



1998 annual report
Inditex Group

1998 annual report

1. <u>Chairman's statement</u>	<u>5</u>
2. <u>international presence</u>	<u>9</u>
3. <u>financial highlights</u>	<u>13</u>
4. <u>general information</u>	<u>21</u>
Inditex Group	
Zara	
Pull & Bear	
Massimo Dutti	
Bershka	

1. Chairman's statement



It gives me great pleasure to present the Annual Report of the INDITEX Group for the FY 1998.

The desire for innovation and constant improvement with which we began this project 36 years ago is the motivating idea which has guided us up to the present time. Now we have the privilege of seeing how this original idea, from which many others, with an open and creative mind, have emerged and continue to emerge, has converted itself into the INDITEX Group.

This desire for innovation leads us to approach 21st century society with a vision of the future which, with its basis in the diversity of components and scenarios forming our company, continues to drive us to face the challenges of the ever-more global society of which we are a part.

We must be aware that the experience we have gained is not enough to guarantee our leadership. We must also be faithful to the commitment to effort and improvement which inspires our company. More than 12.000 people from many different countries currently make up our Group. This diversity is synonymous with open-mindedness and flexibility, and pushes us to continue evolving, with enthusiasm and perseverance, towards new projects.

This report transmits a vision of the realities and the projects of the INDITEX Group and our capacity to adapt ourselves to the demands of our environment in the widest sense.

We have to be aware of the challenges that our Group faces. International expansion, carried out both independently and through agreements with other companies, is the objective that cannot be delayed and will allow us, through diversity, to enrich our culture and vision of the market. The creation of new chains and the widening of our product ranges is our response to the new opportunities of the environment. In short, the idea of innovation and constant improvement, which I mentioned before, must keep on being the motivating idea of our Group throughout the 21st century.

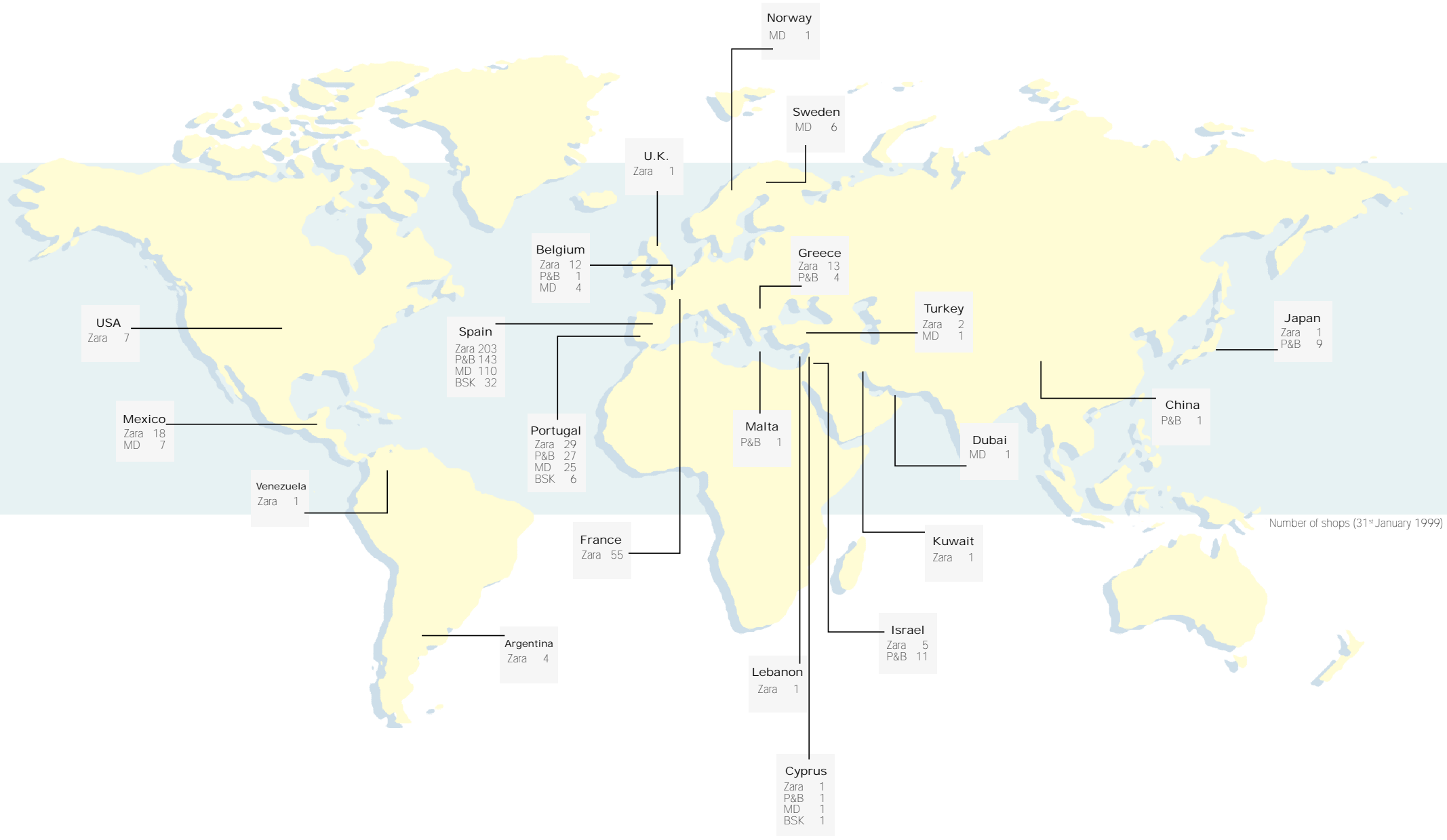
Finally, I would like to express my appreciation to all the people who work in the INDITEX Group and who through their dedication, enthusiasm and sacrifice, make the attainment of new goals possible every day.

