

# **FY2005 Results Presentation**

29 March 2006

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## **FY2005 Results:**

- Overview
- Financial summary
- Concepts

## **Outlook:**

- Strategic overview
- FY2006

**Pablo Isla**

**Deputy Chairman & CEO**

## Highlights

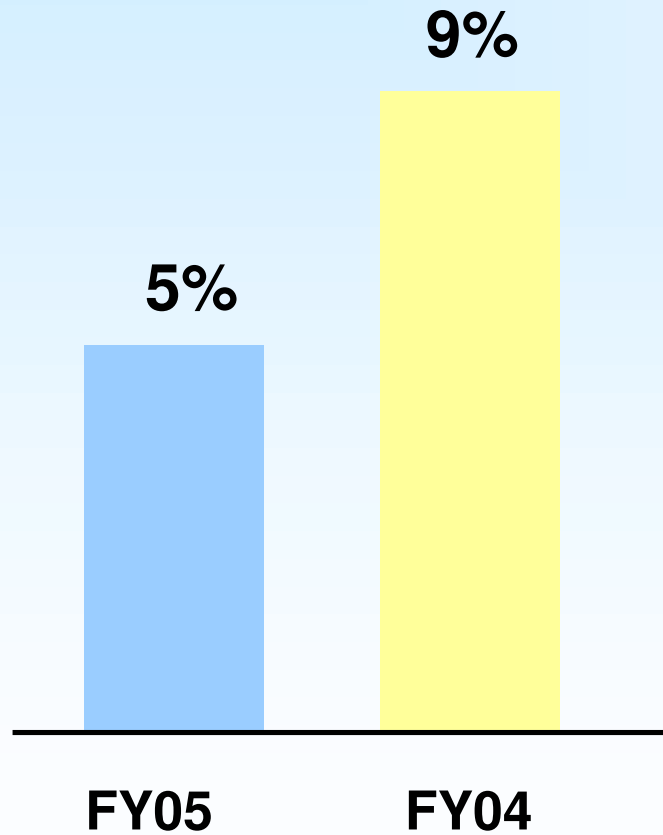
- Satisfactory sales growth
- Consistent financial performance
- Strong cash flow and reinvestment in the business

## Summary:

- Sales growth +21%
- LFL sales growth +5% and 448 net store openings
- Net income growth +26%, EPS of €1.29
- Funds from operations +21% to €1.24 billion
- RoCE 41%

