

INDITEX

INDITEX THE INTERIM THREE MONTHS

**CONFERENCE CALL SCRIPT
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1Q2017 Results Conference Call

Inditex Participants

Pablo Isla - Chairman & CEO

Ignacio Fernández - CFO

Marcos López - Capital Markets Director

Conference Call Participants

Richard Chamberlain RBC – Analyst

Adam Cochrane Citigroup – Analyst

Andreas Inderst Macquaire – Analyst

Rebeca Macclellan Santander –Analyst

Cedric Lecasble Raymond James – Analyst

Simon Irwin Credite Suisse – Analyst

Andrew Hughes UBS – Analyst

1Q2017 Results Conference Call

Operator

Good Morning Ladies and Gentlemen. Welcome to the presentation of Inditex Results for the Interim Three Months 2018. The presentation will be chaired by Mr. Pablo Isla, Chairman and CEO.

This presentation will be followed by a Q&A session comprising two parts: The first part will be dedicated to questions received on the telephone, followed by those questions received through the webcast platform. Mr. Isla you have the floor.

Slide 3

Good morning to all the participants in this webcast conference call regarding INDITEX Results for the Interim Three Months 2018.

I am Pablo Isla and here with me today are Ignacio Fernández, our CFO and Marcos López, Capital Markets Director.

Slide 4: Global fully integrated Store and Online

The first Three Months of 2018 have been a period of strong execution for Inditex globally. We operate a global sales platform that fully integrates stores and online and offers huge growth potential.

Slide 5: Differentiated business model

Our business model combines stores and digital seamlessly, and we are ready for the opportunities that this brings.

We have a worldwide presence and have further diversified our business. We continue to see significant growth opportunities for Inditex globally.

Slide 6: Interim Three Months 2018: Overview

Inditex performance in the period has been satisfactory. Our operations have also shown high efficiency and tight control.

The year so far has been marked by very strong activity on many fronts. I would like to cover a number of recent initiatives carried out by Inditex.

Slide 7: Inditex Headquarters

We have concluded the extension of Inditex headquarters in Arteixo with new premises comprising 80,000 square metres of additional space to accommodate our growth plans.

Slide 8: Zara London flagship

We have reinforced significantly the differentiation of our key global flagships with very visible openings and enlargements.

I would like to highlight the reopening of Zara's flagship at Stratford in London enlarged now to 4,500 square metres.

1Q2017 Results Conference Call

Slide 9: Zara: Zara London flagship

The store includes the latest technological features such as automated click and collect silos.

Slide 10: Zara: Zara London flagship

And self check out units

Slide 11: Bershka: Mexico City Flagship

Bershka has enlarged its flagship store at Madero in Mexico City.

Slide 12: Massimo Dutti: New image

Massimo Dutti has introduced a new image in its new flagships

Slide 13: Pull&Bear: Madrid flagship

Pull&Bear has also opened a flagship in Madrid at Preciados.

Slide 14: Stradivarius: New Headquarters

Stradivarius is now operating from a new Headquarters in Cerdanyola

Slide 15: Oysho: Milan flagship

Oysho has opened a flagship with the new image in Milan at Piazza San Babila

Slide 16: Zara Home: Palma de Mallorca flagship

Zara Home has recently enlarged its flagship in Palma de Mallorca at Paseo del Borne.

Slide 17: Uterqüe: New store look

And finally Uterqüe has launched a new store look in its recent flagship at Claudio Coello in Madrid.

Slide 18: Financial summary

Let me now hand over to Ignacio who will present some of the key aspects of our financial performance and I will join you later for the Outlook section.

Slide 19: Interim Three Months 2018

Thank you.

In the First Quarter of 2018 Inditex has had a strong operating performance. All the key lines of the profit and loss account show significant growth against very demanding comparables.

Net sales reached 5.7 billion Euros, EBITDA 1.1 billion Euros and Net Income 668 million Euros.

