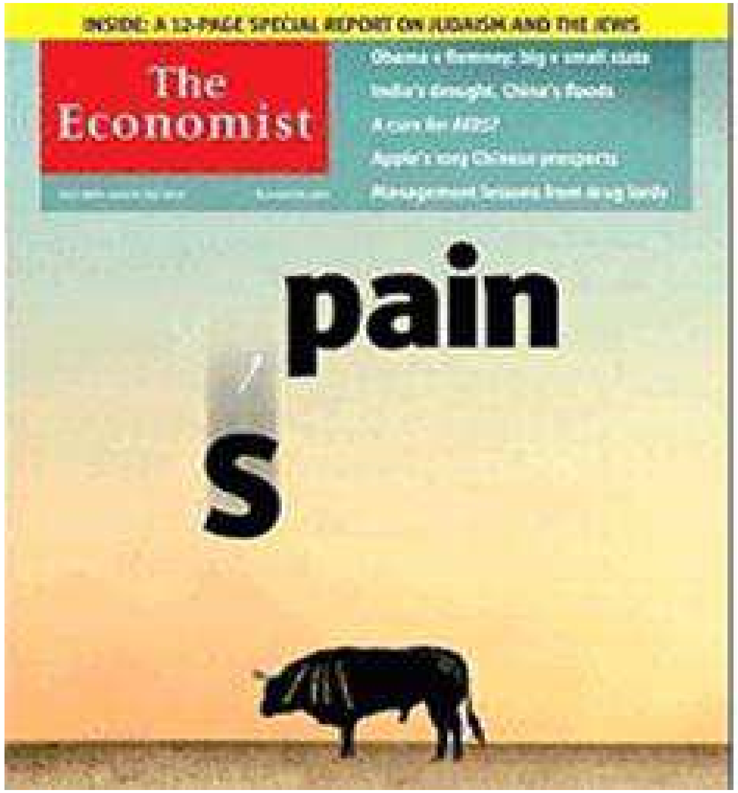
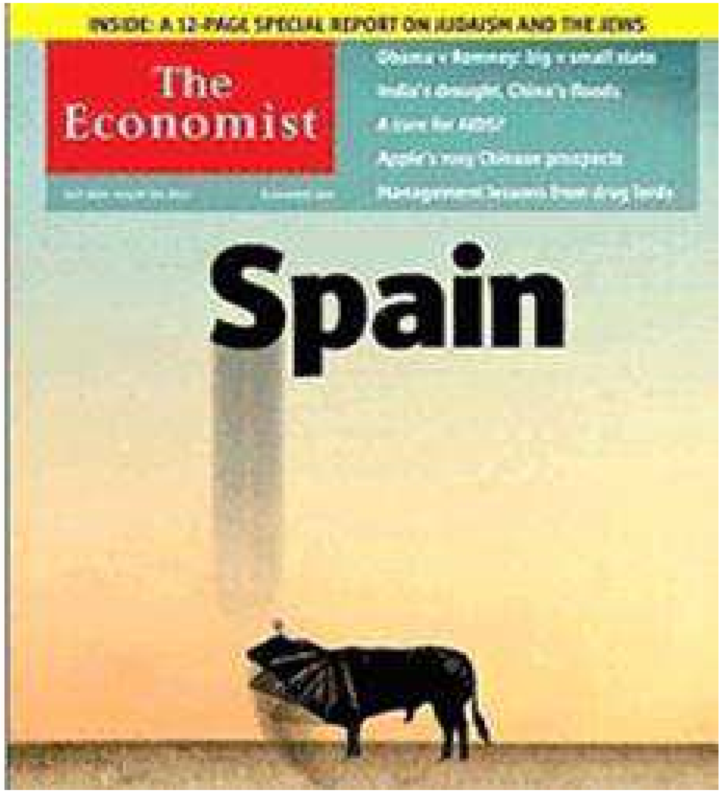
Spain 2014 = Germany 2004

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com





Executive Summary

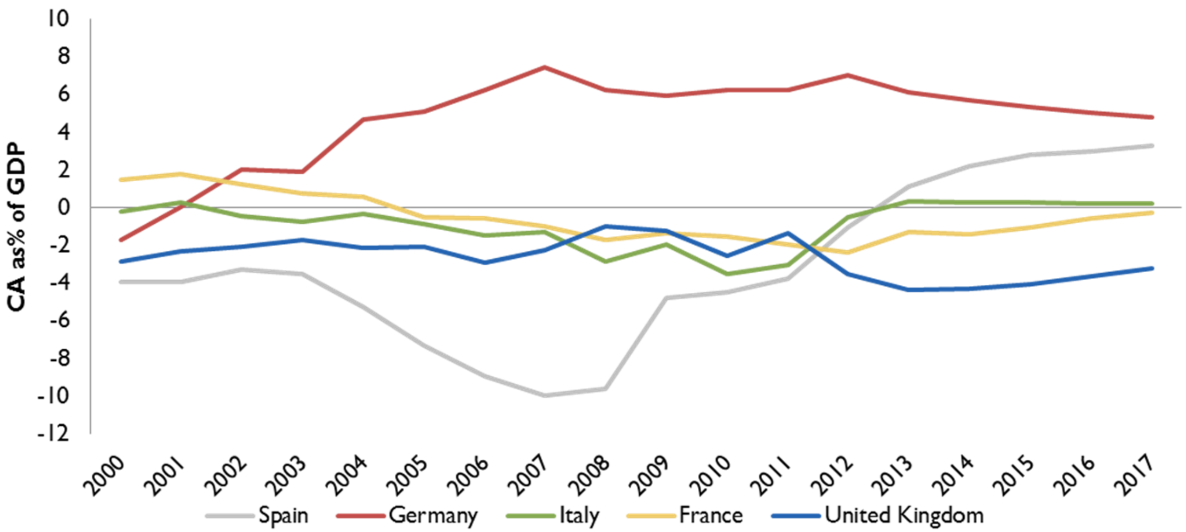
- In October 2012, Arcano published "The Case for Spain: it's the fundamentals, stupid!" positioning itself as the first research house to provide clear and reasoned analysis advising investment in Spain. Since then, fundamental indicators of the Spanish economy have improved, and other banks have begun changing their view on the country, giving positive recommendations.
- In this second edition of "The Case for Spain," we analyze the parallels between Spain and Germany, the imminent recovery of private investment and consumption, and the enormous potential of the Spanish economy in the mid-term.
- After its unification, Germany experienced a profound economic crisis; investors named it the "Sick man of Europe," even as late as 2005. However, the country implemented a series of reforms beginning in 2002, which soon began to bear fruit: Germany established itself as an export-led economy, ended its recession in 2004, and saw consumption rates turn positive even though credit did not expand. These factors quickly reduced the risk of investing in Germany.
- Spain is now entering 2014 with similar prospects to those of Germany in 2004. Following recently implemented reforms, Spain has become an export powerhouse, and it will fully leave the recession behind in 2014, with private investment and consumption growth turning positive after three years of decline and credit levels stabilizing. Spanish systemic risk is decreasing at an accelerated rate even though a number of myths about the economy remain widespread.
- Though Spain still faces clear risks, which are discussed in this report, it presents a strong potential for upside in the years 2015 to 2020, and this upside is still not well measured by many investors.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Why Spain in 2014 is similar to Germany in 2004

Current Account forecast



Source: IMF

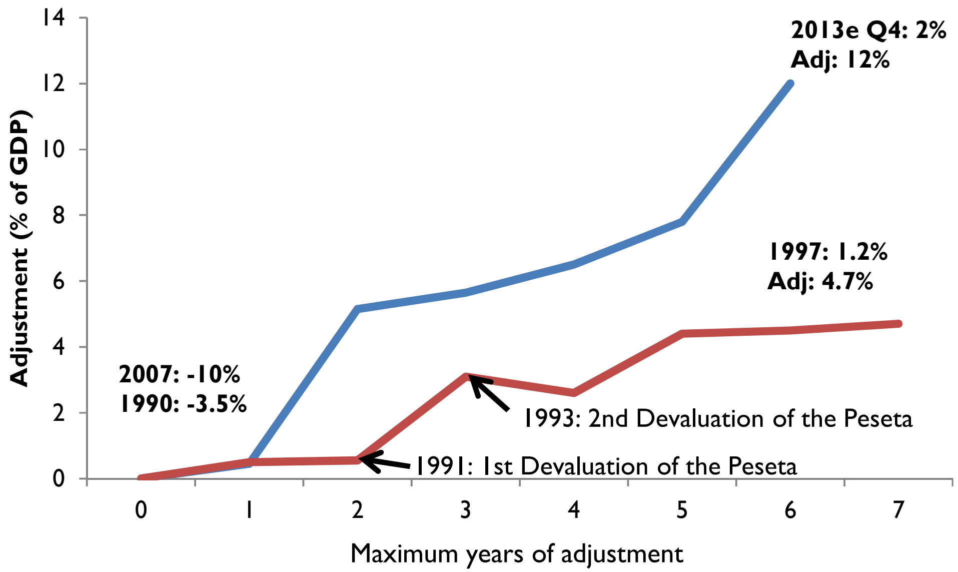
- A country's Current Account balance measures the difference between its savings and investments. It can be positive (in the case of a Current Account surplus), enabling it to finance other nations, or negative (in the case of a deficit), which creates a dependence on foreign capital. Economies with a surplus (such as that of Germany) have a lower risk profile than those with a deficit (such as that of Turkey), and this lower risk profile results in a lower risk premium.
- In the year 2000, Germany suffered a deficit of 1.7% of GDP. After implementing a series of reforms, it was able to achieve a surplus of 5% in the year 2005, representing an adjustment of 7% (of GDP). In comparison, Spain has adjusted its Current Account by 11%, also during a five year period, and it should reach a similar level of surplus as Germany in the near term.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ten false claims about Spain

One: It is impossible to adjust the Current Account by 11% without a devaluation

Adjustments of Spanish Current account deficit



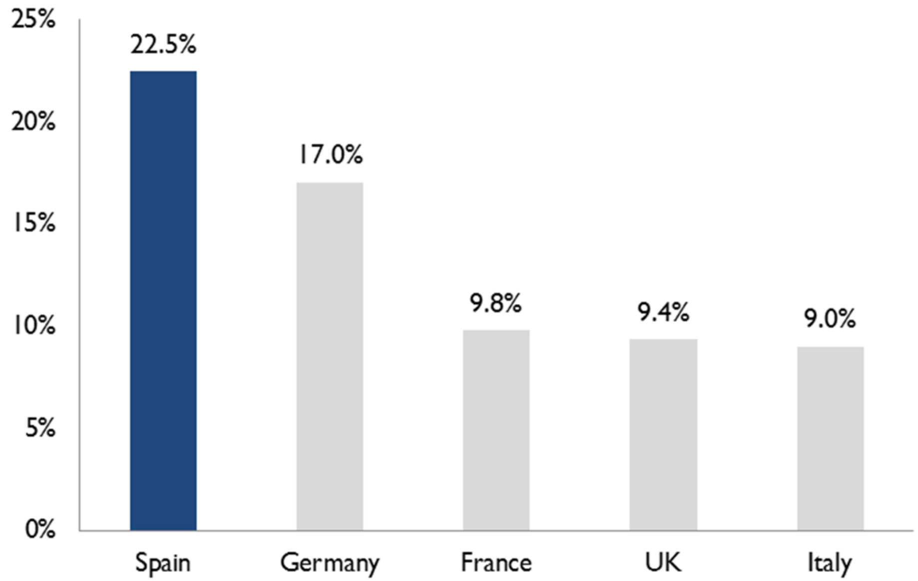
Source: Bank of Spain, Eurostat

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Spain has historically adjusted its current account deficits by devaluing the currency (peseta). The last three times it did this, it achieved a maximum deficit reduction of 4.7% (1997)… for this reason, many people believed that leaving the Euro was the only way to adjust Spain's deficit in the years 2007-2008. However, Spain's structural reforms have driven clear improvements in competitiveness without a devaluation in its currency.
- The country's export revolution explains this "miracle" adjustment of 11% in 5 years. The current account surplus will surpass 2% of GDP in 2013, and this surplus in savings should gradually reduce the country's external debt.

Two: If a country's currency depreciates more than another's, its exports will outperform the other's

Export evolution 2008 -2013e (%)



Source: Eurostat

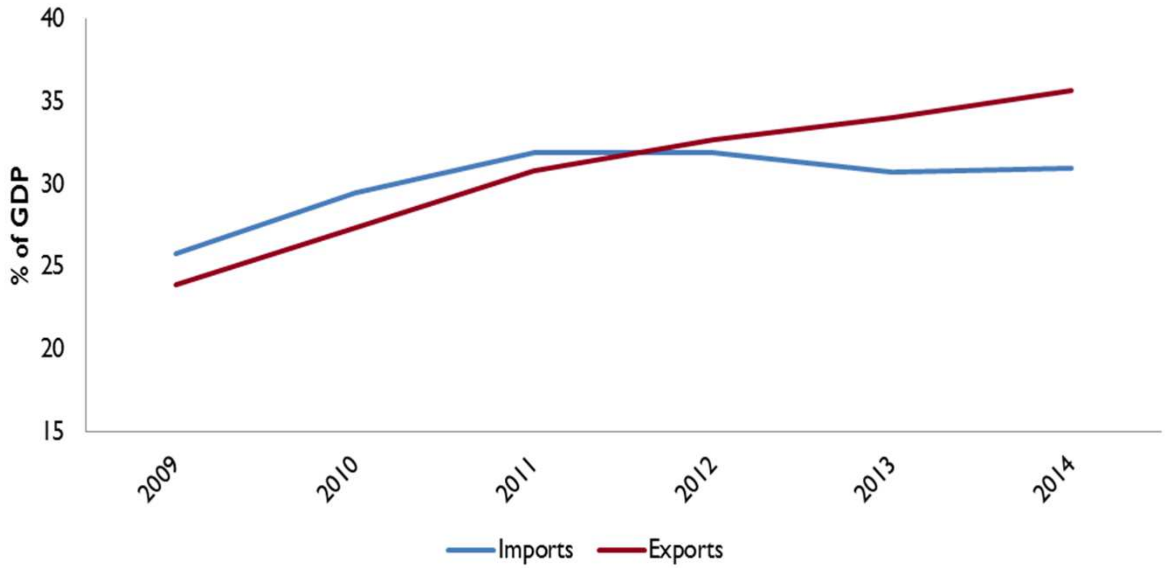
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- The sterling pound has depreciated by 25% since 2008, vs. the euro at only 7% (against a trade-weighted effective exchange rate index). However, during that period, British exports increased by only 9%, while Spanish exports grew 22%. Apart from competitiveness in salaries and productivity, Spain's export revolution can further be explained by a "cultural factor" (propensity to go abroad in the face of a crisis in internal demand). These figures show that Spain's diverse production capacity (more diverse than that of the UK) has been very relevant to its export revolution and that the difficult reforms it has undertaken are generating results.