Amancio Ortega

Chairman

2. international presence

Inditex Group
A whole world
to dress

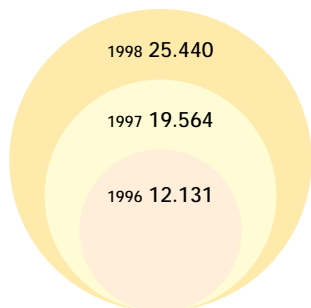


Number of shops (31st January 1999)

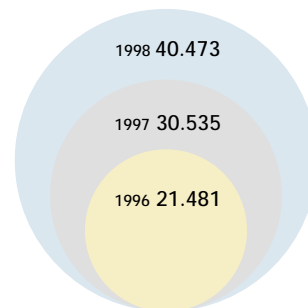
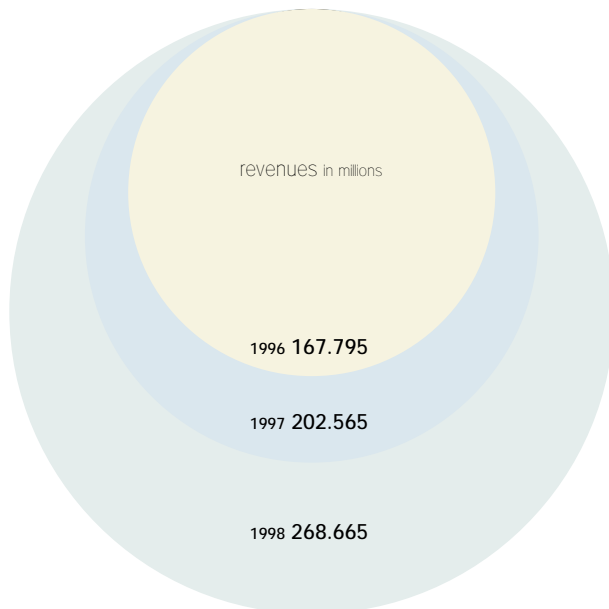
3. financial highlights