# FY2005: Overview

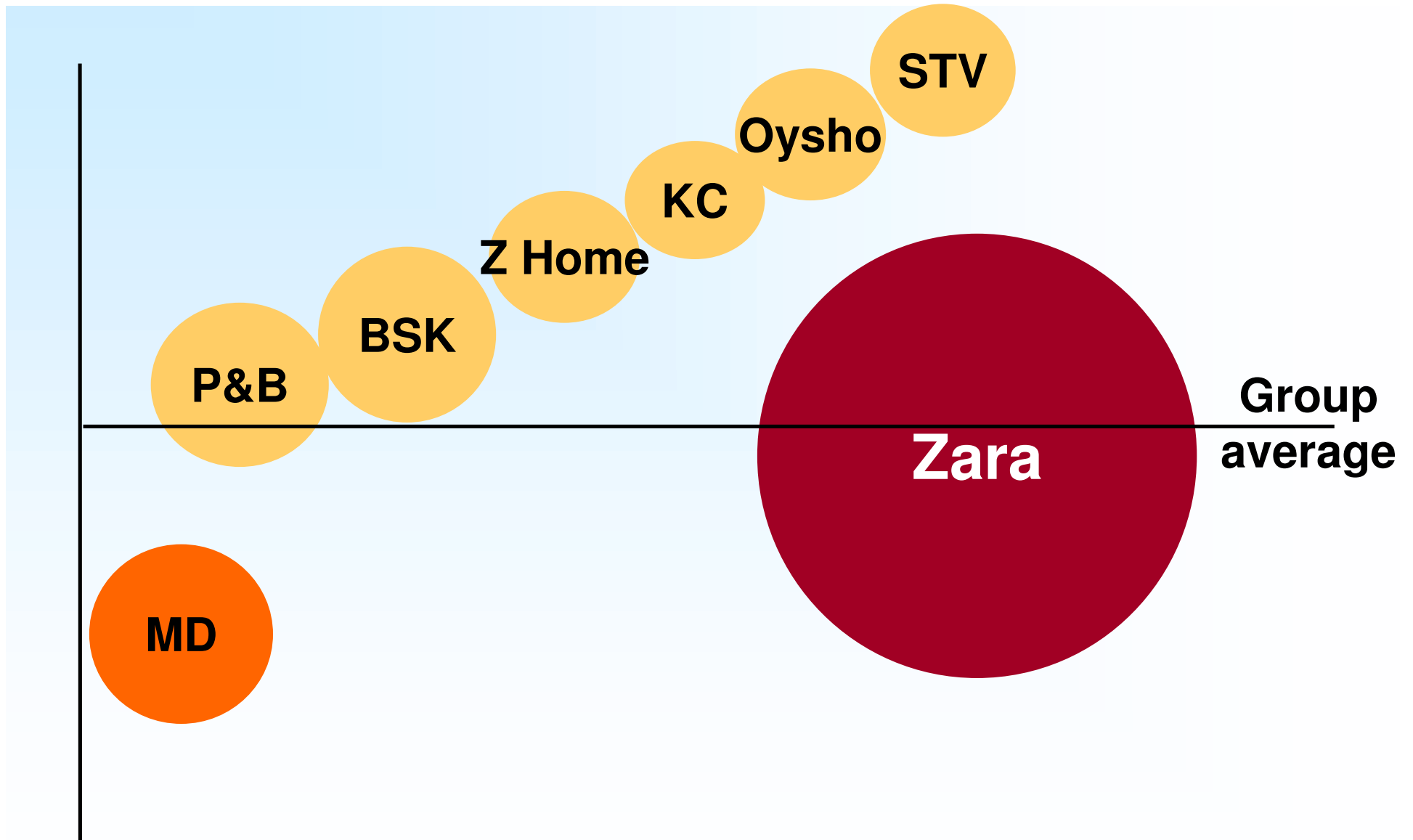
## Like-for-like Sales growth



Satisfactory performance

# FY2005: Performance per concept

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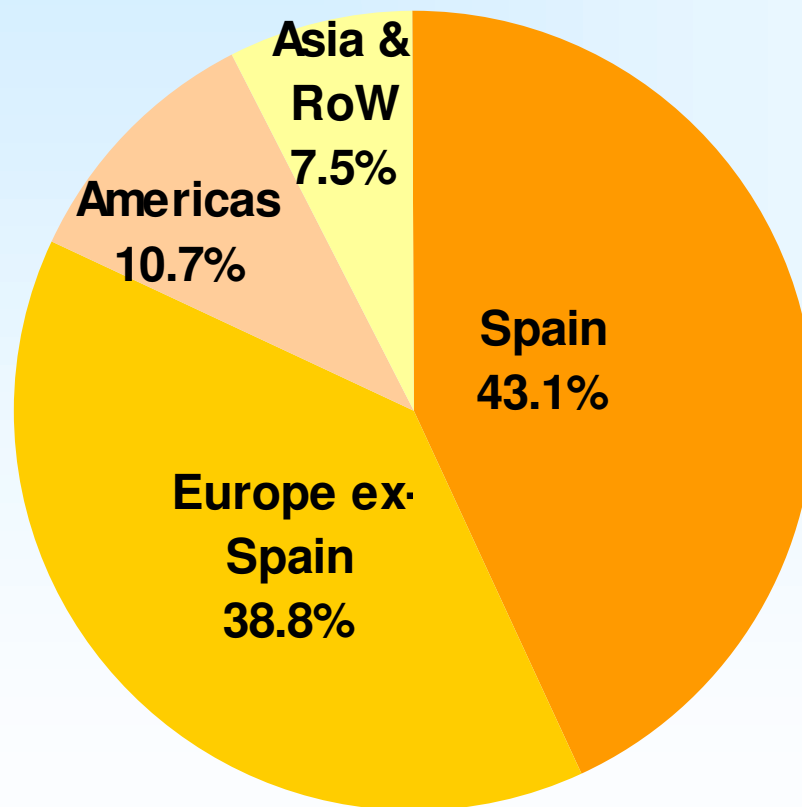




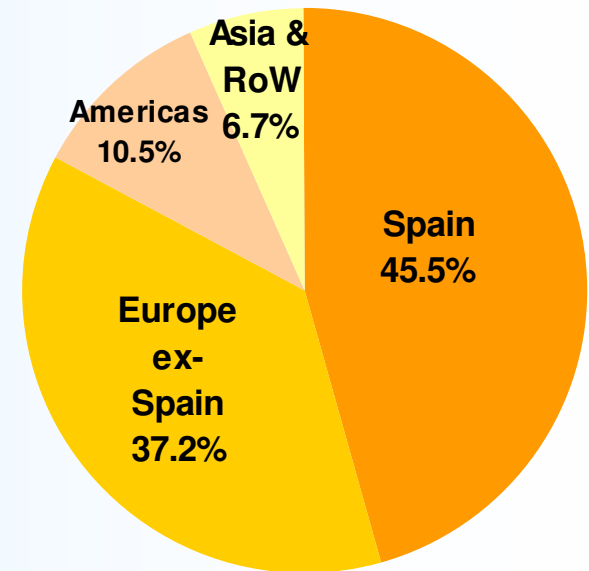
# Geographic breakdown of store sales

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**2005**



**2004**



(1) Store sales: Includes sales in OMS and franchises

# **Financial summary**

**Antonio Rubio**

**CFO**

# Highlights

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million €	FY05	FY04	% 05/04
<b>NET SALES</b>	<b>6,741</b>	<b>5,567</b>	<b>21%</b>
<b>GROSS MARGIN</b> <i>% margin</i>	<b>3,788</b> <i>56.2%</i>	<b>3,085</b> <i>55.4%</i>	<b>23%</b>
<b>EBIT</b> <i>EBIT margin</i>	<b>1,094</b> <i>16.2%</i>	<b>922</b> <i>16.6%</i>	<b>19%</b>
<b>NET INCOME</b> EPS (€ cents)	<b>803</b> <i>129.3</i>	<b>638</b> <i>102.8</i>	<b>26%</b>

FY2005: First audited financial results under IFRS-EU

# Sales growth breakdown

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	<b>H1</b>	<b>H2</b>	<b>FY2005</b>
<b>Space contribution</b>	+15%	+16%	+16%
<b>LFL</b>	+4.5%	+5%	+5%
<b>Currency impact</b>	+0%	+1%	+1%
<hr/>			
<b>Sales growth</b>	+20%	+22%	+21%