ARCANO

Three: Current account deficit improvement is due to a drop in Imports

Exports and Imports as % of GDP

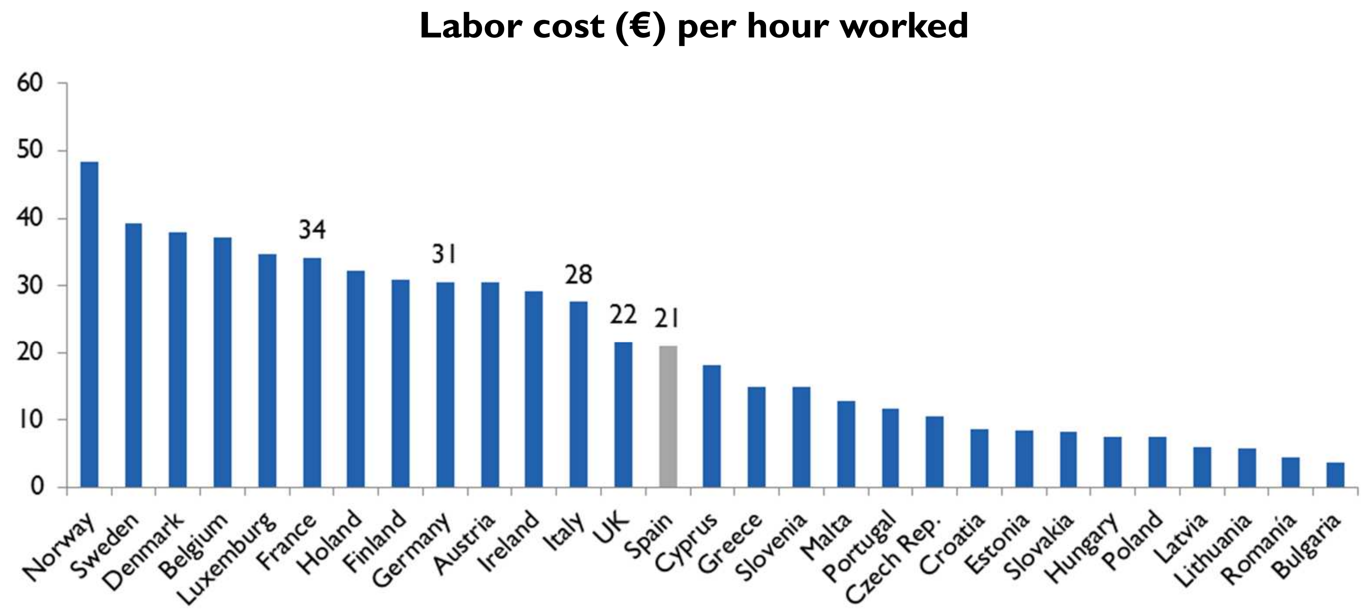


Source: Eurostat

- For every €100 in Current Account improvement, €66 (two thirds) is driven by export growth. Spain's export revolution is, therefore, the key driver behind its improved external position.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Four: Spanish companies can not compete against European peers due to higher financing costs



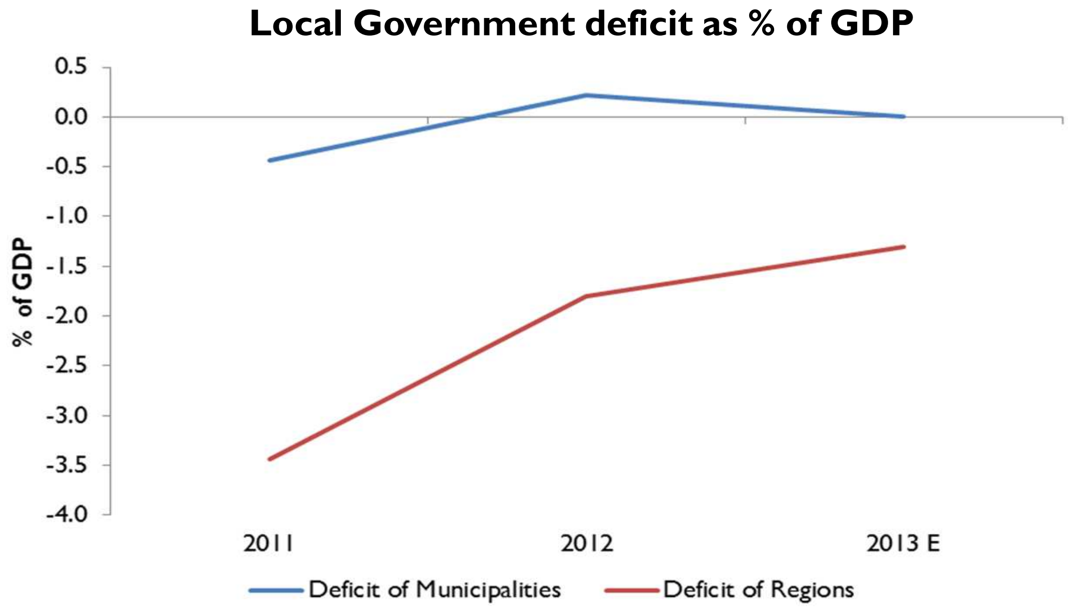
Source: Eurostat

- In a typical company, labor costs are five times more important than financial costs. Today, the Spanish worker is one of the most competitive in Europe with respect to salary/productivity. Therefore, even though Spanish companies do suffer higher financing costs, they still have significant competitive advantages over German, French, or Italian peers in terms of total costs. This explains the country's improvement in competitiveness and exports.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

ARCANO

Five: Spanish autonomous regions and municipalities are incapable of reducing their fiscal deficits



Source: Eurostat

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Spanish autonomous regions have reduced their total fiscal deficit from 5.1% of GDP in 2011 to 1.8% in 2012, representing over €32 billion. This effort has mostly been driven by cost-cutting. These municipalities balanced their budgets in 2012, and their total fiscal deficit stands at only 1.3% now in 2013.
- Total fiscal adjustments have reached 10% of GDP, the second highest in the Western world.
- As a whole, Spain has adjusted its primary structural deficit (not linked to the economic cycle and before interest) by 3.7% of GDP between 2012 and 2013 (2.2% in 2012 and 1.5% in 2013); its 2014 adjustment will stand at 0.5%.

ARCANO

Six: In order to adjust fiscal deficit, Spain is limited to raising taxes, instead of cutting costs

	2009	2013	Change
Public spending % of GDP	46.3	42.9	-3.4
Public Income % GDP	35.1	36.0	0.9
Deficit	11.2	6.9	-4.3

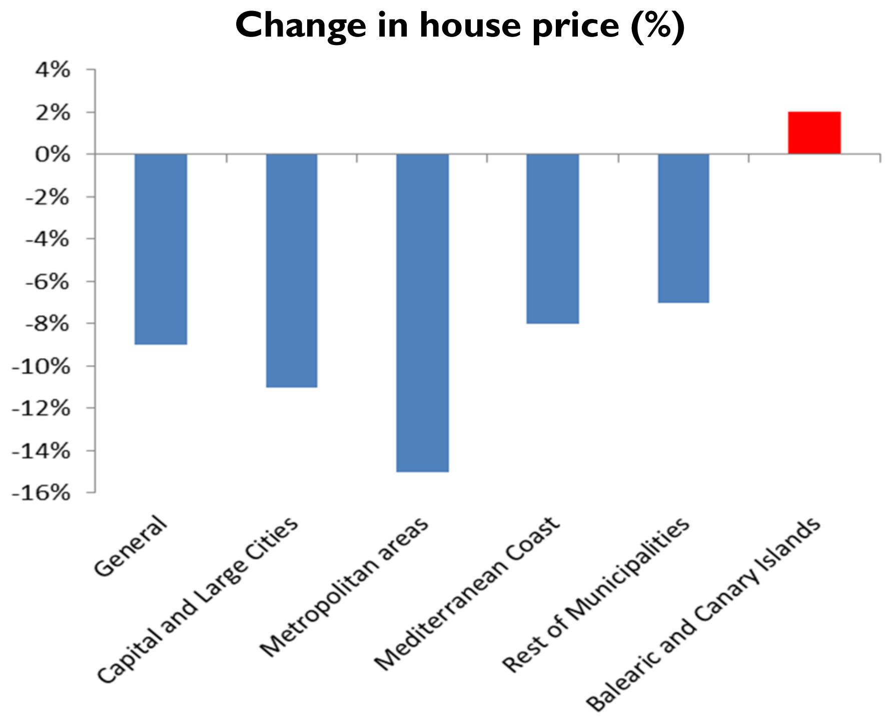
Source: OECD, excluding accounting expenses of bank recapitalization

- Though tax rates have increased, the net effect of the economic cycle is very different. Measured as a % of GDP, three quarters of the deficit reduction is due to lower public spending, and only one quarter is due to higher taxes. 2012 was the only year in which tax increases outweighed cost reductions in terms of contribution to deficit reduction.
- According to the country's fiscal stability plans for 2014-2016, deficit reduction will continue to be driven largely by cost reduction (two parts cost reduction to one part tax increase).
- In the long term, revenues and expenses will converge and will each account for 39% of GDP, making Spain one of the countries with the lowest level of public expenses in the Western world.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Seven: House prices will not rise until inventory of empty houses is cleared

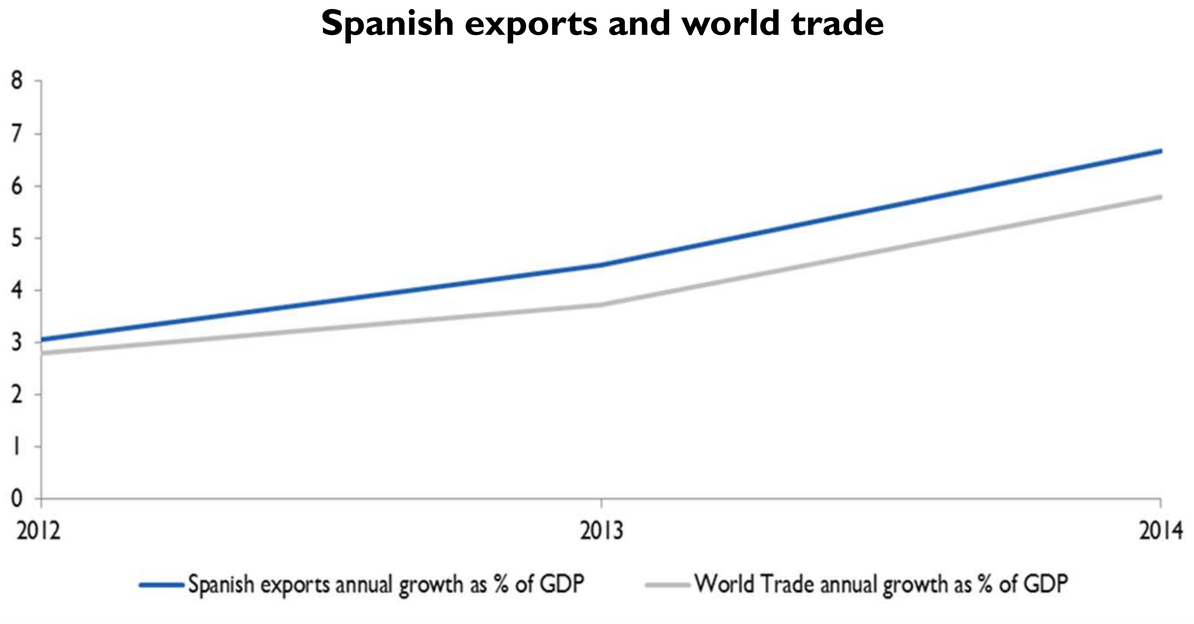


Source: TINSA 2013

- The stock of empty houses (0.6 to 1 million, two thirds of which are new homes) could clear in some areas and stay unsold in others, explaining rises in prices. This effect can produce mid-term increases in the national average even if there is still inventory in areas such as the Mediterranean coast.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Eight: Spanish exports grow only if world trade grows

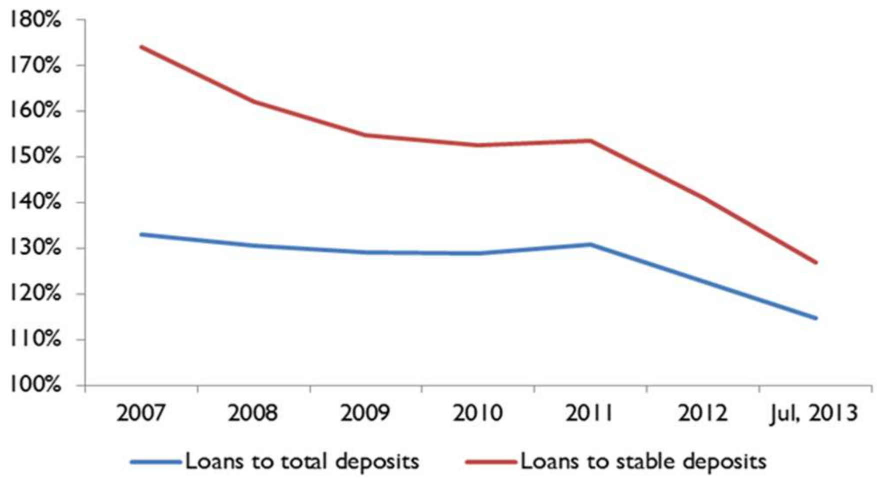


Source: OECD

- Many Economists predicted Spanish exports would grow 3% in 2013, in line with world trade. The reality is that in H1 2013, Spanish exports grew 7% in nominal terms, while world trade grew only 2.5%.
- Exports are growing faster in Spain because the country is gaining market share vs. other countries. This is because the Spanish companies that survived the crisis are particularly competitive.

Nine: Private sector financing will continue contracting in the coming years

Loan to deposit ratio



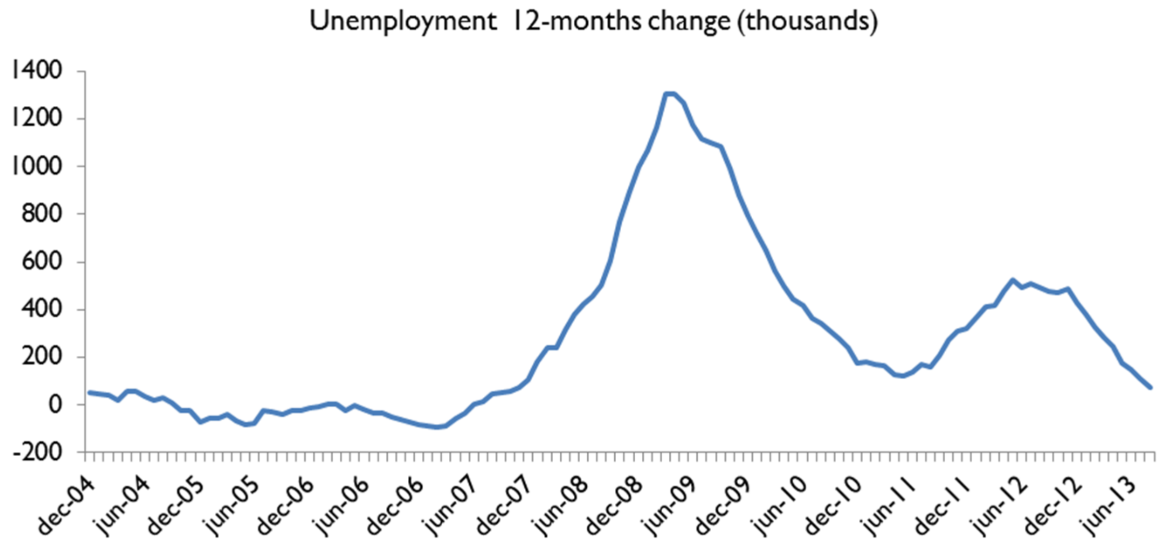
Source: Bank of Spain

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Evolution of credit is explained by bank solvency (analyzed on page 53) and the ratio between loans and deposits. Regarding the loan to deposit ratio, the closer it approaches 100%, the easier it will be for banks to provide credit. In 2008, analysts believed that Spain would need at least 8 years to balance its ratio of loans to high quality deposits (families and non-financial businesses) from a peak of 216% in 2007 to 127% (or 115% considering total deposits). In the end, Spain reached this goal within only four years, and deposits are at higher levels than they were before the crisis of Bankia.
- The evolution suggests that the worst of the credit crunch is over, the banking sector is stabilizing, and non-bank financing is reaching a turning point.

Ten: Spain must grow at a rate of 2% in order to create jobs

Unemployment stabilization in Spain



Source: Bloomberg

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- The threshold of 2% growth in order to create employment is no longer relevant – it was based on the inflexible labor regime established in Spain in the 1940s. With its newly reformed labor regime and emergence from the recession, Spain can create jobs with relatively low levels of growth.
- In fact, Spain generated 340,000 gross jobs between April and August 2013 in spite of flat GDP growth. Though these jobs are mostly seasonal and temporary, the last time Spain created 340,000 jobs was in 2006 when GDP was growing at a rate of 4%. This could be the first empirical evidence of a change in "Okun's Law," as Spain needs to grow less than previously in order to generate employment.

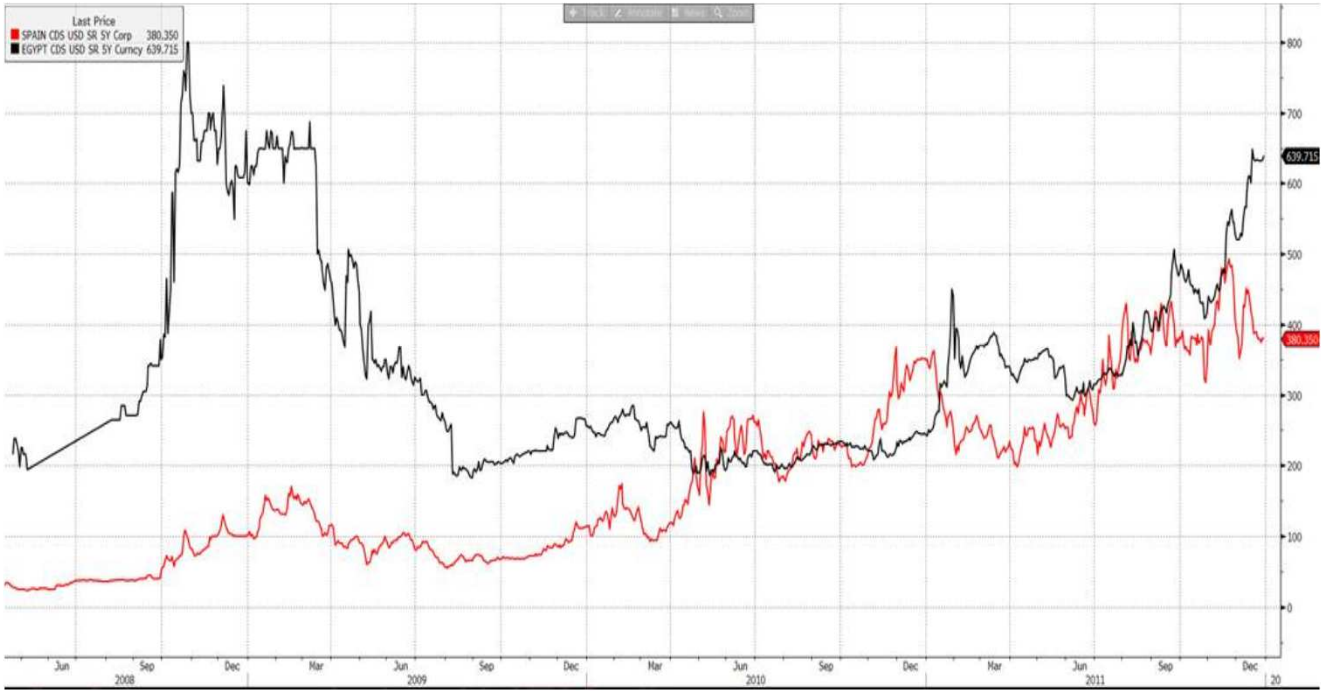
ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Reasons why Spain is no longer a systemic risk

Was Spain riskier that Egypt in 2010 and 2011?
Credit Risk: CDS Spain (red) vs Egypt (black)

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com



Source: Bloomberg

- The Credit Default Swap (CDS) market measures sovereign default risk. In 2010 and 2011, this market considered an investment in an emerging market country governed by dictatorship without a middle class (Egypt) to be less risky than an investment in a liberal democracy with a strong middle class (Spain).

