

Business model

Sustainable business model

The Inditex business model, characterised by **integration, sustainability** and **innovation** in all phases of the value chain aims to meet our customers' expectations and offer them **quality fashion** with the highest standards of **sustainability and product health and safety**.

The execution of this business model, and the exercise of our activity as a Company in itself, are based on a series of **action principles** validated and endorsed by the Board of Directors of Inditex, as well as a series of **values** that define our corporate culture.

With them, and by virtue of the transparency and constant dialogue with our **stakeholders**, we work to promote **Human Rights**, the **Sustainable Development Goals** and, in a special way, the **creation of value** and the generation of **positive impact** on society.

ZARA PULL&BEAR Massimo Dutti Bershka Stradivarius OYSHO ZARA HOME UTERQUE

Corporate values

- Flexibility
- Proactiveness
- Diversity
- Creativity
- Nonconformity
- Environmental Awareness
- Respect for Human Rights
- Contribution to Sustainable Development

Guiding principles

- Human Rights Policy
- Diversity and Inclusion Policy
- Corporate Citizenship Policy
- Procurement Policy
- Tax Strategy Policy
- Sustainability Policy
- Compliance Policy
- Criminal Risk Prevention Policy
- Health and Safety Policy
- Sustainability Roadmap
- Code of Conduct for Manufacturers and Suppliers
- Code of Conduct and Responsible Practices

Stakeholders

					
Customers	Employees	Suppliers	Community	Environment	Shareholders

Customers

Listening to our customers is the starting point of an essential activity to know what products they require and offer them at the right time and place. Only with the proper blending of these three elements (*listening – identification of needs – offer*) can the customer have the best purchasing experience.

Value chain

Our business model is characterised by the integration of all phases of the value chain, allowing quick decision-making and constant adaptation to operational reality. As a result, we manage the Company with a low level of inventory.

Human Rights

For the promotion and respect of Human Rights in all areas of our activity, Inditex has a strategy based on the Guiding Principles on Business and Human Rights.

Contribution to Sustainable Development

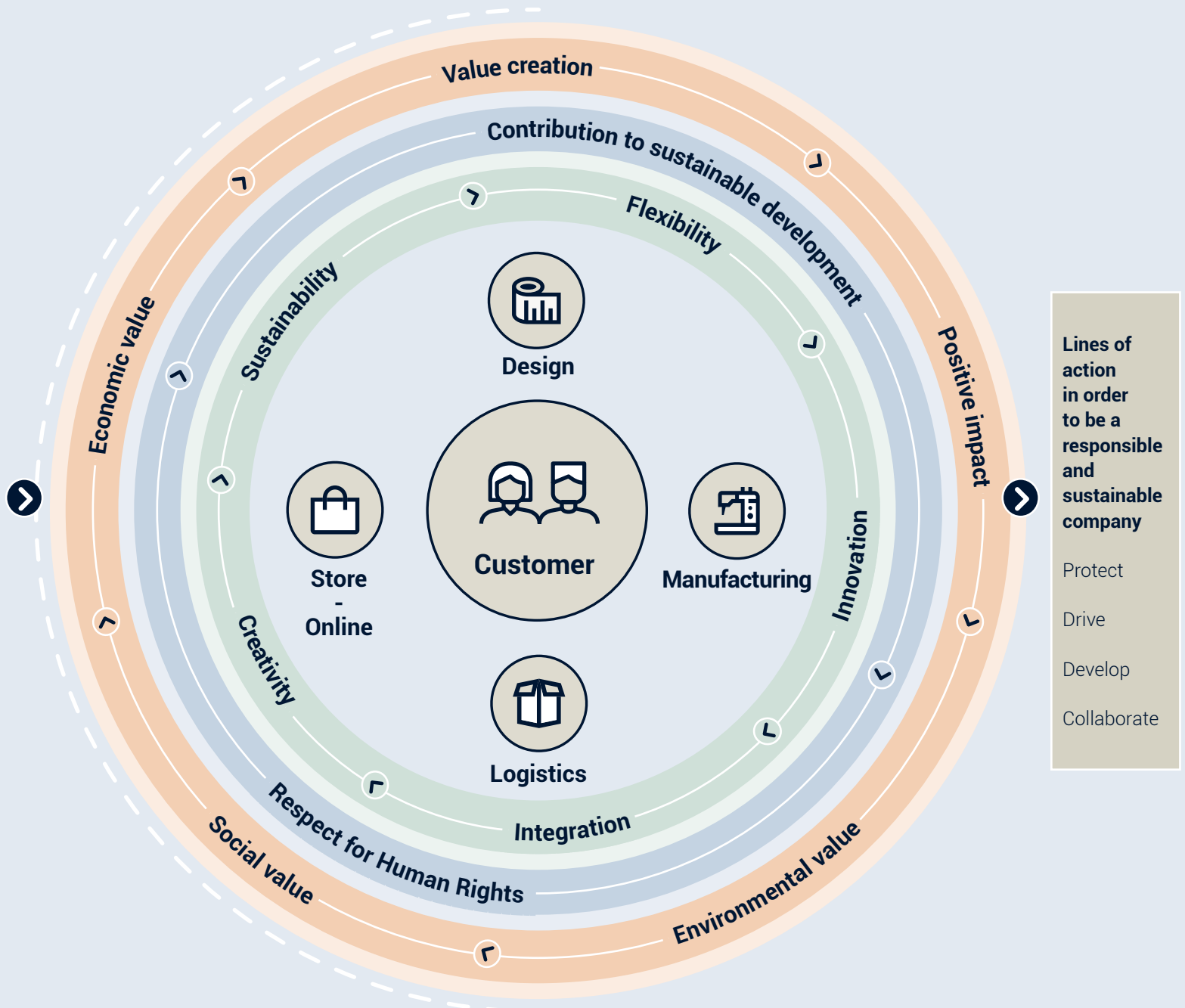
Our commitment to the Sustainable Development Goals of the 2030 Agenda is even more relevant in the current context. The SDGs will be fundamental in the recovery of the economy and society after the pandemic.