# Selling area

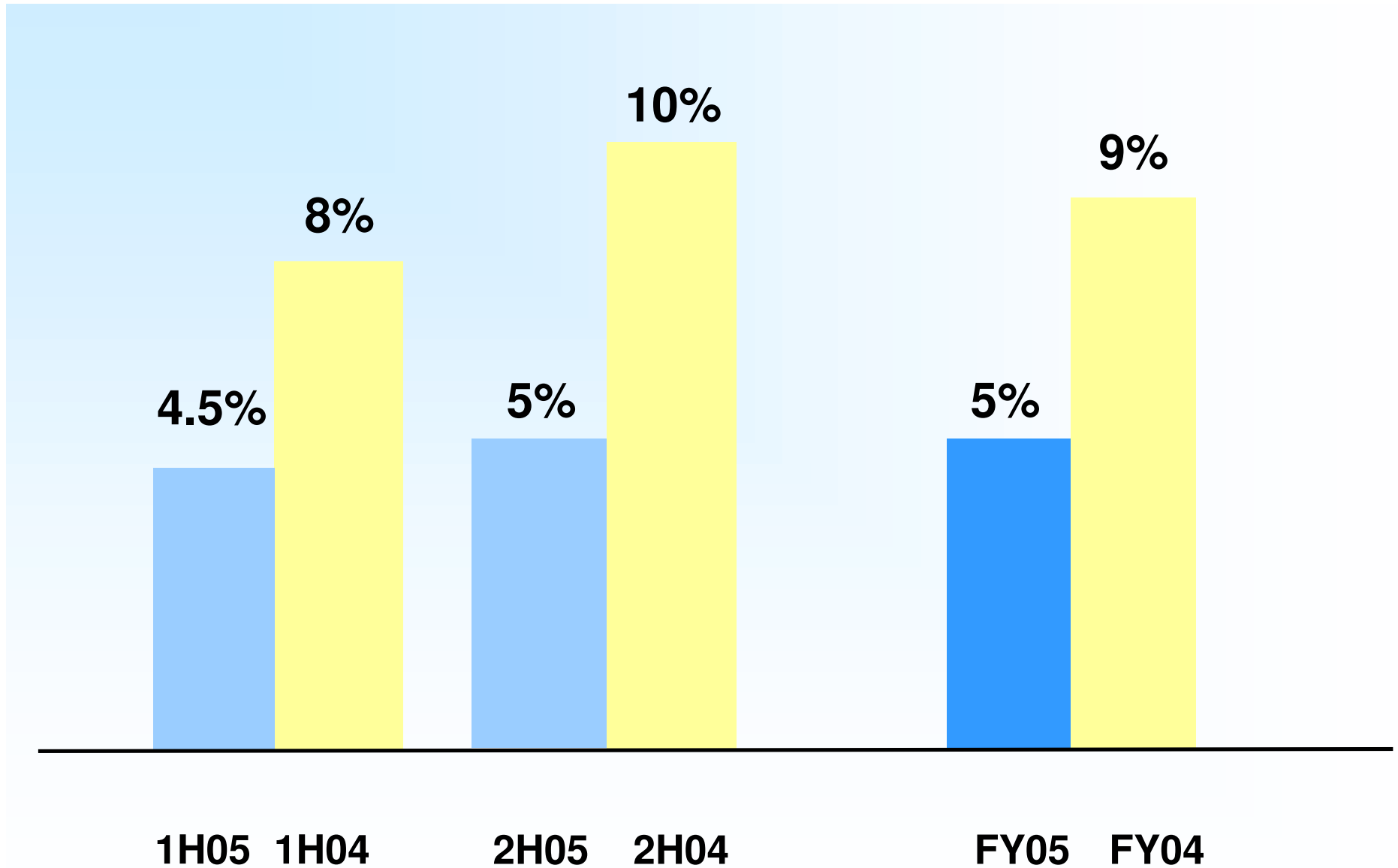
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	FYE2005	%05/04
Total space (m <sup>2</sup> )	1,434,752	+22%
Space contribution		+16%

- Openings biased to year end
- Ramp-up of new openings
- 31% of space less than 2 years old

# Like-for-like sales growth

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# Gross margin

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(basis points)

**Inventory mgmt .  
& product mix**

**Currency impact**

**H1**

**H2**

**FY05**

**112**

**86**

**88**

**90**

**(97)**

**(9)**

**202**

**(11)**

**79**

- FY Gross margin at 56.2% due to tight inventory management
- Best estimate for FY2006 Gross margin remain at FY2005 levels
- Should currencies remain at current levels, negative currency impact expected for H1, decreasing over the year

# Operating expenses

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(€ million)

**Personnel expenses**

**FY05**

**%05/04**

**1,037**

**+23%**

**Rental expenses**

**577**

**+23%**

**Other operating expenses**

**683**

**+26%**

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**Total**

**2,297**

**+24%**

- Target to reduce the spread between Operating expenses growth and Sales growth



# Other net operating income (losses)

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(€ million)

FY05

FY04

**Other net operating income (losses)**

**(32)**

**(9)**

- Updated valuation of minority stakes in JV's
- Acquisition of 9.95% in Stradivarius
- Acquisition of 15% in Zara Japan
- Acquisition of 28% in Zara Deutschland

# EBIT

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(€ million)

FY05

%05/04

Operating expenses

(2,297)

Other net operating income (losses)

(32)

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**EBIT**

1,094

+19%

*EBIT margin*

16.2%

(33 bp)

**EBIT ex-Other net operating  
income (losses)**

1,125

+21%

*EBIT ex-Other net operating  
income (losses) margin*

16.7%

(2 bp)

# Depreciation and amortization

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(€ million)	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>FY</b>
<b>FY2005</b>	(81)	(92)	(95)	(98)	<b>(366)</b>
<b>FY2004</b>	(67)	(73)	(77)	(89)	<b>(305)</b>