ARCANO

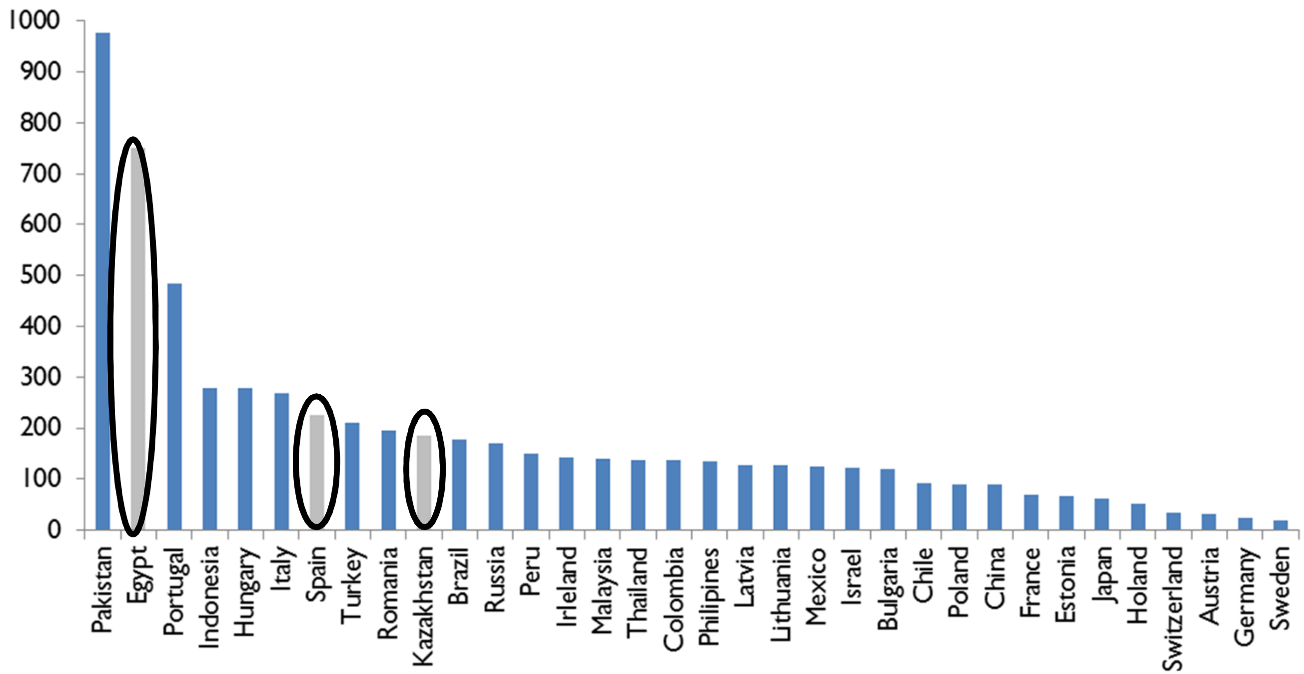
Egypt: 2013 Coup d'etat and social outbreak

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- It took a coup d'etat and near civil conflict for the financial markets to react.

After two years of riots, the CDS market has appropriately adjusted for Egypt's risk…but is Spain riskier than Kazakhstan?

CDS spread, October 2013



Source: Factset

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Today, the CDS market suggests that Kazakhstan is a safer investment than Spain.

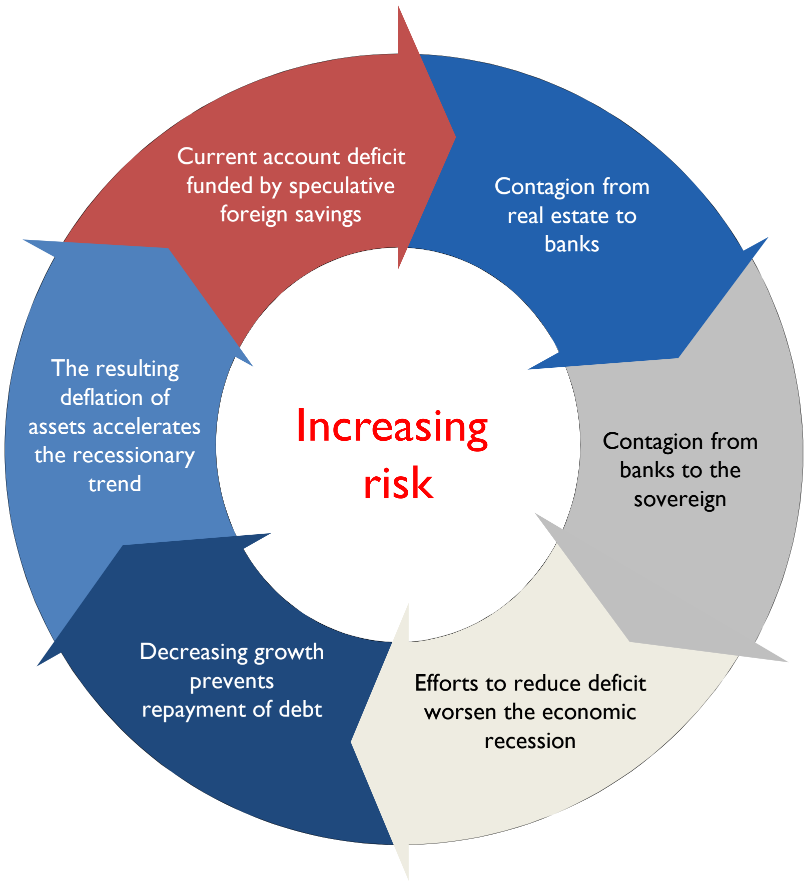
ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Spain is still facing many risks…

- International net debt at 90% of GDP is very high and only sustainable through the implicit and explicit support of European institutions. Though the level of sovereign and household debt (measured as a % of GDP) is relatively comparable to that of other countries, corporate debt is substantially high, partly due to the internationalization of Spanish companies (evidenced by average debt as a % of assets, which is not particularly high).
- Though real unemployment is lower than official figures suggest (26.7%) due to the weight of Spain's underground economy (which constitutes 1/5 of the total economy), unemployment is still intolerable, particularly for young people. Of the 3.6 million jobs destroyed in Spain since 2008, one third (1.2 million) belonged to young people. Only 7% of workers between the age of 35 and 49 lost their job during that time.
- Fewer than 14 million Spaniards work in order to support a total population of 46.5 million people, including 8 million pensioners, 9 million children (under 16 years old), 2.6 million public employees, and 5.9 million unemployed.
- Banks continue to reduce credit to the private sector (total reduction of roughly €400 billion since 2009) largely due to capital restrictions resulting from the increase in provisions (€200 billion in three years) in order to cope with the high level of delinquency (12%, a record high). At the same time, banks have enormously increased loans to the government (by €500 billion), resulting in a "crowding out" effect (transfer of credit from the private to the public sector).
- The slow pace and lack of clarity of reforms in the EU, and especially in the banking union, could generate uncertainty among investors, which would negatively affect the risk profile of Spain.

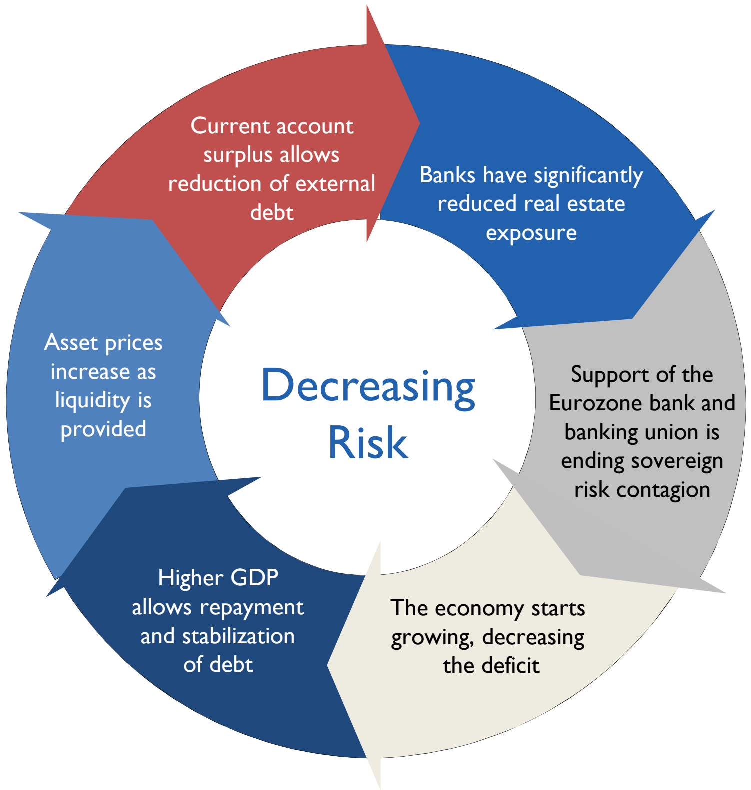
Until summer 2012, Spanish systemic risks were caught in a vicious circle, suggesting an impending catastrophe

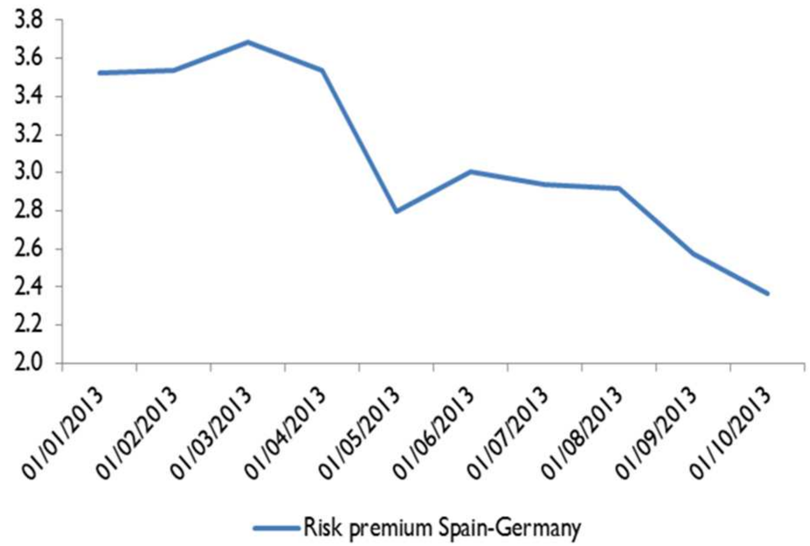


Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

But in 2013, this has become a virtuous circle





- The negative effects from contagion are turning into positive factors. The change in the private sector, which has turned a 13% (of GDP) deficit into a 5% surplus in 2013 (excess of savings over consumption and investment) has been the key factor in this trend.

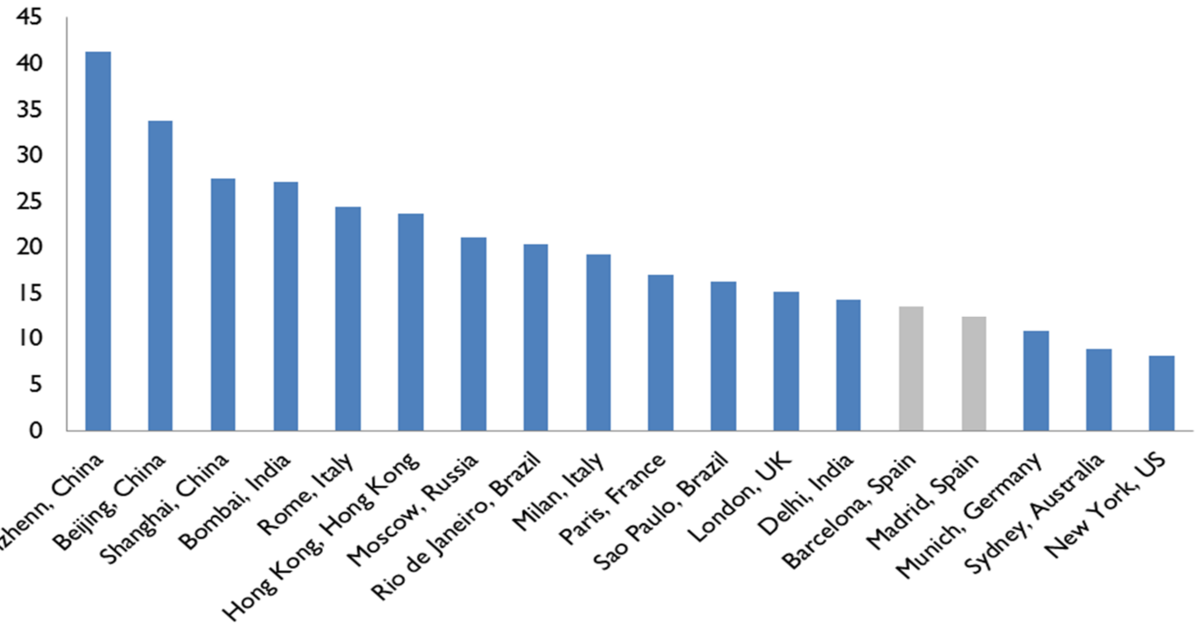
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Considerations on the Spanish real estate sector

- Real estate statistics are generally limited and difficult to interpret.
- In the long term, house prices obey one relationship: that between prices and household income.
- In Spain, there are currently 17.5 million households and 25.3 million houses, a proportion of 1.45x.
- Following a decline of 40-43%, house prices in Spain are currently at 5.7x gross income (2003 levels), vs. peak levels of 7.8x in 2009. The historic average is between 4 and 5x. The average price per square meter of a house inSpain is currently €1,482.
- The effort in buying a home has fallen from 42% of income in 2008 to 32% in 2013.
- The average price per square meter of a house in Spain is around €1,500.
- Since June 2013, important foreign institutional investors have been purchasing Spanish real estate. Such investors include AXA, Blackstone, IG, Varde, Goldman Sachs, and Anchorage (Appendix 1).
- Home sales over the past 12 months have stabilized at around 320,000 units (152,000 new homes, 168,000 secondhand homes), while home construction stands at only 40,000 units per year.

Where is the real estate bubble?

