HIPERCOR, S.A. (Sociedad Unipersonal)

(incorporated with limited liability under the laws of the Kingdom of Spain)

€500,000,000

3.875% Notes due 2022

guaranteed by

EL CORTE INGLÉS, S.A.

(incorporated with limited liability under the laws of the Kingdom of Spain)

The issue price of the €500,000,000 3.875% Notes due 2022 (the "**Notes**") of Hipercor, S.A. (Sociedad Unipersonal) (the "**Issuer**") guaranteed by El Corte Inglés, S.A. (the "**Guarantor**") is 100 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 19 January 2022. The Notes may be redeemed at any time before then at the option of the Issuer: (i) in whole or in part, at the Make Whole Amount; and (ii) in the event of certain changes affecting taxation in the Kingdom of Spain, in whole, but not in part, at their principal amount plus accrued interest. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount on the occurrence of a Change of Control. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from 19 January 2015 at the rate of 3.875 per cent. per annum payable annually in arrear on 19 January each year commencing on 19 January 2016. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under "*Terms and Conditions of the Notes—Taxation*". The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The regulated market of the Irish Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments (the "**Markets in Financial Instruments Directive**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive and/or which are to be offered to the public in any Member State of the European Economic Area. This Prospectus constitutes a "prospectus" for the purpose of the Prospectus Directive.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Lead Manager (as defined in "**Subscription and Sale**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denomination of €100,000 each. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be issued in New Global Note ("**NGN**") form and which will be deposited on or around 19 January 2015 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of €100,000 each and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

MORGAN STANLEY

12 January 2015

IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus and, in the case of the Guarantor the information contained in the Guarantee for which the Guarantor is responsible, to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Each of the Issuer and the Guarantor has confirmed to Morgan Stanley & Co. International plc (the "**Lead Manager**") that this Prospectus contains all information regarding the Issuer, the Guarantor and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Lead Manager.

Neither the Lead Manager nor any of its affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, neither the Notes or the Guarantee have been, nor will be, registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S. $**", "**U.S. dollars**" or "**dollars**" are to United States dollars, and references to "**EUR**", "**euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under the applicable law.

In connection with the issue of the Notes, Morgan Stanley & Co. International plc (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager in accordance with all applicable laws and rules.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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RISK FACTORS

An investment in the Notes is subject to a number of risks. Prospective investors should carefully consider the risks described below, together with other information contained in this Prospectus, before investing in the Notes. If any of the risks described below actually occur, the business, financial condition or results of operations of the Issuer, the Guarantor and the Group could be materially adversely affected and, accordingly, the market price of the Notes may decline, resulting in a loss of all or part of any investment in the Notes.

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfill their obligations under the Notes. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the non-payment of any amounts due under the Notes may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Notes are exhaustive. Furthermore, the risks and uncertainties described may not be the only ones the Group faces. Additional risks and uncertainties not presently known or that are currently considered immaterial may also have a material adverse effect on the Group's business, financial condition or results of operations.

Risks Related to the Operations of the Issuer, the Guarantor and the Group

The deterioration of global and Spanish economic conditions, including macroeconomic and geopolitical uncertainties, could adversely affect the Group's business

The results of the Group are impacted by the prevailing macroeconomic and geopolitical climate, levels of sovereign debt and fiscal deficit, liquidity and availability of credit, unemployment, real disposable income, deflation, wage rates including any increase as a result of payroll cost inflation or governmental action to increase minimum wages or contributions to pension schemes, interest rates, consumer confidence and consumer perception of economic conditions.

During the fiscal year ended as of 28 February 2014 95.3% of the revenues of the Group derived from Spain. The Spanish economy has been gradually recovering from a recession and a number of economic indicators reveal a steady improvement. The Spanish Ministry of Economy and Finance forecasts a sustainable path for GDP growth in the country in the coming years and unemployment has shown the first signs of improvement. The Group cannot assure, however, that this improvement will be sustained and therefore remains cautious about the strength of a Spanish consumer recovery and expects that the marketplace will remain highly competitive in the short term.

If the Spanish economy does not improve as expected or further stagnates or contracts in line with previous years, the Group's business could suffer negative effects, which could adversely impact on the Group's financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

Economic conditions that impact consumer spending could adversely affect the Group's business

The Group may be materially affected by changes in economic conditions in the markets in which the Group operates that impact consumer confidence and spending, including discretionary spending. In particular, economic conditions affecting disposable consumer income, such as business conditions, changes in housing market conditions, the availability of consumer credit, income tax rates, indirect taxes (including VAT) and fuel and energy costs, could also reduce overall consumer spending and adversely impact the Group's business.

Part of the items that the Group sells (particularly fashion and homeware products) in its stores, franchise stores or online represent discretionary purchases. Depressed consumer spending in the markets where the Group operates may also result in fewer discretionary purchases by consumers which would lead to a decline in the Group's sales. This risk may be exacerbated if customers choose lower-quality alternatives to the Group's product offerings in response to their economic conditions. In particular, the retail industry is negatively affected by decreases in the purchasing power of middle-income and low- income consumers resulting from unfavorable economic cycles. Therefore, in times of economic downturns, the purchasing power of such group decreases as their income decreases. In addition, the Group's middle-income and low-income customers may consider certain products, such as clothing and electronic purchases, superfluous during periods of reduced income which would most likely lead to a decrease in demand.

Should any of the above events occur, they may have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may not be able to accurately predict or fulfil customer preferences or demand

The Group's sales and operating results depend in part on its ability to predict or respond to changes in consumer preferences in a timely manner and to translate market trends into appropriate, profitable merchandise offerings. In particular, a part of its transactions are related to the sale of fashion-related products, which are subject to volatile and rapidly changing customer tastes.

There can be no assurance that the Group's brand and merchandise selection, or the product mix selection, will accurately reflect customer preferences at any given time or that the Group will be able to identify and respond quickly to changes in customer trends. The Group also risks alienating customers who cannot locate their desired brands or products in its stores, which could encourage customers to seek Group competitors and alternative shopping experiences. If the Group is unable to successfully predict or fulfil sales demand or respond to changing styles, tastes or trends, it may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or it may experience inventory shortfalls on popular merchandise. Any sustained failure to identify and fulfil emerging trends in lifestyle and consumer preferences could have a material adverse effect on its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group's results are seasonal and therefore any circumstance that negatively impacts its business during the seasons of high demand may adversely affect it

Seasonality has an impact on the results of operations of several of the Group's divisions as people purchase products to satisfy their needs in each season. The Group expects that this seasonality will continue in the future.

Additionally, and in preparation for the Group's seasons of high demand, it must increase inventory to levels substantially higher than those maintained during the rest of the year. Any unforeseen reduction in demand, mistake in its demand forecasts or delay by its suppliers in meeting its demand during these seasons may force the Group to sell inventory at significantly lower prices.

Any economic slowdown, interruption to the Group's business or the business of its suppliers, extended periods of unseasonal weather or the occurrence of any other circumstance that may impact its business during the high seasons of any fiscal year may therefore adversely affect the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may be unable to compete effectively in the highly competitive retail industry

The retail industry is highly competitive with few barriers to entry. The Group competes with a wide variety of retailers, including department stores, home improvement stores, supermarkets, convenience stores, consumer electronics dealers, specialty retailers and many other competitors operating on a national, regional or local level. In addition, Internet and catalogue businesses, which handle similar lines of merchandise, also compete with the Group. In this competitive industry, market success is based on factors such as price, product assortment and quality, service and convenience. The Group's success depends on its ability to differentiate itself from its competitors with respect to shopping convenience, a quality assortment of available merchandise and superior customer service. The performance of the Group's competitors, as well as changes in their pricing policies, marketing activities, new store openings and other business strategies, could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group's traditional retail stores, supermarkets and hypermarkets face increasing competition from internet sales which may negatively affect sales through traditional channels

In recent years, retail sales of clothing, food, home improvement and other products over the internet have increased significantly where the Group operates. Internet retailers are able to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and supermarkets. Certain internet retailers have significantly lower operating costs than traditional retailers because they do not rely on an expensive network of retail points-of-sale or a large sales force. As a result, such internet retailers are able to offer their products at lower costs than the Group and in certain cases are able to bypass retail intermediaries and deliver particularly high quality products directly to consumers. The Group believes that its consumers are increasingly using the internet to purchase retail goods, and that this trend is likely to continue. If internet sales continue to grow, consumers' reliance on traditional distribution channels such as the Group's department stores, home improvement stores, hypermarkets, supermarkets and other retail stores could be diminished, which could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group's online sales are subject to numerous risks associated with trading over the internet including website design, mobile application, online presence and a multi-channel offering

The Group also sells merchandise over the internet, both domestically and internationally via its online platform. The online operations of the Group are subject to numerous risks, including:

- reliance on third parties for computer hardware/software, the need to keep up with rapid technological change and the implementation of new systems and platforms;
- the risk that the Group's online website may become unstable or unavailable due to necessary upgrades or the failure of its computer systems or the related IT support systems as a result of computer viruses, telecommunication failures, electronic break-ins and similar disruptions, or disruption of internet service, whether for technical reasons or as a result of state-sponsored censorship or other root causes;
- customers finding the website or any of the mobile applications difficult to use, being less willing to use the site than the Group expects or not being confident that it is secure;
- issues associated with a shift from in store purchasing, where there is a large fixed cost base, to online ordering, where the Group is subject to higher variable costs;
- logistical difficulties in delivering products to customers in a satisfactory manner;
- liability for online content, security breaches and consumer privacy concerns;
- inability to honour the Group's usual delivery terms in case of an unexpected or higher than expected spike in customer orders;
- negative reviews from dissatisfied customers spreading online or through social networks and deterring other potential customers from looking at the Group's online or mobile offering;
- violations of Spanish, foreign or international laws, including those relating to online privacy; and
- liability for online credit card fraud and problems adequately securing payment systems.

A failure to respond appropriately to these risks and uncertainties could reduce the Group's online revenue, as well as damage its reputation and brands, especially since online is an important part of its growth strategy, which could adversely affect its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group's markets are undergoing consolidation

Over the last several years prior to the date of this Prospectus, the retail sector in Spain has been undergoing consolidation as large retail chains have gained market share at the expense of small, independently owned and operated stores, and large local and international hypermarket and supermarket chains have been consolidated. The Group believes that further consolidation may be likely to occur in these markets as competition intensifies and economies of scale become increasingly important. The Group cannot assure you that such market consolidation will not occur to the material detriment of its market position and have a material adverse effect on its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

Antitrust laws could limit the Group's ability to expand its business through acquisitions or joint ventures

Antitrust laws may contain provisions that require authorisation by certain antitrust authorities for the acquisition of, or entering into joint venture agreements with, companies with a relevant market share. Accordingly, the Group's ability to expand its business through acquisitions may be limited or delayed and this could adversely affect its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

Negative brand recognition and loyalty may adversely affect the Group's business

Maintaining and enhancing the Group's brands is critical to its success, given its consumer and market focus. If the Group's market recognition, loyalty to its brand or its reputation were to be harmed, it could lose customers or fail to increase its customer base. The Group plans to continue investing substantial resources to promote its brands, but there is no guarantee that its brand development strategies will enhance their recognition. Some of the Group's existing and potential competitors have well-established brands with substantial recognition. If the Group's efforts to promote and maintain its brands are not successful, its operating results and its ability to attract and retain customers may be adversely affected.

Additionally, negative reviews, or reviews in which the Group's competitors' brands are rated higher than it, could negatively affect its brand and reputation. If the Group does not handle customer complaints effectively, its brand and reputation may suffer, it may lose its customers' confidence, and they may choose not to continue to shop at the Group's stores. Complaints or negative publicity about the Group's brands and services could adversely impact its ability to attract and retain customers and its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

In addition any deterioration in the variety or quality of its private label products could also adversely affect its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may be unable to protect its trademarks and other intellectual property and may have its brand names harmed

The Group's ability to protect and preserve its intellectual property is important to its continued success and its competitive position due to their recognition by retailers and consumers. The Group relies on laws in Spain, and in the other markets where it operates, to protect its proprietary rights. However, the Group may not be able to sufficiently prevent third parties from using its intellectual property without its authorisation. The use of the Group's intellectual property or similar intellectual property by others could reduce or eliminate any competitive advantage it has developed, causing it to lose sales or otherwise harm the reputation of its brands.

The Group is exposed to risks associated with investments in commercial real estate

The Group's real estate assets represent a significant percentage of the value of the Group. Commercial real estate investments are subject to certain risks, many of which are not within the Group's control. The value of the Group's properties may be adversely affected by the following factors, among others, some of which it cannot control:

- downturns in national, regional and local economic climates;

- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- law reforms and governmental regulations (such as those governing usage, zoning and real property taxes);
- an increase in operating costs due to inflation and other factors such as insurance expense, utilities, real estate taxes, state and local taxes and heightened security and cleaning costs; and
- the need to periodically renovate, repair and release space, and the higher costs thereof.

The occurrence of any combination of the factors listed above could significantly decrease the value of the real estate assets, which could consequently have a negative impact on the Group.

Additionally, properties that the Group acquires may be subject to unknown liabilities for which it would have no recourse, or only limited recourse, to the former owners of such properties. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of undisclosed environmental contamination;
- law reforms and governmental regulations (such as those governing usage, zoning and real property taxes); and
- liabilities incurred in the ordinary course of business.

As a result, if a liability were asserted against the Group based upon ownership of an acquired property, it might be required to pay significant sums to settle it, and this could adversely affect its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group purchases and sells assets in the ordinary course of its business. These acquisitions and divestments can expose the Group to both operational and financial risks

In the ordinary course of its business, the Group evaluates certain acquisition and divestment opportunities of certain of its assets, including real estate. There can be no assurance that any such acquisition or divestment will be successful. The success of any future acquisition or divestment transaction will depend on senior management's ability to identify, negotiate and complete such transactions. If any such acquisition or divestment is not successful, this could have a material adverse effect on the Group's business, financial condition or results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group relies on third party suppliers, and if it fails to identify and develop relationships with a sufficient number of qualified suppliers, its ability to timely and efficiently access products that meet its standards for quality could be adversely affected

The Group buys its products and supplies from various suppliers. The Group's ability to continue to identify and develop relationships with qualified suppliers who can satisfy its standards of quality and its need to access products and supplies in a timely and efficient manner is a significant challenge. The Group's ability to access products and supplies can also be adversely affected by the financial instability of suppliers, suppliers' non-compliance with applicable laws, trade restrictions, tariffs, transport capacity and cost, disruption in distribution chains and logistics and other factors beyond its control. In addition, the price of certain products imported by the Group from its suppliers is denominated in currencies other than the euro, and as a result an unfavourable exchange rate variation may adversely impact costs.

As part of the Group's strategy of differentiation, it has formed alliances and favourable relationships with selected suppliers to market products under a variety of well-recognised brand names. If the Group is unable to successfully manage and expand these alliances and relationships or successfully identify alternative sources for comparable products, its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes may be adversely affected.

Any disruption or other adverse event affecting the relationship of the Group with its franchise partners could adversely affect its business

Any significant disruption or other adverse event affecting the relationship with the Group's franchise partners could have a material adverse effect on its business, financial condition and results of operations. If the Group needs to replace a substantial number of its franchise partners, it may face risks and costs associated with a transfer of operations or the potential of extra operations costs from new franchise providers. If substantial partners were to demand terms that were less favourable to the Group, it may experience reduced growth or decline in gross transaction value, and may be required to write down the value of any stock acquired for sale in their store portfolio.

If the Group does not successfully manage its inventory levels, its operating results could be adversely affected

The Group must maintain sufficient inventory levels to operate its business successfully. However, the Group must also guard against accumulating excess inventory as it seeks to minimise out-of-stock levels across all product categories and to maintain in-stock levels. As part of its business, the Group obtains a portion of its inventory from vendors that often require lengthy advance notice of its requirements in order to be able to supply products in the quantities it requests. This usually requires the Group to order merchandise, and enter into purchase order contracts for the purchase and manufacture of such merchandise, well in advance of the time these products will be offered for sale. If the Group does not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, its inventory levels will not be appropriate and its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes may be negatively impacted.

An increase in export or import duties and controls may have an adverse effect on the Group's business

While the Group has historically been able to locate and purchase quality merchandise at good prices, such merchandise may become subject to higher import taxes than apply as at the date of this Prospectus.

In addition, foreign trade policies, tariffs and other impositions and requirements on imported goods, which may depend on the product's place of origin, the product's nature and specifications and other factors relating to the foreign trade of the countries in which the Group operates are beyond its control and could result in difficulties in obtaining quality, low-cost merchandise from these countries. Consequently, this could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group is exposed to certain risks related to raw materials and other costs incurred in making, distributing and marketing its products, which may result in higher costs or reduced sales

In making, distributing and marketing its products the Group consumes certain key raw materials, which are subject to availability constraints and price volatility caused by factors such as the high demand for fabrics, fuel prices, weather, supply conditions, government regulations, crop yields, foreign exchange rate fluctuations, war, terrorism, labour unrest, global health concerns, the economic climate and other unpredictable factors. The price and availability of certain raw materials has fluctuated in the past and may fluctuate in the future. An increase in the price of certain raw materials, such as cotton, paper and plastic, may significantly impact costs and thereby reduce margins. Furthermore, the business model relies on an efficient and flexible supply chain able to manufacture and deliver the products responding to a current fashion trend. If raw materials required for production are not immediately available in stock at suppliers, this may cause delays and longer lead times between ordering and taking delivery of the products. This in turn may lead to lower sales than could have been realised with products potentially arriving in store once the fashion trend has passed or the season has changed. Consequently, the Group may also experience lower margins if required to mark down prices to clear inventory of slow selling products.

The Group's food distribution business sources fresh products from local producers, climate changes may affect their ability to produce, and consequently may affect the Group's capacity to offer such products

Changes in weather conditions may negatively affect the capacity of certain regions to produce fresh products such as fresh fruits and vegetables and dairy products. The Group's hypermarket and supermarket businesses have a significant focus on perishable products. As the Group sources part of its fresh products from local producers, such changes in climate could impair or limit the Group's ability to source such products, thus affecting its capacity to offer the full assortment of products that it normally carries.

Any disruption in the operations of the Group's distribution centres may have an adverse effect on the Group's business

A substantial part of the products the Group sells in its stores are distributed through its distribution centres. Should any of these distribution centres experience an interruption in operations, the Group may not be able to effectively distribute the products it sells, which may have a material adverse effect on its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group relies extensively on information technology systems to process transactions, summarise results and manage its business and disruptions to these systems could have an adverse effect on the Group's business

Given the number of individual transactions the Group processes each year, it is critical that it maintains uninterrupted operation of its computer and communications hardware and software systems. The Group's systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events and usage errors by its employees. If the Group's systems are damaged or cease to function properly, it may have to make a significant investment to fix or replace them, and it may suffer interruptions in its operations in the interim. Any material interruption in the Group's computer operations may have a material adverse effect on its business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may experience a data security breach and confidential customer information may be disclosed or may suffer acts of fraud, theft and industrial espionage, which could lead to negative publicity, litigation or fines and affect its customer relationships

The Group and its customers could suffer harm if customer information were accessed by third parties due to a security failure in its systems. The collection of data and processing of transactions require it to receive and store a large amount of personally identifiable data. This type of data is subject to legislation and regulation. Despite controls to ensure the confidentiality, availability and integrity of customer data, the Group may breach restrictions or may be subject to an attack from computer programs that attempt to penetrate network security and misappropriate customer information. Owing to advances in these programs, computing capabilities and other developments, there is no guarantee that the Group's security measures will be sufficient to prevent breaches. Any such breach or compromise of security could adversely impact the Group's reputation with current and potential customers, lead to a loss of stakeholder trust and confidence and to litigation or fines, and will require diverting financial and management resources from more beneficial uses. Operating in the retail sector exposes the Group to the risks of fraud, theft and industrial espionage which could have a negative effect on reputation and may divert financial and management resources from more beneficial uses. The above events could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group depends upon key management and senior personnel, and the departure of any of such management or personnel could adversely affect its business

The Group's success depends in part on the continued service of its senior management and key personnel and it maintains performance based incentive schemes in order to incentivise its key management. However, any loss of services from the Group's senior management or key personnel, who have specific knowledge relating to the Group and to its industry, or who have long-standing relationships with key suppliers or are able to provide relationship-based customer service, would be difficult to replace and could harm its future operations.

Labour disruptions could have an adverse effect on the Group's results of operations

All of the Group's employees are covered by collective bargaining agreements. Although the Group believes it presently has good relations with its employees, the Group cannot assure you that a work slowdown, a work stoppage or a strike will not occur prior to or upon the expiration of current collective bargaining agreements or due to other circumstances, and it cannot estimate the effect of any such work slowdown, work stoppage or strike on its sales or the effect of an adverse material change in the conditions of the bargaining agreements in force as at the date of this Prospectus upon their renewal. Extensive work slowdowns, work stoppages or strikes could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group is subject to numerous statutes and regulations that could affect its operations

The Group is subject to numerous statutes and regulations, including health and safety, food handling and processing, environmental, competition, corporate, labour, data protection, taxation or retail business regulations. Failure to comply with any such laws or regulations could have an adverse effect on its financial condition or results of operations.

In particular, the Group stores must be licensed by the relevant competent authorities. Group operations could be affected by changes in applicable regulation that could require modifications to regulations governing areas such as store operating hours, the construction and establishment of new stores, price fixing and tax.

Even though the Group believes that it is in material compliance with each applicable regulation related to its operations, it can neither guarantee full compliance nor the successful implementation of such regulations into its corporate policies. Failure to comply with any applicable regulations could lead to the imposition of fines, penalties, administrative sanctions or, in extreme cases, criminal liability.

Unanticipated changes to the regulatory environment of the Group's consumer financial and insurance divisions, as well as increased interest in this sector by regulators, could have an adverse effect on the Group's operations

Laws and regulations issued by banking, financial and insurance authorities regulate the Group's consumer finance and insurance operations. Material or unexpected changes to the regulations of the Group's consumer finance and insurance business may lead to changes in the manner it manages the business or in the manner its consumers behave, or may otherwise adversely affect its operations. Additionally, there may be legal, regulatory or other enforcement trends which seek to provide greater protections to consumers, or increased scrutiny of the business practices of companies providing financial and insurance services to consumers.

The Group can give no assurance that any current or future changes in regulations or their implementation, or enforcement trends, will not have a material adverse effect on its business, financial condition and results of operations and on the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may be subject to increased finance expenses if it does not effectively manage its exposure to interest rate and foreign currency exchange rate risks

The Group is exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. Some of the Group's indebtedness bears interest at variable rates, generally linked to market benchmarks such as EURIBOR and LIBOR. Any increase in interest rates would increase the Group's finance expenses relating to its variable rate indebtedness and increase the costs of refinancing the Group's existing indebtedness and issuing new debt.

Additionally, although most of the Group's contracts are denominated in or indexed euro, part of its revenue and cost of sales will be denominated in currencies other than the euro. As a result, the Group could become subject to increasing currency translation risk, whereby changes in exchange rates between the euro and the other currencies in which it does business could result in foreign exchange losses. If the Group's exposure to changes in interest rate and foreign currency exchange rates were to increase, its business, financial condition and results of operations could be materially and adversely affected.

The Group's travel agency business could be adversely affected by the occurrence of events affecting travel safety, such as natural disasters and political and social instability, which are outside its control

The travel industry is sensitive to safety concerns. The Group's travel agency business could be adversely affected by the occurrence of travel-related accidents, such as airplane crashes, incidents of actual or threatened terrorism, political instability or conflict or other events whereby travellers become concerned about safety issues, including as a result of unusual weather patterns or natural disasters (such as hurricanes, tsunamis or earthquakes), potential outbreaks of epidemics or pandemics or other human or natural disasters. The occurrence of such events could result in a decrease in customers' appetite to travel. Any such decrease in demand, depending on its scope and duration, together with any other issues affecting travel safety, could adversely impact on the Group's financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group may incur product liability for defective goods in its stores

A defective product that causes property damage or physical injury to any person may subject the vendor of such defective product to civil liability. Due to the nature of its operations, the Group may be held liable for loss or injury arising from defective consumer or food products it sells at its stores. Even though the Group does not directly produce all of the products that it distributes, it cannot guarantee that injured customers will not file a lawsuit or claim against the Group for civil responsibility.

In addition, the safety and quality of the Group's products is essential to maintaining the consumer confidence of its customers. A material error in the Group's quality control procedures related to the products that it sells could lead to a loss of confidence by its customers and a negative impact on its brand and reputation, which could lead to an adverse effect on the Group's financial condition and results of operations.

Therefore, if the Group were to incur product liability as a result of selling defective goods, or experience a decline in consumer confidence, it is likely to have an adverse effect on the Group's financial condition and results of operations.

The Group is subject to litigation risks

The Group is, and may in the future be, a party to civil, criminal, arbitral, administrative, regulatory and similar proceedings that arise in the ordinary course of its business. These proceedings may involve claims relating to defects in the Group's products, employment-related claims and tax claims. Unfavourable outcomes in these proceedings could impose significant liabilities on the Group, including damages, and can interference in the conduct of the Group's business. Even if the Group prevails, such proceedings can be costly, time-consuming and require significant management attention. Moreover, the Group's liability insurance may not be sufficient, or may not apply to all claims to which it may be exposed. See "*Business Description of the Guarantor—Litigation*".

Fraud and other crimes could have an adverse effect on the Group's business

There is a risk of fraudulent behaviour by the Group's employees, its customers or members of the public. In particular, there is the risk of theft of stock or cash from the Group's stores or during delivery or collection.

Although the Group has not in the past been materially affected by such activities, there is the possibility that external fraudulent or criminal activity could have a material adverse effect on the Group's financial condition and results of operations.

The Group's consumer finance operations may expose it to increased credit and financial risk, which may adversely affect its financial condition and results of operations

The Group, and Banco Santander Consumer Finance, S.A. as its joint-venture partner, assumes responsibility for account approval and credit risk of the Group's consumer finance operations. Approximately 39% of the Group's sales were financed by its consumer finance division. As a result, the

Group is exposed to credit and financial risk, which may adversely affect its financial condition and results of operation. These risks include:

- the Group's credit card income is affected by general economic conditions beyond its control, including employment levels, consumer confidence, inflation and interest rates. A downturn in the economy may lead to a decrease in credit card income or an increase in payment delinquencies;

- the approaches the Group uses to select its customers may not be effective at predicting future write-offs due to changes in the economy, which may result in a higher incidence of delinquencies among its customers; and

- a variety of social factors may cause changes in credit card use, including changes in consumer confidence levels, the public's perception of the use of credit cards, and changing attitudes about incurring debt.

The effectiveness of the Group's credit risk management is affected by the quality and scope of information available

The Group's credit card business is subject to the credit and financial risk described above. In addition, in assessing customers' creditworthiness, the Group relies largely on the credit information available from its own internal databases and other sources. Due to limitations in the availability of information the Group's assessment of the credit risks associated with a particular customer may not be based on complete, accurate or reliable information. In addition, the Group cannot assure you that its credit scoring systems collect complete or accurate information reflecting the actual behaviour of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, the Group has to rely on other publicly available resources, which may not be complete or accurate. As a result, asset quality may be materially adversely affected by such developments and this could have a material adverse effect on the Group's business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The Group's insurance coverage may not cover all losses

The Group maintains different types of insurance policies to cover its operations, including public liability, business interruption, property damage, crime insurance (including theft or other criminal damage), employee compensation, group life and personal accident insurance which the Group believes is typical and adequate for its business and operations. However, there may be circumstances under which certain types of losses, damages and liabilities are not covered by the Group's insurance policies or the amount of coverage may not be sufficient to cover all losses.

Breaches under the Group's material financial contract may adversely affect it

In November 2013, the Group entered into a financing agreement (*Contrato de Financiación Mercantil*) with a syndicate of banks in an aggregate maximum principal amount of €4,909.2 million to restructure all of the Group's bank debt (the "**Financing Agreement**"). The Financing Agreement contains acceleration clauses and provides that a breach of the obligations contemplated thereunder may result in the acceleration of the Financing Agreement maturity date and the enforcement of the security interest in connection therewith. Therefore, a default in the Group's obligations under the Financing Agreement could cause payment to become immediately due, which, in turn, could adversely affect the ability of the Issuer's and Guarantor's to pay any amounts due under the Notes.

The Group is a leveraged business

As at 28 February 2014, the Financial Indebtedness of the Group (as defined in the *"Terms and Conditions of the Notes"*) was €4,935.0 million, excluding financial guarantee and counter-guarantee commitments. The Group's debt service obligations under the aforementioned debt facilities could have important consequences for its overall financial position, including: (a) a substantial portion of the dividends and other payments from subsidiaries will be dedicated to the payment of principal and interest on the indebtedness, (b) the Group's ability in the longer term to obtain additional financing or refinancing may be limited due to the level of its indebtedness, (c) the Group's indebtedness imposes financial and other restrictive covenants that limit its ability to, among other things, incur additional debt, and encumber or dispose of assets, and the failure, in the longer term, to comply with such restrictions may result in an event of default, which, if not cured or waived, could have a material adverse effect on it, (d) the Group's indebtedness could place it at a competitive disadvantage compared to those of its competitors that have less debt and (e) the Group's leverage may hinder its ability to adjust rapidly, if required, to changing market conditions and could make it more vulnerable in the event of a further downturn in general economic conditions or its business. There can be no assurance that the Group's cash flow will be sufficient for repayment of its indebtedness in the longer term, which could have a material adverse effect on its business, results of operations and financial condition in the longer term, which could adversely affect the ability of the Issuer's and Guarantor's to pay any amounts due under the Notes.

The Group is exposed to liquidity risk that may affect its access to existing and new funding and may impact its cash flow

Due to its business activity, the Group is exposed to a possible liquidity risk in that it may be unable to meet payment obligations because it has insufficient cash at its disposal, which may also arise from matters outside its control such as the retail environment in general, the state of the economy, the level of drawn debt, a credit crisis or severe economic conditions. Moreover, there can be no assurance that the Group will be able to borrow from banks or in the capital markets to meet its payment obligations and/or to refinance its exposure and/or to maintain its relationship with existing and potential financial and trade creditors, including lenders and suppliers. Although the Group believes that its capital structure and credit facilities will provide sufficient liquidity going forward, the materialisation of any of the above-mentioned events and the consequent inability to ensure sufficient liquidity, may have a material adverse effect on the financial condition and results of operations of the Issuer and on its ability to meet the payment obligations in respect of the Notes.

Risks relating to the Notes

The Notes are not rated

Neither the Notes nor the long-term debt of the Issuer or the Guarantor are rated. To the extent that any credit rating agencies assign credit ratings to the Notes, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in the Prospectus, and other factors that may affect the value of the Notes. A rating or the absence of a rating is not a recommendation to buy, sell or hold securities.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Notes to be admitted to listing on the official list and to trading on the regulated market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may be redeemed prior to maturity upon a tax change

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

The Notes are subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Change of Control

Upon the occurrence of certain change of control events relating to the Guarantor, as set out in Condition 6(c) (*Redemption and Purchase – Change of Control*), under certain circumstances the Noteholders will have the right to require the Issuer to redeem all outstanding Notes at 100 per cent. of their principal amount together with interest accrued up to but excluding the Put Date (as defined in the "*Terms and Conditions of the Notes*"). However, it is possible that the Issuer, failing which the Guarantor, will not have sufficient funds at the time of the Change of Control to make the required redemption of Notes. If there are not sufficient funds for the redemption, Noteholders may receive less than the principal amount of the Notes should they elect to exercise such right. Furthermore, if such provisions were exercised by the Noteholders, this might adversely affect the financial position of the Issuer, the Guarantor or the Group.

Compliance with the provisions of the various covenants is tested only once a year

The Conditions of the Notes will contain a number of covenants or other provisions that apply to the Group. However, compliance with such covenants (including compliance with the Loan to Value and Secured Indebtedness) is tested only once a year through the delivery of a certificate to the

Commissioner, and, as such, holders of the Notes will only be able to take enforcement action with respect to an Event of Default resulting from a breach of such covenants after delivery of the annual compliance certificate, and not during any interim period prior to delivery of the compliance certificate.

Modifications and waiver of the Conditions of the Notes

The Conditions of the Notes contain provisions for calling meetings of the Syndicate of Noteholders to consider matters affecting their interests generally. These provisions permit a resolution of the Syndicate of Noteholders to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer or the Guarantor in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant, as defined below.

Exchange controls risk

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

The market price of an investment in the Notes may be subject to a high degree of volatility

The market price of any investment in the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's or the Guarantor's operating results, adverse business developments, changes to the regulatory environment in which the Issuer or the Guarantor operate, changes in financial estimates by securities analysts and the actual or expected sale by the Issuer or the Guarantor of other Notes or debt securities, as well as other factors.

EU Savings Directive

If a payment were to be made or collected through a Member State which has opted for a transitional withholding system as referred to below on pages 56-57 under the heading "*EU Savings Tax Directive*" and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent, the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risks related to the Spanish withholding tax regime

The Issuer considers that, pursuant to the provisions of Royal Decree 1065/2007, it is not obliged to withhold taxes in Spain on any interest paid under the Notes to any Noteholder, irrespective of whether such Noteholder is tax resident in Spain. The foregoing is subject to certain information procedures having been fulfilled. These requirements/procedures are described in "*Disclosure of Information in Connection with the Notes*" on page 56 below.

According to Royal Decree 1065/2007, any interest paid under securities that (i) can be regarded as listed debt securities issued under Law 10/2014, and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state, will be made free of Spanish withholding tax provided that the relevant paying agent fulfils the information procedures described in "*Disclosure of Information in Connection with the Notes*" on page 56 below. The Issuer considers that the Notes meet the requirements referred to in (i) and (ii) above and that, consequently, payments made by the Issuer to Noteholders should be paid free of Spanish withholding tax notwithstanding the information obligations of the Issuer. under general provisions of Spanish tax legislation by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities.

Notwithstanding the above, in the case of Notes held by Spanish tax resident individuals (and, under certain circumstances, by Spanish entities subject to Corporation Tax (*Impuesto de Sociedades*)) and deposited with a Spanish resident entity acting as depositary or custodian, payments in respect of such Notes may be subject to withholding by such depositary or custodian at the current rate of 21 per cent.

The Issuer and the Paying Agent will, to the extent applicable, comply with the relevant procedures to facilitate the collection of information concerning the Notes. However, in the event that the current applicable procedures were modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish Tax Authorities, the Issuer will inform the Noteholders of such information procedures and of their implications, as the Issuer may be required to apply withholding tax on interest payments under the Notes if the Holders would not comply with such information procedures

Risks in relation to Notes held by Spanish corporate entities

Despite the Issuer's opinion that, due to the Notes not being placed in Spain (on the basis that there will be no public offer into Spain, as contemplated in "*Subscription and Sale – The Kingdom of Spain*") there is an exemption from withholding tax on payments to Spanish corporate Noteholders, the Spanish tax authorities may determine that the Notes have been placed, totally or partially, in Spain and that such exemption does not apply to any of the Notes. If such determination were made, the Issuer would be required to make a withholding at the applicable rate, as at the date of this Prospectus, 21 per cent., on payments of interest under the Notes and no additional amounts will be payable by the Issuer in such circumstances.

Risks Relating to Spanish Insolvency Law

Law 22/2003 (*Ley Concursal*) dated 9 July 2003 ("**Law 22/2003**" or the "**Insolvency Law**") provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators (*administradores concursales*) within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to fifteen days), (ii) actions deemed detrimental for the insolvent estate of the insolvency debtor carried out during the two year period preceding the date of its declaration of insolvency may be rescinded, (iii) claims of those persons especially related to the Issuer or the Guarantor will be classified as subordinated creditors; (iv) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (v) accrual of interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall be suspended as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated. The ranking of the claims under the Notes and the Guarantee could be affected by the provisions of the Insolvency Law.

TERMS AND CONDITIONS OF THE NOTES

The €500,000,000 3.875 per cent. Guaranteed Notes due 2022 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 15 (*Further issues*) and forming a single series therewith) of Hipercor, S.A. (Sociedad Unipersonal) (the "**Issuer**") are the subject of (a) a deed of guarantee dated 19 January 2015 (the "**Deed of Guarantee**") entered into by El Corte Inglés, S.A. (the "**Guarantor**") and (b) a fiscal agency agreement dated 19 January 2015 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, Deutsche Bank AG, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), any other paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and Bondholders, S.L. as commissioner. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Guarantee applicable to them. Copies of the Agency Agreement and the Deed of Guarantee are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

The Issuer, as required by Spanish law, will execute an *escritura pública* (the "**Public Deed**") before a Spanish notary public in relation to the issue of the Notes and will register the Public Deed with Madrid's Mercantile Registry on or before the Closing Date. The Public Deed contains, among other information, these Conditions.

1. Form, Denomination and Title

The Notes are in bearer form in the denomination of €100,000 with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Status and Guarantee

(a) *Status of the Notes*: The Notes constitute direct, general, unconditional and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer and in the event of insolvency (*concurso*) of the Issuer (unless they qualify as subordinated debts under Article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the "**Law 22/2003**" or the "**Insolvency Law**") or equivalent legal provision which replaces it in the future and subject to any legal and statutory exceptions) will rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated indebtedness and monetary obligations involving or otherwise related to borrowed money of the Issuer, present and future.

(b) *Guarantee of the Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed on an unsubordinated basis the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes (the "**Guarantee of the Notes**"). The obligations of the Guarantor under the Deed of Guarantee constitute direct, general, unconditional and (subject to the provisions of Condition 3 (*Negative Pledge*)) unsecured obligations of the Guarantor and upon insolvency of the Guarantor (and unless they qualify as subordinated claims pursuant to Article 92 of Law 22/2003 or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions), will rank *pari passu* and rateably without any preference among themselves and with all other outstanding unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future.

*In the event of insolvency (concurso) of either of the Issuer or the Guarantor, under Law 22/2003, claims relating to the Notes (unless they qualify as subordinated credits under Article 92 of Law 22/2003 or equivalent legal provision which replaces it in the future, and subject to any applicable legal and statutory exceptions) will be ordinary credits (créditos ordinarios) as defined in Law 22/2003. Ordinary credits rank below credits against the insolvency state (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits. Accrued and unpaid interest due in respect of the Notes at the commencement of an insolvency proceeding (*concurso*) of the Issuer or the Guarantor will qualify as subordinated credits. Accrual of interest on the Notes shall be suspended as from the date of any declaration of insolvency (concurso) in relation to the Issuer.*

3. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by a resolution of the Syndicate of Noteholders.

In these Conditions:

"**Group**" means the Guarantor and its consolidated Subsidiaries;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Permitted Security Interest**" means:

(i) any Security Interest arising by operation of law;

(ii) any Security Interest in existence in respect of any asset or property of the Issuer, the Guarantor or any of their respective Subsidiaries as at the Issue Date;

(iii) in the case of any entity which becomes a Subsidiary of any member of the Group after the Issue Date, any Security Interest securing Relevant Indebtedness existing over its assets at the time it becomes such a Subsidiary provided that the Security Interest was not created in contemplation of, or in connection with, such entity becoming a Subsidiary of any member of the Group and the amounts secured have not been increased in contemplation of or in connection with such entity becoming a Subsidiary of any member of the Group;

(iv) any Security Interest created in substitution of any Security Interest permitted under paragraphs (i) to (iii) above over the same or substituted assets provided that (1) the principal amount secured by the substitute Security Interest does not exceed the principal amount outstanding and secured by the initial Security Interest and (2) in the case of substituted assets, the market value of the assets replaced does not exceed the market value of the new assets to be secured, as determined and confirmed in writing by each of the Issuer and the Guarantor (acting reasonably);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Relevant Indebtedness**" means any Indebtedness (excluding, for the avoidance of doubt, mortgage loans) which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the counter market);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest or other form of encumbrance or security interest; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. Covenants

For so long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer and the Guarantor shall:

(a) *Loan to Value*: ensure that as at each Reference Date, the Financial Indebtedness of the Group shall not exceed 40 per cent. of Total Assets of the Group;

(b) *Secured Financial Indebtedness*: ensure that at each Reference Date the Financial Indebtedness of the Group that is secured by a Security Interest does not exceed 22.5 per cent. of the Total Assets of the Group;

(c) *Notice to Commissioner*: In addition to Condition 4(d) below, in the event that as at any Reference Date any of the covenants in Condition 4(a) or (b) above are breached, promptly (and in any event no later than the following relevant Reporting Date) notify the Commissioner in writing; and

(d) *Certificate*: deliver a certificate to the Commissioner on each Reporting Date signed by one Authorised Officer of the Guarantor, certifying that the Guarantor is in compliance with the covenants set out in Condition 4(a) and (b) above at the relevant Reference Date and containing (i) the formulae for the calculation of the covenants, and (ii) a statement as to the correctness of such formulae. The Issuer shall deliver to the Commissioner a separate report issued by the Group's auditors setting out the procedures used to calculate the covenants and reviewing the application of the formulae certified by the Guarantor.

The Commissioner shall be entitled to rely on any such certificate and the Commissioner shall not be obliged to independently monitor compliance by the Guarantor with the covenants set forth in this Condition, nor shall it be liable to any person, for not so doing and the Commissioner need not enquire further as regards the circumstances existing on the date of such certificate.

In these Conditions:

"**Authorised Officer**" means the Chief Executive Officer or the Chief Financial Officer of the Guarantor;

"**Financial Indebtedness of the Group**" means, as at each Reference Date, the sum of any financial indebtedness with cost deriving from (i) bank borrowings, (ii) credit facilities, (iii) discount facilities with recourse, (iv) debt instruments and other marketable securities, (v) obligations under finance leases, and (vi) financial guarantee and counter-guarantee commitments; and excluding (a) guarantee commitments in respect of any of (i) to (v) above, (b) technical guarantees, (c) grants and non-reimburseable subsidies received, and (d) derivatives, in each case as determined by reference to the audited consolidated financial statements of the Guarantor prepared as of such Reference Date;

"**Reference Date**" means 28 February in each year commencing 28 February 2015, other than in the event of a leap year in which case the relevant date will be the 29 February;

"**Reporting Date**" means a date falling no later than 60 days after the approval by a General Shareholders Meeting of the Guarantor's audited consolidated financial statements, with respect to a Reference Date falling on 28 February, provided that the first Reporting Date shall be the date falling no later than 60 days after the approval by a General Shareholders Meeting of the Guarantor's audited consolidated financial statements as of and for the year ended 28 February 2015; and

"**Total Assets of the Group**" means, as at each Reference Date, the total assets of the Guarantor as determined by reference to the audited consolidated financial statements of the Guarantor prepared as of such Reference Date.

5. **Interest**

The Notes bear interest from 19 January 2015 (the "**Issue Date**") at the rate of 3.875 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 19 January in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be €3,875 in respect of each Note. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest euro cent (half a euro cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means €100,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

6. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 19 January 2022 (the "**Maturity Date**"), subject as provided in Condition 7 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Issuer (or if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 19 January 2015; and

(ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or the Guarantee, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Commissioner:

(A) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Change of control*: If a Change of Control occurs (a "**Put Event**") at any time while any Note remains outstanding, each Noteholder shall have the option (unless, prior to the giving of the Put Notice (as defined below), the Issuer gives notice to redeem the Notes in accordance with Condition 6(b) (*Redemption for taxation reasons*) or Condition 6(d) (*Redemption at the option of the Issuer*)), to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) in whole or in part its Notes at their principal amount plus accrued and unpaid interest up to (but excluding) the Put Date (the "**Put Option**").

If a Put Event occurs, then the Issuer shall, promptly after becoming aware thereof, give notice of the Put Event (a "**Put Event Notice**") to the Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option contained in this Condition 6(c) as well as the date upon which the Put Period will end.

To exercise the Put Option, a Noteholder must within the Put Period deposit such Note(s) at the Specified Offices of any Paying Agent, during normal business hours on any business day in the city of the Specified Offices of such Paying Agent, together with a duly signed and completed notice of exercise in the then current form obtainable from any Paying Agent (a "**Put Notice**") and in which the Noteholder must specify a bank account to which payment is to be made under this Condition 6(c). Any Note should be deposited together with all Coupons relating thereto maturing after the Put Date (as defined below) failing which an amount corresponding to the aggregate amount payable in respect of such missing Coupons will be deducted from the redemption amount otherwise payable under this Condition.

The Issuer shall redeem, or at its option, purchase (or procure the purchase of) the relevant Note(s) on the date (the "**Put Date**") seven Business Days after the expiration of the Put Period, unless previously redeemed or purchased and cancelled. A Put Notice, once given, shall be irrevocable.

In these Conditions:

A "**Change of Control**" shall occur if any person or persons acting together, other than any of the Original Shareholders acquire Control of the Guarantor;

"**Control**" has the meaning assigned to that term in Article 42(1) of the Spanish Commercial Code;

"**Original Shareholders**" means the existing shareholders of the Guarantor that, as at the Issue Date, Control the Guarantor; and.

"**Put Period**" means the immediately succeeding 30 day period after the date on which a Put Event Notice has been published in accordance with Condition 16 (*Notices*).

(d) *Redemption at the option of the Issuer*: Unless a Put Event Notice has been given pursuant to Condition 6(c), the Issuer may at any time, on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Optional Redemption Date**")), redeem all, or part, of the Notes at a redemption price per Note (the "**Make Whole Amount**") equal to the higher of the following, in each case together with interest accrued to but excluding the Optional Redemption Date:

(i) 100 per cent. of the principal amount of the Note; and

(ii) the sum of the present values of the remaining scheduled payments of principal and interest (not including any interest accrued on the Notes to, but excluding, the Optional Redemption Date) discounted to the Optional Redemption Date on an annual basis (based on the Actual/Actual (ICMA) day count fraction as defined in the 2006 ISDA Definitions) at a rate equal to the Interpolated Mid-Swap Rate in respect of the number of years to the maturity of the Notes, calculated by an independent expert of recognised international standing appointed for the purpose by the Issuer, plus 0.50 per cent.

Any notice of redemption given under this Condition 6(d) will override any notice of redemption given (whether previously, on the same date or subsequently) under Condition 6(c).

In the case of a partial redemption pursuant to this Condition 6(d) the notice shall also contain the serial numbers of the Bonds to be redeemed, which shall have been drawn in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, in the presence of the Commissioner, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

For the purposes of this Condition 6(d):

"**Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and on which the TARGET System is operating;

"**Interpolated Mid-Swap Rate**" means the interpolation between the two Reference Mid-Swap Rates for a term equal to the Remaining Life taken at 3.00pm (London time) on the Reference Date;

"**Reference Date**" means the date which is two Business Days prior to the dispatch of the notice of redemption to Noteholders under Condition 6(d);

"**Reference Mid-Swap Rates**" means two rates each calculated as the average of the bid and ask reported by Intercapital Brokers (now ICAP plc) as published on the Thomson Reuters screen ICAPEURO (or such other page or service as may replace such page for the purposes of displaying such rate) for a 6 month Euribor swapped to fixed rate, one with a tenor rounding down and one with a tenor rounding up to the nearest whole year remaining until the Maturity Date of the Notes; and

"**Remaining Life**" means from any date the number of years remaining until the Maturity Date, rounded down to three decimal places.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

7. Payments

(a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(b) *Interest*: Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

and

"**TARGET System**" means the TARGET2 system.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(f) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.

(g) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(h) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and the date of such payment.

8. **Taxation**

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Kingdom of Spain, other than the mere holding of the Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(c) to, or to a third party on behalf of, a Spanish-resident legal entity subject to the Spanish Corporation Income Tax if the Spanish tax authorities determine that the Notes do not comply with applicable exemption requirements including those specified in the reply to a non-binding Consultation of the Directorate General for Taxation (*Direction General de Tributos*) dated 27 July 2004 and require a withholding to be made; or

(d) to, or to a third party on behalf of, a holder in respect of whom the Issuer (or an agent acting on behalf of the Issuer) has not received such information as may be necessary to allow payments on such Note to be made free and clear of withholding tax or deduction on account of any taxes imposed by a Tax Jurisdiction, including when the Issuer (or an agent acting on behalf of the Issuer) does not receive such information concerning such Noteholder's identity and tax residence as may be required in order to comply with the procedures that may be implemented to comply with the interpretation of Royal Decree 1065/2007 eventually made by the Spanish Tax Authorities; or

(e) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (including any regulations or official interpretations issued, agreements (including, without limitation, intergovernmental agreements) entered into or non-U.S. laws enacted with respect thereto);or

(f) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(g) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Kingdom of Spain respectively, references in these Conditions to the Kingdom of Spain shall be construed as references to the Kingdom of Spain and/or such other jurisdiction.

9. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal or interest in respect of the Notes on the due date for payment thereof and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Guarantee of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by (i) the Commissioner acting pursuant to a resolution of the Syndicate of Noteholders, or (ii) by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer, Guarantor or Material Subsidiary*:

(i) any Indebtedness of the Issuer, the Guarantor or any of their respective Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds €25,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of €25,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer, the Guarantor or any of their respective Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer, the Guarantor or any of their respective Material Subsidiaries or the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries, (iii) the Issuer, the Guarantor or any of their respective Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of the Issuer or a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer or a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(h) *Analogous event*: any event occurs which under the laws of the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above, otherwise than, in the case of a Material Subsidiary of the Issuer or a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent; or

(i) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Guarantee; or

(k) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect,

then, (i) the Commissioner acting upon a resolution of the Syndicate of Noteholders, in respect of all Notes, or (ii) unless there has been a resolution to the contrary by the Syndicate of Noteholders (which resolution shall be binding on all Noteholders), any Noteholder in respect of the Notes held by such Noteholders, may be declared immediately due and payable whereupon the relevant Notes shall, when permitted by applicable Spanish law, become immediately due and payable at their principal amount, together with accrued interest, without further formality.

"**Material Subsidiary**" means any direct or indirect Subsidiary of the Issuer or the Guarantor:

(1) whose total assets represent not less than 10% of the total assets of the Issuer or the Guarantor, as the case may be; and

(2) whose total revenues represent not less than 10% of the total revenues of the Issuer or the Guarantor, as the case may be,

in each case determined by reference to the most recent publicly available audited or unaudited financial statements of the Issuer or the Guarantor, as the case may be.

10. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

11. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. **Paying Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; provided, however, that the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent, and (b) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. **Syndicate of Noteholders, Modification and Waiver**

(a) *Syndicate of Noteholders*

Noteholders shall meet in accordance with the regulations governing the Syndicate of Noteholders (the "**Regulations**"). The Regulations contain the rules governing the Syndicate of Noteholders and the rules governing its relationship with the Issuer and are attached to the Public Deed. An English translation of the Regulations is included in the Agency Agreement. Such provisions shall have effect as if incorporated herein.

Bondholders, S.L. has been appointed as a temporary Commissioner for the Noteholders. Noteholders shall, by virtue of purchasing and/or holding Notes, be deemed to have agreed to: (i) the appointment of the temporary Commissioner; and (ii) become a member of the Syndicate of Noteholders. Upon the subscription of the Notes, the temporary Commissioner will call a general meeting of the Syndicate of Noteholders to ratify or reject the acts of the temporary Commissioner, confirm its appointment or appoint a substitute Commissioner for it and to ratify the Regulations. Noteholders shall, by virtue of purchasing and/or holding Notes, be deemed to have granted to the Fiscal Agent full power and authority to take any action and/or to execute and deliver any document or notices for the purposes of attending on behalf of the Noteholders the first meeting of the Syndicate of Noteholders called to confirm the appointment of the temporary Commissioner, approve the actions of the Commissioner performed prior to such first meeting and ratify the Regulations contained in the Agency Agreement and the Public Deed, and vote in favour of each of those resolutions.

The Issuer may, with the consent of the Fiscal Agent and the Commissioner, but without the consent of the holders of the Notes, amend these Conditions to correct a manifest error or to make amendments of a formal, minor or technical nature or to comply with mandatory provisions of law.

In addition to the above, the Issuer and the Noteholders, the latter by means of a resolution of the Syndicate of Noteholders, may agree any modification, whether material or not, to these Conditions and any waiver of any breach or proposed breach of these Conditions.

For the purposes of these Conditions:

(i) "**Commissioner**" means the *comisario* as this term is defined under the Spanish Corporations Law (*Ley de Sociedades de Capital*) of the Syndicate of Noteholders; and

(ii) "**Syndicate of Noteholders**" means the *sindicato* as this term is described under the Spanish Corporations law (*Ley de Sociedades de Capital*).

In accordance with Spanish law article 425 of Spanish Corporations law (Ley de Sociedades de Capital), a general meeting of the Syndicate of Noteholders shall be quorate upon first being convened provided that Noteholders holding or representing two-thirds of the Notes outstanding attend. If the necessary quorum is not achieved at the first meeting, a second general meeting may be reconvened to meet one month after the first general meeting and shall be quorate regardless of the number of Noteholders who attend. A resolution shall be passed by holders holding an absolute majority in principal amount of Notes present or duly represented at any properly constituted meeting.

(b) *Modification of Agency Agreement*

The Issuer shall only permit any modification, waiver or authorisation of any breach or proposed breach or any failure to comply with the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

(c) *Notification to the Noteholders*

Any modification, waiver or authorisation in accordance with this Condition 13 shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

14. **Substitution of the Issuer**

(a) The Issuer may, without the consent of the Noteholders be replaced and substituted by the Guarantor as principal debtor (in such capacity, the "**Substituted Debtor**") in respect of the Notes provided that:

(i) a deed poll to be substantially in the form scheduled to the Agency Agreement as Schedule 11 and such other documents (if any) including the public deed (*escritura pública*) to be executed before a Spanish notary public in relation to the substitution of the Issuer and to be registered with Madrid's Mercantile Registry, shall be executed by the Substituted Debtor, the Commissioner and the Issuer as may be necessary to give full effect to the substitution (together the "**Documents**") and (without limiting the generality of the foregoing) pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder to be bound by these Terms and Conditions and the provisions of the Agency Agreement and the deed of covenant dated 19 January 2015 (the "**Deed of Covenant**") as fully as if the Substituted Debtor had been named in the Notes, the Agency Agreement and the Deed of Covenant as the principal debtor in respect of the Notes in place of the Issuer;

(ii) the Documents shall contain a warranty and representation by the Substituted Debtor that the Substituted Debtor has obtained all necessary governmental and regulatory approvals and consents for such substitution, and for the performance by the Substituted Debtor of its obligations under the Documents and that all such approvals and consents are in full force and effect;

(iii) the Irish Stock Exchange shall have confirmed that, following the proposed substitution of the Substituted Debtor, the Notes would continue to be listed on such stock exchange;

(iv) the Substituted Debtor shall have delivered or procured the delivery to the Commissioner and the Fiscal Agent a copy of a legal opinion addressed to the Commissioner from a leading firm of Spanish lawyers and a leading firm of English lawyers, as applicable, to the effect that the Documents, the Notes and the Coupons constitute legal, valid and binding obligations of the parties thereto under English law, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders at the specified offices of the Fiscal Agent; and

(v) there is no outstanding Event of Default in respect of the Notes.

(b) Upon the execution of the Documents as referred to in Condition 14(a)(i) above, the Substituted Debtor shall be deemed to be named in the Notes as the principal debtor in place of the Issuer and the Notes shall thereupon be deemed to be amended to give effect to the substitution. The execution of the Documents shall operate to release the Issuer from all of its obligations in respect of the Notes.

(c) The Documents shall be deposited with and held by the Fiscal Agent for so long as the Notes remain outstanding and for so long as any claim made against the Substituted Debtor by any Noteholder in relation to the Notes or the Documents shall not have been finally adjudicated, settled or discharged. The Substituted Debtor shall acknowledge in the Documents the right of every Noteholder to the production of the Documents for the enforcement of any of the Notes or the Documents.

(d) Not later than 15 Business Days after the execution of the Documents, the Substituted Debtor shall give notice thereof to the Noteholders in accordance with Condition 16 (*Notices*).

15. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

16. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in Dublin or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders. For so long as the Notes are admitted to trading on the Irish Stock Exchange, the Issuer will also publish notices in accordance with the rules of the Irish Stock Exchange.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. Governing Law and Jurisdiction

(a) *Governing law*: Save as described below, the Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law. The status of the Notes and the Guarantee as described in Condition 2 (*Status and Guarantee*) and the provisions of Condition 13 (*Syndicate of Noteholders, Modification and Waiver*) relating to the appointment of the Commissioner and the Syndicate of Noteholders and Schedule 5 of the Agency Agreement are governed by Spanish law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute regarding any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 18(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 18 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Service of Process*: The Issuer and the Guarantor agree that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on them by being delivered to El Corte Ingles (London) Limited at 16 The Havens, Ransomes Europark, Ipswich, Suffolk, IP3 9SJ, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in NGN form. On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of €100,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 19 January 2015 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Permanent Global Note "**business day**" means any day on which the TARGET System is open.

Exercise of put option: In order to exercise the option contained in Condition 6(c) (*Change of Control*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and Put Notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 6(d) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 16 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 16 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer to repay certain existing intercompany loans granted by the Guarantor, which will in turn use the received funds for the partial payment of its obligations under the Financing Agreement.

DESCRIPTION OF THE ISSUER

General Information and Overview

The corporate name of the Issuer is Hipercor, S.A. (Sociedad Unipersonal) ("**Hipercor**") and its commercial name is Hipercor.

The Issuer is a Spanish company which operates under the Spanish Corporations Law (*Ley de Sociedades de Capital*) and which was incorporated under the laws of Spain on 2 July 1979 as a limited liability company with the form of a *sociedad anónima*, with a single shareholder (*unipersonal*). Its registered office is located at calle Hermosilla nº 112, 28009 Madrid, telephone number +34 914 01 92 00 and registered with the Mercantile Registry of Madrid at volume 874, sheet 200, page M-17670. The Spanish Tax Identification Number (C.I.F.) of the Issuer is A28642866.

The Issuer is a wholly-owned subsidiary of the Guarantor (El Corte Inglés, S.A.) and forms part of the food distribution division of the Group.

The corporate purpose of the Issuer is the promotion and operation of hypermarkets, supermarkets and other services, and any kind of establishment where items, including products, clothing and consumer goods, are sold for wholesale and retail and for import and export, without limitation, as well as the provision of services of any type, relating to store merchandise, store decoration and store installation.

Unless otherwise indicated, all references to "2013" are to the Issuer's fiscal year ended 28 February 2014 and references to "2012" are to the Issuer's fiscal year ended 28 February 2013.

The Issuer's financial statements for fiscal years 2012 and 2013 were prepared in accordance with the Spanish Commercial Code, the Spanish National Chart of Accounts approved by Royal Decree 1514/2007 ("**Spanish GAAP**"), the rules approved by the Spanish Accounting and Audit Institute and all other applicable Spanish corporate legislation.

History

The Issuer's activities date to 1979. The first Hipercor store was opened in Seville, Spain in response to the needs of a rapidly growing and diversifying society, with constantly changing consumer habits and behaviours. The Hipercor company logo was designed to be very similar to the Guarantor's logo, consisting of a blue triangle instead of green, as a way to allow the newly formed Issuer to benefit from the Guarantor's market image and reputation. The first Hipercor store was designed along similar lines to traditional hypermarkets, in terms of its location, implementation and internal store layout. It had an extensive product selection and it benefitted from the Group's brand and reputation.

