SPAIN, A LAND OF OPPORTUNITIES

March 2013
Doubts about Spain disappear

Spain is a very attractive country for investors

Crisis has not affected real flows and perception about FDI

Spain has always been competitive...
... even more so now.

Unprecedented external adjustment, without currency devaluation

Primary structural fiscal adjustment unseen until now, gaining credibility

Intense private sector deleveraging, which is now a net saver

Clearly defined reform agenda to boost medium-term growth

Cleaned up financial sector and labour market first signs of change
Growth will return in fourth quarter 2013

Gradual recovery during 2013, leading to a positive growth rate in 4Q13

Correction factors will lose steam:
- Export sector will remain buoyant
- Less severe public deficit cuts thorough the year
- Less pronounced negative housing sector impact

Rebound in economic growth will positively impact employment in 2014

Forecast GDP (%, quarterly rates)

- 2Q13: -0.3%
- 3Q13: 0.0%
- 4Q13: 0.3%

Source: CEC
Spain is a very attractive destination for investments

**Spain is competitive and innovative**
- Innovative corporates generate 73% of sales and 65% of jobs
- Knowledge-based economy is growing
- Favourable climate for doing business:
  - Attractive labour force with productivity growth rates two or three times higher than the European average
  - Cutting-edge infrastructure and strategic location for accessing emerging markets

**Spain is well positioned with strategic valuable sectors which are gaining in relative strength**
- Buoyant key strategic sectors with growth potential
- Tradable services gaining ground due to the sharp rise in non-tourist services and underpinning by tourism
- Spanish multinationals with increasing leadership
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One year ago, markets had serious doubts about the Spanish economy

- “Spain is not a competitive economy”
- “Spanish debt is high”
- “Spain is not able to adjust its fiscal deficit”
- “Banking sector is not solvent”
- “Spain is not committed with reforms”
Spain has always been competitive...
Internationalization of businesses have been key

Spain, country with lowest decline in export share (variation in world export share, total and components, 1999-2011)

International expansion bolstered productivity
(productivity of medium and large businesses compared to the country average)

- Spain reports the lowest decrease in global market share compared to other developed countries (-9% vs. -28% for Germany, France and Italy)
- Spain the only country where competitiveness effect has avoided a decline in share
- Uptick in productivity thanks to internationalisation of businesses accounts for much of this
... but now more than ever
Sharp price effect correction drives record current account balance adjustment

Since 1Q08, unit labour costs have risen by 15 pp less in Spain than in Germany, France and Italy
Hitherto unheard-of upturn in exports thanks to growth in sales
Exports reach €255 billion, 25% up from pre-crisis levels

Growing diversification in exports towards high-growth countries: in 2012, sales to Africa up 31%, to Latin America (15%) and to Asia (12%). First ever trade surplus with eurozone: €8 billion.

Historic adjustment in export/import coverage ratio without devaluation
Historic private sector adjustment, which is now a net saver.
Indebted businesses concentrated in specific sectors but with high levels of assets.

Private sector financing needs down 18 pp (as a % of GDP) since 2007.

Leverage ratio of businesses still high compared to GDP, but...

- In relation with assets, the ratio is similar to the European average and the same as Germany's (40%).
- Situation not the same across sectors since only 20% are over-indebted (40% in 2007).

Source: BBVA Research
Fiscal adjustment has been and remains possible in Spain
With no measures budget deficit would have climbed to over 11.5% of GDP

2011 budget deficit: 9.0%
Impact of recession and higher risk premium: 2.6%
Fiscal effort in 2012: 4.9%
2012 budget deficit: 6.7%

Source: BBVA Research

In 2012, fiscal deficit target almost achieved and public administrations commitment with transparency and coordination, bolstering Spain's credibility

Since 2009, primary structural fiscal adjustment equivalent to 10 pp of GDP, reaching 0% of GDP in 2013

2013 will be softer from a fiscal perspective, with financing requirements dropping by 17%
Reforms critical for boosting medium-term growth
Spain at the helm of reforms among developed countries

Spain, the nation most committed with reforms within developed world (OECD ranking)

Reforms focused in three areas:

1. Providing flexibility to the economy:
   - Labour market reform
   - Deregulation of professional services
   - Opening up of new businesses
   - Market unity

2. Assuring medium term sustainability:
   - Pension reform
   - Budget stability
   - Public spending rationalization

3. Ramping up growth:
   - Digital agenda
   - Energy sector reform
   - Boosting lending to SMEs
   - Encouraging international expansion

Source: OECD “Going for growth”
Financial reform mostly done
Financial system recapitalized in restructuring process

- Capital needs less than expected even in a stressed scenario (€ 60 bn).
- 7 out of 10 banks are solvent.
- Gross public cost around 5% of GDP, less than other European countries.
- Number of entities reduced by 1/3 and 10% decrease in capacity.
- Provision of credit focused on solvent demand: more productive sectors and corporates.