	Monetary Amounts in Million Pesetas (ESP)					GR 1998/1997	CAGR 1998 -1994
	1998	1997	1996	1995	1994		
REVENUES							
Net revenues	268,665	202,565	167,795	143,617	125,815	33%	21%
Net sales in owned stores and franchises (VAT excl.)	253,818	191,020	155,882	133,969	117,305	33%	21%
Percentage of net sales abroad	46%	42%	36%	30%	25%		
PREOFITS & CASH-FLOW							
EBIT	39,098	30,395	24,366	21,347	18,057	29%	21%
Consolidated income before taxes	38,100	29,583	18,657	15,387	14,092	29%	28%
Consolidated net income for the year	25,440	19,564	12,131	9,155	8,713	30%	31%
Income attributable to the controlling company	25,480	19,532	12,102	9,093	8,539	30%	31%
EBITDA	54,184	42,196	37,161	29,239	23,371	28%	23%
Cash - flow	40,473	30,535	21,481	19,114	14,427	33%	29%
FINANCIAL STRUCTURE							
Shareholders' investment	112,040	88,169	69,031	51,241	42,276	27%	28%
Net financial debt	15,477	6,382	16,363	13,742	14,788	143%	1%
Working capital	-8,625	315	-6,724	-11,450	-11,195	-8,940	
Financial	10,535	15,267	3,938	-159	581	-4,732	
Non financial	-19,160	-14,952	-10,662	-11,291	-11,776	-4,208	
OTHER INFORMATION							
Total investment in fixed assets	46,091	21,400	19,200	25,802	28,000	115%	13%
Number of stores	748	622	541	508	424	126	81
In Spain	489	433	399	391	343	56	37
Abroad	259	189	142	117	81	70	45
Average number of employees (*)	11,968	8,368	6,463	5,627	5,018	3,600	1,737
In Spain	7,637	5,857	4,573	4,158	n/d	1,780	1,909
Abroad	4,331	2,511	1,891	1,469	n/d	1,820	1,083
Average full time equivalents (*)							
Sales surface in square metres (sqm)	327,490	261,372	233,374	209,918	184,279	66,118	35,803
In Spain	193,614	163,767	151,653	144,348	136,638	29,847	14,244
Abroad	133,876	97,605	81,721	65,570	47,641	36,271	21,559
MANAGEMENT RATIOS							
Average sales per square metre	0,78	0,73	0,67	0,64	0,64		
Inventory turnover (purchases / average stocks)	6,77	7,31	7,24	8,21	8,97		
EBT on store sales	15%	15%	12%	11%	12%		
Net profit on store sales	10%	10%	8%	7%	7%		
Operating profit on store sales	21%	22%	22%	20%	18%		
FINANCIAL RATIOS							
Net debt on equity	14%	7%	24%	27%	35%		
ROE (income attributable on average shareholders' invest.)	25%	25%	20%	19%	22%		
ROCE (EBIT over average capital employed)	35%	34%	32%	35%	38%		
Cash - flow on net financial debt	3,50	6,61	2,27	2,13	1,58		
Cash - flow on net interest expenses	54	42	37	29	23		
Net gearing (assets on equity)	2,0	1,8	2,0	2,3	2,5		

growth



net profits
in millions



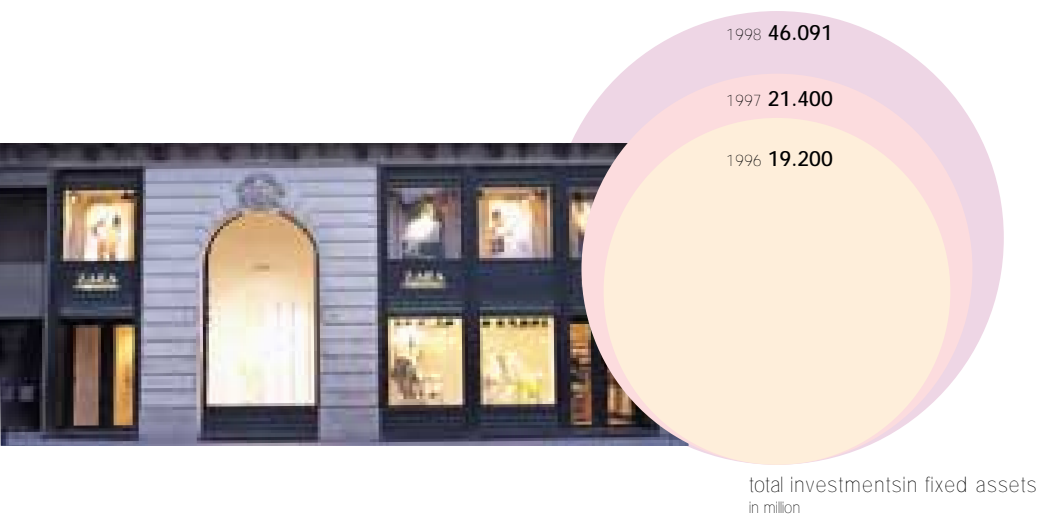
Cash-flow
in millions

In the fiscal year 1998 the Inditex Group has achieved revenues of Pta. 268,665 million, a 33% increase on the previous year. Net profit (Pta 25,480 million) and funds from operations (Pta 40,473 million) increased by 30% and 33% respectively, on the previous year.