Relationship between house prices and gross income (2013)



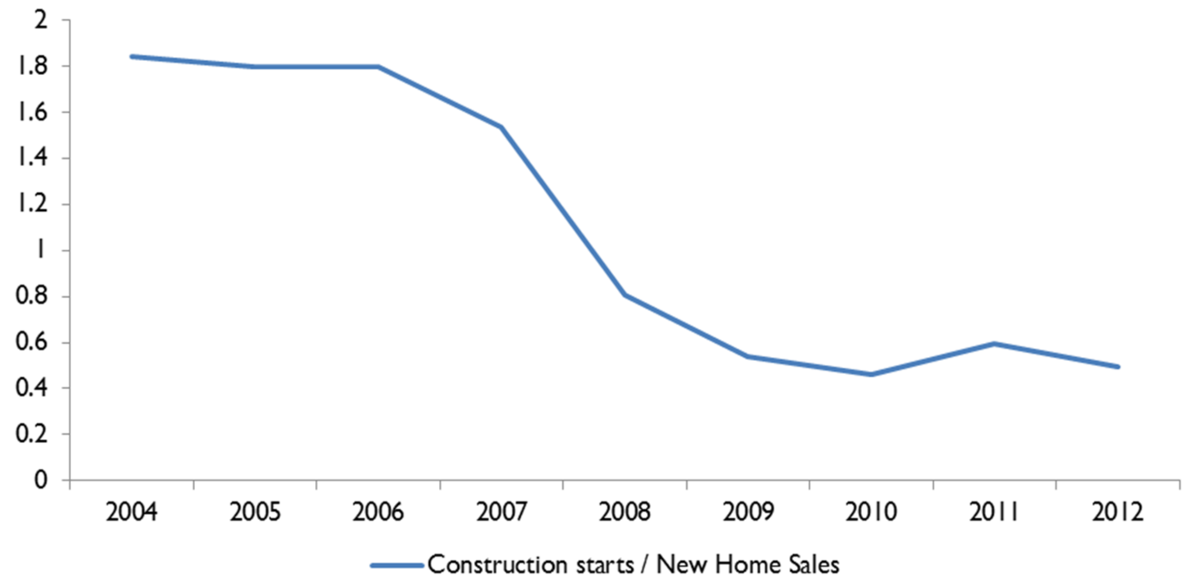
Source: Numeo.com

- In the long term, house prices obey one law: to maintain a stable relationship between house prices and household income. The national average ratio is always lower than that of the capital city, but an international comparison suggests that the highest risk of a real estate bubble today is actually in the BRIC nations.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

The risk is in constructing more homes than can be sold

Ratio of new homes built to new homes sold



Source: Bloomberg

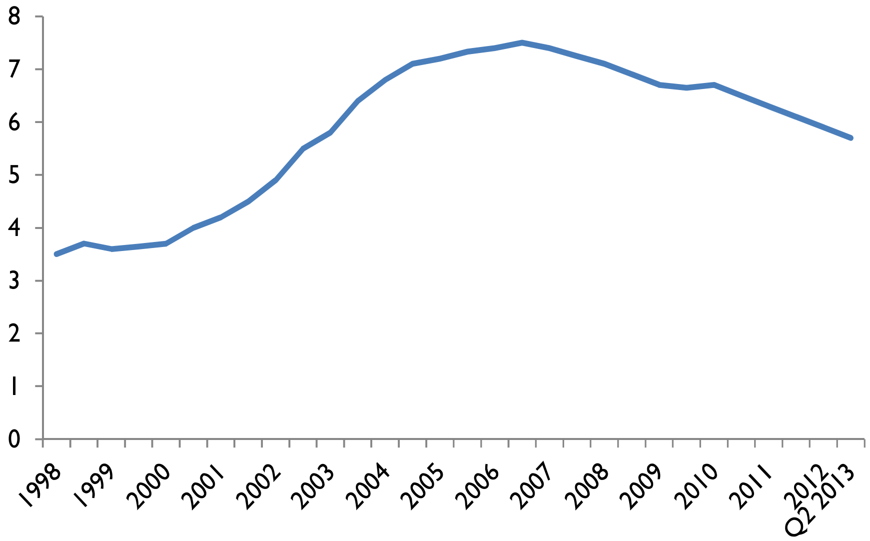
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- In Spain, the ratio of construction of new homes to new home sales stands at 0.5x. In China, this ratio is 3.5x.
- Ratios greater than 1 indicate risk of a real estate bubble. Less than 1 indicates potential upside (in the long run, this ratio tends toward 1).

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Is the past a reflection of the future?

House prices vs. gross income

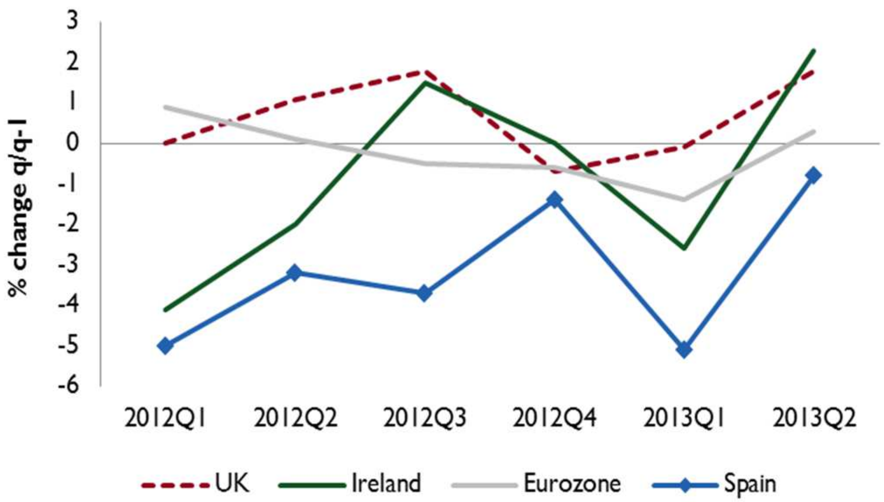


Source: Bank of Spain

- It is questionable whether house prices must always revert to the mean. In the current situation, we must consider three things: i) interest rates are at historically low levels, ii) liquidity is provided by central banks' balance sheets (three times their typical size) is very high, and iii) arbitrage is generated between prices and disposable income of foreigners, who have been increasing real estate purchases in Spain (non-resident purchases as a proportion of total purchases have doubled from 10% to 22%).

Is anything changing in the real estate sector?

Growth in house prices, quarter on quarter



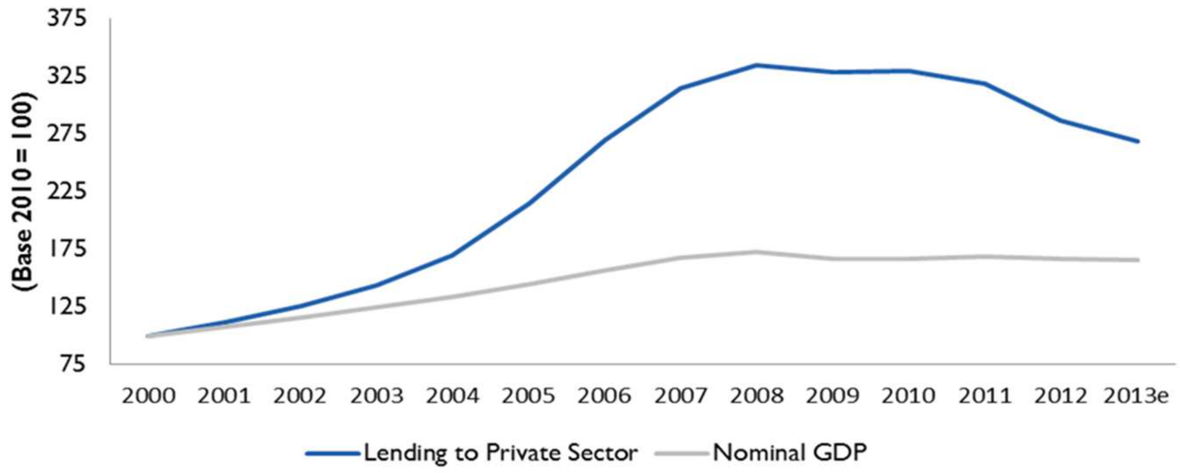
Source: Eurostat

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- In line with the European trend, Spanish declines in house prices eased in Q2 2013, from a qoq decline of 5.1% in Q1 to a qoq decline of only 0.6% (*Source: Eurostat*).
- Fotocasa's index of house prices turned positive in July 2013 after suffering declines for several years.

Credit in Spain: Which GDP do we prefer, 2006 o 2014?

Evolution of private credit vs. GDP



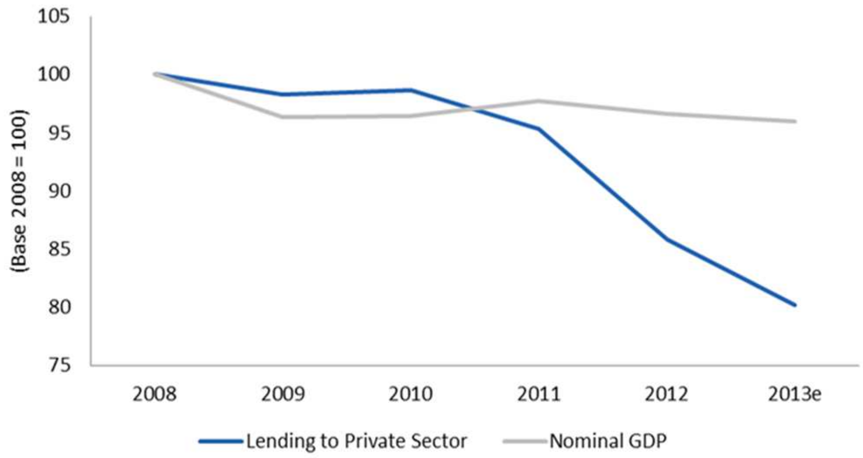
Source: Bank of Spain

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Spain needed 3 euros of credit in order to generate 1 euro in nominal GDP in 2006 - this credit intensity was a clear indication of a bubble. The relation between credit and real GDP was substantially higher, at 5 to 1.
- In 2014, credit will likely not grow, and GDP will increase by 2.5% in nominal terms. This implies that 2014 GDP growth is of much higher quality than that of 2006.
- Both credit and credit bubbles have moved to the emerging economies between 2007 and 2012.

The Spanish Economy is resilient

Annual growth in credit



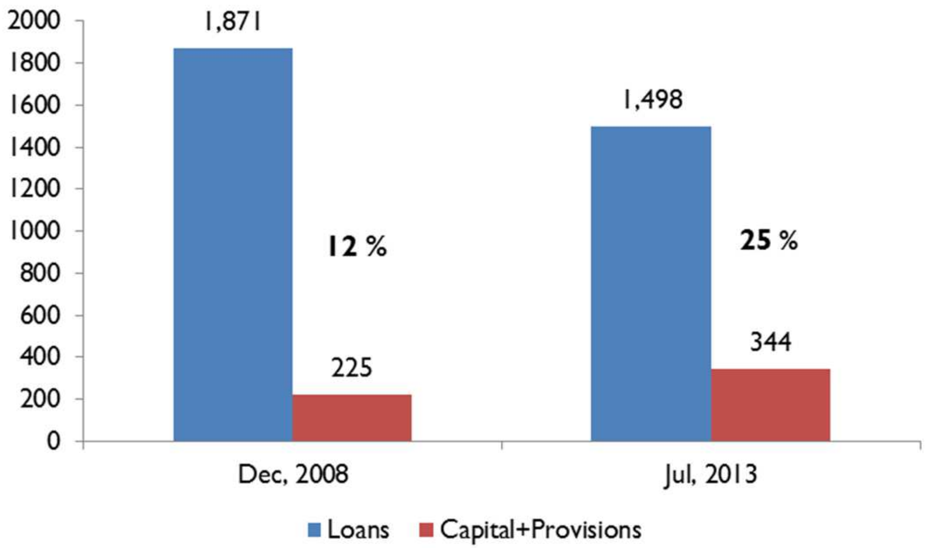
Source: Bank of Spain

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Credit (as a % of GDP) has decreased by 40% (from 183% to 143%), while real GDP has declined by only 7% and remained constant in nominal terms. Most of this contraction has affected the real estate sector.
- Though part of this reduction is due to provisions, it is nonetheless a heroic achievement: GDP could have plummeted along with the enormous contraction in credit, but it did not.
- The opening of the bond markets will improve the situation further.

The contagion effect of the banks has diminished significantly

Solvency of the Spanish banking system (€ m.)



Source: Bank of Spain

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- A bank's solvency can be measured by the proportion of equity and provisions available to support the level of loans to the private sector. In Spain, this ratio nearly doubled from 12% in 2008 to 25% currently. Furthermore, exposure to the real estate sector has decreased significantly, from €400 billion to €110 billion (through provisions and the "bad bank," SAREB).
- Solvency levels improved from 8% to 10% despite impairment losses of roughly €200 billion (20% of GDP, clearly higher than that of many other economies).

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

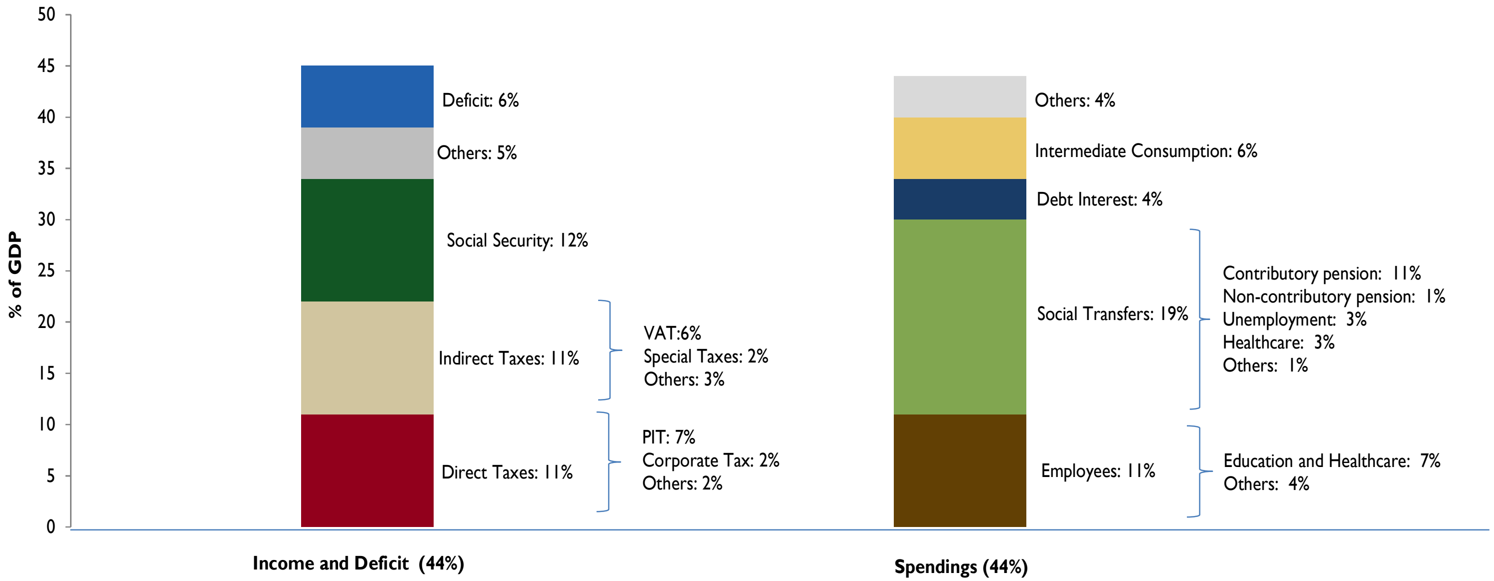
Public debt will stabilize at 101% of GDP

	2012	2013	2014	2015	2016
Nominal GDP (€ mm)	1029	1026	1047	1076	1110
Real change		**-1,3%**	**0,7%**	**1,2%**	**1,7%**
Nominal change		**0,2%**	**2,0%**	**2,8%**	**3,2%**
Taxes	37,1	37,9	38,2	38,4	38,4
Gross adjustment	1,8	2,2	0,8	0,3	0,4
Spendings	43,9	44,4	44,0	42,6	41,2
Gross adjustment	2,5	1,5	0,8	1,0	0,8
Gross fiscal adjustment	4,3	3,7	1,6	1,3	1,2
Net fiscal adjustment		0,3	0,7	1,6	1,4
Fiscal Deficit	**6,8**	**6,5**	**5,8**	**4,2**	**2,8**
Deficit Agreed	7,0	6,5	5,8	4,2	2,8
State		3,8	3,7	2,9	2,1
Aut. Regions		1,3	1,0	0,7	0,2
Social Security		1,4	1,1	0,6	0,5
Structural deficit	4	2,4	2,1	1,2	0,6
Sovereign total debt		94	99	101	101

Source: Treasury, Arcano, data as % of GDP if not specified

- Since 2009, the deficit has been reduced by 4% of GDP (3% structural). GDP performance shows that Spain's fiscal multiplier (proportion of GDP decline to fiscal effort) drop of GDP per euro of fiscal effort) is higher than that of Italy and Portugal.
- The debt will stabilize in 2016 at 101%, at which time nominal GDP growth will surpass growth in debt, effectively reducing the level of debt.
- Taxes represent 38% of Spanish GDP, much lower than in the EU (45%). If Spain is able to normalize its income at 39% of GDP (cutting taxes and tax deductions) the debt reduction will be more pronounced. The resulting reduction in the country's risk premium will improve the overall Spanish situation (savings of €5 billion).

Income statement of the public administration in 2014 (% of GDP)



Source: Ministry of Finance

- Costs related to social spending and public employees represent 30% of total GDP. Meanwhile, tax revenues represent only 38% of GDP, which is lower than that of many other countries in spite of Spain's recent increases in tax rates, reflecting the limited impact of this measure.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

The export revolution: How is Spain becoming Germany?