Slide 20: Sales

1Q2017 Results Conference Call

Starting with sales I want to tell you that Inditex's performance in the period has been satisfactory with local currency sales growth of 7%.

Sales grew satisfactorily against very demanding comparables, LFL sales growth has been positive in all key geographies in which we operate and with two significant external factors in the period: An earlier Easter versus last year and extreme weather conditions in some markets.

Slide 21: Gross Profit

Gross profit has increased 3% to 3.3 billion Euros, resulting in a 58.9% gross margin on sales. We have sustained our commercial policies over the period.

Slide 22: Operating expenses

Operating expenses are tightly under control growing by just 3%. This line should be read in the context of the growth in sales, the start-up costs for new space, the refurbishments and the rollout of online sales.

Slide 23: Current accounts

Operating working capital remains negative as a result of the business model. The working capital evolution is in line with the performance of the business.

Slide 24: Concepts

I will now hand over to Marcos who will elaborate on the performance of the concepts.

Slide 25: Performance by concept

Continuing with our global expansion we have opened stores in 36 markets. Global online launches have continued at a very rapid pace.

Regarding the performance by concept in the Interim Three months 2018 Zara accounted for approximately 2/3rds of group sales, while the younger concepts accounted for around 1/3rd of sales.

Slide 26: Performance by concept

The younger concepts grouped together have performed satisfactorily.

I would like to highlight that Pull&Bear and Oysho have performed strongly.

Slide 27: Outlook

I will now hand over to Pablo for the outlook section.

Slide 28: FY 2018 Outlook

Let me highlight that Ordinary Capital Expenditure for 2018 will be around 1.5 billion Euros.

We continue to invest in logistics and head office functions to ensure future growth, while we expect a lower capital intensity going forward.

1Q2017 Results Conference Call

Regarding the outlook for the First Half of 2018, I would like to add that Store & Online sales in local currencies from the 1st of May to the 11th of June grew 9%.

Just as a reminder, we made our interim 2017 dividend payment of 1.2 billion Euros on the 2nd of May 2018.

Slide 29: Global Store&Online: Strong growth opportunities

We will continue to invest in the expansion of our business across a number of markets, all of which offer attractive long term returns through our platform that fully integrates stores and online.

Slide 30: Global online sales

Inditex's online operations have seen very rapid growth in recent years. Our business model allows a strong development of our online sales with same day delivery in metropolises and next day as global standard.

Slide 31: Online: Launch in Australia and New Zealand

The latest step was the online launch of Zara in Australia and New Zealand on the 14 of March.

Slide 32: Store & Online: Studio Collection

We continue developing new initiatives in a fully integrated way as our recent launches of the "Studio Collection"...

Slide 33: Store & Online: Behind the Desert

... the "Behind the Desert" collection ...

Slide 34: Store & Online: Atlantic Beach Collection

...the "Atlantic Beach" collection and...

Slide 35: Store & Online: Colour Canyon

...the "Colour Canyon" collection.

Before closing I would like to highlight some selected Zara store openings in prime locations and enlargements from recent months.

We continue to reinforce significantly the differentiation of our key global flagships with very visible stores.

Slide 36: Zara Tokyo pop-up

I would like to highlight the pop-up store at Roppongi Hills in Tokyo dedicated to online orders while we complete the enlargement of the Zara store to be reopened in the second half of the year.

Slide 37: Zara Shenzhen

We have recently opened the Zara store at the emblematic development of Upper Hills in Shenzhen.

1Q2017 Results Conference Call

Slide 38: Zara Los Angeles

We have also opened a Zara flagship at Beverly Centre in Los Angeles

Slide 39: Zara Bilbao

And I would like to close the presentation by mentioning our new flagship of 4,000 square metres in Bilbao which has become a landmark destination.

And this is all from us. We will be pleased to answer any questions you may have.

Operator

Ladies and gentlemen the telephone Q&A session starts now. If you would like to ask a question, please press 01 on your telephone keypad.

