentiment	
	Liability: climate litigation	

Sudden flooding, river and coastal

Tropical windstorm

Temperature windstorm

Revenue disruption
extreme weather events affect the purchasing patterns of consumers

Raw materials supply
agricultural production and water supply are affected by extreme weather events and chronic climate changes

TECHNOLOGY DIMENSION

The pace of adoption of low-carbon technologies with the resulting 'green premium', may affect the competitiveness of companies as a result of their impact in terms of operating costs and asset value. Investments should seek a balance between innovation and profitability.

LEGAL DIMENSION

Climate damage and emissions claims: widespread lawsuits against companies for their responsibility for GHG emissions and the resulting economic and environmental damages.

REPUTATION DIMENSION

Climate activism and consumer stigmatisation: negative change in public opinion towards companies with carbon-intensive activities.
Consumer demand is affected by climate activism, which also influences investors' confidence and access to capital.

SUPPLY CHAIN AND OPERATIONS	FINAL STAGES OF THE VALUE CHAIN	GROUP FINANCIAL RISKS
Business interruption and damage to physical assets	Short-term market demand disruption	
Water stress and heat waves threatens value chain in certain geographies	Dependence on demand for certain products in certain geographies	
Increase in the cost of fossil fuel-based activities	Elasticity of demand to cost pass through	
Devaluation of carbon-intensive physical assets	Innovative competitors challenge market share	
	Consumer preferences shifting towards sustainable alternatives	
	Consumer perceptions of the Group and its brands	Investor sentiment towards Inditex's climate strategy
		Market shock resulting from disinvestment in carbon-intensive sectors
		Demands related to the contribution to climate change

5.10.5. Information security and privacy

GRI 102-11; 103-2; 103-3 AND 417-1

5.10.5.1. Information security

Digital transformation is one of the keys to improving the shopping experience, enabling customers to interact with brands and have their needs met at all times, regardless of the channel they use. In this regard, the Company sees Information Security as a key aspect to address this transformation with the utmost rigour, supported by **best practices in information protection** and resilience of the processes that underpin these channels.

Mindful of the importance of continuously improving the Information Security management model, at Inditex we continue to invest in technologies and controls that allow us to achieve global strategic objectives, complying with the principles and guidelines for the protection of information defined and reinforced by the Board of Directors in 2019 through the Information Security Policy.

To achieve these objectives, the Company assigns the highest priority to the protection of information and the availability of all processes that support these channels. The Information Security Department is the area responsible for ensuring this, and the Information Security Committee, as provided in the Information Security Committee Regulations, is the body that supervises implementation of best practices in security management, compliance with applicable regulations and effective and consistent application of ethical values throughout the Company.

In this regard, during the financial year 2021, the Next Generation Cybersecurity project was completed. This is a strategic plan executed in collaboration with international experts in various fields and areas, aimed at maintaining, improving and evolving the maturity of the Information Security programme. As a result of this project, a number of actions and initiatives have been identified based on the Company's needs and challenges for the coming years.

In addition to the aforementioned activities, progress has been made in various initiatives aimed at improving the protection of in-store and online sales channels, and improvement processes have been established for the supervision of the security requirements defined. As a result of global cybersecurity incidents in companies' supply chains, the need to step up controls has become apparent. Consequently, existing control programmes have been reinforced, with a particular focus on the **impact of cybersecurity.** To this end, we have extended the existing control framework, based on best practices and security standards, including a review of how our suppliers operate, access the systems or manage Inditex's information, with the aim of reducing the risk of threats to the information or the availability of these services.

We have also continued to implement a range of training campaigns for our employees and partners, aimed at assessing and enhancing their level of security awareness and knowledge.

In 2021, as a result of the covid-19 pandemic, the Group has continued to reinforce plans, systems and controls for remote working, as well as the management of risks in this context. Furthermore, because of the increase in cyber-attacks on companies worldwide, which have not had a significant impact on the Company's operations at the time of writing this Report, the working groups set up the previous year continued their activities, and new groups and activities were established and defined. These groups, under the supervision of the Information Security Committee, have been tasked with continuing to design and implement new initiatives, and overseeing those already in place.

5.10.5.2. Personal data protection and privacy

Respect for privacy is one of Inditex's main values. In order to continue to develop our **privacy culture** and accompany the business teams and corporate areas in the company's digital transformation strategy, during the financial year 2021 we worked on several fronts.

Firstly, with regard to our customers, we have stepped up collaboration with the business teams with the aim of ensuring that the projects we carry out to improve the shopping experience that involve the processing of our customers' personal data build in privacy from the design stage.

The aim is to ensure that our **customers' personal data is protected** in keeping with the applicable regulations, authorities' interpretations, case law and market trends, as well as with the internal standards adopted by the Inditex Group. Thus, we guarantee transparency and information on the use of customers' data and the effectiveness of their rights. In this regard, we have developed the information provided in our privacy policies on our websites and applications, so as to adapt them to the functionalities and projects devised by our business teams.

We have also worked tirelessly on the **continuous improvement** of our compliance model in connection with data protection and privacy. Accordingly, we have focused on evolving and further developing the role of our Corporate Data Protection and Privacy Department as a control area (second line of defence), with the supervision of our global Group Data Protection Officer (DPO), reporting to the Audit and Compliance Committee.

Within the framework of this continuous improvement, we have instrumented a series of procedures and instructions with which, by developing our Personal Data Protection and Privacy Compliance Policy, we have been working in recent years, among others:

- Personal Data Protection Procedure from Data Design and Processing.

- Instruction for carrying out Risk and Impact Assessments with regard to Personal Data Protection.

- Procedure for compliance management regarding Personal Data Protection and Privacy – DPO Statute.

- Procedure for Storing Personal Data.

For our employees, given our aim of fostering a culture of privacy involving everyone who is part of Inditex, we have launched training and awareness actions throughout this period that have ranged from training sessions for store personnel in some markets through to the creation of an online onboarding course on data protection and privacy for all personnel.

Lastly, we have continued to work closely with Occupational Health and Safety in order to ensure that measures to protect the health of our employees in the face of the covid-19 pandemic were also consistent with applicable privacy regulations and Company standards.