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

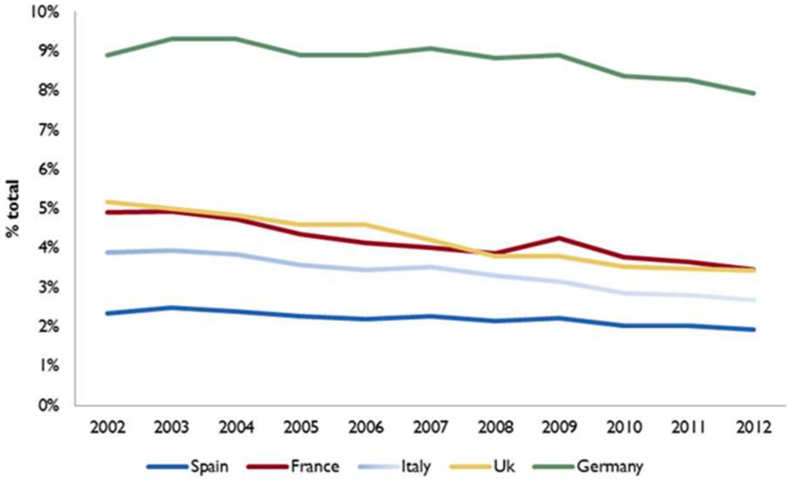
Spain vs. Germany

- In 2004, the German economy increased its export capacity. After implementing significant reforms aimed at improving the country's competitiveness (unit labor costs declined 6% 2003 and 2006), exports increased 10% (of GDP) between 2003 and 2006.
- Spain has similarly demonstrated its capacity to become an export powerhouse. It has gained competitiveness (unit labor costs down 8% between 2008 and 2013), and exports have grown over 10% (of GDP) during a similar timeframe (2009-2013) as Germany.
- However, even though the Spanish government enjoys a majority position (as opposed to the coalition that ruled Germany at the time), there are several other important differences between the two countries:
    - Spain is having an institutional crisis, a significant difference from Germany.
    - The average Spanish company is smaller than the average German company. Spain has a very high number of small companies and few mid-size companies, whereas the opposite is true in Germany. A consolidation strategy for small Spanish companies could improve their capacity to export (companies with more than 50 employees are 50% more likely to export than those with fewer than 50 employees). Spain has made little progress in this effort.
    - Germany has invested far more resources than Spain in research and development and has done so in a more productive manner.
    - Spain needs to consolidate strategies and niche markets as Germany did.
    - The Spanish labor system produces more temporary workers, which limits the effectiveness of training programs.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Who is in decline?

Market share of global exports of goods and services



Source: Eurostat

Market share of global exports of goods and services

	2002	2012
Spain	2.30%	1.90%
Italy	3.90%	2.70%
France	4.90%	3.40%
UK	5.20%	3.40%
Germany	8.90%	7.90%

Source: Eurostat

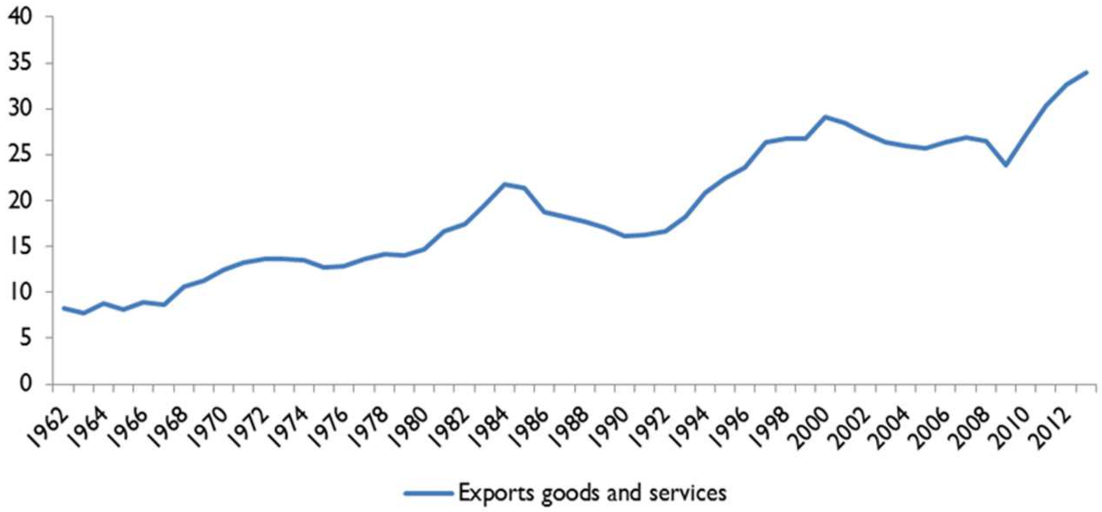
- The incorporation of many emerging economies into world trade during the first decade of the century has led to a decline in market share of global exports for the developed economies.
- However, observing the countries' relative levels of decline, Spain has proven resilient and has outperformed its peers, reflecting the high quality of its exports.

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

The export revolution in Spain

Spain: exports of goods and services as a % of GDP



Source: Eurostat

- Spanish exports increased from 8% of GDP in 1962 to 34% of GDP in 2013. This is an all-time high.
- Spain's level of exports, as a % of GDP, is higher than that of most developed economies (USA at 13%, France 27%, Italy 30%, and UK 31% - Spain is only surpassed by Germany at 52%).

Factors driving the export revolution

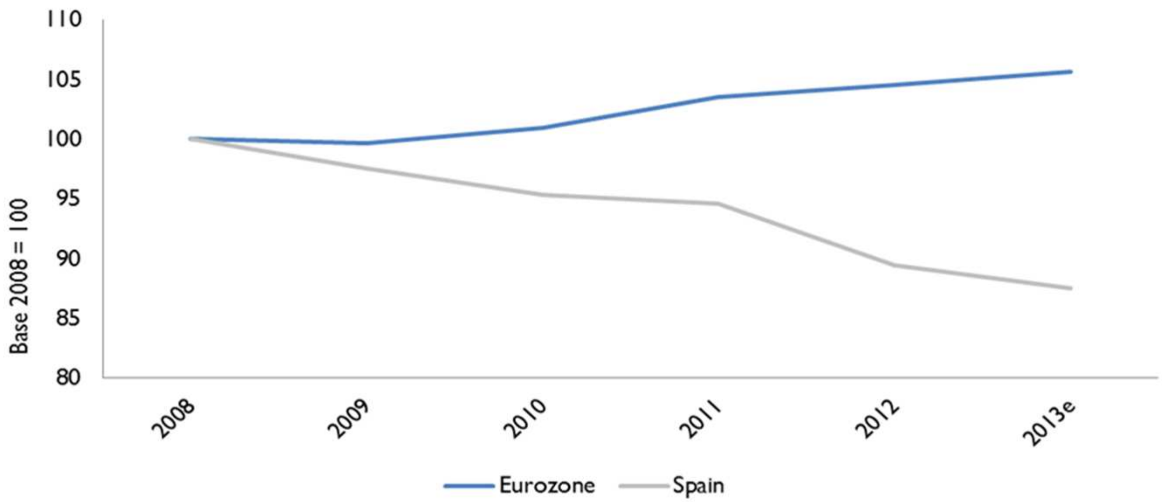
Currency | **Real Salaries** | **Productivity** | **Culture**

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- As mentioned earlier, even though the British pound depreciated more than the euro, Spain's exports grew more than those of the UK.
- Spain's export revolution is explained not only by its improvement in competitiveness (salaries and productivity), but also by the ability Spanish companies have shown to rapidly begin exporting. This "exporting culture" is reflected in the fact that in 2013, 115,000 Spanish companies exported (10% higher than in 2012), a record high.

Spain has become ultra-competitive in salaries

Salary growth in real terms

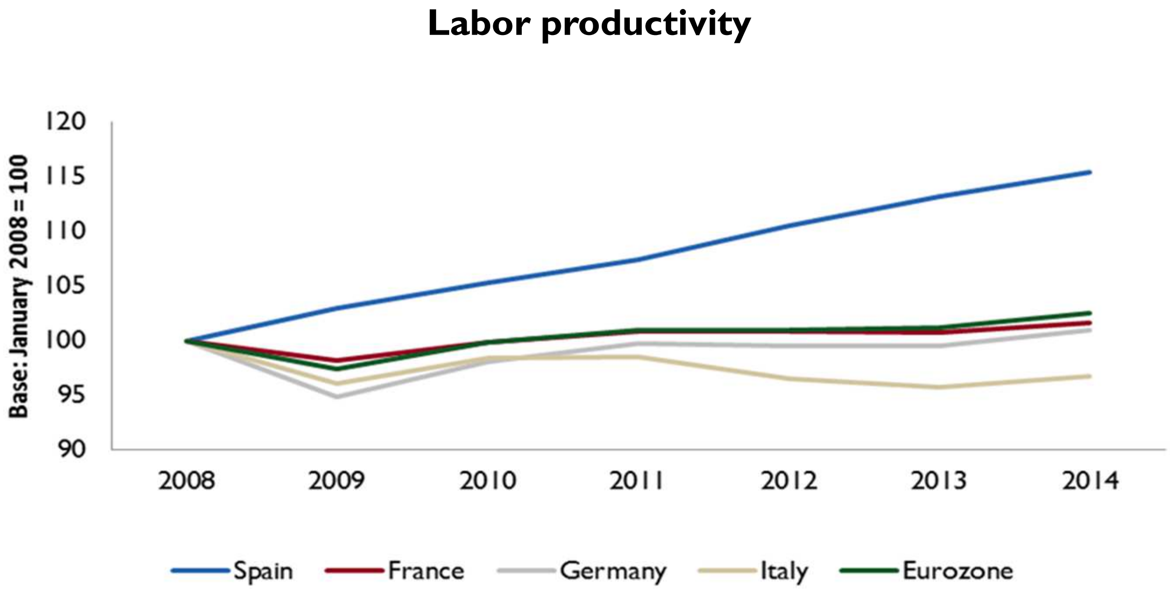


Source: Eurostat

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- The average Spanish salary is €2,300 (€3,000 including social security), which is one third lower than that of the Eurozone.
- Spanish salaries have decreased equally in real (adjusted for inflation) and nominal terms, improving competitiveness.
- As there is much unused capacity in the Spanish economy (between 4% and 5% of GDP, as unemployment is very high compared to natural unemployment), it should not generate inflationary pressures in the future, which will improve competitiveness even further.

Spanish productivity has increased 12% since 2008



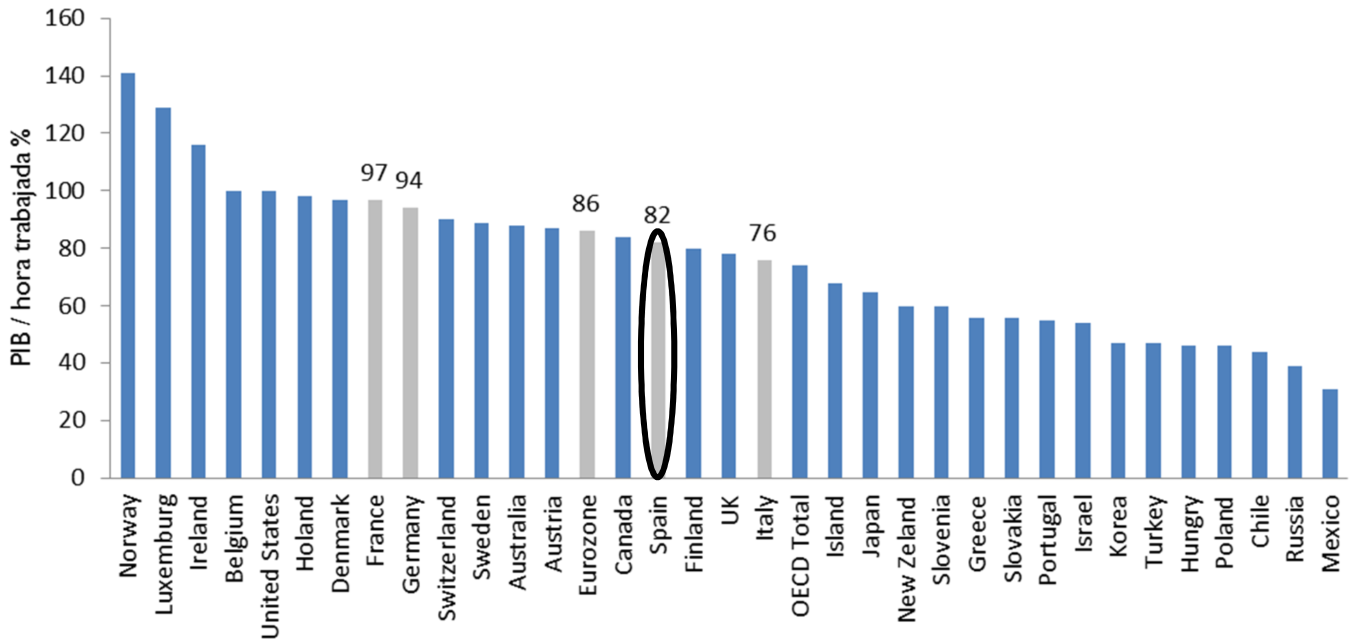
Source: OECD

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- GDP has fallen 7% since 2008 while employment has fallen 19%, meaning that every Spanish employee is producing 12% more (and becoming more competitive). Part of this improvement is due to the lower weight of the construction sector in the economy (which has lower relative productivity per employee), but the majority of this improvement (60%) is "genuine."

Making the average Spaniard nearly as productive as the average European

Labor productivity vs. USA, 2012 (USA = 100%)



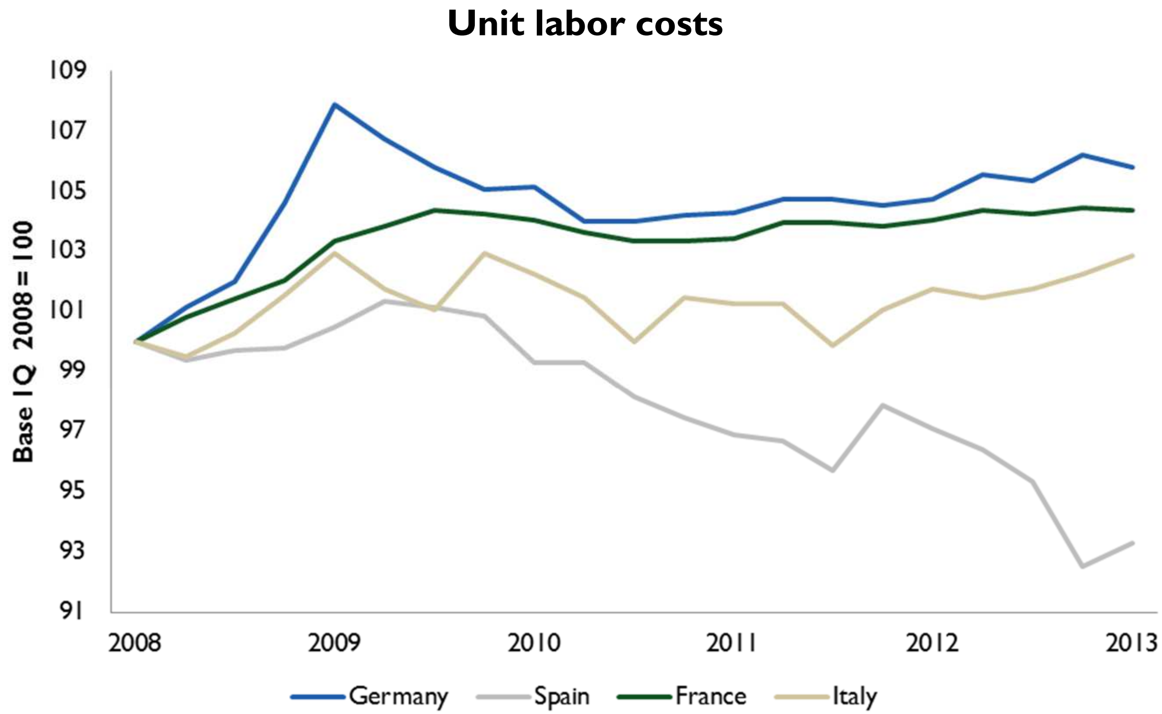
Source: OECD

- Spaniards are nearly as productive as the average European but earn salaries one third lower.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

ARCANO

Resulting in favorable unit labor cost developments



Source: Eurostat

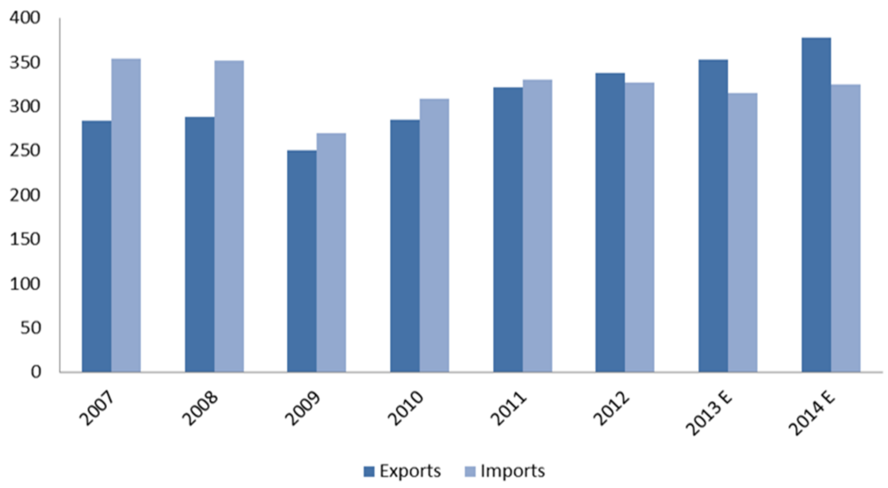
- Unit labor cost (ULC) is a key indicator of competitiveness. It is defined as the difference between increase in real salaries and increase in productivity.
- Spanish ULC is down 8% since 2008, while that of its key competitors is up between 5-10%. This has been bad news for Spain's recent consumption but will prove to be positive news in terms of future competitiveness. This trend will continue in 2014 and 2015 (4% additional improvement in competitiveness is expected through ULCs).