We request that you limit yourselves to only one question per turn so we can maximize the number of participants in the session. If you have further queries, you may press 01 again after the next person's question has been addressed.

[Closing: Thank you very much for your participation in this conference call and we will welcome you back in September]

1Q2017 Results Conference Call

Questions & Answers

Operator

Ladies and gentlemen, the telephone Q&A session starts now.
The first question comes from Richard Chamberlain from RBC. Please go ahead.

Richard Chamberlain - RBC - Analyst

Thanks very much. It is Richard Chamberlain from RBC. I have a question on the gross margin, please. I know it is a relatively quiet quarter and you don't normally like to touch on gross margin too much on a quarterly basis. But it does look like the dollar buying gains here more than offset any negative currency makes impact in Q1. I guess the question I have is did Inditex get a material benefit from any timing of its launch of the online spring collection this year? And also post the Q1, what is your expectation now for the full year in terms of gross margin range? Thanks very much.

Pablo Isla - Inditex - Chairman & CEO

Well, thank you. You know, as you were saying in your question, that we do not like to elaborate very much on the gross margin in a very short period of time. We anticipated to you in March that this year for the full year we were not expecting any currency impact on the gross margin in the sense that the dollar positive impact would compensate the negative currency impact on sales, and that we were expecting a stable gross margin for the full year. Of course, we continue with the same guidance and you know that for us "stable" means plus/minus 50 basis points, because the gross margin is a combination of many different things. It has to do with like for likes, it has to do with fashion trends, with product mix, it has to do, of course, with currencies. But globally, what we can say is that we are happy, we are satisfied with the evolution of the gross margin at the beginning of the year. And we don't change our guidance for the full year in the sense of stable gross margin for the full year.

Richard Chamberlain - RBC - Analyst

Ok, thanks very much for that. I guess the Q1 margin change though is outside that range. It is close to 70 bits up year on year. So I wonder if there was any other factors like collection timing that may have impacted that and does that give you sort of more confidence now in that stable range for the full year, the fact that you are already running ahead of that or at the top end of that range?

Marcos López - Inditex - Capital Markets Director

Richard, as you know, the gross margin is a combination of many, many factors. It is true also that as we mentioned to you last year that Inditex took the commercial decision in spring 2017 to flow into a quick transition between seasons and this was reflected in the gross margin performance in the second and fourth quarter last year. There was a slight positive impact from this in the first quarter 2018 as there was the same in the third quarter 2017. But again, this does not change our view for the year.

Richard Chamberlain - RBC - Analyst

Thanks very much.

1Q2017 Results Conference Call

Operator

Thank you. The next question comes from Adam Cochrane, from Citigroup. Please go ahead.

Adam Cochrane - Citigroup - Analyst

Hi. Good morning. A question on space. In the quarter you could see that you are still shutting some stores compared to the start of last year. Does this change anything regards your view on space contributions for the full year given how much you have done in the first quarter or is it a timing issue and expected it to be covered throughout the remainder of the year, please?

Pablo Isla - Inditex - Chairman & CEO

First of all, what I would say is that the space growth guidance that we gave to you in March hasn't changed. We are expecting space growth to be around 6% this year and between 4% to 6% in the coming years. And of course, as you were mentioning there is always this issue about the calendar. It is much better to think about the space growth than to talk about the number of stores, because this is not showing the real picture, in the sense, for example, we were finishing the presentation with this flagship store in Bilbao, when we opened this store we were closing three small Zara stores that we use to have in Bilbao. So, in terms of number of stores is minus two, in terms of space we now have more space than what we used to have with three Zara stores. So this is the case that is happening more and more. So, for us the relevance figure is space growth. And yes, of course, always the openings of the year tend to be always more significant number in the second half than in the first half. And in terms of absorptions, there are always more absorptions at the beginning of the year than then during the following quarters. But what I would say is that the relevant metric for us, as you know, is space growth, and we can confirm to you the guidance regarding 6% space growth for the year.