The different chains of the Inditex Group (ZARA, Massimo Dutti, Pull & Bear and Bershka) have maintained a strong rate of growth, with 125 store openings. The number of stores by FYE1998 was 748. In 1998 a new chain was launched, Bershka, focussed on trendy fashion for the urban young girl. By FYE1998 Bershka had 40 stores in Spain, Portugal and Cyprus. In 1999 it will reach a total of 69 stores.

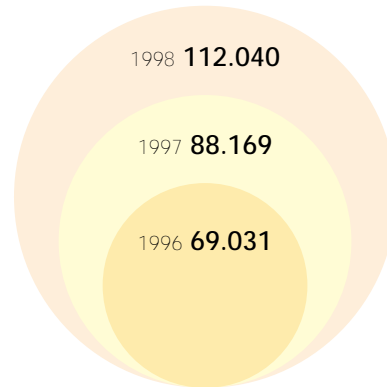
international expansion



international business accounted for 46% of the total turnover in FY1998, versus 42% in the previous year

At the end of 1998 the Inditex Group was present in 21 countries. During that period it increased its international presence by opening new markets such as UK, Japan, Argentina, Venezuela, Kuwait, Lebanon, Turkey and Dubai. The following is worth of mention: the opening of a flagship ZARA store in London (Regent Street, 1,800 sq. m.) meant the entry in the UK market. A second store was opened in March 1999 in Bluewater (Kent). The opening of the first store in Asia, located in the Shibuya district in Tokyo, took place as part of an agreement with the Bigi Group for the Japanese market. This store will be followed by more in Osaka.

by FYE1999 international business will represent over 50% of the total turnover



shareholder's investment
in million pesetas

During 1999 new markets have been entered such as Chile and Uruguay. In the rest of the year stores will be opened in Canada, Germany, Poland, Brazil, Saudi Arabia, UAE and Bahrain, expanding the Inditex Group's international presence to 30 countries. The entry of the Inditex Group into Germany, the biggest European market, through a joint-venture agreement with the Otto Versand Group will mean the opening of ZARA stores in Cologne and Hamburg before the end of the year.

The entry into Brazil, the biggest retail market in Latin America, with four ZARA shops by the end of 1999 will mean the consolidation of the Inditex Group in the main markets of this area. The entry into Canada will also take place with stores in prime commercial areas in Toronto, Montreal and Vancouver by the end of 1999, through an agreement with The Reitmans Group.

the Inditex Group has consolidated a presence in the biggest markets in the world and is well-positioned to maintain high growth rates in its activities in the coming years.

4. general information

Inditex Group



The Inditex Group is the development of a special idea about fashion and business management which started in La Coruña in the early 60's with a team led by Mr. Amancio Ortega Gaona. From its beginning, several features have stood out and become the basis for the Group's national and international expansion: creativity, painstaking design, innovation, fast response to the market, special attention paid to the interior design of the shops and flexible management.



an idea
about fashion
associated with
an integrated
structure

The Inditex Group covers a great part of the production process. It is an organisation in which design, production, supply, distribution, sales and management complement each other with precision. Creativity and efficiency go hand in hand so that its success in its design of collections is accompanied by an appropriate management system.