In 1983, the second Hipercor store was opened in Jerez, Spain. In the following years, new hypermarkets were opened in Oviedo, Barcelona and Granada with a constantly changing store layout adapting to meet customers' new needs and demands. Since its inception, the Issuer's business has expanded and, as at the date of this Prospectus, has a market presence in most regions throughout Spain.

Business and Operations

Hipercor hypermarkets are part of the food distribution division of the Group. See "*Description of the Guarantor – Group Operations – Food Distribution*".

Hipercor hypermarkets offers a range of 48,000 references, corresponding to national, international, regional and local products, to its customers, offering traditional food items, perishable produce, groceries, textiles, household articles, drugstore and perfumery products, catering services and other products, with a policy of competitive prices and high quality. The Issuer sells "Hipercor" private label products in its hypermarkets and is the proprietor of the low-cost Group brand "Aliada".

The Issuer employs a business strategy aimed at operating stores with a comfortable and pleasant shopping atmosphere for the customer, a competitive price policy and high quality in all products, particularly in fresh products. The Issuer reviews the prices of a large number of its fresh food and grocery, drugstore and perfumery products on an on-going basis to adjust the price with the aim of not losing quality and service, and continually carries out promotional campaigns to offer customers significant discounts on their purchases.

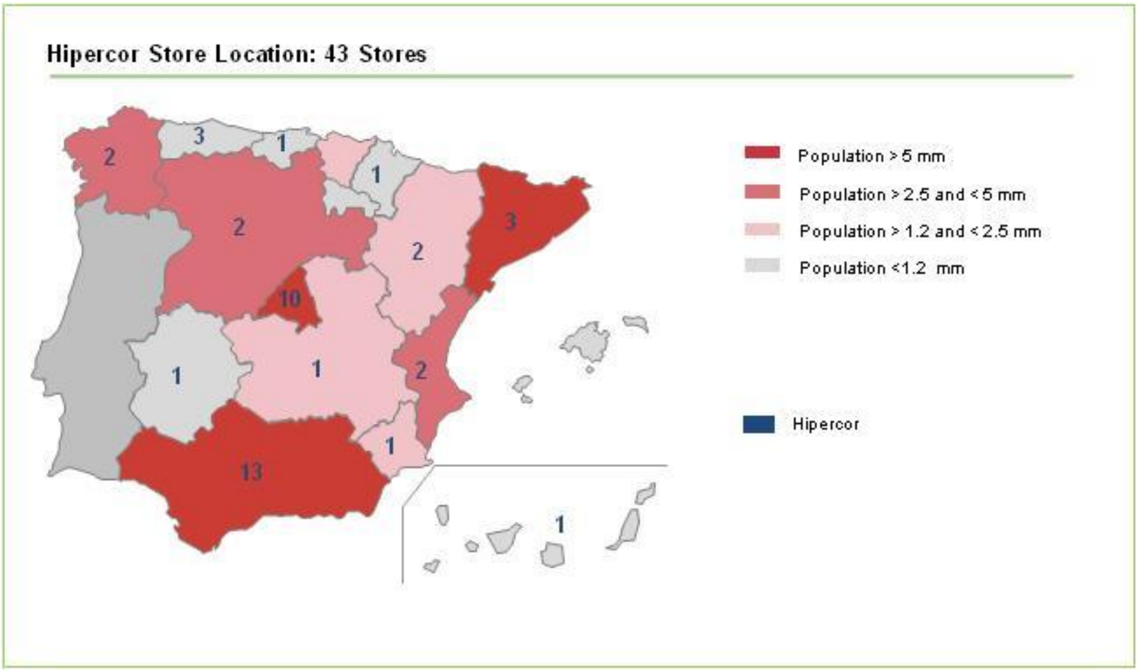
In order to provide quality fresh food items to its customers, the Issuer has forged relationships with suppliers with high quality and well-priced products in beef, sushi, Spanish cold cuts, sausages, pizzas, fruit and vegetables. The Issuer also seeks to provide the highest quality and diversified product offering to customers from its stores' geographical surroundings, by offering regional products through relationships with local producers.

Keeping within its business strategy of offering breadth and variety in its products selection, the Issuer works with manufacturers and third-party brands to continually offer new product releases in each hypermarket. In addition, the Issuer aims to continuously strengthen its Hipercor and Aliada branded product offerings and items.

In addition to food products, the Issuer offers garment collections with unique designs and competitive prices and its bazaar product offering is constantly tailored to its customers' demands, needs and preferences.

The Issuer maintains its online presence through its website. The website content is regularly updated to be of interest to its users, including food recipes, tips, blogs, and certain company marketing actions. In the aim to connect online with physical shopping and offer customers easy and practical shopping experiences, the Issuer and the Group have launched "Click & Car" and "Click & Collect", a service that enables customers to shop by phone or online and then pick up their order at the car park of the store of their choice.

As of the year ended 28 February 2014, 43 Hipercor stores were in operation and located in suburban areas.



Employees

As of the year ended 28 February 2014, the Issuer had 10,985 employees. 6 were senior management, 1,535 were managers and technicians, 9,097 were sales staff, 286 were services staff and 61 were staff in other activities. Out of the Issuer's total employees, 6,541 are women and 4,444 are men. 249 employees have been with the Issuer for at least 15 years and 293 employees have been with the Issuer for at least 25 years.

Litigation

See "*Description of the Guarantor—Litigation*".

Management

Board of Directors

As of the date of this Prospectus, the members of the Board of Directors of the Issuer, their position on the Board are the following:

Name	Position on the Board	Date of First Appointment	Date of Last Appointment
Dimas Rodrigo Gimeno Álvarez	Director and Chairman	28/08/2011	-
Juan Hermoso Armada	Director	26/08/2007	28/08/2011
Florencio Lasaga Munárriz	Director	02/07/1979	28/08/2011
Carlos Martínez Echavarría	Managing Director	25/08/1991	28/08/2011

As at the date of this Prospectus, none of the members of the Board of Directors were involved in significant activities outside the Issuer.

Faustino José Soriano Atencia is the Secretary (non Director) of the Board of Directors of the Issuer.

The business address of the members of the Board of Directors is Calle Hermosilla nº 112, 28009 Madrid, Spain, telephone number +34 914 01 92 00.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed by members of the Board of Directors to the Issuer and their respective private interests and/or duties.

Share Capital

As of 28 February 2014, the authorised share capital of the Issuer was €225,000,000, represented by 375,000 shares with a par value of €600 each.

Principal Shareholders

As of the date of the Prospectus, the Issuer's sole shareholder is El Corte Ingles, S.A.

Recent Developments

In November 2013, the Issuer opened a Hipercor store in the Itaroa shopping center in Navarra (Spain), with a total investment of €19.5 million as of 28 February 2014.

DESCRIPTION OF THE GUARANTOR

General Information and Overview

The corporate name of the Guarantor is El Corte Inglés, S.A. and its commercial name is El Corte Inglés.

The Guarantor is a Spanish company which operates under the Spanish Corporations Law (*Ley de Sociedades de Capital*) and which was first incorporated under the laws of Spain on 28 June 1940 as a limited liability company with the form of a *sociedad de responsabilidad limitada*, El Corte Inglés, S.L., and was later transformed into a limited liability company with the form of a *sociedad anónima*, El Corte Inglés, S.A., in 1952. Its registered office is located at calle Hermosilla nº 112, 28009 Madrid, telephone number +34 914 01 92 00 and registered with the Mercantile Registry of Madrid at volume 519, sheet 1, page M-9880. The Spanish Tax Identification Number (C.I.F.) of the Guarantor is A28017895.

The Guarantor is the parent company of the Group (as defined below).

The corporate purpose of the Guarantor is (i) to operate large commercial stores, in a variety of commercial formats, and to market a diverse and extensive range of products and services including clothing, food, furniture, giftware and decoration, pharmaceuticals, perfumes, jewellery, educational products, sporting goods, games and other products, (ii) the provision of additional services, such as travel agency, insurance and IT services, and ancillary services related to its commercial products such as financing products, home delivery, restaurants, beauty salons, parking and other services, and (iii) the contracting, installation and maintenance, as the case may be, and the provision of technical assistance and services for its commercial goods, directly, or indirectly through outsourcing.

Unless otherwise indicated, all references to "2013" are to the Guarantor's fiscal year ended 28 February 2014 and references to "2012" are to the Guarantor's fiscal year ended 28 February 2013.

The Guarantor's consolidated financial statements for the fiscal year 2013 were the first to be prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The last financial statements presented in accordance with Spanish GAAP were those for the fiscal year 2012. Financial data relating to 2012 contained in sections *"Business and Industry"* and *"Group Operations"* has been obtained from the 2013 financial statements where the 2012 financial statements have been restated in accordance with IFRS for the purpose of uniform comparison with 2013 data (and not from the Guarantor's statutory consolidated financial statements for 2012).

History

The history of the Group's activities date to 1935, when its founder Ramón Areces acquired a tailor shop named "El Corte Inglés" in Madrid, Spain. In 1939, the first building was purchased on Preciados street, one of Madrid's central streets, transforming the business from a tailor shop into a clothing store focused on fashion for the entire family.

From its origin and throughout its history, as set out below, the Group has gradually expanded its footprint and diversified its activities, both geographically within the Iberian Peninsula and into several divisions, thus becoming a reference in the Spanish consumer retail industry and developing a non-replicable real estate portfolio, with unique locations, asset quality and scale.

- In 1966, the Guarantor began its expansion outside of Madrid and additional stores were opened in Barcelona, Seville and Bilbao. That same year, the El Corte Inglés credit card was launched.

- In 1969, the Guarantor expanded into the travel agency business, through Viajes El Corte Inglés, S.A. ("**VECI**"), offering a wide range of domestic and international travel services and specialised planning activities.

- In 1979, the Guarantor entered the hypermarket business through Hipercor, with stores that offer food items, perishable products, groceries, textiles, household articles, drugstore and perfumery products, catering services and other products.

- In 1982, the Guarantor entered the insurance services business with the acquisition of the insurance company, Centro de Seguros y Servicios, Correduría de Seguros, S.A. ("**Centro de Seguros y Servicios**"), and established its own insurance brokerage.

- In 1988, the Guarantor established its information technology company, Informática El Corte Inglés, S.A. ("**IECI**"), a company which specialises in technological consulting, internet and communication technology solutions and infrastructures and offers IT and outsourcing services.

- In 1995, the Guarantor entered into the consumer finance business, launching Financiera El Corte Inglés E.F.C., S.A. ("**FECI**").

- In 1995, the Guarantor also acquired the assets of its former main competitor in the Spanish department stores market, Galerias Preciados, S.A., adding 30 large department stores into its asset portfolio. This acquisition was a key milestone in the Group's expansion due to the significant contribution of additional stores and customer base.

- In 2000, the Guarantor began diversifying its retail business through different ventures, ranging from supermarkets, fashion brands and convenience stores.

- In 2001, the Guarantor acquired nine Marks & Spencer department stores and five Carrefour hypermarkets. In this same year, the Guarantor initiated its business expansion into Portugal, opening its first department store in Lisbon. A second store was opened in Porto in 2006.

- In 2004, the Guarantor acquired seven Champion supermarkets from Carrefour and began operating them under Supercor, S.A. ("**Supercor**").

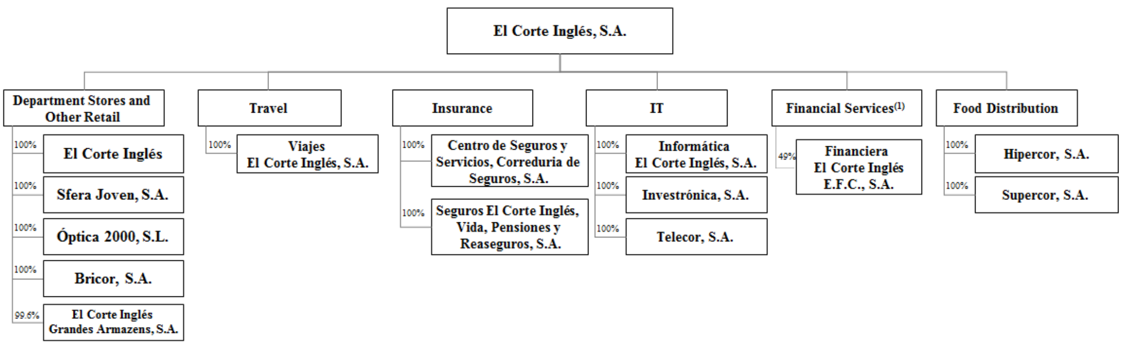
- In 2006, the Guarantor ventured into the home improvement division with Bricor, S.A. ("**Bricor**").

- In 2013, the Guarantor entered into a strategic investment agreement with Banco Santander Consumer Finance, S.A. ("**Santander**") to jointly manage FECI. See "*—Group Operations—Consumer Finance*".

The Group

The Guarantor and its subsidiaries compose the El Corte Inglés Group ("**Group**").

The following diagram summarises the corporate organisational structure of the Guarantor and its principal subsidiaries as of the date of this Prospectus:



(1) Since 27 February 2014, Banco Santander Consumer Finance, S.A., owns a 51% stake in the consumer finance division.

Business and Industry

The Group is a leading retail distribution group, and is positioned as the largest European department store group and the fourth largest department store group worldwide by revenue (*Source: Deloitte - "Global powers of retailing 2014"*). The Group has a long standing history of more than 70 years where it has risen to become a leader of product distribution in Spain and it has diversified its business into distinct business divisions throughout its history, including travel agency services, consumer finance and the insurance business.

The Group is a reference in the Spanish consumer retail industry and the overall Spanish economy. The Group has approximately 1,555 points of sale and, as at the date of this Prospectus, operates 88 department stores, 43 hypermarkets, 203 supermarkets and convenience stores and 451[1] specialised retail stores. In 2013, the Group had approximately 635 million visitors to its department stores and approximately 155 million visits to its store website. There are approximately 10 million holders of the El Corte Inglés card. The Group's workforce comprises approximately 93,223 employees across all Group companies and approximately 20,000 employees from its suppliers that work at El Corte Inglés stores.

The Group has developed a non-replicable real estate portfolio with unique locations, asset quality and scale The Group's portfolio represents one of the largest retail real estate portfolios in Europe with over 9.8 million square meters of total built area, including department stores, hypermarkets, retail warehouses, offices and mixed industrial buildings. The Group's real estate portfolio is conservatively valued at approximate €15.1 billion (See "—*Real Estate Portfolio*").

The Group has a unique business model that is focused on ensuring maximum customer satisfaction. The Group intends to offer a unique product range with an extensive range of brands and services in the market to address customer needs, combined with full reliability of the products and services that the Group offers at its stores to build a trust-based relationship with its customers. The Group works to ensure the highest quality in the products and services it offers its customers and offers personalised customer attention by listening to suggestions and responding accordingly. Additionally, the Group is comprised of specialists across all its divisions with capable and well-trained professionals.

The "El Corte Inglés" brand covers all of the Group's companies and is closely associated with the fundamental principles on which the Group focuses, including a wide range of products, quality, service, purchase guarantees and consumer confidence.

The Group has diversified its business model to develop new profitable business opportunities on the back of its customer relationships and through brand awareness and reputation. As part of this strategy, the Group has been able to develop the largest consumer finance portfolio in Spain, according to the Spanish credit bureau ASNEF (*Asociación Nacional de Establecimientos Financieros de Crédito* or "**ASNEF**"), amounting to €6.610.5 million and representing a 32% share of the Spanish consumer finance market. The Group has also been able to develop the leading physical network travel agency, according to Hosteltur, with 497 stores located in Spain.

The Group consists of seven main business divisions:

- *Department Stores*: The department store division consists of department stores that offer a broad selection of merchandise including menswear and women's fashion, household accessories, electronics, computers, home decor, beauty products, jewellery, food and gifts.
- *Food distribution*: The food distribution division consists of hypermarkets, supermarkets and convenience stores that provide customers with a wide variety of fresh food items and produce, groceries, household products and other items.
- *Other retail businesses*: This division consists of a range of fashion and accessory, vision and hearing and home improvement stores.
- *Travel agency*: The travel agency division provides travel packages and planning services for individual and corporate clients.
- *IT service*: The IT service division consists of three companies that provide information and communication technologies solutions and consulting, IT and electronic products and telecommunications products and services.
- *Consumer finance*: The consumer finance division offers consumer credit opportunities to customers, including the El Corte Inglés credit card and instalment payment plan options.

[1] Including all kinds of points of sale for Sfera, Sephora, Bricor and Óptica 2000 (in Spain and outside Spain).

- *Insurance*: The insurance division undertakes activity in the insurance sector through insurance brokerage services and certain insurance products.

The Group operations are primarily carried out in Spain and Portugal, however it has minor international operations elsewhere in certain divisions.

As at the date of this Prospectus, the Group has more than 20,000 national suppliers and more than 2,500 international suppliers. In 2013, the Group had approximately €9.9 billion in supplies expenditures (procurements). With the increased importance on the Group's international business, it has recently reorganised its international commercial offices. The Group collaborates closely with its suppliers to carry out joint commercial initiatives and uses advanced analytical systems in order to analyse product trends. The Group also continually explores opportunities to strengthen its private labels, as these products are becoming a higher contribution to the Group's sales margin.

The Group also maintains a relationship of proximity and commitment to the communities where it operates its stores. Integration into society has been one of the objectives pursued by the Group throughout its history and is reflected in the cultural, sports, recreational and social activities it participates in. The Group works with various organisations, ranging from business associations and employers' organisations to NGOs, the media and other private and public institutions as part of its corporate social responsibility program. Furthermore, the Fundación Ramón Areces, the Guarantor's main shareholder, is an institution oriented to promote scientific knowledge, research and human capital development.

The retail sector in Spain has been affected by the overall Spanish macroeconomic environment, particularly weak household consumption. According to the INE (*Instituto Nacional de Estadística*), Spanish GDP declined from a 3.8% growth in 2007 to a contraction of 1.2% in 2013 and, during the same period, Euromonitor reported an increase in the Spanish unemployment rate from 8.2% in 2007 to 26.1% in 2013. According to Global Insight, total retail sales in Spain declined from a 2.2% growth in 2007 to a contraction of 3.7% in 2013.

However, the retail sector is expected to gradually recover in line with the improvement of Spanish macro-economic conditions. According to the Ministry of Economy and Competitiveness, Spanish GDP is expected to grow from 1.2% in 2014 to 1.8% in 2015. According to the Ministry of Economy and Finance, Spanish unemployment is expected to decrease from 24.6% in 2014 to 23.6% in 2015.

For the year ended 28 February 2014, the Group had total revenues of €14,291.7 million and a total Adjusted EBITDA of €825.5 million in comparison with the year ended 28 February 2013, where the Group had total revenues of €14,553.0 million and a total Adjusted EBITDA of €815.0 million.

Adjusted EBITDA is a non-GAAP measure defined as operating income (profit from operations) plus (i) the depreciation and amortisation charge, (ii) excessive provisions, impairment and gains or losses on disposals of non-current assets, (iii) financial income of the insurance company El Corte Inglés Vida Pensiones y Reaseguros, S.A., and (iv) finance income and costs of FECI.

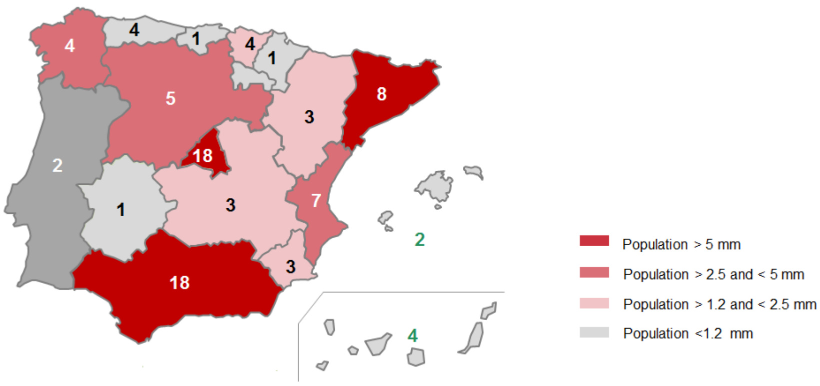
Group Operations

Department Stores

The Group's department stores division comprises the department stores chain, El Corte Inglés ("**ECI**"). ECI department stores offer a broad selection of merchandise, including menswear and women's fashion, household accessories, electronics, appliances (including computers), home decor, beauty products, jewellery, food and gifts. More than 1,200 brands are featured in the department stores, including well known Spanish and international brands, some of which are sold in Spain exclusively in the ECI stores, and others which are sold through their own concession such as is the case for a number of fashion designers. The Guarantor also markets a number of private label brands such as Emidio Tucci, Green Coast, Dustin and fórmul@ joven, each of them addressing specific customer needs.

ECI is one of the world's leading department stores by revenue, with stores in both Spain and Portugal. As of the year ended 28 February 2014, the Guarantor operated 88 department stores, 86 of which are located in Spain and two located in Portugal.

Department Store Location: 88 Stores



ECI department stores are known in the market for their specialised and unique variety of products for sale. For the year ended 28 February 2014, department stores sales in Spain corresponded to approximately €7,565.5 million. Fashion, accessories, beauty products and jewellery sales accounted for 51.1% of total sales, or approximately €3,858.4 million. Leisure products, consisting of consumer electronics, stationary, books, music, movies, toys and sports related products, accounted for 22.4% of total sales, or approximately €1,694.7 million. Food sales accounted for 13.2% of total sales, or approximately €998.6 million. Home products, consisting of home appliances, home apparel, homewear and furniture, accounted for 10.5% of total sales, or approximately €794.4 million. The remaining products offered at department stores accounted for 2.9% of total sales, or approximately €219.4 million. There is also significant penetration of the Group's private label brand sales in ECI department stores that signals significant growth, with private label products comprising 16% of total sales in 2013, compared with 11% in 2008.

The ECI stores are designed to attract customers with different needs, tastes, interests and economic possibilities by providing a broad and varied commercial offering through an ample product assortment with a full price range offering.

The department stores also have areas dedicated to the Group's other service departments, such as credit card offices, travel agency, insurance brokerage and general customer service. In 2013, the Guarantor estimated that approximately 635 million people visited ECI stores. In addition to physical stores, ECI also has a digital business presence, with approximately 155 million visits to the e-commerce website and 4.2 million registered users.

According to the Guarantor's consolidated financial statements, El Corte Inglés department stores generated total revenues of €8,441.5 million in 2013, which represents a decrease of 1.2% in respect of 2012, contributing 59.1% to the Group's consolidated revenue.

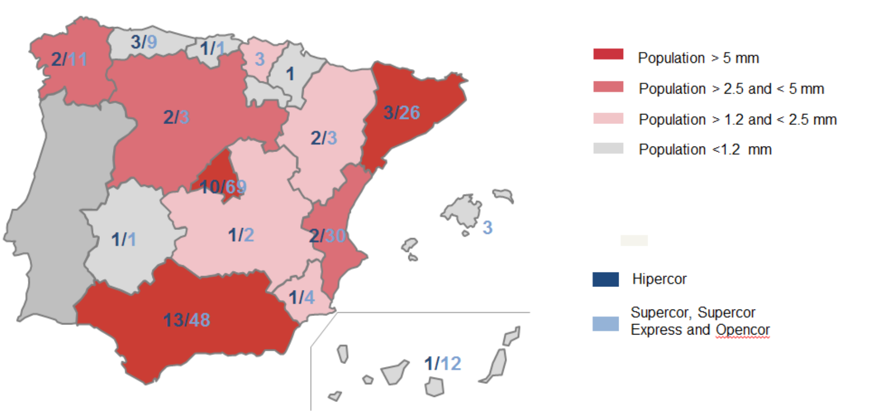
Food Distribution

The Group has a leading food distribution division and operates hypermarkets, supermarkets and convenience stores that sell both third-party brands and Group brands (El Corte Inglés, Hipercor and Aliada) products. The food distribution business is focused on offering the most competitive prices on low cost products together with product differentiation policies on quality of service and products, offering high quality brands and products under exclusivity, and with active promotional campaigns to improve price positioning and perception.

As of the year ended 28 February 2014, the Group operated 268 food distribution stores, including 43 Hipercor hypermarkets and 225 supermarkets and convenience stores.

According to the Guarantor's consolidated financial statements, Hipercor hypermarkets, Supercor supermarkets and Opencor convenience stores generated total revenues of €2,332.0 million in 2013, which represents a decrease of 7.9% in comparison to the figures from 2012, contributing 16.3% to the Group's consolidated revenue.

Food Distribution Store Location: 268 Stores



Hypermarkets

The Group's hypermarket division is carried out through the Hipercor hypermarkets. Please see "*Description of the Issuer*".

Hipercor offers a wide range of 48,000 references, corresponding to national, international, regional and local products, to its customers, offering traditional food items, perishable produce, groceries, textiles, household articles, drugstore and perfumery products, catering services and other products, aiming to provide a competitive price policy and high quality. Hipercor is the proprietor of the low-cost Group brand "Aliada" and its own private label "Hipercor".

Hipercor is one of Spain's leading hypermarkets. As of the year ended 28 February 2014, the Group operated 43 hypermarkets.

According to the Guarantor's consolidated financial statements, Hipercor hypermarkets generated total revenues of €1,716.3 million in 2013, contributing 73.6% to the Group's food distribution revenue.

Supermarkets and Convenience Stores

The Group's supermarket and convenience store division comprises two chain supermarket stores, Supercor and Supercor Exprés, and Opencor convenience stores, each with opening hours aimed at addressing the needs of a range of customer and with the experience and quality of the Group.

Supercor is a large supermarket chain store, with locations considered to be convenient for customers. Supercor stocks a wide range of over 20,000 items, including food items and groceries, perishables and other general merchandise. Fresh products such as meat, fish, fruit and vegetables are one of Supercor's main features.

Supercor Exprés is a smaller version of Supercor, where the design of the stores focuses on shopping speed and efficiency and flexible store hours. Products sold at Supercor Exprés include food, fresh goods and drugstore and cosmetic products. Supercor Exprés also sells newspapers, magazines and mobile phone top-ups.

In addition to selling leading brands, Supercor and Supercor Exprés sells private label El Corte Inglés brands.

Opencor chain stores are designed in the convenience store format that is suitable for purchasing food and fast-moving consumer goods and are open 18 hours a day, 365 days a year. Opencor stores stock food, drugstore and cosmetic products, newspapers and magazines, books, gifts and leisure items. Opencor also offers other types of services such as mobile phone top-ups. The Guarantor is in the process of converting the majority of Opencor stores into Supercor and Supercor Exprés stores.

As of the year ended 28 February 2014, the Group operated 225 supermarkets and convenience stores.

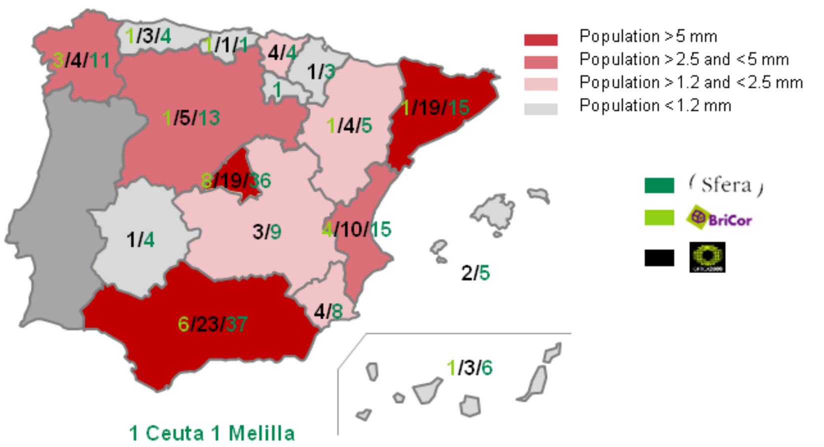
According to the Guarantor's consolidated financial statements, Supercor supermarkets and Opencor convenience stores generated total revenues of €615.7 million in 2013, contributing 26.4% to the Group's food distribution revenue.

Other Retail Businesses

The other retail businesses of the Group comprise fashion and accessory, vision and hearing and home improvement stores.

For the year ended 28 February 2014, and according to the Guarantor's consolidated financial statements, Sfera, Óptica 2000 and Bricor generated total revenues of €319.0 million, which represents an increase of 9.0% in respect of 2012, contributing 2.2% to the Group's consolidated revenue.

Other Retail Businesses Location: 312 Stores



Fashion and Accessory

The Group's fashion and accessory division comprises Sfera Joven, S.A. ("**Sfera**"). Sfera chain stores aim to offer a modern style at a reasonable price, variety in its collections and updated models and garments. Sfera provides a large selection of garments for men, women and children, ranging from formal fashion to weekend and leisure clothing, footwear and accessories. Sfera operates in standalone retail stores and also has establishments at ECI stores through brand-specific concessions.

Sfera, with its own team of designers, is a chain store designed to attract a wide-ranging target audience by employing a business model with greater stock control and controlling the design, patterning and development of proprietary collections focused on quick and easy adaptations to customers.

As of the year ended 28 February 2014, the Group operated 205 Sfera stores. 179 stores were located in Spain (72 independent stores and 107 stores located in ECI department stores) and 26 stores were located outside Spain.

According to the Guarantor's consolidated financial statements, Sfera generated total revenues of €164.1 million in 2013, contributing 51.4% to the Group's other retail businesses revenue.

Vision and Hearing

The Group's vision and hearing division comprises Óptica 2000, S.L. ("**Óptica 2000**") with Óptica 2000 chain stores specialising in certain consumer vision and hearing products. Óptica 2000 stores offer a variety of products, from basic to high-end frames and sunglasses, and also provides a wide variety of services related to sight and hearing, including hearing aids and eye exams. The chain operates both through independent establishments and through its own shops located in ECI and Hipercor shopping centres.

As of the year ended 28 February 2014, the Group operated 108 Óptica 2000 stores (most of them located in ECI department stores), of which 106 were located in Spain and two were located in Portugal.

According to the Guarantor's consolidated financial statements, Óptica 2000 generated total revenues of €75.4 million in 2013, contributing 23.6% to the Group's other retail businesses revenue.

Home Improvement

The Group's home improvement division comprises Bricor. Bricor chain stores specialise in do-it-yourself home improvement needs, interior decoration and home and garden services. Bricor stores offer a range of more than 35,000 products and the stores attract both do-it-yourself enthusiasts and professional specialists, such as plumbers, painters and electricians. The chain also assists customers undertake home renovation projects and offers other types of services such as transport, installation and advice.

Bricor operates in independent superstores as well as in ECI and Hipercor shops. In addition to physical stores, Bricor also has an online store, with approximately two million weekly visits to the website.

As of the year ended 28 February 2014, the Group operated 29 Bricor stores, eight in independent retail outlets, 21 located in ECI and Hipercor stores and one online store. 27 stores are located in Spain and two located in Portugal.

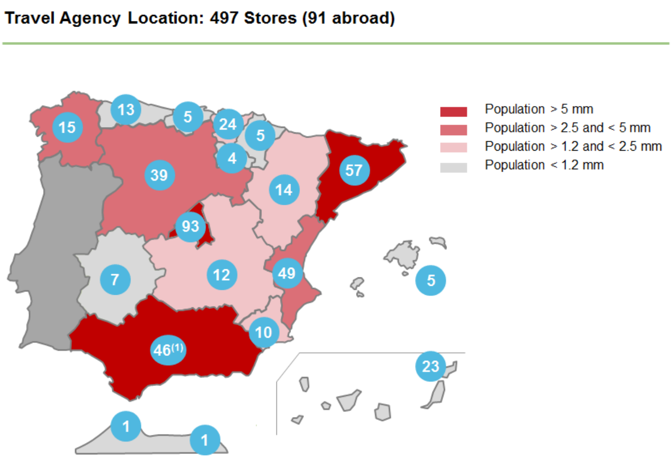
According to the Guarantor's consolidated financial statements, Bricolaje Bricor generated total revenues of €79.6 million in 2013, contributing 24.9% to the Group's other retail businesses revenue.

Travel Agency

The Group's travel agency division is operated by a number of companies located in several countries led by VECI. VECI travel agency chain stores operate with a business model based on personalised attention for both business and personal travel. VECI has an extensive network of offices that offers its customers a variety of tourist products and services to manage both professional and holiday travel. VECI maintains exclusivity for the distribution of Tourmundial products, its wholesaler, which has developed certain holiday travel products adapted to the needs of the market. VECI also operates a company division dedicated to assisting corporate customers, consisting of large corporations, public agencies and small and medium enterprises. The company division also provides consultancy services on travel policy and cost reduction, and also specialises in the planning, organising and implementation of conferences, congresses and incentive trips and managing the services required for these types of events. In addition to physical stores, VECI also utilises alternative sales channels, including tele-sales and online sales.

According to Hosteltur, VECI was the leading physical network travel agency in Spain. As of the year ended 28 February 2014, the Group operated 588 VECI stores, 497 stores located in Spain and 91 located in Portugal, France, Belgium, Italy, the United States, Chile, Mexico, Argentina, Colombia, the Dominican Republic and Uruguay.

According to the Guarantor's consolidated financial statements, Viajes El Corte Inglés group generated total revenues of €2,277.5 million in 2013, which represents an increase of 1.7% in respect of 2012, contributing 15.9% to the Group's consolidated revenue.



(1): Includes Gibraltar.

IT Services

The Group's information and communications technology division comprises IECI, Investrónica and Telecor, S.A. ("**Telecor**") and provides information and communication technologies solutions and consulting, IT and electronic products and telecommunications products and services. As of the year ended 28 February 2014, the Group had approximately 149 IT service points of sale present in five countries in Europe, 9 countries in Latin America and the United States.

According to the Guarantor's consolidated financial statements, information and communication technologies division generated total revenues of €660.0 million in 2013, which represents a decrease of 5.7% in respect of 2012, contributing 4.6% to the Group's consolidated revenue.

Informática El Corte Inglés

IECI is the Group's technology consultancy company. It provides technological consulting, internet and communication technology solutions and infrastructures and offers IT and outsourcing services to both large companies and public administrations. IECI is familiar with a broad spectrum of industrial sectors, including industry, financial entities, services and telecommunications. IECI also aims to offer its clients the experience necessary to adapt to new business models requiring technological developments such as cloud computing, mobility, big data and social media.

IECI operates in Spain and internationally, in countries including Mexico, Brazil and Colombia. IECI has 25 years of experience and innovation and, in 2013, was recognised as the Best IT Services Company by Byte TI magazine.

Investrónica

Investrónica is the Group's wholesale IT and telephone company that specialises in designing, manufacturing and selling IT and electronic products. Investrónica also markets its own brand of Investronica computers and has its manufacturing plant and its warehouse and distribution logistics centre located in the region of Madrid. Additionally, Investrónica owns a research centre where the company develops information, service and self-service solutions for public and private organisations, including event ticket sales, sports centre management, lockers, car parks and municipal information.

Telecor

Telecor is the Group's company that specialises in marketing telecommunications products and services to individuals, professionals, self-employed workers and small and medium-sized enterprises. Telecor's product and service offering includes landline and mobile telephone service, telephone accessories, internet connections, ADSL, broadband via cable, digital television, remote alarms, remote assistance and long-distance calling cards.

Consumer Finance

The Group's consumer finance division comprises FECI, a licensed financial entity under the supervision of the Bank of Spain. The consumer finance business provides financing to customers on goods and services purchased in the Group's retail stores, through the ECI credit card and personal payment plan options. In 2013, there were over 10.5 million ECI credit card holders and approximately €4,815.0 million in goods and services purchased by customers was financed through the ECI credit card. In 2013, approximately 39% of the Group's sales were financed by FECI.

According to the Guarantor's consolidated financial statements, the consumer finance division generated finance income and costs of €80.5 million in 2013, which represents an increase of 21.3% in respect of 2012.

In 2013, the Guarantor entered into a strategic investment agreement with Banco Santander Consumer Finance, S.A. ("**Santander**") to jointly manage the consumer finance division, gaining access to broader funding options and leveraging Santander's expertise in the financial sector to develop new products. FECI also benefits from cross-selling with Santander's existing customer base. Under the joint venture agreement, Santander acquired a 51% stake in FECI on 27 February 2014.

According to ASNEF, in 2013, FECI held the largest consumer finance portfolio in Spain amounting to €6,610.5 million consisting of a 32% share of the Spanish consumer finance market, with a 10% non-performing loans ratio.

Insurance Business

The Group's insurance division comprises the insurance company Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. ("**Seguros El Corte Inglés**") and the insurance brokerage Centro de Seguros y Servicios.

According to the Guarantor's consolidated financial statements, the insurance group generated total revenues of €176.3 million in 2013, which represents an increase of 12.2% in respect of 2012, contributing 1.2% to the Group's consolidated revenue.

Seguros El Corte Inglés

Seguros El Corte Inglés is duly licensed as an insurance company with the Spanish financial regulatory agency (*Dirección General de Seguros*) and provides personal life and accident insurance and the management of pension schemes. Insurance is sold in independent stores and across the Group's store network, in particular, they offer personal life and accidents insurance, savings insurance, as well as temporary and lifetime annuity plans and pension plans.

As at the year ended 31 December 2013, accrued insurance premiums amounted to €145.3 million, with €112.1 million related to life insurance and €33.2 million related to accident insurance. All pension schemes under the management of Seguros El Corte Inglés obtained positive returns in 2013, with a total value of €208.1 million.

Centro de Seguros y Servicios

Centro de Seguros y Servicios is a personal insurance brokerage for medical, motor and accident insurance and for insurance related to products sold in Group company stores, such as electronic devices. Centro de Seguros y Servicios distributes insurance products to customers through a network of branches located in ECI stores, in particular they offer insurance products from key providers in the market, including Adeslas, Allianz, Asisa, Axa, Direct Seguros, ECI Seguros, Fenix Directo, Generali, Mapfre, Ocaso, Pelayo, Plus Ultra, Sanitas and Santa Lucia.

As of 28 February 2014, the Guarantor operated 110 Centro de Seguros y Servicios points of sale located in ECI department stores.

Internet Commerce

Online sales are increasingly important in the Group's multi-channel strategy to offer a wider choice of products, brands and categories and offering more channels through which to buy them, such as websites and mobile phone applications.

The Group's website had nearly 155 million visits and 4.2 million registered users in 2013, representing an increase of 13% and 19%, respectively, compared to 2012. The Group's increased efforts in internet commerce is demonstrated by the recent launch of the international website www.elcorteingles.eu, targeting different markets and providing greater brand visibility, and the continuous updates of the Group's companies websites.

The Group's logistics strategy is also focused on continuous improvement and innovation in order to reinforce the multi-channel strategy and reduce delivery periods. In 2013, the distribution and food platform located in Madrid was automated in order to directly serve the internet commerce.

Additionally, the internet serves both as a communications tool and as a channel to carry out promotional campaigns of the Group. In addition to the campaigns launched on the Group's websites, the Group is present on social networks such as Facebook, Twitter or YouTube, where it maintains a continuous and open dialogue with customers and society in general.

Real Estate Portfolio

The Group is the owner-occupier of its real estate portfolio.

The Group's real estate portfolio contains a combination of city locations, with ECI department store properties located in city centres, and peripheral locations, including Hipercor hypermarkets located in suburban areas. The Group's portfolio also contains a significant number of "trophy assets" in Madrid, Barcelona, Valencia, Seville and Marbella, as well as in other key Spanish cities and in Portugal's Lisbon and Porto. Through the ownership of its property portfolio, the Group is able to create substantial real estate value, primarily by (i) its ability to generate "retail hubs" around its properties increasing the value of its specific and adjacent sites, and (ii) the highly efficient use of the properties' area with a very high conversion of total gross leasable area into retail/sales areas, both vertically with retail use on all building floors and horizontally with fewer common areas compared to other retail formats.

The Guarantor has the largest Iberian portfolio, characterised by unique premium locations, asset quality and scale. The Group's portfolio contains 9.8 million square meters of total built area (including above ground and below ground area). Spanish real estate assets have a significant potential upside given the current point in the cycle in Spain, where commercial properties have adjusted around 50% from peak. The Group has most of the assets free of significant encumbrances. 58% of the real estate portfolio's consolidated gross asset value ("**GAV**") is unencumbered.

The portfolio is comprised of department stores, hypermarkets, retail and warehouses, offices and mixed industrial buildings and offices, where each property type contributed 61%, 29%, 5% and 5%, respectively, to the portfolio's GAV.

Valuation and Geographical Distribution

In September 2013 and March 2014, Tinsa Tasaciones Inmobiliarias, S.A. ("**TINSA**"), a Spanish independent real estate appraiser, valued a major part of the Group's real estate portfolio at an aggregate value of €15.1 billion, in accordance with the ECO valuation methodology which is compliant with the requirements set out in the Spanish Ministry of Economy Order ECO/805/2003, of 27 March (*Orden ECO/805/2003, de 27 de marzo, sobre normas de valoración de bienes inmuebles y de determinados derechos para ciertas finalidades financieras*). The valuation is performed for most of the portfolio using the Discounted Cash Flows methodology ("**DCF**"). Given the Group is owner-occupier of its properties, market rents have been applied. Additionally, it should be noted that the ECO valuation methodology conservatively uses the current net replacement value (as of the valuation date) as terminal value in the DCF. The valuation is the summation of the TINSA €14.1 billion valuation of part of the portfolio as of September 2013 and the TINSA €1.0 billion valuation of a different part of the portfolio as of March 2014.

Additionally there is a net balance of €2.3 billion worth of real estate assets on the Group's balance sheet that is not currently appraised, consisting of (i) "land and building", (ii) technical installations which form part of "machinery fixtures and tools", (iii) "property, plant and equipment in the course of construction", and (iv) "Investment property".

The key valuation parameters of the portfolio by asset class are as follows:

Key Valuation Parameters – By Asset Class

Type of Asset	GLA[(1)] ('000 sqm)	GAV (€ MM)	GAV / sqm[(2)]	Net Initial Yield
Department Stores	1,996	9,187	3,729	6.8%
Hypermarkets	1,424	4,338	2,385	7.4%
Retail	290	803	2,323	7.0%
Warehouses, Offices and Mixed Use	1,235	797	609	6.5%
Total	**4,945**	**15,126**	**2,547**	**7.0%**

Source: TINSA Valuation Reports

Notes:

(1) Gross Leasable Area ("**GLA**") presented as 100% of the sales area and 100% of the office space. For warehouses, 100% of the warehouse space is also considered.

(2) Area for GAV / sqm calculated as: 100% of sales area, 100% of office area, 50% of warehouse area and 50% of services and installations area. This area excludes parking area. For warehouses, 100% of the warehouse space is also considered.

The Group's portfolio is diversified, with presence in a majority of Spanish provinces and in Portugal, concentrating in the cities with high economic activity. 42% GAV of the Group's portfolio is located in the provinces of Madrid and Barcelona.

The key valuation parameters of the portfolio by geography are as follows:

Key Valuation Parameters – By Geography

Regions[(1)]	GLA[(2)] ('000 sqm)	GAV (€ MM)	GAV / sqm[(3)]	Net Initial Yield
Madrid	1,637	4,823	2,536	6.6%
Andalucía	877	2,563	2,349	7.2%
Cataluña	514	1,646	2,718	6.9%
Communitaria Valenciana	404	1,437	2,909	7.0%
Galicia	217	601	2,344	7.3%
Top 6-10 Regions	726	2,338	2,627	7.2%
Rest of Regions	569	1,719	2,458	7.1%
Total	**4,945**	**15,126**	**2,547**	**7.0%**

Source: TINSA Valuation Reports

Notes:

(1) The list of regions includes Spanish provinces and Portugal.

(2) GLA presented as 100% of the sales area and 100% of the office space. For warehouses, 100% of the warehouse space is also considered.

(3) Area for GAV / sqm calculated as: 100% of sales area, 100% of office area, 50% of warehouse area and 50% of services and installations area. This area excludes parking area. For warehouses, 100% of the warehouse space is also considered.

Employees

As of the year ended 28 February 2014, the Guarantor had 93,223 employees distributed across all companies within the Group, with an average of 83,128 full-time employees. 198 were directors and managers, 13,690 were supervisors and coordinators, 65,717 were sales staff, 7,339 were services personnel and 6,279 were staff in other activities. Approximately 4,288 employees work at stores or branches outside of Spain. Out of the Group's total employees, 59,418 are women and 33,805 are men. The average length of service for the Group's employees is 14 years. The Guarantor also provides employment indirectly to other brands or supplier companies at its stores, of approximately 20,000 people.

The Guarantor supports employment integration and the inclusion of people with disabilities in the job market into its workforce. In addition, it cooperates with 60 special employment centres by subcontracting services to them and purchasing products made at these centres. The Guarantor also supports diversity and has approximately 4,000 employees in its stores of non-Spanish origin, representing 4.3% of its entire workforce.

The Guarantor has training initiatives and programmes adapted to each job position and level of experience for the specialisation and improvement of employees, as well as flexible actions aimed at informing and updating employees on new developments that occur, to ensure they are able to maintain service quality. In 2013, over 351,000 hours of training were given, with an average of 4.6 training courses per employee. The training provided includes discussion of the corporate culture, new commercial and product developments, new administrative and management processes, customer service techniques and technical skills.

In 2013, a series of collective bargaining agreements were entered into that respond to the objective of simultaneously offering good customer service and ensuring profitability of the Group's business. The outcomes of these agreements were primarily in the areas of working hours, partial retirement and sales incentives.

Litigation

The following are the material proceedings initiated by Spanish tax authorities in respect of the Group:

Large Commercial Store Tax

Historically, the Group has not paid the "Large Commercial Store tax", alleging that the taxable event under this tax is duplicative with the IAE tax (*Impuesto sobre Actividades Económicas*). However, the Constitutional Tribunal concluded, in the 122/2010 sentence of 5 June 2012, that the comparison of the taxable bases of the Large Commercial Store tax and the IAE tax contain sufficient difference to support the conclusion that they do not cover the same taxable event (which was the principal argument of large commercial stores) and are not incompatible. In 2013, the Group provisioned 100% of the potential claim that may arise from the Large Commercial Store tax in Cataluña, Aragón and Asturias, in an amount of approximately €115.5 million.

Corporation Tax

On September 2009, the Spanish tax authorities confirmed their resolutions adopted in respect of their revised calculations of the deductions for re-investment of extraordinary benefits of the Guarantor's Corporation Tax regarding fiscal years ended in February 2003, 2004, 2005 and 2006. Such resolutions determined the Guarantor owed a total tax debt amounting to €36.7 million. The Guarantor filed an appeal (*recurso de casación*) in relation to the last sentence of the Court of Appeals (*Audiencia Nacional*) on March 2014, and its resolution remains pending as at the date of this Prospectus. The Guarantor considers that the likelihood of having to pay the disputed amount in respect of the above matter is remote.

Other

As of the date of this Prospectus, certain other lawsuits and proceedings were ongoing against the Group arising from the ordinary course of its operations. Management of the Group considers that the outcome of such lawsuits and proceedings will not have a material adverse effect on the financial position of the Group in the years in which they are settled.

Management

Board of Directors

As of the date of this Prospectus, the members of the Board of Directors of the Guarantor, their position on the board and their principal activities outside the Group, where these are significant, are the following:

Name	Position on the Board	Date of First Appointment	Date of Last Appointment	Principal activities outside the Group
Dimas Rodrigo Gimeno Álvarez	Manager Director and Chairman	29/08/2010	-	Not Applicable
Cartera Mancor, S.L. (represented by Ms. Paloma García Peña)	Director	31/08/2008	25/08/2013	Not Applicable
Corporación Ceslar, S.L. (represented by Ms. Carlota Areces Galán)	Director	25/08/2002	25/08/2013	Not Applicable
Juan Hermoso Armada	Director	30/08/1998	25/08/2013	Not Applicable
Florencio Lasaga Munárriz	Director	09/12/1969	25/08/2013	Not Applicable
Carlos Martínez Echavarría	Director	25/08/1991	25/08/2013	Not Applicable
José Leopoldo del Nogal Ropero	Director	29/08/2010	-	Not Applicable
Manuel Pizarro Moreno	Director	31/08/2014	-	- President of the Advisory Board of Baker & McKenzie Madrid, S.L.P. - Director of Ibercaja Banco, S.A. - Director of Sanitas, S.A. de Seguros
Marta Francisca Álvarez Guil	Director	16/12/2014	-	Not Applicable

Antonio Hernández Gil Álvarez-Cienfuegos is the Secretary (non Director) of the Board of Directors.

The business address of the members of the Board of Directors is Calle Hermosilla nº 112, 28009 Madrid, Spain, telephone number +34 914 01 92 00.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed by members of the Board of Directors to the Guarantor and their respective private interests and/or duties.

Share Capital

As of 28 February 2014, the authorised share capital of the Guarantor is €486,864,000, represented by 63,937,700 Class A shares with a par value of €6 each and 1,720,630 Class B shares with a par value of €60 each.

As of 28 February 2014, the treasury shares of the Guarantor consisted of 8,729,806 Class A shares with a par value of €6 each and 194,833 Class B shares with a par value of €60 each, earmarked for prompt disposal.

Principal Shareholders

As of the date of the Prospectus, the Guarantor's controlling shareholders are the Fundación Ramon Areces and Cartera de Valores IASA, S.L. with an aggregate shareholding of more than 50%.

Material Contracts and Recent Developments

Financial services joint venture with Santander

In October 2013, the Guarantor entered into a joint venture agreement with Santander to sell Santander a 51% stake in its consumer finance business, FECI. Please see "*—Group Operations—Consumer Finance*".

Asset backed securities

In November 2013, FECI securitised part of its loan portfolio, through Semcor Finance 2013-I which issued €600 million asset backed securities, with one of the best ratings on the market, AA-.

Financing Agreement

In November 2013, ECI and FECI entered into a financing agreement (*Contrato de Financiación Mercantil*) with a syndicate of banks which provided for a multi-tranche facility in an aggregate maximum principal amount of €4,909.2 million to restructure all of the Group's bank debt. The facility consists of a (i) a €4,060.4 million loan that matures in 2021 and (ii) a €848.8 million loan specifically allocated to working capital that matures in 2018. As of 28 February 2014, the Group has drawn on €3,288.0 million of the facility. The financing agreement is guaranteed by Hipercor, VECI, IECI, Supercor and Opencor, and secured by means of certain real estate mortgages and pledges of shares and receivables.

The Financing Agreement contains standard terms and conditions for a facility of this type.

Recent Developments

In October 2014, Tiendas de Conveniencia, S.A., the company that owned and operated Opencor stores, merged into Supercor, as part of the Group's strategy to convert the majority of existing Opencor stores into Supercor and Supercor Exprés stores.

In November 2014, the Guarantor was awarded an option to purchase a plot of land of 10,000 square metres of commercial space in the centre of Madrid for €136 million by ADIF (*Administrador de Infraestructuras Ferroviarias*), a Spanish public corporate entity (*entidad pública empresarial)*. The plot is located adjacent to the Castellana ECI department store.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes in those countries listed or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Spain of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Spanish Tax Considerations

The following is a general description of certain Spanish tax considerations relating to the Notes. The information provided below does not purport to be a complete overview of tax law and practice applicable as at the date of this Prospectus in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. This analysis is a general description of the tax treatment under Spanish legislation without prejudice of regional tax regimes that may be applicable.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Notes issued by the Issuer after the date hereof held by a holder of Notes. It does not consider every aspect of taxation that may be relevant to a particular holder of Notes under special circumstances or who is subject to special treatment under applicable law or to the special tax regimes applicable in the Basque Country and Navarra (*Territorios Forales*).

This overview is based on the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. References in this section to Noteholders include the beneficial owners of the Notes, where applicable. In this sense, the reforms have been recently approved by the Spanish Parliament and published on 28 November 2014 in the Spanish Official Gazette (Boletin Oficial del Estado - BOE) related to the Personal Income Tax Law, Non Resident Income Tax Law and a completely new Corporation Tax Law which are going to have effects for all tax periods commencing after 1 January 2015 are referenced. When mentioning the measures, reference is made to "the tax reform".

All the tax consequences described in this section are based on the general assumption that the Notes are initially registered for clearance and settlement in Euroclear and Clearstream, Luxembourg.

Any prospective investors should consult their own tax advisers who can provide them with personalised advice based on their particular circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Prospectus:

(a) of general application, Additional Provision One of Law 10/2014, of 26 June, on supervision and solvency of credit entities ("**Law 10/2014**"), as well as Royal Decree 1065/2007 of 27 July ("**Royal Decree 1065/2007**"), as amended by Royal Decree 1145/2011 of 29 July;

(b) for individuals with tax residency in Spain which are subject to Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*), the Personal Income Tax Law 35/2006, of 28 November as amended by Law 26/2014, of 27 November, and Royal Decree 439/2007, of 30 March promulgating the Personal Income Tax Regulations, along with Law 29/1987, of 18 December on Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*) and Law 19/1991, of 6 June, on Wealth Tax, as temporarily established by Royal Decree-law 13/2011, of 26 September (*Impuesto sobre el Patrimonio*);

(c) for legal entities resident for tax purposes in Spain which are subject to Corporation Tax, Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporation Tax Law, Royal Decree 1777/2004, of 30 July promulgating the Corporation Tax regulation (the "**Corporation Tax Regulation**"); and Law 27/2014, of 27 November, of Corporate Income Tax, applicable on the tax period starting as of 1 January 2015.

(d) for individuals and entities which are not resident for tax purposes in Spain, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law as amended by Law 26/2014, of 27 November, and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations, along with Law 29/1987, of 18 December on Inheritance and Gift Tax and Law 19/1991, of 6 June, on Wealth Tax as temporarily established by Royal Decree-law 13/2011, of 26 September.

Whatever the nature and residence of the beneficial owner, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, for example, exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

Individuals with Tax Residency in Spain

Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in the investor's saving taxable base pursuant to the provisions of the aforementioned law and taxed at a flat rate of 21 per cent. on the first €6,000, 25 per cent. for taxable income between €6,001 and €24,000, and 27 per cent. for taxable income exceeding €24,000.

According to the tax reform, as from 1 January 2016, each investor's savings income tax base will be taxed at 19 per cent for taxable income up to €6,000, 21 per cent. for taxable income between €6,000.01 to €50,000 and 23 per cent. for taxable income in excess of €50,000. During tax period 2015 each investor's savings income tax base will be taxed at 20 per cent. for taxable income up to €6,000, 22 per cent. for taxable income between €6,000.01 to €50,000 and 24 per cent. for taxable income in excess of €50,000.

As a general rule, both types of income are subject to a withholding tax on account at the rate of 21 per cent. However, according to the tax reform, as from 1 January 2016 such withholding tax rate will be reduced to 19 per cent. During tax period 2015, the withholding tax rate will be reduced to 20 per cent.

However, it should be noted that Royal Decree 1065/2007 regulated certain procedures for the provision of information which are explained under section "*Disclosure of Information in Connection with the Notes*" below and that, in particular, in the case of debt listed securities issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state, as the Notes issued by the Issuer:

(i) it would not be necessary to provide the Issuer with the identity of the Noteholders who are individuals resident in Spain for tax purposes or to indicate the amount of income attributable to such individuals; and

(ii) interest paid to all Noteholders (whether tax resident in Spain or not) should be paid free of Spanish withholding tax provided that the information procedures are complied with.

Therefore, the Issuer understands that, according to Royal Decree 1065/2007, it has no obligation to withhold any tax amount for interest paid on the Notes corresponding to Noteholders who are individuals with tax residency in Spain provided that the new information procedures (which do not require identification of the Noteholders) are complied with.

Nevertheless, Spanish withholding tax at the applicable rate (as at the date of this Prospectus, 21 per cent. 20 per cent. during tax period 2015 and 19 per cent. as from 1 January 2016) may have to be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in the Spanish territory.

Reporting Obligations

The Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Notes that are individuals resident in Spain for tax purposes.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable regional or State rules. As at the date of this Prospectus, the applicable tax rates range between 7.65 per cent. and 81.6 per cent. depending on relevant factors.

Wealth Tax (Impuesto sobre el Patrimonio)

Net Wealth Tax may be levied in Spain on resident individuals, on a worldwide basis. Though for the years 2011, 2012, 2013 and 2014 (and according to current draft of the Budget Bill, 2015) the Spanish Central Government has repealed the 100% relief of this tax, the actual collection of this tax depends on the regulations of each Autonomous Community. Thus, investors should consult their tax advisers according to the particulars of their situation.

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Notes which they hold as at 31 December each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Legal Entities with Tax Residency in Spain

Corporation Tax (Impuesto sobre Sociedades)

Legal entities with tax residency in Spain are subject to Corporation Tax on a worldwide basis.

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain for corporation tax purposes in accordance with the Corporation tax rules.

Pursuant to Section 59.s of the Corporation Tax Regulation, there is no obligation to make a withholding on income obtained by taxpayers subject to Spanish Corporation Tax (which for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries.

According to Royal Decree 1065/2007, in the case of listed debt instruments issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state (such as the Notes issued by the Issuer.), interest paid to investors should be paid free of Spanish withholding tax. The foregoing is subject to certain information procedures having been fulfilled. These procedures are described in "*Disclosure of Information in Connection with the Notes*" below.

Therefore, the Issuer considers that, pursuant to Royal Decree 1065/2007, it has no obligation to withhold any tax on interest paid on the Notes in respect of Noteholders who are Spanish Corporation Tax payers, provided that the information procedures are complied with.

However, in the case of Notes held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest and income deriving from the transfer may be subject to withholding tax at the current rate of 21 per cent. (20 per cent. during tax period 2015 and 19 per cent. as from 1 January 2016), withholding that will be made by the depositary or custodian, if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) dated 27 July 2004 (that is, placement of the Notes outside of Spain in another OECD country and admission to listing of the Notes in an organised market in an OECD country different than Spain) and require a withholding to be made.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final Corporation Tax liability

Reporting Obligations

The Issuer will comply with the reporting obligations set forth in the Spanish tax laws with respect to beneficial owners of the Notes that are legal persons or entities resident in Spain for tax purposes.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax but must include the market value of the Notes in their taxable income for Spanish Corporation Tax purposes.

Wealth Tax (Impuesto sobre el Patrimonio)

Legal entities are not subject to Wealth Tax.

Individuals and Legal Entities with no Tax Residency in Spain

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

(a) ***With permanent establishment in Spain***

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of an individual or legal entity who is not resident in Spain for tax purposes, the legal rules applicable to income deriving from such Notes are the same as those previously set out for Spanish Corporation Tax taxpayers. See "*Taxation in Spain - Legal Entities with Tax Residency in Spain - Corporation Tax (Impuesto sobre Sociedades)*".

Reporting Obligations

The Issuer will comply with the reporting obligations set forth under Spanish tax laws with respect to beneficial owners of the Notes that are individuals or legal entities not resident in Spain for tax purposes and that act with respect to the Notes through a permanent establishment in Spain.

(b) ***With no permanent establishment in Spain***

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or legal entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax. In order for such exemption to apply, it is necessary to comply with the information procedures, in the manner detailed under "*Disclosure of Information in Connection with the Notes*" as set out in section 44 of Royal Decree 1065/2007.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy will not be subject to Inheritance and Gift Tax in Spain if the country in which such individual resides has entered into a double tax treaty with Spain in relation to Inheritance and Gift Tax. In such case, the individual will be subject to the relevant double tax treaty. In the absence of such treaty between the individual's country of residence and Spain, the individual will be subject to Inheritance and Gift tax in accordance with the applicable regional and state legislation.