Fiscal cost of banking crisis (% GDP)

- Avg. 1970-2011: 6.8%
Spain, a very attractive country for investors
Crisis has not affected real flows or perception about FDI

Practically no impact on FDI inflows

Spain continues to be an attractive destination for FDI
- 60% increase in number of projects
- Spain in global Top 10 of "promising countries" for FDI, having improved its image despite the crisis

Business creation & destruction in line with European turnover rates

Net FDI inflows (€ millions)

Pre-crisis: 26,886
2008-12: 24,611

Spain: country with the fifth highest improvement in FDI attractiveness* in the world compared to 2010

Source: Bank of Spain

Source: World Investment Report
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2012, better than initially expected...
Growth rate 1.3 pp higher than would have been expected given budget deficit adjustment

GDP in real terms during real estate crises (t = 100)
Source: BBVA Research based on Haver

Source: BBVA Research

GDP performance in line with other European nations since 2008

2012, better than expected due to:
- Robust exports offsetting weak internal demand
- Supplier Payment Plan having +1pp impact on growth
- National Reforms Plan drives up certainty and avoids greater private sector correction
- Notable improvement in confidence related to Euro crisis
... removing adjustments, Spain in line with the rest of Europe.

Two-thirds of the economy managed to grow despite the challenging environment.

Growth in Spain and eurozone (y-o-y)

Spain (exc. Construction, financial and public sectors)

Eurozone

Spain

Mar 08 Sep 08 Mar 09 Sep 09 Mar 10 Sep 10 Mar 11 Sep 11 Mar 12 Sep 12
Spain will bottom out in 3Q13
Internal demand recovering in 2014

Forecast GDP
(%, quarterly rates)

-0.3% 0.0% 0.3%

2Q13 3Q13 4Q13

- Export sector will be able to offset negative contribution of internal demand in 4Q13
- Fiscal and private sector adjustment to moderate negative contribution to growth along 2H13 and 2014.

Source: CEC
Investment will rebound in 2014 underpinned by better fundamentals

2013 a transition towards recovery

- Dynamic export sector, supporting machinery & equipment investment
- In 2014, positive growth rates reinforced by internal demand

Source: BBVA Research
Housing market squeeze coming to an end
Positive growth rate in 2014 after seven years of contraction

Construction: downturn in activity & employment

Investment (% of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak</td>
<td>12.5</td>
<td>13.3</td>
<td>5.9</td>
<td>6.3</td>
</tr>
<tr>
<td>4Q12</td>
<td>9.8</td>
<td>11.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg. 97-07</td>
<td>9.8</td>
<td>11.1</td>
<td></td>
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</tbody>
</table>

Source: National Institute of Statistics (INE)

Sales of housing to foreigners (thousands of units)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27</td>
<td>33</td>
<td>35</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: BBVA Research

Oversupply by Region (as % of total stock)

Source: CEC and INE

Housing stock close to optimum level (1.5% of stock) in several Regions

- >4.5%
- Between 3 and 4.5%
- Between 1.5% and 3%
- <1.5%
Labour market reform underway will have medium-term impact
First signs of recovery in employment

Incipient impact of labour market reform:

- **Companies <50 employees**: +122k in 2012
- **Self employment**: +80k in 2012, positive first time since the beginning of the crisis.
- **Salary levels contained** in new wage agreements
- **Greater importance of partial contract suspensions and objective dismisals**

Labour market, annual 3M average, %

<table>
<thead>
<tr>
<th></th>
<th>Pre-reforms</th>
<th>Last 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent contracts</td>
<td>-9.1%</td>
<td>+10.5%</td>
</tr>
<tr>
<td>Temporary contracts</td>
<td>-3.5%</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

Source: SEPE

Net employment creation and lower unemployment rate in 2014

- Adding 1 million jobs (net*) by 2020, most of them skilled workers.

* CEDEFOP forecasts for the European Commission
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Spain is competitive and innovative
Solid position in the World in terms of knowledge and innovation

Knowledge-based assets (% of GDP)

- Anglo-Saxon countries: 29.5%
- Spain: 25.8%
- Nordic countries: 23.9%
- Central European: 15.9%

% of people in work with a university degree

- Spain: 38%
- Average EU: 30%

10th in terms of scientific output

Average annual growth in scientific output (1996-2010)

- Spain: 7.1%
- Europe: 4.5%
- North America: 3.5%

Source: Ábaco Observatory based on Eurostat

Source: Eurostat 2011

Innovative business sector: 73% of sales and 65% of jobs

4 of the Top 20 business schools in the World are Spanish

21 Spanish companies among those investing the most in R&D in Europe

Growing importance of entrepreneurship in Spanish business

Source: Spanish Foundation for Science and Technology (FECYT)
Spain has an attractive business environment
More productive and affordable labour force than in Europe

- Labour force 12-30% cheaper than our neighbouring countries
- High business productivity on the rise

Flagship telecommunications and infrastructure network in Europe
Energy prices for industrial businesses 3-10% lower than European average*
Key geostrategic location to reach emerging markets