Adam Cochrane - Citigroup - Analyst

Just to clarify, is that 6% gross or net?

Pablo Isla - Inditex - Chairman & CEO

Net.

Adam Cochrane - Citigroup - Analyst

Net, ok. Thank you.

Operator

Thank you. The next question comes from Andreas Inderst from Macquaire. Please, go ahead.

Andreas Inderst – Macquaire - Analyst

Good morning, everyone. Following up on that, how much was actually your space contribution in the first quarter? So space growth gross contribution for the first quarter? That is my first question, thank you.

Pablo Isla - Inditex - Chairman & CEO

Well, as you know we don't like to elaborate very much on first quarter results. What we were saying about total sales growth in the first quarter during the presentation is that we have had positive like for likes in all the geographies in a quarter. First of all, we had very demanding comparables, and second, we have had the early Easter and then extreme weather conditions in some different markets.

1Q2017 Results Conference Call

So, even with that we have achieved positive like for like sales growth in all the geographies and, as you can see with the trading update, sales growth in the first six weeks of the second half comes to this 9% figure. So that is what is relevant for us and you know that we don't like to elaborate very much on a specific quarter about this or that element.

Andreas Inderst – Macquaire - Analyst

Okay. That's fair enough. In terms of online versus physical stores, in March you nicely highlighted the sales growth contribution of online. And, is that something you can also share with us on a quarterly basis? How much was sales growth, online sales growth? Thank you.

Marcos López - Inditex - Capital Markets Director

On that we will update you on a yearly basis. We prefer not to enter in to this type of detail over a quarter.

Andreas Inderst – Macquaire - Analyst

Okay. Thank you.

Operator

Thank you. The next question comes from Rebecca McClellan from Santander. Please go ahead.

Rebeca McClellan - Santander - Analyst

Yes, good morning. A couple of questions from me, please. Firstly, are you managing to get any increases in ASP to recover some of the past currency impacts in this market?

Pablo Isla - Inditex - Chairman & CEO

Well, globally our prices are stable in the different geographies. You know that this is our approach to the pricing policy. What we offer to our customers is latest fashions, high quality and affordable prices. We always think about the medium and the long term. Of course, when there is a big devaluation in any particular market, progressively and smoothly we could think about transferring part of that devaluation into prices, but globally, our pricing policy remains stable.

Rebeca McClellan - Santander - Analyst

Okay. Thank you. And secondly, could you just make a comment on Spain, how that's performing?

Pablo Isla - Inditex - Chairman & CEO

You know that we don't like to elaborate very much on a quarter about specific geographies. What we were saying is that we have achieved positive like for like sales growth in all the geographies. And when we talk about geographies, we always talk about Spain, Europe ex-Spain, the Americas and Asia. We have achieved positive like for like sales growth in all the geographies in the first quarter.

Rebeca McClellan - Santander - Analyst

Thank you.

Operator

1Q2017 Results Conference Call

Thank you. The next question comes from Cedric Lecasble from Raymond James. Please go ahead.

Cedric Lecasble – Raymond James - Analyst

Yes, good morning, gentlemen, I am Cedric Lecasble from Raymond James. I have a question on the phasing of the top line. You have given some market data for April which looked stronger than in March and February. How do you explain this kind of devaluation in April of your sales versus the start of the quarter whereas market conditions seemed a little better in the later part of your quarter? And the follow-up question on this is on the transitioning of collections you had a negative impact last year in Q2 on your gross margin. We are annualizing this effect, should we expect a more neutral impact from this this year? Thank you very much.

Marcos López - Inditex - Capital Markets Director

Starting with the second one, your assumption is right. Regarding sales in terms of the quarter, what we can tell is that we are very satisfied with sales, 7% in local currencies. You have seen the comparable in the presentation, which is extremely demanding. And again, with a very positive like for like in all geographies and two, unusual factors in the sense of an early Easter and, I would say, extreme weather conditions in some areas. In any case we have provided a very healthy trading update from the 1st of May of 9% sales growth in local currencies. I think that you should read everything in conjunction.