Non-resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

According to the tax reform, it will be possible to apply tax benefits approved in some Spanish regions to EU residents following specific rules as of 1 January 2015.

Wealth Tax (Impuesto sobre el Patrimonio)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent. As from 1 January 2015, non-Spanish tax resident individuals but residents in the EU or in the European Economic Area could apply the legislation of the region in which the highest value of the assets and rights of the individuals are located.

In principle the draft law establishing the Spanish National Budget 2015, maintains the Wealth Tax in year 2015.

Disclosure of Information in Connection with the Notes

In accordance with section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Notes issued by the Issuer are initially registered for clearance and settlement in Euroclear and Clearstream, Luxembourg, the Paying Agent designated by the Issuer would be obliged to provide the Issuer with a declaration (the form of which is set out in the Agency Agreement), which should include the following information:

(i) description of the Notes (and date of payment of the interest income derived from such Notes);

(ii) total amount of interest derived from the Notes; and

(iii) total amount of interest allocated to each non-Spanish clearing and settlement entity involved.

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration will have to be provided to the Issuer on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, the Issuer will pay gross (without deduction of any withholding tax) all interest under the Notes to all Noteholders (irrespective of whether they are tax resident in Spain).

In the event that the Paying Agent designated by the Issuer were to fail to provide the information detailed above, according to section 7 of Article 44 of Royal Decree 1065/2007, the Issuer or the Paying Agent acting on its behalf would be required to withhold tax from the relevant interest payments at the general withholding tax rate (as at the date of this Prospectus, 21 per cent., 20 per cent. as from 1 January 2015 and 19 per cent. as from 1 January 2016). If on or before the 10th day of the month following the month in which the interest is payable, the Paying Agent designated by the Issuer were to submit such information, the Issuer or the Paying Agent acting on its behalf would refund the total amount of taxes withheld.

Notwithstanding the foregoing, the Issuer has agreed that in the event that withholding tax were required by law, the Issuer, would pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction, except as provided in "*Terms and Conditions of the Notes – Taxation*".

In the event that the current applicable procedures were to be modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish Tax Authorities, the Issuer would inform the Noteholders of such information procedures and of their implications, as the Issuer may be required to apply withholding tax on interest payments under the Notes if the Noteholders were not to comply with such information procedures.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. On 18 March 2014, the Luxembourg government submitted to the Luxembourg Parliament draft Bill No. 6668 on taxation of savings income putting an end to the current withholding tax regime as from 1 January 2015 and implementing the automatic exchange of information as from that date. This draft Bill is in line with the announcement of the Luxembourg government dated 10 April 2013.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Lead Manager has in a subscription agreement dated 12 January 2015 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Lead Manager upon the terms and subject to the conditions contained therein agreed to subscribe for the Notes.

United Kingdom

The Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Kingdom of Spain

The Lead Manager has represented and agreed that the Notes may not be sold, offered or distributed in Spain in circumstances which constitute a public offer of securities in Spain within the meaning of Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and further relevant legislation unless such sale, offer of distribution is made in compliance with the provisions of the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and any other applicable legislation. No publicity or marketing of any kind shall be made in Spain in relation to the Notes.

General

The Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer, and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the sole shareholder of the Issuer dated 7 January 2015 and by a resolution of the Board of Directors of the Issuer dated 7 January 2015. The giving of the Guarantee of the Notes has been authorised by a resolution of the Board of Directors of the Guarantor dated 16 December 2014. The Guarantor takes responsibility for the Guarantee.

Legal and Arbitration Proceedings

2. Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its Subsidiaries.

Significant/Material Change

3. Save as disclosed in this Prospectus, since 28 February 2014 there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer. Save as disclosed in this Prospectus, since 28 February 2014 there has been no material adverse change in the prospects of the Guarantor or the Guarantor and its Subsidiaries nor any significant change in the financial or trading position of the Guarantor or the Guarantor and its Subsidiaries.

Auditors

4. The unconsolidated financial statements of the Issuer and the consolidated financial statements of the Guarantor have been audited for the years ended 28 February 2014 and 28 February 2013 by Deloitte, S.L. of Plaza Pablo Ruiz Picasso, 1, Madrid, registered under S-0692 in the Official Register of Auditors (*Registro Oficial de Auditores de Cuentas*), and member of the *Instituto de Censores Jurados de Cuentas de España.*

Documents on Display

5. Physical copies of the following documents may be inspected during normal business hours at the offices of the Issuer and the Guarantor for 12 months from the date of this Prospectus:

    (a) the constitutive documents of the Issuer;

    (b) the constitutive documents of the Guarantor;

    (c) the Subscription Agreement;

    (d) the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee;

    (e) the audited unconsolidated financial statements of the Issuer for the years ended 28 February 2014 and 28 February 2013; and

    (f) the audited consolidated financial statements of the Guarantor for the years ended 28 February 2014 and 28 February 2013.

Material Contracts

6. The contracts set out in sections "*Description of the Guarantor –Material Contracts and Recent Developments*" and "*Description of the Issuer – Recent Developments*" (not being contracts entered into in the ordinary course of business) have been entered into by the Issuer or the Guarantor and are, or may be, material and contain provisions under which the Issuer or the Guarantor has an obligation or entitlement which is, or may be, material to the ability of the Issuer or the Guarantor to meet their obligations in respect of the Notes.

Third party information

7. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer and the Guarantor are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

Declaration of the Lead Manager transacting with the Issuer and the Guarantor

8. The Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and their affiliates in the ordinary course of business. In addition, in the ordinary course of its business activities, the Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Guarantor, or the Issuers' or the Guarantor's affiliates. The Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the avoidance of doubt, in this Prospectus the term 'affiliates' includes also parent companies.

Yield

9. On the basis of the issue price of the Notes of 100 per cent. of their principal amount, the gross real yield of the Notes is 3.875 per cent. on an annual basis.

ISIN and Common Code

10. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1169199152 and the common code is 116919915.

Listing

11. It is expected that the listing of the Notes on the Official List and the admission of the Notes to trading on the regulated market of the Irish Stock Exchange will take place on or about 19 January 2015, subject only to the issue of the Temporary Global Note. Transactions will normally be effected for delivery on the third business day after the transaction.

Fees

12. The estimated costs and expenses in relation to admission to trading are EUR 5,190.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

Contents

ISSUER'S 2013 AUDITED UNCONSOLIDATED FINANCIAL STATEMENTS

Hipercor, S.A. (Sole-Shareholder Company)

Financial Statements for the year ended 28 February 2014 and Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholder of
Hipercor, S.A. (Sole-Shareholder Company):

1. We have audited the financial statements of Hipercor, S.A. (Sole-Shareholder Company), which comprise the balance sheet at 28 February 2014 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The directors are responsible for the preparation of the Company's financial statements in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.1 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying financial statements for the year ended 28 February 2014 present fairly, in all material respects, the equity and financial position of Hipercor, S.A. (Sole-Shareholder Company) at 28 February 2014, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

3. The accompanying directors' report for the year ended 28 February 2014 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for the year ended 28 February 2014. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Victoria López Téllez
21 July 2014

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

BALANCE SHEET AT 28 FEBRUARY 2014

(Thousands of euros)

ASSETS	Notes	28/02/14	28/02/13
NON-CURRENT ASSETS		1.794.320	1.901.662
Intangible assets	Note 5	35.805	36.508
Concessions		34.839	35.501
Other intangible assets		966	1.007
Property, plant and equipment	Note 6	1.748.290	1.853.677
Land and buildings		1.260.621	1.292.696
Plant and other items of property, plant and equipment		487.669	560.981
Non-current financial assets	Note 8.1	1.419	1.493
Investments in Group companies	Note 8.3	151	151
Deferred tax assets	Notes 14.1 & 14.6	8.655	9.833
CURRENT ASSETS		256.751	186.072
Inventories	Note 10	176.512	162.926
Trade and other receivables		73.419	17.308
Trade receivables for sales and services		202	186
Group companies	Note 17.1	66.942	11.852
Sundry accounts receivable		4.093	3.598
Accounts receivable from public authorities	Note 14.1	2.182	1.672
Current financial assets	Note 8.2	831	88
Derivatives	Note 9	-	59
Other current financial assets	Note 8.2	831	29
Current prepayments and accrued income		2.643	1.689
Cash and cash equivalents		3.346	4.061
TOTAL ASSETS		2.051.071	2.087.734

EQUITY AND LIABILITIES	Notes	28/02/14	28/02/13
EQUITY	Note 11	1.065.378	1.520.605
SHAREHOLDERS' EQUITY-			
Share capital		225.000	225.000
Share premium		90.000	90.000
Reserves		743.830	1.203.456
Legal reserve		45.000	45.000
Other reserves		698.830	1.158.456
Profit for the year		7.282	2.374
VALUATION ADJUSTMENTS-			
Hedges	Note 9	(734)	(225)
NON-CURRENT LIABILITIES		289.538	287.391
Long-term provisions	Note 12	31.793	29.172
Other provisions		31.793	29.172
Non-current payables	Note 13.1	450	447
Other financial liabilities		450	447
Non-current payables to non-current asset suppliers	Note 13.1	6.096	6.096
Payable to Group companies	Note 17.1	223.323	223.323
Deferred tax liabilities	Notes 14.1 & 14.7	27.876	28.353
CURRENT LIABILITIES		696.155	279.738
Current payables	Note 13.2	1.883	2.989
Bank borrowings		390	2.562
Derivatives	Note 9	1.493	427
Current payables to non-current asset suppliers	Note 13.2	64.544	67.092
Payable to Group companies	Note 17.1	484.792	65.915
Trade and other payables		144.423	143.734
Payable to suppliers		97.889	102.693
Payable to suppliers - Group companies	Note 17.1	1.174	313
Sundry accounts payable		11.027	2.561
Remuneration payable		19.778	21.994
Payable to public authorities	Note 14.1	14.555	16.173
Current accruals and deferred income		513	8
TOTAL EQUITY AND LIABILITIES		2.051.071	2.087.734

The accompanying Notes 1 to 21 are an integral part of the balance sheet at 28 February 2014.

HIPERCOR, S.A. (Sole-Shareholder Company)

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2014

(Thousands of euros)

	Notes	2013	2012
Revenue	**Note 16.1**	**1.792.907**	**1.941.814**
Sales		1.674.841	1.823.681
Services		118.066	118.133
In-house work on non-current assets		**6.065**	**6.759**
Procurements	**Note 16.2**	**(1.286.203)**	**(1.400.135)**
Cost of goods held for resale sold		(1.276.604)	(1.389.178)
Cost of raw materials and other consumables used		(7.401)	(8.074)
Work performed by other companies		(2.198)	(3.373)
Write-down of goods held for resale, raw materials and other supplies		-	490
Other operating income		**97.944**	**102.984**
Non-core and other current operating income		97.103	102.141
Income-related grants transferred to profit or loss		841	843
Staff costs		**(263.180)**	**(287.452)**
Wages, salaries and similar expenses		(201.359)	(218.830)
Employee benefit costs	**Note 16.4**	(61.821)	(68.622)
Other operating expenses		**(271.211)**	**(293.676)**
Outside services	**Note 16.5**	(194.689)	(213.880)
Taxes other than income tax		(24.242)	(23.165)
Change in allowances for trade receivables		-	(6)
Other current operating expenses		(52.280)	(56.625)
Depreciation and amortisation charge	**Notes 5 & 6**	**(80.355)**	**(88.825)**
Impairment and gains or losses on disposals of non-current assets	**Note 6**	**(9.652)**	**16.396**
Impairment and other losses		(46.867)	-
Gains or losses on disposals and other		37.215	16.396
LOSS FROM OPERATIONS		**(13.685)**	**(2.135)**
Finance income		**15**	**244**
From marketable securities and other financial instruments		15	244
Finance costs		**(1.037)**	**(1.358)**
On debts to third parties		(1.037)	(1.358)
Exchange differences		**(10)**	**444**
FINANCIAL LOSS		**(1.032)**	**(670)**
LOSS BEFORE TAX		**(14.717)**	**(2.805)**
Income tax	**Note 14.5**	21.999	5.179
PROFIT FOR THE YEAR		**7.282**	**2.374**

The accompanying Notes 1 to 21 are an integral part of the income statement for the year ended 28 February 2014.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2014
A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of euros)

	Notes	2013	2012
PROFIT PER INCOME STATEMENT (I)		7.282	2.374
Income and expense recognised directly in equity			
- Arising from cash flow hedges		(1.149)	(1.520)
- Tax effect	Note 14.3	345	456
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	Note 9	(804)	(1.064)
Transfers to profit or loss			
- Arising from cash flow hedges		421	20
- Tax effect	Note 14.3	(126)	(6)
TOTAL TRANSFERS TO PROFIT OR LOSS (III)	Note 9	295	14
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		6.773	1.324

The accompanying Notes 1 to 21 are an integral part of the statement of recognised income and expense for the year ended 28 February 2014.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2014
B) STATEMENTS OF CHANGES IN TOTAL EQUITY
(Thousands of euros)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Voluntary reserves	Sp GAAP reserves	Canary Islands reserves	Reserves for retired capital	Profit for the year	Valuation adjustments	TOTAL
BALANCE AT 2011 YEAR-END	**225.000**	**90.000**	**45.000**	**69.103**	**1.193.631**	**(14.000)**	**3.805**	**283**	**35.910**	**825**	**1.649.557**
Adjustments due to changes in accounting policies (Note 2.7)	-	-	-	-	(43.276)	-	-	-	-	-	(43.276)
ADJUSTED BALANCE AT BEGINNING OF 2012	**225.000**	**90.000**	**45.000**	**69.103**	**1.150.355**	**(14.000)**	**3.805**	**283**	**35.910**	**825**	**1.606.281**
Total recognised income and expense	-	-	-	-	-	-	-	-	2.374	(1.050)	1.324
Distribution of 2011 profit	-	-	-	-	35.910	-	-	-	(35.910)	-	-
- Dividends paid	-	-	-	-	(87.000)	-	-	-	-	-	(87.000)
2012 ENDING BALANCE	**225.000**	**90.000**	**45.000**	**69.103**	**1.099.265**	**(14.000)**	**3.805**	**283**	**2.374**	**(225)**	**1.520.605**
Total recognised income and expense	-	-	-	-	-	-	-	-	7.282	(509)	6.773
Distribution of 2012 profit	-	-	-	-	2.374	-	-	-	(2.374)	-	-
- Dividends paid	-	-	-	-	(462.000)	-	-	-	-	-	(462.000)
2013 ENDING BALANCE	**225.000**	**90.000**	**45.000**	**69.103**	**639.639**	**(14.000)**	**3.805**	**283**	**7.282**	**(734)**	**1.065.378**

The accompanying Notes 1 to 21 are an integral part of the statement of changes in total equity for the year ended 28 February 2014.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2014
(Thousands of euros)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**37.086**	**136.060**
Profit for the year before tax		**(14.717)**	**(2.805)**
Adjustments for:		**94.235**	**76.007**
- Depreciation and amortisation charge	Notes 5 & 6	80.355	88.825
- Impairment losses		46.867	-
- Changes in provisions		2.639	2.172
- Gains/Losses on derecognition and disposal of non-current assets	Note 6	(37.215)	(16.396)
- Finance income		(15)	(244)
- Finance costs		1.037	1.358
- Changes in fair value of financial instruments		557	736
- Exchange differences		10	(444)
Changes in working capital		**(41.410)**	**63.972**
- Inventories		(13.586)	24.189
- Trade and other receivables		(55.601)	6.379
- Other current assets		7.530	24
- Trade and other payables		23.591	6.750
- Other current liabilities		(3.347)	17.730
- Other non-current assets and liabilities		3	8.900
Other cash flows from operating activities		**(1.022)**	**15.858**
- Interest paid		(1.037)	(1.358)
- Interest received		15	244
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**18.705**	**(7.061)**
Payments due to investment		**(65.544)**	**(104.218)**
- Intangible assets	Note 5	(78)	(37)
- Property, plant and equipment	Note 6	(65.466)	(104.100)
- Other financial assets		-	(81)
Proceeds from disposal		**84.249**	**97.157**
- Property, plant and equipment	Note 6	84.175	97.157
- Other financial assets		74	-
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(56.496)**	**(130.580)**
Proceeds and payments relating to financial liability instruments		**405.504**	**(43.580)**
- Proceeds from issue of bank borrowings		-	2.562
- Proceeds from issue of borrowings from Group companies and associates		407.677	-
- Guarantees and deposits received from Group companies		-	393
- Repayment of bank borrowings		(2.173)	-
- Repayment of borrowings from Group companies and associates		-	(46.535)
Dividends and returns on other equity instruments paid	Note 11.6	**(462.000)**	**(87.000)**
- Dividends		(462.000)	(87.000)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**(10)**	**444**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		**(715)**	**(1.137)**
Cash and cash equivalents at beginning of year		4.061	5.198
Cash and cash equivalents at end of year		3.346	4.061

The accompanying Notes 1 to 21 are an integral part of the statement of cash flows for the year ended 28 February 2014.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

Notes to the financial statements for the year ended 28 February 2014

1.- Company activities

Hipercor, S.A. (Sole-Shareholder Company) ("the Company") was incorporated in 1979, its core business activity being the development and operation of hypermarkets, in which it retails food products, household goods, textiles and "Tiendas El Corte Inglés" products, and provides other complementary services.

The Company's registered office is at calle Hermosilla, no. 112, Madrid.

The Company is consolidated in the El Corte Inglés Group, the parent of which is El Corte Inglés, S.A., with registered office at calle Hermosilla, no. 112 (Madrid). The parent prepares the consolidated financial statements. The consolidated financial statements of the El Corte Inglés Group for the year ended 28 February 2014 were formally prepared by the directors of El Corte Inglés, S.A. at the Board of Directors Meeting held on 29 May 2014. The consolidated financial statements of the El Corte Inglés Group for the year ended 28 February 2013 were formally prepared by the directors of El Corte Inglés, S.A. at the Board of Directors Meeting held on 30 May 2013 and were filed at the Madrid Mercantile Registry.

2.- Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework applicable to the Company

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of the Spanish Commercial Code, the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, the rules approved by the Spanish Accounting and Audit Institute and all other applicable Spanish corporate legislation.

2.2 Fair presentation

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) expressed in thousands of euros (the Company's functional currency), which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the equity, financial position and results of operations of Hipercor, S.A. (Sole-Shareholder Company), and the cash flows for the year ended 28 February 2014.

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) for the year ended 28 February 2014 ("2013"), which were formally prepared by the Company's directors, will be submitted for approval by the sole shareholder, and it is considered that they will be approved without any changes. The financial statements for 2012 were approved by the sole shareholder on 25 August 2013.

2.3 Non-obligatory accounting principles applied

The directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

In preparing these financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The measurement of inventories using the retail method.
- The useful life of the intangible assets and property, plant and equipment.
- The fair value of certain financial instruments.
- The calculation of provisions.
- The recognition and recoverability of deferred tax assets.

Although these estimates were made on the basis of the best information available at 2013 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Comparative information

The information relating to 2012 included in these notes to the financial statements is presented for comparison purposes with that relating to 2013.

2.6 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

2.7 Changes in accounting policies and correction of errors

In 2013 the directors changed the inventory valuation method to the retail method (see Note 4.6), since this method is more in line with the Company's activity and would enable the effect of any future reductions in net realisable value to be included in the inventory valuation. Accordingly, this method is characterised by the inexistence of a specific provision for inventory write-downs, since this risk is covered implicitly by the valuation method itself. The Company's directors consider that this change of policy provides information that is more reliable and more in line with market conditions.

In accordance with the reference accounting framework, this change of policy has been applied retrospectively and effective in the last year for which information is available. The detail at that date is as follows (in thousands of euros):

	28/02/13
Deferred tax assets	9,736
Inventories	(55,122)
Other reserves	43,276
Profit for the year	2,110

In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2012.

3.- Distribution of profit

The distribution of the profit for the year ended 28 February 2014 proposed by the Company's directors is to allocate the full amount to "Voluntary Reserves".

4.- Accounting policies

The principal accounting policies used by the Company in preparing its financial statements for 2013, in accordance with the Spanish National Chart of Accounts, were as follows:

4.1 Intangible assets

Intangible assets are specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Company. Only assets whose cost can be estimated objectively and from which future economic benefits are expected to be obtained are recognised.

Assets are deemed to have indefinite useful lives when it is considered that they will contribute to the generation of profit indefinitely. In all other cases intangible assets are considered to have finite useful lives. At 28 February 2014, the Company did not have any items with indefinite useful lives.

Intangible assets with finite useful lives are amortised using the straight-line method, applying annual amortisation rates determined on the basis of the years of the estimated useful lives of the related assets.

a) Administrative concessions:

"Administrative Concessions" includes mainly the amounts paid to acquire the construction and operation rights -until 2075- of the Vista Alegre integrated shopping centre (Madrid), and the construction and operation rights -until 2054- of an underground car park at the Campo de las Naciones shopping centre (Madrid). Administrative concessions are amortised on a straight-line basis over the term of the concession.

b) Intellectual property:

"Intellectual Property" includes the amounts paid in relation to the expenses incurred in registering the trademarks developed by the Company.

Intellectual property, which is considered to have a finite useful life, is amortised on a straight-line basis, generally over five years.

c) Computer software:

The Company recognises under "Computer Software" the costs incurred in the acquisition and development of computer programs, including website development costs. Computer software maintenance costs are recognised with a charge to the income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over five years.

d) Leasehold assignment rights:

Leasehold assignment rights are measured at the amount paid on acquisition and are amortised over ten years, the period in which they are estimated to contribute to the generation of income.

4.2 Property, plant and equipment

Property, plant and equipment are recognised initially at acquisition cost. They are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4.3.

Property, plant and equipment are carried at cost revalued pursuant to various legal provisions, including Royal Decree-Law 7/1996, of 7 June (see Note 6).

Property, plant and equipment upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work on non-current assets performed by the Company is recognised at accumulated cost (external costs plus other costs determined on the basis of in-house consumption of materials).

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Years of estimated useful life
Buildings	50 – 75
Plant and machinery	8 – 16
Other fixtures, tools and furniture	2.6 – 17
Other items of property, plant and equipment	5.5 – 11.1

4.3 Impairment of property, plant and equipment and intangible assets

Each year the Company assesses the existence of any possible permanent losses in value that require it to reduce the carrying amount of its property, plant and equipment and intangible assets if their recoverable amounts are below their carrying amounts.

For the purpose of this analysis, known as an impairment test, when there are indications of losses in the value of assets, the recoverable amount is established as the higher of fair value less costs to sell and value in use. Value in use is calculated on the basis of the estimated future cash flows, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is considered to be the value at which the asset in question may be sold under normal conditions and is determined on the basis of market information, comparable transactions, etc.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the related write-down is recognised in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased up to the limit of the original amount at which the asset was recognised prior to recognising the impairment loss, including the depreciation and amortisation charge relating to the period in which the asset was impaired.

In 2013 the Group calculated their recoverable amount mainly as the fair value based on appraisals performed by independent valuers. Based on this criterion, at 2013 year-end the Company recognised impairment losses on property, plant and equipment for the amounts detailed in Note 6.

4.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset. All other leases are classified as operating leases.

The Company does not have finance leases at 28 February 2014.

<u>Operating leases</u>

Lease income and expenses from operating leases are credited and charged to the income statement on an accrual basis.

Any other collection or payment that might be made on arranging an operating lease is treated as a prepaid lease collection or payment which is allocated to profit or loss over the lease term.

4.5 Financial instruments

The financial assets held by the Company are classified for measurement purposes in the following categories:

4.5.1 Financial assets

Trade and other receivables

"Trade and Other Receivables" are recognised at their nominal value, which is considered to be their fair value.

In particular, the Company calculates valuation adjustments relating to trade and other receivables by estimating the recoverable amounts based on the solvency of the debtor and the age of the debt.

The Company accepts the charge card issued by Financiera El Corte Inglés E.F.C., S.A. as a means of payment from customers. Since this company is responsible for collecting the sales made with this card, the Company charges the amount to be collected arising from the sales made using the card to the current account that it holds with Financiera El Corte Inglés E.F.C., S.A.

Equity investments in Group companies, jointly controlled entities and associates

Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.

These investments are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Other current and non-current financial assets

"Other Financial Assets" under "Non-Current Financial Assets" and "Current Financial Assets" include fixed or determinable investments with specific maturity that the Company has the intention and ability to hold until the date of maturity. Specifically, guarantees and deposits have been classified under the above headings.

Guarantees and deposits are recognised at the amounts given, which do not differ significantly from their fair value.

Cash and cash equivalents

Cash consists of cash on hand and demand deposits at banks.

Derecognition of financial assets

The Company derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred.

4.5.2 Financial liabilities

Bank borrowings

Bank loans are recognised at the amount received, net of arrangement costs and commissions. These loan arrangement and borrowing costs are recognised in the income statement using the accrual method and on a time proportion basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

4.5.3 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting its liabilities.

Equity instruments issued by the Company are recognised in equity at the proceeds received, net of issue costs.

4.5.4 Derivative financial instruments

The Company's activities expose it mainly to foreign currency risk. In order to control and reduce the potential negative impact of exchange rate fluctuations on its profits, the Company arranges financial instruments to hedge the risk of changes in exchange rates.

Derivatives are initially recognised at fair value in the balance sheet and the required valuation adjustments are subsequently made to reflect their fair value at all times. These adjustments are recognised under "Non-Current/Current Financial Assets - Derivatives" in the balance sheet if they are positive and under "Non-Current/Current Payables - Derivatives" if they are negative. The changes in the fair value of the aforementioned derivatives are recognised in the income statement, unless the derivative is designated as a hedge, in which case the recognition criteria are as follows:

- Fair value hedges: in this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in profit or loss.

- Cash flow hedges: changes in the fair value of the derivatives are recognised under "Equity - Valuation Adjustments - Hedges". The cumulative gain or loss under this heading is transferred to income in the same period in which the hedged item affects profit or loss.

At 28 February 2014, the derivatives recognised by the Company in its balance sheet were cash flow hedges.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

In hedges of this nature that have been classified as cash flow hedges, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

4.6 Inventories

Inventories are measured using the retail method since the result of applying this method does not differ significantly from the actual cost of the inventories.

The retail method calculates the cost price of inventories based on selling price less an appropriate gross profit percentage, which takes into account the estimated selling price and considers any reductions that might be made to the selling price, the age of the goods and changes in seasons and trends, mainly in relation to fashion items. This method is applied consistently across all of the Company's product lines.

Using this method, at all times inventories are measured at the lower of cost and net realisable value.

4.7 Transactions in currencies other than the euro

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of each of the transactions that are not hedged by a derivative financial instrument. The transactions hedged under derivative contracts are recognised at the average contract exchange rate.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the income statement in the year in which they arise.

4.8 Income tax

The current income tax expense is calculated on the basis of accounting profit or loss before tax, increased or decreased, as appropriate, by the permanent differences from taxable profit or loss, net of tax relief and tax credits. The rates used to calculate the income tax expense or benefit are those in force at the reporting date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, calculating the differences between the carrying amount of the assets and liabilities in the financial statements and their corresponding tax base.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply at the date on which the asset is realised or the liability is settled. Deferred tax assets and liabilities are recognised in full as a balancing item in the income statement, except when they relate to line items taken directly to equity accounts, in which case the deferred tax assets and liabilities are also recognised with a charge or credit to the related equity accounts.

Deferred tax assets and tax loss carryforwards are recognised when it is considered probable that the Company will be able to recover them in the future. Deferred tax assets and liabilities are not adjusted and are classified as non-current assets or liabilities in the balance sheet.

"Income Tax" represents the sum of the current tax expense and the result of recognising deferred tax assets and liabilities (see Note 14).

The Company is authorised by the tax authorities to file consolidated income tax and VAT returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

4.9 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue and expenses are measured at the fair value of the consideration received or given, net of discounts and taxes.

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been substantially transferred to the buyer.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

4.10 Provisions and contingencies

The Company recognises provisions for the estimated amounts required to cover the liability arising from litigation in progress, indemnity payments or obligations and collateral and other guarantees provided which are highly likely to involve a payment obligation for the Company, provided that the amount can be estimated reliably.

Provisions are quantified on the basis of the best information available on the situation and evolution of the events giving rise to them and are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are measured at the present value of the best possible estimate of the amount required to settle the obligation, taking into account the information available and its consequences. Where discounting is used, the related adjustments are recognised as interest cost on an accrual basis.

The financial statements include all the provisions with respect to which it is likely that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

4.11 Bylaw-stipulated payment

In accordance with the Company's current bylaws, the Board of Directors will have the option to distribute up to 4% of the annual net profit among its members and to other executives provided that the requirements in Article 218 of the Spanish Limited Liability Companies Law are met. The Company recognises a provision with a charge to profit or loss for the year for the estimated amount payable in this connection. At the end of 2013 and 2012, the Company had not recognised any amounts in this connection.

4.12 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

The Company's directors consider that there are no additional needs other than those recognised in this connection.

4.13 Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

In this regard, the detail of the environmental investments and the expenses of this nature incurred in the year are broken down in Note 18.

4.14 Grants, donations and legacies received

Grants related to income are credited to the income statement when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

4.15 Working capital

In accordance with standard practice in the industry in which the Company operates, in view of the time lag between the collection and payment dates of the commercial transactions, and as a result of using cash flows from operating activities to acquire non-current assets and pay dividends to the sole shareholder, current liabilities in the accompanying balance sheet at 28 February 2014 exceed current assets by EUR 439,404 thousand (28 February 2013: EUR 93,666 thousand). The Company's directors consider that this time lag does not represent any risk of a lack of liquidity, since it has the financial support of the sole shareholder.

4.16 Current/Non-current classification

Current assets are assets associated with the normal operating cycle, which in general is considered to be one year; other assets which are expected to mature, be disposed of or be realised within twelve months from the end of the reporting period; financial assets held for trading, except for financial derivatives that will be settled in a period exceeding one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year; and, in general, all obligations that will mature or be extinguished at short term. All other liabilities are classified as non-current liabilities.

5.- Intangible assets

The changes in "Intangible Assets" in the balance sheet in 2013 and 2012 were as follows:

2013

	Thousands of euros			
	Balance at 28/02/13	Additions and charge for the year	Reductions	Balance at 28/02/14
Administrative concessions	42,946	-		42,946
Intellectual property	919	25	(42)	902
Leasehold assignment rights	933	-	-	933
Computer software	189	53	-	242
Total cost	**44,987**	**78**	**(42)**	**45,023**
Administrative concessions	(7,445)	(662)	-	(8,107)
Intellectual property	(97)	(19)	42	(74)
Leasehold assignment rights	(756)	(93)	-	(849)
Computer software	(181)	(7)	-	(188)
Total accumulated amortisation	**(8,479)**	**(781)**	**42**	**(9,218)**
Total, net	**36,508**			**35,805**

2012

	Thousands of euros		
	Balance at 01/03/12	Additions and charge for the year	Balance at 28/02/13
Administrative concessions	42,946	-	42,946
Intellectual property	890	29	919
Leasehold assignment rights	933	-	933
Computer software	181	8	189
Total cost	**44,950**	**37**	**44,987**
Administrative concessions	(6,783)	(662)	(7,445)
Intellectual property	(75)	(22)	(97)
Leasehold assignment rights	(663)	(93)	(756)
Computer software	(181)	-	(181)
Total accumulated amortisation	**(7,702)**	**(777)**	**(8,479)**
Total, net	**37,248**		**36,508**

At the end of 2013 and 2012 the Company had fully amortised intangible assets, the detail being as follows:

	Thousands of euros	
	28/02/14	28/02/13
Intellectual property	-	42
Computer software	181	181
Total	**181**	**223**

6.- Property, plant and equipment

The changes in 2013 and 2012 in "Property, Plant and Equipment" in the balance sheet and the most significant information affecting this heading were as follows:

2013

	Thousands of euros				
	Balance at 28/02/13	Additions and charge for the year	Increase or decrease due to transfer	Disposals, reductions or reversals	Balance at 28/02/14
Land and buildings	1,485,228	1,285	26,608	(14,615)	1,498,506
Plant and machinery	133,780	652	732	(2,984)	132,180
Other fixtures, tools and furniture	1,546,739	3,596	30,261	(114,716)	1,465,880
Other items of property, plant and equipment	24,591	1,411	(1)	(9,449)	16,552
Property, plant and equipment in the course of construction	94,451	61,070	(57,600)	(9,207)	88,714
Total cost	**3,284,789**	**68,014**	-	**(150,971)**	**3,201,832**
Buildings	(192,532)	(14,942)	-	4,124	(203,350)
Plant and machinery	(109,721)	(4,472)	-	2,825	(111,368)
Other fixtures, tools and furniture	(1,106,815)	(59,670)	-	89,105	(1,077,380)
Other items of property, plant and equipment	(22,044)	(490)	-	7,957	(14,577)
Total accumulated depreciation	**(1,431,112)**	**(79,574)**	-	**104,011**	**(1,406,675)**
Land and buildings	-	(34,535)	-	-	(34,535)
Plant and machinery	-	(672)	-	-	(672)
Other fixtures, tools and furniture	-	(11,660)	-	-	(11,660)
Total net impairment losses	-	**(46,867)**	-	-	**(46,867)**
Total, net	**1,853,677**				**1,748,290**

2012

	Thousands of euros				
	Balance at 01/03/12	Additions and charge for the year	Increase or decrease due to transfer	Disposals, reductions or reversals	Balance at 28/02/13
Land and buildings	1,488,350	1,396	62,393	(66,911)	1,485,228
Plant and machinery	131,260	970	2,689	(1,139)	133,780
Other fixtures, tools and furniture	1,520,328	6,490	42,902	(22,981)	1,546,739
Other items of property, plant and equipment	27,066	2,115	75	(4,665)	24,591
Property, plant and equipment in the course of construction	118,318	93,129	(108,059)	(8,937)	94,451
Total cost	**3,285,322**	**104,100**	-	**(104,633)**	**3,284,789**
Buildings	(183,373)	(14,999)	-	5,840	(192,532)
Plant and machinery	(105,679)	(5,137)	-	1,095	(109,721)
Other fixtures, tools and furniture	(1,053,320)	(66,937)	-	13,442	(1,106,815)
Other items of property, plant and equipment	(24,564)	(975)	-	3,495	(22,044)
Total accumulated depreciation	**(1,366,936)**	**(88,048)**	-	**23,872**	**1,431,112**
Total, net	**1,918,386**				**1,853,677**

In 2013 the additions to "Property, Plant and Equipment in the Course of Construction" relate to the investments made mainly in the Itaroa shopping centre (Navarre), which opened in November 2013. Also, construction work continued on new shopping centres, including ones in Coslada (Madrid) and Huelva. The other additions relate to refurbishment work performed at shopping centres which have already been opened.

In 2013 the Company disposed of items of property, plant and equipment, which gave rise to gains of EUR 37,215 thousand, recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying income statement. The most notable change in 2013 was the sale of a portion of the land, building and other items of property, plant and equipment at the Arabial shopping centre (Granada) to the sole shareholder for EUR 52,385 thousand, giving rise to a gain of EUR 37,719 thousand in this connection.

Also, in 2013, the Company disposed of various items included in "Other Fixtures, Tools and Furniture" and "Property, Plant and Equipment in the Course of Construction". These assets were disposed of to the Company's sole shareholder and did not result in any gains or losses being recognised in the income statement.

In 2013 the Company recognised impairment losses amounting to EUR 46,867 thousand following the impairment test conducted as described in Note 4.3.

The sales of non-current assets made to Group companies in the year ended 28 February 2014 amounted to EUR 75,084 thousand (28 February 2013: EUR 87,147 thousand), as indicated in Note 17. Also, in the year ended 28 February 2014 the Company acquired items of property, plant and equipment from Group companies amounting to EUR 3,471 thousand (28 February 2013: EUR 12,473 thousand) (see Note 17).

At 28 February 2014 and 2013, the following items of the Company's property, plant and equipment had been fully depreciated:

	Thousands of euros	
	28/02/14	28/02/13
Buildings	11	11
Plant and machinery	76,804	71,122
Other fixtures, tools and furniture	636,467	584,812
Other items of property, plant and equipment	15,120	18,478
Total	**728,402**	**674,423**

The Company recognised the proportional part of the cost of a property under an undivided interest arrangement under "Land" for EUR 10,049 thousand. The aforementioned property forms part of the jointly-owned property "Parking Grancasa".

The detail of the value of the buildings and land relating to the properties owned by the Company at the end of 2013 and 2012 is as follows:

	Thousands of euros	
Property	**28/02/14**	**28/02/13**
Land	375,511	375,557
Buildings	1,122,995	1,109,671
Total	**1,498,506**	**1,485,228**

On 28 February 1997, the Company revalued all its eligible items of property, plant and equipment pursuant to Article 5 of Royal Decree-Law 7/1996, of 7 June, and paid the related single 3% tax. This revaluation, for which the maximum coefficients permitted were used excluding any percentage for the authorised reduction ratio, had the following effects on the financial statements:

__2013__

	Thousands of euros			
	Balance at 28/02/13	**Charge for the year**	**Disposals**	**Balance at 28/02/14**
Land and buildings	48,547	-	-	48,547
Plant and machinery	2,029	-	(41)	1,988
Other fixtures, tools, furniture and other items of property, plant and equipment	19,012	-	(640)	18,372
Cost	**69,588**	-	**(681)**	**68,907**
Accumulated depreciation	**(30,863)**	**(653)**	**681**	**(30,835)**
Net balances	**38,725**	**(653)**	-	**38,072**

2012

	Thousands of euros		
	Balance at 29/02/12	Charge for the year	Balance at 28/02/13
Land and buildings	48,547	-	48,547
Plant and machinery	2,029	-	2,029
Other fixtures, tools, furniture and other items of property, plant and equipment	19,012	-	19,012
Cost	69,588	-	69,588
Accumulated depreciation	(30,417)	(446)	(30,863)
Net balances	39,171	(446)	38,725

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. The Company's directors considered that these policies adequately covered the related risks at the end of 2013 and 2012.

At the end of the years ended 28 February 2014 and 2013, the Company did not have any firm property, plant and equipment purchase commitments.

7.- Operating leases

At the end of 2013 and 2012 the Company had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	Nominal value	
	2013	2012
Within one year	27,209	25,724
Between one and five years	108,837	102,897
After five years	171,054	128,621
Total	**307,100**	**257,242**

The most significant operating leases held by the Company as lessor at the end of 2013 and 2012 related to the lease of commercial space to El Corte Inglés, S.A. at the shopping centres shared by both companies.

At the end of 2013 and 2012, the Company had contracted with lessors for the following minimum lease payments in relation to all the future years covered by the leases currently in force (in thousands of euros):

Minimum operating lease payments	Nominal value	
	2013	2012
Within one year	4,907	5,082
Between one and five years	19,626	20,329
After five years	24,533	25,411
Total	**49,066**	**50,822**

The most significant operating leases held by the Company as lessee at the end of 2013 and 2012 related to the lease of commercial premises in which the Company carries on its main business activity.

The detail of the operating lease payments recognised as an expense and as income, respectively, in 2013 and 2012 is as follows (in thousands of euros):

	Thousands of euros	
	2013	2012
Lease income	26,766	25,724
Lease expenses (Note 16.5)	(10,747)	(11,138)
Total, net	**16,019**	**14,586**

8.- Financial assets (non-current and current)

8.1 Non-current financial assets

The detail of "Non-Current Financial Assets" at 28 February 2014 and 2013 is as follows (in thousands of euros):

Classes / Categories	Non-current financial instruments					
	Equity instruments		Loans and other		Total	
	2013	2012	2013	2012	2013	2012
Non-current financial instruments	291	291	-	-	291	291
Guarantees and deposits		-	1,128	1,202	1,128	1,202
Total	**291**	**291**	**1,128**	**1,202**	**1,419**	**1,493**

"Loans and Other" includes mainly guarantees and deposits relating to the operating leases held by the Company.

8.2 Current financial assets

The detail of "Current Financial Assets" at 28 February 2014 and 2013 is as follows (in thousands of euros):

Classes / Categories	Current financial instruments					
	Derivatives (Note 9)		Loans and other		Total	
	2013	2012	2013	2012	2013	2012
Loans and receivables	-	-	831	29	831	29
Derivatives	-	59	-	-	-	59
Total	-	**59**	**831**	**29**	**831**	**88**

At 28 February 2014 and 2013, the Company had arranged various currency forwards (see Note 9).

8.3 Equity investments in Group companies

The detail of "Equity Investments in Group Companies" in the accompanying balance sheet is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Equity instruments	137	137
Guarantees and deposits	14	14
Total	**151**	**151**

The most significant information in relation to equity instruments of Group companies at 28 February 2014 and 2013 is as follows:

2013

Company name/Location/ Line of business	% of direct ownership	Thousands of euros							
			Profit or loss				Carrying amount		
		Share capital	From operations	Net	Other equity items	Total equity	Gross cost	Impairment loss	Net cost
ECI HONG KONG, LTD/Hong Kong/ Retailing	10%	1,369	(604)	(580)	3,282	4,651	138	(1)	137
Total	**10%**	**1,369**	**(604)**	**(580)**	**3,282**	**4,651**	**138**	**(1)**	**137**

2012

Company name/Location/ Line of business	% of direct ownership	Thousands of euros							
			Profit or loss				Carrying amount		
		Share capital	From operations	Net	Other equity items	Total equity	Gross cost	Impairment loss	Net cost
ECI HONG KONG, LTD/Hong Kong/ Distribution	10%	1,369	(1,039)	(1,194)	4,491	4,667	138	(1)	137
Total	**10%**	**1,369**	**(1,039)**	**(1,194)**	**4,491**	**4,667**	**138**	**(1)**	**137**

The Parent of the Group, El Corte Inglés, S.A., holds a 90% ownership interest in ECI Hong Kong, Ltd.

The information on this company was obtained from its latest audited financial statements, for 2013 and 2012.

8.4 Information on the nature and level of risk of financial instruments

The Company's financial risk management is centralised by El Corte Inglés Group's Financial Department, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. The main financial risks affecting the Company are as follows:

a) Credit risk:

In general, the Company holds its cash and cash equivalents at banks with high credit ratings. Also, it should be noted that, due to the industry in which the Company operates, it does not have a significant concentration of credit risk exposure to third parties.

b) Liquidity risk:

The Company, for the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, has the cash and cash equivalents together with the credit and financing facilities disclosed in its balance sheet (see Note 13), including the necessary financing from the Group, as detailed in Note 17.

c) Market risk (foreign currency and other price risks):

Foreign currency risk is concentrated mainly on purchases of goods for resale denominated in US dollars from South East Asian countries. In order to mitigate this risk, the Company arranges financial instruments (currency forwards) which reduce exchange differences on foreign currency transactions (see Note 9).

9.- Derivative financial instruments

The Company uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. At the end of 2013 and 2012, the Company had arranged various currency forwards, the balance sheet positions of which are as follows:

	Thousands of euros			
	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated for hedge accounting (short-term)	-	(1,493)	59	(427)
Total	**-**	**(1,493)**	**59**	**(427)**

The measurements of the foreign currency derivatives qualifying for hedge accounting at 28 February 2014 and 2013 are as follows:

2013

Contract amount (Thousands of USD)	Expiry	Market value at year-end (Thousands of euros)
950	Q1 2014	(45)
20,500	Q2 2014	(800)
29,000	Q3 2014	(360)
16,000	Q4 2014	(288)
66,450		**(1,493)**

2012

Contract amount (Thousands of USD)	Expiry	Market value at year-end (Thousands of euros)
9,000	Q1 2013	(25)
5,000	Q2 2013	(41)
22,000	Q3 2013	(227)
18,000	Q4 2013	(75)
54,000		**(368)**

The accumulated changes in value at 28 February 2014, namely a loss of EUR 509 thousand, net of tax, were recognised under "Equity - Valuation Adjustments" (28 February 2013: a loss of EUR 1,050 thousand). At 2013 year-end the total recognised under this heading amounted to a negative amount of EUR 734 thousand (2012 year-end: EUR 225 thousand).

The Company has complied with the requirements detailed in Note 4.5.4 on measurement bases in order to determine whether the derivatives qualify for hedge accounting or are held for speculative purposes.

10.- Inventories

The detail of "Inventories" at 28 February 2014 and 2013 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Goods held for resale	176,512	162,926
Total	**176,512**	**162,926**

The Company had sales commitments to customers at the end of 2013 and 2012 amounting to EUR 6,956 thousand and EUR 9,872 thousand, respectively.

In accordance with standard practice in the retail industry, the Company formalises its purchase orders with certain suppliers some months in advance of the date of delivery of the goods. Accordingly, at 28 February 2014 and 2013 the Company had arranged firm purchases amounting to EUR 59,195 thousand and EUR 52,961 thousand, respectively.

The Company takes out insurance policies to cover the risks to which its inventories are subject. At 28 February 2014, the Company's directors considered that the coverage provided by the insurance policies for its inventories was adequate.

11.- Equity and shareholders' equity

11.1 Share capital

At 28 February 2014 and 2013, the Company's share capital amounted to EUR 225,000 thousand and was represented by 375,000 fully subscribed and paid shares of EUR 600 par value each, all of the same class.

At 28 February 2014 and 2013, El Corte Inglés, S.A. held the entire share capital of Hipercor, S.A. (Sole-Shareholder Company).

Pursuant to Article 16 of the Spanish Limited Liability Companies Law, it is hereby stated that the Mercantile Registry of Madrid was notified of the Company's sole-shareholder company status on 20 December 1995.

The balances and transactions with the Company's sole shareholder at 28 February 2014 and 2013 are disclosed in Note 17.1.

11.2 Legal reserve

Under the Spanish Limited Liability Companies Law, the Company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2013 and 2012 the balance of this reserve had reached the legally required minimum.

11.3 Revaluation reserve

As a result of the non-current asset revaluation made pursuant to Royal Decree-Law 7/1996, of 7 June, the Company's "Revaluation Reserve" amounted to EUR 69,103 thousand, net of the single 3% tax, once the allocation described above had been recognised.

Since the tax authorities have reviewed and approved the balance of "Revaluation Reserve Royal Decree-Law 7/1996", the aforementioned balance can be used, free of tax, to offset accounting losses which might arise in the future and to increase share capital. From 1 March 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes on the increase in value of the revalued assets or when the revalued assets have been transferred or derecognised.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

11.4 Canary Islands investment reserve

The balance of the Canary Islands investment reserve amounted to EUR 3,805 thousand. This amount was transferred to the Canary Islands Investment Reserve in accordance with Article 27 of Law 19/1994, of 6 July, amending the Canary Islands economic and tax regime, and will be invested in the assets stipulated in the aforementioned Law, within a maximum of three years of its appropriation.

At 28 February 2014, there were no amounts that were yet to be invested by the legally established deadline.

11.5 Reserve for retired capital

The "Reserve for Retired Capital" relates to the reserve recognised pursuant to a resolution adopted by the sole shareholder on 26 August 2001 to reduce share capital by EUR 283 thousand in order to adjust the par value of each share to a whole figure in euros.

11.6 Voluntary reserves

On 27 February 2014, the sole shareholder approved the distribution of a dividend of EUR 462,000 thousand with a charge to "Voluntary Reserves", recognising a balancing entry in the current account of the Parent El Corte Inglés, S.A.

12.- Provisions and contingencies

12.1 Provisions

The detail of the provisions corresponding to this heading in the accompanying balance sheet, which relate mainly to the estimated amounts the Company will be required to pay in relation to certain taxes in force in various autonomous communities, and of the changes therein in 2013 and 2012, is as follows:

2013

	Thousands of euros			
	Balance at 28/02/13	**Transfers**	**Amounts used**	**Balance at 28/02/14**
Other provisions	29,172	2,635	(14)	31,793
Total	**29,172**	**2,635**	**(14)**	**31,793**

2012

	Thousands of euros		
	Balance at 01/03/12	**Transfers**	**Balance at 28/02/13**
Other provisions	15,298	13,874	29,172
Total	**15,298**	**13,874**	**29,172**

In 2013 the Company reclassified to "Long-Term Provisions - Other Provisions" EUR 2,635 thousand (2012: EUR 13,874 thousand) which had previously been recognised under "Other Accounts Payable to Public Authorities", since the Company considers that the payment obligations which might result from these liabilities in the future will become payable in a period of over twelve months (see Note 14.1).

12.2 Guarantee commitments to third parties and contingent liabilities

At 28 February 2014, the guarantees provided by the Company amounted to EUR 96,579 thousand (28 February 2013: EUR 94,374 thousand). Of these amounts, EUR 55,622 thousand at 28 February 2014 (28 February 2013: EUR 51,099 thousand) related to matters of a legal and tax nature and to others concerning certain buildings owned by the Company. The remaining amount, deposited with various entities, secured business operations.

The Company's directors consider that any liabilities not foreseen at 28 February 2014 that might arise from the guarantees provided would not be material.

The Company, together with other companies in the El Corte Inglés Group, acts as guarantor of the syndicated loan entered into by El Corte Inglés, S.A. with various banks on 14 November 2013 for a maximum amount of EUR 4,909 million, maturing in 2020 (the balance of the aforementioned loan at 28 February amounted to EUR 3,288 million). Additionally, in relation to the aforementioned debt of its Parent, Hipercor, S.A.U. mortgaged certain assets corresponding to certain of its shopping centres, the carrying amount of which at 2013 year-end totalled EUR 127 million.

The Company's directors consider that its position as guarantor of the syndicated loan will not give rise to any significant impacts.

13.- Non-current and current payables

13.1 Non-current financial liabilities

The detail of "Non-Current Payables" at the end of 2013 and 2012 is as follows (in thousands of euros):

Classes	Non-current financial instruments					
Categories	Other financial liabilities		Payable to non-current asset suppliers		Total	
	28/02/14	28/02/13	28/02/14	28/02/13	28/02/14	28/02/13
Non-current payables	450	447	6,096	6,096	6,546	6,543
Total	**450**	**447**	**6,096**	**6,096**	**6,546**	**6,543**

"Non-Current Payables - Other Financial Liabilities" includes mainly deposits and guarantees.

13.2 Current financial liabilities

The detail of "Current Payables" at the end of 2013 and 2012 is as follows (in thousands of euros):

Classes	Current financial instruments							
Categories	Bank borrowings		Derivatives (Note 9)		Other financial liabilities		Total	
	28/02/14	28/02/13	28/02/14	28/02/13	28/02/14	28/02/13	28/02/14	28/02/13
Current payables	390	2,562	1,493	427	64,544	67,092	66,427	70,081
Total	**390**	**2,562**	**1,493**	**427**	**64,544**	**67,092**	**66,427**	**70,081**

13.3 Disclosures on the payment periods to suppliers

In relation to the disclosures required by Additional Provision Three of Law 15/2010, of 5 July, the total balance payable to suppliers and trade creditors at 28 February 2014 and 2013 that was past-due by more than the maximum payment period established in the legislation in force was not material.

Also, the total balance payable to suppliers and trade creditors in 2013 amounted to EUR 1,574 million (2012: EUR 1,662 thousand), of which almost 100% had been paid within the terms set out in the legislation and regulations applicable to the Company. Accordingly, the average period of payment of the payments made in 2013 after the maximum payment period is scantly material.

14.- Tax matters

14.1 Current tax receivables and payables

The detail of the current tax receivables and payables is as follows:

Tax receivables

	Thousands of euros	
	28/02/14	28/02/13
Non-current balances:		
Deferred tax assets	8,655	9,833
Total	**8,655**	**9,833**
Current balances:		
VAT refundable	1,963	1,084
Accrued social security taxes refundable	210	183
Tax withholdings and pre-payments	5	7
Other tax receivables	4	398
Total	**2,182**	**1,672**

Tax payables

	Thousands of euros	
	28/02/14	28/02/13
Non-current balances:		
Deferred tax liabilities	27,876	28,353
Total	**27,876**	**28,353**
Current balances:		
Provision for taxes of local corporations	7,091	7,295
Accrued social security taxes payable	5,814	6,505
Personal income tax withholdings payable	1,457	2,003
Canary Islands general indirect tax payable	33	31
Other tax payables	160	339
Total	**14,555**	**16,173**

As indicated in Note 4.8, the Company is authorised by the competent authorities to file consolidated VAT and income tax returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

The assets and liabilities arising from calculation of the aforementioned taxes are recognised under "Current Liabilities - Payable to Group Companies" in the accompanying balance sheet (see Note 17).

"Provision for Taxes of Local Corporations" includes the Company's estimation of the amounts it will be required to pay in relation to certain taxes in force in various autonomous communities. As indicated in Note 12, in 2013 the Company transferred EUR 2,635 thousand to "Long-Term Provisions - Other Provisions" since it considered that the payment obligations which might result from these liabilities in the future will become payable in a period of over twelve months.

14.2 Reconciliation of the accounting loss to the tax loss

The reconciliation of the accounting loss to the tax loss for income tax purposes is as follows:

2013

	Thousands of euros		
	Increase	Decrease	Total
Accounting loss before tax			**(14,717)**
Permanent differences.-	29	(20,554)	(20,525)
Temporary differences.-			
Arising in the year	23,646	(32,458)	(8,812)
Arising in prior years	1,778	(184)	1,594
Elimination of intercompany profit or loss	-	(37,719)	(37,719)
Tax loss			**(80,179)**

2012

	Thousands of euros		
	Increase	Decrease	Total
Accounting loss before tax			**(2,805)**
Permanent differences.-	2,111	(12)	2,099
Temporary differences.-			
Arising in the year	-	(41,153)	(41,153)
Arising in prior years	1,803	-	1,803
Elimination of intercompany profit or loss	-	(16,338)	(16,338)
Tax loss			**(56,394)**

As a result of the change in policy indicated in Note 2.7, negative permanent differences of EUR 20,554 thousand and negative temporary differences of EUR 32,458 thousand were included. Also, the figure for positive temporary differences relates mainly to the adjustments made due to the limitation on the deductibility of depreciation and amortisation (EUR 23,643 thousand) established by regulations.

In addition, the Company eliminated from its tax base the gains obtained from transactions performed for companies forming part of the consolidated tax group, mainly the sale of land, the building and other items of property, plant and equipment of the Arabial shopping centre (Granada) to the sole shareholder (see Note 6).

Also, as permitted by Transitional Provision Three of Law 24/2001, in 2001 the Company opted to apply the regime provided for in Article 21 of Income Tax Law 43/1995 to the gain obtained from the transfer of assets, and did not include income of EUR 15,384 thousand in the taxable profit for that year. The Company reinvested the total amount of the proceeds from the sale that gave rise to this gain in the same year in the building of the Cádiz shopping centre; the method used to include the income in taxable profit is that provided for in Article 21.3 of the Income Tax Law and Article 34.1.b of the Income Tax Regulations then in force, the detail being as follows:

	Thousands of euros
2001 deferred income	15,384
Income included from 2002 to 2012	(2,216)
Income included in 2013	185
Outstanding amount	12,983

The outstanding amount will be included in the taxable profit in the tax periods in which the Cádiz shopping centre is depreciated, for the proportional amount corresponding to the value of the depreciation taken on the aforementioned building with respect to its acquisition cost.

14.3 Tax recognised in equity

The detail of the tax recognised directly in the Company's equity at 28 February 2014 and 2013 is as follows:

2013

	Thousands of euros			
	Recognised at beginning of year	Increase	Decrease	Recognised at end of year
Deferred taxes				
Revaluation of hedging instruments	97	345	(126)	316
Total deferred tax recognised directly in equity	**97**	**345**	**(126)**	**316**

2012

	Thousands of euros			
	Recognised at beginning of year	Increase	Decrease	Recognised at end of year
Deferred taxes				
Revaluation of hedging instruments	(353)	456	(6)	97
Total deferred tax recognised directly in equity	**(353)**	**456**	**(6)**	**97**

14.4Reconciliation of accounting loss to the income tax expense (benefit)

The reconciliation of the accounting loss to the income tax expense (benefit) is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Accounting loss before tax	**(14,717)**	**(2,805)**
Permanent differences	(20,525)	2,099
Intercompany eliminations	(37,719)	(16,338)
Adjusted tax loss	**(72,961)**	**(17,044)**
Tax charge at 30%	**(21,888)**	**(5,113)**
Tax credits		
Other tax credits	(111)	(55)
Adjustments to the tax base	-	(11)
Total income tax expense (benefit) recognised in profit or loss	(21,999)	(5,179)

14.5 Breakdown of income tax expense (benefit)

The detail of the income tax expense (benefit) is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Current tax (Note 17.1)	(24,164)	(16,973)
Deferred tax	2,165	11,805
Other	-	(11)
Total	**(21,999)**	**(5,179)**

14.6 Deferred tax assets

The detail of "Deferred Tax Assets" at the end of 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Limitation on deduction of depreciation and amortisation	7,093	-
2012 income tax adjustment	1,245	-
Hedging instruments (Note 14.3)	316	97
Profit (loss) of permanent establishment - Portugal	1	-
Adjustment for change of inventory measurement method (Note 2.7)	-	9,736
Total	**8,655**	**9,833**

The deferred tax assets indicated above were recognised because the Company's directors considered that, based on their best estimate of the Company's future earnings, it is probable that these assets will be recovered.

Royal Decree-Law 16/2013, of 29 October, amending the maximum annual limit on the deductibility of the depreciation and amortisation taken on intangible assets and property, plant and equipment in the tax periods beginning in 2013 and 2014, setting it at 70% of the depreciation and amortisation taken on non-current assets that would have been tax deductible, came into force in 2013. The tax depreciation and amortisation not deducted due to exceeding the limit of 70% of the accounting depreciation and amortisation that is tax deductible in the year may be deducted on a straight-line basis from 2015 onwards in the tax periods ending in the immediately following ten years, or, optionally, over the useful life of the non-current assets.

At the end of 2013 and 2012, the Company did not have any tax loss or tax credit carryforwards.

14.7 Deferred tax liabilities

The detail of "Deferred Tax Liabilities" at the end of 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	**28/02/13**
Depreciation and amortisation differences	23,982	24,404
Reinvestment of gains	3,894	3,949
Total deferred tax liabilities	**27,876**	**28,353**

14.8 Years open for review and tax audits

The tax authorities have completed the tax audits of the tax group for the years from 2007/2008 to 2011/2012 for income tax and from 2008 to 2011 for the remaining annual taxes applicable in each calendar year, the remaining years being open for review. The Company's directors do not expect any liabilities of significance not recognised at 28 February 2014 to arise.