- Normal evolution of depreciation and amortization charge

# Net financial results

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(€ million)	<b>FY05</b>	<b>FY04</b>
<b>Financial expenses</b>	<b>3.8</b>	<b>(7.2)</b>
<b>FX gains</b>	<b>4.2</b>	<b>(17.6)</b>
<b>Net financial results</b>	<b>8.0</b>	<b>(24.8)</b>

- Financial expenses according to financial position
- Mark-to-market valuation of FX financial instruments (IAS 39)

# Tax charge

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(€ million)

**FY05**

**FY04**

**Corporate income tax**

**291**

**251**

**Tax rate**

**26%**

**28%**

# Working capital

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(€ million)	FY05	FY04	%05/04
<b>Inventory</b>	684	518	32%
<b>Receivables</b>	358	254	41%
<b>Payables</b>	(1,642)	(1,209)	36%
<b>Other</b>	16	18	
<b>Operating working capital</b>	<b>(583)</b>	<b>(419)</b>	

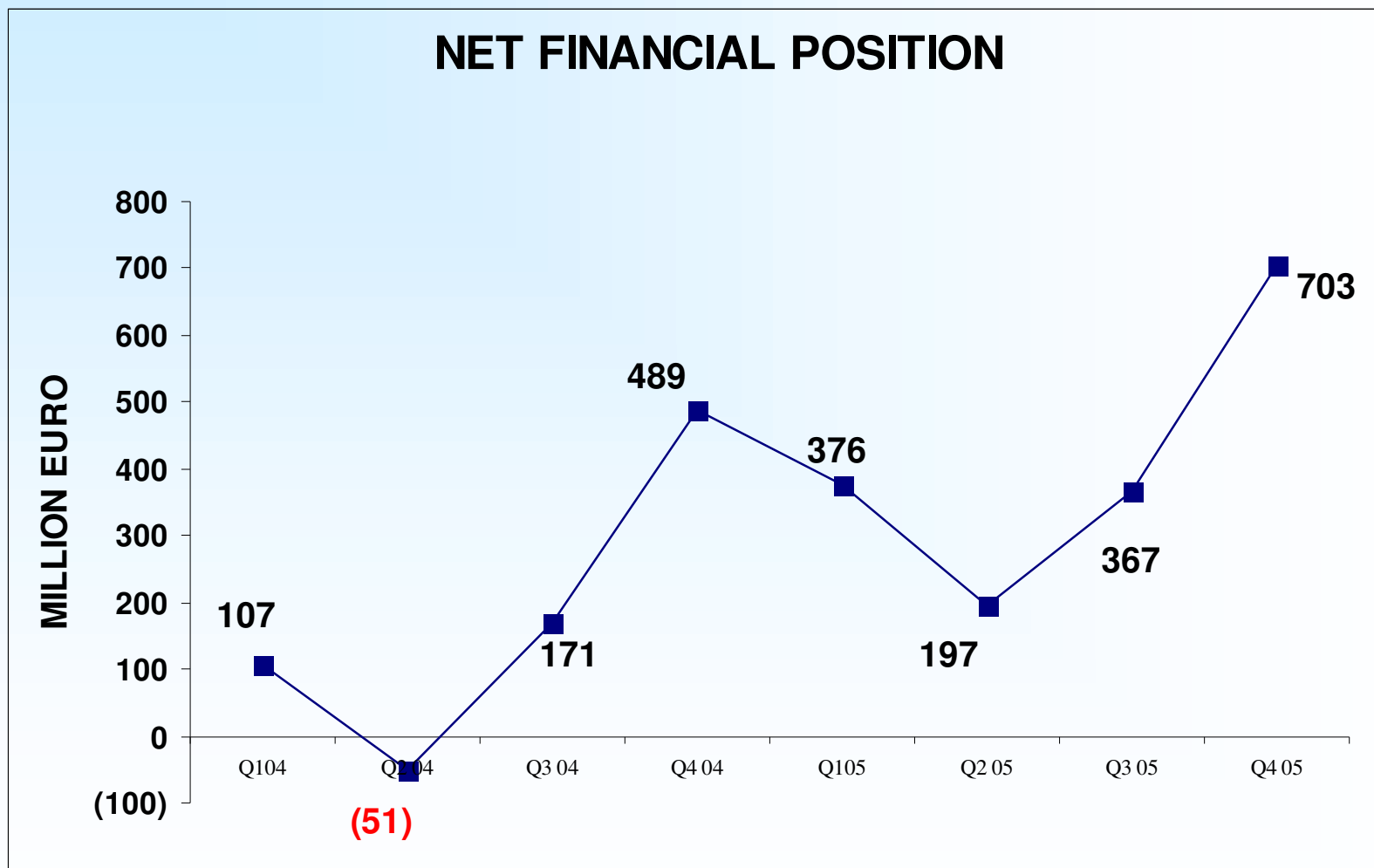
# Cash Flow

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(€ million)	FY05	FY04	%05/04
<b>Funds from operations</b>	1,240	1,022	21%
<b>Cash from operations</b>	1,421	1,240	15%
<b>CAPEX</b>	812	696	17%
<b>Free Cash Flow</b>	609	544	12%