Cedric Lecasble – Raymond James - Analyst

Okay. So no specific explaining, the difference between April, and February and March?

Marcos López - Inditex - Capital Markets Director

I think what we can tell is we are satisfied with the performance of the sales.

Cedric Lecasble – Raymond James - Analyst

Okay. Thank you.

Pablo Isla - Inditex - Chairman & CEO

And we always say the same, we think this is a global answer, but we think it doesn't make a lot of sense to monitor, to focus on the sales in two weeks in this or that particular market. We always talk about the season, we always talk about like for like sales growth for the season. So, there are many many elements, even the calendar of holidays, even that it could have an impact on a week in one particular market here or there. What for us is relevant is the season globally. And that is what we are focused on. Like for like sales growth in each of the seasons. This is the relevant metric for us and we are present in 96 markets. So then, this would be an endless conversation saying: what has been the performance in the third week of April in this or that market? I think that as company, we focus on the season, we focus on, of course, having the best product and then of like for like sales growth evolution during the season.

Cedric Lecasble – Raymond James - Analyst

Thank you. And good luck for the rest of the quarter.

Operator

1Q2017 Results Conference Call

Thank you. The next question comes from Simon Irwin from Credit Suisse. Go ahead.

Simon Irwin – Credit Suisse - Analyst

Good morning, gentlemen. Could you talk a little bit about OPEX development in the quarter and particularly the impact during the quarter of the 114 million of amortization that you brought forward and how much impact that had on your D&A charge in the quarter?

Pablo Isla - Inditex - Chairman & CEO

Regarding OPEX what we can tell you is that we are quite satisfied with the evolution during the year. You must have in mind that OPEX has been 3% and this includes everything. All the OPEX involved in the management of the company, all the OPEX that has to do with the space growth, all the OPEX that has to do with online. So I think it shows how tightly we are able to manage OPEX. As we always say for us this is something permanent. We are gaining efficiencies, so our way to manage OPEX has not to do with cutting costs, it has to do with running our operations in a more efficient way. Technology is helping us a lot from every point of view. It is helping us, of course, in the logistics, but it is also helping us in the way we operate our stores. We have mentioned before: RFID is increasing a lot the efficiency in the way that we operate the stores or many other initiatives. So, what we can tell you is that we are satisfied with the evolution of OPEX during the quarter. And about the second part of your question, Marcos?

Marcos López - Inditex - Capital Markets Director

You know that depreciation relates to capital expenditure, the calendar of that capital expenditure, the depreciation of the asset base and the reversal of the impairments. There have been no changes in the policies, as you can imagine, in terms of the average useful life of assets. And in the long run, should grow roughly in line with space growth. In the fourth quarter 2017, remember that Inditex made the decision to provision all costs associated with 2018 store absorptions, which were included in net impairments. So, this explains the lack of growth in depreciation for the first quarter this year.

Simon Irwin – Credit Suisse - Analyst

And will that continue through the next three quarters or is that very much first half weighted?

Marcos López - Inditex - Capital Markets Director

I mean, this is quarter by quarter, and where you have to make an adjustment it is in the fourth quarter, because as you remember, in the fourth quarter we made that decision to provision all costs associated with absorptions this year. So the basis is slightly different. But this is what I can anticipate to you. In any case, in the long run, the depreciation should grow roughly in line with space growth.

Simon Irwin – Credit Suisse - Analyst

Thank you.

Operator

The next question comes from Andrew Hughes from UBS. Please go ahead.

Andrew Hughes - UBS - Analyst

1Q2017 Results Conference Call

Good morning. I have a question on your trial to fulfill online orders from store stock. I think you had 70 or so stores in that trial. Have you got any information on just the cost to deliver those parcels? Is it cheaper to actually fulfill from store as opposed to fulfill from your central distribution centers? I'm thinking that just you, obviously, had some very expensive real estate and presumably you are using part of that in store for picking and packing. So, just wondered if you had any thoughts on the relative cost to serve of those channels.