Inditex is a fashion concept linked to a large management structure.

flexibility



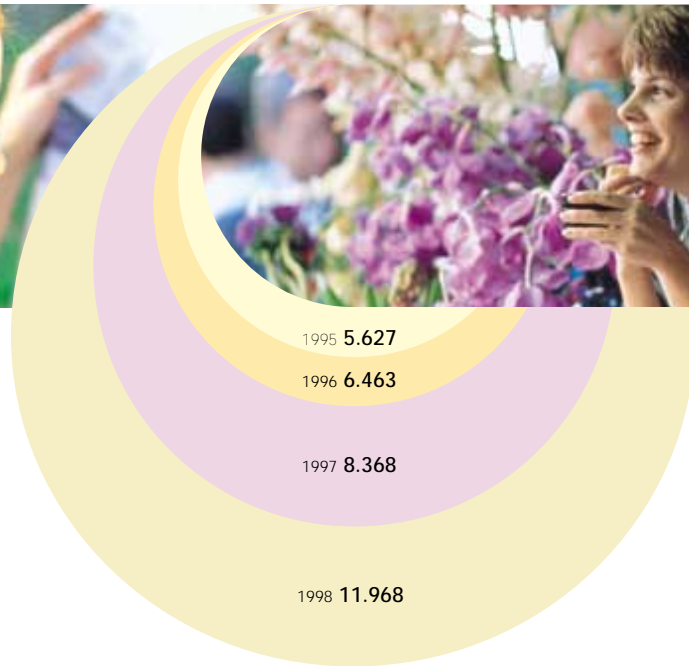
fashion in the
Inditex Group is
interactive

The distinctive stamp of the Inditex Group is its flexibility.

Its working philosophy, enthusiasm.

Throughout this long production process, which begins in the design department and ends in the shop windows, there are no rigid structures but rather working centres and decision-making bodies which are absolutely adaptable to the changing conditions of the market and, which are driven by endless enthusiasm and creativity.

enthusiasm



average number of employees
Persons/year.

People are the energy that moves the Inditex Group and it is precisely in those 12.000 employees, distributed in different tasks, that the heart of the company beats. A team which promotes the enterprising spirit, professionalism, involvement and enthusiasm of the people who make it up.

Thanks to them, it is a reality.

creativity



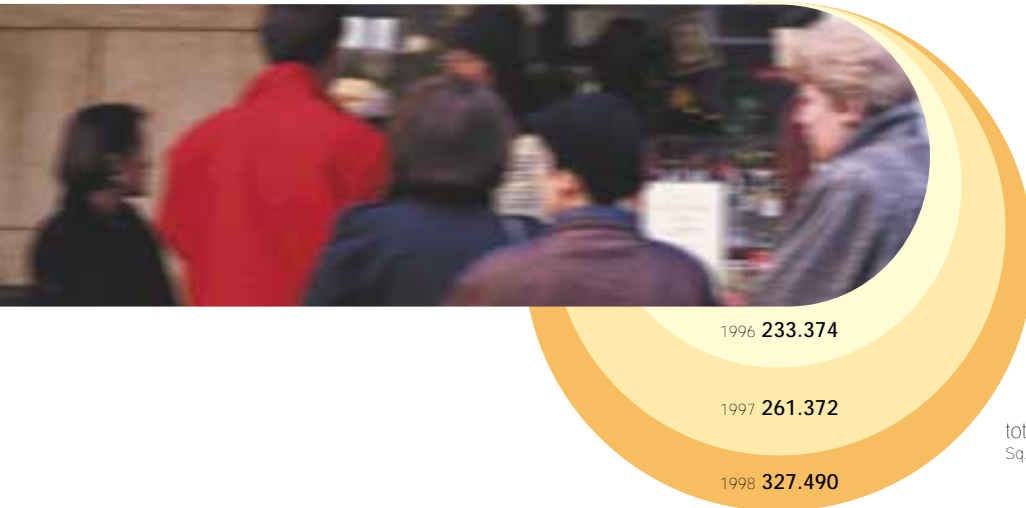
we establish
communication
with the client
not only through
the garments
but also
through our
shops

The client is the base that supports the strength of the Group. Knowing their desires, responding promptly, maintaining a constant dialogue with them in those meeting points which are the shops; here we have the pivots upon which Fashion rests.

The public is both the origin and the destination of the long journey travelled by a garment from the moment it is born in the designer's imagination till it is offered in the shop.



the motivating idea
of the Inditex Group is to
bring fashion closer to people



total sales area
Sq. Metres



The Inditex Group adapts itself to
the complexity of the markets by diversifying
its offer, creating and incorporating
different chains each with its own
personality and strategies:

ZARA, Massimo Dutti, Pull&Bear, Bershka.

innovation



in contrast to the idea of fashion as a privilege we propose a fashion that invades the street and that takes inspiration from the taste, desires and lifestyle of modern men and women.





