Press release

General State Budgets 2012

The Government presents to Parliament the most demanding State Budgets to ensure the deficit target is met

- The extensive adjustment of the budget for 2012 will achieve the deficit target set for all Public Administrations of 5.3%

- The State will make the greatest consolidation effort ever in democracy, with an adjustment of €27,300 million, between cost controls and increases in revenue

- The Tax Revenue Budget for 2012 stands at €38,102.7 million, down 5.6% on 2011.

- The purchasing power of pensions is adjusted and public expenditure reduced without reductions to essential areas.

- Public debt will reach 79.8% of GDP, a level far below the 90.4% recorded in the Eurozone. The State borrowing requirement is down 30% on 2011.

- The State raises its contribution to minimum pension supplements by 35.6%.

3 April 2012. The Minister of Finance and Public Administrations, Cristóbal Montoro, today presented the General State Budgets for 2012 to the Spanish Parliament, in which a huge effort has been made to control spending in order to reduce the public deficit and achieve the budgetary stability target. They ensure that the public sector as a whole will be on the road towards its rebalancing which brings credibility to the future evolution of the public debt and deficit, as the accounts are based on realistic forecasts as to how the economy is likely to evolve.

Although this effort to meet the deficit targets will be an effort for everyone, it will not impact on the most disadvantaged. Priority spending areas have not been neglected, the purchasing power of pensions has been adjusted, and cuts have been made in public expenditure without cuts to social benefits.

The budget set aside for pensions comes to €115,826 million, an increase of 3.2% compared to 2011. The sum includes contributory and non-contributory pensions from Social Security and the State employee pensions.

Along with a set of austerity measures, the Budget for 2012 includes extraordinary measures to increase revenue, which merely confirms Spain's serious and firm commitment in an extreme situation that it is hoped will be overcome in order to return to the path of economic recovery and to regain the confidence lost.

This reinforces the commitment to cut the deficit of all Public Administrations to 5.3% of GDP, 3.2 points less than the 8.5% with which it closed 2011. The State will require a reduction of 1.6 percentage points to achieve a deficit of 3.5%, 1.4 points by the Autonomous Regions to achieve a deficit of 1.5% while Local Authorities will require a reduction of 0.1 points to achieve a deficit of 0.3% this year. Meanwhile Social Security will reduce its deficit of 0.1% of GDP to achieve a balanced budget.

The fiscal consolidation efforts to be made by the State are equivalent to 2.5% of GDP, equivalent to €27,300 million. Of these, 0.8% of the GDP corresponds to increases in State revenue resulting from the new fiscal measures to be introduced and 1.7 percent to expenditure adjustments, excluding items already committed to.

DEBT BELOW THE EUROZONE AVERAGE

As a result of the mechanisms to provide financial support to the Regional Administrations and all the other changes to financial assets, public debt will go from 68.5% of GDP at the end of 2011 to 79.8%, a level which is still far below the 90.4% average recorded in the Eurozone. A large part of this increase will be absorbed by the Central Administration, which will have a ratio of 60% of GDP compared to 52.1% in 2011. In any event, the State borrowing requirement for 2012 is 30% lower than in 2011.

The State Budget this year includes a 16.9% reduction in Ministries' overall spending, excluding prior period obligations, to reach a total of €65,803 million. The Ministry of Foreign Affairs and Co-operation is reducing its expenditure by 54.4%; the Ministry of Industry, Energy and Tourism will be reducing its expenditure by 31.9%, and the Ministry of Finance and Public Administrations, by 22.9%. The Ministry of Education, Culture and Sport will have 21.2% fewer resources and the Ministry of Development, 34.6% less, excluding prior period obligations.

The sum for real investments stands at €5,280.24 million, a 9.2% reduction, which in standardised terms amounts to a 19.6% decrease if we take obligations from previous periods out of the calculations for 2012. The highest investment sums correspond to the Ministry of Development, with €3,412 million, which will largely go on road and rail infrastructures. Ministry of Agriculture, Food and Environment investments stand at €739.68 million, mostly earmarked for hydraulic infrastructures. Other notable investments include the Ministry of Defence with €654 million, the Ministry of Justice with €94.62 million and the Ministry of the Home Affairs with €99.57 million.

SAVINGS MEASURES

The efforts to control spending, particularly in areas with lower productive capacity, include a €594 million reduction in transfers to the Spanish International Development Cupertino Agency. The Water Fund is down by €125 million and FONPRODE by €670 million. Investments in defence have been revised downwards (-€351 million), largely in Special Defence Programmes. Aid for access to housing will be reduced by €322 million. As for allocations for infrastructures, there will be a €360 million reduction in funds for first generation motorways, while contributions to ADIF and SEITTSA will fall by €287 million and €427 million, respectively.