15.- Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, valued at the year-end exchange rate and the average exchange rates for the year, is as follows:

	Thousands of euros	
	28/02/14	**28/02/13**
Accounts payable	(444)	(62)
Purchases	64,248	55,093

16.- Income and expenses

16.1 Revenue

The detail of "Revenue" in 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	**28/02/13**
Sales	1,674,841	1,823,681
Services	118,066	118,133
Total	**1,792,907**	**1,941,814**

The breakdown, by geographical market, of the revenue for 2013 and 2012 is as follows:

Geographical market	Thousands of euros	
	28/02/14	28/02/13
Central Spain	847,408	906,647
Andalusia	503,822	520,881
Northern Spain	390,056	460,326
Canary Islands	51,621	53,960
Total	**1,792,907**	**1,941,814**

16.2 Procurements

The detail of "Procurements" in 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Cost of goods held for resale sold	1,276,604	1,389,178
Other procurements	7,401	8,074
Work performed by other companies	2,198	3,373
Impairment of goods held for resale and other supplies	-	(490)
Total	**1,286,203**	**1,400,135**

The detail of "Cost of Goods Held for Resale Sold" in 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Purchases	1,290,190	1,364,989
Changes in inventories (Note 10)	(13,586)	24,189
Total	**1,276,604**	**1,389,178**

16.3 Detail of purchases by origin

The detail, by origin, of the purchases made by the Company in 2013 and 2012 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Spain	1,239,357	1,304,520
European Union	8,773	11,466
Imports	42,060	49,003
Total	**1,290,190**	**1,364,989**

16.4 Employee benefit costs

The detail of “Employee Benefit Costs” at 28 February 2014 and 2013 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Employer social security costs	59,624	66,060
Other employee benefit costs	2,197	2,562
Total	**61,821**	**68,622**

The Company did not make any contributions to pension plans.

The average number of employees, by professional category, in 2013 and 2012 was as follows:

Professional category	2013	2012
Directors and managers	8	13
Supervisors and other line personnel	1,543	1,749
Sales staff	7,800	8,452
Services staff	288	374
Other	55	44
Total	**9,694**	**10,632**

Also, the headcount at the end of 2013 and 2012, by gender and category, was as follows:

	2013			2012		
Professional category	Men	Women	Total	Men	Women	Total
Directors and managers	6	-	6	11	-	11
Supervisors and line personnel	1,255	280	1,535	1,395	296	1,691
Sales staff	2,952	6,145	9,097	3,127	6,945	10,072
Services staff	183	103	286	259	143	402
Other	48	13	61	33	10	43
Total	**4,444**	**6,541**	**10,985**	**4,825**	**7,394**	**12,219**

At the end of 2013 and 2012, the Company's Board of Directors was made up of five men.

16.5 Outside services

The detail of "Outside Services" at 28 February 2014 and 2013 is as follows:

	Thousands of euros	
	28/02/14	28/02/13
Rent and charges (Note 7)	10,747	11,138
Repair and upkeep expenses	7,987	8,775
Independent professional services	90,442	100,852
Transport expenses	6,502	6,824
Insurance premiums	3,118	3,271
Banking and similar services	9,139	9,196
Advertising, publicity and public relations	31,272	36,297
Utilities	34,748	36,754
Other services	734	773
Total	**194,689**	**213,880**

17.- Related party transactions and balances

17.1 Related party balances and transactions

The Company performs all its transactions with related parties on an arm's length basis.

The detail of the transactions with related parties in 2013 and 2012 is as follows:

2013

a) Detail of balances with Group companies (in thousands of euros):

Balances	Parent	Group companies	Total
Trade receivables	65,159	1,783	**66,942**
Non-current payables to Group companies	(223,321)	(2)	**(223,323)**
Current payables	-	(1,174)	**(1,174)**
Current payables to Group companies	(478,452)	(6,340)	**(484,792)**

As indicated in Note 4.8, the Company is authorised by the competent tax authorities to file consolidated income tax and VAT returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

The account receivable or payable in relation to the settlement of income tax is recognised under "Current Payables to Group Companies". At 28 February 2013, an account payable amounting to EUR 24,164 thousand was recognised (28 February 2012: EUR 16,973 thousand) (see Note 14.5).

Also, at 28 February 2014, settlement of VAT gave rise to an asset amounting to EUR 3,074 thousand (28 February 2013: a liability amounting to EUR 2,305 thousand).

On 19 January 2012, the Company arranged a participating loan with the Parent, El Corte Inglés, S.A., for EUR 220 million. This loan matures in 2016 and bears floating interest tied to the operating performance of the business. At 28 February 2014, no financial interest was borne in this connection.

b) Detail of transactions with Group companies (in thousands of euros):

Transactions	Parent	Group companies	Total
Sales	74,581	2,106	**76,687**
Other income	76,585	3,116	**79,701**
Purchases	978,720	8,893	**987,613**
Sales of items of property, plant and equipment (Note 6)	75,076	8	**75,084**
Acquisition of property, plant and equipment	2,063	1,408	**3,471**
Services received and other expenses	77,405	2,134	**79,539**

"Services Received" includes, inter alia, general administrative expenses which the Company's sole shareholder re-bills the Company and which are shared by Hipercor, S.A.U. and the other companies composing the El Corte Inglés Group.

2012

a) Detail of balances with Group companies (in thousands of euros):

Balances	Parent	Group companies	Total
Trade receivables	11,624	228	**11,852**
Non-current payables to Group companies	(223,309)	(14)	**(223,323)**
Current payables	-	(313)	**(313)**
Current payables to Group companies	(60,203)	(5,712)	**(65,915)**

b) Detail of transactions with Group companies (in thousands of euros):

Transactions	Parent	Group companies	Total
Sales	72,608	2,319	**74,927**
Other income	78,786	3,434	**82,220**
Purchases	1,041,465	6,814	**1,048,279**
Sales of items of property, plant and equipment (Note 6)	87,140	7	**87,147**
Acquisition of property, plant and equipment	9,907	2,566	**12,473**
Services received and other expenses	86,741	9,502	**96,243**

17.2 Remuneration of the directors and senior executives

In the years ended 28 February 2014 and 2013, the Company's directors did not receive any remuneration in the form of board meeting attendance fees or wages and salaries.

At 28 February 2014 and 2013, the Company had not granted any advances or loans to its directors and did not have any pension, retirement bonus, life insurance or special indemnity obligations to them.

Senior management was made up the members of the Board of Directors (who are employees of the Parent, El Corte Inglés, S.A.).

17.3 Detail of investments in companies with similar activities and of the performance, as independent professionals or as employees, of similar activities by the directors and related persons

In 2013 and 2012 the members of the Board of Directors and the persons related to them as defined in the Spanish Limited Liability Companies Law did not hold any significant investments in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity constituting the company object of the Company or of the El Corte Inglés Group companies.

Also, they have not performed, and do not perform, as independent professionals or as employees, any activity that is identical, similar or complementary to the activities that constitute the company object of the Company or of the El Corte Inglés Group companies. In addition, certain of the Company's directors are also members of the Board of Directors of El Corte Inglés S.A. and form part of the managing body of other companies that belong to or are related to the El Corte Inglés Group, as Group representatives (the most significant being Informática El Corte Inglés, S.A., Viajes El Corte Inglés, S.A., etc.). Neither the members of the Board nor the company, if any, that they represent receive any remuneration for holding the aforementioned positions.

18.- Information on the environment

At 28 February 2014 and 2013, the Company had the following significant items of property, plant and equipment designed to minimise the environmental impact and to protect and enhance the environment:

2013

	Thousands of euros		
	Gross value	Accumulated depreciation	Carrying amount
Water treatment plant	62	(27)	35
Air protection	3,902	(1,663)	2,239
Noise protection	567	(402)	165
Other	10	(10)	-
Total	**4,541**	**(2,102)**	**2,439**

2012

	Thousands of euros		
	Gross value	Accumulated depreciation	Carrying amount
Water treatment plant	62	(22)	40
Air protection	3,902	(1,392)	2,510
Noise protection	567	(363)	204
Other	10	(7)	3
Total	**4,541**	**(1,784)**	**2,757**

Also, the expenses incurred in 2013, the purpose of which was to protect and improve the environment, amounted to EUR 3,700 thousand (2012: EUR 4,108 thousand).

Lastly, no environmental investments were made in the years ended 28 February 2014 and 2013.

19.- Fees paid to auditors

In 2013 and 2012 the fees for financial audit and other services provided by the Company's auditors, Deloitte, S.L., or by a company of the same group or related to the auditors, were as follows:

	2013	2012
Audit services	258,510	258,510
Other attest services	6,402	6,402
Total audit services	**264,912**	**264,912**

20.- Events after the reporting period

At the date of preparation of these financial statements for the year ended 28 February 2014, the Company's directors considered that there were no significant events to be included herein or which would make it necessary to change them.

21.- Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2.1). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

HIPERCOR, S.A. (Sole-Shareholder Company)

Directors' Report for the year ended 28 February 2014

1. Business performance and Company situation

1.1 Sales and income

In 2013 Hipercor, S.A.'s revenue amounted to EUR 1,793 million, down 8% on 2012.

1.2 Operating costs and expenses

Operating costs and expenses totalled EUR 1,900 million. Items worthy of note in a detailed breakdown of costs and expenses include mainly procurements, which totalled EUR 1,286 million, EUR 263 million of staff costs, EUR 271 million of outside services and other operating expenses, and a depreciation and amortisation charge of EUR 80 million.

The Company's gross profit stood at EUR 507 million.

1.3 Inventories

Inventories at 28 February 2014 totalled EUR 177 million.

1.4 Profit for the year

Hipercor, S.A.'s EBITDA amounted to EUR 76 million, up 9% on 2012.

EBIT totalled EUR -13,685 thousand (2012: EUR -2,135 thousand).

Loss before tax, including financial loss, stood at EUR 14,717 thousand (28 February 2013: EUR 2,805 thousand).

Net profit for the year, after deducting income tax, totalled EUR 7 million, up 207% on 2012.

1.5 Investments

Capex on operating property, plant and equipment amounted to EUR 68 million in 2012. 2013 saw the opening of the Itaroa shopping centre (Pamplona). In addition to the opening of this new shopping centre, important reforms were carried out at the Méndez Álvaro, Gijón and Santiago de Compostela establishments, inter alia, where significant modernisation and space redistribution work was performed in the hypermarket areas.

2. Outlook

The outlook for Hipercor, S.A. in the coming years is focused on the modernisation and adaptation of existing shopping centres, ongoing improvement of internal management, and the introduction of new technology tools in order to enhance the effectiveness of the Company's investments and expenses, and on continuing to foster employee training and advancement.

3. Treasury shares

In 2013 the Company did not perform any transactions involving the purchase or sale of treasury shares and it did not hold any treasury shares at year-end.

4. Research and development activities

Hipercor, S.A. (Sole-Shareholder Company) has continued to develop innovation processes in relation to both systems and operating procedures. This has led to the adoption and use of state-of-the-art technology which, based on our experience, make it possible to ensure the ongoing improvement of management systems, thereby enabling the Company to continue to offer our customers the highest levels of service.

5. Environment

Hipercor, S.A. follows the principles contained in the El Corte Inglés Group's environmental policy.

The economic detail of the environmental activities is included in Note 18 to the financial statements.

6. Code of good tax practices

The Company adheres to this Code, having complied satisfactorily with its contents.

7. Events after the reporting period

No significant events took place from the end of reporting period until the preparation of this directors' report.

8. Other disclosures

For the purpose of controlling and reducing the potential adverse impact of exchange rate fluctuations on profit, Hipercor, S.A. (Sole-Shareholder Company) has implemented a management programme in relation to such risks over the medium term through the use of certain foreign currency hedging instruments. At 28 February 2014, the nominal amounts covered by the foreign currency risk management programmes amounted to USD 66 million.

ISSUER'S 2012 AUDITED UNCONSOLIDATED FINANCIAL STATEMENTS

Hipercor, S.A. (Sole-Shareholder Company)

Financial Statements for the year ended 28 February 2013 and Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholder of
Hipercor, S.A. (Sole-Shareholder Company):

1. We have audited the financial statements of Hipercor, S.A. (Sole-Shareholder Company), which comprise the balance sheet at 28 February 2013 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The directors are responsible for the preparation of the Company's financial statements in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.1 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. As indicated in Note 4.10 to the accompanying financial statements, on 22 February 2012 the Company's Board of Directors resolved to allocate unrestricted reserves to the recognition of net provisions amounting to EUR 45 million pursuant to Article 34 of the Spanish Commercial Code. These provisions did not affect the profit for the year ended 29 February 2012. Our audit opinion on the financial statements for the year ended 29 February 2012 was qualified for this matter, as generally accepted accounting principles do not envisage the possibility of recognising provisions which are not charged to profit or loss, which affects comparability between years.

3. In our opinion, except for the effect on the comparative figures for the year ended 29 February 2012 of the matter indicated in paragraph 2 above, the accompanying financial statements for the year ended 28 February 2013 present fairly, in all material respects, the equity and financial position of Hipercor, S.A. (Sole-Shareholder Company) at 28 February 2013, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

4. The accompanying directors' report for the year ended 28 February 2013 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for the year ended 28 February 2013. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Victoria López Téllez
24 July 2013

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
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Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

BALANCE SHEET AT 28 FEBRUARY 2013

(Thousands of euros)

ASSETS	Notes	28/02/13	29/02/12
NON-CURRENT ASSETS		1.891.926	1.969.486
Intangible assets	Note 5	36.508	37.248
Concessions		35.501	36.163
Other intangible assets		1.007	1.085
Property, plant and equipment	Note 6	1.853.677	1.918.386
Land and buildings		1.292.696	1.304.977
Plant and other items of property, plant and equipment		560.981	613.409
Non-current financial assets	Note 8.1	1.493	1.412
Investments in Group companies	Note 8.3	151	151
Deferred tax assets	Notes 14.1 & 14.6	97	12.289
CURRENT ASSETS		241.194	272.118
Inventories	Note 10	218.048	239.637
Trade and other receivables		17.308	23.687
Trade receivables for sales and services		186	193
Group companies	Note 17.1	11.852	9.794
Sundry accounts receivable		3.598	10.895
Accounts receivable from public authorities	Note 14.1	1.672	2.805
Current financial assets	Note 8.2	88	1.986
Derivatives	Notes 8.2 & 9	59	1.854
Other current financial assets	Note 8.2	29	132
Current prepayments and accrued income		1.689	1.610
Cash and cash equivalents		4.061	5.198
TOTAL ASSETS		2.133.120	2.241.604

EQUITY AND LIABILITIES	Notes	28/02/13	29/02/12
EQUITY	Note 11	1.565.991	1.649.557
SHAREHOLDERS' EQUITY-			
Share capital		225.000	225.000
Share premium		90.000	90.000
Reserves		1.246.732	1.297.822
Legal reserve		45.000	45.000
Other reserves		1.201.732	1.252.822
Profit for the year		4.484	35.910
VALUATION ADJUSTMENTS-			
Hedges	Note 9	(225)	825
NON-CURRENT LIABILITIES		287.391	275.364
Long-term provisions	Note 12	29.172	15.298
Other provisions		29.172	15.298
Non-current payables	Note 13.1	447	495
Derivatives	Note 9	-	99
Other financial liabilities		447	396
Non-current payables to non-current asset suppliers	Note 13.1	6.096	7.451
Payable to Group companies	Note 17.1	223.323	222.930
Deferred tax liabilities	Notes 14.1 & 14.7	28.353	29.190
CURRENT LIABILITIES		279.738	316.683
Current payables	Note 13.2	2.989	337
Bank borrowings		2.562	-
Derivatives	Note 9	427	337
Current payables to non-current asset suppliers	Note 13.2	67.092	49.364
Payable to Group companies	Note 17.1	65.915	100.657
Trade and other payables		143.734	166.319
Payable to suppliers		102.693	99.459
Payable to suppliers - Group companies	Note 17.1	313	250
Sundry accounts payable		2.561	2.951
Remuneration payable		21.994	33.735
Payable to public authorities	Note 14.1	16.173	29.924
Current accruals and deferred income		8	6
TOTAL EQUITY AND LIABILITIES		2.133.120	2.241.604

The accompanying Notes 1 to 21 are an integral part of the balance sheet at 28 February 2013.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013

(Thousands of euros)

	Notes	2012	2011
Revenue	**Note 16.1**	**1.941.814**	**2.183.025**
Sales		1.823.681	2.067.014
Services		118.133	116.011
In-house work on non-current assets		**6.759**	**7.423**
Procurements	**Note 16.2**	**(1.398.025)**	**(1.552.674)**
Cost of goods held for resale sold		(1.387.068)	(1.538.148)
Cost of raw materials and other consumables used		(8.074)	(11.083)
Work performed by other companies		(3.373)	(4.487)
Write-down of goods held for resale, raw materials and other supplies		490	1.044
Other operating income		**102.984**	**96.195**
Non-core and other current operating income		102.141	95.437
Income-related grants transferred to profit or loss		843	758
Staff costs		**(287.452)**	**(305.518)**
Wages, salaries and similar expenses		(218.830)	(233.519)
Employee benefit costs	**Note 16.4**	(68.622)	(71.999)
Other operating expenses		**(293.676)**	**(303.415)**
Outside services	**Note 16.5**	(213.880)	(232.884)
Taxes other than income tax		(23.165)	(20.190)
Change in allowances for trade receivables		(6)	4
Other current operating expenses		(56.625)	(50.345)
Depreciation and amortisation charge	**Notes 5 & 6**	**(88.825)**	**(81.472)**
Impairment and gains or losses on disposals of non-current assets	**Note 6**	**16.396**	**734**
PROFIT (LOSS) FROM OPERATIONS		**(25)**	**44.298**
Finance income		**244**	**113**
From marketable securities and other financial instruments		244	113
Finance costs		**(1.358)**	**(1.167)**
On debts to Group companies, jointly controlled entities and associates		-	(11)
On debts to third parties		(1.358)	(1.156)
Exchange differences		**444**	**(15)**
FINANCIAL LOSS		**(670)**	**(1.069)**
PROFIT (LOSS) BEFORE TAX		**(695)**	**43.229**
Income tax	**Note 14.5**	5.179	(7.319)
PROFIT FOR THE YEAR		**4.484**	**35.910**

The accompanying Notes 1 to 21 are an integral part of the income statement for the year ended 28 February 2013.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2013
A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of euros)

	Notes	2012	2011
PROFIT PER INCOME STATEMENT (I)		4.484	35.910
Income and expense recognised directly in equity			
- Arising from cash flow hedges (Note 14.3)		(1.520)	2.817
- Tax effect	Note 14.3	456	(846)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	Note 9	(1.064)	1.971
Transfers to profit or loss			
- Arising from cash flow hedges (Note 14.3)		20	(186)
- Tax effect	Note 14.3	(6)	56
TOTAL TRANSFERS TO PROFIT OR LOSS (III)	Note 9	14	(130)
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		3.434	37.751

The accompanying Notes 1 to 21 are an integral part of the statement of recognised income and expense for the year ended 28 February 2013.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2013
B) STATEMENTS OF CHANGES IN TOTAL EQUITY
(Thousands of euros)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Voluntary reserves	Sp GAAP reserves	Canary Islands reserves	for retired capital	Profit for the year	Valuation adjustments	TOTAL
BALANCE AT 28 FEBRUARY 2011	225.000	90.000	45.000	69.103	1.336.680	(14.000)	3.805	283	53.960	(1.016)	1.808.815
Total recognised income and expense	-	-	-	-	-	-	-	-	35.910	1.841	37.751
Distribution of 2010 profit	-	-	-	-	53.960	-	-	-	(53.960)	-	-
- Capital increases	-	-	-	-	-	-	-	-	-	-	-
- Capital reductions	-	-	-	-	-	-	-	-	-	-	-
- Dividends paid	-	-	-	-	(152.000)	-	-	-	-	-	(152.000)
- Other transactions	-	-	-	-	(45.009)	-	-	-	-	-	(45.009)
Other changes in equity	-	-	-	-	-	-	-	-	-	-	-
BALANCE AT 29 FEBRUARY 2012	225.000	90.000	45.000	69.103	1.193.631	(14.000)	3.805	283	35.910	825	1.649.557
Total recognised income and expense	-	-	-	-	-	-	-	-	4.484	(1.050)	3.434
Distribution of 2011 profit	-	-	-	-	35.910	-	-	-	(35.910)	-	-
- Capital increases	-	-	-	-	-	-	-	-	-	-	-
- Capital reductions	-	-	-	-	-	-	-	-	-	-	-
- Dividends paid	-	-	-	-	(87.000)	-	-	-	-	-	(87.000)
- Other transactions	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-	-	-	-	-	-
BALANCE AT 28 February 2013	225.000	90.000	45.000	69.103	1.142.541	(14.000)	3.805	283	4.484	(225)	1.565.991

The accompanying Notes 1 to 21 are an integral part of the statement of changes in total equity for the year ended 28 February 2013.

HIPERCOR, S.A. (Sole-Shareholder Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2013

(Thousands of euros)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**136.060**	**83.125**
Profit (loss) for the year before tax		**(695)**	**43.229**
Adjustments for:		**76.007**	**81.777**
- Depreciation and amortisation charge	Notes 5 & 6	88.825	81.472
- Changes in provisions		2.172	-
- Gains/Losses on derecognition and disposal of non-current assets	Note 6	(16.396)	(734)
- Finance income		(244)	(113)
- Finance costs		1.358	1.167
- Changes in fair value of financial instruments		736	-
- Exchange differences		(444)	(15)
Changes in working capital		**44.890**	**(33.045)**
- Inventories		22.079	(17.741)
- Trade and other receivables		6.379	7.659
- Other current assets		24	(10)
- Trade and other payables		(10.222)	(22.682)
- Other current liabilities		17.730	1.062
- Other non-current assets and liabilities		8.900	(1.333)
Other cash flows from operating activities		**15.858**	**(8.836)**
- Interest paid		(1.358)	(1.167)
- Interest received		244	113
- Income tax recovered (paid)		16.972	(7.782)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(7.061)**	**(84.386)**
Payments due to investment		**(104.218)**	**(92.218)**
- Intangible assets	Note 5	(37)	(16)
- Property, plant and equipment	Note 6	(104.100)	(92.276)
- Other financial assets		(81)	74
Proceeds from disposal		**97.157**	**7.832**
- Property, plant and equipment	Note 6	97.157	7.832
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(130.580)**	**1.491**
Proceeds and payments relating to financial liability instruments		**(43.580)**	**153.491**
- Proceeds from issue of bank borrowings		2.562	-
- Proceeds from issue of borrowings from Group companies and associates		-	220.000
- Guarantees and deposits received from Group companies		393	344
- Repayment of borrowings from Group companies and associates		(46.535)	(66.076)
- Repayment of other borrowings		-	(777)
Dividends and returns on other equity instruments paid	Note 11.6	**(87.000)**	**(152.000)**
- Dividends		(87.000)	(152.000)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**444**	**15**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		**(1.137)**	**245**
Cash and cash equivalents at beginning of year		5.198	4.953
Cash and cash equivalents at end of year		4.061	5.198

The accompanying Notes 1 to 21 are an integral part of the statement of cash flows for the year ended 28 February 2013.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

HIPERCOR, S.A. (Sole-Shareholder Company)

Notes to the financial statements for the year ended 28 February 2013

1.- Company activities

Hipercor, S.A. (Sole-Shareholder Company) ("the Company") was incorporated in 1979, its core business activity being the development and operation of hypermarkets, in which it retails food products, household goods, textiles and "Tiendas El Corte Inglés" products, and provides other complementary services.

The Company's registered office is at calle Hermosilla, no. 112, Madrid.

The Company is consolidated in the El Corte Inglés Group, the parent of which is El Corte Inglés, S.A., with registered office at calle Hermosilla, no. 112 (Madrid). The parent prepares the consolidated financial statements. The consolidated financial statements of the El Corte Inglés Group for the year ended 28 February 2013 were formally prepared by the Parents directors at the Board of Directors Meeting held on 30 May 2013. The consolidated financial statements for the year ended 29 February 2012 of the El Corte Inglés Group were formally prepared by the directors of El Corte Inglés, S.A. at the Board of Directors Meeting held on 31 May 2012 and were filed at the Madrid Mercantile Registry.

2.- Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of the Spanish Commercial Code, the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, the rules approved by the Spanish Accounting and Audit Institute and all other applicable Spanish corporate legislation.

2.2 Fair presentation

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) expressed in thousands of euros (the Company's functional currency), which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the equity, financial position and results of operations of Hipercor, S.A. (Sole-Shareholder Company), and the cash flows for the year ended 28 February 2014.

The financial statements of Hipercor, S.A. (Sole-Shareholder Company) for the year ended 28 February 2013 ("2012"), which were formally prepared by the Company's directors, will be submitted for approval by the sole shareholder, and it is considered that they will be approved without any changes. The financial statements for 2011 were approved by the sole shareholder on 26 August 2012.

2.3 Accounting principles applied

The directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

In preparing these financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The useful life of the intangible assets and property, plant and equipment.
- The fair value of certain financial instruments.
- The calculation of provisions.
- The recognition and recoverability of deferred tax assets.

Although these estimates were made on the basis of the best information available at 2012 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Comparative information

The information relating to 2011 included in these notes to the financial statements is presented for comparison purposes with that relating to 2012.

2.6 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

2.7 Changes in accounting policies and correction of errors

In 2012 there were no significant changes in accounting policies with respect to those applied in 2011.

In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2011.

3.- Distribution of profit

The distribution of the profit for the year ended 28 February 2013 proposed by the Company's directors is to allocate the full amount to "Voluntary Reserves".

4.- Accounting policies

The principal accounting policies used by the Company in preparing its financial statements for 2012, in accordance with the Spanish National Chart of Accounts, were as follows:

4.1 Intangible assets

Intangible assets are specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Company. Only assets whose cost can be estimated objectively and from which future economic benefits are expected to be obtained are recognised.

Assets are deemed to have indefinite useful lives when it is considered that they will contribute to the generation of profit indefinitely. In all other cases intangible assets are considered to have finite useful lives. At 28 February 2013, the Company did not have any intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortised using the straight-line method, applying annual amortisation rates determined on the basis of the years of the estimated useful lives of the related assets.

a) Administrative concessions:

"Administrative Concessions" includes mainly the amounts paid to acquire the construction and operation rights -until 2075- of the Vista Alegre integrated shopping centre (Madrid), and the construction and operation rights -until 2054- of an underground car park at the Campo de las Naciones shopping centre (Madrid). Administrative concessions are amortised on a straight-line basis over the term of the concession.

b) Intellectual property:

"Intellectual Property" includes the amounts paid in relation to the expenses incurred in registering the trademarks developed by the Company.

Intellectual property, which is considered to have a finite useful life, is amortised on a straight-line basis, generally over five years.

c) Computer software:

The Company recognises under "Computer Software" the costs incurred in the acquisition and development of computer programs, including website development costs. Computer software maintenance costs are recognised with a charge to the income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over five years.

d) Leasehold assignment rights:

Leasehold assignment rights are measured at the amount paid on acquisition and are amortised over ten years, the period in which they are estimated to contribute to the generation of income.

4.2 Property, plant and equipment

Property, plant and equipment are recognised initially at acquisition cost. They are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4.3.

Property, plant and equipment are carried at cost revalued pursuant to various legal provisions, including Royal Decree-Law 7/1996, of 7 June (see Note 6).

Property, plant and equipment upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work on non-current assets performed by the Company is recognised at accumulated cost (external costs plus other costs determined on the basis of in-house consumption of materials).

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Years of estimated useful life
Buildings	50 – 75
Plant and machinery	8 – 16
Other fixtures, tools and furniture	2.6 – 17
Other items of property, plant and equipment	5.5 – 11.1

4.3 Impairment of property, plant and equipment and intangible assets

Each year the Company assesses the existence of any possible permanent losses in value that require it to reduce the carrying amount of its property, plant and equipment and intangible assets if their recoverable amounts are below their carrying amounts.

For the purpose of this analysis, known as an impairment test, when there are indications of losses in the value of assets, the recoverable amount is established as the higher of fair value less costs to sell and value in use. Value in use is calculated on the basis of the estimated future cash flows, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is considered to be the value at which the asset in question could be disposed of on an arm's length basis and is determined on the basis of market information, comparable transactions, etc.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the related write-down is recognised in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased up to the limit of the original amount at which the asset was recognised prior to recognising the impairment loss.

At the end of 2012 and 2011 there was no evidence that the property, plant and equipment or intangible assets had become impaired, consequently requiring the recognition of impairment losses.

4.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset. All other leases are classified as operating leases.

The Company does not have finance leases at 28 February 2013.

<u>Operating leases</u>

Lease income and expenses from operating leases are credited and charged to the income statement on an accrual basis.

Any other collection or payment that might be made on arranging an operating lease is treated as a prepaid lease collection or payment which is allocated to profit or loss over the lease term.

4.5 Financial instruments

The financial assets held by the Company are classified for measurement purposes in the following categories:

4.5.1 Financial assets

Trade and other receivables

"Trade and Other Receivables" are recognised at their nominal value, which is considered to be their fair value.

In particular, the Company calculates valuation adjustments relating to trade and other receivables by estimating the recoverable amounts based on the solvency of the debtor and the age of the debt.

The Company accepts the charge card issued by Financiera El Corte Inglés E.F.C., S.A. as a means of payment from customers. Since this company is responsible for collecting the sales made with this card, the Company charges the amount to be collected arising from the sales made using the card to the current account that it holds with Financiera El Corte Inglés E.F.C., S.A.

Equity investments in Group companies, jointly controlled entities and associates

Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.

These investments are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Other current and non-current financial assets

"Other Financial Assets" under "Non-Current Financial Assets" and "Current Financial Assets" include fixed or determinable investments with specific maturity that the Company has the intention and ability to hold until the date of maturity. Specifically, guarantees and deposits have been classified under the above headings.

Guarantees and deposits are recognised at the amounts given, which do not differ significantly from their fair value.

Cash and cash equivalents

Cash consists of cash on hand and demand deposits at banks.

Derecognition of financial assets

The Company derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred.

4.5.2 Financial liabilities

Bank borrowings

Bank loans are recognised at the amount received, net of arrangement costs and commissions. These loan arrangement and borrowing costs are recognised in the income statement using the accrual method and on a time proportion basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

4.5.3 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting its liabilities.

Equity instruments issued by the Company are recognised in equity at the proceeds received, net of issue costs.

4.5.4 Derivative financial instruments

The Company's activities expose it mainly to foreign currency risk. In order to control and reduce the potential negative impact of exchange rate fluctuations on its profits, the Company arranges financial instruments to hedge the risk of changes in exchange rates.

Derivatives are initially recognised at acquisition cost in the balance sheet and the required valuation adjustments are subsequently made to reflect their fair value at all times. These adjustments are recognised under "Non-Current and Current Financial Assets - Derivatives" in the balance sheet if they are positive and under "Non-Current and Current Payables - Derivatives" if they are negative. The changes in the fair value of the aforementioned derivatives are recognised in the income statement, unless the derivative is designated as a hedge, in which case the recognition criteria are as follows:

- Fair value hedges: in this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in profit or loss.

- Cash flow hedges: changes in the fair value of the derivatives are recognised under "Equity - Valuation Adjustments - Hedges". The cumulative gain or loss under this heading is transferred to income in the same period in which the hedged item affects profit or loss.

At 28 February 2013, the derivatives recognised by the Company in its balance sheet were cash flow hedges.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

In hedges of this nature that have been classified as cash flow hedges, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

4.6 Inventories

Inventories are measured at the lower of acquisition cost and net realisable value. Trade discounts obtained and other similar items are deducted in determining the costs of purchase.

The Company measures its inventories at the lower of cost per the most recent invoice, which does not differ substantially from FIFO cost.

Net realisable value is calculated in accordance with the selling price.

The Company recognises the appropriate write-downs as an expense in the income statement when the net realisable value of the inventories is lower than acquisition cost.

4.7 Transactions in currencies other than the euro

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of each of the transactions that are not hedged by a derivative financial instrument. The transactions hedged under derivative contracts are recognised at the average contract exchange rate.

Accounts receivable or payable denominated in foreign currencies are translated to euros at the exchange rates prevailing at the settlement date.

The differences that would arise from translating these balances at the year-end exchange rates would not be material.

4.8 Income tax

The current income tax expense is calculated on the basis of accounting profit or loss before tax, increased or decreased, as appropriate, by the permanent differences from taxable profit or loss, net of tax relief and tax credits. The rates used to calculate the income tax expense or benefit are those in force at the reporting date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, calculating the differences between the carrying amount of the assets and liabilities in the financial statements and their corresponding tax base.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply at the date on which the asset is realised or the liability is settled. Deferred tax assets and liabilities are recognised in full as a balancing item in the income statement, except when they relate to line items taken directly to equity accounts, in which case the deferred tax assets and liabilities are also recognised with a charge or credit to the related equity accounts.

Deferred tax assets and tax loss carryforwards are recognised when it is considered probable that the Company will be able to recover them in the future. Deferred tax assets and liabilities are not adjusted and are classified as non-current assets or liabilities in the balance sheet.

"Income Tax" represents the sum of the current tax expense and the result of recognising deferred tax assets and liabilities (see Note 14).

The Company is authorised by the tax authorities to file consolidated income tax and VAT returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

4.9 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue and expenses are measured at the fair value of the consideration received or given, net of discounts and taxes.

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been substantially transferred to the buyer.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

4.10 Provisions and contingencies

The Company recognises provisions for the estimated amounts required to cover the liability arising from litigation in progress, indemnity payments or obligations and collateral and other guarantees provided which are highly likely to involve a payment obligation for the Company, provided that the amount can be estimated reliably.

Provisions are quantified on the basis of the best information available on the situation and evolution of the events giving rise to them and are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are measured at the present value of the best possible estimate of the amount required to settle the obligation, taking into account the information available and its consequences. Where discounting is used, the related adjustments are recognised as interest cost on an accrual basis.

The financial statements include all the provisions with respect to which it is likely that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

In 2011 the Company's Board of Directors resolved to allocate unrestricted reserves to the recognition of provisions amounting to EUR 45 million pursuant to Article 348 of the Spanish Commercial Code. These provisions did not affect the profit for the year ended 29 February 2012.

4.11 Bylaw-stipulated payment

In accordance with the Company's current bylaws, the Board of Directors will have the option to distribute up to 4% of the annual net profit among its members and to other executives provided that the requirements in Article 218 of the Spanish Limited Liability Companies Law are met. The Company recognises a provision with a charge to profit or loss for the year for the estimated amount payable in this connection. At the end of 2012 and 2011, the Company had not recognised any amounts in this connection.

4.12 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

The Company's directors consider that the provisions recognised in the balance sheet at 28 February 2013 are sufficient to cover any obligation it is likely will have to be settled.

4.13 Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

In this regard, the detail of the environmental investments and the expenses of this nature incurred in the year are broken down in Note 18.

4.14 Grants, donations and legacies received

Grants related to income are credited to the income statement when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

4.15 Other financial liabilities

"Current Liabilities - Other Financial Liabilities" and "Non-Current Liabilities - Other Financial Liabilities" in the balance sheet include mainly the debt of the Company payable to its non-current asset suppliers in relation to the acquisition of commercial premises and the fitting out of the stores in which the Company carries on its commercial activities.

4.16 Working capital

In accordance with standard practice in the industry in which the Company operates, in view of the time lag between the collection and payment dates of the commercial transactions, and as a result of using cash flows from operating activities to acquire non-current assets, the current liabilities in the accompanying balance sheet at 28 February 2013 exceed the current assets by EUR 38,545 thousand (29 February 2012: EUR 44,565 thousand). The Company's directors consider that this time lag does not represent any risk of a lack of liquidity, since the current revenue will enable the short-term payment obligations to be met with total normality.

4.17 Current/Non-current classification

Current assets are assets associated with the normal operating cycle, which in general is considered to be one year; other assets which are expected to mature, be disposed of or be realised within twelve months from the end of the reporting period; financial assets held for trading, except for financial derivatives that will be settled in a period exceeding one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year; and, in general, all obligations that will mature or be extinguished at short term. All other liabilities are classified as non-current liabilities.

5.- Intangible assets

The changes in "Intangible Assets" in the balance sheet in 2012 and 2011 were as follows:

2012

	Thousands of euros		
	Balance at 01/03/12	**Additions and charge for the year**	**Balance at 28/02/13**
Administrative concessions	42,946	-	42,946
Intellectual property	890	29	919
Leasehold assignment rights	933	-	933
Computer software	181	8	189
Total cost	**44,950**	**37**	**44,987**
Administrative concessions	(6,783)	(662)	(7,445)
Intellectual property	(75)	(22)	(97)
Leasehold assignment rights	(663)	(93)	(756)
Computer software	(181)	-	(181)
Total accumulated amortisation	**(7,702)**	**(777)**	**(8,479)**
Total, net	**37,248**		**36,508**

2011

	Thousands of euros			
	Balance at 01/03/11	Additions and charge for the year	Disposals, reductions or reversals	Balance at 29/02/12
Administrative concessions	42,946	-	-	42,946
Intellectual property	904	16	(30)	890
Leasehold assignment rights	933	-	-	933
Computer software	181	-	-	181
Total cost	**44,964**	**16**	**(30)**	**44,950**
Administrative concessions	(6,123)	(660)	-	(6,783)
Intellectual property	(78)	(27)	30	(75)
Leasehold assignment rights	(569)	(94)	-	(663)
Computer software	(181)	-	-	(181)
Total accumulated amortisation	**(6,951)**	**(781)**	**30**	**(7,702)**
Total, net	**38,013**			**37,248**

At the end of 2012 and 2011 the Company had fully amortised intangible assets, the detail being as follows:

	Thousands of euros	
	28/02/13	29/02/12
Intellectual property	42	-
Computer software	181	-
Total	**223**	**-**

6.- Property, plant and equipment

The changes in 2012 and 2011 in "Property, Plant and Equipment" in the balance sheet and the most significant information affecting this heading were as follows:

2012

	Thousands of euros				
	Balance at 01/03/12	Additions and charge for the year	Increase or decrease due to transfer	Disposals, reductions or reversals	Balance at 28/02/13
Land and buildings	1,488,350	1,396	62,393	(66,911)	1,485,228
Plant and machinery	131,260	970	2,689	(1,139)	133,780
Other fixtures, tools and furniture	1,520,328	6,490	42,902	(22,981)	1,546,739
Other items of property, plant and equipment	27,066	2,115	75	(4,665)	24,591
Property, plant and equipment in the course of construction	118,318	93,129	(108,059)	(8,937)	94,451
Total cost	**3,285,322**	**104,100**	-	**(104,633)**	**3,284,789**
Buildings	(183,373)	(14,999)	-	5,840	(192,532)
Plant and machinery	(105,679)	(5,137)	-	1,095	(109,721)
Other fixtures, tools and furniture	(1,053,320)	(66,937)	-	13,442	(1,106,815)
Other items of property, plant and equipment	(24,564)	(975)	-	3,495	(22,044)
Total accumulated depreciation	**(1,366,936)**	**(88,048)**	-	**23,872**	**1,431,112**
Total, net	**1,918,386**				**1,853,677**

2011

	Thousands of euros				
	Balance at 01/03/11	Additions and charge for the year	Increase or decrease due to transfer	Disposals, reductions or reversals	Balance at 29/02/12
Land and buildings	1,468,702	5,053	14,892	(297)	1,488,350
Plant and machinery	131,288	829	768	(1,625)	131,260
Other fixtures, tools and furniture	1,511,578	5,228	25,992	(22,470)	1,520,328
Other items of property, plant and equipment	31,150	1,443	-	(5,527)	27,066
Property, plant and equipment in the course of construction	90,171	69,793	(41,646)	-	118,318
Total cost	**3,232,889**	**82,346**	**6**	**(29,919)**	**3,285,322**
Buildings	(168,824)	(14,552)	-	3	(183,373)
Plant and machinery	(101,669)	(5,559)	(1)	1,550	(105,679)
Other fixtures, tools and furniture	(997,566)	(71,789)	(5)	16,040	(1,053,320)
Other items of property, plant and equipment	(27,769)	(1,224)	-	4,429	(24,564)
Total accumulated depreciation	**(1,295,828)**	**(93,124)**	**(6)**	**22,022**	**(1,366,936)**
Total, net	**1,937,061**				**1,918,386**

In 2012 the additions to "Property, Plant and Equipment in the Course of Construction" relate to the investments made mainly in the Ronda de Córdoba (Córdoba), El Faro (Badajoz) and Puerto Venecia (Zaragoza) shopping centres, which opened in May, September and October 2012, respectively. Also, construction work continued on new shopping centres, including ones in Coslada (Madrid) and Huelva. The other additions relate to refurbishment work performed at shopping centres which have already been opened.

In 2012 the Company disposed of items of property, plant and equipment, which gave rise to gains of EUR 16,396 thousand, recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying income statement. The main change in 2012 was the sale of a portion of the land and the building of the Alcalá de Henares shopping centre to the sole shareholder for EUR 58,331 thousand, giving rise to a gain of EUR 16,190 thousand in this connection.

Also, in 2012, the Company disposed of various items included in "Other Fixtures, Tools and Furniture". These assets were disposed of to the Company's sole shareholder and did not result in any gains or losses being recognised in the income statement.

The sales of non-current assets made to Group companies in the year ended 28 February 2013 amounted to EUR 87,147 thousand (29 February 2012: EUR 7,821 thousand), as indicated in Note 17. Also, in the year ended 28 February 2013 the Company acquired items of property, plant and equipment from Group companies amounting to EUR 12,473 thousand (29 February 2012: EUR 7,531 thousand) (see Note 17).

At 28 February 2013 and 29 February 2012, the following items of the Company's property, plant and equipment had been fully depreciated:

	Thousands of euros	
	28/02/13	29/02/12
Buildings	11	11
Plant and machinery	71,122	62,918
Other fixtures, tools and furniture	584,812	535,784
Other items of property, plant and equipment	18,478	19,817
Total	**674,423**	**618,530**

The Company recognised the proportional part of the cost of a property under an undivided interest arrangement under "Land" for EUR 10,049 thousand. The aforementioned property forms part of the jointly-owned property "Parking Grancasa".

The detail of the value of the buildings and land relating to the properties owned by the Company at the end of 2012 and 2011 is as follows:

	Thousands of euros	
Property	28/02/13	29/02/12
Land	375,557	402,759
Buildings	1,109,671	1,085,591
Total	**1,485,228**	**1,488,350**

On 28 February 1997, the Company revalued all its eligible items of property, plant and equipment pursuant to Article 5 of Royal Decree-Law 7/1996, of 7 June, and paid the related single 3% tax. This revaluation, for which the maximum coefficients permitted were used excluding any percentage for the authorised reduction ratio, had the following effects on the financial statements:

2012

	Thousands of euros		
	Balance at 01/03/12	Charge for the year	Balance at 28/02/13
Land and buildings	48,547	-	48,547
Plant and machinery	2,029	-	2,029
Other fixtures, tools, furniture and other items of property, plant and equipment	19,012	-	19,012
Cost	**69,588**	**-**	**69,588**
Accumulated depreciation	**(30,417)**	**(446)**	**(30,863)**
Net balances	**39,171**	**(446)**	**38,725**

2011

	Thousands of euros			
	Balance at 01/03/11	Charge for the year	Reductions	Balance at 29/02/12
Land and buildings	48,549	-	(2)	48,547
Plant and machinery	2,054	-	(25)	2,029
Other fixtures, tools, furniture and other items of property, plant and equipment	19,165	-	(153)	19,012
Cost	**69,768**	**-**	**(180)**	**69,588**
Accumulated depreciation	**(29,728)**	**(701)**	**12**	**(30,417)**
Net balances	**40,040**	**(701)**	**(168)**	**39,171**

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. The Company's directors considered that these policies adequately covered the related risks at the end of 2012 and 2011.

At the end of the years ended 28 February 2013 and 29 February 2012, the Company did not have any firm property, plant and equipment purchase commitments.

7.- Operating leases

At the end of 2012 and 2011 the Company had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	Nominal value	
	2012	2011
Within one year	25,724	23,952
Between one and five years	102,897	95,806
After five years	128,621	119,758
Total	257,242	239,516

The most significant operating leases held by the Company as lessor at the end of 2012 and 2011 related to the lease of commercial space to El Corte Inglés, S.A. at the shopping centres shared by both companies.

At the end of 2012 and 2011, the Company had contracted with lessors for the following minimum lease payments in relation to all the future years covered by the leases currently in force (in thousands of euros):

Minimum operating lease payments	Nominal value	
	2012	2011
Within one year	5,082	5,763
Between one and five years	20,329	23,053
After five years	25,411	28,816
Total	**50,822**	**57,632**

The most significant operating leases held by the Company as lessee at the end of 2012 and 2011 related to the lease of commercial premises in which the Company carries on its main business activity.

The detail of the operating lease payments recognised as an expense and as income, respectively, in 2012 and 2011 is as follows (in thousands of euros):

	Thousands of euros	
	2012	2011
Lease income	25,724	23,952
Lease expenses (Note 16.5)	(11,138)	(11,289)
Total, net	**14,586**	**12,663**

8.- Financial assets (non-current and current)

8.1 Non-current financial assets

The detail of "Non-Current Financial Assets" at 28 February 2013 and 29 February 2012 is as follows (in thousands of euros):

Classes / Categories	Non-current financial instruments					
	Equity instruments		Loans and other		Total	
	2012	2011	2012	2011	2012	2011
Non-current financial instruments	291	291	-	-	291	291
Guarantees and deposits	-	-	1,202	1,121	1,202	1,121
Total	**291**	**291**	**1,202**	**1,121**	**1,493**	**1,412**

"Loans and Other" includes mainly guarantees and deposits relating to the operating leases held by the Company.

8.2 Current financial assets

The detail of "Current Financial Assets" at 28 February 2013 and 29 February 2012 is as follows (in thousands of euros):

Categories \ Classes	Current financial instruments					
	Derivatives (Note 9)		Loans and other		Total	
	2012	2011	2012	2011	2012	2011
Loans and receivables	-	-	29	132	29	132
Derivatives	59	1,854	-	-	59	1,854
Total	59	1,854	29	132	88	1,986

At the end of 2012 and 2011 the Company had arranged various currency forwards (see Note 9).

8.3 Equity investments in Group companies

The detail of "Equity Investments in Group Companies" in the accompanying balance sheet is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Equity instruments	137	137
Guarantees and deposits	14	14
Total	151	151

The most significant information in relation to equity instruments in Group companies at 28 February 2013 and 29 February 2012 is as follows:

2012

		Thousands of euros							
			Profit or loss				Carrying amount		
Company name/Location/ Line of business	% of direct ownership	Share capital	From operations	Net	Other equity items	Total equity	Gross cost	Impairment loss	Net cost
ECI HONG KONG, LTD/Hong Kong/ Distribution	10%	1,369	(1,039)	(1,194)	4,491	4,667	138	(1)	137
Total	10%	1,369	(1,039)	(1,194)	4,491	4,667	138	(1)	137

2011

		Thousands of euros							
			Profit or loss				Carrying amount		
Company name/Location/ Line of business	% of direct ownership	Share capital	From operations	Net	Other equity items	Total equity	Gross cost	Impairment loss	Net cost
ECI HONG KONG, LTD/Hong Kong/ Distribution	10%	1,369	2,553	2,041	2,435	5,845	138	(1)	137
Total	10%	1,369	2,553	2,041	2,435	5,845	138	(1)	137

The Parent of the Group, El Corte Inglés, S.A., holds a 90% ownership interest in ECI Hong Kong, Ltd.

The information on this company was obtained from its latest audited financial statements for 2012 and 2011.

8.4 Information on the nature and level of risk of financial instruments

The Company's financial risk management is centralised by El Corte Inglés Group's Financial Department, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. The main financial risks affecting the Company are as follows:

a) Credit risk:

In general, the Company holds its cash and cash equivalents at banks with high credit ratings. Also, it should be noted that, due to the industry in which the Company operates, it does not have a significant concentration of credit risk exposure to third parties.

b) Liquidity risk:

The Company, for the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, has the cash and cash equivalents together with the credit and financing facilities disclosed in its balance sheet (see Note 13), including the necessary financing from the Group, as detailed in Note 17.

c) Market risk (foreign currency and other price risks):

Foreign currency risk is concentrated mainly on purchases of goods for resale denominated in US dollars from South East Asian countries. In order to mitigate this risk, the Company arranges financial instruments (currency forwards) which reduce exchange differences on foreign currency transactions (see Note 9).

9.- Derivative financial instruments

The Company uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. At the end of 2012 and 2011, the Company had arranged various currency forwards, the balance sheet positions of which are as follows:

	Thousands of euros			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated for hedge accounting (long-term)	-	-	-	(99)
Derivatives designated for hedge accounting (short-term)	59	(427)	1,854	(337)
Total	59	(427)	1,854	(436)

The measurements of the foreign currency derivatives qualifying for hedge accounting at 28 February 2013 and 29 February 2012 are as follows:

2012

Contract amount (Thousands of USD)	Expiry	Market value at year-end (Thousands of euros)
9,000	Q1 2013	(25)
5,000	Q2 2013	(41)
22,000	Q3 2013	(227)
18,000	Q4 2013	(75)
54,000		**(368)**

2011

Contract amount (Thousands of USD)	Expiry	Market value at year-end (Thousands of euros)
6,000	Q1 2012	267
15,000	Q2 2012	731
17,000	Q3 2012	571
19,500	Q4 2012	155
12,000	Q1 2013	(266)
2,000	Q2 2013	(40)
71,500		**1,418**

The accumulated changes in value at 28 February 2013, namely a loss of EUR 225 thousand, net of tax, were recognised under "Equity - Valuation Adjustments". At 29 February 2012, a positive amount of EUR 825 thousand was recognised.

The Company has complied with the requirements detailed in Note 4.5.4 on measurement bases in order to determine whether the derivatives qualify for hedge accounting or are held for speculative purposes.

10.- Inventories

The detail of "Inventories" at 28 February 2013 and 29 February 2012 is as follows:

	Thousands of euros	
	28/02/13	**29/02/12**
Goods held for resale	219,843	241,922
Inventory write-downs	(1,795)	(2,285)
Total	**218,048**	**239,637**

The changes in the write-downs relating to "Inventories" in the accompanying balance sheet were as follows:

	2011				2012		
	Beginning balance at 01/03/11	Additions	Reversals	Ending balance at 29/02/12	Additions	Reversals	Ending balance at 28/02/13
Inventory write-downs	(3,329)	(2,285)	3,329	(2,285)	(1,795)	2,285	(1,795)

The Company had sales commitments to customers at the end of 2013 and 2012 amounting to EUR 9,872 thousand and EUR 11,011 thousand, respectively.

In accordance with standard practice in the retail industry, the Company formalises its purchase orders with certain suppliers some months in advance of the date of delivery of the goods. Accordingly, at 28 February 2013 and 29 February 2012 the Company had arranged firm purchases amounting to EUR 52,961 thousand and EUR 54,148 thousand, respectively.

The Company takes out insurance policies to cover the risks to which its inventories are subject. At 28 February 2013, the Company's directors considered that the coverage provided by the insurance policies for its inventories was adequate.

11.- Equity and shareholders' equity

11.1 Share capital

At 28 February 2013 and 29 February 2012, the Company's share capital amounted to EUR 225,000 thousand and was represented by 375,000 fully subscribed and paid shares of EUR 600 par value each, all of the same class.

At 28 February 2013 and 29 February 2012, El Corte Inglés, S.A. held the entire share capital of Hipercor, S.A. (Sole-Shareholder Company).

Pursuant to Article 16 of the Spanish Limited Liability Companies Law, it is hereby stated that the Mercantile Registry of Madrid was notified of the Company's sole-shareholder company status on 20 December 1995.

The balances and transactions with the Company's sole shareholder at 28 February 2014 and 29 February 2012 are disclosed in Note 17.1.

11.2 Legal reserve

Under the Spanish Limited Liability Companies Law, the Company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2012 and 2011 the balance of this reserve had reached the legally required minimum.

11.3 Revaluation reserve

As a result of the non-current asset revaluation made pursuant to Royal Decree-Law 7/1996, of 7 June, the Company's "Revaluation Reserve" amounted to EUR 69,103 thousand, net of the single 3% tax, once the allocation described above had been recognised.

Since the tax authorities have reviewed and approved the balance of "Revaluation Reserve Royal Decree-Law 7/1996", the aforementioned balance can be used, free of tax, to offset accounting losses which might arise in the future and to increase share capital. From 1 March 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes on the increase in value of the revalued assets or when the revalued assets have been transferred or derecognised.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

11.4 Canary Islands investment reserve

The balance of the Canary Islands investment reserve amounted to EUR 3,805 thousand. This amount was transferred to the Canary Islands Investment Reserve in accordance with Article 27 of Law 19/1994, of 6 July, amending the Canary Islands economic and tax regime, and will be invested in the assets stipulated in the aforementioned Law, within a maximum of three years of its appropriation.

At 28 February 2013, there were no amounts that were yet to be invested by the legally established deadline.

11.5 Reserve for retired capital

The "Reserve for Retired Capital" relates to the reserve recognised pursuant to a resolution adopted by the sole shareholder on 26 August 2001 to reduce share capital by EUR 283 thousand in order to adjust the par value of each share to a whole figure in euros.

11.6 Voluntary reserves

On 28 February 2013, the sole shareholder approved the distribution of a dividend of EUR 87,000 thousand with a charge to "Voluntary Reserves", recognising a balancing entry in the current account of the Parent El Corte Inglés, S.A.

12.- Provisions and contingencies

12.1 Provisions

The detail of the provisions corresponding to this heading in the accompanying balance sheet, which relate mainly to the estimated amounts the Company will be required to pay in relation to certain taxes in force in various autonomous communities, and of the changes therein in 2013 and 2012, is as follows:

2012

	Thousands of euros		
	Balance at 01/03/12	Transfers	Balance at 28/02/13
Other provisions	15,298	13,874	29,172
Total	**15,298**	**13,874**	**29,172**

2011

	Thousands of euros		
	Balance at 01/03/11	Additions and charge for the year	Balance at 29/02/12
Other provisions	-	15,298	15,298
Total	**-**	**15,298**	**15,298**

In 2012 the Company reclassified to "Long-Term Provisions - Other Provisions" EUR 13,874 thousand which had previously been recognised under "Other Accounts Payable to Public Authorities", since the Company considers that the payment obligations which might result from these liabilities in the future will become payable in a period of over twelve months (see Note 14.1).

12.2 Guarantee commitments to third parties and contingent liabilities

At 28 February 2013 and 29 February 2012, the guarantees provided by the Group amounted to EUR 94,374 thousand and EUR 99,788 thousand, respectively. Of these amounts, EUR 51,099 thousand at 28 February 2013 and EUR 48,796 thousand at 29 February 2012 related to matters of a legal and tax nature and to others concerning certain buildings owned by the Company. The remaining amount, deposited with various entities, secured business operations.

The Company's directors consider that any liabilities not foreseen at 28 February 2013 which might arise as a result of the guarantees provided would not be significant.

13.- Non-current and current payables

13.1 Non-current financial liabilities

The detail of "Non-Current Payables" at the end of 2012 and 2011 is as follows (in thousands of euros):

Classes	Non-current financial instruments					
Categories	Derivatives (Note 9)		Other financial liabilities		Total	
	28/02/13	29/02/12	28/02/13	29/02/12	28/02/13	29/02/12
Non-current payables	-	99	6,543	7,847	6,543	7,946
Total	**-**	**99**	**6,543**	**7,847**	**6,543**	**7,946**

"Non-Current Payables - Other Financial Liabilities" includes mainly debts to non-current asset suppliers and deposits and guarantees.

13.2 Current financial liabilities

The detail of "Current Payables" at the end of 2012 and 2011 is as follows (in thousands of euros):

Classes	Current financial instruments							
Categories	Bank borrowings		Derivatives (Note 9)		Other financial liabilities		Total	
	28/02/13	29/02/12	28/02/13	29/02/12	28/02/13	29/02/12	28/02/13	29/02/12
Current payables	2,562	-	427	337	67,092	49,364	75,433	52,253
Total	**2,562**	**-**	**427**	**337**	**67,092**	**49,364**	**75,433**	**52,253**

On 3 May 2012, the Company arranged a loan amounting to EUR 10,000 thousand, maturing in May 2013, against which EUR 2,562 thousand had been drawn down at 28 February 2013, which was recognised under "Current Payables - Bank Borrowings". The average interest rate on the loan in 2012 was 5.76%.

"Current Payables - Other Financial Liabilities" includes mainly short-term payables to non-current asset suppliers.

13.3 Disclosures on the payment periods to suppliers

In relation to the disclosures required by Additional Provision Three of Law 15/2010, of 5 July, the total balance payable to suppliers and trade creditors at 28 February 2013 and 29 February 2012 that was past-due by more than the maximum payment period established in the legislation in force was not material.

Also, the total balance payable to suppliers and trade creditors in 2012 amounted to EUR 1,662 million (2011: EUR 1,254 million), of which almost 100% had been paid within the terms set out in the legislation and regulations applicable to the Company. Accordingly, the average period of payment of the payments made in 2012 after the maximum payment period is scantly material.

14.- Tax matters

14.1 Current tax receivables and payables

The detail of the current tax receivables and payables is as follows:

Tax receivables

	Thousands of euros	
	28/02/13	29/02/12
Non-current balances:		
Deferred tax assets	97	12,289
Total	97	12,289
Current balances:		
VAT refundable	1,084	1,590
Accrued social security taxes refundable	183	310
Tax withholdings and pre-payments	7	5
Other	398	900
Total	1,672	2,805

Tax payables

	Thousands of euros	
	28/02/13	29/02/12
Non-current balances:		
Deferred tax liabilities	28,352	29,190
Total	28,352	29,190
Current balances:		
Provision for taxes of local corporations	7,295	20,602
Accrued social security taxes payable	6,505	6,863
Personal income tax withholdings payable	2,003	2,048
Canary Islands general indirect tax payable	31	24
Other tax payables	339	387
Total	16,173	29,924

As indicated in Note 4.8, the Company is authorised by the competent authorities to file consolidated VAT and income tax returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

The assets and liabilities arising from calculation of the aforementioned taxes are recognised under "Current Liabilities - Payable to Group Companies" in the accompanying balance sheet (see Note 17).

"Provision for Taxes of Local Corporations" includes the Company's estimation of the amounts it will be required to pay in relation to certain taxes in force in various autonomous communities. As indicated in Note 12, in 2012 the Company transferred EUR 13,874 thousand to "Long-Term Provisions - Other Provisions" since it considered that the payment obligations which might result from these liabilities in the future will become payable in a period of over twelve months.

14.2 Reconciliation of the accounting profit (loss) to the taxable profit (tax loss)

The reconciliation of the accounting profit (loss) to the taxable profit (tax loss) for income tax purposes is as follows:

<u>2012</u>

	Thousands of euros		
	Increase	**Decrease**	**Total**
Accounting loss before tax			**(695)**
Permanent differences.-	1	(12)	(11)
Temporary differences.-			
Arising in the year	-	(41,153)	(41,153)
Arising in prior years	1,803	-	1,803
Elimination of intercompany profit or loss	-	(16,338)	(16,338)
Tax loss			**(56,394)**

<u>2011</u>

	Thousands of euros		
	Increase	**Decrease**	**Total**
Accounting profit before tax			**43,229**
Permanent differences.-	1,010	(16,334)	(15,324)
Temporary differences.-			
Arising in the year	-	(245)	(245)
Arising in prior years	1,826	-	1,826
Taxable profit			**29,486**

The negative temporary differences relate mainly to the reversal of provisions the recognition of which was not a deductible expense in prior years (EUR 40,964 thousand). In addition, the Company eliminated from its tax base the gains obtained from transactions performed for companies forming part of the consolidated tax group, mainly the sale of land and the building of the Alcalá de Henares shopping centre to the sole shareholder (see Note 6).