ZARA

dressing ideas,
trends and tastes



ZARA represents the first step in the development of this special idea about fashion and business management, which began when the first shop was opened in La Coruña in 1975.



after 24 years,
the ZARA concept is now
present in 16 countries
with a network of more
than 350 shops.

The conviction that frontiers will not prevent the sharing of the same clothing culture is the main principal of the expansion process in progress which, although adapting itself to the peculiarities of each country, has common guidelines such as privileged locations in the main cities, and exquisite care of the facades, shop windows and interior design.



In ZARA, design is understood as a process closely linked to the client through a continual flow of information arriving from our shops, which capture, process and transmit the worries and demands of customers to a team of more than 200 professionals.



This process, backed up by 25 manufacturing companies and advanced technologies, allows us to respond to the demands of the market by creating more than 11.000 different designs a year. ZARA knows how to move in step with society, dressing those ideas, trends and tastes that this society has been thinking out. That is the reason for its success among people, cultures and generations who, in spite of their differences, share the same longing for a fashion for everyone in which the designer and the client walk hand in hand. Customer service is also reflected in the care given to the shops. The idea is that the public will feel comfortable, enjoy the environment provided and appreciate the clothes on display. The shops are designed to create a special atmosphere that makes the client feel the pleasure of shopping.





Pull&Bear
a lifestyle

at the end of FY1998,
and as a result of a continuous
process of expansion, Pull & Bear
has opened more than 200
shops in 9 countries.



The chain of fashion shops Pull & Bear was born in 1991,
as a result of a strategy of market diversification begun
by the Inditex Group. At that time, the public was demanding
basic style fashion, influenced by international trends,
a fashion which could also adapt quickly to their
needs respecting three basic premises: fashion, price and
quality. This is the combination that Pull & Bear offers
to its clients as a higher added value.

The Pull & Bear design team carries out rigorous research into fashion trends, fabrics design and the design of collection. The development and quality control of the samples result in the creation of new designs each season.



Pull & Bear has known how to respond to its clients' demands and has continued evolving and growing in order to satisfy their new requirements: more sophisticated garments, more casual and urban fashion, a concept that enters strongly into fashion trends influenced by the technological advances in casual wear. A simple and pure appearance without superfluous elements (XDYE brand), womens' fashion, perfumery products, accessories and even a range for home decoration (P&B Decoration), maintaining the highest standards of quality and the best prices. The philosophy of the business is very clear: the Pull & Bear shops offer what the client wants to buy at every moment.



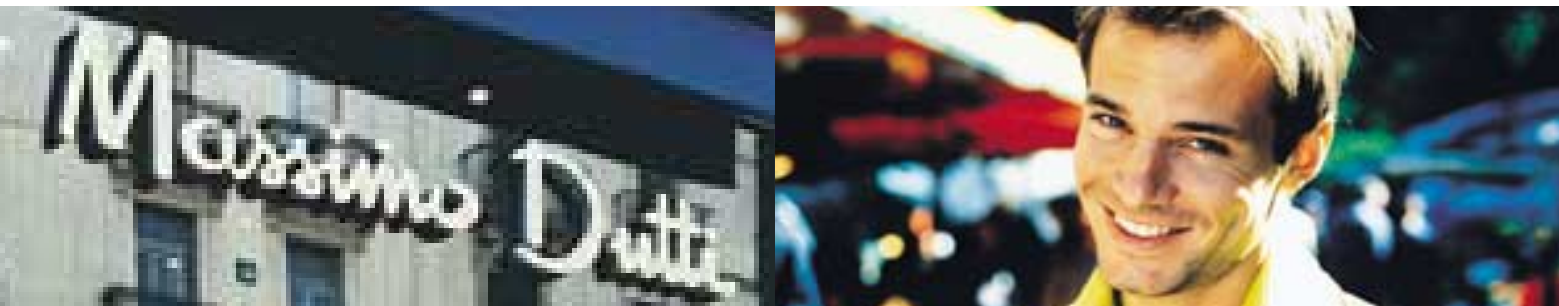
Massimo Dutti



functionality and design

Massimo Dutti was born in 1985 as a company dedicated to the commercialization of men's clothing and accessories. However, in June 1995, based on the success achieved by this format, it was decided to increase its offer and create the women's line Massimo Dutti Woman.