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Trade surplus in Spain

Trade of good and services, €billions



Source: Eurostat

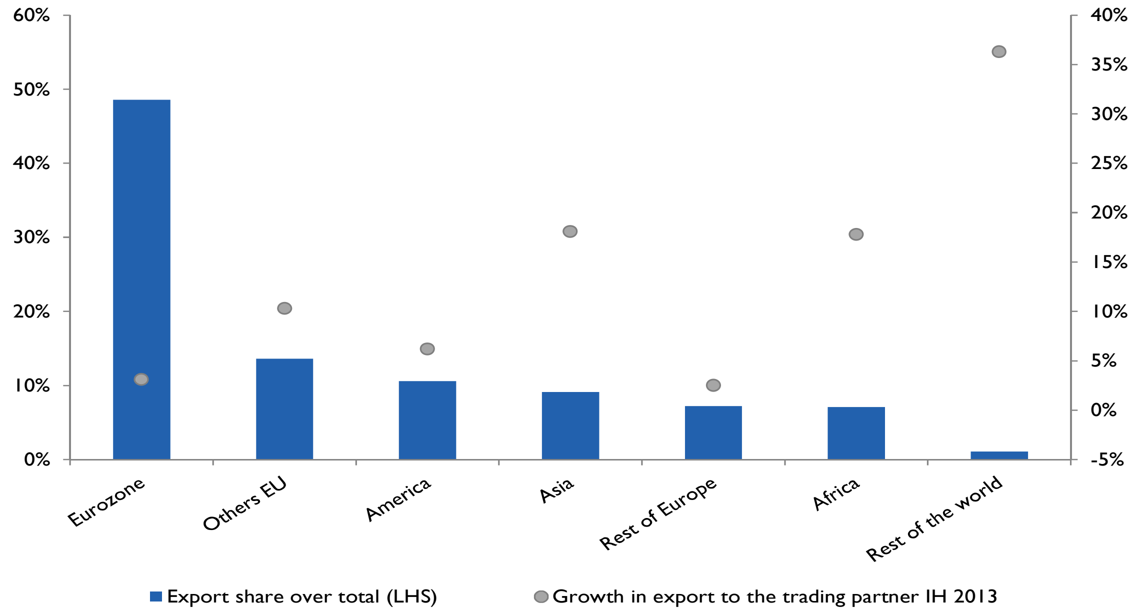
- Aside from the import of oil and gas (which amounts to nearly €50 billion each year), Spain has managed to generate higher exports than imports each year since 2010 (for the first time since entering the Euro).
- Tourism also reached record levels in 2013: Spain will generate over €65 billion (€31 billion not counting tourism from Spaniards). This makes Spain the second largest tourism market in the world after the US. Other companies in the services sector (such as engineering companies) will generate a net balance of €8 billion by increasing exports 44% since 2008. Trade surplus for 2014 will amount to nearly €50 billion.

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Where does Spain export? (H1 2013)

Breakdown and growth of exports by region



Source: Ministry of Economy and Competitiveness

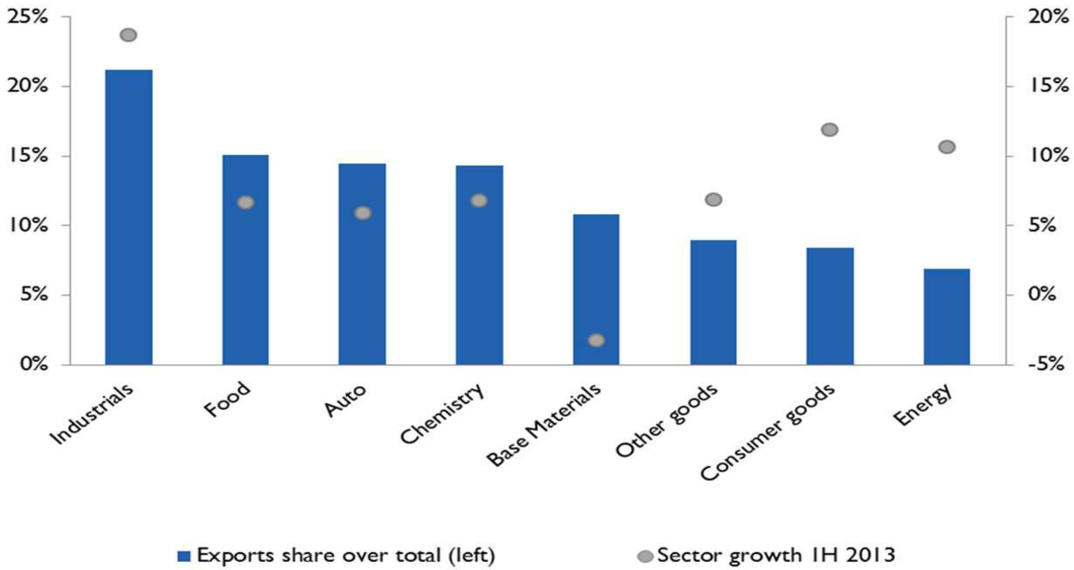
- Spanish exports have increased 8% during the first half of 2013, while those of Germany, France, and Italy have declined 0.6%, 1.7%, and 0.4%, respectively.
- It is noteworthy that growth rates of exports outside Europe have been between 15% and 35%.

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

What is Spain exporting? (H1 2013)

Breakdown and growth of exports by type



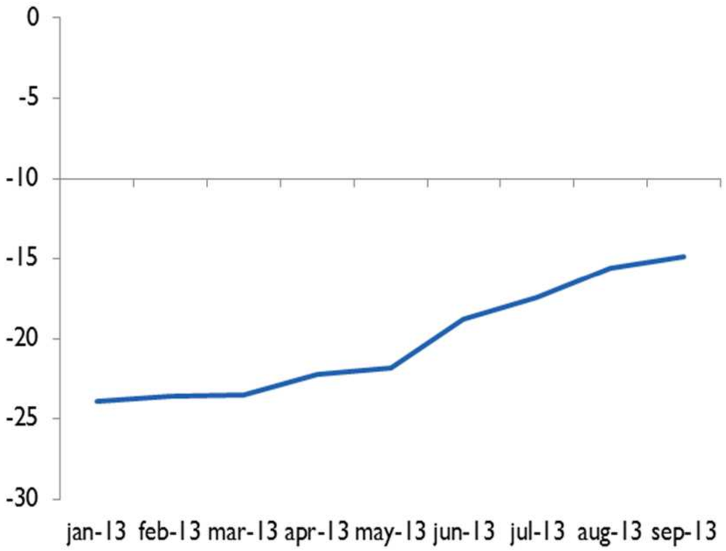
Source: Ministry of Economy and Competitiveness

- A common misconception is that Spain exports goods of low value added. However, 21% of our exports are in industrial equipment, with automobiles, chemicals, and food each representing an additional 15% of total Spanish exports.
- This supports the fact that Spanish exports are, in fact, high value added goods that are difficult to replicate and have "low elasticity" (maintaining market share in spite of currency fluctuations). This helps explain why Spain's market share of global exports has remained stable in both good years and bad years.

Spain will set a new historic record in 2014 due to a European recovery

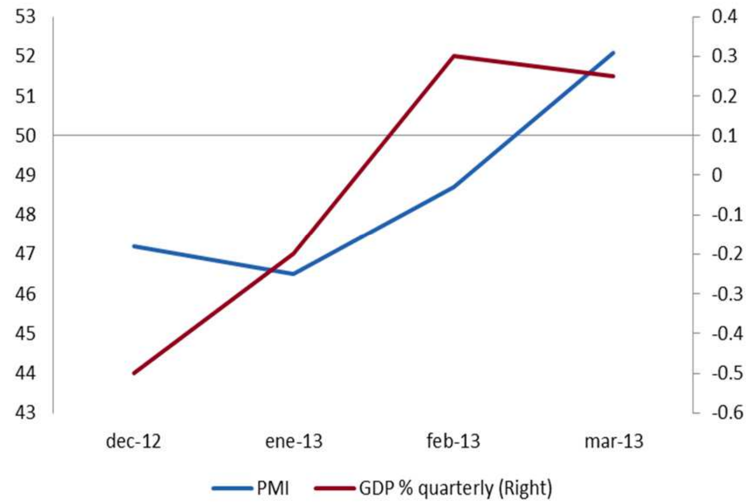
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Eurozone consumer confidence



Source: Bloomberg

Composite PMI and GDP of Eurozone, yoy %



Source: Bloomberg

- World trade will grow at nearly twice the rate did in 2013 (4.5% 2014 vs. 2.5% 2013), which will greatly benefit Spain. The EU represents 62% of Spanish exports. In Q2, Europe emerged from nearly two years of recession.
- Leading indicators (PMI) show economic recovery in Europe (GDP), which will pave the way for record levels of Spanish exports in 2014. A good indicator of this is automobile sales in Europe, which in September registered the highest level seen in over two years.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Spanish consumption may surprise on the upside very soon

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

The starting point: a nightmare in domestic consumption

- Consumption represented 58% of Spanish GDP in 2012.
- Retail sales have been in decline for 38 consecutive months.
- Spanish domestic demand financed excessive growth between 2004 and 2007 through short term speculative savings (portfolio movements), that provoked a dangerous current account deficit.
- As external financing dried up, domestic demand decreased 18% between 2010 and 2013 (H1).
- This generated a "perfect storm" in consumption in September 2012, supported by a series of factors that decreased purchasing power by €6 billion:
  - Rise in VAT from 18% to 21% in September 2012.
  - Removal of public employee extra payment (Dec 2012).
  - Rise in personal income tax in January 2012.
  - Decline in salaries of 3.6% (2012 average) due to labor reforms implemented in April 2012.
  - Rise in inflation to 2.7%, resulting in lower purchasing power.
  - Destruction of 0.5 million jobs in 2012.
- Many analysts believe this negative trend will continue until 2015.

ARCANO

Risks related to consumption

- Spanish families are still highly indebted from mortgages. An interest rate hike could negatively affect consumption.
- Though there are signs that financing is improving, the actual situation is still following a negative trend, limiting possibilities to expand consumption.
- The decline in salaries and freeze in pensions negatively affect growth in purchasing power.
- For a sustainable recovery of consumption to take place, it is important to make further tax cuts, subject to the objectives of fiscal consolidation.
- The prolonged decline in real estate prices has been a drag on consumption.
- High level of unemployment limits domestic demand.
- The Spanish consumer faces higher costs than other countries in several key respects (energy, telecom, gas,…), which affects its discretionary purchasing power.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

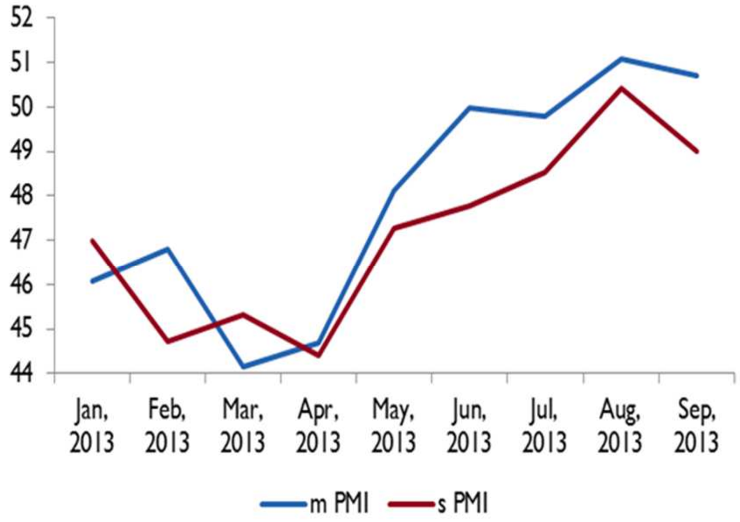
Something is changing: factors that affect consumption

Consumer confidence	Salaries	Unemployment trend	Credit	Wealth effect

- Unemployment has stabilized since April. As consumer confidence is more greatly affected by *changes* in unemployment than the absolute level of unemployment, it is currently at its highest level in 1.5 years.
- Salaries declined 4% in 2012, but in 2013 they are declining only 0.5%, and in 2014 they will stabilize. At the end of 2013, public employees will receive Christmas bonuses, which will further contribute to consumption improvement.
- The worst of the credit crunch for the private sector is over.
- Wealth effect is recovering: i) inflation declined from 2.7% to 0.3% (Sep 2013), ii) housing price stabilization will improve the wealth effect in 2014, and iii) tax rates might decline in 2015, which could be anticipated by consumption at the end of 2014.
- This improved (less negative) trend is reflected retail sales, which have shown relative improvement since the end of 2012, with yoy declines improving from circa 10% (the largest declines seen since 1971) to between 2-4% in the summer of 2013.

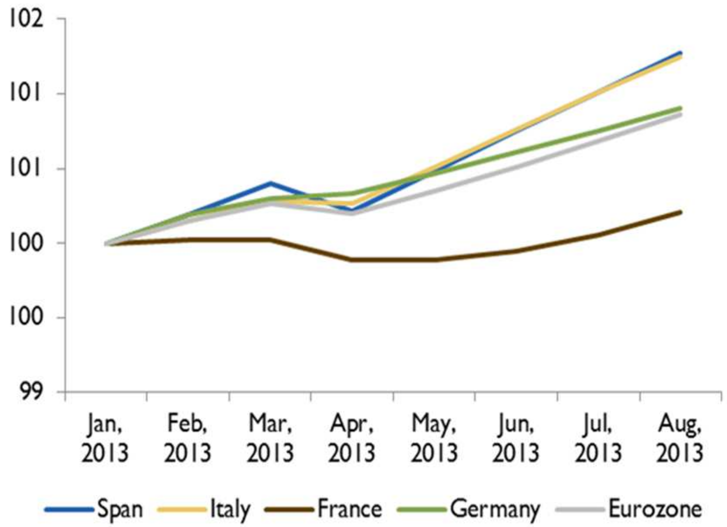
Leading indicators are promising

Spanish PMI



Source: INE

Activity Indicator, base 100 January 2013



Source: OECD

- The Purchasing Managers Index (PMI) is the best predictor of the future performance of the economy. A PMI above 50 indicates expansion. The Synthetic Indicator of Activity (SIA) is another useful indicator for future economic activity.
- Though it declined in September, the Spanish PMI, currently between 49 and 51, is at its highest level since August 2011, indicating that Spain is indeed emerging from the recession. Furthermore, Spain's SIA has increased more than that of any other Eurozone country in 2013.
- The corporate sector has increased its net savings up to 3% of GDP, showing signs of a potential recovery in investment and employment.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

ARCANO

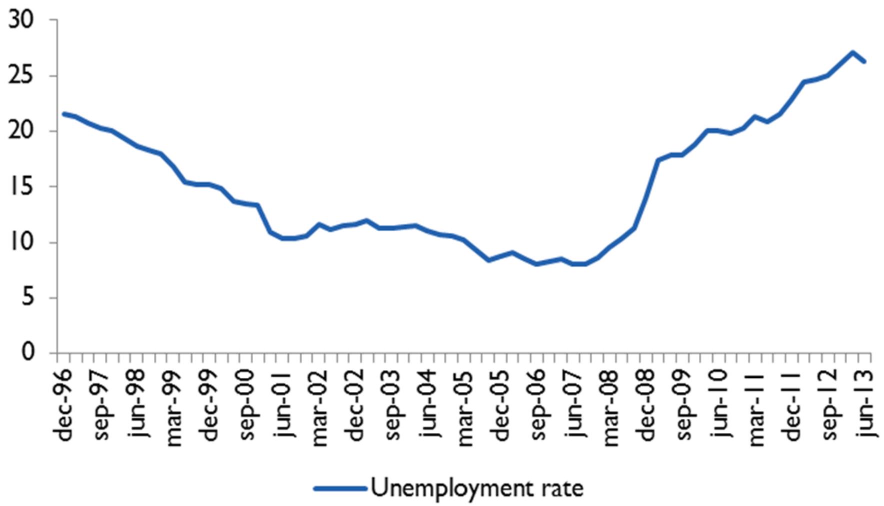
Considerations on Spanish employment and unemployment

- Unemployment is driven by several factors: the existing number of workers, the number of workers who have been laid off, the number of workers that have been hired, and the number of people who are looking for a job (generally speaking, employment is the number of people with a job divided by the number of people looking for a job).
- Spain has destroyed 3.6 million jobs since the beginning of the crisis: 1.5 million in construction, 1 million in manufacturing, 0.6 million self-employed individuals, and 0.5 million public employees. Today, there are 16.3 million people in the official Spanish workforce (affiliated with the Social Security system). This figure is improved over minimum levels of 16.1 million seen in February 2013. Furthermore, it is estimated that between 2 and 3 million people are working in the underground/black economy.
- The Spanish labor force grew by 5.5 million workers between 2000 and 2008, more than in France, Germany and Italy combined. This growth was largely driven by immigration, which was absorbed by the construction sector. Of this growth of 5.5 million workers, 2.2 is from natural growth and 3.3 is from abnormal growth due to the boom in the construction sector. As the total number of jobs lost is approximately 3.5 million, we can determine that the employment "adjustment" has ended.
- Unemployment has stabilized in 2013 as: i) employment growth in leading sectors (for example, the export sector creates 65,000 jobs per % increase in exports) compensates the employment reductions in the public and construction sectors (as a consequence, declines in net job losses have been reduced to the lowest levels since the start of the crisis), and ii) workforce reductions have proven unusually high due to emigration (two million people have left Spain, 10% of which are Spanish citizens, and immigrant remittances have turned positive in Spring 2013).