Creating value

At Inditex, our commitment to creating economic, social and environmental value for our stakeholders, generates a positive impact and contributes to the development of society and care for the planet.

Positive impact

We regard sustainability as a means to achieving a fairer society and in balance with the limits of the planet. A context where, as a responsible company, we move forward together with our stakeholders.



Inditex is a global fashion, design, distribution and retail company which aims to offer our customers fashion items (clothing, footwear, accessories and home textiles) that meet the most demanding design, safety, sustainability and quality standards, at affordable prices. This activity takes place within a framework of respect and transparency, with ongoing dialogue with our stakeholders, and in line with our commitment to human rights; with the ultimate aim of generating a positive impact on our customers, society, industry and environment.

Inditex Group (hereinafter, the "Group") is made up of **eight commercial formats**: Zara, Zara Home, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Uterqüe. Each brand has its own distinct personality, style and design team, with an integrated and directly managed sales model across physical and online stores. We are present in more than **200 markets** on the five continents.

 More information on the markets where we operate in the *Consolidated directors' report of the 2020 Financial Statements*.

Our activities in the distribution and sale of fashion items are organised through an international group of companies, led by **Industria de Diseño Textil, S.A.** listed on Spain's four stock exchanges and which, together with its subsidiaries, forms Inditex Group. The corporate structure as of 31 January 2021 is set out in detail in Annex I of the Annual Report of Inditex Group's Consolidated Annual Accounts.

People are the key element of our business model: on the one hand, the customers who demand our products, and on the other, those who place their talents at the service of our customers: our workers. 144,116 people of 171 nationalities, working with the utmost commitment and inspired by the values that make up the Group's founding drivers: enthusiasm, entrepreneurial spirit, non-conformism, innovation, inclusion and humility.

The changing nature of fashion, together with our desire for continuous improvement, have led us to define a business model differentiated in our sector. From the outset, our main tool for identifying trends has been **listening** to our customers, which has also enabled us to identify emerging needs that we have gradually introduced in the form of new products, services, technologies or channels.

Over time, we have developed a unique business model characterised by flexibility, integration, sustainability, creativity and innovation. Key to our management is the ongoing, centralised analysis of information on business development. It allows for agile decision-making, with decisions adapted to the business reality, with the potential for ongoing adaptation to the operational reality, whether due to shifting trends or changes in the environment. Because we have an active presence at all stages of the value chain, including design, production,

logistics, stores and customers, we can ensure these ongoing changes are implemented globally.