Massimo Dutti, has more than 150 shops located in nine countries. The success of the brand is the result of a universal design that crosses frontiers in order to connect with the urban, independent and cosmopolitan men and women of today.



Massimo Dutti makes it easier to interpret the different roles played by men and women in our society. It presents complete ranges, from the most urban style to casual wear, an expression of comfort and adaptability. Massimo Dutti garments adapt to any kind of situation, it just takes the right accessories. Handbags, sunglasses, scarfs, ties, shoes and an endless number of Massimo Dutti accessories which are at the service of the clients let them decide the image they want to present, from the most sober and practical for the day to the most sophisticated and elegant for the evening. Furthermore, a new line of home furnishing accessories has been introduced, "Detalles".

Basic traditional styles, updated by new generation fabrics, but always practical, pleasant and of quality, discreet textures, 100% natural fabrics and innovative mixtures offer as a result an impeccable image with the guarantee of maximum comfort. A cared style which is coherent with the sobriety, elegance and minimalism that characterises the Massimo Dutti collections.

sobriety,
quality and confort



Bershka

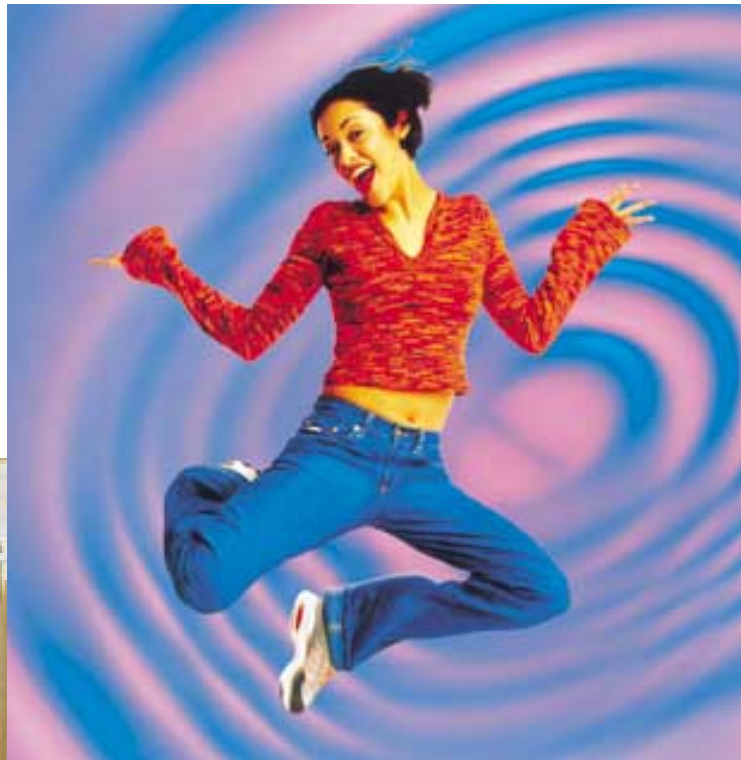




more than
a product
an attitude

Bershka was born in April 1998 and represents a new concept both of shops and of fashion, maintaining the Group philosophy of keeping sensitive to the people's tastes and responding quickly to their demands.

In this, its first FY, Bershka has opened about 40 shops in Spain and Portugal. These shops represent the first step in its expansion project.



Bershka shops are big, spacious and with the wish to be a meeting point for fashion, music and street art. At the entrance, the logo "meeting point", taken from airports, stress the intention of creating ultra modern environments where young people can feel in their own space. Big pictures on the walls, advertising photos so enlarged as to seem to be wall paper, as well original graffiti on uncovered walls of brick, metal or design. You can watch videos, listen to the latest CDs , buy drinks, read magazines... It is a store where the experience of buying fashion becomes a sociocultural immersion in the aesthetic of the "youth culture" of the end of the century.

modern, urban
and fun environment



More than a product it is an idea, an attitude. Stepping into a BERSHKA shop is like jumping deep into the urban, fun and ultra modern ambience with a unique look and affordable prices. There is also a big and ever changing range of shoes, bags, belts, sunglasses, watches, lipsticks, nail polish,... All of them with the radical BERSHKA style.