- Comparable base influenced by strong Working capital inflow in FY2004

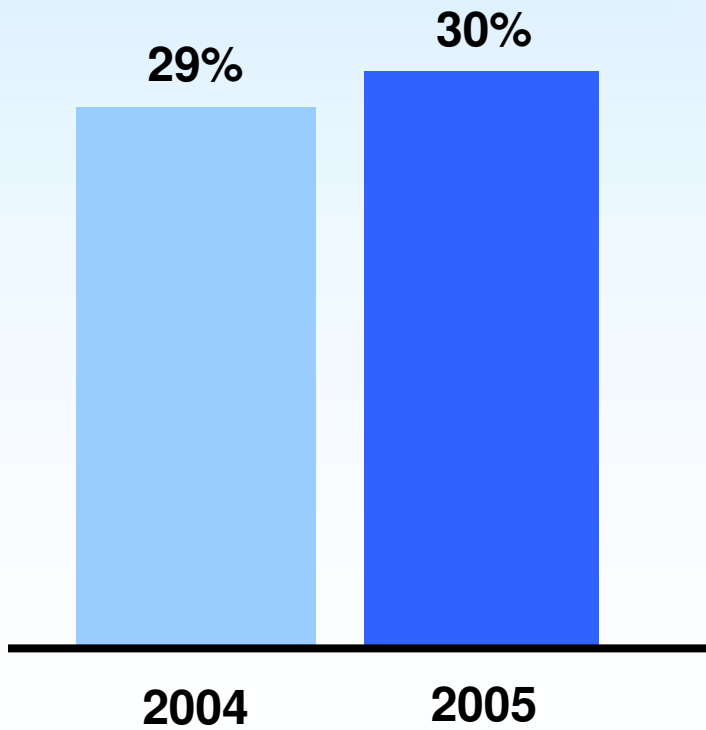
# Financial position



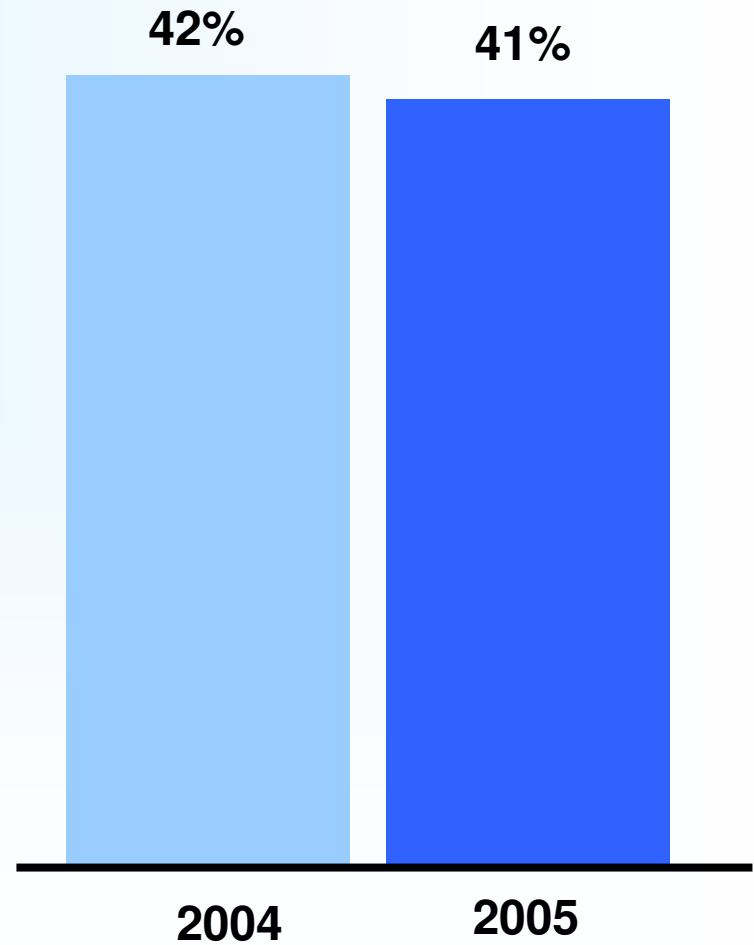


# ROE and RoCE

**ROE**



**RoCE**



# **Inditex concepts**

**Marcos López**

**Capital Markets Director**

## Zara

(€ million)

	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	4,440.8	18%	19%
<b>EBIT</b>	712.1	9% <sup>(1)</sup>	22%
<b>EBIT margin</b>	16.0%	(136 bp)	
<b>Stores</b>	852	+129	
<b>RoCE</b>	41%	(100 bp)	

<sup>(1)</sup> EBIT ex-Other net operating income (losses) increase by 12% Y-o-Y and decrease by 94 b.p. as a % on sales

# Kiddy's Class

(€ million)

	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	155.4	29%	32%
<b>EBIT</b>	28.8	39%	27%
<b>EBIT margin</b>	18.5%	130 bp	
<b>Stores</b>	149	+20	
<b>RoCE</b>	67%	+800 bp	

# Pull & Bear

(€ million)	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	445.1	21%	27%
<b>EBIT</b>	75.3	44%	115%
<b>EBIT margin</b>	16.9%	270 bp	
<b>Stores</b>	427	+56	
<b>RoCE</b>	47%	+600 bp	

# Massimo Dutti

(€ million)	FY05	% 05/04 2 Year CAGR	
<b>Sales</b>	533.8	16%	23%
<b>EBIT</b>	68.8	2% <sup>(1)</sup>	14%
<b>EBIT margin</b>	12.9%	(186 bp)	
<b>Stores</b>	369	+43	
<b>RoCE</b>	27%	(1600 bp)	

<sup>(1)</sup> EBIT ex-Other net operating income (losses) increase by 6% Y-o-Y and decrease 130 b.p. as a % on sales

# Bershka

(€ million)

	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	639.4	26%	28%
<b>EBIT</b>	98.9	32%	36%
<b>EBIT margin</b>	15.5%	77 pb	
<b>Stores</b>	368	+66	
<b>RoCE</b>	42%	(500 bp)	