Also, as permitted by Transitional Provision Three of Law 24/2001, in 2001 the Company opted to apply the regime provided for in Article 21 of Income Tax Law 43/1995 to the gain obtained from the transfer of assets, and did not include income of EUR 15,384 thousand in the taxable profit for that year. The Company reinvested the total amount of the proceeds from the sale that gave rise to this gain in the same year in the building of the Cádiz shopping centre; the method used to include the income in taxable profit is that provided for in Article 21.3 of the Income Tax Law and Article 34.1.b of the Income Tax Regulations then in force, the detail being as follows:

	Thousands of euros
2001 deferred income	15,384
Income included from 2002 to 2011	(2,031)
Income included in 2012	(185)
Outstanding amount	13,168

The outstanding amount will be included in the taxable profit in the tax periods in which the Cádiz shopping centre is depreciated, for the proportional amount corresponding to the value of the depreciation taken on the aforementioned building with respect to its acquisition cost.

14.3 Tax recognised in equity

The detail of the tax recognised directly in the Company's equity at 28 February 2013 and 29 February 2012 is as follows:

2012

	Thousands of euros			
	Recognised at beginning of year	Increase	Decrease	Recognised at end of year
Deferred taxes Revaluation of hedging instruments	(353)	456	(6)	97
Total deferred tax recognised directly in equity	**(353)**	**456**	**(6)**	**97**

2011

	Thousands of euros			
	Recognised at beginning of year	Increase	Decrease	Recognised at end of year
Deferred taxes Revaluation of hedging instruments	437	56	(846)	(353)
Total deferred tax recognised directly in equity	**437**	**56**	**(846)**	**(353)**

14.4Reconciliation of accounting profit (loss) to the income tax expense (benefit)

The reconciliation of the accounting profit (loss) to the income tax expense (benefit) is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Accounting profit (loss) before tax	(695)	43,229
Permanent differences	(11)	(15,324)
Intercompany eliminations	(16,338)	-
Adjusted taxable profit (tax loss)	(17,044)	27,905
Tax charge at 30%	(5,113)	8,372
Tax credits		
Advertising and publicity for events of public interest	-	(947)
Other tax credits	(55)	(113)
Adjustments to the tax base	(11)	7
Total income tax expense (benefit) recognised in profit or loss	(5,179)	7,319

14.5 Breakdown of income tax expense (benefit)

The detail of the income tax expense (benefit) is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Current tax (Note 17.1)	(16,973)	7,786
Deferred tax	11,805	(474)
Other	(11)	7
Total	(5,179)	7,319

14.6 Deferred tax assets

The detail of "Deferred Tax Assets" at the end of 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Provisions	-	12,289
Hedging instruments	97	-
Total	97	12,289

The deferred tax assets indicated above were recognised in the balance sheet because the Company's directors considered that, based on their best estimate of the Company's future earnings, including certain tax planning measures, it is probable that these assets will be recovered.

At the end of 2012 and 2011, the Company did not have any tax loss or tax credit carryforwards.

14.7 Deferred tax liabilities

The detail of "Deferred Tax Liabilities" at the end of 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Depreciation and amortisation differences	24,404	24,828
Reinvestment of gains	3,949	4,005
Non-deductible provisions	-	4
Hedges	-	353
Total deferred tax liabilities	28,353	29,190

14.8 Years open for review and tax audits

The tax authorities are currently conducting income tax reviews and audits of the tax group from 2007/2008 to 2010/2011 and the period from June 2008 to December 2011 for the remaining annual taxes applicable in each calendar year. The Company's directors do not expect any material liabilities unrecognised at 28 February 2013 to arise from either the years open for review or from the tax audits being performed by the tax authorities of the aforementioned years.

15.- Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, valued at the year-end exchange rate and the average exchange rates for the year, is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Accounts payable	(62)	(674)
Purchases	55,093	53,953

16.- Income and expenses

16.1 Revenue

The detail of "Revenue" in 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Sales	1,823,681	2,067,014
Services	118,133	116,011
Total	1,941,814	2,183,025

The breakdown, by geographical market, of the revenue for 2012 and 2011 is as follows:

Geographical market	Thousands of euros	
	28/02/13	29/02/12
Central Spain	906,647	1,052,909
Andalusia	520,881	561,947
Northern Spain	460,326	505,647
Canary Islands	53,960	62,522
Total	1,941,814	2,183,025

16.2 Procurements

The detail of "Procurements" in 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Cost of goods held for resale sold	1,387,068	1,538,148
Other procurements	8,074	11,083
Work performed by other companies	3,373	4,487
Impairment of goods held for resale and other supplies (Note 10)	(490)	(1,044)
Total	**1,398,025**	**1,552,674**

The detail of "Cost of Goods Held for Resale Sold" in 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Purchases	1,364,989	1,554,845
Changes in inventories (Note 10)	22,079	(16,697)
Total	**1,387,068**	**1,538,148**

16.3 Detail of purchases by origin

The detail, by origin, of the purchases made by the Company in 2012 and 2011 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Spain	1,304,520	1,489,075
European Union	11,466	11,817
Imports	49,003	53,953
Total	**1,364,989**	**1,554,845**

16.4 Employee benefit costs

The detail of "Employee Benefit Costs" at 28 February 2013 and 29 February 2012 is as follows:

	Thousands of euros	
	28/02/13	29/02/12
Employer social security costs	66,060	68,688
Other employee benefit costs	2,562	3,311
Total	**68,622**	**71,999**

The Company did not make any contributions to pension plans.

The average number of employees, by professional category, in 2012 and 2011 was as follows:

Professional category	2012	2011
Directors and managers	13	13
Supervisors and other line personnel	1,749	1,905
Sales staff	8,452	9,071
Services staff	374	392
Other	44	31
Total	**10,632**	**11,412**

Also, the headcount at the end of 2012 and 2011, by gender and category, was as follows:

	2012			2011		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Directors and managers	11	-	11	13	1	14
Supervisors and other line personnel	1,395	296	1,691	1,579	323	1,902
Sales staff	3,127	6,945	10,072	3,199	7,460	10,659
Services staff	259	143	402	269	120	389
Other	33	10	43	39	15	54
Total	**4,825**	**7,394**	**12,219**	**5,099**	**7,919**	**13,018**

At the end of 2012 and 2011, the Company's Board of Directors was made up of five men.

16.5 Outside services

The detail of "Outside Services" at 28 February 2013 and 29 February 2012 is as follows:

	Thousands of euros	
	28/02/13	**29/02/12**
Rent and charges (Note 7)	11,138	11,289
Repair and upkeep expenses	8,775	9,764
Independent professional services	100,852	109,868
Transport expenses	6,824	8,436
Insurance premiums	3,271	3,107
Banking and similar services	9,196	10,254
Advertising, publicity and public relations	36,297	42,631
Utilities	36,754	36,949
Other services	773	586
Total	**213,880**	**232,884**

17.- Related party transactions and balances

17.1 Related party balances and transactions

The Company performs all its transactions with related parties on an arm's length basis.

The detail of the transactions with related parties in 2012 and 2011 is as follows:

2012

a) Detail of balances with Group companies (in thousands of euros):

Balances	Parent	Group companies	Total
Trade receivables	11,624	228	**11,852**
Non-current payables to Group companies	(223,309)	(14)	**(223,323)**
Current payables	-	(313)	**(313)**
Current payables to Group companies	(60,203)	(5,712)	**(65,915)**

As indicated in Note 4.8, the Company is authorised by the competent tax authorities to file consolidated income tax and VAT returns as part of the consolidated tax group headed by El Corte Inglés, S.A.

The account receivable or payable in relation to the settlement of income tax is recognised under "Current Payables to Group Companies". At 28 February 2013, an account receivable amounting to EUR 16,973 thousand was recognised (see Note 14.5). At 29 February 2012, the liability in this connection amounted to EUR 7,786 thousand.

Also, at 28 February 2013, settlement of VAT gave rise to a liability amounting to EUR 2,305 thousand (29 February 2012: EUR 1,111 thousand).

On 19 January 2012, the Company arranged a participating loan with the Parent, El Corte Inglés, S.A., for EUR 220 million. This loan matures in 2016 and bears floating interest tied to the operating performance of the business. At 28 February 2013, no financial interest was borne in this connection.

b) Detail of transactions with Group companies (in thousands of euros):

Transactions	Parent	Group companies	Total
Sales	72,608	2,319	74,927
Other income	78,786	3,434	82,220
Purchases	1,041,465	6,814	1,048,279
Sales of items of property, plant and equipment (Note 6)	87,140	7	87,147
Acquisition of property, plant and equipment	9,907	2,566	12,473
Services received and other expenses	86,741	9,502	96,243

"Services Received" includes, inter alia, general administrative expenses which the Company's sole shareholder re-bills the Company and which are shared by Hipercor, S.A.U. and the other companies composing the El Corte Inglés Group.

2011

a) Detail of balances with Group companies (in thousands of euros):

Balances	Parent	Group companies	Total
Trade receivables	9,526	268	9,794
Non-current payables	(222,916)	(14)	(222,930)
Current payables	-	(250)	(250)
Payable to Group companies	(97,958)	(2,669)	(100,657)

b) Detail of transactions with Group companies (in thousands of euros):

Transactions	Parent	Group companies	Total
Sales	66,413	2,532	68,945
Other income	70,284	4,074	74,358
Purchases	1,170,915	7,040	1,177,955
Sales of items of property, plant and equipment (Note 6)	6,795	1,026	7,821
Acquisition of property, plant and equipment	4,500	3,031	7,531
Services received and other expenses	89,700	10,952	100,652

17.2 Remuneration of the directors and senior executives

In the years ended 28 February 2013 and 29 February 2012, the Company's directors did not receive any remuneration in the form of board meeting attendance fees or wages and salaries.

At 28 February 2013 and 29 February 2012, the Company had not granted any advances or loans to its directors and did not have any pension, retirement bonus, life insurance or special indemnity obligations to them.

Senior management was made up the members of the Board of Directors (who are employees of the Parent, El Corte Inglés, S.A.).

17.3 Detail of investments in companies with similar activities and of the performance, as independent professionals or as employees, of similar activities by the directors and related persons

In 2012 and 2011 the members of the Board of Directors and the persons related to them as defined in the Spanish Limited Liability Companies Law did not hold any significant investments in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity constituting the company object of the Company or of the El Corte Inglés Group companies.

Also, they have not performed, and do not perform, as independent professionals or as employees, any activity that is identical, similar or complementary to the activities that constitute the company object of the Company or of the El Corte Inglés Group companies. In addition, certain of the Company's directors are also members of the Board of Directors of El Corte Inglés S.A. and form part of the managing body of other companies that belong to or are related to the El Corte Inglés Group, as Group representatives (the most significant being Informática El Corte Inglés, S.A., Viajes El Corte Inglés, S.A., etc.). Neither the members of the Board nor the company, if any, that they represent receive any remuneration for holding the aforementioned positions.

18.- Information on the environment

At 28 February 2013 and 29 February 2012, the Company had the following significant items of property, plant and equipment designed to minimise the environmental impact and to protect and enhance the environment:

2012

	Thousands of euros		
	Gross value	**Accumulated depreciation**	**Carrying amount**
Water treatment plant	62	(22)	40
Air protection	3,902	(1,392)	2,510
Noise protection	567	(363)	204
Other	10	(7)	3
Total	**4,541**	**(1,784)**	**2,757**

2011

	Thousands of euros		
	Gross value	**Accumulated depreciation**	**Carrying amount**
Water treatment plant	62	(18)	44
Air protection	3,902	(1,120)	2,782
Noise protection	567	(323)	244
Other	10	(6)	4
Total	**4,541**	**(1,467)**	**3,074**

Also, the expenses incurred in 2012 and 2011, the purpose of which was to protect and improve the environment, amounted to EUR 4,108 thousand and EUR 4,303 thousand, respectively.

Lastly, no environmental investments were made in the years ended 28 February 2103 and 29 February 2012.

19.- Fees paid to auditors

In 2012 and 2011 the fees for financial audit and other services provided by the Company's auditors, Deloitte, S.L., or by a company of the same group or related to the auditors, were as follows:

	2012	**2011**
Audit services	258,510	260,000
Other attest services	6,402	6,600
Total audit services	**264,912**	**266,600**

20.- Events after the reporting period

At the date of preparation of these financial statements for the year ended 28 February 2013, the Company's directors considered that there were no significant events to be included herein or which would make it necessary to change them.

21.- Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2.1). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

HIPERCOR, S.A. (Sole-Shareholder Company)

Directors' Report for the year ended 28 February 2013

1. Business performance and Company situation

1.1 Sales and income

In 2012 Hipercor, S.A.'s revenue amounted to EUR 1,942 million, down 11% on 2011.

1.2 Operating costs and expenses

Operating costs and expenses totalled EUR 2,068 million. Items worthy of note in a detailed breakdown of costs and expenses include mainly procurements, which totalled EUR 1,398 million, EUR 287 million of staff costs, EUR 294 million of outside services and other operating expenses, and a depreciation and amortisation charge of EUR 89 million.

The Company's gross profit stood at EUR 544 million.

1.3 Inventories

Inventories at 28 February 2013 totalled EUR 218 million.

1.4 Profit for the year

Hipercor, S.A.'s EBITDA amounted to EUR 72 million, down 42% on 2011.

EBIT was negative by an amount of EUR 25 thousand (2011: EUR 44 million).

Loss before tax, including financial loss and extraordinary earnings, stood at EUR 695 thousand (29 February 2012: profit before tax of EUR 44 thousand).

Net profit for the year, after deducting income tax, totalled EUR 4 million, up 88% on 2011.

1.5 Investments

Capex on operating property, plant and equipment amounted to EUR 104 million in 2012. 2012 saw the opening of the Ronda de Córdoba (Córdoba), El Faro del Guadiana (Badajoz) and Puerto Venecia (Zaragoza) shopping centres. In addition to the opening of these new shopping centres, important refurbishment work was carried out at the Jerez, Gijón and Vista Alegre establishments, inter alia, where significant space redistribution work was performed in the hypermarket areas.

2. Outlook

The outlook for Hipercor, S.A. in the coming years is focused on the modernisation and adaptation of existing shopping centres, ongoing improvement of internal management, and the introduction of new technology tools in order to enhance the effectiveness of the Company's investments and expenses, and on continuing to foster employee training and advancement.

3. Treasury shares

In 2012 the Company did not perform any transactions involving the purchase or sale of treasury shares and it did not hold any treasury shares at year-end.

4. Research and development activities

Hipercor, S.A. (Sole-Shareholder Company) has continued to develop innovation processes in relation to both systems and operating procedures. This has led to the adoption and use of state-of-the-art technology which, based on our experience, make it possible to ensure the ongoing improvement of management systems, thereby enabling the Company to continue to offer our customers the highest levels of service.

5. Environment

Hipercor, S.A. follows the principles contained in the El Corte Inglés Group's environmental policy.

The economic detail of the environmental activities is included in Note 18 to the financial statements.

6. Code of good tax practices

The Company adheres to this Code, having complied satisfactorily with its contents.

7. Events after the reporting period

No significant events took place from the end of reporting period until the preparation of this directors' report.

8. Other disclosures

For the purpose of controlling and reducing the potential adverse impact of exchange rate fluctuations on profit, Hipercor, S.A. (Sole-Shareholder Company) has implemented a management programme in relation to such risks over the medium term through the use of certain foreign currency hedging instruments. The nominal amounts covered by the foreign currency risk management programmes amounted to USD 54 million.

GUARANTOR'S 2013 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED GROUP
EL CORTE INGLÉS

LEGAL
DOCUMENTATION
2013

El Corte Inglés

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

El Corte Inglés, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 28 February 2014 and Consolidated Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
El Corte Inglés, S.A. and Subsidiaries:

1. We have audited the consolidated financial statements of El Corte Inglés, S.A (the Parent) and Subsidiaries (the Group), which comprise the consolidated balance sheet at 28 February 2014 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2.1 to the accompanying consolidated financial statements, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for the year ended 28 February 2014 present fairly, in all material respects, the consolidated equity and consolidated financial position of El Corte Inglés, S.A. and Subsidiaries at 28 February 2014, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

3. Without qualifying our opinion, we draw attention to Note 2.4 to the consolidated financial statements, which indicates that the accompanying consolidated financial statements for the year ended 28 February 2014 are the first that the Parent's directors have prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), which generally require that financial statements present comparative information, which was obtained by applying the EU-IFRSs in force at 28 February 2014. Accordingly, the figures for the year ended 28 February 2013 differ from those contained in the approved consolidated financial statements for the year ended 28 February 2013. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 March 2012 and 28 February 2013 and to the Group's consolidated profit for the year ended 28 February 2013 are detailed in Note 2.4 to the accompanying consolidated financial statements.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

4. The accompanying consolidated directors' report for the year ended 28 February 2014 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for the year ended 28 February 2014. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of El Corte Inglés, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pilar Cerezo Sobrino

21 July 2014

CONSOLIDATED FINANCIAL STATEMENTS FOR 2013 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

EL CORTE INGLÉS CONSOLIDATED GROUP
CONSOLIDATED BALANCE SHEET AT 28 FEBRUARY 2014
(In thousands of euros)

ASSETS	Notes	28/02/14	28/02/13 (*)	01/03/12 (*)
NON-CURRENT ASSETS				
Property, plant and equipment	Note 5	12.941.064	13.079.644	13.011.602
Investment property	Note 6	122.776	129.105	116.357
Goodwill	Note 7	19.739	19.739	19.739
Other intangible assets	Note 8	501.119	488.097	492.881
Non-current investments in Group companies and associates		28.490	45.036	64.476
Investments accounted for using the equity method	Note 10	154.275	19.042	18.363
Non-current financial assets	Note 12	1.017.998	1.099.650	1.037.799
Deferred tax assets	Note 23	895.976	537.410	510.385
Total non-current assets		**15.681.437**	**15.417.723**	**15.271.602**
CURRENT ASSETS				
Inventories	Note 13	1.648.109	1.606.997	1.579.230
Trade and other receivables	Note 14	688.316	2.037.478	2.237.093
Receivable from Group companies, associates and related companies	Note 25.1	84.633	26.332	10.934
Current tax assets		4.645	3.025	2.707
Investments in Group companies, associates and related companies	Note 25.1	2.590	433	293
Current financial assets	Note 12	54.356	157.751	152.024
Current prepayments and accrued income		27.479	29.007	28.042
Cash and cash equivalents	Note 15	90.107	105.833	191.598
Total current assets		**2.600.234**	**3.966.855**	**4.201.921**
TOTAL ASSETS		**18.281.672**	**19.384.578**	**19.473.523**

(*) Included for comparison purposes (see Note 2.5)

The accompanying Notes 1 to 28 are an integral part of the consolidated balance sheet at 28 February 2014.

EL CORTE INGLÉS CONSOLIDATED GROUP
CONSOLIDATED BALANCE SHEET AT 28 FEBRUARY 2014
(In thousands of euros)

EQUITY AND LIABILITIES	Notes	28/02/14	28/02/13 (*)	01/03/12 (*)
EQUITY	Note 16			
Share capital		486.864	486.864	486.864
Reserves		8.234.730	8.200.393	8.119.956
- Legal reserve		97.373	97.373	97.373
- Other reserves		8.137.358	8.103.020	8.022.583
Profit for the year attributable to the Parent		172.361	163.178	210.190
Total shareholders' equity		**8.893.956**	**8.850.435**	**8.817.010**
Translation differences		2.490	5.816	4.797
Treasury shares		(1.027.820)	(977.399)	(877.974)
Valuation adjustments		(40.663)	(12.528)	(48.251)
- Available-for-sale financial assets		12.774	3.279	(24.656)
- Hedges		(53.437)	(15.807)	(23.595)
Non-controlling interests		17.670	16.489	15.161
Total equity		**7.845.632**	**7.882.813**	**7.910.743**
NON-CURRENT LIABILITIES				
Long-term provisions	Note 17	947.526	913.732	793.116
Debt instruments and other non-current marketable securities	Note 18	1.402.076	1.437.086	1.416.450
Non-current bank borrowings	Note 18	3.430.089	1.935.380	2.133.382
Non-current payables to Group companies, associates and related companies	Note 25.1	78.371	114.885	102.639
Other financial liabilities	Note 18	99.416	36.331	51.466
Payable to fixed asset suppliers		61.679	19.983	32.138
Deferred tax liabilities	Note 23	1.131.287	965.807	960.902
Total non-current liabilities		**7.150.444**	**5.423.204**	**5.490.093**
CURRENT LIABILITIES				
Short-term provisions		714	3.331	13.085
Current bank borrowings	Note 18	48.315	2.579.191	2.268.744
Current payables to Group companies, associates and related companies	Note 25.1	44.985	330.741	209.735
Other current financial liabilities	Note 18	50.250	41.540	35.555
Payable to non-current asset suppliers		151.763	189.984	152.196
Other current liabilities	Note 22	2.934.998	2.868.716	3.325.038
Payable to suppliers - Group companies, associates and related companies	Note 25.1	34.232	10.536	14.260
Current tax liabilities		9.084	22.615	18.283
Accrued expenses and deferred income		11.253	31.907	35.791
Total current liabilities		**3.285.595**	**6.078.561**	**6.072.687**
TOTAL EQUITY AND LIABILITIES		**18.281.672**	**19.384.578**	**19.473.523**

(*) Included for comparison purposes (see Note 2.5)

The accompanying Notes 1 to 28 are an integral part of the consolidated balance sheet at 28 February 2014.

EL CORTE INGLÉS CONSOLIDATED GROUP
CONSOLIDATED INCOME STATEMENT FOR 2013
(In thousands of euros)

	Notes	2013	2012 (*)
Revenue:	Note 24.1	**14.291.678**	**14.553.007**
- Sales		11.411.421	11.614.966
- Services		2.880.257	2.938.041
Changes in inventories of finished goods		**136**	**(1.142)**
In-house work on non-current assets		**152.119**	**202.534**
Procurements:	Note 24.2	**(9.898.690)**	**(10.148.659)**
Other operating income		**182.782**	**267.309**
Staff costs	Note 24.3	**(2.587.844)**	**(2.631.290)**
Other operating expenses	Note 24.4	**(1.412.102)**	**(1.507.898)**
Depreciation and amortisation charge	Notes 5, 6 & 8	**(549.716)**	**(515.599)**
Allocation to profit or loss of grants related to non-financial non-current assets and other grants		**124**	**13**
Excessive provisions, impairment and gains or losses on disposals of non-current assets	Notes 5 & 8	**7.302**	**116.769**
PROFIT FROM OPERATIONS		**185.788**	**335.045**
Finance income	Note 24.5	**29.500**	**25.039**
Finance costs	Note 24.5	**(305.459)**	**(250.805)**
Change in the fair value of financial instruments	Notes 12 & 20	**12.723**	**(1.616)**
Result of companies accounted for using the equity method	Note 10	**697**	**740**
Exchange differences		**(741)**	**1.301**
Impairment and gains or losses on disposals of financial instruments		**92.610**	**(1.327)**
PROFIT BEFORE TAX		**15.119**	**108.377**
Income tax	Note 23	126.370	13.769
PROFIT FROM CONTINUING OPERATIONS		**141.489**	**122.147**
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	Note 2.9.9	**32.860**	**42.020**
PROFIT FOR THE YEAR		**174.349**	**164.167**
Profit attributable to non-controlling interests	Note 16	**(1.988)**	**(989)**
PROFIT ATTRIBUTABLE TO THE PARENT		**172.361**	**163.178**

(*) Included for comparison purposes (see Note 2.5)

The accompanying Notes 1 to 28 are an integral part of the consolidated income statement for the year ended 28 February 2014.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2013

(In thousands of euros)

	Notes	2013	2012
I. PROFIT PER INCOME STATEMENT (I)		**174.349**	**164.167**
III.a) Income and expense recognised directly in equity			
- Revaluation of financial instruments	Note 16.5	31.518	31.624
- Cash flow hedges	Note 20	(75.294)	(13.865)
- Translation differences		(3.326)	1.019
- Tax effect	Note 23.2	13.133	(5.328)
TOTAL income and expense recognised directly in equity		(33.969)	13.450
III.b) Transfers to profit or loss			
- Revaluation of financial instruments	Note 16.5	(17.954)	8.283
- Cash flow hedges	Note 20	21.537	24.991
- Tax effect		(1.075)	(9.982)
TOTAL transfers to profit or loss		2.508	23.292
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		142.888	200.909
TOTAL INCOME AND EXPENSE ATTRIBUTABLE TO THE PARENT		140.900	199.920
TOTAL INCOME AND EXPENSE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		1.988	989

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of comprehensive income for the year ended 28 February 2014.

EL CORTE INGLÉS CONSOLIDATED GROUP
CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR 2013

		Reserves												
	Share Capital	Revaluation Reserve	Legal Reserve	Canary Islands Investment Reserve	Voluntary Reserve	Reserve for Goodwill	Reserve for Retired Capital	Total	Treasury Shares	Reserves of Consolidated Companies	Consolidated Profit for the Year	Valuation Adjustments and Translation Differences	Non-Controlling Interests	Total
BALANCE AT 2011 YEAR-END	**486.864**	**139.758**	**97.373**	**60.000**	**4.705.842**	**10.688**	**639**	**5.014.300**	**(315.679)**	**2.054.553**	**210.190**	**(43.040)**	**15.161**	**7.422.349**
Changes in scope of consolidation									(562.295)					(562.295)
Adjustments due to conversion to IFRS 1(Note 2.4)		1.702.631			(506.916)			1.195.715		(144.612)		(414)		1.050.689
ADJUSTED BALANCE AT BEGINNING OF 2012	**486.864**	**1.842.389**	**97.373**	**60.000**	**4.198.926**	**10.688**	**639**	**6.210.015**	**(877.974)**	**1.909.941**	**210.190**	**(43.454)**	**15.161**	**7.910.743**
Total recognised income and expense											**163.178**	**36.742**	**989**	**200.909**
Transactions with shareholders					**252.302**			**252.302**	**(99.425)**	**(85.641)**	**(210.190)**			(142.954)
- Distribution of 2011 profit					252.302			252.302		(85.641)	(210.190)			(43.529)
Dividends											(43.529)			(43.529)
To reserves					252.302			252.302		(85.641)	(166.661)			
- Treasury share transactions (net)									(99.425)					(99.425)
- Other transactions														
Other changes in equity					(64.320)			(64.320)		(21.904)			339	(85.885)
ADJUSTED BALANCE AT BEGINNING OF 2013	**486.864**	**1.842.389**	**97.373**	**60.000**	**4.386.908**	**10.688**	**639**	**6.397.997**	**(977.399)**	**1.802.396**	**163.178**	**(6.712)**	**16.489**	**7.882.813**
Total recognised income and expense											**172.361**	**(31.461)**	**1.988**	**142.888**
Transactions with shareholders					**212.752**			**212.752**	**(50.421)**		**(163.178)**			**(847)**
- Distribution of 2012 profit					212.752			212.752		(92.284)	(163.178)			(42.710)
Dividends											(42.710)			(42.710)
To reserves					212.752			212.752		(109.903)	(120.468)			
- Treasury share transactions (net)									(50.421)					(50.421)
Other changes in equity				(15.000)	15.000					(68.512)			(807)	(69.319)
BALANCE AT END OF 2013	**486.864**	**1.842.389**	**97.373**	**45.000**	**4.614.660**	**10.688**	**639**	**6.610.749**	**(1.027.820)**	**1.623.981**	**172.361**	**(38.173)**	**17.670**	**7.845.632**

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of changes in total equity for the year ended 28 February 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2013

(In thousands of euros)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**1.734.552**	**364.324**
Profit for the year before tax		15.119	108.377
Adjustments for:		**746.641**	**659.740**
- Depreciation and amortisation charge	Notes 5, 6 & 8	549.716	515.599
- Impairment losses	Note 5	(14.812)	(9.735)
- Changes in provisions		14.731	(4.144)
- Gains/Losses on derecognition and disposal of non-current assets	Note 5	(7.221)	(102.890)
- Gains/Losses on derecognition and disposal of financial instruments		(92.610)	(7.191)
- Finance income	Note 24.5	(29.500)	(25.039)
- Finance costs	Note 24.5	305.459	250.805
- Exchange differences		741	(1.301)
- Change in fair value of financial instruments	Notes 12 & 20	(12.723)	1.616
- Other income and expenses	Note 2.9.9	32.860	42.020
Changes in working capital		**1.254.469**	**(173.057)**
- Inventories		(41.112)	(27.767)
- Trade and other receivables		1.349.162	199.615
- Other current assets		42.844	(22.548)
- Trade and other payables		18.831	(455.714)
- Other current liabilities		(23.271)	(13.638)
- Other non-current assets and liabilities		(91.985)	146.995
Other cash flows from operating activities		**(281.677)**	**(230.736)**
- Interest paid		(305.459)	(250.805)
- Dividends received		2.663	202
- Interest received		26.837	24.837
- Income tax recovered (paid)		(5.718)	(4.970)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(293.434)**	**(527.942)**
Payments due to investment		**(476.397)**	**(750.998)**
- Group companies and associates		(8.911)	(64.265)
- Intangible assets	Note 8	(97.544)	(83.778)
- Property, plant and material	Note 5	(298.096)	(513.392)
- Other financial assets		(71.846)	(89.563)
Proceeds from disposals		**182.963**	**223.056**
- Group companies and associates		25.449	840
- Intangible assets, property, plant and equipment and property assets		12.556	152.476
- Other financial assets		144.958	69.740
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(1.456.103)**	**76.552**
Proceeds and payments relating to equity instruments		**(53.746)**	**(98.406)**
- Acquisition of own equity instruments		(50.421)	(99.425)
- Translation differences		(3.325)	1.019
Proceeds and payments relating to financial liability instruments		**(1.359.647)**	**218.487**
- Debt instruments and other marketable securities		-	20.636
- Proceeds from issue of bank borrowings		-	112.445
- Proceeds from issue of borrowings from Group companies and associates		-	133.252
- Proceeds from issue of other borrowings		75.861	51.561
- Redemption of debt instruments and other marketable securities		(35.010)	-
- Repayment of bank borrowings		(1.036.167)	-
- Repayment of borrowings from Group companies and associates		(322.270)	-
- Repayment of other borrowings		(42.061)	(99.407)
Dividends and returns on other equity instruments paid		**(42.710)**	**(43.529)**
- Dividends		(42.710)	(43.529)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**(741)**	**1.301**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(15.726)**	**(85.765)**
Cash and cash equivalents at beginning of year		105.833	191.598
Cash and cash equivalents at end of year		90.107	105.833

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of cash flows for the year ended 28 February 2014.

CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

EL CORTE INGLÉS CONSOLIDATED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2014

1. GROUP ACTIVITIES AND IDENTIFICATION DATA

The Parent, El Corte Inglés, S.A. ("the Company") is a company incorporated in Spain in conformity with the Spanish Companies Law. Its registered office is at Calle Hermosilla, 112, Madrid.

El Corte Inglés, S.A. and its consolidated subsidiaries engage principally in the retail sale of consumer goods and in the provision of a wide range of services (travel, insurance brokerage, insurance, financial and other services), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and branches.

The Parent is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately, which also include the interests in joint ventures and investments in associates. The consolidated financial statements of the El Corte Inglés Group ("the Group") for the year ended 28 February 2014 were formally prepared by the Parent's directors at the Board of Directors Meeting held on 29 May 2014 and will be submitted for approval by the shareholders at the Annual General Meeting. It is considered that they will be approved without any changes. The consolidated financial statements for 2012 were approved by the shareholders at the Annual General Meeting of El Corte Inglés, S.A. on 25 August 2013 and were filed at the Mercantile Registry of Madrid.

The business year of El Corte Inglés, S.A. and that of most of its subsidiaries commences on 1 March of each year and ends on 28 February of the following year (29 February in leap years). In these consolidated financial statements, the twelve-month period ending 28 February 2014 is referred to as "2013", that ending on 28 February 2013 is referred to as "2012" and so on.

The consolidated El Corte Inglés Group companies (none of which are listed) and related information thereon at 28 February 2014 are as follows:

COMPANY			LINE OF BUSINESS	LOCATION	AUDITOR	PERCENTAGE OF OWNERSHIP DIRECT	INDIRECT
PARENT							
EL CORTE INGLÉS, S.A.	(a)		Department stores	Madrid	Deloitte	-	-
GROUP COMPANIES							
HIPERCOR, S.A.	(a)		Hypermarkets	Madrid	Deloitte	100,00	-
CONSTRUCCIÓN, PROMOCIONES E INSTALACIONES, S.A.	(a)		Construction and installation work	Madrid	Deloitte	100,00	-
EDITORIAL CENTRO DE ESTUDIOS RAMÓN ARECES, S.A.	(a)		Publishing house	Madrid	Deloitte	100,00	-
CENTRO DE SEGUROS Y SERVICIOS. CORREDURÍA DE SEGUROS, S.A., GRUPO DE SEGUROS EL CORTE INGLÉS	(b)		Insurance brokerage	Madrid	Deloitte	100,00	-
SEGUROS EL CORTE INGLÉS, VIDA, PENSIONES Y REASEGUROS, S.A.	(b)		Insurance	Madrid	Deloitte	100,00	-
E.C.I. HONG - KONG	(b)		Central buying entity	China	Baker Tilly China	90,00	10,00
E.C.I. SHANGHAI	(b)		Central buying entity	China	Baker Tilly China	100,00	-
TIENDAS DE CONVENIENCIA, S.A.	(a)		Convenience stores	Madrid	Deloitte	100,00	-
SUPERCOR, S.A.	(a)		Supermarkets	Madrid	Deloitte	100,00	-
CANAL CLUB DE DISTRIBUCIÓN DE OCIO Y CULTURA, S.A.	(a)		Direct mail-order and teleshopping sales	Madrid	Deloitte	74,95	-
EL CORTE INGLÉS-GRANDES ARMAZÉNS, S.A.	(a)		Department stores	Portugal	Deloitte	99,56	-
BRICOR, S.A.	(a)		DIY product sales	Madrid	Deloitte	100,00	-
PERFUMES Y COSMÉTICOS GRAN VIA S.L.	(a)		Sales of perfume and cosmetics	Madrid	Deloitte	55,00	-
URIA VEINTE, S.A.U.	(a)		Property leasing	Madrid	-	99,05	-
CONFECCIONES TERUEL, S.A.U.	(a)		Garment manufacturing	Madrid	B.D.O.	100,00	-
INDUSTRIAS DEL VESTIDO, S.A.U.	(a)		Garment manufacturing	Madrid	B.D.O.	100,00	-
SEINVE, S.A.U.	(a)		Sale of clothes and accessories	Madrid	B.D.O.	100,00	-
INGONDEL, S.L.	(a)		Holding company	Madrid	-	100,00	
ÓPTICA 2000 SUBGROUP							
ÓPTICA 2000, S.L.	(a)		Sales of optical products and services	Barcelona	Deloitte	100,00	-
GALLERY DA VISAO - SERVIÇOS DE ÓPTICA UNIPESSOAL, L.D.A.	(a)		Sales of optical products and services	Portugal	-	-	100,00
SFER SUBGROUP							
SFERA JOVEN, S.A.	(a)		Sale of clothes and accessories	Madrid	Deloitte	100,00	-
MODA JOVEN SFERA MÉXICO, S.A. DE C.V.	(b)		Sale of clothes and accessories	Mexico	PWC	-	51,00
PARINVER SUBGROUP							
PARINVER, S.A.	(a)		Holding company	Madrid	-	100,00	-
PUBLICIDAD PUNTO DE VENTA ECI, S.A.	(a)		Exploitation of advertising rights	Madrid	Deloitte	-	100,00
VIAJES EL CORTE INGLÉS SUBGROUP							
VIAJES EL CORTE INGLÉS, S.A.	(a)		Travel agency	Madrid	Deloitte	100,00	-
VIAJES EL CORTE INGLÉS, Inc.	(a)		Travel agency	United States	-	-	100,00
VIAJES EL CORTE INGLÉS, S.A. DE C.V.	(b)		Travel agency	Mexico	-	-	96,00
VIAJES EL CORTE INGLÉS ARGENTINA, S.A.	(b)		Travel agency	Argentina	-	-	100,00
VIAJES EL CORTE INGLÉS PERÚ, S.A.	(b)		Travel agency	Peru	-	-	100,00
ASESORES DE VIAJE, S.A.	(b)		Travel agency	Chile	-	-	100,00
VIAJES EL CORTE INGLÉS R. DOMINICANA S.R.L	(b)		Travel agency	Dominican Republic	-	-	100,00
VIAJES EL CORTE INGLÉS COLOMBIA, S.A.	(b)		Travel agency	Colombia	-	-	100,00
TOURMUNDIAL URUGUAY, S.A.	(b)		Travel agency	Uruguay	-	-	100,00
VIAJES EL CORTE INGLÉS R. PANAMA	(b)	(c)	Travel agency	Panama	-	-	100,00
FST HOTELS, S.A.	(b)		Hotel management	Palma de Mallorca	Deloitte	-	50,00
INFORMÁTICA EL CORTE INGLÉS SUBGROUP							
INFORMÁTICA EL CORTE INGLÉS, S.A.	(a)		Sale of computer products and services	Madrid	Deloitte	100,00	-
INFORMÁTICA EL CORTE INGLÉS MÉXICO, S.A. DE C.V.	(b)		Sale of computer products and services	Mexico	-	-	100,00
INFORMÁTICA EL CORTE INGLÉS REPÚBLICA DOMINICANA, S.A.	(b)		Sale of computer products and services	Dominican Republic	-	-	100,00
INFORMÁTICA EL CORTE INGLÉS PERÚ, S.A.	(b)		Sale of computer products and services	Peru	-	-	100,00
INFORMÁTICA EL CORTE INGLÉS BRASIL, L.T.D.A.	(b)		Sale of computer products and services	Brazil	-	-	100,00
INFORMÁTICA EL CORTE INGLÉS COLOMBIA, S.A.S	(b)		Sale of computer products and services	Colombia	-	-	100,00
HIKU DOCUMENT SERVICES S.A.P.I. DE C.V.	(b)		Sale of computer products and services	Mexico	-	-	50,00
INVESTRÓNICA, S.A.	(a)		Sale of computer products and services	Madrid	Deloitte	-	100,00
TELECOR, S.A.	(a)		Sale of telecommunications products and services	Madrid	Deloitte	-	100,00
ASÓN INMOBILIARIA DE ARRIENDOS SUBGROUP							
ASÓN INMOBILIARIA DE ARRIENDOS, S.L.	(a)		Property leasing	Madrid	A.B. Auditores	100,00	-
ESGUEVA, S.A.	(a)		Property leasing and organisation of events	Madrid	-	-	100,00
ÍZARO FILMS, S.A.	(a)		Property leasing	Madrid	-	-	100,00
JOINTLY CONTROLLED ENTITIES							
GESTIÓN DE PUNTOS DE VENTA, GESPEVESA, S.A.	(b)		Service stations and convenience stores	Madrid	Deloitte	50,00	-
SEPHORA COSMÉTICOS ESPAÑA, S.L.	(b)		Sales of perfume and cosmetics	Madrid	Deloitte	50,00	-
CITOREL , S.L.	(a)		Marketing of jewellery and watches	Madrid	-	50,00	-
ASSOCIATES							
FINANCIERA EL CORTE INGLÉS E.F.C., S.A.	(b)		Finance	Madrid	Deloitte	49,00	-
OTHER COMPANIES	(b)						

Amounts in thousands of euros

(a) Year ended 28/02/14
(b) Year ended 31/12/13
(c) Inclusions in the scope of consolidation in 2013

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND BASIS OF CONSOLIDATION

2.1. Basis of presentation

The consolidated financial statements of the El Corte Inglés Group were prepared on the basis of the accounting records kept by El Corte Inglés, S.A. (the Parent) and by the other Group companies, and were formally prepared by the Parent's directors at the Board of Directors meeting held on 29 May 2014 and, accordingly, they present fairly the Group's equity and financial position at 28 February 2014, and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

These consolidated financial statements were prepared in accordance with the regulatory financial reporting framework applicable to the Group and, in particular, with International Financial Reporting Standards as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council. The principal mandatory accounting policies and measurement bases applied, the alternative treatments permitted by the relevant legislation in this connection and the standards and interpretations issued but not yet in force at the date of formal preparation of these consolidated financial statements are summarised in Note 4.2.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2013 (International Financial Reporting Standards) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with the International Financial Reporting Standards adopted in Europe.

2.2. Accounting principles applied

The Parent's directors formally prepared these consolidated financial statements taking into account all the mandatory accounting principles and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 4.2.

2.3. Accounting judgements and estimates

The information in these consolidated financial statements is the responsibility of the Parent's directors.

In preparing the accompanying consolidated financial statements estimates were made by the Parent's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets including goodwill.
- The measurement of inventories using the retail method.
- The useful life of intangible assets, property, plant and equipment and investment property.
- The fair value of certain financial instruments.
- The calculation of the value of provisions.
- The recoverability of deferred tax assets.
- Estimates of onerous contract commitments.

Although these estimates were made on the basis of the best information available at 28 February 2014 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with current legislation, recognising the effects of the change in estimates in the consolidated income statement.

2.4. First-time adoption of International Financial Reporting Standards

The Group’s consolidated financial statements for the year ended 28 February 2014 were the first to be prepared in accordance with International Financial Reporting Standards (IFRSs). The last financial statements presented in accordance with Spanish GAAP were those for the year ended 28 February 2013 and, accordingly, the date of transition to the current standards (IFRSs) is 1 March 2012.

With respect to the previous regulations in force on the date of formal preparation of the Group's consolidated financial statements for 2012, these international standards represent significant changes in the accounting policies, measurement bases and presentation of these consolidated financial statements and a considerable increase in the volume of disclosures in the notes to the consolidated financial statements.

With regard to IFRS 1, First-time Adoption of International Financial Reporting Standards, the El Corte Inglés Group took the following options:

- The business combinations occurring before the date of transition, i.e. 1 March 2012, were not restated.
- In general, deemed cost was taken to be the cost recognised in the accounting records under Spanish GAAP (net cost revalued pursuant to the applicable legislation). However, in accordance with the option provided for under IFRSs, the Group measured at fair value (based on the appraisals of independent valuers, which will now be the deemed cost) certain properties and other non-current asset items recognised under "Property, Plant and Equipment", "Investment Property" and "Other Intangible Assets" where certain of the Parent's and investees' properties are located. The gross positive effect of the conversion on the consolidated balance sheet at 1 March 2012 amounted to EUR 2,376 million, and reserves increased by EUR 1,664 million.
- No financial assets or liabilities were derecognised.

The main options taken by the El Corte Inglés Group in relation to the other IFRSs are as follows:

- To classify its consolidated balance sheet items as current and non-current.
- To present a consolidated income statement and a consolidated statement of comprehensive income for the year (consolidated statement of recognised income expense).
- To present the consolidated statement of cash flows using the indirect method.
- To measure property, plant and equipment, investment property and intangible assets using the cost model.
- To maintain the same method for capitalising the borrowing costs relating to its non-current assets.

- To proportionately consolidate interests in joint ventures (Gestión de Puntos de Venta Gespevesa, S.A., Sephora Cosméticos España, S.L., Cirtorel, S.L., FST Hotels, S.L. and Hiku Document Services, S.A.P.I. de C.V.) as permitted by IAS 31 until the entry into force of IFRS 11 (see Note 4.1).

As a result of the transition to International Financial Reporting Standards, certain provisions were adjusted, giving rise to a negative impact on reserves of EUR 44 million.

In addition, a new inventory valuation method was adopted (see Note 4.2.7), which gave rise to a negative effect on "Inventories" and "Reserves" of EUR 672.1 million and EUR 569 million, respectively, in the consolidated balance sheet at 1 March 2012, as well as a reduction in net profit amounting to EUR 7.3 million in the consolidated income statement for 2012.

The most significant reconciliation items between the financial statements prepared under International Financial Reporting Standards and the balances of the financial statements presented in accordance with Spanish GAAP at both 28 February 2013 and 1 March 2012 (transition date), are disclosed in the preceding sections of this Note.

2.5. Comparative information

As required by current standards, the information relating to 2012 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with similar information relating to 2013 and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2012.

2.6. Functional currency

These consolidated financial statements are presented in thousands of euros. Foreign operations are recognised in accordance with the policies established in Note 4.2.9.

2.7. Grouping of items

Certain items in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

2.8. Changes in accounting criteria, accounting policies and correction of errors

In 2013 there were no significant changes in accounting criteria with respect to those discussed in Note 2.4.

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2012.

2.9. Basis of consolidation

2.9.1 Consolidation methods

The Group's subsidiaries, considered to be the companies over which effective control is exercised by virtue of ownership of a majority of the voting power in their representation and decision-making bodies, were fully consolidated. Joint ventures (jointly controlled entities) -entities managed jointly with third parties on the basis of contractual arrangements- were proportionately consolidated. Associates, i.e. the companies not classified as subsidiaries or joint ventures over whose management the Group is in a position to exercise significant influence, were accounted for using the equity method.

2.9.2 Subsidiaries

Subsidiaries are defined as companies over which the Parent has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Parent control. In accordance with IFRSs, control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. These companies are indicated in Note 1 to these consolidated financial statements.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of the subsidiaries to adapt the accounting policies used to those applied by the Group.

The identified assets acquired and the liabilities or contingent liabilities assumed in a business combination are measured at their fair value at date of acquisition on which control is obtained, as indicated in current standards. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill in the consolidated balance sheet. Any negative difference between the cost of acquisition in relation to the fair values of the identifiable net assets acquired is recognised at the acquisition date in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

The interest of non-controlling shareholders is stated at their proportion of the fair values of the assets and liabilities recognised.

The share of third parties in the equity and profit or loss of the fully consolidated companies is presented under “Non-Controlling Interests” on the liability side of the accompanying consolidated balance sheet at 28 February 2014 and under “Profit/Loss Attributable to Non-Controlling Interests” in the accompanying consolidated income statement for 2013.

2.9.3 Joint ventures

A joint venture is a contractual arrangement whereby two or more companies (“venturers”) have interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

The financial statements of jointly controlled entities are proportionately consolidated with those of the Parent, since the Group applied this option provided for in the current standards and, therefore, the aggregation of balances and subsequent eliminations are only made in proportion to the Group's ownership interest in the capital of these entities.

The assets and liabilities assigned by the Group to jointly controlled operations and the Group’s share of the jointly controlled assets are recognised in the consolidated balance sheet classified according to their specific nature. Similarly, the Group’s share of the income and expenses of joint ventures is recognised in the consolidated income statement on the basis of the nature of the related items. The most significant interests in the Group’s joint ventures in existence at the end of 2013 are summarised in Note 1.

2.9.4 Associates

Associates are companies over whose management the Group exercises significant influence, which is understood to be the power to influence the investee’s financial and operating policy decisions, but not control or joint control. As a general rule, associates are deemed to be those companies in which the Group holds a direct or indirect ownership interest of 20% or more in the share capital or of the voting power in its governing bodies.

Investments in associates are accounted for using the equity method, whereby they are initially recognised at acquisition cost. Subsequently, at each reporting date, they are accounted for using the equity method, which represents the Group's share of net assets of the associate, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group’s interest in the associate.

The excess of the cost of acquisition over the Group's share of the fair value of the net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the fair value of the net assets of the associate over acquisition cost at the acquisition date is recognised in the consolidated income statement.

The profit or loss after tax of the associates is included in the Group’s consolidated income statement under "Result of Companies Accounted for Using the Equity Method”, in proportion to the percentage of ownership.

If as a result of losses incurred by an associate its equity were negative, the investment should be presented in the Group’s consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

These entities are detailed in Note 1.

2.9.5 Intra-Group elimination

All amounts receivable and payable, and transactions performed among the subsidiaries, associates and joint ventures were eliminated on consolidation.

In the case of jointly controlled entities, intra-Group receivables, payables, income and expenses were eliminated in proportion to the Group's ownership interest in the capital of these entities.

2.9.6 Valuation standardisation

The Spanish resident companies included in the scope of consolidation were consolidated on the basis of their separate financial statements prepared in accordance with the Spanish National Chart of Accounts and foreign companies were consolidated in accordance with local standards. All material adjustments required to adapt these financial statements to International Financial Reporting Standards and/or make them compliant with the Parent's accounting policies were considered in the consolidation process.

2.9.7 Companies with a reporting date other than that of the Group

The companies with a reporting date other than that of the consolidated financial statements were consolidated using the financial statements at their reporting date (31 December 2013 – see Note 1). The significant transactions carried out between the reporting date of these subsidiaries and that of the consolidated financial statements are subject to a temporary unification process.

2.9.8 Translation of financial statements denominated in foreign currency

The financial statements of companies which are prepared in currencies other than the euro were translated to euros as follows:

a) Assets and liabilities: at the year-end exchange rate.
b) Capital and reserves: at the historical exchange rate.
c) Revenue and expenses: at the monthly average exchange rate for the year.

The difference resulting from the application of these translation methods is included under "Equity – Translation Differences" in the consolidated balance sheet.

2.9.9 Changes in the scope of consolidation

Having fulfilled the conditions precedent (authorisation from the competent regulatory bodies, etc.), on 27 February 2014 the Parent sold 51% of the shares of Financiera El Corte Inglés E.F.C., S.A. to Banco Santander Consumer Finance S.A. pursuant to the purchase and sale agreement entered into on 7 October 2013. This sale gave rise to a gain that was recognised under "Impairment and Gains or Losses on Disposals of Financial Instruments – Gains/Losses on Disposals and Other".

As a result of the above, the Parent lost control over Financiera El Corte Inglés E.F.C., S.A. which was therefore accounted for using the equity method for the 49% remaining ownership interest (see Note 10).

Based on the foregoing, in accordance with current accounting legislation, the income and expenses of Financiera El Corte Inglés E.F.C., S.A. for 2013 and 2012 were reclassified and presented in the accompanying consolidated income statement for each period as net profit from discontinued operations, the effects of which are summarised in the following detail:

	2013 12 Months	2012 12 Months
Other operating expenses and income	(9,292)	20,332
Staff costs	(23,309)	(25,435)
Other	(307)	155
Loss from operations	(32,908)	(4,948)
Finance income and costs	80,536	66,132
Other	(916)	(1,213)
Financial profit	79,620	64,919
Profit before tax	46,713	59,971
Income tax	(13,853)	(17,951)
Profit from continuing operations	32,860	42,020

Amounts in thousands of euros.

In 2012 the draft terms of merger were approved between the Parent (absorbing company) and Industrias y Confecciones S.A. (absorbed company). Given that Industrias y Confecciones S.A. had already been included in the scope of consolidation since 2011, since the Parent exercised control over it, the main effect of this merger on the consolidated financial statements was a decrease in reserves amounting to EUR 64,320 thousand, with total investment made of EUR 44,519 thousand.

2.9.10 Non-consolidated subsidiaries

"Receivable from Group Companies and Associates" and "Payables to Group Companies and Associates" include the balances with companies accounted for using the equity method and with the Group companies which were not consolidated because they were scantly material.

3. DISTRIBUTION OF THE PARENT'S PROFIT

The distribution of profit proposed by the Parent's directors consists of the payment of a dividend equal to EUR 25 million to be distributed proportionately for each existing share eligible to receive it. The proposed distribution is calculated as follows:

	Thousands of Euros
Dividends	25,000
To voluntary reserves	241,519
TOTAL	266,519

4. PRINCIPAL ACCOUNTING POLICIES

4.1. Adoption of new standards and interpretations issued

4.1.1 Standards and interpretations effective in 2013

In 2013 new accounting standards came into force and were therefore taken into account when preparing the accompanying consolidated financial statements.

Standards, amendments and interpretations:		Obligatory Application in Annual Reporting Periods Beginning On or After:
Approved for use in the EU		
Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income (issued in June 2011)	Minor amendments relating to the presentation of items of other comprehensive income	1 July 2013
IFRS 13, Fair Value Measurement (issued in May 2011)	Sets out a framework for measuring fair value	1 January 2013
Amendments to IAS 12, Income Taxes - Deferred Taxes Arising From Investment Property (issued in December 2010)	On the calculation of deferred taxes arising from investment property measured using the fair value model in IAS 40	1 January 2013
Amendments to IFRS 7, Offsetting Financial Assets and Financial Liabilities (issued in December 2011)	Introduction of new disclosures relating to the offsetting of financial assets and financial liabilities under IAS 32	1 January 2013
Improvements to IFRSs, 2009-2011 cycle (issued in May 2012)	Minor amendments to a series of standards	1 January 2013

4.1.2 Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Standards, amendments and interpretations:		Obligatory Application in Annual Reporting Periods Beginning On or After:
Approved for use in the EU		
IFRS 10, Consolidated Financial Statements (issued in May 2011)	Supersedes the requirements relating to consolidated financial statements in IAS 27	1 January 2014
IFRS 11, Joint Arrangements (issued in May 2011)	Supersedes the current IAS 31, Joint Ventures	1 January 2014
IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011)	Single IFRS presenting the disclosure requirements for interests in subsidiaries, associates, joint arrangements and unconsolidated entities	1 January 2014
IAS 27 (Revised), Separate Financial Statements (issued in May 2011)	The IAS is revised, since as a result of the issue of IFRS 10 it applies only to the separate financial statements of an entity	1 January 2014
IAS 28 (Revised), Investments in Associates and Joint Ventures (issued in May 2011)	Revision in conjunction with the issue of IFRS 11, Joint Arrangements	1 January 2014
Transition rules: Amendments to IFRS 10, 11 and 12 (issued in June 2012)	Clarification of the rules for transition to these standards	1 January 2014
Investment Entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (issued in October 2012)	Exception from consolidation for parent companies that meet the definition of investment entities	1 January 2014
Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities (issued in December 2011)	Additional clarifications to the rules for offsetting financial assets and financial liabilities under IAS 32	1 January 2014
Not yet approved for use in the EU		
IFRS 9, Financial Instruments: Classification and Measurement (issued in November 2009 and October 2010)	Replaces the IAS 39 classification, measurement and derecognition requirements for financial assets and liabilities	Not yet defined
Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date and Transition Disclosures (issued in December 2011) and Hedge Accounting and Other Amendments (issued in November 2013)	Deferral of the effective date of IFRS 9 and amendments to hedge accounting and transition requirements and disclosures	Not yet defined

Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013)	The amendments establish the cases in which -and subject to which criteria- there is no need to discontinue hedge accounting if a derivative is novated	1 January 2014
Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013)	Clarifies when certain disclosures are required and extends the disclosures required when recoverable amount is fair value less costs to sell	1 January 2014
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions (issued in November 2013)	The amendments were issued to allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met	1 January 2014
Improvements to IFRSs, 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)	Minor amendments to a series of standards	1 July 2014
IFRIC 21, Levies (issued in May 2013)	This interpretation addresses the accounting for a liability to pay a levy that is triggered by an entity undertaking an activity on a specified date	1 January 2014

- IFRS 9 - Financial Instruments:

  IFRS 9 will in the future replace IAS 39. The chapters on classification and measurement, and hedge accounting have already been issued. There are very significant differences with respect to the current standard, in relation to financial assets, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current “held-to-maturity investments” and “available-for-sale financial assets” categories, impairment analyses only for assets measured at amortised cost and the non-separation of embedded derivatives in financial asset contracts.

  In relation to financial liabilities, the classification categories proposed by IFRS 9 introduce a requirement to recognise changes in fair value relating to own credit risk as a component of equity in the case of the fair value option for financial liabilities.

- IFRS 10, Consolidated Financial statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (Revised), Separate Financial Statements and IAS 28 (Revised), Investments in Associates and Joint Ventures:

  IFRS 10 modifies the current definition of control. The new definition of control sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

  The fundamental change introduced by IFRS 11 with respect to the current standard is in the accounting treatment of joint ventures, since this type of joint arrangement will always be accounted for using the equity method, unlike the current option under IAS 31 of choosing between equity accounting and proportionate consolidation.

  IFRS 12 represents a single standard presenting the disclosure requirements for interests in other entities (whether these be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements.

  IAS 27 and IAS 28 are revised in conjunction with the issue of the aforementioned new IFRSs.

  Of this "package" of standards, IFRS 11 will foreseeably have a material effect on the El Corte Inglés Group's consolidated financial statements as the option that has been applied for the consolidation of joint ventures has been the proportionate consolidation of their financial statements (see Note 2.9.3). The Group's directors do not expect the application of this new standard to have a significant impact on the consolidated financial statements (see Note 11).

Except as described in the preceding paragraphs, the Group's directors do not expect significant changes to arise as a result of the introduction of other standards, amendments and interpretations that have been published but not yet come into force, since the standards are to be applied prospectively, the amendments relate to presentation and disclosure issues and/or the matters concerned are not applicable to the Group's operations.

4.2. Accounting policies

4.2.1. Goodwill

Any excess of the cost of the investments in the consolidated companies over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
- If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.
- The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired company that are not capable of being individually identified and separately recognised.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill arising on the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the acquiree and is translated to euros at the exchange rates prevailing at the balance sheet date.

Goodwill is not amortised but rather is tested for impairment at least once a year (see Note 4.2.5).

4.2.2. Other intangible assets

Other intangible assets are specifically identifiable non-monetary assets which have been acquired from third parties or developed by the consolidated companies. Only assets whose cost can be estimated objectively and from which future economic benefits are expected to be obtained are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

They are considered to have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated companies- or a finite useful life, in all other cases.

The only assets held by the Group with indefinite useful lives relate to goodwill and the value of certain trademarks which in 2013 were recognised under "Other Intangible Assets" at an amount of EUR 10.69 million (2012: EUR 10.69 million) and EUR 26.92 million (2012: EUR 30.35 million), respectively.

Based on an analysis of all of the relevant factors, the Group has established that there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the entity and, therefore, these trademarks are regarded as having an indefinite useful life.

Intangible assets with finite useful lives are amortised using the straight-line method, applying annual amortisation rates determined on the basis of the years of the estimated useful lives of the related assets.

The consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to "Impairment and Gains or Losses on Disposals of Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the subsequent recovery thereof are detailed in Note 4.2.5. Intangible assets with indefinite useful lives are not amortised and are tested for impairment at least once a year using the same methodology as for goodwill (see Note 4.2.5).

a) Development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Development expenditure is recognised as an intangible asset only if all of the following conditions are met:

– it is specifically itemised by project;
– the development cost of the asset can be measured reliably; and
– it is probable that the asset created will generate future economic benefits.

Assets thus generated are amortised on a straight-line basis over their years of useful life (over a maximum period of five years).

At 28 February 2014 and 2013, these assets were fully amortised.

When there are doubts as to the technical success or economic profitability of the related project, the amounts capitalised are recognised directly in the consolidated income statement for the year.

b) Intellectual property

“Intellectual Property" is charged for the amounts paid for the acquisition of title to or the right to use the related items (patents, trademarks, licences), or for the expenses incurred in registration of the rights developed by the Group.

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

The Group treats certain trademarks as assets with indefinite useful lives, which are tested for impairment at least once a year using the criteria established in Note 4.2.5.

Other assets classified as intellectual property, which is considered to have a finite useful life, are amortised on a straight-line basis, generally over five years.

c) Administrative concessions

Concessions may only be recognised as assets when they have been acquired by the Company for consideration (in the case of concessions that can be transferred) or for the amount of the expenses incurred to directly obtain the concession from the related agency.

Administrative concessions recognised by the Group include the amounts paid to acquire the construction and operating rights of certain premises and are amortised on a straight-line basis over the term thereof.

d) Computer software

The acquisition and development costs incurred in relation to the basic computer systems used in the Group’s management are recognised with a charge to “Other Intangible Assets” in the consolidated balance sheet.