Other areas being adjusted downwards include direct transfers to political parties and business and trade union organisations, which are down by 20%. Furthermore, €67 million will be withdrawn from the fund for the Integration of Immigrants and Active Employment Policies are down by

€1,557 million. The reduction in transfers to Education excluding grants will total €532 million.

Spending on dependent care is down by €283 million, while in the area of research, development and innovation, there is a €495 million decrease in funds for Ministry of Economy and Competitiveness RD&I programmes, and a €422 million reduction in contributions to the CDTI. The Ministry of Industry, Energy and Tourism, civil RD&I spending is cut by €264 million and military RD&I by €221 million.

AUTONOMOUS BODIES

The Budget for Autonomous Bodies stands at €51,206.7 million, a significant 8.2% drop on the 2011 Budget. Notable cuts include those in the Institute for the Restructuring of Coal Mining (-39.1%), the Spanish Development Co-operation Agency (-56.9%), the Film Institute (-35.4%) and the Spanish Tourism Institute (-36.3%). Lesser cuts are also being felt in the Hydrographic Confederations (-8.8%) and the Spanish Tax Agency (-4.8%).

REVENUE

This year revenue will reflect the consequences of the recession. Despite everything, the budgets brought to Congress today are credible as they take this reality into account. Non-financial income for 2012, after transfers to Regional Entities, will reach €119,233 million, amounting to an increase of 12.5% in relation to the 2011 budget and 14.3% in relation to revenue collection for last year, which means an increase of €14,902 million.

To achieve this evolution in revenue, the Government's new tax measures will be crucial, as they will provide an increase of €12,300 million, including the increase in personal income tax approved on 30 December last. But we also need to take into account the impact that various aspects of regional financing are going to have. These include the settlements relating to the financing system of the common regime Autonomous Communities for 2010, the cancellation of the advance awarded in 2010 from the Convergence Funds and the payment of the deferred sums relating to the financing systems of the Regional Administrations for 2009.

Tax revenue before the transfers to Regional Entities will be €168,726 million in 2012, 2.3% more than in the initial 2011 budget or 4.3% more when compared to actual revenue collection for last year. Revenue from personal income tax will be up by 1.9% at €73,106 million, or 4.7% in relation to revenue collection in 2011. The increase is largely due to the tax increase approved in December that will make up for the fall in the number of taxpayers due to the intensification of the crisis.

As regards revenue generated from Corporation Tax, this will be up by 22.2% on the initial budget of last year, to stand at €19,564 million. The increase will be 17.8% compared to the final revenue figure for 2011. VAT revenue will be down by 2.6% as a result of the slowdown in the Spanish economy and will reach €47,691 million, while Special Tax revenue will fall by 11.5% to €18,426 million. In this case the reduction in consumer goods subject to these taxes, above all, hydrocarbons, has a significant impact.

TAX MEASURES

The royal decree law, published in the Official State Gazette (BOE) last Saturday includes a series of new fiscal measures, particularly with regard to Corporation Tax, in order to help put an end to the fall in the effective rate, particularly that of large companies:

-Deferred tax benefits. The maximum annual limit for deductible intangible assets related to goodwill will be reduced from 5% to 1%, both for the acquisition of entities and corporate restructuring. This will set the same limitation as determined by the decree of 2011 for financial goodwill and extend it to other business assets liable for tax. They will be effective for 2012 and 2013.

The accelerated depreciation for large businesses will be eliminated, as regulated in additional provision 11 of the Corporation Tax Act. This allows the accelerated depreciation, even if not maintaining or leading to the creation of jobs, according to the decree which came into force in January 2011. Furthermore, the deduction for accelerated depreciation related to investments made prior to the repeal of the regime will be limited. With this limitation, the aim is to defer the tax incentive. For SMEs accelerated depreciation will remain provided it is linked to job creation.

- Financial expenditure. Currently, deductions can be made without limitation, an aspect that contrasts with legislation in other countries, which have been protecting their tax bases in recent years. With the new

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regulation, financial costs will not be deductible in the year if they exceed 30% of the result (EBITDA) for the financial year. In all events, the deduction cannot exceed €1 million. Expenses that are not deductible in the year will be so in future periods up to a maximum of eighteen years. Financial spending arising from the purchase of shares of entities within a group will not be deductible, unless the entity justifies the purchase of these shares on economic grounds. The measure is of an indefinite nature.

-Minimum payment by instalments for large corporations. This sets a minimum instalment payment for companies whose accounting profit exceeds €20 million a year, as a new tax liability. This will be 8% of the result of their income statement. It will be 4% if at least 85% of its revenue comes from exempt income or dividends eligible for double tax deduction. In the next instalment payment, to be made before 20 April of this year, a rate of 4% on accounting profit will be applied. The measure only affects 2012 and 2013.