# Stradivarius

(€ million)

	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	341.1	41%	45%
<b>EBIT</b>	83.7	128%	324%
<b>EBIT margin</b>	24.5%	937 bp	
<b>Stores</b>	263	+36	
<b>RoCE</b>	82%	+4100 bp	



# Oysho

(€ million)

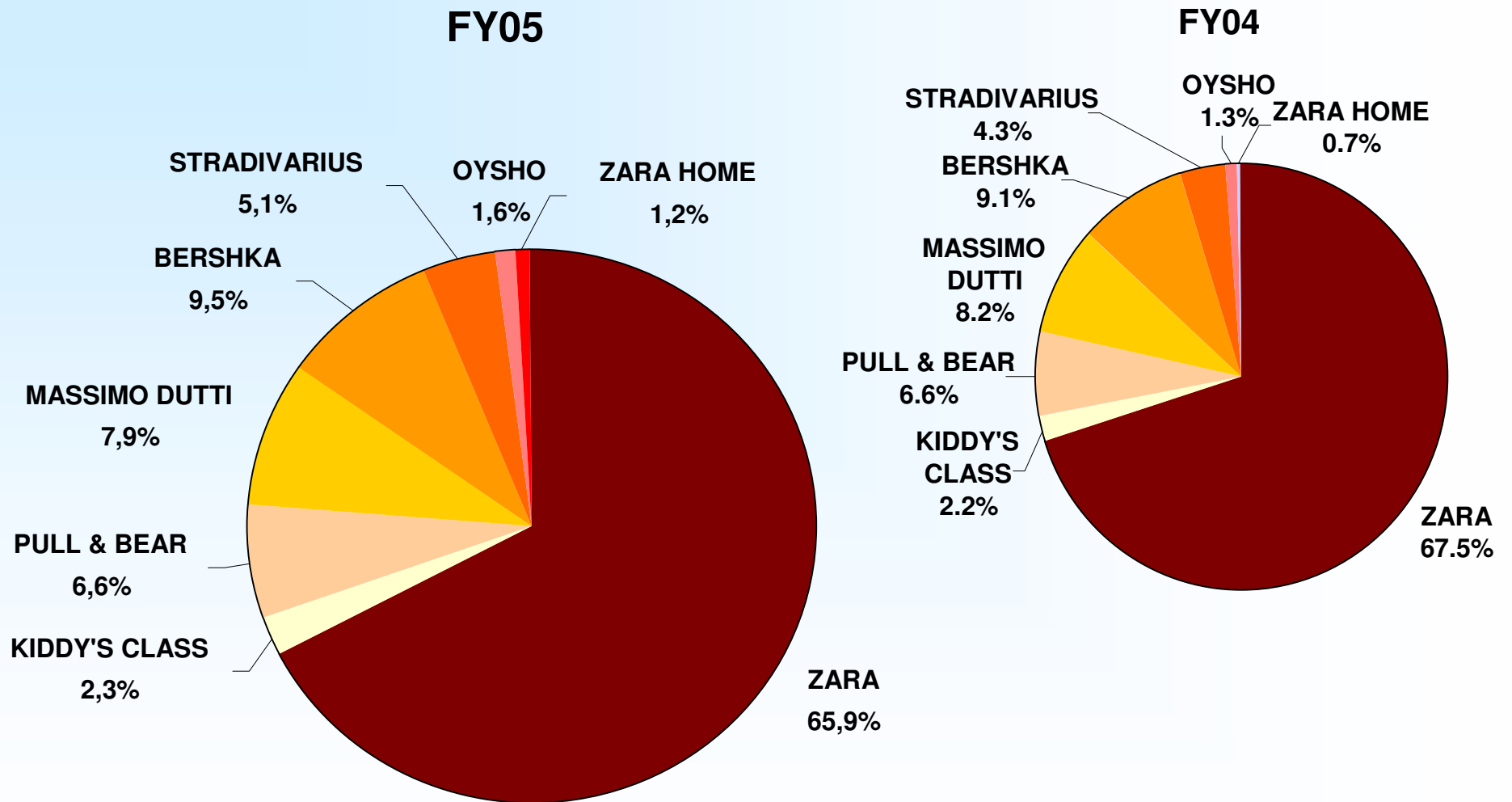
	<b>FY05</b>	<b>% 05/04</b>	<b>2 Year CAGR</b>
<b>Sales</b>	107.0	49%	54%
<b>EBIT</b>	24.5	58%	322%
<b>EBIT margin</b>	22.9%	124 bp	
<b>Stores</b>	154	+50	
<b>RoCE</b>	50%	(100 bp)	

# Zara Home

(€ million)