Pablo Isla - Inditex - Chairman & CEO

Well, thank you. As we were mentioning, I think, in the full year results presentation this is something very, very strategic for us, this idea of full integration between store and online stockrooms, which is enabled by RFID. We were saying to you that during last year we were introducing this in Spain and that during this year we were planning to extend to all the different markets. Currently we have done this in 20 different markets, this full integration between online and stores stockroom, and we continue, we expect it to be fully rolled out by the end of the year in all markets where Zara has online presence. This is very strategic for us. This is very relevant. This possibility to offer the product that we have in the stores also to our online customers and in terms of costs, it is not at all having any relevant impact in the way we operate our costs. So it tends to be neutral. What is very relevant for us is what is coming in terms of full price sales during the season. It is much more relevant than the other element. So, what I would tell you is global in terms of cost it is neutral and we manage things in order to be neutral from the point of view of costs, but it is very helpful, sometimes even also in terms of deliveries times, but what is more relevant about this full integration is making available to our online customers also the stocks that we have in our physical stores. Because sometimes it could be the case that one garment is completely out of stock online, but we continue having this same model in some of our stores. So this is the relevant factor for us. And what I can tell you again is that from the point of view cost, it is neutral.

Andrew Hughes - UBS - Analyst

Right. So that will be in all 2000 or so Zara stores by the end of the year? They will all have a small part of the store where product is taken off the shelf and put into plastic bags with the address label of the customer? All stores will have that ability?

Pablo Isla - Inditex - Chairman & CEO

Well, yeah, but it is made in the store stockroom. So it is already in the stockrooms that we have in the stores where we are doing this operation. So it is not any additional space.

In the store. I think that the best way to see how it works is, of course, through our capital markets team. Of course, we offer you the possibility to go and to see in any of the stores how this process works. But the box and everything is made in the store stockroom by the store staff. It doesn't mean any additional space.

Andrew Hughes - UBS - Analyst

Right.

Pablo Isla - Inditex - Chairman & CEO

From a physical point of view, you only need a table and chair, just to tell you in a very simple way. Because you already have the stock and then you pick the garment and you prepare it for the online delivery. So, you don't need a huge space.

Andrew Hughes - UBS - Analyst

1Q2017 Results Conference Call

Yes. And that will be in all Zara stores by the end of the year, that functionality?

Pablo Isla - Inditex - Chairman & CEO

In all Zara stores, in the markets in which we have an online presence, because in the others, if we don't have online presence.

Andrew Hughes - UBS - Analyst

Yes, okay. Great. Thank you.

Operator

Thank you. Ladies and gentlemen, we are now finished with the telephone Q&A session to address the questions received through the webcast platform. Thank you.

James O'Shaughnessy - INDITEX- Investor Relations

We have had a few webcast questions regarding China. Can you comment on the performance in China?

Pablo Isla - Inditex - Chairman & CEO

What we can tell you is that we are very pleased with our performance in China. We are present with all our concepts except Uterqüe, but we are planning to launch Uterqüe in the next autumn-winter season, first online and also with physical stores. So, we will be present with all our brands in China and, of course, with all of them we have online sales and we have physical presence. So we continue seeing huge opportunities to continue growing in China. It is a very attractive market for us. Fashion appetite in this market is growing and growing, our brands are very very well received and quite well appreciated by our customers. So, thinking about the future, we continue seeing significant growth opportunities for us in the Chinese market.

James O'Shaughnessy - INDITEX- Investor Relations

The remaining questions sent are about the rollout of the integration between stores and online, which I think Pablo you covered in your answers to Andrew. So I think that that concludes the webcast questions for today

Pablo Isla - Inditex - Chairman & CEO

Thank you very much. In any case, of course, we are ready to answer any additional questions you may have. And I encourage you, once more, to organize through the capital markets department this visit to the stores to see how this stock integration really works in practice. Thank you very much.