*Average of Germany, France and Italy
Key added value sectors driving international expansion...
Generating 35% of GDP and employing over 2 million people

<table>
<thead>
<tr>
<th></th>
<th>Sectors with potential*</th>
<th>Total sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover/employee</td>
<td>182</td>
<td>103</td>
</tr>
<tr>
<td>Annual growth over last 2 years</td>
<td>2.9%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Exports/output</td>
<td>36%</td>
<td>29%</td>
</tr>
</tbody>
</table>

*Automotive, biotechnology, industrial aerospace, ITCs, machinery-tooling and food and agriculture

Source: Telefónica based on data from INE, Ministry of Agriculture, Food and Environment, ICEX (Spanish trade and investment department) and information from industry associations

Spanish companies among Europe's TOP 5 in terms of output and exports

Innovative companies (% of total companies)

Source: National Institute of Statistics (INE)

Innovation intensity (innovation expenditure as a % of total turnover)

Source: National Institute of Statistics (INE)
... with a very positive domestic and export impact
Great potential according to international projections

** Nº exporters related with automotive sector **

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11,815</td>
</tr>
<tr>
<td>2012</td>
<td>17,741</td>
</tr>
</tbody>
</table>

+50%

25% skilled workers vs. 13% in Europe

** Food and agriculture exports (€ billion) **

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>24.9</td>
</tr>
<tr>
<td>2012</td>
<td>33.9</td>
</tr>
</tbody>
</table>

+36%

8th largest exporter worldwide

** Biotechnology (growth over last 2 years) **

+85%

Over 250 new businesses since 2008

** Turnover Employment **

+39%

Source: DATACOMEX

Source: Spanish Bioindustry Association (ASEBIO), latest available annual report
The engine of tradable services
Surplus in non-tourism services for the first time in 20 years

Surplus in services 65% higher than in 06-07
(€ billion)

€+17 billion (75% non tourism services)

2006-07: 27.6
2012: 31.4

Exports growth, 2006-2012 (%)

Non-tourism services: +44%
Tourism: +6%

Source: Bank of Spain

€63 billion in 2012
€43 billion in 2012

Average annual growth, 2006-2012

Construction: 21%
Cultural services: 13%
Insurance services: 11%
IT and corporate services: 9%

LatAm: +32%
Africa: +21%
Asia: +16%

Source: Bank of Spain
... and robust leadership in tourism sector

Strong growth of visitors from emerging countries

Tourism export growth 2006-2012 (%)

- Improvement in competitiveness, especially compared to other destinations in the Mediterranean and American continent
- 80% of visitors from largest markets come back again

Great potential in key niche markets
- 2nd in the World in cultural heritage
- 3rd in the World for business trips
- Growing tourist inflows from emerging countries

Growth in revenues per tourist, 2012

- Approximately 6% revenue growth from traditional markets
- 21% revenue growth from US and 13% from Nordic countries
- 17% revenue growth from non-traditional markets on the American continent and 13% rise in revenue from non-traditional European markets

Average daily spend of tourists from BRIC 44% higher than the average

Source: Bank of Spain
Spanish multinationals, World market leaders
Worldwide leadership in 1/3 of key activity sectors

- Continue to post **impressive productivity** levels, 10% higher than Germany's and 20% above the United Kingdom's:
  - Turnover in excess of €500 billion
  - Employ more than 2.5 million people

- **Continue to expand** into new countries:
  - 40% operate in more than 21 countries
  - 12% of these are already present in over 100 countries worldwide

- **World leaders** in strategic sectors with major growth potential:
  - Infrastructure, energy and telecommunications
  - Engineering, renewable energy and environmental technologies
  - Financial services, transport and distribution
  - Food, tourism
  - Textiles and fashion
And powerful Spanish franchise network
Number of establishments doubled in just 4 years

- 272 Spanish franchises outside Spain in 2012 (+12% vs. 2011 and +30% vs. 2008)

- Present in 108 countries; growing share in emerging markets

- Fashion, travel, food, and beauty the most dynamic: number of franchises >20% in 2012

Franchises: Nº of establishments outside Spain (thousand)

- Source: Spanish Franchise Association (AEF)

Nº of establishments outside Spain per franchise

- Source: Spanish Franchise Association (AEF)

Nº of franchises in Spain, 2007-12

- Foreign +28%
- Spanish +22%

- Source: Spanish Franchise Association (AEF)
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Spain should deepen reforms
To guarantee strong economic growth in the near future

- **Public administration reform**, giving priority to productive public investment
- **Additional amendments to labour laws** to simplify contracts, reduce tax burden, and encourage efficient, proactive policies for job creation
- **Policies that continue to boost the knowledge economy** in all the areas of activity:
  - Education reform, particularly focused on secondary education and professional training
  - Efficient collaboration between business, universities and research community
  - Promoting policies that increase the average size of Spanish companies
Consejo Empresarial para la Competitividad