-Deductions limit. The current general limit will be reduced from 35% to 25%, including the deduction for reinvestment of extraordinary profits. It will be reduced from 60% to 50% for cases where the deduction for R&D exceeds 10% of the quota. The reductions are temporary, affecting only 2012 and 2013.

--Partial exemption on the sale of shares. In order to support the internationalisation of Spanish companies, the regime for exemption on the sale of shares in non-resident entities will become more flexible, establishing a proportionate criterion depending on the time in which the requirements are met.

-Foreign dividends. As such, a special tax of 8% was set for dividends or a share of profits from foreign sources, derived from the same source that are repatriated until 31 December 2012. With this tax the entities that could not benefit from the exemption envisaged for dividends and income from foreign sources as a result of some of their associate companies being in a country with low taxation, will be encouraged to repatriate funds at a low cost. This must always be companies that are within the mercantile group and clearly identified in the accounts of the company.

REGULARISATION OF HIDDEN INCOME UP TO 2010

The Government has also introduced, via royal decree, a series of exceptional measures to help to attract hidden income and also contribute to fiscal consolidation. Another special tax has been introduced to attract income undeclared by payers of income tax, Corporation Tax and Non-Resident Income Tax. The Tax Agency will toughen the tax penalty regime but will previously allow extraordinary regularisation of capital, upon payment of an additional tax of 10% of the amount of the assets and rights arising. Taxpayers may submit a confidential statement to regularise their tax status. The deadline for presentation and admission is 30 November.

Tax payers that sign up to this extraordinary programme must hold assets or rights acquired during years for which the tax return deadline has passed (last year 2010). When this tax return is filed, the taxpayer in question will not be required to pay any surcharge, penalty or interest. Excluded from this procedure are assets and rights about which the Tax Agency has opened an investigation or inspection procedure. The Ministry of Finance will shortly be approving the tax return form, and the place for filing and depositing the taxes due. Along with the above mentioned tax return the taxpayer will have to submit the information required to individually define the aforementioned assets and rights.

The royal decree also includes other tax measures. With regard to the Tax on Tobacco Products, the proportional rate, which depends on the sale price, is down by 2% (from 57% to 55%) and at the same time the specific rate linked to the number of units is up (up to €19 per 1,000 cigarettes). Likewise the definition of rolling tobacco has been adjusted to fall in line with EU legislation.

TAX RELIEF DOWN BY 5.6%

The Tax Relief Budget for 2012 stands at €38,102.7 million, down 5.6% on 2011. This includes the fall in personal income tax relief, down 9.2% (-€1,528 million) affected by the decrease in the number of taxpayers and incomes liable for payment of this tax. This is being noted above all in the deduction for investment in a family home, where fiscal expenditure falls by 13.8% despite an increase in the number of taxpayers eligible for this deduction based on their income.

The story is similar with regard to VAT. The contribution of incentives in this tax are cut by 4.3% which is explained by the economic recession and the extension of the super reduced rate of 4% to all new homes.

In the case of Corporation Tax, the decrease in the Tax Relief Budget stands at 1.7%, also affected by the adverse economic climate which has led to a reduction in the number of companies with gains and unfavourably affects the accounting figures of all companies, both SMEs and large firms.

SOCIAL SECURITY

The consolidated non-financial revenue budget for Social Security for 2012 stands at €119,884.11 million, which represents a 2.9% fall. Social security contributions are down by 3.7% totalling €106,323 million, which will fund 88.1% of the total budget. Revenue from active worker and company contributions is down by 3.9% as a result of the fall in the number of contributors due to higher unemployment rates. After the contributions from active workers and companies, the State's contribution has the greatest weight in the Social Security budget. For 2012 it is up by 9.3%.

For dependent care assistance the State contributes €1,407.15 million, of which €1,287.18 million go towards funding the minimum guaranteed by the State. With regard to the State's contribution to minimum pension supplements, the figure stands at €3,806.35 million, which is an increase of 35.6% compared to the figure of €2,806.35 million for 2011.

The consolidated non-financial budget stands at €119,883.11 million, an increase of 0.9%. Contributory pensions are credited to the tune of €101,954 million this year, the budget for maternity, paternity and antenatal risk benefits is €2,369.85 million, a decrease of 0.7%. The credit to cover payment of temporary incapacity benefits stands at €5,799.21 million, down 17.3%.

Non-contributory pensions from Social Security are included in the IMSERSO budget and they come to €1,995.01 million, excluding the Basque Country and Navarre, while spending on family benefits stands at €990.77 million.

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