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

The labor market is changing

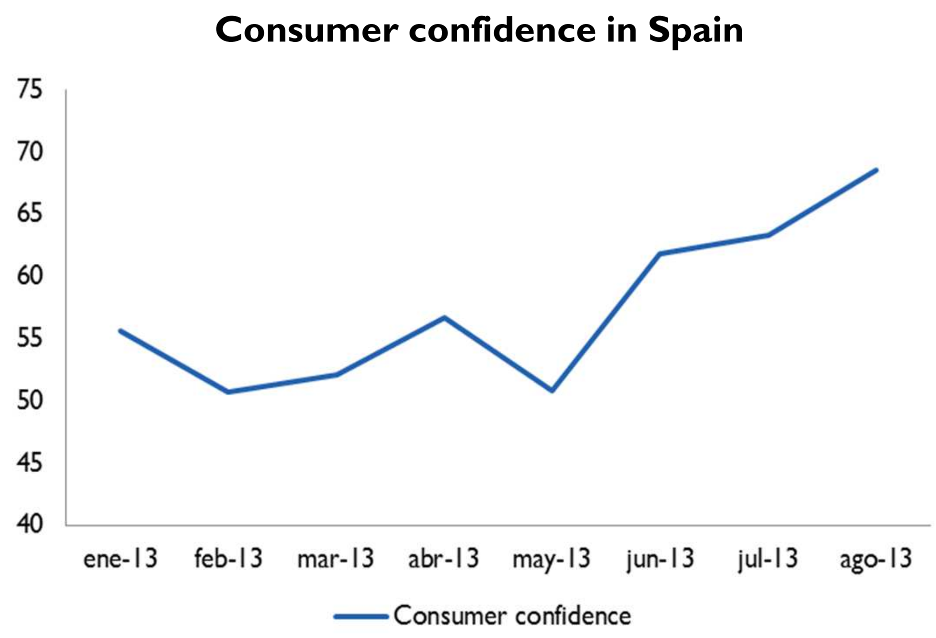
Evolution of the unemployment rate in Spain



Source: Bloomberg

- Unemployment has stabilized at around 5.9 million people in 2013, representing 26.7% of the workforce. Though year on year figures suggest unemployment is increasing, month on month figures suggest the opposite. Increased capacity utilization is another sign of employment stabilization (companies hire more employees when installed capacity increases, compensating the layoffs).
- The change in Okun's Law, which establishes a level of growth required to stimulate job creation, may trigger a positive surprise in employment in 2014. August and September seasonally adjusted unemployment data have been the post positive since the beginning of the crisis.

Clear improvement in consumer confidence



Source: CIS

- Employment stabilization has driven consumer confidence to levels that are still relatively low, though consumer confidence is at its highest level in 1.5 years.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Trend in Consumption…

Source INE

- Retail sale declines have improved from nearly 11% in Q4 2012 to only 2-4% in July/August 2013. Year on year comparison will be very positive beginning September 2013 due to the historic depressed levels in the Sep-Dec 2012 period. Quarter on quarter consumption has also showed improvement, from -0.8% in Q4 2012 to -0.4% in Q1 2013 to 0% in Q2 2013.
- A particularly positive signal is given by automobile sales: auto sales increased 26% yoy in September 2013. This came alongside improvement in superstores, improvement in credit cards, improvement in water consumption, and improvement in highway traffic.

Is the worst over in terms of financing?

- As seen before, Spain has experienced an extraordinary decline in credit to the private sector (€400 billion, concentrated in the construction sector and small and mid-size companies). The situation is still difficult, and banks bailed out by the FROB (a third of the system) must balance their loan to deposit ratio (to 100%) before 2017. Additionally, a part of the balance of "restructured" loans still needs to be provisioned. However, today, the debate on the Spanish banking sector is about profitability, not systemic risk or capital needs.
- According to fundamental principles, bank lending depends on two factors: liquidity and solvency.
  - Looking at liquidity, the ratio of loans to high quality deposits has improved rapidly to 127% (115% including all deposits).
  - Looking at solvency, the capital ratio has risen 10% despite having provisioned €200 billion. Provisions on nonperforming loans stand at 59%, versus 61% in France, 53% in the UK, and 44% in Italy.
- Foreign investors are acquiring Spanish Banks (Apollo: EVO and Finalmadrid; Fortress in Lico) or participating in equity placements (Sabadell capital increase) in order to grow the volume of future loans. The reduction of the fiscal deficit will limit the "crowding out" effect that has transferred savings from the private to the public sector.
- Financing through bond issuance is opening for both larger companies (such as ENCE) and mid-size companies (through the MARF). Furthermore, the impact of non-banking financing is increasing through direct-lending from investment funds to Spanish companies (Uralita, Portland…see Appendix 2).
- **The improvement in financing is driving an improvement in GDP, and the improvement in GDP will drive growth in employment.**

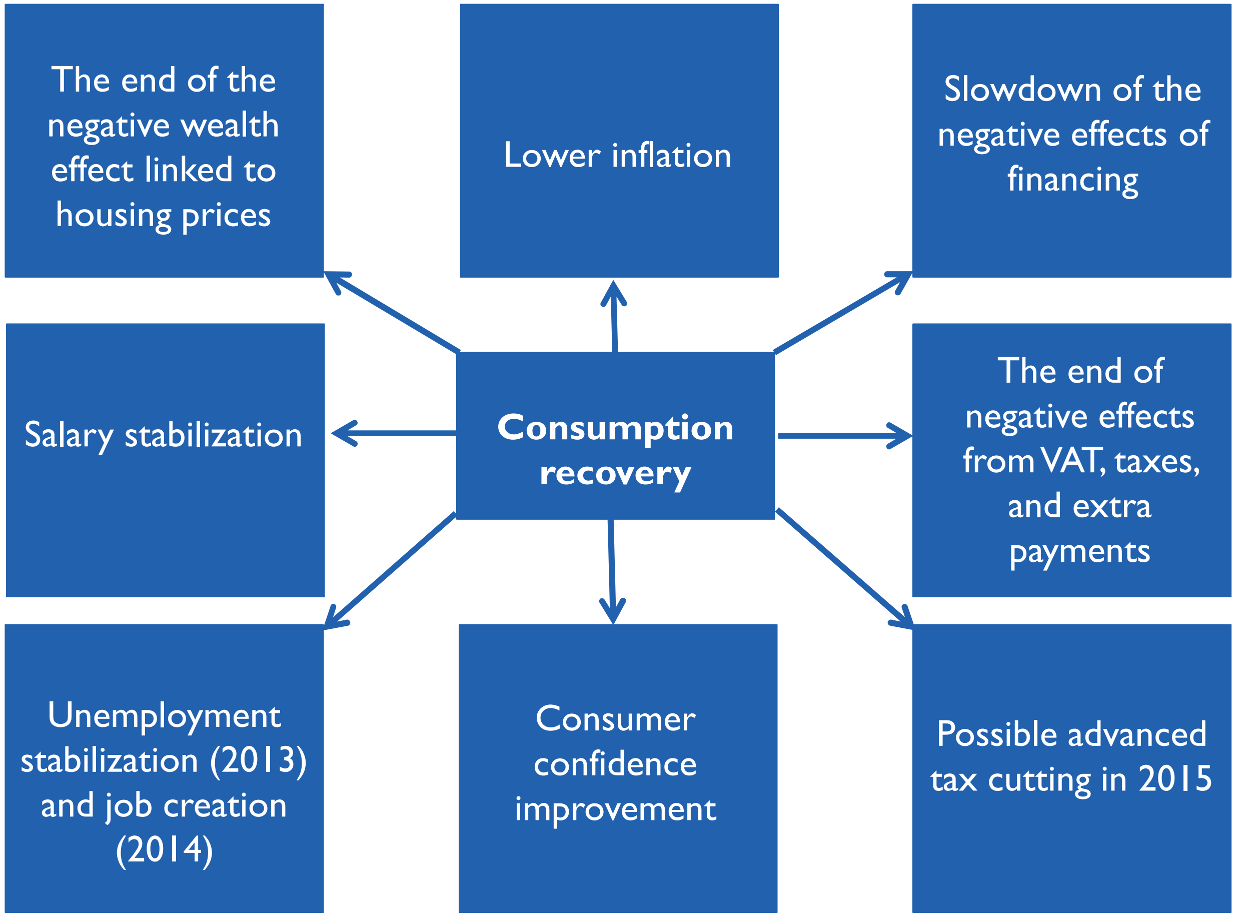
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Turning point in SME financing?

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Spanish SMEs account for 65% of GDP, 80% of employment, and an even higher proportion of employment creation. Therefore, SME financing must be addressed by the government. In order for the credit environment to recover, demand and supply must be met, but the cost of credit has been unusually high.
- The financing cost spread for SMEs is beginning to decline, from 650bp to 550bp, representing a 2 year low, although these levels are still higher than in Germany and France (300bp).
- AXESOR's Index for probability of default in commercial transactions has declined from maximum levels of 3.8% in Q4 2012 to 0.78% in Q3 2013. Furthermore, consumption of information of companies for commercial transactions (measured again by Axesor) has risen from 5.9% in Q1 to 8.9% in Q3.
- Loans to SMEs will be computed with a risk weighting 25% lower from 2014, creating an incentive for banks to lend. Furthermore, the Bank of Spain is expanding its definition of SMEs (fewer than 250 employees and less than €50 million in sales) improving capital consumption (higher incentive to lend).
- In Q2 2013, the ICO credit lines to finance SMEs reached their highest levels since 2009, with €4 billion granted per quarter.
- The government, through AXIS-ICO, will incentivize the funding of SMEs in growth through the distribution of €1.2 billion to be invested in venture capital. The alternative stock market (MAB) still needs to be jump-started.
- Important initiatives will be announced to reopen the lending Market to SMEs at the European level through "asset backed securities," with support from the ECB and EIB.

Consumption can surprise on the upside beginning in Q4 2013



Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Mid-term potential of the Spanish Economy

Though there are clear risks in the mid-term

- Recent improvement in macroeconomic data can result in a slowdown in the pace of reforms, which would be very harmful for the country in the mid-term.
- Net fiscal adjustment for the next three years will be roughly €35 billion, which will slow down growth.
- An interest rate hike through 2015-2016 will negatively affect the real estate market and the growth in investments.
- If ECB doesn't approve new liquidity injections (LTRO), the banking system will not be able to expand credit.
- Though pension reforms are on track, the low Spanish birthrate and high life expectancy (80 years vs. 78 in Germany) call into question the system's sustainability in the long term.
- The enormous electricity sector deficit on tariffs has been reformed, but it is still uncertain if this deficit will be entirely eliminated and what effects the reform will have on the competitiveness of Spanish companies, which will have to purchase energy at some of the most expensive rates in Europe.
- The Spanish education system is very questionable. Reports coming from the OECD related to the level of education place Spain near the bottom of the list of developed countries.
- Research and Development in Spain, although improving, is well below that of our competitors, both in effort and productivity.
- Important reforms are left to be implemented, such as fiscal reforms (though tax rates are high, the Spanish government collects very little - large companies, for instance, paid an effective rate of 4% in 2011 vs. a theoretical rate of 30%) and labor reforms (reduction in the number of contracts). Long term unemployment is very correlated with this point.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

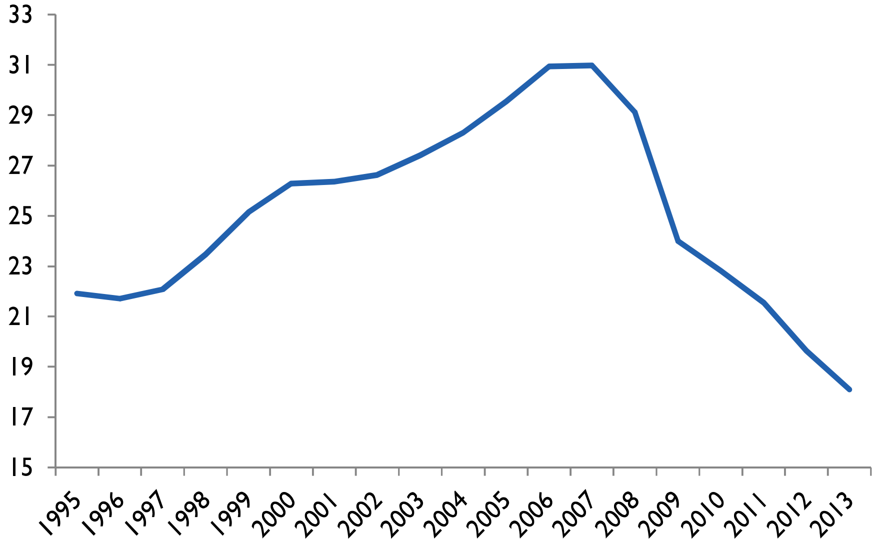
…there is also substantial upside potential in the mid-term

- Non-residential investments show clear upside potential.
- The entrepreneurial spirit is increasing, with record levels of new business creation and increased availability of financing for startups.
- Spanish industry only represents 14% of GDP versus 35% in 1970. Spanish competitiveness may drive an export-oriented reindustrialization, which could add two additional points to GDP.
- According to the Ministry of Finance, structural reforms (labor market, pensions, market unity, competitiveness…) could generate an additional 9% of GDP and 2 million jobs before 2020.
- Spain has 5.9 million unemployed workers. The entrance of these workers to the workforce could generate additional GDP growth. However, many of these unemployed workers are from the construction industry and may need to be re-trained in a new sector.
- Construction could add two additional points of GDP and 0.5 million jobs. Residential investments also revitalize auxiliary sectors.
- Consumption normalization will contribute to a higher GDP.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Increase in investments

Investments as a % of GDP

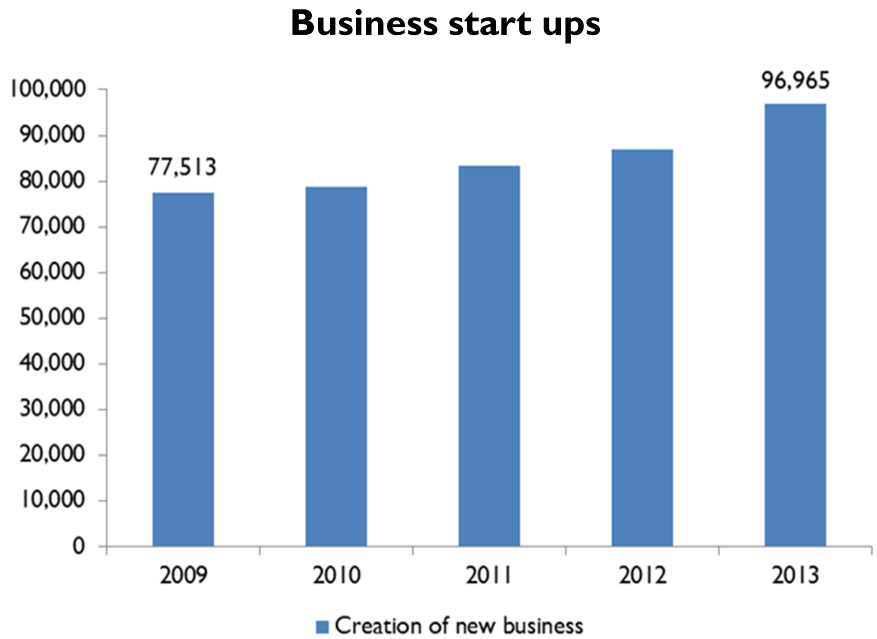


Source: Bloomberg

- Spanish salaries represent 44% of GDP (50% in the Eurozone), and capital represents 46% of GDP in Spain (37% in the Eurozone). This relationship is explained by the fact that foreign investment (long term) is increasing in Spain by 120% year on year.
- Spanish corporations are already saving around €30 billion per year, which will improve their capacity to invest in the future. In fact, investment trends are already reaching a turning point: i) capacity utilization (increase from 74% to 76% vs. historic average of 78%), ii) industrial production is improving, and iii) investment in capital goods is showing positive quarter on quarter growth rates.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

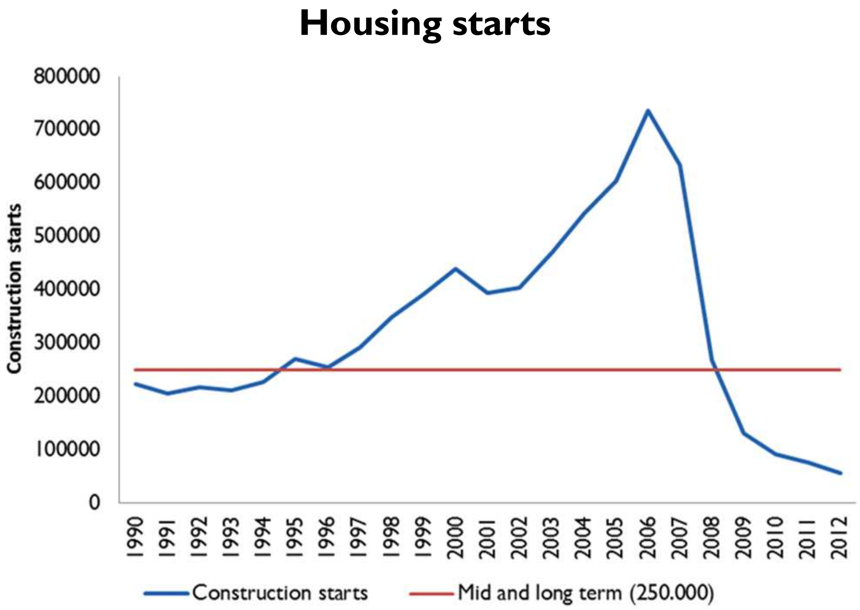
Entrepreneurial spirit is booming



Source: INE and Arcano (2013e)

- In H1 2013, 51,000 companies were created, the highest level since 2009.
- 96,000 companies will be created 2013, representing the fourth consecutive year of increases, (77,000 companies were created in 2008). Business creation during a crisis is the best recipe for future wealth. Furthermore, an appropriate framework for financing the Spanish entrepreneur has already been created.