This integrated business model gives us a unified view of our customers, and guarantees a uniform shopping experience, offered to them via the multiple touchpoints. Our strategy is based on **digitalisation** (including the adoption of new data acquisition and analysis capabilities), **differentiating our commercial space** (allowing us to integrate new technological tools), and **sustainability** (with the aim of contributing to the wellbeing of all our stakeholders) and has been key for our performance in 2020.

Due to the emergence of the pandemic and its social and economic consequences, the year 2020 posed a challenge in terms of constant adaptations. To confront this situation, our actions have been centred on protecting the health and well-being of our employees, customers, supply chain workers, and all the people who provide us (directly or indirectly) with the goods or services required for the business to operate, introducing preventive measures or the appropriate mitigation efforts, where necessary. The constant evolution of restrictions on mobility, opening hours, store capacity, etc., have required continuous efforts to update in all the markets in which we operate.

The **main initiatives** linked to protecting people in response to the global challenges arising from covid-19 are as follows, and are developed further throughout this Annual Report: protecting our people's health and safety; safeguarding permanent employment; protecting the workers in our supply chain; implementing measures in retail areas; drive an immediate response in communities and a sustainable recovery with actions such as logistical support or donations, among others.

In such an environment, the agility of our decision-making process and the **flexibility of our business model** have allowed us to operate normally. We have forged ahead with digitisation in recent years, with the implementation of RFID technology-based tools connected with our integrated stock management system (SINT), allowing strong sales growth through the online channel, with online orders processed using stock located in physical stores. The coordination of all the phases of our value chain also allows us to operate with low inventory levels and to minimise leftovers at the end of the season. This is, therefore, a clearly differentiating factor of our business model compared to the rest of the sector.

Similarly, we have played a very active role in managing our supply chain, promoting the **Covid-19: Action in the Global Garment Industry**, launched by the International Organisation of Employers (IOE), the International Trade Union Confederation (ITUC) and IndustriALL Global Union, and supported by the International Labour Organisation (ILO), to promote measures to protect suppliers and workers from the impact of the pandemic.



The flexibility and integration of our business model stems from our control over the various phases of the value chain:

a) Design

The creative process starts with more than 700 designers across all our brands: a significant added value in the Inditex business model. They are part of the commercial

teams, who are responsible for in-depth analysis of our customers' preferences, and they represent the first level of the Company's commitment to sustainability, selecting the most suitable processes and materials for our products. These endeavours are embodied in our collections, that constantly incorporate new products over the course of the season; in the window displays; and in the digital content we published over the course of the financial year, unique in the fashion world. Our stores and online teams are in constant contact with our team of designers through the Product Management



Our actions to confront the pandemic have centred on protecting the health and well-being of our employees, our customers, supply chain workers, and all the people involved in the running of our business.

Department, and this combined with our capacity to react means we can capture customers' preferences at all times. The active work we do in searching out and promoting increasingly sustainable materials and production processes also contributes to raising quality standards and making progress on the circular economy model.

b) Manufacturing and supply

Manufacturing and supply are based on socially responsible supply chain management that guarantees decent working conditions for all workers. Our supply chain has a global presence, organised across 12 clusters, although there is a significant emphasis on supply in the areas nearest to our design centres. This gives us the ability to adapt our commercial offering to any emerging shifts in trends and instantly tailor our garment production levels to actual demand, an aspect of our model that has been particularly key to 2020. It means we can minimise the production of surplus goods, thus contributing to responsible stock management in line with both our commercial objectives and especially our sustainability goals. In this vein we are continuing to innovate and use more hard-wearing, environmentally-friendly materials, develop more efficient production processes and share all this information in line with the best communication and transparency standards.

c) Logistics and distribution

This stage is adapted to commercial decisions on an ongoing basis, a level of flexibility that has proven essential to our performance in the context of 2020. Each brand has its own centralised logistics centres where stock is held and dispatched to stores and online stockrooms all over the world. This efficient integration of our online/store operations throughout the storage, transport and distribution processes is possible thanks to tools including our proprietary inventory management system based on the radio frequency identification (RFID)

of each and every garment. This way, our customers will ultimately be able to make their decisions in their preferred environment - online or brick-and-mortar store - and enjoy an integrated shopping experience with ongoing technological innovations tailored to their needs.