Computer software maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over five years from the entry into service of each application.

e) Leasehold assignment rights

Leasehold assignment rights are measured at the amount paid on acquisition and are amortised over ten years, the period in which they are estimated to contribute to the generation of income.

4.2.3. Property, plant and equipment

Items of property, plant and equipment acquired for use in the production or supply of goods or services or for administrative purposes are stated in the consolidated balance sheet at acquisition or production cost less any accumulated depreciation and any recognised impairment losses.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Acquisition cost includes professional fees and borrowing costs incurred during the financing of the work in progress due to investments in new stores, the execution period of which exceeds one year, until the aforementioned work is transferred to the corresponding “Property, Plant and Equipment” account.

The interest rate used is the Group's average financing rate.

Property, plant and equipment upkeep and maintenance expenses are recognised in the consolidated income statement for the year in which they are incurred.

The balances of assets retired as a result of modernisation or for any other reason are derecognised from the related cost and accumulated depreciation accounts.

In-house work on non-current assets is recognised at accumulated cost (external costs, internal costs calculated on the basis of in-house consumption of warehouse materials, and manufacturing costs incurred).

Property, plant and equipment are depreciated using the straight-line method, where the cost of the assets is distributed over the following years of estimated useful life:

	Years
Buildings	33 – 85
Machinery, fixtures and tools	3.5 – 17
Furniture and fittings	3.5 – 15
Computer hardware	4 – 6
Transport equipment	5 – 15

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income.

Assets held under finance lease

Assets held under finance leases are recognised in the corresponding asset category and are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

4.2.4. Investment property

"Investment Property" in the consolidated balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

Investment property is stated at acquisition cost and for all purposes the Group applies the same policies as those used for property, plant and equipment of the same kind (see Note 4.2.3).

The rental income earned in 2013 from investment property amounted to approximately EUR 2.75 million, and this amount is recognised in "Other Operating Income" in the accompanying consolidated income statement.

4.2.5. Impairment of non-current assets

At the end of each reporting period and whenever there are indications of impairment, the Group reviews the carrying amounts of its property, plant and equipment, investment property and intangible assets (including goodwill and intangible assets with indefinite useful lives) in order to determine whether their recoverable amount is lower than their carrying amount (impairment loss). In the case of goodwill and intangible assets with indefinite useful lives the impairment tests are performed at least once a year, or more frequently if there are indications of impairment.

Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The Group has defined each of the commercial premises comprising its retail network (department stores, hypermarkets, supermarkets, convenience stores and branches) as basic cash-generating units (CGUs). However, when determining CGUs, these basic units can be aggregated to geographical-area level depending on the actual management of operations.

The Group's assets (offices, warehouses, logistics centres, etc.) that do not meet the criteria mentioned above are treated separately as described in this Note.

Recoverable amount is the higher of fair value less costs to sell and value in use.

Fair value is considered to be the value at which the asset in question may be sold under normal conditions and is determined on the basis of market information, comparable transactions, etc.

Value in use is calculated, for each cash-generating unit, on the basis of the estimated future cash flows, discounted at a rate that reflects current market assessments of the time value of money, adjusted for the risks specific to the asset that were not taken into account when estimating the future cash flows.

The Group prepares forecasts of project cash flows for each cash-generating unit, generally for a period of five years, including the best available estimates of the income and costs using industry forecasts, past experience and future expectations (or the company's budgets, business plans, etc.).

Also, a residual value is calculated on the basis of the normalised cash flows of the last year of the forecast, to which a perpetuity growth rate is applied which under no circumstances exceeds the growth rates of previous years. The cash flow used to calculate residual value takes into account the replacement investments required for the continuity of the business in the future at the estimated growth rate.

These cash flows are discounted using the weighted average cost of capital, which is determined before taxes and adjusted for country-risk, the related business risk and other variables depending on the current market situation.

In 2013 the Group calculated their recoverable amount mainly as the fair value based on appraisals performed by independent valuers.

If it is considered that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense under “Impairment and Gains or Losses on Disposals of Assets” in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

At the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down. An impairment loss recognised for goodwill must not be reversed in a subsequent period.

At 2013 year-end the Group had recognised EUR 18.45 million (2012: EUR 63.8 million) million in relation to the impairment of certain items of property, plant and equipment, intangible assets and investment property.

Lastly, the recoverable amount of trademarks with indefinite useful life was determined on the basis of their value in use, using, as a general rule, cash flow projections based on five-year budgets.

4.2.6. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

a) Finance leases

In finance leases in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned (see Note 4.2.3).

The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

The finance charges arising under finance lease agreements are charged to the consolidated income statement so as to produce a constant periodic finance cost over the term of the agreements.

Contingent rent is recognised as an expense for the period in which it is incurred.

a) Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor, which recognises the assets at their acquisition cost.

When the consolidated companies act as the lessor, they present the acquisition cost of the leased asset under "Property, Plant and Equipment". These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items (see Note 4.2.3) and lease income is recognised in the income statement on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognised as an expense on a straight-line basis.

Incentives to enter into operating leases received and receivable are also recognised on a straight-line basis over the term of the lease.

4.2.7. Inventories

Inventories are measured using the retail method since the result of applying this method does not differ significantly from the actual cost of the related items.

The retail method calculates the costs of inventories based on selling price less an estimated gross profit percentage, which takes into account the selling price, any reductions that might be made to the selling price, the age of the goods and changes in seasons and trends, mainly in relation to fashion items. This method is applied consistently to all the Group's product families.

Using this method, at all times inventories are measured at the lower of cost and net realisable value.

4.2.8. Financial instruments

a) Financial assets

Measurement and classification-

Financial assets are recognised in the Group's balance sheet when they are acquired. Financial assets are initially recognised at fair value, including, in general, transaction costs.

Subsequent measurement will depend on the classification given to each financial asset by the Group. The financial assets held by the Group companies are classified in the following categories:

– Trade and other receivables and loans granted to third parties: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Group's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

  Trade and other receivables maturing at short-term are recognised at their nominal value, which is considered to be their fair value.

  As a general rule, impairment losses are recognised for these instruments when there are reasonable doubts as to their recovery. The aforementioned impairment losses are recognised with a charge to the consolidated income statement of the year in which the impairment becomes evident. The reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the year in which the impairment is reversed or reduced.

The El Corte Inglés charge card is accepted by most of the Group companies indicated in Note 1 as their customers' means of payment. Financiera El Corte Inglés E.F.C., S.A., which owns virtually all the cards, also handles the billing and collection of sales made with this card.

- Held-to-maturity investments: these relate to assets with fixed maturity and fixed or determinable payments which the Group has the positive intention and ability to hold to the date of maturity. These instruments are measured at amortised cost.

  Assets classified as guarantees and deposits relate mainly to amounts paid by Group companies to the owners of leased premises and are measured at the amounts given, which do not differ significantly from their fair value.

- Available-for-sale financial assets: these include debt securities and financial investments in other companies that are not classified in any of the aforementioned categories.

  Investments in companies that are not publicly listed are measured at acquisition cost, adjusted for any impairment losses disclosed, in the case of investments in unlisted companies, since it is not always possible to determine the fair value reliably.

  These items are measured at fair value when it is possible to determine it reliably, based on either the market price or, in the absence thereof, using the price established in recent transactions or at the discounted present value of the future cash flows. The gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of, at which time the cumulative gains or losses previously recognised in equity are recognised in the consolidated income statement for the year. If fair value is lower than acquisition cost and there is objective evidence that the asset has suffered an impairment loss that cannot be considered reversible, the difference is recognised directly in the consolidated income statement.

  At 28 February 2014, a portion of available-for-sale financial assets was measured against listed (and unadjusted) market prices and placed on level 1 of the fair value measurement hierarchy established in current standards.

- Other insurance-business financial assets : financial assets arising from insurance, coinsurance and reinsurance transactions are measured at amortised cost. The accrued interest is recognised in the consolidated income statement using the effective interest method.
- Cash and cash equivalents: cash consists of cash on hand and demand deposits at banks. Cash equivalents are short-term investments maturing in less than three months that are not subject to a significant risk of changes in value.
- Equity investments in Group companies, associates and jointly controlled entities

  These investments are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Derecognition of financial assets-

The Group derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have been transferred.

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

Reclassifications of financial assets-

In the years ended 28 February 2014 and 2013 no financial assets among the categories defined in the preceding paragraphs were reclassified.

b) Financial liabilities

Measurement and classification-

The financial liabilities held by the Group companies are classified as:

- Bank borrowings: bank loans are recognised at the amount received, net of arrangement costs and commissions. These loan arrangement and borrowing costs are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise. These liabilities are subsequently measured at amortised cost, using the effective interest method.
- Debt instruments and other marketable securities, trade payables and other financial liabilities: these are recognised initially at fair value and subsequently at amortised cost.

  Trade payables are not interest bearing and are stated at their nominal value, which does not vary substantially from their fair value.

Derecognition of financial liabilities-

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

c) Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Parent after deducting all of its liabilities.

Capital instruments issued by the Parent are recognised in equity at the proceeds received, net of issue costs.

Treasury shares-

Treasury shares are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in consolidated profit or loss.

The transactions involving treasury shares in 2013 are summarised in Note 16. The consolidated companies contribute 4,060,234 class "A" shares and 113,183 class "B" shares of El Corte Inglés, S.A. to the accompanying consolidated balance sheet.

d) Derivative financial instruments

The Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, these risks relate to changes in exchange rates and interest rates. In the framework of these transactions, the Group arranges derivative financial instruments designated as cash flow hedges, provided that the requirements of current standards in this connection are met.

Derivatives are initially recognised at fair value in the consolidated balance sheet and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. They are classified under "Non-Current Financial Assets" or "Current Financial Assets" in the consolidated balance sheet if they are positive and as "Non-Current Bank Borrowings" or "Current Bank Borrowings" if negative.

Changes in the fair value of the derivatives are recognised under "Equity - Valuation Adjustments - Hedges". The cumulative gain or loss under this heading is reclassified to the consolidated income statement to the extent that the hedged item affects the consolidated income statement, and the two effects are offset. Changes in the fair value of speculative derivatives are recognised in the consolidated income statement.

The fair value of the derivative financial instruments includes the adjustment for bilateral credit risk (taking into account own and counterparty credit risk).

The adjustment for bilateral credit risk (EUR 2.2 million at 28 February 2014) was calculated by applying a technique based on the calculation, using simulations, of expected total exposure (including both current and potential exposure) adjusted by the probability of default over time and by the loss severity (or potential loss) assigned to the Company and to each of the counterparties.

The total expected exposure of the derivatives is obtained by using observable market inputs, such as interest rate, exchange rate and volatility curves based on the market conditions at the measurement date.

The inputs applied to obtain own and counterparty credit risk (determination of probability of default) are based mainly on own credit spreads or those of instruments of comparable entities currently traded in the market (CDS curves, IRR on debt issues). Where Group or comparable company credit spreads were not available, in order to maximise the use of significant observable inputs, the most appropriate reference rates quoted on the market depending on each case were used (overall CDS curve). For counterparties with available credit information, the credit spreads used are obtained from the credit default swaps quoted on the market.

Furthermore, for the fair valuation adjustments for credit risk, credit enhancements relating to guarantees and collateral were also taken into consideration when determining the loss severity rate to be applied for each position.

Hedge accounting is discontinued when the hedging instrument expires or is sold or exercised, or no longer qualifies for hedge accounting.

At inception and periodically over the term of the hedge, or at least at the end of each reporting period, the Group verifies that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

Derivatives do not qualify for hedge accounting if they fail the effectiveness test, which requires the changes in the fair value or in the cash flows of the hedged item, directly attributable to the hedged risk, to be offset by the changes in the fair value or in the cash flows of the hedging instrument. If derivatives fail the effectiveness test, the changes in the fair value of these instruments are recognised in the income statement for the year.

At 28 February 2014, the fair value measurements of the various derivative financial instruments, including the data used for calculating the adjustment for own and counterparty credit risk, are at level 2 of the fair value measurement hierarchy established in current standards since the inputs are based on quoted prices in active markets for similar instruments (not included in level 1), quoted prices for identical or similar instruments in markets that are not active, and techniques based on valuation models for which all the significant inputs are observable in the market or may be corroborated by observable market data. Although the Group concluded that most of the inputs used for measuring the derivatives are at level 2 of the fair value hierarchy, the credit risk adjustments used level 3 inputs, such as credit estimates based on credit ratings or on comparable companies in order to assess the likelihood of default by the company or the counterparty. The Group assessed the significance of the credit risk adjustments in the total measurement of the derivative financial instruments and concluded that they are not significant.

4.2.9. Transactions in currencies other than the euro

The Group's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing on the balance sheet date. Any resulting gains or losses are recognised directly in the income statement.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the exchange rates prevailing at the date when the fair value was adjusted. The changes in the fair value of non-monetary assets and liabilities are recognised directly in equity.

In order to hedge its exposure to certain foreign currency risks, the Group enters into forward exchange contracts and options (see Note 4.2.8 for details of the Group's accounting policies in respect of such derivative financial instruments).

4.2.10. Income tax

The income tax expense represents the sum of the current tax expense and the change in deferred tax assets and liabilities.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill, for which amortisation is not deductible for tax purposes, or the initial recognition (except in the case of a business combination) of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss). The other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Income tax and changes in deferred tax assets and liabilities not arising from business combinations are recognised in full in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the profits or losses giving rise to them have been recognised.

Deferred tax assets and liabilities are not adjusted and are classified as non-current assets or liabilities in the consolidated balance sheet.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

In accordance with current tax legislation, El Corte Inglés, S.A. files consolidated tax returns with the Spanish subsidiaries in which it has an ownership interest of more than 75%, excluding those which, for industry regulation purposes, have a different reporting date from that of the Parent.

Since 1 January 2008, El Corte Inglés, S.A., as the Parent, has availed itself of the special taxation system for corporate groups envisaged in Title IX, Chapter IX of VAT Law 37/1992, together with certain Spanish subsidiaries.

4.2.11. Revenue recognition

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been substantially transferred to the buyer.

Rental income is recognised on a straight-line basis over the term of the lease.

"Services" in the accompanying consolidated income statement relate mainly to the travel agency and information and communication technology services.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably.

4.2.12. Provisions and contingencies

a) General approach:

The Group recognises provisions for the estimated amounts required to cover the liability arising from litigation in progress, indemnity payments or obligations and collateral and other guarantees provided which are highly likely to involve a payment obligation for the Group, provided that the amount can be estimated reliably.

Provisions are quantified on the basis of the best information available on the situation and evolution of the events giving rise to them and are reviewed at the end of each reporting period. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by current standards.

The Group considers onerous contracts to be those in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received thereunder.

The Group recognises a provision for the present value of the aforementioned difference between the costs and benefits of the contract.

The discount rates used reflect current market assessments of the time value of money and the risks specific to these contracts.

b) Technical provisions:

The technical provisions include the amounts recognised in order to guarantee, using prudent and reasonable methods, the obligations assumed under insurance and reinsurance contracts in force.

Provisions for unearned premiums and unexpired risks-

The purpose of the provision for unearned premiums relates to the accrual of earned premiums at year-end and includes the fraction of the premiums accrued during the year which must be recognised between the reporting date and the coverage period. For each type of insurance contract, the provision for unearned premiums was determined by applying the “policy-by-policy” method, using gross premiums accrued as a basis, in conformity with the technical bases and as established by private insurance regulations.

The commissions and other acquisition costs relating to the premiums written are recognised as an expense using the same methods as those used for recognising the premiums relating to insurance policies in force as income. The portion of the commissions and other acquisition costs corresponding to the unexpired coverage period of the insurance policies in force is recognised under “Long-Term Provisions” on the liability side of the consolidated balance sheet. At 28 February 2014, these commissions amounted to EUR 6.2 million (28 February 2013: EUR 6.2 million).

The provision for unexpired risks supplements the provision for unearned premiums by the amount required to ensure that the provision is sufficient to reflect the measurement of all the risks and expenses to be covered in the unexpired policy period at the reporting date. It is calculated in accordance with the private insurance regulations currently in force. At 28 February 2014 and 2013, it was not necessary to recognise this provision.

Provisions for life insurance-

These represent the value of the obligations of the Group, net of the obligations of the policyholder, relating to life insurance at year-end. The provision for life insurance includes the following:

- In policies whose coverage period is one year or less, the provision for unearned premiums and, where appropriate, the provision for unexpired risks, which have the same objective and calculation method as those indicated in the preceding paragraph.

– In all of the other insurance policies, the mathematical provisions. These provisions represent the difference between the present actuarial value of the future obligations of the Group and those of the policyholder or the insured, where applicable. The basis for calculating these provisions is the gross premium accrued in the year, which is considered to be the pure premium plus a loading for administrative expenses per the technical bases. These provisions are calculated on a "policy-by-policy" basis using an individual capitalisation system and by applying a prospective method in accordance with the technical bases and the private insurance regulations.

  The assumed interest rates used in 2013 and 2012 range basically from 2.00% to 6.03%. However, in the case of the main insurance policies for which a high assumed interest rate is guaranteed, the Group has assigned specific financial investment portfolios, the profitability of which enables these guaranteed interest rates to be covered.

– In insurance policies where the investment risk is borne by the policyholder, the technical provisions of the corresponding life insurance policies are determined on the basis of the assets specifically assigned or of the indices or assets established as a reference to determine the economic value of their rights.

Correction of accounting mismatches-

In financially immunised insurance transactions (whose surrender value is tied to the value of the assets specifically assigned) that provide for a share in the profits of a related asset portfolio or, in the case of insurance transactions in which the policyholder bears the investment or similar risk, at the transition date, the Group recognised symmetrically in equity the changes in the fair value of the assets classified as "Available-for-Sale Financial Assets" or "Held-for-Trading Financial Assets" and the changes in the life insurance provisions. These changes were recognised with either a credit to these technical provisions, as required by the private insurance regulations and other applicable legislation, or with a credit to a liability account (with a positive or negative balance) for the amount not recognised as a life insurance provision.

Technical provisions for benefits-

These include the estimates made by the Group to meet the obligations arising from the claims occurring before year-end and not yet reported, settled or paid at that date. They also include expired claims and requested surrenders which had not yet been settled or paid at year-end. This provision includes the provision for unsettled or unpaid benefits, the provision for unreported claims and the provision for internal claim settlement expenses, which are calculated in conformity with the corresponding regulations.

Provisions for profit-sharing bonuses and rebates-

These provisions include the bonuses accruing and not yet assigned to policyholders, insureds or beneficiaries and the estimated amount of the premiums to be returned to policyholders or insureds, where appropriate, based on the performance of the risks insured. These provisions are calculated in accordance with the corresponding clauses of the contracts in force at year-end.

Technical provisions for inward and outward reinsurance-

The corresponding provisions are reflected in the consolidated balance sheet in conformity with the related contracts and regulations.

4.2.13. Termination benefits and other payments to employees

Under current employment legislation, the Group is required to pay termination benefits to employees terminated under certain conditions.

Also, in accordance with the current bylaws of El Corte Inglés, S.A., the Board of Directors will have up to 20% of the annual net profit to distribute among its members and to other executives, provided that the requirements of Article 130 of the Consolidated Spanish Public Limited Liability Companies Law have been met.

The Group's directors consider that there are no additional needs other than those recognised in this connection.

4.2.14. Government grants

Government grants are recognised as income once all the conditions attaching to them have been fulfilled over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants related to property, plant and equipment and intangible assets are treated as deferred income, classified under “Other Non-Current Liabilities” and taken to income over the expected useful lives of the assets concerned.

4.2.15. Discontinued operations and non-current assets and liabilities held for sale

The Group classifies as “Non-Current Assets Classified as Held for Sale” property, plant and equipment, intangible assets, other non-current assets or investments under “Investments Accounted for Using the Equity Method” and disposal groups (groups of assets which will be disposed of together with their directly associated liabilities) for which at the date of the consolidated balance sheet an active programme and reasonable prices had been established to sell them and the sale is expected to be completed within twelve months from that date.

A discontinued operation is considered by the Group to be a line of business that has been sold or disposed of by other means, or one that meets the conditions for classification as held for sale, including any other assets that, together with the line of business, form part of the sale plan or result from commitments acquired. Entities acquired exclusively with a view to resale are also considered to be discontinued operations.

These assets or disposal groups are measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets ceases from the time they are classified as “Non-Current Assets Classified as Held for Sale”. However, at the date of each consolidated balance sheet the related valuation adjustments are made to ensure that the carrying amount is not higher than fair value less costs to sell.

Non-current assets classified as held for sale and components of disposal groups classified as held for sale are recognised in the accompanying consolidated balance sheet as follows: assets are recognised on a single line as "Non-Current Assets Classified as Held for Sale and Discontinued Operations" and liabilities are also recognised on a single line as "Liabilities Associated with Non-Current Assets Classified as Held for Sale and Discontinued Operations".

The profit after tax from discontinued operations is presented on a single line in the consolidated income statement as "Profit from Discontinued Operations Net of Tax".

4.2.16. Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Group's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Because of their nature, the Group's business activities do not have a significant environmental impact. However, environmental assets and liabilities are disclosed in Note 26.

4.2.17. Current/Non-current classification

The Group classifies assets and liabilities as current and non-current. Current items include balances which the Group expects to sell, consume, realise or settle during its normal operating cycle or balances expected to be realised or settled within twelve months of the balance sheet date. Other balances are classified as non-current.

Assets and liabilities are not netted unless there are specific requirements to the contrary or a standard or interpretation so permits.

4.2.18. Consolidated statement of cash flows

The following terms, with the meanings specified, are used in the consolidated statements of cash flows, which were prepared using the indirect method:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

4.2.19. Working capital

In accordance with standard practice in the industry in which the Group operates, in view of the time lag between the collection and payment dates of the commercial transactions, and as a result of using cash flows from operating activities to acquire fixed assets (see accompanying consolidated statement of cash flows), the current liabilities in the accompanying consolidated balance sheets at 28 February 2014 and 2013 exceed the current assets. Company management considers that this time lag does not represent any risk of a lack of liquidity, since the current revenue will enable the short-term payment obligations to be met with total normality.

5. PROPERTY, PLANT AND EQUIPMENT

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in the years ended 28 February 2014 and 2013 were as follows:

2013

	Balance at 28 February 2013	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2014
Land and buildings	**10,413,793**	202	19,999	(18,307)	174,228	**10,589,915**
Machinery, fixtures and tools....................	**5,803,013**	(2,007)	9,547	(73,261)	100,188	**5,837,480**
Furniture and fittings................	**1,911,997**	(509)	3,508	(21,787)	45,256	**1,938,465**
Computer hardware	**471,614**	(2,381)	20,302	(15,248)	8,476	**482,763**
Transport equipment..........	**7,126**	9	93	(392)	(53)	**6,783**
Property, plant and equipment in the course of construction.......	**305,075**	-	244,646	(29,919)	(258,006)	**261,796**
Total cost	**18,912,618**	**(4,686)**	**298,095**	**(158,914)**	**70,089**	**19,117,202**
Accumulated depreciation and impairment	**(5,832,974)**	4,724	(444,137)	161,005	(64,756)	**(6,176,138)**
Net balance........	**13,079,644**	**38**	**(146,042)**	**2,091**	**5,333**	**12,941,064**

Amounts in thousands of euros.

2012

	Balance at 1 March 2012	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2013
Land and buildings	**10,161,385**	1,163	76,107	(27,566)	202,704	**10,413,793**
Machinery, fixtures and tools....................	**5,635,147**	302	33,092	(76,556)	211,028	**5,803,013**
Furniture and fittings................	**1,846,908**	123	36,420	(15,650)	44,196	**1,911,997**
Computer hardware	**471,159**	135	25,949	(20,972)	(4,657)	**471,614**
Transport equipment..........	**7,095**	-	75	(31)	(13)	**7,126**
Property, plant and equipment in the course of construction.......	**376,482**	-	341,749	-	(413,156)	**305,075**
Total cost	**18,498,176**	**1,723**	**513,392**	**(140,775)**	**40,102**	**18,912,618**
Accumulated depreciation and impairment	**(5,486,574)**	(29)	(429,910)	93,985	(10,446)	**(5,832,974)**
Net balance........	**13,011,602**	**1,694**	**83,482**	**(46,790)**	**29,656**	**13,079,644**

Amounts in thousands of euros.

In 2013 property, plant and equipment additions relate basically to the modernisation and extension costs relating to various stores.

With regard to 2012, property, plant and equipment additions relate primarily to the opening of the Ronda de Córdoba Shopping Centre (in Córdoba), El Faro Discount Centre (Badajoz) and Puerto Venecia Shopping Centre (in Zaragoza) and various openings of department stores, branches and stores of the Group's other brands and the expenses incurred in expanding and refurbishing various stores.

Property, plant and equipment disposals in 2013 corresponded basically to the derecognition of fully depreciated items and to the sale of a property. Gains arising from transactions with items of property, plant and equipment were recognised under "Excessive Provisions, Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement for 2013.

The detail of the value of the buildings and land relating to the properties owned by the Group at the end of 2013 and 2012 is as follows:

	2013	2012
Land.................................	5,606,681	5,527,713
Buildings	4,983,234	4,886,080
TOTAL	10,589,915	10,413,793

Amounts in thousands of euros.

In 2013 the Group capitalised borrowing costs amounting to EUR 12.49 million to “Property, Plant and Equipment - Buildings” (2012 year-end: EUR 20.79 million).

On 28 February 1997, certain Group companies revalued all their eligible items of property, plant and equipment pursuant to Article 5 of Royal Decree-Law 7/1996, of 7 June, and paid the related single 3% tax. This revaluation, which was performed by applying the maximum coefficients permitted, excluding any percentage for the authorised reduction ratio, had the following effects on the consolidated financial statements:

	Land and Buildings	Machinery, Fixtures and Tools	Furniture and Fittings	Computer Hardware	Transport Equipment	Total Cost	Accumulated Depreciation	Net Balance
BALANCE AT 29 FEBRUARY 2012	260,478	39,328	6,378	758	185	307,127	(95,194)	211,933
Charge for the year	-	-	-	-	-	-	(3,278)	(3,278)
Disposals.........	-	(20)	(132)	(62)	(1)	(215)	177	(38)
BALANCE AT 28 FEBRUARY 2013	260,478	39,308	6,246	696	184	306,912	(98,295)	208,617
Charge for the year	-	-	-	-	-	-	(3,279)	(3,279)
Disposals.........	-	(2,698)	(2,266)	(74)	(10)	(5,048)	5,046	(2)
BALANCE AT 28 FEBRUARY 2014	260,478	36,610	3,980	622	174	301,864	(96,528)	205,336

Amounts in thousands of euros.

The net revaluation surplus net of the single 3% tax was credited to “Revaluation Reserve Royal Decree-Law 7/1996” and will be depreciated over the tax periods in the remaining useful lives of the revalued assets. The revaluation gave rise to period depreciation charges of EUR 3.28 million in the year ended 28 February 2014 and EUR 3.28 million in the year ended 28 February 2013. It is estimated that this amount will be approximately EUR 3.16 million in 2014.

At 2013 and 2012 year-end, the Group had the following investments in property, plant and equipment abroad:

	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and buildings	379,762	(53,639)	302,776	(28,524)
Machinery and fixtures	169,273	(83,148)	165,417	(59,328)
Other items of property, plant and equipment in the course of construction............................	95,608	(56,584)	178,916	(49,576)
TOTAL	644,643	(193,371)	647,109	(137,428)

Amounts in thousands of euros.

Also, the assets constructed on land obtained under concession arrangements are as follows:

	2013	2012
Buildings	155,789	154,823
Machinery and fixtures	101,282	104,518
Other items of property, plant and equipment	25,827	25,926
Accumulated depreciation	(109,194)	(102,713)
TOTAL	173,704	182,554

Amounts in thousands of euros.

As indicated in Note 9.1, at the end of 2013 and 2012 the Group held various items of property, plant and equipment under finance leases.

At the end of 2013 and 2012 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows:

	2013	2012
Buildings	10,253	9,539
Machinery, fixtures and tools	1,630,809	1,452,331
Furniture and fittings	355,197	299,489
Computer hardware...........................	318,253	296,880
Transport equipment	3,564	4,458
TOTAL	2,318,076	2,062,697

Amounts in thousands of euros.

The Group takes out insurance policies with third parties to cover the value of its property, plant and equipment. The directors of the Parent consider that the insurance coverage under these policies for 2013 and 2012 is adequate.

6. INVESTMENT PROPERTY

The Group's investment property relates mainly to properties earmarked for lease. The changes in "Investment Property" in the consolidated balance sheet in 2013 and 2012 were as follows:

2013

	Balance at 28 February 2013	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2014
Land and buildings	**140,322**	-	-	(159)	(5,992)	**134,171**
Total cost	**140,322**	-	-	(159)	**(5,992)**	**134,171**
Accumulated depreciation	**(11,217)**	-	(417)	-	239	**(11,395)**
Net balance	**129,105**	-	**(417)**	**(159)**	**(5,753)**	**122,776**

Amounts in thousands of euros.

2012

	Balance at 1 March 2012	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2013
Land and buildings	**126,064**	-	-	-	14,258	**140,322**
Total cost	**126,064**	-	-	-	**14,258**	**140,322**
Accumulated depreciation	**(9,707)**	-	(1,510)	-	-	**(11,217)**
Net balance	**116,357**	-	**(1,510)**	-	**14,258**	**129,105**

Amounts in thousands of euros.

At the end of 2013 and 2012 these properties were being used as follows:

	2013	2012
Offices	74,112	90,748
Commercial premises	35,920	34,295
Other	12,744	4,062
TOTAL	122,776	129,105

Amounts in thousands of euros.

The Group takes out insurance policies with third parties to cover the value of its investment property. The directors of the Parent consider that the insurance coverage under these policies for 2013 and 2012 is adequate.

7. GOODWILL

The detail of "Goodwill" in 2013 and 2012 is as follows:

	Balance at 28 February 2013	Balance at 28 February 2014
Merger goodwill..................................	10,688	10,688
Goodwill on consolidation...................	9,051	9,051
Total	19,739	19,739

Amounts in thousands of euros.

The impairment tests performed at 28 February 2014 for each of the cash-generating units, as indicated in Note 4.2.5, did not disclose any need to recognise any impairment losses.

8. OTHER INTANGIBLE ASSETS

The changes in "Other Intangible Assets" in the consolidated balance sheet in the years ended 28 February 2014 and 2013 were as follows:

2013

	Balance at 28 February 2013	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2014
Development expenditure	**40,408**	-	-	-	-	**40,408**
Leasehold assignment rights	**28,695**	-	1,697	(993)	12,200	**41,599**
Computer software	**587,488**	(7,297)	93,932	(50,180)	2,915	**626,858**
Concessions	**164,275**	-	251	-	-	**164,526**
Intellectual property	**45,600**	-	382	(66)	1	**45,917**
Other items of property, plant and equipment....	**32,285**		1,282	(151)	(12,936)	**20,480**
Total cost	**898,751**	**(7,297)**	**97,544**	**(51,390)**	**2,180**	**939,788**
Accumulated depreciation and impairment	**(410,654)**	5,635	(77,803)	44,124	29	**(438,669)**
Net balance	**488,097**	**(1,662)**	**19,741**	**(7,266)**	**2,209**	**501,119**

Amounts in thousands of euros.

2012

	Balance at 1 March 2012	Changes in Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2013
Development expenditure	**40,408**	-				**40,408**
Leasehold assignment rights	**30,337**	-	571	(72)	(2,141)	**28,695**
Computer software	**553,486**	-	81,652	(47,953)	303	**587,488**
Concessions	**166,039**	-	-	(1,764)	-	**164,275**
Intellectual property	**59,675**	-	354	(628)	(13,801)	**45,600**
Other items of property, plant and equipment	**30,938**	159	1,201	-	(13)	**32,285**
Total cost	**880,883**	**159**	**83,778**	**(50,417)**	**(15,652)**	**898,751**
Accumulated depreciation and impairment	**(388,002)**	(10)	(74,153)	47,877	3,634	**(410,654)**
Net balance	**492,881**	**149**	**9,625**	**(2,540)**	**(12,018)**	**488,097**

Amounts in thousands of euros.

The additions recognised under “Computer Software” for 2013 and 2012 relate mainly to the development of computer applications required for the carrying on of the Group's activities.

At 28 February 2014, the assets with indefinite useful life other than those presented as goodwill relate mainly to various brands acquired in prior years by El Corte Inglés, S.A. for EUR 26.92 thousand. These brands are not amortised systematically but rather are tested for possible impairment annually. In 2013, in line with the impairment tests performed for these assets, as indicated in Note 4.2.5, impairment losses were recognised under "Excessive Provisions, Impairment and Gains or Losses on Disposals of Non-Current Assets".

At the end of 2013 and 2012 the Company had fully amortised intangible assets still in use, the detail being as follows:

	2013	2012
Development expenditure	40,408	40,408
Administrative concessions	720	297
Leasehold assignment rights	11,150	8,266
Computer software	113,059	113,568
Patents, licences and other	6,313	6,952
TOTAL	171,650	169,491

Amounts in thousands of euros.

9. LEASES

9.1 Finance leases (as the lessee)

The Group has finance lease contracts relating mainly to premises.

The assets leased under these contracts are recognised under "Property, Plant and Equipment" in the consolidated balance sheet (see Note 5) and the corresponding debt is recognised as a financial liability (see Note 18).

At the close of 2013 and 2012 the Group, as the lessee under finance leases, had recognised the following leased assets:

	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and buildings	290,746	(11,589)	331,865	(13,776)
Machinery	32	(32)	721	(330)
Other fixtures	6,505	(5,479)	15,661	(6,347)
Tools...	-	-	3	(2)
Furniture	555	(305)	4,174	(1,385)
Computer hardware	4,071	(3,661)	4,521	(3,367)

Amounts in thousands of euros.

The minimum lease payments (including any purchase options), based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions, that the Group had contracted with lessors are as follows:

	2013	2012
Within one year	39,610	31,956
Between one and five years	119,528	134,552
After five years	12,026	36,466
TOTAL	171,164	202,974

Amounts in thousands of euros.

The main data on the Group's finance leases at the reporting date were as follows:

LEASE TERM (YEARS)	10 to 12
YEARS ELAPSED	1 to 11
VALUE OF PURCHASE OPTIONS..................................	12,465
LEASE PAYMENTS PAID IN PRIOR YEARS	192,523

Amounts in thousands of euros.

9.2 Operating leases

As the lessor

The principal operating leases held by the El Corte Inglés Group as lessor relate to the assignment of spaces in department stores and the adjoining shops and commercial premises, which are leased out to supplement the product offering at its stores.

At the end of 2013 and 2012 the Group had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions:

	2013	2012
Collected in the year	11,807	9,928
Within one year	12,567	12,148
Between one and five years	66,348	65,594
After five years	84,735	83,649

Amounts in thousands of euros.

As the lessee

Some of the premises where the Group carries on its core business activity are leased to third parties. These leases are classified as operating leases because, regardless of the lease term and the amounts paid or committed to the owners of the leased properties, the risks and rewards incidental to ownership of the assets are not transferred.

In view of the varying nature and the economic position of the owners and other factors, there is a wide variety of clauses that regulate the lease agreements. Most of the lease agreements simply establish a fixed lease payment, usually payable monthly and updated according to an index that adjusts the amounts payable in line with inflation.

The lease agreements generally have a compulsory minimum term of one to ten years.

At 2013 and 2012 year-end, the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions:

	2013	2012
Paid in the year	145,868	154,219
Within one year	136,340	145,489
Between one and five years	509,110	547,258
After five years	560,583	590,028

Amounts in thousands of euros.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The most significant investments in associates at 28 February 2014 and 2013 were as follows:

2013

	Balance at 28 February 2013	Disposals	Share of Results of Companies Accounted for Using the Equity Method	Balance at 28 February 2014
Financiera El Corte Inglés, E.F.C., S.A. (Note 2.9.9.................................	-	134,536	-	134,536
Remainder...	19,042	-	697	19,739
Total...	19,042	134,536	679	154,275

Amounts in thousands of euros

The investment in Financiera El Corte Inglés E.F.C., S.A. accounted for using the equity method includes implicit goodwill amounting to EUR 31.1 million.

2012

	Balance at 1 March 2012	Share of Results of Companies Accounted for Using the Equity Method	Balance at 28 February 2013
Remainder	18,363	679	19,042
Total........................	18,363	679	19,042

Amounts in thousands of euros

The main aggregates of these associates are as follows:

2013

	Assets	Liabilities	Ordinary Income	Profit for the Year
Financiera El Corte Inglés, E.F.C., S.A.	1,344,017	984,645	47,024	32,860
Remainder...	92,047	43,267	2,913	1,834
Total	1,436,064	1,027,912	49,937	34,693

Amounts in thousands of euros.

2012

	Assets	Liabilities	Ordinary Income	Profit for the Year
Remainder	91,642	41,846	2,859	1,698
Total	91,642	41,846	2,859	1,698

Amounts in thousands of euros

11. INTERESTS IN JOINT VENTURES

The El Corte Inglés Group's interests in joint ventures are presented in Note 1.

The most significant amounts included in the consolidated financial statements at 28 February 2014 and 2013 in relation to these interests are summarised as follows:

	2013	2012
Revenue	80,892	86,085
Profit (Loss) from operations	(719)	2,655
Non-current assets	122,232	115,156
Current assets	32,607	30,817
Non-current liabilities	37,325	34,456
Current liabilities	24,259	18,525

Amounts in thousands of euros

As indicated in Note 4.1, IFRS 11, Joint Arrangements, which supersedes IAS 31, enters into force in 2014.

12. CURRENT AND NON-CURRENT FINANCIAL ASSETS

12.1 Non-current financial assets

The detail of “Non-Current Financial Assets” in the consolidated balance sheets is as follows:

Categories \ Classes	Non-Current Financial Assets							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Loans and receivables								
- Loans....................................	-	-	-	-	57,859	116,932	57,859	116,932
- Guarantees and deposits.........	-	-	167,358	171,106	38,316	38,590	205,674	209,696
Held-to-maturity investments....	-	592	-	-	-	-	-	592
Assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	-	-
- Other …………...……………	16,554	14,741	-	-	-	-	16,554	14,741
Available-for-sale financial assets								
- At fair value..........................	38,039	115,848	640,193	568,052	-	-	678,232	683,900
- At cost..................................	59,679	73,789	-	-	-	-	59,679	73,789
TOTAL	114,272	204,970	807,551	739,158	96,175	155,522	1,017,998	1,099,650

Amounts in thousands of euros.

The detail of these financial assets, by consolidated company, is as follows:

Companies	2013	2012
Investments made in relation to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	845,029	773,514
Other consolidated companies	172,969	326,137
TOTAL	1,017,998	1,099,651

Amounts in thousands of euros.

The investments of the insurance business relate mainly to the recognition of technical provisions (see Note 17).

The detail, by category and class, of the investments made in relation to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. is as follows:

Categories \ Classes	Non-Current Financial Instruments							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Loans and receivables								
- Guarantees and deposits	-	-	167,358	171,106	263	1,095	167,621	172,201
Held-to-maturity investments....	-	-	-	-	-	-	-	-
Assets at fair value through profit or loss								
- Held-for-trading financial assets	-	-	-	-	-	-	-	-
- Other	16,552	14,741	-	-	-	-	16,552	14,741
Available-for-sale financial assets								
- At fair value	20,663	18,520	640,193	568,052	-	-	660,856	586,572
TOTAL	37,215	33,261	807,551	739,158	263	1,095	845,029	773,514

Amounts in thousands of euros.

"Loans and Receivables - Loans" mature as follows:

2013

	2015	2016	2017	2018	2019 and Subsequent Years	Total
Loans	18,071	15,884	9,770	5,539	8,595	57,859

Amounts in thousands of euros.

2012

	2014	2015	2016	2017	2018 and Subsequent Years	Total
Loans	56,220	26,469	17,131	9,318	7,794	116,932

Amounts in thousands of euros.

In 2013 the Company sold a significant portion of its equity instruments measured at fair value, generating a gain that was recognised under "Change in the Fair Value of Financial Instruments".

12.2 Current financial assets

The detail of “Current Financial Assets” in the consolidated balance sheets is as follows:

Categories \ Classes	Current Financial Instruments							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Loans and receivables	-	-	-	-	6,366	4,142	6,366	4,142
Held-to-maturity investments....	3,451	1,646	24,554	128,254	-	-	28,005	129,900
Assets at fair value through profit or loss								
- Held-for-trading financial assets	-	-	-	-	-	-	-	-
- Other …………...……………	-	-	-	-	-	-	-	-
Available-for-sale financial assets								
- At fair value...........................	-	-	14,668	12,409	-	-	14,668	12,409
- At cost	-	-	5,313	9,358	-	-	5,313	9,358
Derivatives	-	-	-	-	4	1,942	4	1,942
TOTAL	3,451	1,646	44,535	150,021	6,370	6,084	54,356	157,751

Amounts in thousands of euros.

In 2012 "Current Financial Assets" included deposits arranged by the Parent with banks that earned market interest and in which the bank arranged a security interest. This deposit was cancelled in 2013.

13. INVENTORIES

The detail of "Inventories" in the accompanying consolidated balance sheet is as follows:

	2013	2012
Goods held for resale	1,628,199	1,589,108
Consumables	19,910	17,889
TOTAL	1,648,109	1,606,997

Amounts in thousands of euros.

In accordance with standard practice in the retail industry, El Corte Inglés, S.A. and Hipercor, S.A. formalise their purchase orders with certain suppliers some months in advance of the date of delivery of the goods. Accordingly, at 28 February 2014 and 28 February 2013 they had arranged firm purchases amounting to approximately EUR 1,234.36 million and EUR 1,303.72 million, respectively.

Also, the Group had sales commitments to customers at the end of 2013 and 2012 amounting to EUR 113.11 million and EUR 113.13 million, respectively.

The Group takes out insurance policies to cover the risks to which its inventories are subject. At 28 February 2014 and 2013, the directors of the Parent considered that the coverage provided by the insurance policies for its inventories was adequate.

14. TRADE AND OTHER RECEIVABLES

The detail of "Trade and Other Receivables" at 28 February 2013 and 2014 is as follows:

	2013	2012
Trade receivables	391,416	1,505,829
Doubtful trade receivables	46,063	205,433
Unissued invoices	1,052	1,143
Subtotal trade receivables for sales and services	438,531	1,712,405
Subtotal sundry receivables	249,785	325,073
TOTAL	688,316	2,037,478

Amounts in thousands of euros.

At 28 February 2014 and 2013 there were no balances under "Trade and Other Receivables" that were in arrears or significantly impaired.

In 2013 the net charge for the provision for trade and other receivables amounted to EUR 0.9 million (2012: EUR 0.5 million).

15. CASH AND CASH EQUIVALENTS

The detail of "Cash and Cash Equivalents" in the consolidated balance sheet at 28 February 2013 and 2014 is as follows:

	2013	2012
Cash on hand	55,186	55,653
Cash at banks	34,921	50,180
TOTAL	90,107	105,833

Amounts in thousands of euros.

Cash on hand and at banks includes cash on hand and the demand bank accounts.

16. EQUITY

16.1 Share capital

At 28 February 2014 and 29 February 2013, the share capital of El Corte Inglés, S.A. was represented by 63,937,700 shares of EUR 6 par value each and 1,720,630 shares of EUR 60 par value each, all of which were registered and fully subscribed and paid. The shares of the Parent are not listed on the stock exchange.

In 2013 and 2012, only one company, the assets of which are basically securities of third parties, had an ownership interest slightly in excess of double the percentage envisaged in Article 155 of the Spanish Limited Liability Companies Law.

16.2 Legal reserve

Under the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The Group Parent's legal reserve has reached the stipulated level, amounting to EUR 97,373 thousand at 28 February 2014 and 2013.

16.3 Other reserves

Revaluation reserves

As a result of the non-current asset revaluation made pursuant to Royal Decree-Law 7/1996, of 7 June, the Parent's “Revaluation Reserves” amounted to EUR 139.76 million, net of the single 3% tax.

Since the tax authorities have reviewed and approved the balance of “Revaluation Reserve Royal Decree-Law 7/1996”, the aforementioned balance can be used, free of tax, to offset accounting losses which might arise in the future and to increase share capital. From 1 March 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes on the increase in value of the revalued assets or when the revalued assets have been transferred or derecognised.

Reserve for goodwill

Pursuant to Article 273.4 of the Spanish Limited Liability Companies Law, in accordance with the wording given in Law 16/2007, of 4 June, which reforms and adapts Spanish accounting legislation, an appropriation must be made of 5% of the goodwill recognised at year-end to a restricted reserve, with a charge to profit for the year if any or, in its absence, to unrestricted reserves. This reserve had reached the legally required minimum at the end of 2013 and 2012.

Canary Islands investment reserves

In accordance with Article 27 of Law 19/1994, of 6 July, amending the Canary Islands Economic and Tax Regime, the “Canary Islands Investment Reserves” amount to EUR 45 million, which have been invested in full in the assets stipulated in the aforementioned Law, by the legally established deadline. At the Annual General Meeting held in August 2013, the shareholders resolved to transfer EUR 15 million to "Voluntary Reserves".

Reserves for retired capital

“Reserves for Retired Capital” relates to the reserve recognised pursuant to a resolution adopted by the shareholders at the Extraordinary General Meeting on 26 August 2001 to reduce share capital by EUR 0.64 million in order to adjust the par value of each share to a whole figure in euros.

Reserves of consolidated companies

The detail, by company, of “Reserves of Consolidated Companies” in the accompanying consolidated balance sheets, after taking into account the effect of consolidation adjustments, is as follows:

Company	2013	2012
Hipercor, S.A.	1,362,679	1,187,699
Viajes El Corte Inglés, S.A.	123,818	81,721
Informática El Corte Inglés, S.A.	115,881	89,817
Investrónica, S.A.	4,708	5,146
Telecor, S.A.	2,998	1,318
Editorial Centro de Estudios Ramón Areces, S.A.	2,844	2,771
Parinver, S.A.	27,926	27,218
Centro de Seguros y Servicios. Correduría de Seguros, S.A. Grupo de Seguros El Corte Inglés	37,575	21,495
El Corte Inglés-Grandes Armazéns, S.A.	26,507	22,841
Gestión de Puntos de Venta, GESPEVESA, S.A.	4,639	4,904
Óptica 2000, S.L.	10,485	5,969
Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	171,953	150,695
Financiera El Corte Inglés, E.F.C., S.A	131,873	220,069
Other reserves of companies accounted for using the equity method	4,777	4,362
Consolidation adjustments and eliminations and other	(404,682)	(23,629)
TOTAL	1,623,981	1,802,396

Amounts in thousands of euros.

"Reserves of Consolidated Companies" includes EUR 156.78 thousand of restricted reserves of the consolidated companies (2012: EUR 174.84 thousand).

As a result of the revaluation of the carrying amounts of property, plant and equipment pursuant to Royal Decree-Law 7/1996, of 7 June, the Parent and certain consolidated Group companies increased their equity by recognising a revaluation reserve, the current balance of which totals EUR 68.59 million. The use of this balance is subject to the limitations provided for in the aforementioned Royal Decree-Law.

16.4 Treasury shares

The detail of the treasury shares held temporarily by the Group at the end of 2013 and 2012, earmarked for prompt disposal, is as follows:

	No. of Shares	Par Value (Euros)
Class A treasury shares at 2013 year-end	8,729,806	6
Class B treasury shares at 2013 year-end	194,833	60
Class A treasury shares at 2012 year-end	8,149,853	6
Class B treasury shares at 2012 year-end	185,017	60

During 2013 and 2012 treasury shares were acquired for an effective amount of EUR 54.21 million and EUR 108.21 million and shares were sold amounting to EUR 3.79 million and EUR 8.78 million, respectively.

16.5 Valuation adjustments

Available-for-sale financial assets

"Valuation Adjustments – Available-for-Sale Financial Assets" in the consolidated balance sheet includes the amount, net of the related tax effect, of changes in the fair value of assets classified as available for sale. These differences are recognised in the consolidated income statement when the assets that give rise to them are sold.

The changes in the balance of this heading in 2013 and 2012 were as follows:

	2013	2012
Balance at 1 March	3,279	(24,656)
Increases in value in the year	51,744	44,409
Decreases in value in the year	(29,681)	(22,272)
Transfer to income for the year	(12,568)	5,798
Transfer due to changes in the scope of consolidation	-	-
Balance at 28 February	12,774	3,279

Amounts in thousands of euros.

Cash flow hedges

"Cash Flow Hedges" in the consolidated balance sheet includes the amount, net of the related tax effect, of changes in the value of financial derivatives designated as cash flow hedging instruments (see Note 20).

The changes in the balance of this item in 2013 and 2012 were as follows:

	2013	2012
Balance at 1 March	(15,807)	(23,595)
Increases in value in the year	4,564	12,377
Decreases in value in the year	(57,269)	(19,538)
Transfer to income for the year	15,075	14,949
Transfer due to changes in the scope of consolidation	-	-
Balance at 28 February	(53,437)	(15,807)

Amounts in thousands of euros.

16.6 Non-controlling interests

"Non-Controlling Interests" in the consolidated balance sheet at the end of 2013 and 2012 reflects the share of non-controlling shareholders in the equity and profit or loss of the companies indicated below:

2013

		Share in:		
Company	% of Ownership	Share Capital and Reserves	Profit (Loss) for the Year	Total
El Corte Inglés-Grandes Armazéns, S.A. ...	0.442	2,393	37	2,430
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	1,172	38	1,210
Moda Sfera Joven México, S.A. de C.V. ...	49.00	12,378	2,375	14,753
Viajes El Corte Inglés, S.A. de C.V.	4.00	83	(18)	65
Perfumerías y Cosméticos Gran Vía, S.L. .	45.00	(344)	(444)	(788)
TOTAL		15,682	1,988	17,670

Amounts in thousands of euros.

2012

Company	% of Ownership	Share in: Share Capital and Reserves	Profit (Loss) for the Year	Total
El Corte Inglés-Grandes Armazéns, S.A. ...	0.442	2,377	17	2,394
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	1,172	32	1,204
Moda Sfera Joven México, S.A. de C.V. ...	49.00	11,882	1,266	13,148
Viajes El Corte Inglés, S.A. de C.V.	4.00	85	1	86
Perfumerías y Cosméticos Gran Vía, S.L. .	45.00	(16)	(327)	(343)
TOTAL		15,500	989	16,489

Amounts in thousands of euros.

16.8 Capital management

The objectives of the Group's capital management are to safeguard its capacity to continue operating as a going concern so that it can continue to provide returns to shareholders, benefit other stakeholders and maintain an optimal financial structure to reduce the cost of capital.

In order to maintain and adjust the capital structure, the Group may vary the amounts of the dividends payable to the shareholders, return capital, issue shares or sell assets to reduce debt.

The Parent's directors consider the leverage ratio to be an indicator of the achievement of capital management objectives. This ratio is calculated as the result of dividing net debt by equity. Net debt is calculated as the sum of current and non-current bank borrowings, excluding those relating to held-for-sale assets, less current financial assets and cash and cash equivalents.

The leverage ratio at 28 February 2014 and 2013 is as follows:

	2013	2012
Net financial debt:	**4,736,017**	**5,688,073**
Debt instruments and other marketable securities	1,402,076	1,437,086
Non-current bank borrowings	3,430,089	1,935,380
Current bank borrowings	48,315	2,579,191
Current financial assets, cash and cash equivalents	(144,463)	(263,584)
Equity:	**7,845,632**	**7,882,813**
Of the Parent	7,827,962	7,866,324
Of non-controlling interests	17,670	16,489
Leverage	60.3%	72.7%

Amounts in thousands of euros.

The decrease is due to the changes in the scope of consolidation (see Note 2.9.9) and to the restructuring of bank debt (see Note 18.2).

17. PROVISIONS AND CONTINGENT LIABILITIES

17.1 Long-term provisions

The detail of the provisions in the accompanying consolidated balance sheet and of the changes therein in 2012 and 2013 is as follows:

Long-term Provisions	Balance at 1 March	Change	Balance at 28 February
2012			
Technical provisions	600,614	35,875	636,489
Other	192,502	84,741	277,243
Total	**793,116**	**120,616**	**913,732**
2013			
Technical provisions	636,489	32,426	668,915
Other	277,243	1,368	278,611
Total	**913,732**	**33,794**	**947,526**

Amounts in thousands of euros.

Technical provisions

"Non-Current Provisions" includes primarily the technical provisions of the insurance business, the detail of which, by category, is as follows:

	2013	2012
Provisions for unearned premiums - Non-life insurance	12,091	11,878
Provisions for unearned premiums - Life insurance	16,487	15,878
Provisions for life insurance	490,940	472,575
Technical provisions relating to life insurance investment risk assumed by policyholder	16,033	14,425
Technical provisions for benefits	25,027	23,652
Provisions for profit-sharing bonuses and rebates	68,203	63,265
Technical provisions for reinsurance....................	(2,901)	(2,819)
Accounting mismatches	43,035	37,635
TOTAL	668,915	636,489

Amounts in thousands of euros.

Other provisions

The remaining amount under this line item includes a wide variety of provisions, including those relating to the estimated amounts that the Group may have to pay in relation to certain local taxes and onerous contracts.

17.2 Guarantee commitments to third parties and contingent liabilities

At 28 February 2014 and 2013, the guarantees provided by the Group amounted to EUR 316.32 million and EUR 353.54 million, respectively. Of these amounts, EUR 155.56 million at 28 February 2014 and EUR 154.12 million at 28 February 2013 related to matters of a legal and tax nature (local and domestic). The remaining amount, deposited with various entities, secured business operations.

The Parent's directors consider that any liabilities not foreseen at 28 February 2014 which might arise from the guarantees provided would not be material.

18. BANK BORROWINGS AND DEBT INSTRUMENTS AND OTHER NON-CURRENT AND CURRENT MARKETABLE SECURITIES

The detail of these line items in the accompanying consolidated balance sheet is as follows:

	2013		2012	
	Current	Non-Current	Current	Non-Current
Debt Instruments and Other Marketable Securities	-	1,402,076	-	1,437,086
Bank borrowings	8,349	3,298,892	2,547,235	1,764,362
Obligations under finance leases (Note 9.1)	39,966	131,197	31,956	171,018
Derivatives (Note 20)	10,308	84,814	4,674	31,473
Other financial liabilities	39,942	14,602	36,866	4,858
TOTAL	98,565	4,931,581	2,620,731	3,408,797

Amounts in thousands of euros.

18.1 Debt instruments and other marketable securities

The Group classifies the debts arranged in the form of promissory notes that have been recognised as non-current financial liabilities under “Debt Instruments and Other Marketable Securities”, since substantially all the debts are automatically renewed at their maturity date.

These promissory notes generally bear interest at market rates.

18.2 Bank borrowings

In 2013 and 2012 the Group's loans and credits bore interest tied to Euribor plus a market spread.

A portion of the Group's debt is hedged by financial derivatives intended to reduce the volatility of the interest rates paid by the El Corte Inglés Group (see Notes 19 and 20).

At 28 February 2014, the average interest rate on the debt, taking into consideration bank borrowings and the amounts payable in relation to the debt instruments and other marketable securities, was within a market range.

On 14 November 2013, the Group entered into an agreement with various banks in order to restructure all the bank debt it held until that date under one syndicated financing agreement (with a maximum amount of EUR 4,909.2 million, rising to EUR 4,139 million at 2013 year-end). This agreement consists of two parts, one amounting to EUR 848.8 million allocated to working capital that matures in five years, and another relating to long-term debt amounting to EUR 4,060.4 million that matures in eight years. At 28 February 2014, the amount drawn down against this financing was EUR 3,288 million.

Furthermore, the agreement to restructure the bank debt includes a provision to mortgage certain assets of various stores with a carrying amount at 2013 year-end of EUR 435.31 million. In addition, 100% of the shares of Seguros El Corte Inglés Vida Pensiones y Reaseguros, S.A. and 49% of the shares of Financiera El Corte Inglés E.F.C, S.A. were pledged as security for the lenders.

As stipulated in the bank debt restructuring agreement, from 2014 onwards the Group is required to achieve certain financial ratios calculated on the basis of the ECI Group's consolidated financial statements. The achievement of these ratios and the payment schedule are taken into consideration for the distribution of dividends.

At 28 February 2014 and 2013, the Group companies had been granted additional financing that had not been drawn down, the detail of which is as follows:

	2013		2012	
	Limit	Undrawn Amount	Limit	Undrawn Amount
Discount facilities	8,462	6,839	13,962	10,557
Credit facilities	856,581	760,207	3,034,168	809,857
TOTAL	865,043	767,046	3,048,130	820,414

Amounts in thousands of euros.

Group management considers that the amount of these credit facilities and ordinary cash generation, together with the realisation of current assets, sufficiently cover the Group's short-term payment obligations.

At 28 February 2014 and 2013, neither El Corte Inglés, S.A. nor any of its major subsidiaries were in breach of any of their financial or other obligations, which could give rise to the early maturity of their financial liabilities. Similarly, no cases of non-compliance are expected in 2014.

In 2013 and 2012 there were no defaults or other non-payments of principal, interest or repayments of bank borrowings.

The detail of the carrying amount and fair value of the bank borrowings with embedded interest rate derivatives is as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bank borrowings	-	-	415,000	424,304

Amounts in thousands of euros.

18. 3 Detail by maturity of non-current financial liabilities

The detail, by maturity, of "Non-Current Bank Borrowings" is as follows:

2013

	2015	2016	2017	2018	2019 and Subsequent Years	Total
Obligations under finance leases (Note 9.1)	30,484	28,947	24,804	19,784	27,178	131,197
Bank loans and credit facilities	390,339	159,035	226,434	368,660	2,154,424	3,298,892
TOTAL	420,823	187,982	251,238	388,444	2,181,602	3,430,089

Amounts in thousands of euros.

2012

	2014	2015	2016	2017	2018 and Subsequent Years	Total
Finance leases	42,911	31,068	29,531	25,388	42,120	171,018
Bank loans and credit facilities	1,041,252	652,091	29,507	2,007	39,505	1,764,362
TOTAL	1,084,163	683,159	59,038	27,395	81,625	1,935,380

Amounts in thousands of euros.

19. RISK MANAGEMENT POLICIES

The Group's activities are exposed to various financial risks: market risk (including foreign currency risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's risk management is carried out by the Parent's management, which establishes the necessary mechanisms, and focuses on the uncertainty of the financial markets while attempting to minimise the potential adverse effects on the Group's returns, to which end it uses certain financial instruments described below.

This note provides information on the Group's exposure to each of the aforementioned risks, the targets, policies and processes defined by the Group for managing risk, the methods used to measure these risks and any changes with respect to the previous year.

Credit risk

Credit risk is the risk that a counterparty to a contract does not meet its obligations, giving rise to a financial loss for the Group.

The Group does not have any significant concentrations of credit risk exposure vis-à-vis third parties since retail sales account for the vast majority of its revenue, with payments being made essentially in cash or by credit card.

The Group's investment policy is governed by a principle of prudence, the main objective of which being to mitigate the credit risk associated with investment products and the counterparty risk associated with banks, by establishing highly detailed analysis criteria. In general, the Group holds its cash and cash equivalents at banks with high credit ratings.

