March 15, 2013

Board of Directors
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Balance sheet revaluation – Procedure for its application

Dear Sirs:

As requested by you, we set forth below some brief comments on (i) the main features of the new regime governing balance sheet revaluation contained in Provincial Law 21/2012, of December 26, 2012, amending various taxes and other tax measures, published in the Official Gazette of Navarra on December 31, 2012, (ii) the procedure established for applying it and (iii) the interpretation adopted by the Spanish Accounting and Audit Institute (ICAC) and the Directorate-General of Taxes (DGT) in reference to the regime applicable in Spain excluding the Basque Country and Navarra (hereinafter, the "Common Territory").

1. Application of the legislation

The balance sheet revaluation regime applicable in the "Foral" Community of Navarra has been established in the above-mentioned Provincial Law 21/2012, of December 26, 2012, amending various taxes and other tax measures, published in the Official Gazette of Navarra on December 31, 2012 (hereinafter, Provincial Law 21/2012).

The terms of this provincial regime are essentially the same as those approved for the Common Territory under Law 16/2012, of December 27, 2012, adopting various tax measures aimed at shoring up the public finances and boosting economic activity.

2. Objectives sought by the new regime

Without intending to perform an exhaustive analysis of the terms of the new balance sheet revaluation regime, we can say that, in general, it essentially consists of increasing the value of certain assets. The balancing entry for accounting purposes will be a special reserve account that will form part of the equity of the company. The revaluation of the assets will be fully effective for accounting and tax purposes.

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In addition, the revaluation will be subject to a single tax charge, which will be quantified at 5% of the net increase in value of the assets.

Broadly speaking, the increase in value of the assets will be calculated by applying to the acquisition or production cost of the asset, and to the tax depreciation taken on it, the statutory index-linked adjustment coefficients according to the year of acquisition, production and depreciation of the asset. However, in no event can the revaluation thus calculated give rise to a value that exceeds the market value of the asset, which will operate as the revaluation ceiling.

3. Interpretation adopted by the ICAC and the Directorate-General of Taxes in relation to the procedure for applying the regime in the Common Territory

In December 2012 the ICAC published its ruling no. 5 in ICAC Official Gazette 92, in which it referred to the accounting aspects of the balance sheet revaluation approved by Law 16/2012, of December 27, 2012, relating to the Common Territory, concluding, inter alia, as follows:

- The revaluation will be retroactively effective, for accounting and tax purposes, with no break in continuity, as from January 1, 2012, considering that the assets the value of which is rectified are those included in the balance sheet closed as of December 31, 2012.

- If the Shareholders' Meeting elects to apply the revaluation, it may only do so in due time and form; in other words, in the same period granted for approving the financial statements for fiscal year 2012 and after preparing an *ad hoc* revaluation balance sheet, given that the revaluation is conditional on approval by the competent body of the revalued balance sheet.

- In 2013, the board of directors will prepare the financial statements for fiscal year 2012 without including the revaluation in the balance sheet.

- Furthermore, in 2013, the Shareholders' Meeting will approve the financial statements for fiscal year 2012 without including the revaluation, and subsequently it will be presented for its approval the *ad hoc* revaluation balance sheet.

For its part, the DGT, in line with the view taken by the ICAC, has published the following clarifications in its ruling V0371-13, of February 8, 2013, in relation to the regime applicable in the Common Territory, analyzing a case in which the closing date for the financial statements will be December 31, 2012:

- To apply the revaluation, the entity must prepare a specific *ad hoc* revaluation balance sheet, which is different from the balance sheet used for the 2012 financial statements.

- The *ad hoc* balance sheet will, however, have the same closing date as the balance sheet for the fiscal year that serves as reference for carrying out the balance sheet revaluation and it must be approved by the competent body in the same period as that established for the approval of the 2012 financial statements.

- The *ad hoc* balance sheet will be included in the tax return for the single tax charge payable on balance sheet revaluations.

- The preparation of this *ad hoc* balance sheet does not mean that the effects of the balance sheet revaluation must be included in the financial statements for fiscal year 2012, but rather that the accounting effects and, therefore, their inclusion in the financial statements of the entity requesting the ruling and its subsidiaries will take place in 2013 when the *ad hoc* balance sheet is approved by the competent body. The *ad hoc* balance sheet will have retroactive effect, in this specific case, to January 1, 2013.

4. Current wording of the Provincial Law – Problem raised by entry into force and date for applying the regime

Lastly, it should be noted that the current wording of Provincial Law 21/2012 may produce certain effects which, if not corrected, would cause differences between the entry into force of the regime applicable in Navarra and that of the Common Territory and other Provincial Territories.

In this respect, according to its current wording:

(i) Provincial Law 21/2012 would enter into force on January 1, 2013; and

(ii) in accordance with subprovision 3 of additional provision one of the Law, in relation to legal entities subject to corporate income tax, *"the revaluation of assets shall be carried out with respect to the assets qualifying for revaluation that appear in the first balance sheet closed after the entry into force of this provision (...)"*.

Based on the above, the revaluation would be carried out with respect to the assets that appear in the first balance sheet closed after January 1, 2013, that is, in cases where the fiscal year is the same as the calendar year, in the balance sheet closed as of December 31, 2013. This would mean that the application of the balance sheet revaluations would be delayed one year in Navarra with respect to the regime established for the rest of Spain.

As of the date of issue of this letter, we are aware of the existence of an amendment to the articles of the Navarra Bill on tax measures against tax fraud that is currently being processed, proposed by the Parliamentary Group Unión del Pueblo Navarro (amendment no. 19, published in the Official Parliamentary Gazette of Navarra on January 31, 2013), which is aimed at amending the first paragraph of subprovision 3

of additional provision one of Provincial Law 21/2012, in order to bring the effective date of the Navarra regime into line with that of the rest of Spain.

Accordingly, the proposed wording is as follows: *"the revaluation shall be carried out with respect to the assets qualifying for revaluation that appear in the first balance sheet closed after December 28, 2012 (...)"*.

In addition, there is another amendment to modify the table of index-linked adjustment coefficients contained in sub provision 5 of Provision One of Provincial Law 21/2012, to correct two errors detected, referring to the index for 2012, which will become 1, so that the assets acquired in 2012 are not revalued, and to the index for 2013, given that if the amendment described in the preceding paragraph is approved, the revaluation will refer to the assets that appear in the balance sheet closed as of December 31, 2012 and, accordingly, the coefficient for 2013 will not be applicable.

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As always, please do not hesitate to contact us to clarify or amplify any aspect of the contents of this letter.

Very truly yours,

Vicente Bootello