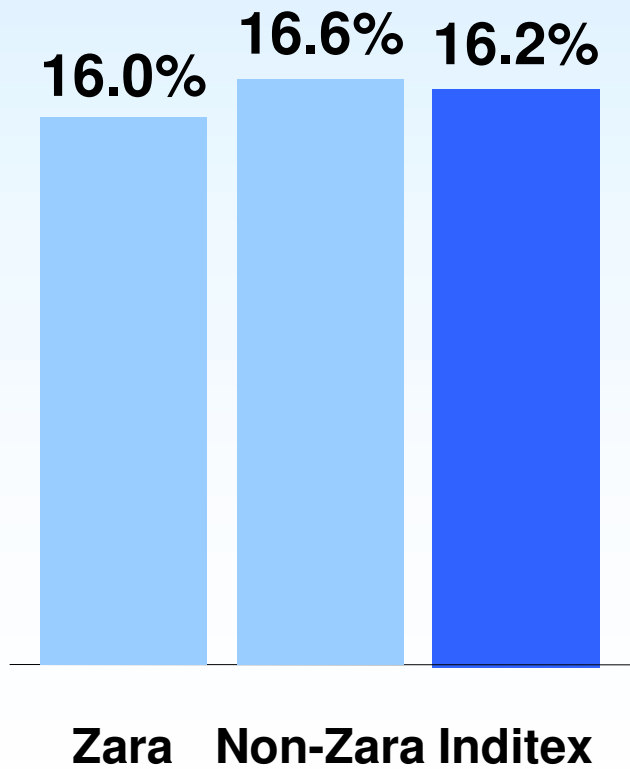
	<b>FY05</b>	<b>% 05/04</b>
<b>Sales</b>	78.1	93%
<b>EBIT</b>	1.4	652%
<b>EBIT margin</b>	1.8%	135 bp
<b>Stores</b>	110	+48
<b>RoCE</b>	3%	+200 bp

# Breakdown of store sales by concept

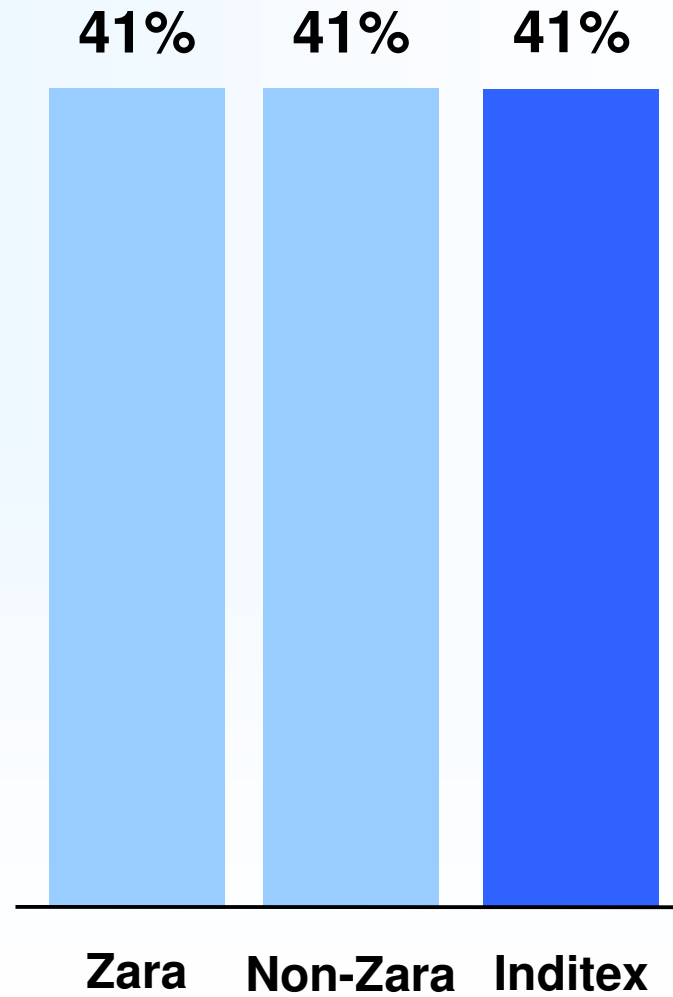


# EBIT margins and RoCE breakdown

EBIT margin



RoCE



# **Outlook**

**Pablo Isla**

**Deputy Chairman & CEO**

# Growth prospects

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- **Organic growth**
- **Space to grow by 15% CAGR**
- **Expansion focus: Europe ex–Spain**
- **Decision to grow in Asia**

# Growth prospects: Europe

**INDITEX**

- **Europe to become Inditex domestic market**
- **Expansion area for the concepts**
- **Strong potential: Italy, France, UK, Germany**

# Growth prospects: Asia

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- **Strategic component**

- Strong consumer growth
- Good reception for our retail proposition
- Fast ramp-up of store sales
- Potential for Zara and other concepts