In relation to the credit risk arising from commercial transactions, impairment losses are recognised on trade receivables when there is objective evidence that the Group will not be able to collect all the amounts owed to it under the original terms of the receivables. The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated cash flows, discounted at the effective interest rate, and is recognised in the consolidated income statement (see Note 14).

At 28 February 2014 and 2013, there were no past-due balances of a material amount. Also, based on historical experience, the Group considers that it is not necessary to make valuation adjustments in relation to receivables not past due. The fair value of the accounts receivable does not differ from their carrying amount.

Liquidity risk

The El Corte Inglés Group manages liquidity risk prudently by ensuring that it has sufficient cash and marketable securities and by arranging committed credit facilities for amounts sufficient to cater for its projected requirements (see Note 18).

Ultimate responsibility for liquidity risk management lies with the Parent's management, which prepares the appropriate framework to control the Group’s liquidity requirements at short, medium and long term. The Group manages liquidity risk by holding adequate reserves, providing appropriate banking services, having available loans and credit facilities, monitoring projected and actual cash flows on an ongoing basis and pairing them against financial asset and liability maturity profiles.

Interest rate risk

Interest rate fluctuations change the future flows from assets and liabilities that bear floating-rate interest. The financial instruments that are exposed to interest rate risk are basically borrowings arranged at floating interest rates and derivative financial instruments.

Based on the El Corte Inglés Group's projections of the trend in interest rates and of debt structure targets, hedging transactions are carried out by arranging derivatives that mitigate these risks (see Note 20). Specifically, 61% of borrowings were not subject to interest rate volatility in 2013.

In order to be able to analyse the effect that a possible fluctuation in interest rates might have on the Group's financial statements, a simulation was performed which assumed a 50-basis point increase and decrease in the interest rates on borrowings subject to volatility at 28 February 2014.

The analysis of sensitivity to upward or downward changes of 0.5% in floating Euribor interest rates gave rise to a sensitivity in the Group’s consolidated income statement arising from an increase or decrease in financial results due to interest payments of EUR 6.6 million at 28 February 2014.

The analysis of the sensitivity to upward or downward changes in the long-term interest rate curve in relation to the fair value of interest rate derivatives included in cash flow hedges arranged by the Group at 28 February 2014 and irrespective of the consolidation method used, would give rise -based on the El Corte Inglés Group's percentage of ownership in each company- to a decrease in financial-derivative liabilities of EUR 12.9 million vis-à-vis a 0.1% increase in the interest rate curve. Similarly, a 0.1% decrease in the interest rate curve would lead to an increase of EUR 13 million in financial-derivative liabilities.

Foreign currency risk

The Group operates in international markets and, therefore, is exposed to foreign currency risk on the transactions performed by it in foreign currencies, particularly the purchases of merchandise from Southeast Asian countries denominated in US dollars.

Foreign currency risk is managed in line with Group management guidelines, which establish, mainly, for the arrangement of financial or natural hedges, ongoing monitoring of fluctuations in exchange rates and other measures designed to mitigate this risk. The Group arranges financial instruments (currency forwards) which reduce exchange differences on foreign currency transactions (see Note 20).

Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, valued at the year-end exchange rate and the average exchange rates for the year, is as follows:

	2013	2012
Accounts payable.................	86,127	56,060
Other liabilities....................	5,121	10,420
Sales	111,993	101,549
Services rendered	212,271	194,568
Purchases.............................	712,129	627,619
Services received	23,752	24,521

Amounts in thousands of euros.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. As part of these transactions, the Group has arranged certain cash flow hedges, mainly interest rate and foreign currency hedges.

The methods followed by the Group to calculate the fair value of its derivative financial instruments, including credit risk introduced by IFRS 13 and the hierarchy determined on the basis of IFRS 7, are described in Note 4.2.8.

The Group has complied with the requirements detailed in Note 4.2.8 on measurement bases in order to determine whether the derivative financial instruments meet the requirements to be classified as hedging derivatives. Specifically, these instruments were formally designated as hedges and the hedges were assessed as being effective.

However, the Group has various derivative financial instruments held for speculative purposes. The effect on comprehensive income for 2013 arising from these financial instruments amounted to EUR 4,891 thousand (2012: EUR 1,438 thousand) and was recognised under "Changes in Fair Value of Financial Instruments".

The Group's derivative hedging financial instruments at 28 February 2014 and 2013 were as follows:

2013

					Fair Value (a)	
	Classification	Type	Amount Arranged	Maturity	Assets	Liabilities
Interest rate hedge	Interest rate hedge	Floating to fixed	2,062,595 (a)	2021	-	78,887
					-	78,887
Foreign currency hedges	Foreign currency hedge	Currency purchase	374,329 (b)	2014-2015	12	6,826
					12	6,826

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

2012

	Classification	Type	Amount Arranged	Maturity	Fair Value (a) Assets	Liabilities
Interest rate hedge	Interest rate hedge	Floating to fixed				
			50,000 (a)	2012	-	162
			112,500 (a)	2013	-	1,069
			432,000 (a)	2014	-	11,613
			750,000 (a)	2015	-	10,768
					-	23,612
Foreign currency hedges	Foreign currency hedge	Currency purchase	342,688 (b)	2013	1,942	2,802
					1,942	2,802

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

At the end of 2013 and 2012 the Group had contracted speculative derivative financial instruments, which were recognised based on the following characteristics:

	Foreign Currency Hedge		Interest Rate Hedge	
	2013	2012	2013	2012
Amount arranged	72,193 (b)	65,144 (b)	100,000 (a)	400,000 (a)
Maturity................................	2014-2015	2013	2017	2013
Fair value (a)				
- Assets................................	-	-	-	-
- Liabilities	(3,495)	(1,872)	(5,913)	(7,861)
Impact of measurement on income statement (a)	-	-	-	(1,438)

(a) Amounts in thousands of euros

(b) Amounts in thousands of dollars.

21. TRADE PAYABLES

"Trade and Other Payables" includes mainly the amounts outstanding for trade purchases and related costs. Group management considers that the carrying amount of the trade payables approximates their fair value.

21.1 Disclosures on the payment periods to suppliers

In relation to the disclosures required by Additional Provision Three of Law 15/2010, of 5 July, the total balance payable to suppliers and trade creditors at 28 February 2014 and 2013, which is past-due by more than the legally established payment period, is less than 0.05% of the total balance payable thereto.

Also, the total balance payable to suppliers and trade creditors in 2013 amounted to EUR 10,337 million (2012: EUR 11,396), of which 99.73% (2012: 99.60%) had been paid within the terms set out in the legislation and regulations applicable to the Parent.

The average period of late payment of the payments made in 2013 and 2012 after the maximum payment period was 18 days.

22. OTHER CURRENT LIABILITIES

The breakdown at 2013 and 2012 year-end is as follows:

	2013	2012
Payable to suppliers and other payables (Note 21)	2,370,509	2,377,616
Tax payables (Note 23)	149,486	144,910
Personnel accounts	415,003	346,190
TOTAL	2,934,998	2,868,716

Amounts in thousands of euros.

22.1 Personnel accounts:

The breakdown of "Personnel Accounts" at the end of 2013 and 2012 was as follows:

	2013	2012
Loans and advances	(51,149)	(53,243)
Accounts receivable for sales and services	(40,175)	(40,661)
Remuneration payable and other payments to employees	231,094	237,770
Current accounts of Group employees	275,233	202,324
TOTAL	415,003	346,190

Amounts in thousands of euros.

“Current Accounts of Group Employees" relates to current accounts kept with El Corte Inglés, S.A. by the Group company employees. These accounts earn interest at market rates.

23. TAX MATTERS

El Corte Inglés, S.A. files consolidated tax returns with the Spanish subsidiaries in which it has an ownership interest of more than 75%, excluding those whose financial year-end differs from that of the Parent as a result of industry regulation, in accordance with current legislation.

23.1 Reconciliation of the accounting profit to the taxable profit

Income tax is calculated on the basis of individual accounting profit, determined by application of generally accepted accounting principles, which does not necessarily coincide with taxable profit.

The reconciliation of the accounting profit to the aggregate taxable profit for income tax purposes is as follows:

2013

	Increase	Decrease	Amount
Accounting profit for the year (before tax)..			15,119
Consolidation adjustments....................			(153,626)
Permanent differences	7,702	(344,210)	(336,508)
Timing differences:			
- Current year	476,690	(4,203)	472,487
- Prior years	32,396	(384,952)	(352,556)
Other..			(340,510)
AGGREGATE TAXABLE PROFIT....			(695,594)

Amounts in thousands of euros.

2012

	Increase	Decrease	Amount
Accounting profit for the year (before tax)..			108,377
Consolidation adjustments..................			158,945
Permanent differences	2,936	(142,268)	(139,332)
Timing differences:			
- Current year	131,096	(8,268)	122,828
- Prior years	33,176	(96,125)	(62,949)
Other..			(370,602)
AGGREGATE TAXABLE PROFIT...			(184,733)

Amounts in thousands of euros.

El Corte Inglés, S.A. and Hipercor, S.A. availed themselves of the tax benefits in relation to the depreciation of new fixed assets provided for by Royal Decree-Law 3/1993, of 26 February.

For the gain obtained from the transfer of assets and as permitted by Transitional Provision Three of Law 24/2001, in 2001 El Corte Inglés, S.A. and Hipercor, S.A. opted to apply the regime provided for in Article 21 of the Corporation Tax Law and did not include income of EUR 34.49 million in the taxable profit. Both companies reinvested the total amount of the proceeds from the sale that gave rise to this gain in the same year in the Cádiz store. The method used to include the income in the taxable profit is that provided for in Article 21.3 of the Corporation Tax Law and Article 34.1.b of the Corporation Tax Regulations then in force, the detail being as follows.

	Thousands of Euros
2001 deferred income	34,489
Income included from 2002 to 2012	(4,467)
Income included in 2013	(398)
Outstanding amount...................................	29,624

The outstanding amount will be included in the taxable profit in the tax periods in which the Cádiz store is depreciated, for the proportional amount corresponding to the value of the depreciation taken on the aforementioned building with respect to its acquisition cost.

23.2 Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, the Group recognised an expense of EUR 12.06 million directly in equity in 2013 (2012: EUR 15.31 million). These amounts relate mainly to the tax effects arising from the revaluation of available-for-sale financial assets.

23.3 Reconciliation of accounting profit to the income tax expense

The reconciliation of the accounting profit to the income tax expense is as follows:

	2013	2012
Accounting profit before tax	15,119	108,377
Permanent differences and consolidation adjustments	(491,736)	85,371
Taxable profit for the purposes of calculating the tax expense	(476,617)	193,748
Tax charge	(141,183)	60,220
Tax credits		
Advertising and publicity of events	(982)	(2,015)
Double taxation	(59,124)	(35,030)
Reinvestment of gains	(6,778)	(9,447)
Other..	(8,025)	(6,866)
Other..	89,721	(2,680)
Changes in the scope of consolidation	-	(17,951)
Total income tax expense (benefit) recognised in profit or loss	(126,370)	(13,769)

Amounts in thousands of euros.

Current income tax legislation provides for double taxation and dividend tax credits and various tax incentives to encourage investments. Tax credits of EUR 74.9 million resulting from the tax benefits provided for in this legislation were taken in the year ended 28 February 2014, the most important being the double taxation tax credits.

The income in respect of which the tax credit for reinvestment of extraordinary gains was taken pursuant to Article 42 of the Consolidated Spanish Corporation Tax Law was as follows:

	Eligible Income	Reinvestment Date	Tax Credit
2008......................	3,459	2008	1,811
2009......................	12,435	2009	4,592
2010......................	93	2010	11
2011......................	50	2011	6
2012......................	78,727	2012	9,447
2013......................	56,483	2013	6,778

Amounts in thousands of euros.

23.4 Deferred tax

The difference between the tax charge allocated to the current year and prior years and the tax already paid or payable for such years, which is recognised under "Deferred Tax Assets" and "Deferred Tax Liabilities", respectively, arose as a result of temporary differences, the detail being as follows:

2013

	Deferred Tax Assets	Deferred Tax Liabilities
Balance at 28/02/13.......................................	219,552	965,807
Temporary differences		
- Current year	169,557	11,909
- Prior years	(123,924)	(15,410)
Other	5,259	168,981
TOTAL	270,444	1,131,287

Amounts in thousands of euros.

2012

	Deferred Tax Assets	Deferred Tax Liabilities
Balance at 29/02/12	319,528	960,902
Temporary differences		
- Current year	44,753	12,197
- Prior years	(18,900)	(22,610)
Other	(125,829)	15,318
TOTAL	219,552	965,807

Amounts in thousands of euros.

As the head of a Group that files consolidated tax returns, the Parent recognises -as a result of the application of the aforementioned tax consolidation regime- all the tax assets generated at the Group in connection with unused tax credits, tax relief and tax losses. The amounts of the tax assets recognised and yet to be used, by year, are as follows:

	Recognised	Unused Tax Credits and Tax Relief	Recognised	Tax Loss Carryforwards
1997	-	-	508	508
1998	-	-	367	367
2008	37,739	1,397	10,433	10,433
2009	27,020	8,453	-	-
2010	17,934	13,781	1,623	1,623
2011	28,396	28,396	79,701	79,701
2012	57,300	57,300	113,836	113,836
2013	75,707	75,707	234,030	234,030

Amounts in thousands of euros.

The deferred tax assets indicated above were recognised in the consolidated balance sheet because the Parent's directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

23.5 Years open for review and tax audits

The tax authorities have completed the tax audits of the companies included in the consolidated tax group for the years from 2007/2008 to 2011/2012 for income tax and from 2008 to 2011 for the other annual taxes applicable in each calendar year, the remaining years being open for review. The Parent's directors do not expect any material liabilities unrecognised at 28 February 2014 to arise.

24. INCOME AND EXPENSES

24.1 Revenue

The breakdown, by business line, of the consolidated revenue for 2013 and 2012 is as follows:

Line of Business	2013	2012
El Corte Inglés department stores..	8,441,485	8,541,744
Hipercor hypermarkets.............	1,716,263	1,866,842
Bricolaje Bricor	79,569	80,069
Viajes El Corte Inglés Group....	2,277,521	2,238,468
Supercor supermarkets	466,030	422,838
Opencor convenience stores	149,691	244,205
Sfera	164,057	135,398
Óptica 2000	75,381	77,262
Information and communication technologies	659,970	699,670
Insurance Group	176,260	154,818
Other business lines	85,451	91,693
TOTAL....................................	14,291,678	14,553,007

Amounts in thousands of euros.

The breakdown, by geographical market, of the consolidated revenue for 2013 and 2012 is as follows:

Line of Business	2013	2012
Spain..	13,621,398	13,950,564
European Union	422,894	390,871
Rest of the world	247,385	211,572
TOTAL	14,291,678	14,553,007

Amounts in thousands of euros.

24.2 Procurements

The detail of the balance of "Procurements" in the consolidated income statement for the years ended 28 February 2014 and 2013 is as follows:

	2013	2012
Cost of goods held for resale used	9,801,605	10,045,726
Cost of raw materials and other consumables used		
Purchases	61,205	64,707
Changes in inventories	694	1,059
Work performed by other companies	35,186	37,167
TOTAL	9,898,690	10,148,659

Amounts in thousands of euros.

“Procurements” in the accompanying consolidated income statement includes the expenses incurred in preparing goods for resale. EUR 17.73 million were incurred in this connection in 2013 (2012: EUR 17.73 million).

“Procurements” also includes EUR 27.89 million relating to internal and external expenses incurred in 2013 (2012: EUR 31.18 million) in the preparation for resale of food products sold by El Corte Inglés, S.A.

24.3 Staff costs

The detail of "Staff Costs" in 2013 and 2012 is as follows:

	2013	2012
Wages, salaries and termination benefits	1,998,455	2,033,007
Employee benefit costs		
Social security costs	570,970	580,081
Uniforms	2,593	5,817
Life insurance premiums	4,046	3,896
Other employee benefit costs...	11,780	8,489
TOTAL	2,587,844	2,631,290

Amounts in thousands of euros.

The average number of full-time equivalent employees in 2013 and 2012, by activity group, was as follows:

	Average Number of Employees	
Groupings	2013	2012
Directors and managers	207	236
Supervisors and coordinators......	13,376	13,932
Sales staff..................................	56,661	58,956
Services personnel......................	6,988	6,580
Other..	5,896	6,777
TOTAL	83,128	86,481

The headcount at the end of 2013 and 2012, by gender and professional category, was as follows:

Groupings	2013 Women	2013 Men	2012 Women	2012 Men
Directors and managers ...	12	186	10	207
Supervisors and coordinators	4,276	9,414	4,343	9,844
Sales staff........................	47,434	18,283	49,633	18,865
Services personnel...........	4,683	2,656	4,421	2,653
Other	3,013	3,266	3,222	3,481
TOTAL	59,418	33,805	61,629	35,050

The average number of employees at the Group with a disability equal to or greater than 33%, by category, in 2013 and 2012 was as follows:

Groupings	2013	2012
Directors and managers.............	1	1
Supervisors and coordinators	122	123
Sales staff	639	600
Services personnel	77	89
Other...	99	110
TOTAL	938	923

24.4 Other operating expenses

The detail of "Other Operating Expenses" in 2013 and 2012 is as follows:

Groupings	2013	2012
Rent and charges........................	217,150	199,746
Repair and upkeep expenses.......	64,125	63,013
Advertising	233,139	259,905
Utilities......................................	177,670	183,976
Taxes other than income tax.......	112,271	106,584
Other..	607,747	694,674
TOTAL	1,412,102	1,507,898

Amounts in thousands of euros.

24.5 Finance income and finance costs

The detail of the Group's finance income and finance costs is as follows:

	2013	2012
Finance income	**29,500**	**25,039**
Income from equity investments	2,663	202
Income from other securities	26,837	24,837
Finance costs	**305,459**	**250,805**
On debts to Group companies and associates	273	490
On debts to third parties	305,175	250,315
Change in financial provisions	11	-

Amounts in thousands of euros

24.6 Contribution of each consolidated company to profit

The contribution of each line of business included in the scope of consolidation to the consolidated profit for the years ended 28 February 2014 and 2013 was as follows:

Company	2013	2012
El Corte Inglés department stores	274,846	264,524
Hipercor hypermarkets	7,282	4,483
Bricolaje Bricor	(11,938)	(15,543)
Viajes El Corte Inglés Group..	34,728	41,334
Supercor supermarkets...	3,686	(7,027)
Opencor convenience stores	(20,315)	(20,142)
Sfera	22,143	10,050
Óptica 2000	4,773	4,593
Information and communication technologies	20,537	37,796
Insurance Group	40,255	37,338
Financial...	32,860	42,562
Other business lines	(4,754)	685
Adjustments and eliminations on consolidation......................	(229,754)	(236,486)
CONSOLIDATED PROFIT	174,349	164,167
PROFIT ATTRIBUTABLE TO NON- CONTROLLING INTERESTS..	(1,988)	(989)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	172,361	163,178

Amounts in thousands of euros.

25. RELATED PARTY TRANSACTIONS AND BALANCES

As indicated in these notes to the consolidated financial statements, transactions performed by the Parent with its subsidiaries (related parties) as part of its normal business activities (as regards their purpose and terms and conditions) have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Group and its associates and other related companies are disclosed below.

25.1 Balances and transactions with associates and related companies

The detail of the transactions with related parties in 2013 and 2012 is as follows:

	2013	2012
Sales	13,608	16,799
Purchases	20,312	35,735
Disposal of non-current assets ...	1	10
Acquisitions of non-current assets	562	12,289
Services rendered	2,143	3,327
Services received	1,654	918
Interest paid	807	100
Interest charged	5,070	5,198

Amounts in thousands of euros.

In addition, the detail of the on-balance sheet balances with related parties is as follows:

	2013	2012
Trade and other receivables	84,633	26,332
Current financial assets.............................	2,590	433
Non-current payables................................	78,371	114,885
Current payables.......................................	44,985	330,741
Payable to suppliers and trade payables	34,232	10,536
Current accounts with public authorities ...	76,197	66,594

Amounts in thousands of euros.

The main transactions carried out by the Group with other related parties were due to commercial operations. These transactions were performed at market prices.

25.2 Remuneration of directors

The breakdown of the remuneration received in 2013 and 2012 by the members of the Board of Directors (including the senior executives) is as follows:

	2013	2012
Board of Directors		
- Salaries	5,000	5,000
- Other items	7,172	7,000

At 2013 and 2012 year-end, the Group had not granted any advances on remuneration or loans to the members of its Board of Directors and it did not have any pension, retirement bonus, life insurance or special indemnity obligations to them.

Also, in 2013 and 2012 the members of the Board of Directors did not receive any remuneration for attendance fees, pension plans, termination benefits or share-based payments.

26. INFORMATION ON THE ENVIRONMENT

The Group continued to implement its environmental management policy in accordance with the environmental protection legislation currently in force in Spain.

The main lines of action were as follows:

26.1 Environmental assets

As regards the current systems implemented by the Group in order to reduce the environmental impact of its facilities, it has continued to reduce emissions into the atmosphere, to carry out water treatment and recirculation work and to reduce noise and vibrations, etc. The cost of these items was included in the cost of the facilities at which they are located. The breakdown, by nature, of the cost of the identified environmental assets and the related accumulated depreciation and impairment at 2013 and 2012 year-end is as follows:

2013

	Cost	Carrying Amount	Impairment Loss in the Year	Impairment Loss in Prior Years	Carrying Amount
Water protection.........	2,105	(563)	-	(1)	1,541
Air protection.............	79,672	(33,366)	-	(2)	46,304
Noise protection	3,317	(1,424)	(48)	(144)	1,701
Other	5,593	(930)	(1,564)	(3,008)	91
TOTAL	90,687	(36,283)	(1,612)	(3,155)	49,637

Amounts in thousands of euros.

2012

	Cost	Carrying Amount	Impairment Loss in the Year	Impairment Loss in Prior Years	Carrying Amount
Water protection.........	2,323	(474)	-	(1)	1,848
Air protection.............	78,332	(28,309)	-	(2)	50,021
Noise protection	1,877	(840)	53	(197)	893
Other	5,578	(839)	8	(3,016)	1,731
TOTAL	88,110	(30,462)	61	(3,216)	54,493

Amounts in thousands of euros.

26.2 Environmental expenses

The environmental expenses recognised in 2013 amounted to EUR 21.86 million (2012: EUR 17.83 million) and are included under the following headings in the consolidated income statement:

	2013	2012
Procurements	315	136
Outside services	19,064	14,740
Taxes other than income tax....	2,484	2,955
TOTAL	21,863	17,831

Amounts in thousands of euros.

“Procurements” relates to specific acquisitions of consumables not included in outside services, the objective of which is to improve the environment, such as: filters to eliminate pollution in the air released into the atmosphere, products for water treatment or to maintain boilers and treatment plants.

“Outside Services” includes all contracting, relating to both periodic maintenance and other services in general, aimed at protecting and improving the environment. The measures taken include most notably: cleaning of air conditioning ducts, water treatment at the Company's facilities (cleaning, disinfection, etc.), management of containers and container waste, waste transport and management (fluorescent lights, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.) or third-party liability insurance.

Lastly, “Taxes Other than Income Tax” includes environmental taxes, arising mainly from the use of landfills.

27. OTHER DISCLOSURES

27.1 Detail of investments in companies with similar activities and of the performance, as independent professionals or as employees, of similar activities by the Parent's directors or persons related to it

In 2013 and 2012 the members of the Board of Directors of the Parent and the persons related to them as defined in the Spanish Limited Liability Companies Law did not hold any significant investments in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity constituting the company object of the Parent or of the El Corte Inglés Group companies.

Also, they have not performed, and do not perform, as independent professionals or as employees, any activity that is identical, similar or complementary to the activities that constitute the company object of the El Corte Inglés Group companies.

27.2 Fees paid to auditors

The fees for financial audit and other audit services paid to Deloitte, S.L. or to a company related to the auditor as a result of a relationship of control, common ownership or management, were as follows:

	2013		2012	
	Principal Auditor	Other Firms	Principal Auditor	Other Firms
Financial statement audit services.............	1,800	97	1,699	63
Other attest services..................................	48	16	626	4
TOTAL AUDIT SERVICES....................	1,848	113	2,325	67
Tax counselling services...........................	35	-	50	19
Other services...	5,530	239	1,450	33
TOTAL OTHER SERVICES	5,565	239	1,500	52

Amounts in thousands of euros.

27.27.3 Events after the reporting period

No significant events took subsequent to 2013 year-end.

28. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

2013 CONSOLIDATED DIRECTORS' REPORT

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

2013 CONSOLIDATED DIRECTORS' REPORT

Business activities and performance

El Corte Inglés, S.A. and its subsidiaries engage mainly in the retail sale of consumer goods and in the provision of a wide range of services (travel agency, information technology, telephony, insurance brokerage, financial services, optical services, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and branches.

In 2013 the El Corte Inglés Group's revenue amounted to EUR 14,291.68 million, down 1.80% on 2012, the detail being as follows:

	Millions of Euros	% Change from 2012
Retail sales	11,411.42	(1.75)
Revenue from services	2,880.26	(1.97)

Operating costs and expenses amounted to EUR 13,898.64 million, of which EUR 9,898.69 million related to procurements, EUR 2,587.84 million to staff costs and EUR 1,173.30 million to outside services.

Inventories at 28 February 2014 totalled EUR 1,648.11 million.

The Group's EBITDA, calculated as profit from operations less amortisation and depreciation, stood at EUR 728.20 million.

Cash flows from operating activities amounted to EUR 1,734.55 million, as shown in the statement of cash flows, and this amount was mainly invested in non-current assets and used to repay bank borrowings.

Capex on operating property, plant and equipment amounted to EUR 298.10 million in 2013.

Outlook

The outlook for the Group in 2014 is focused on the modernisation and adaptation of existing stores, ongoing improvement of internal management in order to enhance the effectiveness of the Group's investments and expenses, and on continuing to foster employee training and advancement.

Treasury share transactions

In 2013 treasury shares of the Parent were acquired for an effective amount of EUR 54.21 million and shares amounting to EUR 3.79 million were sold.

At 28 February 2014, the Group temporarily held 8,729,806 treasury shares of EUR 6 par value each and 194,833 treasury shares of EUR 60 par value each, which are earmarked for sale at short term.

Research and development activities

In 2013 the consolidated Group carried out several research, development and innovation projects as part of various strategic lines of action. The most significant projects, in terms of content and scope, include the following:

- Development of a technology platform that operates in real time to provide a leading-edge data-based commerce environment directed at the travel industry.
- Comprehensive system to access digital content. Emancipates users of the technology with which content is developed from their physical location and the device with which the content is accessed.
- Development of an advanced analytical marketing system capable of managing interaction with the customer on a full-scale basis.
- Tool to automatically generate evaluation systems for different types of competence. Makes use of expert systems that optimise the generation of multimedia exams.
- Development of a conceptual model to represent customer perception regarding products and services and the related operating processes.

As in previous years, the El Corte Inglés Group companies have continued to work on the development of continuous innovation processes in relation to both systems and operating procedures. This has led to the adoption and use of state-of-the-art technology and to the development of intellectual models which, based on experience, enable the Group to continuously improve its production and management systems.

The correct instrumentation of ongoing quality assurance processes is also another basic factor required in order to be able to continue offering customers an excellent level of service and personal attention.

Environment

The El Corte Inglés Group companies continued to implement their environmental management policy in accordance with environmental protection legislation.

The main measures taken in 2013 are described in Note 26 to the consolidated financial statements.

Code of good tax practices

The Company adhered to this Code and complied satisfactorily with its contents.

Other

For the purpose of controlling and reducing the potential adverse impact of interest rate and exchange rate fluctuations on profit, the Parent has implemented a management programme in relation to such risks over the medium term through the use of certain interest rate and foreign currency hedging instruments. The nominal amounts covered by the interest rate and foreign currency risk management programmes are EUR 2,062.60 million and USD 374.33 thousand, respectively.

GUARANTOR'S 2012 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED GROUP EL CORTE INGLÉS

LEGAL DOCUMENTATION 2012

El Corte Inglés

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INDEPENDENT AUDITORS' REPORT

El Corte Inglés, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 28 February 2013 and Consolidated Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
El Corte Inglés, S.A. and Subsidiaries:

1. We have audited the consolidated financial statements of El Corte Inglés, S.A. (the Parent) and Subsidiaries (the Group), which comprise the consolidated balance sheet at 28 February 2013 and the related consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. The Parent's directors are responsible for the preparation of the consolidated financial statements in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2.1 to the accompanying consolidated financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. As indicated in Note 4.13.2 to the accompanying consolidated financial statements, on 22 February 2012, the Parent's Board of Directors resolved to allocate unrestricted reserves to provisions recognised, amounting to EUR 722 million net, pursuant to the provisions of Article 34 of the Spanish Commercial Code. The aforementioned provisions did not affect the consolidated profit for the year ended 29 February 2012. Our audit opinion on the consolidated financial statements for the year ended 29 February 2012 was qualified for this matter, since generally accepted accounting principles do not envisage the possibility of recognising provisions without a charge to the consolidated income statement and, therefore, the comparability between years is affected.

3. In our opinion, except for the impact on the comparative figures of the year ended on 29 February 2012 of the matter indicated in paragraph 2 above, the accompanying consolidated financial statements for the year ended 28 February 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of El Corte Inglés, S.A. and Subsidiaries at 28 February 2013, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Group and, in particular, with the accounting principles and rules contained therein.

4. Without qualifying our audit opinion, we draw attention to Note 15 to the accompanying consolidated financial statements, which provides information on the refinancing of the Group's bank borrowings, which will entail an improved debt structure and schedule by adapting it to the context of its sector of activity and which might affect the classification of such debt in the accompanying consolidated financial statements. The directors expect the aforementioned refinancing process to be successfully concluded over the coming months.

5. The accompanying consolidated directors' report for the year ended 28 February 2013 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for the year ended 28 February 2013. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of El Corte Inglés, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pilar Cerezo Sobrino
19 July 2013

CONSOLIDATED FINANCIAL STATEMENTS FOR 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated balance sheet at 28 February 2013

ASSETS	Notes	2012	2011
NON-CURRENT ASSETS		**13.450.800**	**13.325.264**
Intangible assets	Note 5	**508.198**	**513.016**
Property, plant and equipment	Note 6	**10.678.867**	**10.631.374**
Land and buildings		6.966.075	6.774.314
Plant and other items of property, plant and equipment		3.407.718	3.480.579
Property, plant and equipment in the course of construction and advances		305.074	376.481
Investment property	Note 7	**129.105**	**116.357**
Non-current investments in Group companies and associates		**619.780**	**638.541**
Investments accounted for using the equity method		19.042	18.363
Equity Instruments		595.490	614.694
Other financial assets		5.248	5.484
Non-current financial assets	Note 9.1	**1.099.650**	**1.037.799**
Equity instruments		204.970	170.070
Loans to third parties and other		155.522	197.745
Derivatives	Note 10	-	-
Other financial assets		739.158	669.984
Deferred tax assets	Note 17	**415.200**	**388.177**
CURRENT ASSETS		**4.652.938**	**4.880.660**
Inventories	Note 11	**2.286.487**	**2.251.376**
Goods held for resale		2.270.669	2.215.854
Raw materials and other supplies		15.818	35.522
Trade and other receivables		**2.073.428**	**2.257.327**
Trade receivables for sales and services		1.678.004	1.949.320
Group companies and associates	Note 20.1	32.925	17.527
Other accounts receivable from public authorities		34.401	35.524
Sundry accounts receivable		328.098	254.956
Current investments in Group companies and associates		**433**	**293**
Current financial assets	Note 9.2	**157.751**	**152.024**
Derivatives	Note 10	1.942	15.081
Other financial assets		155.809	136.943
Current prepayments and accrued income		**29.006**	**28.042**
Cash and cash equivalents		**105.833**	**191.598**
Cash		105.833	191.598
TOTAL ASSETS		**18.103.738**	**18.205.924**

Amounts in thousands of euros.

The accompanying Notes 1 to 23 are an integral part of the consolidated balance sheet at 28 February 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated balance sheet at 28 February 2013

EQUITY AND LIABILITIES	Notes	2012	2011
EQUITY	Note 12	**7.401.539**	**7.422.349**
SHAREHOLDERS' EQUITY		**7.391.570**	**7.450.228**
Share capital		**486.864**	**486.864**
Reserves of the Parent		**5.202.282**	**5.014.300**
Reserves of consolidated companies		**1.942.646**	**2.051.349**
Reserves of companies accounted for using the equity method		**4.362**	**3.204**
Treasury shares and shares of the Parent		**(415.104)**	**(315.679)**
Profit for the year attributable to the Parent		**170.520**	**210.190**
Consolidated profit for the year		171.509	209.987
Profit/Loss attributable to non-controlling interests		(989)	203
VALUATION ADJUSTMENTS		**(6.794)**	**(43.631)**
Translation differences		5.816	4.797
Other adjustments		(12.610)	(48.428)
GRANTS, DONATIONS AND LEGACIES RECEIVED		**274**	**591**
NON-CONTROLLING INTERESTS	Note 13	**16.489**	**15.161**
NON-CURRENT LIABILITIES		**4.623.638**	**4.710.888**
Long-term provisions	Note 14	**827.764**	**727.731**
Non-current payables	Note 15	**3.408.605**	**3.600.884**
Debt instruments and other marketable securities		1.437.086	1.416.450
Bank borrowings		1.764.362	1.930.387
Obligations under finance leases	Note 8.1	171.018	202.995
Derivatives	Note 10	31.473	47.191
Other financial liabilities		4.666	3.861
Long-term payables to non-current asset suppliers		**19.983**	**32.138**
Non-current payables to Group companies and associates		**114.885**	**102.639**
Deferred tax liabilities	Note 17	**252.401**	**247.496**
CURRENT LIABILITIES		**6.078.561**	**6.072.687**
Short-term provisions		**3.331**	**13.085**
Current payables	Note 15	**2.620.730**	**2.304.299**
Bank borrowings		2.547.234	2.235.657
Obligations under finance leases	Note 8.1	31.956	33.087
Derivatives	Note 10	4.674	2.980
Other liabilities		36.866	32.575
Short-term payables to non-current asset suppliers		**189.984**	**152.196**
Current payables to Group companies and associates	Note 20.1	**330.741**	**209.735**
Trade and other payables		**2.901.868**	**3.357.581**
Payable to suppliers		2.031.879	2.155.331
Payable to suppliers - Group companies and associates	Note 20.1	10.536	14.260
Sundry accounts payable		162.222	99.232
Remuneration payable	Note 16	346.190	658.839
Current tax liabilities		22.615	18.283
Other accounts payable to public authorities	Note 17	144.910	205.195
Customer advances		183.516	206.441
Current accruals and deferred income		**31.907**	**35.791**
TOTAL EQUITY AND LIABILITIES		**18.103.738**	**18.205.924**

Amounts in thousands of euros.

The accompanying Notes 1 to 23 are an integral part of the consolidated balance sheet at 28 February 2013.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated income statement
for the year ended 28 February 2013

	Notes	2012	2011
Revenue	Note 19.2	**14.552.454**	**15.777.745**
Sales		11.614.703	12.721.989
Services	Note 4.12	2.937.751	3.055.756
Changes in inventories of finished goods and work in progress		**(1.142)**	**(215)**
In-house work on non-current assets and procurements		**202.556**	**199.661**
Procurements	Note 19.3	**(10.141.371)**	**(11.011.105)**
Other operating income		**281.781**	**233.849**
Non-core and other current operating income		274.242	224.523
Income-related grants transferred to profit or loss		7.539	9.326
Staff costs		**(2.656.604)**	**(2.805.344)**
Wages, salaries and similar expenses		(2.053.320)	(2.192.673)
Employee benefit costs	Note 19.4	(603.284)	(612.671)
Other operating expenses		**(1.502.798)**	**(1.568.265)**
Outside services		(1.216.604)	(1.306.684)
Taxes other than income tax		(106.601)	(90.102)
Losses on, impairment of and change in allowances for trade receivables		(27.274)	(19.461)
Other current operating expenses		(152.319)	(152.018)
Depreciation and amortisation charge	Notes 5 & 6	**(515.853)**	**(505.329)**
Excessive provisions, impairment and gains on disposals of non-current assets	Note 6	**117.380**	**7.205**
PROFIT FROM OPERATIONS		**336.403**	**328.202**
Finance income		**111.991**	**109.994**
From investments in equity instruments		202	2.852
From marketable securities and other financial instruments		111.789	107.142
Finance costs		**(271.131)**	**(243.504)**
Change in fair value of financial instruments		**(2.286)**	**(1.876)**
Held-for-trading financial assets/liabilities and other		(728)	(1.848)
Allocation to profit or loss of fair value changes in available-for-sale financial assets		(1.558)	(28)
Exchange differences		**1.301**	**(830)**
Impairment and gains or losses on disposals of financial instruments		**(1.327)**	**(1.880)**
Impairment and other losses		(8.518)	(1.922)
Gains or losses on disposals and other		7.191	42
FINANCIAL LOSS		**(161.452)**	**(138.096)**
Results of companies accounted for using the equity method		**740**	**1.209**
PROFIT BEFORE TAX		**175.691**	**191.315**
Income tax	Note 17	**(4.182)**	**18.672**
CONSOLIDATED PROFIT FOR THE YEAR		**171.509**	**209.987**
PROFIT/LOSS ATTRIBUTABLE TO NON- CONTROLLING INTERESTS	Note 13	**(989)**	**203**
PROFIT ATTRIBUTABLE TO THE PARENT	Note 19.1	**170.520**	**210.190**

Amounts in thousands of euros.

The accompanying Notes 1 to 23 are an integral part of the consolidated income statement for 2012.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated statements of changes in equity for the year ended 28 February 2013

A) Statement of recognised income and expense

	2012	2011
PROFIT PER INCOME STATEMENT (I)	**170.520**	**210.190**
Income and expense recognised directly in equity		
- Arising from revaluation of financial instruments	**31.624**	**(8.214)**
Available-for-sale financial assets	31.624	(8.214)
- Arising from cash flow hedges	**(13.730)**	**(14.443)**
- Grants, donations and legacies received	**114**	**829**
- Translation differences	**1.019**	**6.680**
- Other	**-**	**-**
- Tax effect	**(5.402)**	**6.836**
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	**13.625**	**(8.312)**
Transfers to profit or loss		
- Arising from revaluation of financial instruments	**8.283**	**138**
Available-for-sale financial assets	8.283	138
- Arising from cash flow hedges	**24.991**	**19.498**
- Grants, donations and legacies received	**(566)**	**(1.713)**
- Tax effect	**(9.812)**	**(5.377)**
TOTAL TRANSFERS TO PROFIT OR LOSS (III)	**22.896**	**12.546**
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)	**207.040**	**214.424**

Amounts in thousands of euros.

The accompanying Notes 1 to 23 are an integral part of the consolidated statement of recognised income and expense for 2012.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated statements of changes in equity
for the year ended 28 February 2013
B) Statement of changes in total equity

		Reserves													
	Share capital	Revaluation reserve	Legal reserve	Canary Islands investment reserve	Voluntary reserves	Reserve for goodwill	Reserve for retired capital	Total	Treasury shares	Reserves of consolidated companies	Consolidated profit for the year	Valuation adjustments	Grants	Non-controlling interests	TOTAL
BALANCE AT BEGINNING OF 2011	486.864	139.758	97.373	75.000	4.966.675	10.688	639	5.290.133	(283.161)	2.227.582	319.316	(48.484)	1.210	16.200	8.009.660
Total recognised income and expense	-	-	-	-	-	-	-	-	-		210.190	4.853	(619)	(203)	214.221
Transactions with shareholders	-	-	-	-	331.238	-	-	331.238	(32.518)	(55.701)	(319.316)	-	-	-	(76.297)
- Distribution of profit	-	-	-	-	331.238	-	-	331.238	-	(55.701)	(319.316)	-	-	-	(43.779)
Dividends	-	-	-	-	-	-	-	-	-	-	(43.779)	-	-	-	(43.779)
To reserves	-	-	-	-	331.238	-	-	331.238	-	(55.701)	(275.537)	-	-	-	-
- Treasury share transactions (net)	-	-	-	-	-	-	-	-	(32.518)	-	-	-	-	-	(32.518)
Other changes in equity	-	-	-	(15.000)	(592.071)	-	-	(607.071)	-	(117.328)	-	-	-	(836)	(725.235)
BALANCE AT BEGINNING OF 2012	486.864	139.758	97.373	60.000	4.705.842	10.688	639	5.014.300	(315.679)	2.054.553	210.190	(43.631)	591	15.161	7.422.349
Total recognised income and expense	-	-	-	-	-	-	-	-	-		170.520	36.837	(316)		207.040
Transactions with shareholders	-	-	-	-	252.302	-	-	252.302	(99.425)	(85.641)	(210.190)	-	-	-	(142.954)
- Distribution of profit	-	-	-	-	252.302	-	-	252.302	-	(85.641)	(210.190)	-	-	-	(43.529)
Dividends	-	-	-	-		-	-	-	-		(43.529)	-	-	-	(43.529)
To reserves	-	-	-	-	252.302	-	-	252.302	-	(85.641)	(166.661)	-	-	-	-
- Treasury share transactions (net)	-	-	-	-		-	-	-	(99.425)	-		-	-	-	(99.425)
Other changes in equity	-	-	-	-	(64.320)	-	-	(64.320)	-	(21.904)	-	-	-	1.328	(84.896)
2012 ENDING BALANCE	486.864	139.758	97.373	60.000	4.893.824	10.688	639	5.202.282	(415.104)	1.947.008	170.520	(6.794)	274	16.489	7.401.539

Amounts in thousands of euros.
The accompanying Notes 1 to 23 are an integral part of the consolidated statement of changes in total equity for 2012.

EL CORTE INGLÉS CONSOLIDATED GROUP

Consolidated statements of cash flows for the year ended 28 February 2013

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**610.978**	**276.459**
Profit for the year before tax		**175.691**	**191.315**
Adjustments for		**666.338**	**843.512**
- Depreciation and amortisation charge	Notes 5 & 6	515.853	505.329
- Impairment losses		1.217	83.230
- Changes in provisions		100.033	104.551
- Recognition of grants in profit or loss		(809)	2.046
- Gains/Losses on derecognition and disposal of non-current assets		(102.890)	12.181
- Gains/Losses on derecognition and disposal of financial instruments		(7.191)	(41)
- Finance income		(111.991)	(109.994)
- Finance costs		271.131	243.504
- Exchange differences		(1.301)	830
- Changes in fair value of financial instruments		2.286	1.876
- Other income and expenses		-	-
Changes in working capital		**(153.628)**	**(565.642)**
- Inventories		(35.111)	(77.472)
- Trade and other receivables		183.899	6.775
- Other current assets		(6.831)	7.208
- Trade and other payables		(437.430)	(110.767)
- Other current liabilities		(13.638)	(21.649)
- Other non-current assets and liabilities		155.483	(369.737)
Other cash flows from operating activities		**(177.423)**	**(192.726)**
- Interest paid		(271.131)	(243.504)
- Dividends received		202	2.852
- Interest received		111.789	107.142
- Income tax recovered (paid)		(18.283)	(59.216)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(524.588)**	**(806.139)**
Payments due to investment		**(728.446)**	**(907.366)**
- Group companies and associates		(63.586)	(6.200)
- Intangible assets	Note 5	(84.059)	(77.665)
- Property, plant and equipment	Note 6	(475.604)	(784.374)
- Investment property		(12.748)	385
- Non-current financial assets		(92.449)	(39.512)
Proceeds from disposal		**205.701**	**167.934**
- Group companies and associates		840	26.143
- Intangible assets, property, plant and equipment and investment property		161.440	19.828
- Non-current financial assets		43.421	121.963
Additions to the scope of consolidation		**(1.843)**	**(66.707)**
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(73.456)**	**613.926**
Proceeds and payments relating to equity instruments		**(98.486)**	**(26.417)**
- Purchase of treasury shares	Note 12	(99.425)	(32.518)
- Translation differences		1.019	6.681
- Grants, donations and legacies received		(80)	(580)
Proceeds and payments relating to financial liability instruments		**68.559**	**684.122**
- Proceeds from issue of debt instruments and other marketable securities		20.636	72.163
- Increase in bank borrowings		112.444	578.310
- Increase in borrowings from Group companies and associates		33.252	188.310
- Repayment of other borrowings		(97.773)	(154.661)
Dividends and returns on other equity instruments paid		**(43.529)**	**(43.779)**
- Dividends		(43.529)	(43.779)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**1.301**	**(830)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(85.765)**	**83.416**
Cash and cash equivalents at beginning of year		191.598	108.182
Cash and cash equivalents at end of year		105.833	191.598

Amounts in thousands of euros.

The accompanying Notes 1 to 23 are an integral part of the consolidated statement of cash flows for 2012.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Contents of the Notes to the Consolidated Financial Statements

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

EL CORTE INGLÉS CONSOLIDATED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFOR THE YEAR ENDED 28 FEBRUARY 2013

1. GROUP ACTIVITIES AND IDENTIFICATION DATA

El Corte Inglés, S.A. and its consolidated subsidiaries engage principally in the retail sale of consumer goods and in the provision of a wide range of services (travel, insurance brokerage, insurance, financial and other services), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and branches.

The Parent is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements of the El Corte Inglés Group for the year ended 28 February 2013 were formally prepared by the Parents directors at the Board of Directors Meeting held on 30 May 2013. The consolidated financial statements for 2011 were approved by the shareholders at the Annual General Meeting of El Corte Inglés, S.A. on 26 August 2012 and were filed at the Mercantile Registry of Madrid.

Scope of consolidation

In 2013 the merger between the Parent (absorbing company) and Industrias y Confecciones S.A. (absorbed company) was approved. Since Industrias y Confecciones, S.A. was already included in the scope of consolidation in the previous year because the Parent exercised control over it, the main effect of the aforementioned merger on these consolidated financial statements involved, in accordance with the Rules for Preparing Consolidated Financial Statements, a decrease in reserves of EUR 64,320 thousand, with total investment of EUR 44,519 thousand.

The consolidated El Corte Inglés Group companies (none of which are listed) and related information thereon at 28 February 2013 are as follows:

COMPANY		LINE OF BUSINESS	LOCATION	AUDITOR	PERCENTAGE OF OWNERSHIP DIRECT	PERCENTAGE OF OWNERSHIP INDIRECT	CARRYING AMOUNT COST	CARRYING AMOUNT NET IMPAIRMENT LOSSES FOR THE YEAR	CARRYING AMOUNT NET IMPAIRMENT LOSSES ACCUMULATED	SHARE CAPITAL	OTHER EQUITY ITEMS	PROFIT(LOSS) FOR THE YEAR FROM OPERATION	PROFIT(LOSS) FOR THE YEAR NET
PARENT													
EL CORTE INGLÉS, S.A.	(a) (c)	Department stores	Madrid	Deloitte	-	-	-	-	-	486 864	4 773 843	268 815	260 694
GROUP COMPANIES													
HIPERCOR, S.A.	(a) (c)	Hypermarkets	Madrid	Deloitte	100.00	-	302 668	-	-	225 000	1 336 506	(25)	4 483
CONSTRUCCIÓN, PROMOCIONES E INSTALACIONES, S.A.	(a) (c)	Construction and installation work	Madrid	Deloitte	100.00	-	766	-	-	301	1 552	(579)	(415)
EDITORIAL CENTRO DE ESTUDIOS RAMÓN ARECES, S.A.	(a) (c)	Publishing	Madrid	Deloitte	100.00	-	301	-	-	301	2 772	102	73
CENTRO DE SEGUROS Y SERVICIOS, CORREDURÍA DE SEGUROS, S.A., GRUPO DE SEGUROS EL CORTE INGLÉS	(a) (d)	Insurance brokerage	Madrid	Deloitte	100.00	-	852	-	-	9 015	13 331	20 395	16 080
SEGUROS EL CORTE INGLÉS, VIDA, PENSIONES Y REASEGUROS, S.A.	(a) (d)	Insurance	Madrid	Deloitte	100.00	-	18 030	-	-	18 030	155 284	14 140	21 258
FINANCIERA EL CORTE INGLÉS E.F.C., S.A.	(a) (d)	Finance	Madrid	Deloitte	99.99	0.01	163 881	-	-	163 800	218 190	(4 948)	42 562
E.C.I. HONG - KONG	(a) (d)	Central buying entity	China	Baker Tilly China	90.00	10.00	1 369	-	-	1 369	4 491	(1 039)	(1 194)
E.C.I. SHANGHAI	(a) (d) (e)	Central buying entity	China	Baker Tilly China	100.00	-	1 262	-	-	353	11	291	45
TIENDAS DE CONVENIENCIA, S.A.	(a) (c)	Convenience stores	Madrid	Deloitte	100.00	-	255 000	(38 374)	(132 010)	131 000	(7 904)	(28 519)	(20 142)
SUPERCOR, S.A.	(a) (c)	Supermarkets	Madrid	Deloitte	100.00	-	510 000	(21 240)	(112 698)	239 000	158 302	(8 305)	(7 027)
CANAL CLUB DE DISTRIBUCIÓN DE OCIO Y CULTURA, S.A.	(a) (c)	Direct mail-order and teleshopping sales	Madrid	Deloitte	74.95	-	7 196	-	-	3 907	783	38	132
EL CORTE INGLÉS-GRANDES ARMAZÉNS, S.A.	(a) (c)	Department stores	Portugal	Deloitte	99.56	-	512 422	-	-	515 000	22 639	2 352	3 830
BRICOR, S.A.	(a) (c)	DIY product sales	Madrid	Deloitte	100.00	-	210 000	(39 164)	(77 244)	70 000	47 162	(21 451)	(15 543)
PERFUMES Y COSMÉTICOS GRAN VIA, S.L.	(a) (c)	Sales of perfumery and cosmetic goods	Madrid	Deloitte	51.00	-	831	(831)	(831)	1 510	(1 547)	(827)	(727)
URIA VEINTE, S.A.U.	(b) (c) (e)	Property rentals	Madrid	-	99.05	-	17 372	-	-	856	241	175	87
CONFECCIONES TERUEL, S.A.U.	(a) (c) (e)	Manufacture of clothing	Madrid	BDO	100.00	-	10 047	4 238	(10 047)	1 803	(9 762)	(66)	514
INDUSTRIAS DEL VESTIDO, S.A.U.	(a) (c) (e)	Manufacture of clothing	Madrid	BDO	100.00	-	18 585	4 828	(18 585)	601	(10 044)	(284)	770
SEINVE, S.A.U.	(a) (c) (e)	Sales of clothes and accessories	Madrid	BDO	100.00	-	1 803	1 928	(1 803)	902	(653)	140	303
ÓPTICA 2000 SUBGROUP													
ÓPTICA 2000, S.L.	(a) (c)	Sales of optical products and services	Barcelona	Deloitte	100.00	-	18 152	-	-	4 500	10 825	5 825	4 516
GALLERY DA VISAO - SERVIÇOS DE ÓPTICA UNIPESSOAL, LDA.	(b) (c)	Sales of optical products and services	Portugal	-	-	100.00	485	76	(59)	485	(134)	103	76
SFERA SUBGROUP													
SFERA JOVEN, S.A.	(a) (c)	Sales of clothes and accessories	Madrid	Deloitte	100.00	-	230 000	1 618	(116 730)	100 000	12 909	8 925	7 466
MODA JOVEN SFERA MÉXICO, S.A. DE C.V.	(a) (d)	Sales of clothes and accessories	Mexico	PWC	-	51.00	16 467	-	(4 089)	16 467	7 783	2 785	2 584
PARINVER SUBGROUP													
PARINVER, S.A.	(b) (c)	Portfolio company	Madrid	-	100.00	-	112 436	-	-	49 500	88 880	261	708
PUBLICIDAD PUNTO DE VENTA ECI, S.A.	(a) (c)	Exploitation of advertising rights	Madrid	Deloitte	-	100.00	151	-	-	150	245	868	607
VIAJES EL CORTE INGLÉS SUBGROUP													
VIAJES EL CORTE INGLÉS, S.A.	(a) (c)	Travel agency	Madrid	Deloitte	100.00	-	2 821	-	-	6 010	78 532	54 637	42 097
VIAJES EL CORTE INGLÉS, Inc.	(b) (c)	Travel agency	USA	-	-	100.00	681	-	-	681	49	69	22
VIAJES EL CORTE INGLÉS, S.A. DE C.V.	(b) (d)	Travel agency	Mexico	-	-	96.00	2 525	(202)	-	2 525	(402)	797	18
VIAJES EL CORTE INGLÉS ARGENTINA, S.A.	(b) (d)	Travel agency	Argentina	-	-	100.00	1 341	(259)	-	1 211	(916)	(588)	(522)
VIAJES EL CORTE INGLÉS PERÚ, S.A.	(b) (d)	Travel agency	Peru	-	-	100.00	1 788	-	-	1 810	208	(110)	(135)
ASESORES DE VIAJE, S.A.	(b) (d)	Travel agency	Chile	-	-	100.00	4 915	-	-	4 915	972	742	741
VIAJES EL CORTE INGLÉS R. DOMINICANA, S.R.L.	(b) (d)	Travel agency	Dominican Republic	-	-	100.00	1 030	(152)	-	1 161	(243)	(108)	(107)
VIAJES EL CORTE INGLÉS COLOMBIA, S.A.	(b) (d)	Travel agency	Colombia	-	-	100.00	961	(193)	-	1 291	(660)	(159)	(172)
TOURMUNDIAL URUGUAY, S.A.	(b) (d) (e)	Travel agency	Uruguay	-	-	100.00	115	(261)	-	1 648	159	(289)	(317)
FST HOTELS, S.A.	(a) (d)	Hotel management	Palma de Mallorca	Deloitte	-	50.00	72 697	-	-	7 294	110 611	1 123	(583)
INFORMÁTICA EL CORTE INGLÉS SUBGROUP													
INFORMÁTICA EL CORTE INGLÉS, S.A.	(a) (c)	Sale of computer products and services	Madrid	Deloitte	100.00	-	9 015	-	-	9 015	89 919	32 717	34 063
INFORMÁTICA EL CORTE INGLÉS MÉXICO, S.A. DE C.V.	(b) (d)	Sale of computer products and services	Mexico	-	-	100.00	508	-	-	508	219	3 895	1 543
INFORMÁTICA EL CORTE INGLÉS REPÚBLICA DOMINICANA, S.A.	(b) (d)	Sale of computer products and services	Dominican Republic	-	-	100.00	578	-	-	61	(297)	(182)	(251)
INFORMÁTICA EL CORTE INGLÉS PERÚ, S.A.	(b) (d)	Sale of computer products and services	Peru	-	-	100.00	520	-	-	520	(111)	(89)	(69)
INFORMÁTICA EL CORTE INGLÉS BRASIL, L.T.D.A.	(b) (d)	Sale of computer products and services	Brazil	-	-	100.00	3 789	-	-	3 789	(3 005)	781	633
INFORMÁTICA EL CORTE INGLÉS COLOMBIA, S.A.S.	(b) (d)	Sale of computer products and services	Colombia	-	-	100.00	410	-	-	1 966	(598)	(241)	(319)
HIKU DOCUMENT SERVICES S.A.P.I. DE C.V.	(b) (d) (e)	Sale of computer products and services	Mexico	-	-	50.00	607	-	-	771	(384)	144	106
INVESTRÓNICA, S.A.	(a) (c)	Sale of computer products and services	Madrid	Deloitte	-	100.00	3 005	-	-	3 005	5 154	71	134
TELECOR, S.A.	(a) (c)	Sale of telecommunications products and services	Madrid	Deloitte	-	100.00	3 000	-	-	3 000	1 318	336	2 008
ASÓN INMOBILIARIA DE ARRIENDOS SUBGROUP													
ASÓN INMOBILIARIA DE ARRIENDOS, S.L.	(a) (c)	Property leasing	Madrid	A.B. Auditores	100.00	-	436 196	-	(53 661)	13 175	6 821	(907)	(637)
ESGUEVA, S.A.	(b) (c)	Property leasing and organisation of events	Madrid	-	-	100.00	2 187	-	-	886	905	75	52
ÍZARO FILMS, S.A.	(b) (c)	Property leasing	Madrid	-	-	100.00	15 159	-	-	1 123	499	353	247
JOINTLY CONTROLLED ENTITIES													
GESTIÓN DE PUNTOS DE VENTA, GESPEVESA, S.A.	(a) (d)	Service stations and convenience stores	Madrid	Deloitte	50.00	-	19 705	-	-	39 409	9 808	388	293
SEPHORA COSMÉTICOS ESPAÑA, S.L.	(a) (d)	Sales of perfume and cosmetics	Madrid	Deloitte	50.00	-	8 679	-	-	9 000	8 705	39	(376)
CITOREL, S.L.	(b) (c) (e)	Marketing of jewellery and watches	Madrid	-	50.00	-	502	-	-	1 003	4	448	324

Amounts in thousands of euros.

(a) Data obtained from the audited financial statements.
(b) Data obtained from the financial statements which were not audited because it was not obligatory.
(c) Year ended 28/02/13.
(d) Year ended 31/12/12.
(e) Inclusions in the scope of consolidation in 2012

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Regulatory framework

The consolidated financial statements of the El Corte Inglés, S.A. Group were formally prepared by the Parent's directors in accordance with the regulatory financial reporting framework applicable to the Group, which is that established by the Spanish Commercial Code, the rules for the preparation of consolidated financial statements, the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, the rules approved by the Spanish Accounting and Audit Institute and all other applicable Spanish corporate legislation applicable.

2.2 Fair presentation

The consolidated financial statements of the El Corte Inglés Group expressed in euros (the Group's functional currency), which were obtained from the individual accounting records of the Group companies (see Note 1), are presented in accordance with the regulatory financial reporting framework applicable to the Group and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Group's consolidated equity, financial position, results of operations and cash flows for 2012.

The consolidated financial statements and the separate financial statements of El Corte Inglés, S.A. and of each of the consolidated subsidiaries for the year ended 28 February 2013 were prepared by the directors of each company and will be submitted for approval by the shareholders at the Annual General Meeting. It is considered that they will be approved without any changes.

2.3 Accounting policies applied

The Parent's directors formally prepared these consolidated financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

In preparing the accompanying consolidated financial statements estimates were made by the Parent's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets including goodwill.
- The useful life of the property, plant and equipment, intangible assets and investment property.
- The fair value of certain financial instruments.
- The calculation of the value of provisions.
- The recoverability of deferred tax assets.

These estimates were made on the basis of the best information available at 2012 year-end. However, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Comparative information

The information relating to 2011 included in these notes to the consolidated financial statements is presented for comparison purposes with that relating to 2012.

2.6. Basis of consolidation

2.6.1 The financial statements of all the companies detailed in Note 1 in which El Corte Inglés, S.A. holds directly and indirectly an ownership interest of 50% or more, which are considered to be non-current permanent investments and/or over which the Group exercises economic control - understood to be the capacity to govern the financial and operating policies thereof- were fully consolidated.

The consolidated financial statements for the year include Gestión de Puntos de Venta, GESPEVESA, S.A., Sephora Cosméticos España, S.L. and FST Hotels, S.A., Citorel, S.L., HIKU Document Services S.A.P.I de C.V. which are proportionally consolidated, since they are 50% owned by El Corte Inglés, S.A. and the Group exercises joint control over them.