Construction: potential creator of 500,000 jobs



Source: Bloomberg, Ministerio de Fomento

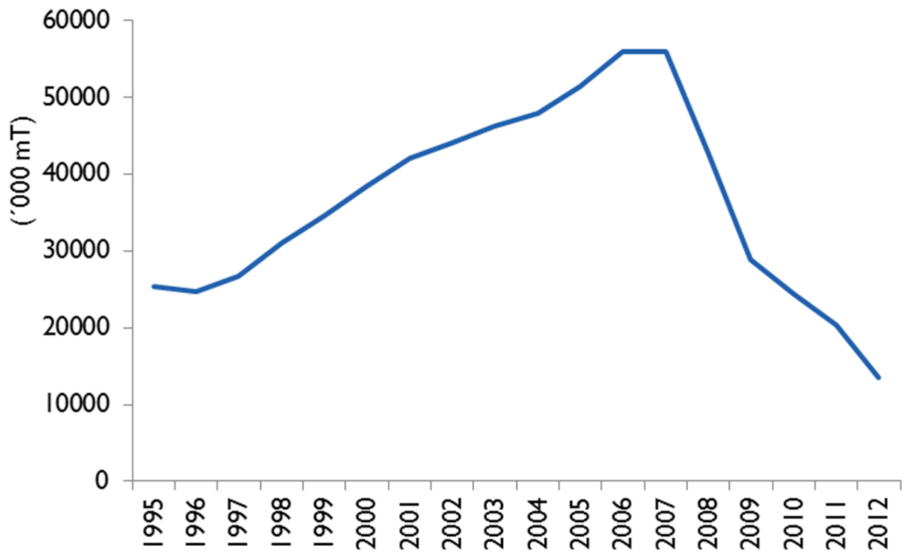
Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

- Following a 95% decline from peak levels, the number of housing starts is currently at around 37,000 units per year, which is lower than in 1960 (in that year, 104,000 houses were built even though the country's population was 30 million vs. 46 million today). Construction currently accounts for 2.5% of GDP, which is far below historic levels (5-6%). Furthermore, the construction sector has historically employed around 10% of the Spanish workforce vs. only 6% today.
- As construction recovers to normal levels (250,000-300,000 units of housing starts) 0.5 million jobs will be created.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Industries driven by construction

Cement consumption

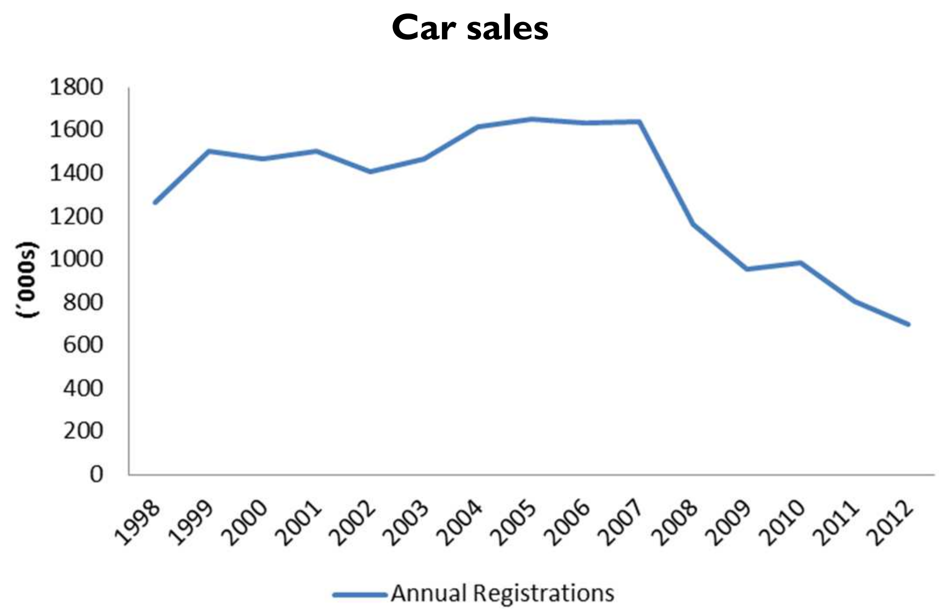


Source: INE

- Housing construction has an important effect on auxiliary sectors, such as cement (current production is low in comparison to historic levels), raw materials, and auxiliary materials (refrigerators, air conditioning, swimming pools…). It also has an important mid-term effect on internal demand.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Consumption will increase



Source: Bloomberg, OECD

- It is important to put into perspective the historical reduction in domestic demand in Spain. Car sales, currently at 600,000 units per year, are at the same level from 1975 (when the country's population was 10 million lower than it is today) and well below the average between 1998 and 2008.
- The normalization of consumption of durable goods will generate an important improvement in domestic demand which will be a key driver of future growth.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Conclusions

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

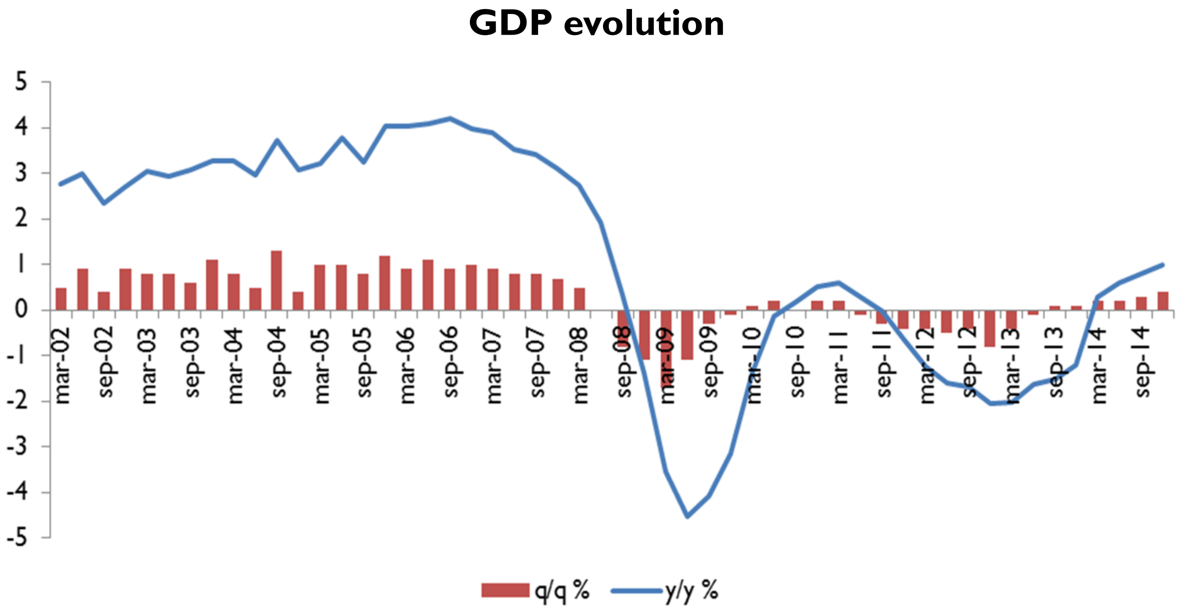
Conclusions

- Spain is still facing important risks, but these risks have driven the country to implement a series of tough reforms which are strikingly similar to those undertaken by Germany between 2002-2004.
- Continued benefits of these efforts will be seen in 2014: exports will reach new historic highs, consumption growth will turn positive after three years of decline, and the economy will start creating jobs.
- The fundamentals of the Spanish economy offer an attractive risk/reward ratio.
- Investors lost money by investing in the consumption sector between 2005 and 2007, but they will make money if they invest at the end of 2013.
- After an estimated € 70 bn. of credit contraction during 2013, we expect the contraction to slow in 2014 to € 15 bn. (of which -€30 bn. bank credit and +€ 15 bn. non bank credit) and hence the drag on GDP is expected to be reduced substantially.
- The contraction of banking credit and term reduction in loans offer many opportunities to investors in the capital markets.
- Important upside potential exists in the mid-term and, in our view, market prices do not reflect such potential upside. With its new economic model, Spain now has the capacity to grow and create employment without relying on credit growth (Germany increased its GDP by 7% between 2004 and June 2007 without a credit expansion), and is positioned for creating jobs at much lower GDP growth rates than in the past.

October 2012: in "The Case for Spain" we argued that Spain would rise from its ashes like the phoenix…

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

October 2013: Spain has emerged from the recession



Source Bloomberg and Funcas

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Market efficiency?

ARCANO

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Thank you

idelatorre@arcanogroup.com

Arcano: the firm of reference for investing in Spain

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

About Arcano (www.arcanogroup.com)

- Arcano is a financial advisory firm located in Madrid, Barcelona and New York. We have three areas of specialization: Investment Banking, Asset Management and Multifamily office.
- Our team of experts is composed of 70 qualified professionals who offer financial advisory services to our clients and responses adjusted to their needs with a unique and independent focus.
- Arcano's investment banking department is the leader in the small and mid-size company segment of the Spanish market, with a diversity of clients, from venture capital firms, to publicly listed companies and family owned companies.
- Arcano also offers funding to mid-size companies through the Fixed Income Alternative Market (MARF).

About the Author

- Ignacio de la Torre has been a partner of Arcano since 2008.
- He holds 16 years of work experience in investment banking and capital markets, working in the research and sales departments of Deutsche Bank and UBS Investment Bank.
- The Author is an associate professor of Economics and Finance at IE Business School and holds an MBA from INSEAD and PhD in Medieval History from UNED. He has published four books and won the Everis prize in 2009 as a coauthor.

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Appendices

Appendix I: Real Estate transactions since Summer 2003

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Date	Acquirer	Seller	Size
25/06/2013	Axa Real Estate	Generalitat de Catalunya	€172mm
25/06/2013	TPG	CaixaBank	€185mm
28/07/2013	Fibra Uno	Moor Park	€300mm
07/08/2013	Cerberus Capital Management	Bankia	€90mm
07/08/2013	Anchorage Capital Group	Banco Sabadell	n.a
09/08/2013	Blackstone Real Estate	Empresa Municipal de Vivienda	€129mm
16/08/2013	Davidson Kempner Capital Management	Sareb	n.a
29/08/2013	Kennedy Wilson/Värde Partners	Catalunya Caixa	n.a
03/09/2013	HIG Capital	Sareb	n.a
04/09/2013	Goldman Sachs	Comunidad de Madrid	€201mm
05/09/2013	Incus Capital	Morgan Stanley	€30mm

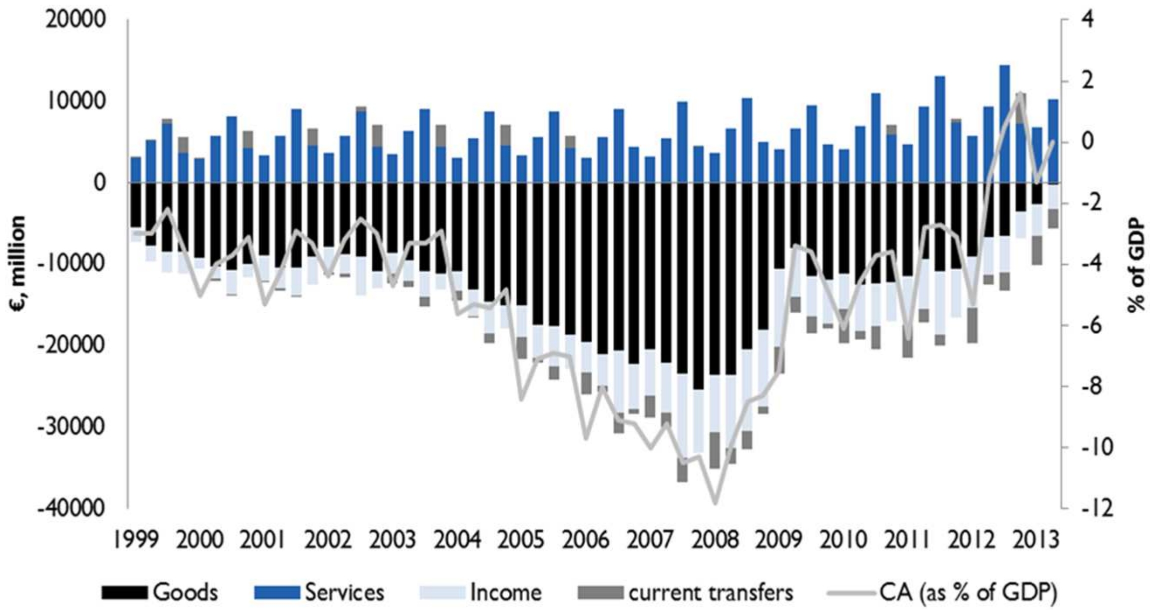
Appendix II: Non bank finance, 2013

Company	Type of Financing	Issuance Date	Investor	Size (€M)
Enagas SA	Bond Issuance	29-Jan-13	Market, Institutional…	50
Enagas SA	Bond Issuance	15-Jan-13	Market, Institutional…	10
Prosegur SA	Bond Issuance	2-Apr-13	Market, Institutional…	500
Ferrovial	Bond Issuance	30-Jan-13	Market, Institutional…	500
Abengoa SA	Bond Issuance	5-Feb-13	Market, Institutional…	250
Abengoa SA	Bond Issuance	17-Jan-13	Market, Institutional…	400
Ence SA	Bond Issuance	1-Feb-13	Market, Institutional…	250
Nara Cable Funding II (ONO)	Bond Issuance	7-Feb-13	Market, Institutional…	260
Gestamp	Bond Issuance	3-May-13	Market, Institutional…	500
Gestamp	Bond Issuance	3-May-14	Market, Institutional…	350
Grupo Avanza	Bond Issuance	31-May-13	Market, Institutional…	315
Grupo Avanza	Bond Issuance	31-May-14	Market, Institutional…	175
Meliá Hoteles	Bond Issuance	4-Apr-13	Market, Institutional…	250
OHL	Bond Issuance	25-Apr-13	Market, Institutional…	300
Indra	Bond Issuance	17-Oct-13	Market, Institutional…	250
Uralita	Direct Lending	29-Apr-13	KKR	320
Cementos Portland	Direct Lending	31-Jul-13	Blackstone	350
Abengoa SA	Direct Lending	2-Oct-13	Liberty	220
Codere	Direct Lending	12-Jun-13	GSO y Canyon	60
Grupo Prisa	Direct Lending	17-Oct-13	Centerbrigde y Silver Point	300
TOTAL				**5,610**

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Appendix III: Current account balance in Spain

Current account balance evolution by components



Source: Bank of Spain, Eurostat

Ignacio de la Torre, Ph. D. idelatorre@arcanogroup.com

Disclaimer

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Ignacio de la Torre.

This document has been prepared by Arcano Valores AV, S.A.U. (Arcano Valores). Arcano Valores is an investment firm regulated and registered under number 243 by the Spanish National Securities Market Commission (CNMV). This document is provided for information purposes only and must not be considered as an offer to sell or a solicitation of an offer to buy any financial instrument or to participate in any particular trading strategy. The information contained herein has been compiled from sources believed to be reliable, but while all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation that it is accurate or complete and it should not be relied upon as such.

All opinions and estimates included herein constitute the current judgement of the author as at the date of this report and are subject to change without notice. Arcano Valores has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate

Arcano Valores has internal rules of conduct that contain, among other things, procedures to prevent conflicts of interest with respect to recommendations, including: the consideration of its Research Department as a separate area, Chinese Walls, and the possibility of establishing specific restrictions on research activity where appropriate. Arcano Valores' research reports contain a certification stating that they reflect the authors' own opinions. Arcano Valores may from time to time perform services for or solicit business from any company mentioned in this report. Neither Arcano Valores nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose.

This Equity Research was produced by:
Arcano Valores AV, S.A.U.
López de Hoyos, 42
28006 Madrid
+34 91 353 21 40
www.arcanogroup.com