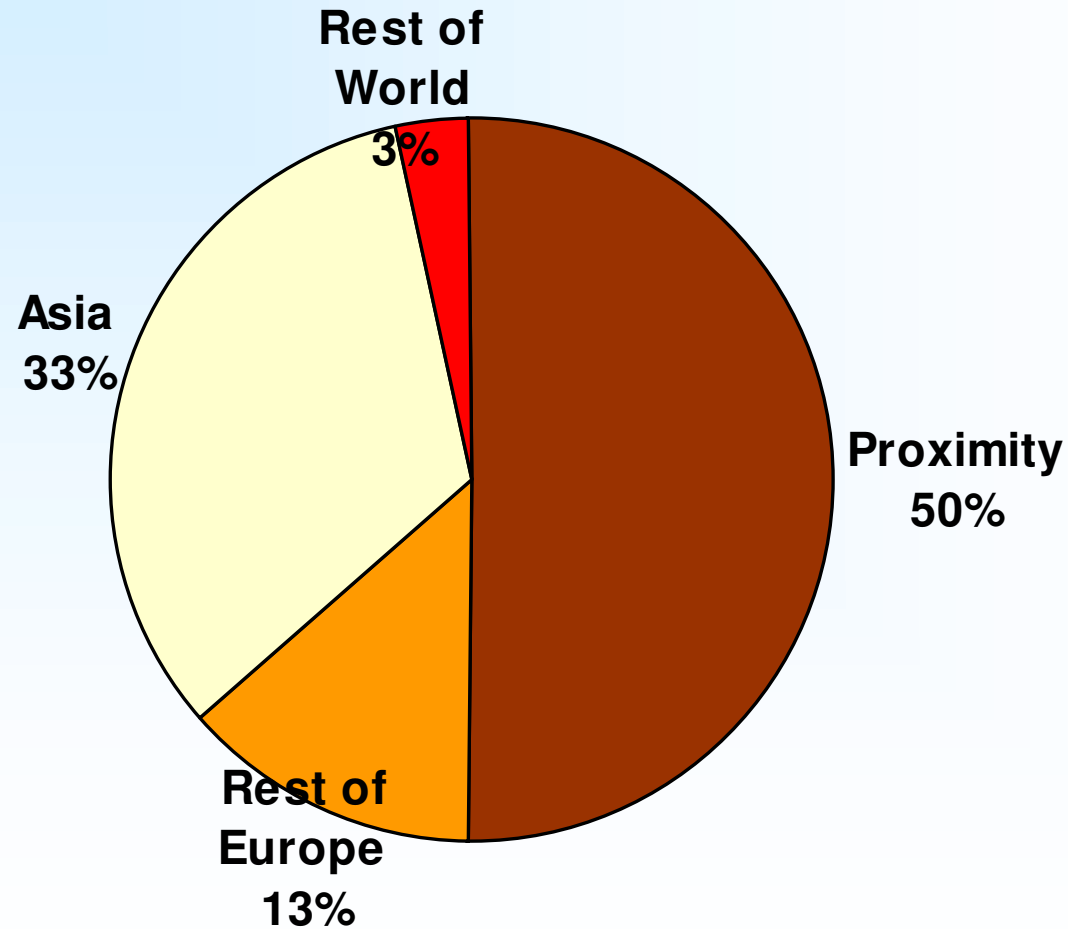
- **Priorities in the area:**

- China: 1st Store in Shanghai last February to be followed by 2 other in Shanghai and Beijing
- Japan (5-10 store openings per year)
- Korea: JV agreement with Lotte Group to open the first Zara store in Seoul by FY2006
- Other: Singapore, Indonesia, Philippines, Thailand, Malaysia

- **Increase in selling area In Asia at a rate that more than doubles the growth in selling area of the Group**



## Sourcing by area in FY2005



# FY2006: CAPEX

- Expected CAPEX 850 - 950 MM €
- Store opening plan:

ZARA  
 KIDDY'S CLASS  
 PULL & BEAR  
 MASSIMO DUTTI  
 BERSHKA  
 STRADIVARIUS  
 OYSHO  
 ZARA HOME  
**total net openings**

Range	
130	140
30	40
45	55
30	40
65	75
35	45
40	50
35	45
<b>410</b>	<b>490</b>

% Int'l openings
80%
10%
65%
55%
70%
45%
50%
60%

# Priorities in the use of cash

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- **Profitable investment in the expansion of our business**
- **Sustain RoCE levels**
- **Predictable attractive shareholder remuneration**

# Shareholder Remuneration Policy

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## 2003

- **Double Ordinary payout to 40% through 2008**
- **Possibility of bonus dividends**

## 2005

- **40% ordinary payout target for 2008 brought forward to 2005**
- **Proposal of bonus dividend**

## Dividend proposal 2005 (67 cents)

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- **Ordinary** € 52 cents per share
  - **Bonus** € 15 cents per share
  - **Total** € 67 cents per share
- 
- **418 MM € to be distributed to shareholders**

**40% increase in shareholder remuneration**

## 2006 onwards

- **Priorities:**
  - Long term growth strategy
  - Financial discipline
- **Policy:**
  - c50% Ordinary payout
  - The Board may propose to distribute bonus dividends

# PLAN REDUCE 3: Targets

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- **Wide range of initiatives to improve operational efficiency, not only higher cost control.**
- **Reduce the spread between Operating expenses growth and Sales growth**
  - **How much?**                    **3 percentage points (300 b.p.)**
  - **When?**                            **Over 3 fiscal years**
  - **Where?**                           **In the 3 areas of Operating expenses**
    - ✓ **Personnel expenses**
    - ✓ **Rental expenses**
    - ✓ **Other operating expenses**

**Align Operating expenses growth and Sales growth  
by FYE 2008**

# PLAN REDUCE 3: Development

- **Full commitment of the Group to targets**
- **Responsible within the Planning and Control Department**
- **Monitored by the Management Committee every 3 months**
- **Development of 3 specific actions every 3 months.**
- **No quarter without 3 actions**



# PLAN REDUCE 3: Initiatives

## Personnel

1. Higher efficiencies at store level by adapting staff hours to customers' flow
2. Eliminate non-commercial activities from stores
3. Strict control on corporate headcount

## Rental expenses

1. Minimise start-up costs by adjusting calendar of openings and refurbishing works
2. Store size adjusted to commercial environment and expected sales levels
3. Selective expansion in mature markets

## Other operating expenses

1. Further improvements in IT systems to strengthen the information flow between stores and headquarters
2. Improvements in logistic efficiency and transportation costs (delivery densities and DC productivity)
3. Minimise third parties expenses

# Share plan

- **Inditex Board of Directors will propose a Share Plan to the AGM**
- **A maximum of 2,348,383 Shares**
- **c200 Beneficiaries**
- **Linked to the average increase in annual share price over 2006 and 2007**
- **The plan has no cash impact, as it is based on shares subscribed in Fiscal 2000 and remaining from a previous plan**

- **+15% / +20% space growth**
- **Best estimate for Gross Margin in 2006 at 2005 levels (56.2%)**
- **During the eight weeks since the beginning of the 2006 Spring-Summer season sales growth is according to the Group's expectations.**

**Q & A**

29 March 2006