d) Online

Our shopping space, whether in-store or online, is characterised by our search for quality. Our brick-and-mortar spaces are dedicated to customers enjoying experiencing the best locations in the world's most prominent shopping streets, in carefully architecturally designed settings and with the right technology to ensure they receive the best customer service. The online environment for each of our brands seeks to extend this fashion experience to make it available at anytime and anywhere via mobile devices, with the added convenience of customers being able to choose to receive their products at the location most convenient for them. It is about removing the barriers between the physical and virtual worlds, and ensuring our designers' products reach both settings as efficiently as possible. Our digital integration process, which has been under development in recent years, has gained the most **momentum** in the historic moment we find ourselves in. This has only added to our determined commitment to technological innovation. This will undoubtedly entail innovative solutions that can be flexibly adapted to continuous changes.

The strengths of our **flexible, integrated and innovative model** give us a competitive edge in our analysis and response in the short, medium and long-term. This has become particularly clear in managing the business in a context defined by unprecedented uncertainty arising from the global health crisis. We have made ourselves available to institutions, and our logistics and distribution centres have contributed their purchasing expertise, searching for medical materials and protective equipment. We continue to **collaborate** with different national and international entities to support the communities we operate in and society in general: not only from a health



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perspective but also taking a holistic approach, on top of our commitment to sustainability, to drive a potential exit and address the socio-economic consequences of the outlook the pandemic has caused.

Ultimately, we have succeeded in **developing** a distinctive business model: a never-ending creative and productive circle, which must - now more than ever - tackle new challenges in responsibility and safety, to generate confidence and accompany our customers and workers on a **journey of hope and recovery**.

Our business model has been shaped by our objective of mitigating the risk stemming from operating in a sector characterised by the dynamic shifts in the trends our customers seek. This is why **risk management** is inherent to our business model, and directly addresses the precautionary principle throughout our value chain, the responsibility of which falls to each and every member of the Group. This precautionary approach with which the Group works across its entire business model allows it to manage the different risks identified during the planning of its operations and the development and marketing of new products. The development of our business is exposed to financial, geopolitical, technological, environmental, social and governance risks. Systematic identification, assessment, recording and monitoring processes have been established with the aim of ensuring the best possible management in our attempt to achieve our objectives, based on the tolerance levels established by Senior Management. Risk management is a continually evolving process: many threats are emerging, and we must try to anticipate their potential impact. Our Integrated Risk Management System, described in Section E of the Annual Corporate Governance Report, is issued by the Board of Directors and focuses on standards aimed at managing various scenarios.

In parallel, we have a **robust Compliance System** at Inditex, more specifically, a corporate governance structure that ensures compliance with the standards, recommendations and best practices in this area. Our **corporate governance system** is designed to promote the Company's proper, transparent and sustainable management. We can therefore achieve maximum

competitiveness and generate confidence amongst our shareholders, investors and all other stakeholders, with honesty and integrity at the core.

Whilst the crisis brought about by the pandemic may have restricted the functioning of our governing bodies, limiting the potential for physical meetings, we have overcome these issues by using technological tools to facilitate constant communication. Our board members have received regular updates on the development of the macroeconomic and social environment resulting from the global health crisis and its impact on the Group's activity, as well as the main risk indicators and the different contingency plans and measures put in place to minimise negative impacts.

Faced with the existence of specific measures restricting mobility in certain parts of Spain, our principal headquarters and market, the **Ordinary General Shareholders' Meeting** was held with shareholders attending physically and remotely for the first time in its history. We also implemented the necessary preventive measures to protect the health of all individuals involved in its organisation and that of our shareholders who chose to physically attend the meeting at our Arteixo headquarters.

The Annual Corporate Governance Report for the 2020 financial year, available on our corporate website, provides full and detailed information on the Company's structure and governance practices.



For more information, see section 1.6.3. *Good Corporate Governance*, from the 1.6. *Robust Compliance architecture* chapter of this Annual Report.