Associates are accounted for using the equity method. Associates are companies over whose management significant influence is exercised, which is understood to be the power to influence the investee's financial and operating policy decisions, but not control or joint control. The equity method consists of including under "Non-Current Investments in Group Companies and Associates - Investments Accounted for Using the Equity Method" in the consolidated balance sheet the value of the net assets and any goodwill relating to the percentage of ownership of the investee. The net profit or loss for each year corresponding to the percentage of ownership of these companies is reflected under “Result of Companies Accounted for Using the Equity Method” in the consolidated income statement.

2.6.2 The financial statements of companies which are prepared in currencies other than the euro were translated to euros as follows:

a) Assets and liabilities: at the year-end exchange rate.

b) Capital and reserves: at the historical exchange rate.

c) Revenue and expenses: at the monthly average exchange rate for the year.

The difference resulting from the application of these translation methods with respect to the result of translating the equity and profit for the year at the year-end exchange rate is included under "Translation Differences" in the accompanying consolidated balance sheet.

2.6.3 In order to uniformly present the items composing the accompanying consolidated financial statements, the accounting policies and measurement bases used by the Parent were applied to all the consolidated companies.

2.6.4 The share of third parties in the equity and profit/loss of the fully consolidated companies is reflected under “Non-Controlling Interests” and “Profit/Loss Attributable to Non-Controlling Interests” on the liability side of the accompanying consolidated balance sheet at 28 February 2013 and under “Profit/Loss Attributable to Non-Controlling Interests” in the accompanying consolidated income statement for 2012.

2.6.5 All material accounts and transactions between the consolidated subsidiaries were eliminated on consolidation.

“Receivable from Group Companies and Associates”, “Non-Current Payables to Group Companies and Associates” and “Current Payables to Group Companies and Associates” in the consolidated balance sheet include the balances with companies accounted for using the equity method and with the Group companies which were not consolidated because of their scant materiality.

2.6.6 The financial statements of certain subsidiaries in which El Corte Inglés, S.A. holds a direct or indirect ownership interest of more than 50% were not included in consolidation, either because they were not considered to be non-current permanent investments (since, in certain cases, they are likely to be excluded from the Group in the future) or because they do not have a material effect on the fair presentation of the consolidated financial statements.

These investments are carried at cost, net, where appropriate, of the required impairment losses, and are included under "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the accompanying consolidated balance sheet. This heading also includes the investment in Ingondel, S.A., amounting to EUR 556 million in 2011 and 2010, whose main assets are 4,060,234 class "A" shares and 113,183 class "B" shares of El Corte Inglés, S.A.

2.7 Grouping of items

Certain items in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

2.8 Changes in accounting policies and correction of errors

In 2012 there were no significant changes in accounting policies with respect to those applied in 2011.

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2011.

3. DISTRIBUTION OF THE PARENT'S PROFIT

The distribution of profit proposed by the Parent's directors consists of the payment of a dividend equal to 10% of the par value of each existing share eligible to receive it. The proposed distribution is calculated provisionally as follows:

	Thousands of Euros
Dividends	42,728
To voluntary reserves	217,966
TOTAL	260,694

4. ACCOUNTING POLICIES

The principal accounting policies applied in preparing the consolidated financial statements for the years ended 28 February 2013 and 29 February 2012, in accordance with the Spanish National Chart of Accounts, were as follows:

4.1 Goodwill and business combinations

The obtainment by the Parent of control over a subsidiary constitutes a business combination. When the ownership is consolidated subsequently, the investment-equity elimination of the subsidiary is generally made on the basis of the values resulting from first-time consolidation at the date on which control is obtained.

Business combinations are accounted for by applying the acquisition method, for which the acquisition date is determined and the cost of the combination is calculated, and the identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair value.

Goodwill or gains from a bargain purchase arising from a combination are calculated as the difference between the acquisition-date fair value of the assets acquired and liabilities assumed and the cost of the business combination at the acquisition date.

The cost of a business combination is the aggregate of:

- The acquisition-date fair value of the assets acquired, the liabilities assumed and the equity instruments issued.
- The fair value of any contingent consideration that depends on future events or on the fulfilment of certain specified conditions.

If the business combination is achieved in stages and, therefore, the acquirer already held an equity interest in the acquiree immediately before the acquisition date (the date on which control is obtained), the goodwill or gain from a bargain purchase is the difference between:

- The cost of the business combination, plus the acquisition-date fair value of any equity interest previously held by the acquirer in the acquiree; and
- The fair value of the identifiable assets acquired less the fair value of the liabilities assumed, determined as indicated above.

Any gain or loss resulting from the remeasurement at fair value of the previously held equity interest in the acquiree at its acquisition-date fair value on the date control is obtained is recognised in profit or loss. If the investment in this investee had previously been measured at fair value, any valuation adjustments not yet recognised in profit or loss will be transferred to the income statement. Also, the cost of a business combination is presumed to be the best reference for estimating the acquisition-date fair value of any previously held equity interest.

Goodwill arising on the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the acquiree and is translated to euros at the exchange rates prevailing at the balance sheet date.

Goodwill is not amortised and is subsequently measured at cost less any impairment losses recognised. An impairment loss recognised for goodwill must not be reversed in a subsequent period.

If, exceptionally, a gain on a bargain purchase arises from the business combination, it is recognised as income in the income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete, and the provisional amounts may be adjusted in the period required to obtain the necessary information. However, the measurement period shall not exceed one year from the acquisition date. The effects of the adjustments made in that period are recognised retrospectively and comparative information for prior periods must be revised as needed. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration has been classified as equity, in which case subsequent changes in its fair value are not recognised.

The accompanying consolidated balance sheet includes goodwill net of the related amortisation amounting to EUR 9.05 million. This goodwill arose on the acquisition from third parties of various lines of business.

Goodwill on consolidation is not amortised, but rather it is tested at least annually for impairment using the methodology described in Note 4.5. No impairment losses were recognised for the aforementioned goodwill since it is not considered to have become impaired.

4.2 Intangible assets

Intangible assets are specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Company. Only assets whose cost can be estimated objectively and from which future economic benefits are expected to be obtained are recognised.

They are deemed to have indefinite useful lives when it is concluded that they will contribute to the generation of profit indefinitely. In all other cases intangible assets are considered to have finite useful lives.

Intangible assets with indefinite useful lives are not amortised and are tested for impairment at least once a year using the same methodology as for goodwill (see Note 4.5).

Intangible assets with finite useful lives are amortised using the straight-line method, applying annual amortisation rates determined on the basis of the years of the estimated useful lives of the related assets.

The assets held by the Group with indefinite useful lives included under "Intangible Assets" relate to goodwill and the value of certain trademarks, which were recognised under this heading at an amount of EUR 10.69 million and EUR 44.74 million, respectively (see Note 5) at 28 February 2013 and 29 February 2012.

a) Research and development expenditure

The Group recognises research expenditure in the consolidated income statement as an expense in the year in which it is incurred.

Development expenditure is capitalised if the following conditions are met:

- It is specifically itemised by project and the related costs can be clearly identified for their distribution over time.
- There are sound reasons to foresee the technical success and economic and commercial profitability of the related projects.

Assets thus generated are amortised on a straight-line basis over their years of useful life (over a maximum period of five years). At 28 February 2013, these assets were fully amortised.

When there are doubts as to the technical success or economic profitability of the related project, the amounts capitalised are recognised directly in consolidated profit or loss.

b) Intellectual property

"Intellectual Property" is charged for the amounts paid for the acquisition of title to or the right to use the related items (patents, trademarks, licences), or for the expenses incurred in registration of the rights developed by the Group.

The Group treats certain trademarks as assets with indefinite useful lives.

Intellectual property, which is considered to have a finite useful life, is amortised by the straight-line method, generally over five years.

c) Administrative concessions

Administrative concessions include the amounts paid to acquire the construction and operating rights of certain premises and are amortised on a straight-line basis over the term thereof.

d) Computer software

The Group recognises under "Computer Software" the costs incurred in the acquisition and development of computer programs, including website development costs. Computer software maintenance costs are recognised with a charge to the income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over five years.

e) Leasehold assignment rights

Leasehold assignment rights are measured at the amount paid on acquisition and are amortised over ten years, the period in which they are estimated to contribute to the generation of income.

f) Goodwill

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. The balance of "Goodwill" relates mainly to the goodwill generated on the acquisition in prior years of the customer portfolio and operating rights of certain shopping centres.

Goodwill is not amortised and is tested for impairment at least once a year using the methodology described below and, where appropriate, is written down.

An impairment loss recognised for goodwill must not be reversed in a subsequent period.

4.3 Property, plant and equipment

Property, plant and equipment are carried at cost (revalued pursuant to the provisions of legislation including Royal Decree-Law 7/1996, of 7 June) and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4.5.

Property, plant and equipment upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. The costs of expansion, modernisation or improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

The interest accrued during the financing of the work in progress due to investments in new shopping centres, the execution period of which exceeds one year, is recognised as a non-current asset addition until the aforementioned work is transferred to the corresponding "Property, Plant and Equipment" account.

In-house work on non-current assets performed by the Group is recognised at accumulated cost (external costs plus other costs determined on the basis of in-house consumption of materials).

Property, plant and equipment are depreciated using the straight-line method, where the cost of the assets is distributed over the following years of estimated useful life:

	Years
Buildings	33 - 85
Machinery, fixtures and tools	3.5 - 17
Furniture and fittings	3.5 - 15
Computer hardware	4 - 6
Transport equipment	5 - 15

4.4 Investment property

"Investment Property" in the consolidated balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

Investment property is measured as described in Note 4.3 on property, plant and equipment.

4.5 Impairment of property, plant and equipment, intangible assets and goodwill on consolidation

Each year, the Group assesses the possible existence of any losses in value that require it to reduce the carrying amount of its property, plant and equipment, intangible assets and goodwill on consolidation if their recoverable amounts are below their carrying amounts.

For the purpose of this analysis, known as an impairment test, when there are indications that the assets have become impaired, the recoverable amount is established as the higher of fair value less costs to sell and value in use. Value in use is calculated, for each cash-generating unit, on the basis of the estimated future cash flows, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is considered to be the value at which the asset in question may be sold under normal conditions and is determined on the basis of market information, comparable transactions, etc.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the related write-down is recognised in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased up to the limit of the original amount at which the asset was recognised prior to recognising the impairment loss, including the depreciation or amortisation charge relating to the period in which the asset was impaired.

At 2012 year-end the Group had recognised EUR 209.03 million in relation to the impairment of certain tangible assets (2011: EUR 261.42 million).

4.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

a) Finance leases

In finance leases in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated income statement for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned (see Note 4.3).

b) Operating leases

Lease income and expenses from operating leases are recognised in income on an accrual basis.

Any other collection or payment that might be made on arranging a lease is treated as a prepaid lease collection or payment which is allocated to profit or loss over the lease term.

4.7 Asset exchange transactions

"Asset exchange" means the acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

The asset received in an asset exchange transaction with commercial substance is recognised at the fair value of the asset given up, plus, where appropriate, any monetary consideration paid. The valuation differences that arise on derecognition of the asset given up in the exchange are recognised in the income statement.

Assets received in an exchange that lacks commercial substance are recognised at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

4.8 Financial instruments

4.8.1 Financial assets

In general, financial assets maturing within twelve months are classified as current assets and those maturing within more than twelve months are classified as non-current assets. They are classified for measurement purposes as follows:

a) Trade and other receivables

"Trade and Other Receivables" are recognised at their nominal value, which is considered to be their fair value, and classified as current or non-current on the basis of their maturity.

The El Corte Inglés charge card is accepted by most of the Group companies indicated in Note 1. as their customers' means of payment. Financiera El Corte Inglés E.F.C., S.A., which owns virtually all the cards, also handles the billing and collection of sales made with this card.

As a general rule, impairment losses are recognised for these instruments when there are reasonable doubts as to their recovery. The aforementioned impairment losses are recognised with a charge to the consolidated income statement of the year in which the impairment becomes evident. The reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the year in which the impairment is reversed or reduced.

b) Equity investments in Group companies, associates and jointly controlled entities

These investments are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

c) Other current and non-current financial assets

"Other Financial Assets" under "Non-Current Financial Assets" and "Current Financial Assets" include fixed or determinable investments with specific maturity that the Group has the intention and ability to hold until the date of maturity. Specifically, the following investments have been classified, inter alia, under the above headings:

i. Long- and short-term loans and credits

ii. Guarantees and deposits

iii. Other financial assets

Loans to third parties are measured at their amortised cost, which is understood to be their initial value plus accrued interest and repayment premiums based on the effective interest rate, minus the principal and interest repayments, while also considering possible reductions due to impairment or uncollectibility.

The changes in the amortised cost of the assets included in this category are recognised in the income statement.

Guarantees and deposits are measured at the amount given.

Financial assets arising from insurance, coinsurance and reinsurance transactions are measured at amortised cost. The accrued interest is recognised in the consolidated income statement using the effective interest method.

d) Held-to-maturity investments

These relate to deposits and debt securities with fixed maturity and fixed or determinable payments that are traded in an active market and which the Group has the positive intention and ability to hold to the date of maturity.

e) Financial assets at fair value through profit or loss

This category includes the financial assets thus designated by the Group upon initial recognition. The changes in the fair value of the financial assets will be charged and/or credited to the income statement. This category also includes hybrid instruments when the Group is incapable of measuring embedded derivatives separately or cannot measure their fair value reliably, and cases where it may opt to measure the hybrid financial instrument at its fair value upon initial recognition.

f) Available-for-sale financial assets

These include debt securities and equity instruments of other companies that are not classified in any of the aforementioned categories.

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year. In this regard, (permanent) impairment is deemed to exist if the market value of the asset has fallen by more than 40% without the value having recovered.

When fair value cannot be estimated reliably, the available-for-sale financial assets are measured at cost, net, where appropriate, of any accumulated impairment losses.

g) Cash and cash equivalents

Cash consists of cash on hand and demand deposits at banks. Cash equivalents are short-term investments maturing in less than three months that are not subject to a significant risk of changes in value.

h) Derecognition of financial assets

The Group derecognises financial assets when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred.

4.8.2 Financial liabilities

As a general rule, financial liabilities due to be settled within twelve months are classified as current liabilities and those due to be settled within more than twelve months as non-current liabilities. They are classified for measurement purposes as follows:

a) Bank borrowings

Bank loans are recognised at the amount received, net of arrangement costs and commissions. These loan arrangement and borrowing costs are recognised in the consolidated income statement using the accrual method and on a time proportion basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

b) Debt instruments and other marketable securities, trade payables and other financial liabilities

These are recognised initially at fair value and subsequently at amortised cost.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

4.8.3 Equity Instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Parent after deducting all of its liabilities.

Capital instruments issued by the Parent are recognised in equity at the proceeds received, net of issue costs.

Treasury shares acquired by the Parent during the year are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in consolidated profit or loss.

4.8.4 Derivative financial instruments

The Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, these risks relate to changes in exchange rates and interest rates. The Group arranges hedging financial instruments in this connection.

Derivatives are initially recognised at acquisition cost in the consolidated balance sheet and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. They are classified under "Non-Current Financial Assets - Derivatives" or "Current Financial Assets - Derivatives" in the consolidated balance sheet if they are positive and as "Non-Current Payables - Derivatives" or "Current Payables - Derivatives" if negative. The changes in the fair value of the aforementioned derivatives are recognised in the consolidated income statement, unless the derivative is designated as a hedge, in which case the recognition criteria are as follows:

- Fair value hedges: in this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in profit or loss.
- Cash flow hedges: changes in the fair value of the derivatives are recognised under "Equity - Valuation Adjustments". The cumulative gain or loss under this heading is transferred to income in the same period and to the same extent to which the hedged item affects profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year.

At inception and periodically over the term of the hedge, or at least at the end of each reporting period, the Group must verify that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

Derivatives do not qualify for hedge accounting if they fail the effectiveness test, which requires the changes in the fair value or in the cash flows of the hedged item, directly attributable to the hedged risk, to be offset by the changes in the fair value or in the cash flows of the hedging instrument. If derivatives fail the effectiveness test, the changes in the fair value of these instruments are recognised in the consolidated income statement for the year.

Hybrid financial instruments include a non-derivative host contract and an embedded derivative.

These embedded derivatives are separated from the aforementioned host contracts and are treated independently for accounting purposes if the characteristics and economic risks of the embedded derivative are not closely related to the characteristics of the non-derivative host contract, if a different instrument with the same conditions as an embedded derivative meet the requirements of a derivative, and if the hybrid contract is not recognised at its fair value in the consolidated income statement.

4.9 Inventories

Inventories are measured at the lower of cost (per the most recent invoice, which does not differ substantially from FIFO cost), plus the purchase costs incurred in making the goods available to the customer or estimated realisable value. Estimated realisable value is calculated in accordance with the selling price.

The Group makes the appropriate valuation adjustments and recognises them as an expense in the consolidated income statement when the net realisable value of the inventories is lower than their acquisition cost.

4.10 Transactions in currencies other than the euro

Assets whose acquisition cost was denominated in currencies other than the euro were translated to euros at the exchange rates prevailing at the date of each acquisition or at the date on which the related items were included in assets.

Accounts payable denominated in currencies other than the euro, which are not related to hedges (see Note 4.8.4), are translated to euros at the exchange rates prevailing at the transaction date.

The differences that would arise from translating these balances at the year-end exchange rates would not be material.

4.11 Income tax

The current income tax expense is calculated individually for each company on the basis of accounting profit before tax, increased or decreased, as appropriate, by the permanent differences from taxable profit, net of tax relief and tax credits. The rates used to calculate the income tax expense are those in force at the end of the reporting period.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, calculating the differences between the carrying amount of the assets and liabilities in the financial statements and their corresponding tax base.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply at the date on which the asset is realised or the liability is settled. Deferred tax assets and liabilities are recognised in full as a balancing item in the consolidated income statement, except when they relate to line items taken directly to equity accounts, in which case the deferred tax assets and liabilities are also recognised with a charge or credit to the related equity accounts.

Deferred tax assets and tax loss carryforwards are recognised when it is considered probable that the Group will be able to recover them in the future, regardless of when they are recovered. Deferred tax assets and liabilities are not adjusted and are classified as non-current assets or liabilities in the consolidated balance sheet.

"Income Tax" represents the sum of the current tax expense and the result of recognising deferred tax assets and liabilities.

In accordance with current legislation, El Corte Inglés, S.A. files consolidated tax returns with the Spanish subsidiaries in which it has an ownership interest of more than 75%, excluding those which, for industry regulation purposes, have a different reporting date from that of the Parent.

Since 1 January 2008, El Corte Inglés, S.A., as the Parent, has availed itself of the special taxation system for corporate groups envisaged in Title IX, Chapter IX of VAT Law 37/1992, together with certain Spanish subsidiaries.

4.12 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been substantially transferred to the buyer.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

"Services" in the accompanying consolidated income statement at 28 February relate mainly to the travel agency and information and communications technologies services.

4.13 Provisions and contingencies

4.13.1 Technical provisions

The technical provisions include the amounts recognised in order to guarantee, using prudent and reasonable methods, the obligations assumed under insurance and reinsurance contracts in force.

a. Provisions for unearned premiums and unexpired risks

The purpose of the provision for unearned premiums relates to the accrual of earned premiums at year-end and includes the fraction of the premiums accrued during the year which must be recognised between the reporting date and the coverage period. For each type of insurance contract, the provision for unearned premiums was determined by applying the "policy-by-policy" method, using gross premiums accrued as a basis, in conformity with the technical bases and as established by private insurance regulations.

The commissions and other acquisition costs relating to the premiums written are recognised as an expense using the same methods as those used for recognising the premiums relating to insurance policies in force as income. The portion of the commissions and other acquisition costs corresponding to the unexpired coverage period of the insurance policies in force is recognised under "Long-Term Provisions" on the liability side of the consolidated balance sheet. At 28 February 2013, these commissions amounted to EUR 6.2 million (29 February 2012: EUR 6.3 million).

The provision for unexpired risks supplements the provision for unearned premiums by the amount required to ensure that the provision is sufficient to reflect the measurement of all the risks and expenses to be covered in the unexpired policy period at the reporting date. It is calculated in accordance with the private insurance regulations currently in force. At 28 February 2013 and 29 February 2012, it was not necessary to recognise this provision.

b. Provisions for life insurance

These represent the value of the obligations of the Group, net of the obligations of the policyholder, relating to life insurance at year-end. The provision for life insurance includes the following:

i. In policies whose coverage period is one year or less, the provision for unearned premiums and, where appropriate, the provision for unexpired risks, which have the same objective and calculation method as those indicated in the preceding paragraph.

ii. In all of the other insurance policies, the mathematical provisions. These provisions represent the difference between the present actuarial value of the future obligations of the Group and those of the policyholder or the insured, where applicable. The basis for calculating these provisions is the gross premium accrued in the year, which is considered to be the pure premium plus a loading for administrative expenses per the technical bases. These provisions are calculated on a "policy-by-policy" basis using an individual capitalisation system and by applying a prospective method in accordance with the technical bases and the private insurance regulations.

The assumed interest rates used in 2012 and 2011 range basically from 2.00% to 6.03%. However, in the case of the main insurance policies for which a high assumed interest rate is guaranteed, the Group has assigned specific financial investment portfolios, the profitability of which enables these guaranteed interest rates to be covered.

iii. In insurance policies where the investment risk is borne by the policyholder, the technical provisions of the corresponding life insurance policies are determined on the basis of the assets specifically assigned or of the indices or assets established as a reference to determine the economic value of their rights.

c. Correction of accounting mismatches

In financially immunised insurance transactions (whose surrender value is tied to the value of the assets specifically assigned) that provide for a share in the profits of a related asset portfolio or, in the case of insurance transactions in which the policyholder bears the investment or similar risk, at the transition date, the Group recognised symmetrically in equity the changes in the fair value of the assets classified as "Available-for-Sale Financial Assets" or "Other Financial Assets at Fair Value through Profit or Loss" and the changes in the life insurance provisions. These changes were recognised with either a credit to these technical provisions, as required by the private insurance regulations and other applicable legislation, or with a credit to a liability account (with a positive or negative balance) for the amount not recognised as a life insurance provision.

d. Technical provisions for benefits

These include the estimates made by the Group to meet the obligations arising from the claims occurring before year-end and not yet reported, settled or paid at that date. They also include expired claims and requested surrenders which had not yet been settled or paid at year-end.

This provision includes the provision for unsettled or unpaid benefits, the provision for unreported claims and the provision for internal claim settlement expenses, which are calculated in conformity with the corresponding regulations.

e. Provisions for profit-sharing bonuses and rebates

These provisions include the bonuses accruing and not yet assigned to policyholders, insureds or beneficiaries and the estimated amount of the premiums to be returned to policyholders or insureds, where appropriate, based on the performance of the risks insured. These provisions are calculated in accordance with the corresponding clauses of the contracts in force at year-end.

f. Technical provisions for inward and outward reinsurance

The corresponding provisions are reflected in the consolidated balance sheet in conformity with the related contracts and regulations.

4.13.2 Other provisions and contingencies

The Group recognises provisions for the estimated amounts required to cover the liability arising from litigation in progress, indemnity payments or obligations and collateral and other guarantees provided which are highly likely to involve a payment obligation for the Group, provided that the amount can be estimated reliably.

Provisions are quantified on the basis of the best information available on the situation and evolution of the events giving rise to them and are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are measured at the present value of the best possible estimate of the amount required to settle the obligation, taking into account the information available and its consequences. Where discounting is used, the related adjustments are recognised as interest cost on an accrual basis.

The consolidated financial statements include all the provisions with respect to which it is likely that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow in settlement is considered to be remote.

In 2011 pursuant to the provisions of Article 34 of the Spanish Commercial Code and to safeguard fair presentation, the Parent's Board of Directors approved the allocation of unrestricted reserves to provisions, amounting to EUR 722 million, which had no effect on the consolidated profit for the year ended 29 February 2012.

4.14 Termination benefits and other payments to employees

Under current employment legislation, the Group is required to pay termination benefits to employees terminated under certain conditions.

Also in accordance with the current bylaws of El Corte Inglés, S.A., the Board of Directors will have up to 20% of the annual net profit to distribute among its members and to other executives.

The Group's directors consider that there are no additional needs other than those recognised in this connection.

4.15 Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Group's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Because of their nature, the Group's business activities do not have a significant environmental impact, although the disclosures relating to environmental assets and expenses are described in Note 21.

4.16 Grants, donations and legacies received

Non-refundable grants, donations and legacies related to assets are measured at the fair value of the amount or the asset received and are recognised initially as income directly in equity. They are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

Refundable grants are recognised as liabilities until they become non-refundable.

Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred. These grants are received basically for employee training and job creation and are credited to income when earned.

4.17 Current/non-current classification

Current assets are assets associated with the normal operating cycle, which in general is considered to be one year; other assets which are expected to mature, be disposed of or be realised within twelve months from the end of the reporting period; financial assets held for trading, except for financial derivatives that will be settled in a period exceeding one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year; and, in general, all obligations that will mature or be extinguished at short term. All other liabilities are classified as non-current liabilities.

4.18 Working capital

In accordance with standard practice in the industry in which the Group operates, in view of the time lag between the collection and payment dates of the commercial transactions, and as a result of using cash flows from operating activities to acquire fixed assets (see accompanying statement of cash flows), the current liabilities in the accompanying consolidated balance sheets at 28 February 2013 and 29 February 2012 exceed the current assets. The Parent's management considers that this time lag does not represent any risk of a lack of liquidity, since the current revenue will enable the short-term payment obligations to be met with total normality and working capital will also improve as a result of the restructuring process described in Note 15.1.

5. INTANGIBLE ASSETS

The changes in the various "Intangible Asset" accounts in the balance sheet of the Group in the years ended 28 February 2013 and 29 February 2012 were as follows:

2012

	Balance at 29 February 2012	Additions to the Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2013
R&D Expenditure......	**40,408**	-	-	-	-	**40,408**
Goodwill	**10,688**	-	-	-	-	**10,688**
Goodwill on consolidation ...	**9,052**	-	-	-	-	**9,052**
Leasehold assignment rights	**30,392**	-	571	(72)	(2,141)	**28,750**
Computer software	**553,560**	-	81,652	(47,953)	303	**587,562**
Concessions	**166,305**	-	-	(1,764)	-	**164,541**
Intellectual property	**59,675**	-	354	(628)	(13,801)	**45,600**
Other intangible assets...............	**30,938**	159	1,201	-	(13)	**32,285**
Total cost	**901,018**	**159**	**83,778**	**(50,417)**	**(15,652)**	**918,886**
Accumulated amortisation and net impairment losses	**(388,002)**	(10)	(74,153)	47,877	3,600	**(410,688)**
Net balance	**513,016**	**149**	**9,625**	**(2,540)**	**(12,052)**	**508,198**

Amounts in thousands of euros.

2011

	Balance at 28 February 2011	Additions to the Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 29 February 2012
R&D expenditure	**40,408**					**40,408**
Goodwill	**10,688**	-	-	-	-	**10,688**
Goodwill on consolidation	**9,052**	-	-	-	-	**9,052**
Leasehold assignment rights	**23,344**	8,015	248	(863)	(352)	**30,392**
Computer software	**500,174**	2,693	74,726	(23,967)	(66)	**553,560**
Concessions	**180,402**	-	194	(783)	(13,508)	**166,305**
Intellectual property	**18,072**	41,712	312	(421)	-	**59,675**
Other intangible assets	**14,629**	-	2,185	(3)	14,127	**30,938**
Total cost	**796,769**	**52,420**	**77,665**	**(26,037)**	**201**	**901,018**
Accumulated amortisation and net impairment losses	**(331,214)**	(6,196)	(70,363)	22,028	(2,257)	**(388,002)**
Net balance	**465,555**	**46,224**	**7,302**	**(4,009)**	**(2,056)**	**513,016**

Amounts in thousands of euros.

The additions recognised under "Computer Software" relate mainly to the development of computer applications required for the carrying on of the Group's activities.

At the end of 2012 the Group had fully amortised intangible assets still in use, the detail being as follows:

	2012
Research and development expenditure	40,408
Administrative concessions	297
Leasehold assignment rights	8,266
Computer software	113,568
Patents, licences and other	6,952
TOTAL	169,491

Amounts in thousands of euros.

6. PROPERTY, PLANT AND EQUIPMENT

The changes in the various "Property, Plant and Equipment" accounts in the balance sheet of the Group in the years ended 28 February 2013 and 29 February 2012 were as follows:

2012

	Balance at 29 February 2012	Additions to the Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 28 February 2013
Land and buildings	**7,578,782**	1,163	76,107	(27,566)	199,154	**7,827,640**
Machinery, fixtures and tools	**5,954,199**	302	33,092	(76,556)	171,409	**6,082,446**
Furniture and fittings	**1,921,280**	123	36,420	(15,650)	37,184	**1,979,357**
Computer hardware	**475,911**	135	25,949	(20,972)	(5,166)	**475,857**
Transport equipment	**7,212**	-	75	(31)	(13)	**7,243**
Property, plant and equipment in the course of construction	**376,482**	-	341,749	-	(413,156)	**305,075**
Total cost	**16,313,866**	**1,723**	**513,392**	**(140,775)**	**(10,588)**	**16,677,618**
Accumulated depreciation and net impairment losses	**(5,682,493)**	(29)	(432,489)	126,705	(10,445)	**(5,998,751)**
Net balance	**10,631,373**	**1,694**	**80,903**	**(14,070)**	**(21,033)**	**10,678,867**

Amounts in thousands of euros.

2011

	Balance at 28 February 2011	Additions to the Scope of Consolidation	Additions or Charge for the Year	Disposals	Transfers	Balance at 29 February 2012
Land and buildings	**7,298,222**	20,520	154,979	(2,672)	107,733	**7,578,782**
Machinery, fixtures and tools	**5,735,016**	32,103	66,689	(28,202)	148,593	**5,954,199**
Furniture and fittings	**1,805,724**	11,561	40,053	(25,765)	89,707	**1,921,280**
Computer hardware	**460,462**	8,146	25,725	(16,459)	(1,963)	**475,911**
Transport equipment	**7,240**	19	170	(212)	(5)	**7,212**
Property, plant and equipment in the course of construction	**354,833**	-	379,384	-	(357,735)	**376,482**
Total cost	**15,661,497**	**72,349**	**667,000**	**(73,310)**	**(13,670)**	**16,313,866**
Accumulated depreciation and net impairment losses	**(5,038,747)**	(51,866)	(652,914)	74,770	(13,736)	**(5,682,493)**
Net balance	**10,622,750**	**20,483**	**14,086**	**1,460**	**(27,406)**	**10,631,373**

Amounts in thousands of euros.

Property, plant and equipment additions relate basically to the opening of the Ronda de Córdoba Shopping Centre (in Córdoba), El Faro Discount Centre (Badajoz) and Puerto Venecia Shopping Centre (in Zaragoza) and various openings of department stores, branches and stores of the Group's other brands and the expenses incurred in expanding and refurbishing various stores.

Property, plant and equipment disposals in 2012 correspond basically to the derecognition of fully depreciated items and to the sale of a property. "Excessive Provisions, Impairment and Gains on Disposals of Non-Current Assets" in the accompanying consolidated income statement includes EUR 117,380 thousand relating to gains on transactions involving non-current assets.

The detail of the value of the buildings and land relating to the properties owned by the Group at the end of 2012 and 2011 is as follows:

	2012	2011
Land	2,679,349	2,610,752
Buildings	5,148,291	4,968,030
TOTAL	7,827,640	7,578,782

Amounts in thousands of euros.

In 2012 the Group capitalised borrowing costs amounting to EUR 20.79 million to "Property, Plant and Equipment - Buildings" (2011 year-end: EUR 20.41 million).

On 28 February 1997, certain Group companies revalued all their eligible items of property, plant and equipment pursuant to Article 5 of Royal Decree-Law 7/1996, of 7 June, and paid the related single 3% tax. This revaluation, which was performed by applying the maximum coefficients permitted, excluding any percentage for the authorised reduction ratio, had the following effects on the consolidated financial statements:

	Land and Buildings	Machinery, Fixtures and Tools	Furniture and Fittings	Computer Hardware	Transport Equipment	Total Cost	Accumulated Depreciation	Net Balance
BALANCE AT 28 FEBRUARY 2011	260,480	39,801	6,567	803	192	307,843	(92,473)	215,370
Charge for the year	-	-	-	-	-	-	(3,431)	(3,431)
Disposals	(2)	(473)	(189)	(45)	(7)	(716)	710	(6)
BALANCE AT 29 February 2012	260,478	39,328	6,378	758	185	307,127	(95,194)	211,933
Charge for the year	-	-	-	-	-	-	(3,278)	(3,278)
Disposals	-	(20)	(132)	(62)	(1)	(215)	177	(38)
BALANCE AT 28 FEBRUARY 2013	260,478	39,308	6,246	696	184	306,912	(98,295)	208,617

Amounts in thousands of euros.

The net revaluation surplus net of the single 3% tax was credited to "Revaluation Reserve Royal Decree-Law 7/1996" and will be depreciated over the tax periods in the remaining useful lives of the revalued assets. The revaluation gave rise to period depreciation charges of EUR 3.28 million in the year ended 28 February 2013 and EUR 3.43 million in the year ended 29 February 2012. It is estimated that this amount will be approximately EUR 3.27 million in 2013.

At the end of 2012 and 2011 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows:

	2012	2011
Buildings	9,539	1,505
Machinery, fixtures and tools	1,452,331	1,259,448
Furniture and fittings	299,489	211,956
Computer hardware	296,880	276,294
Transport equipment	4,458	4,388
TOTAL	2,062,697	1,753,591

Amounts in thousands of euros.

Additionally, the Group had the following investments in property, plant and equipment abroad:

	2012		2011	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and buildings	302,776	(28,524)	303,843	(27,295)
Machinery and fixtures	165,417	(59,328)	160,474	(53,588)
Other items of property, plant and equipment	178,916	(49,576)	175,679	(43,559)
TOTAL	647,109	(137,428)	639,996	(124,442)

Amounts in thousands of euros.

The assets constructed on land obtained under concession arrangements are as follows:

	2012	2011
Buildings	154,823	172,272
Machinery and fixtures	104,518	131,870
Other items of property, plant and equipment	25,926	25,812
Accumulated depreciation	(68,126)	(93,771)
TOTAL	217,141	236,183

Amounts in thousands of euros.

As indicated in Note 8, at the end of 2012 and 2011 the Group held various items of property, plant and equipment under finance leases.

The Group takes out insurance policies with third parties to cover the value of its property, plant and equipment. The directors of the Parent consider that the insurance coverage under these policies for 2012 and 2011 is adequate.

7. INVESTMENT PROPERTY

The Group's investment property relates mainly to properties earmarked for lease. At the end of 2012 and 2011 these properties were being used as follows:

	2012	2011
Offices	117,459	105,861
Commercial premises	7,584	6,835
Other	4,062	3,661
TOTAL	129,105	116,357

Amounts in thousands of euros.

In 2012 and 2011 investment property was depreciated by EUR 0.31 million and EUR 0.34 million, respectively.

8. LEASES

8.1 Finance leases

At the close of 2012 and 2011 the Group, as the lessee under finance leases, had recognised the following leased assets:

	2012			2011		
	Cost	Accumulated Depreciation	Valuation Adjustments	Cost	Accumulated Depreciation	Valuation Adjustments
Land and buildings	371,254	(13,415)	-	375,334	(11,225)	-
Computer hardware	4,039	(3,013)	-	4,039	(2,395)	-

Amounts in thousands of euros.

The minimum lease payments (including any purchase options), based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions, that the Group had contracted with lessors are as follows:

	2012 Present Value	2011 Present Value
Within one year	31,956	33,087
Between one and five years	134,552	151,711
After five years	36,466	51,284
TOTAL	202,974	236,082

Amounts in thousands of euros.

The main data on the Group's finance leases at the reporting date were as follows:

LEASE TERM (YEARS)	10 to 12
YEARS ELAPSED	1 to 11
VALUE OF PURCHASE OPTIONS	13,716
LEASE PAYMENTS PAID IN PRIOR YEARS	174,302

Amounts in thousands of euros.

The interest rates on these payables are tied to Euribor plus a market spread.

8.2 Operating leases

As the lessor

At the end of 2012 and 2011 the Group had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions:

	2012	2011
Collected in the year	9,928	11,872
Within one year	12,148	12,226
Between one and five years	65,594	43,229
After five years	83,649	53,130

Amounts in thousands of euros.

The lease payments collected in the year were recognised in full as income.

The principal operating leases held by the Group as lessor relate to the assignment of spaces in department stores and the adjoining shops and commercial premises, which are leased out to supplement the product offering at our stores.

As the lessee

Additionally, at 2012 and 2011 year-end, the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions:

	2012	2011
Paid in the year	154,219	161,508
Within one year	145,489	147,743
Between one and five years	547,258	555,161
After five years	590,028	630,564

Amounts in thousands of euros.

The lease payments paid in the year were recognised in full as expenses.

The principal operating leases held by the Group as lessee relate to the rental of commercial premises in which the Group carries on its main business activity.

9. FINANCIAL ASSETS

9.1 Non-current financial assets

The detail of "Non-Current Financial Assets" at the end of 2012 and 2011 is as follows:

Classes / Categories	Non-Current Financial Instruments							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Loans and receivables								
- Loans	-	-	-	-	116,932	157,822	116,932	157,822
- Guarantees and deposits	-	-	171,106	201,941	38,590	39,923	209,696	241,864
Held-to-maturity investments ..	592	538	-	151,515	-	-	592	152,053
Assets at fair value through profit or loss								
- Held-for-trading financial assets	-	-	-	-	-	-	-	-
- Other	14,741	13,730	-	638	-	-	14,741	14,368
Available-for-sale financial assets								
- At fair value	115,848	91,793	568,052	315,890	-	-	683,900	407,683
- At cost	73,789	64,009	-	-	-	-	73,789	64,009
Derivatives	-	-	-	-	-	-	-	-
TOTAL	204,970	170,070	739,158	669,984	155,522	197,745	1,099,650	1,037,799

Amounts in thousands of euros.

The detail of these financial assets, by consolidated company, is as follows:

Companies	2012	2011
Investments made in relation to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	773,514	706,298
Other consolidated companies	326,137	331,501
TOTAL	1,099,651	1,037,799

Amounts in thousands of euros.

The detail, by category and class, of the investments made in relation to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. is as follows:

Classes / Categories	Non-Current Financial Instruments							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Loans and receivables								
- Guarantees and deposits	-	-	171,106	201,941	1,095	1,248	172,201	203,189
Held-to-maturity investments ..	-	-	-	151,515	-	-	-	151,515
Assets at fair value through profit or loss								
- Held-for-trading financial liabilities	-	-	-	-	-	-	-	-
- Other	14,741	13,730	-	638	-	-	14,741	14,368
Available-for-sale financial assets								
- At fair value	18,520	21,336	568,052	315,890	-	-	586,572	337,226
TOTAL	33,261	35,066	739,158	669,984	1,095	1,248	773,514	706,298

Amounts in thousands of euros.

These investments relate mainly to the recognition of technical provisions (see Note 14).

"Loans and Receivables - Loans" mature as follows:

2012

	2014	2015	2016	2017	2018 and Subsequent Years	Total
Loans	56,220	26,469	17,131	9,318	7,794	116,932

Amounts in thousands of euros.

2011

	2013	2014	2015	2016	2017 and Subsequent Years	Total
Loans	71,424	32,987	20,645	16,865	15,901	157,822

Amounts in thousands of euros.

9.2 Current financial assets

The detail of "Current Financial Assets" at the end of 2012 and 2011 is as follows:

Classes / Categories	Current Financial Instruments							
	Equity Instruments		Debt Securities		Loans, Derivatives and Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Loans and receivables	-	-	-	-	4,142	4,313	4,142	4,313
Held-to-maturity investments ..	1,646	-	128,254	117,441	-	-	129,900	117,441
Assets at fair value through profit or loss								
- Held-for-trading financial assets	-	-	-	-		-	-	-
- Other	-	-	-	-		-	-	-
Available-for-sale financial assets								
- At fair value	-	-	12,409	7,241		-	12,409	7,241
- At cost	-	-	9,358	7,948		-	9,358	7,948
Derivatives	-	-			1,942	15,081	1,942	15,081
TOTAL	1,646	-	150,021	132,630	6,084	19,394	157,751	152,024

Amounts in thousands of euros.

"Debt Securities" includes deposits arranged by the Parent with banks which earned market interest and in which the bank has arranged a security interest.

9.3 Qualitative information on the nature and level of risk of financial instruments

The Parent's management has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. The main financial risks affecting the Parent are as follows:

a) Credit risk

In general, the Group holds its cash and cash equivalents at banks with high credit ratings.

Also, it should be noted that, due to the industry in which the Group operates, it does not have a significant concentration of credit risk exposure to third parties.

b) Liquidity risk

The Group, for the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, has the cash and cash equivalents disclosed in its consolidated balance sheet, together with the credit and financing facilities detailed in Note 15.

c) Market risk (including interest rate and foreign currency risk)

Both the Group's cash and its bank borrowings are exposed to interest rate risk, which could have an adverse effect on financial profit or loss and cash flows. Therefore, the Group implements a programme to manage this risk over the medium term through the use of certain interest rate hedges.

Foreign currency risk is concentrated mainly on purchases of goods for resale denominated in US dollars from South East Asian countries. In order to mitigate this risk, the Group arranges financial instruments (foreign currency hedges) which reduce exchange differences on foreign currency transactions (see Note 18).

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed.

As part of these transactions, the Group has arranged certain cash flow hedges, mainly interest rate and foreign currency hedges.

The Group has complied with the requirements detailed in Note 4.8.4 on measurement bases in order to determine whether the derivative financial instruments meet the requirements to be classified as hedging derivatives or speculative hedges.

The Group's financial derivative hedging instruments at 28 February 2013 and 29 February 2012, were as follows:

2012

	Classification	Type	Amount Arranged	Maturity	Fair Value (a) Assets	Fair Value (a) Liabilities
Interest rate hedge	Interest rate hedge	Floating to fixed				
			50,000 (a)	2012	-	162
			112,500 (a)	2013	-	1,069
			432,000 (a)	2014	-	11,613
			750,000	2015	-	10,768
					-	23,612
Foreign currency hedges	Foreign currency hedge	Currency purchase				
			342,688 (b)	2013	1,942	2,802

(a) Amounts in thousands of euros.

(b) Amounts in thousands of US dollars.

2011

	Classification	Type	Amount Arranged	Maturity	Fair Value (a) Assets	Fair Value (a) Liabilities
Interest rate hedge	Interest rate hedge	Floating to fixed				
			90,000 (a)	2012	-	463
			250,000 (a)	2013	-	2,249
			652,000 (a)	2014	-	17,198
			500,000 (a)	2015	-	16,116
						36,026
Foreign currency hedges	Foreign currency hedge	Currency purchase				
			572,078 (b)	2012-2013	12,260	3,948

(a) Amounts in thousands of euros.

(b) Amounts in thousands of US dollars.

During the year there were no changes in the ineffective portion of the interest rate hedges.

At the end of 2012 and 2011 the Group had contracted speculative derivative financial instruments, which were recognised based on the following characteristics:

	Foreign Currency Hedge		Interest Rate Hedge	
	2012	2011	2012	2011
Amount arranged	65,144	64,175 (b)	400,000	550,000 (a)
Maturity	2013	2012-2013	2013	2012-2013
Fair value (a)				
- Assets	-	2,821	-	-
- Liabilities	(1,872)	-	(7,861)	(10,197)
Impact of measurement on income statement (a)	-	-	(1,438)	18,983

(a) Amounts in thousands of euros.

(b) Amounts in thousands of US dollars.

11. INVENTORIES

The detail of "Inventories" in the accompanying consolidated balance sheet is as follows:

	2012	2011
Goods held for resale	2,299,961	2,386,426
Consumables	17,889	50,368
Allowance for decline in value ...	(31,363)	(185,418)
TOTAL	2,286,487	2,251,376

Amounts in thousands of euros.

The changes in the write-downs in "Inventories" in the accompanying consolidated balance sheet were as follows:

	Beginning Balance	Changes	Disposals/ Other	Ending Balance
2011				
Inventory write-downs	(34,230)	(152,344)	1,156	(185,418)
2012				
Inventory write-downs	(185,418)	151,187	2,868	(31,363)

Amounts in thousands of euros.

In accordance with standard practice in the retail industry, El Corte Inglés, S.A. and Hipercor, S.A. formalise their purchase orders with certain suppliers some months in advance of the date of delivery of the goods. Accordingly, at 28 February 2013 and 29 February 2012 they had arranged firm purchases amounting to approximately EUR 918.53 million and EUR 1,080.20 million, respectively.

Also, the Group had sales commitments to customers at the end of 2012 and 2011 amounting to EUR 113.13 million and EUR 126.84 million, respectively.

The Group takes out insurance policies to cover the risks to which its inventories are subject. At 28 February 2013 and 29 February 2012, the directors of the Parent considered that the coverage provided by the insurance policies for its inventories was adequate.

12. EQUITY AND SHAREHOLDERS' EQUITY

12.1 Share capital

At 28 February 2013 and 29 February 2012 the share capital of El Corte Inglés, S.A. was represented by 63,937,700 shares of EUR 6 par value each and 1,720,630 shares of EUR 60 par value each, all of which were registered and fully subscribed and paid. The shares of the Parent are not listed on the stock exchange.

In 2012 and 2011, only one company, the assets of which are basically securities of third parties, had an ownership interest slightly in excess of double the percentage envisaged in Article 155 of the Spanish Limited Liability Companies Law.

12.2 Revaluation reserve

As a result of the non-current asset revaluation made pursuant to Royal Decree-Law 7/1996, of 7 June, the Parent's "Revaluation Reserves" amounted to EUR 139.76 million, net of the single 3% tax, once the allocation described in Note 12.1 above had been recognised.

Since the tax authorities have reviewed and approved the balance of "Revaluation Reserve Royal Decree-Law 7/1996", the aforementioned balance can be used, free of tax, to offset accounting losses which might arise in the future and to increase share capital. From 1 March 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes on the increase in value of the revalued assets or when the revalued assets have been transferred or derecognised.

12.3 Legal reserve

The Parent's legal reserve has reached the level required by the Spanish Limited Liability Companies Law, and is subject to the limitations provided for therein.

12.4 Reserve for goodwill

In accordance with the Spanish Limited Liability Companies Law, when distributing the profit for each year an appropriation of at least 5% of the goodwill recognised on the asset side of the balance sheet must be made to a restricted reserve for that goodwill. If a company does not report a profit, or reports an insufficient profit, unrestricted reserves must be used for this purpose. This reserve had reached the legally required minimum at the end of 2012 and 2011.

12.5 Canary Islands investment reserves

In accordance with Article 27 of Law 19/1994, of 6 July, amending the Canary Islands Economic and Tax Regime, the "Canary Islands Investment Reserves" amount to EUR 60.00 million, which have been invested in full in the assets stipulated in the aforementioned Law, by the legally established deadline.

12.6 Reserves for retired capital

"Reserves for Retired Capital" relates to the reserve recognised pursuant to a resolution adopted by the shareholders at the Extraordinary General Meeting on 26 August 2001 to reduce share capital by EUR 0.64 million in order to adjust the par value of each share to a whole figure in euros.

12.7 Treasury shares

The detail of the treasury shares held temporarily by the Parent at the end of 2012 and 2011, earmarked for prompt disposal, is as follows:

	No. of Shares	Par Value (Euros)
Class A treasury shares at 2012 year-end	4,089,619	6
Class B treasury shares at 2012 year-end	71,834	60
Class A treasury shares at 2011 year-end	3,038,862	6
Class B treasury shares at 2011 year-end	46,361	60

During 2012 and 2011 shares of the Parent were acquired for an effective amount of EUR 108.21 million and EUR 63.66 million and shares were sold amounting to EUR 8.78 million and EUR 31.15 million, respectively.

These shares are held temporarily and are earmarked for prompt disposal.

12.8 Reserves of consolidated companies

"Reserves of Consolidated Companies" includes EUR 174.84 million of restricted reserves of the consolidated companies (2011: EUR 176.61 million).

As a result of the revaluation of the carrying amounts of property, plant and equipment pursuant to Royal Decree-Law 7/1996, of 7 June, the Parent and certain consolidated Group companies increased their equity by recognising a revaluation reserve, the current balance of which totals EUR 70 million. The use of this balance is subject to the limitations provided for in the aforementioned Royal Decree-Law.

The breakdown, by company, of this account under "Shareholders' Equity" in the accompanying consolidated balance sheet is as follows:

Company	2012	2011
Hipercor, S.A.	1,259,063	1,310,154
Viajes El Corte Inglés, S.A.	81,721	53,396
Informática El Corte Inglés, S.A.	89,817	97,972
Investrónica, S.A.	5,146	5,221
Telecor, S.A.	1,318	5,270
Construcción, Promociones e Instalaciones, S.A.	1,087	1,059
Editorial Centro de Estudios Ramón Areces, S.A.	2,771	2,763
Parinver, S.A.	27,218	25,923
Centro de Seguros y Servicios. Correduría de Seguros, S.A., Grupo de Seguros El Corte Inglés	21,495	31,495
El Corte Inglés-Grandes Armazéns, S.A.	22,841	64,787
Gestión de Puntos de Venta, GESPEVESA, S.A.	4,904	4,512
Óptica 2000, S.L.	5,969	3,351
Financiera El Corte Inglés E.F.C., S.A.	220,069	190,515
Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	150,695	131,671
Consolidation adjustments and eliminations and other	48,532	123,260
TOTAL	1,942,646	2,051,349

Amounts in thousands of euros.

13. NON-CONTROLLING INTERESTS

"Non-Controlling Interests" in the consolidated balance sheet at the end of 2012 and 2011 reflects the share of non-controlling shareholders in the equity and profit or loss of the companies indicated below:

2012

Company	% of Ownership	Share in: Capital and Reserves	Share in: Profit (Loss) for the Year	Total
El Corte Inglés-Grandes Armazéns, S.A.	0.442	2,377	17	2,394
Canal Club de Distribución de Ocio y Cultura. S.A.	25.00	1,172	32	1,204
Moda Sfera Joven México, S.A. de C.V.	49.00	11,882	1,266	13,148
Viajes El Corte Inglés, S.A. de C.V.	4.00	85	1	86
Perfumerías y Cosméticos Gran Vía, S.L. ...	45.00	(16)	(327)	(343)
TOTAL		15,500	989	16,489

Amounts in thousands of euros.

2011

Company	% of Ownership	Share in: Capital and Reserves	Profit (Loss) for the Year	Total
El Corte Inglés-Grandes Armazéns, S.A.	0.442	2,563	9	2,572
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	1,172	24	1,196
Moda Sfera Joven México, S.A. de C.V.	49.00	11,193	135	11,328
Viajes El Corte Inglés, S.A. de C.V.	4.00	76	5	81
Perfumerías y Cosméticos Gran Vía, S.L. ...	45.00	360	(376)	(16)
TOTAL		15,364	(203)	15,161

Amounts in thousands of euros.

14. PROVISIONS AND CONTINGENT LIABILITIES

14.1 Provisions

The detail of the provisions in the accompanying consolidated balance sheet and of the changes therein in 2012 and 2001 is as follows:

Long-Term Provisions	Beginning Balance	Change	Ending Balance
2011			
Technical provisions ...	603,968	(3,354)	600,614
Other	14,674	112,443	127,117
Total long-term provisions...................	**618,642**	**109,089**	**727,731**
2012			
Technical provisions ...	600,614	35,875	636,489
Other	127,117	64,158	191,275
Total long-term provisions	**727,731**	**100,033**	**827,764**

Amounts in thousands of euros.

Other long-term provisions include certain risks of a diverse nature and the estimated amount that might have to be paid in relation to certain local taxes.

The detail, by category, of the technical provisions of the insurance business is as follows (see Note 4.13.1):

	2012	2011
Provisions for unearned premiums - Non-life insurance	11,878	11,864
Provisions for unearned premiums - Life insurance	15,878	16,158
Provisions for life insurance	472,575	469,841
Technical provisions relating to life insurance investment risk assumed by policyholder	14,425	13,446
Technical provisions for benefits	23,652	26,707
Provisions for profit-sharing bonuses and rebates	63,265	57,429
Technical provisions for reinsurance	(2,819)	(2,943)
Accounting mismatches	37,635	3,735
Payables relating to insurance policy preparatory transactions	-	4,377
TOTAL	636,489	600,614

Amounts in thousands of euros.

14.2 Guarantee commitments to third parties and contingent liabilities

At 28 February 2013 and 29 February 2012, the guarantees provided by the Group amounted to EUR 353.54 million and EUR 367.60 million, respectively. Of these amounts, EUR 154.12 million at 28 February 2013 and EUR 137.68 million at 29 February 2012 related to matters of a legal and tax nature (local and domestic). The remaining amount, deposited with various entities, secured business operations.

The Parent's directors consider that any liabilities not foreseen at 28 February 2013 which might arise from the guarantees provided would not be material.

15. FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

15.1 Non-current financial liabilities

The detail of “Non-Current Payables” at 2012 and 2011 year-end is as follows:

Categories \ Classes	Non-Current Financial Instruments							
	Bank Borrowings and Obligations under Finance Leases		Debt Instruments and Other Marketable Securities		Derivatives and Other Financial Liabilities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Accounts payable	1,935,380	2,133,382	1,437,086	1,416,450	4,666	3,861	3,377,132	3,553,693
Derivatives		-		-	31,473	47,191	31,473	47,191
TOTAL	1,935,380	2,133,382	1,437,086	1,416,450	36,139	51,052	3,408,605	3,600,884

Amounts in thousands of euros.

The Group classifies the debts arranged in the form of promissory notes under "Non-Current Payables - Debt Instruments and Other Marketable Securities", since substantially all the debts are automatically renewed at their maturity date.

The detail, by maturity, of "Non-Current Payables - Bank Borrowings and Payables under Finance Leases" is as follows:

2012

	2014	2015	2016	2017	Other	Total
Bank borrowings	1,041,252	652,091	29,507	2,007	89,505	1,814,362
Obligations under finance leases	42,911	31,068	29,531	25,388	42,120	171,018
TOTAL	1,084,163	683,159	59,038	27,395	131,625	1,935,380

Amounts in thousands of euros.

2011

	2013	2014	2015	2016	Other	Total
Bank borrowings	499,613	1,175,880	228,244	26,488	162	1,930,387
Obligations under finance leases	31,933	39,960	28,607	27,676	74,819	202,995
TOTAL	531,546	1,215,840	256,851	54,164	74,981	2,133,382

Amounts in thousands of euros.

The interest rates on these payables are tied to Euribor plus a market spread.

The detail of the carrying amount and fair value of the bank borrowings with embedded interest rate derivatives is as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bank borrowings	415,000	424,304	410,000	425,274

Amounts in thousands of euros.

At the date of authorisation for issue of these consolidated financial statements, the Group, in the course of its ordinary activities, is restructuring its financial debt, which, once concluded, will enable it to optimise its financial structure by endowing it with greater flexibility and adapting it to the context of its sector of activity and the financial services industry. As is customary in this process, which is being performed in co-operation with the country's leading banks, for the purpose of facilitating the process, a grace period was arranged in relation to the maturity periods ending on 31 October 2013. The Parent's directors consider that the aforementioned restructuring process will conclude successfully in due course.

15.2 Current financial liabilities

The detail of "Current Payables" at the end of 2012 and 2011 is as follows:

Classes / Categories	Current Financial Instruments							
	Bank Borrowings and Obligations under Finance Leases		Debt Instruments and Other Marketable Securities		Derivatives and Other Financial Liabilities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Accounts payable	2,579,190	2,268,744	-	-	36,866	32,575	2,616,056	2,301,319
Derivatives			-	-	4,674	2,980	4,674	2,980
TOTAL	2,579,190	2,268,744	-	-	41,540	35,555	2,620,730	2,304,299

Amounts in thousands of euros.

The Group has been granted discount and credit facilities with the following limits:

	2012		2011	
	Limit	Undrawn Amount	Limit	Undrawn Amount
Discount facilities	13,962	10,557	16,462	13,316
Credit facilities	3,034,168	809,857	3,595,344	1,587,937
TOTAL	3,048,130	820,414	3,611,806	1,601,253

Amounts in thousands of euros.

The Group is currently involved in a restructuring process (see Note 15.1)

15.3 Disclosures on the payment periods to suppliers

In relation to the disclosures required by Additional Provision Three of Law 15/2010, of 5 July, the total balance payable to suppliers and trade creditors at 28 February 2013 and 29 February 2012, which is past-due by more than the legally established payment period, is less than 0.05% of the total balance payable thereto.

Also, the total volume of payments to suppliers and trade creditors in 2012 amounted to EUR 11,396 million (2011: EUR 11,677 million), of which 99.60 % (2011: 99.33%), had been paid within the terms set out in the legislation and regulations applicable to the Parent.

The average period of late payment of the payments made in 2012 and 2011 outside the current legal period is eleven days.

16. REMUNERATION PAYABLE AND PERSONNEL ACCOUNTS

The breakdown at 2012 and 2011 year-end is as follows:

	2012	2011
Loans and advances	(53,243)	(60,139)
Accounts receivable for sales and services	(40,661)	(42,592)
Remuneration payable and personnel accounts	237,770	483,299
Current accounts of Group employees	202,324	278,270
TOTAL	346,190	658,838

Amounts in thousands of euros.

"Current Accounts of Group Employees" relates to current accounts kept with El Corte Inglés, S.A. by the Group company employees. These accounts earn interest at market rates.

17. TAX MATTERS

El Corte Inglés, S.A. files consolidated tax returns with the Spanish subsidiaries in which it has an ownership interest of more than 75%, excluding those whose financial year-end differs from that of the Parent as a result of industry regulation, in accordance with current legislation.

17.1 Reconciliation of the accounting profit to the taxable profit

Income tax is calculated on the basis of individual accounting profit, determined by application of generally accepted accounting principles, which does not necessarily coincide with taxable profit.

The reconciliation of the accounting profit to the aggregate taxable profit for income tax purposes is as follows:

2012

	Increase	Decrease	Amount
Accounting profit for the year (before tax)			175,691
Consolidation adjustments			158,945
Permanent differences	2,936	(142,268)	(139,332)
Timing differences:			
- Current year	131,096	(8,268)	122,828
- Prior years	33,176	(96,125)	(62,949)
Other			(439,916)
AGGREGATE TAXABLE PROFIT ..			(184,733)

Amounts in thousands of euros.

2011

	Increase	Decrease	Amount
Accounting profit for the year (before tax)			191,315
Consolidation adjustments			22,441
Income recognised in reserves	8,695	(190,721)	(182,026)
Permanent differences			
Temporary differences:	8,703	(12,255)	(3,552)
- Current year	7,644	(9,464)	(1,820)
- Prior years			(94,783)
AGGREGATE TAXABLE PROFIT ..			(68,425)

Amounts in thousands of euros.

El Corte Inglés, S.A. and Hipercor, S.A. availed themselves of the tax benefits in relation to the depreciation of new fixed assets provided for by Royal Decree-Law 3/1993, of 26 February.

For the gain obtained from the transfer of assets and as permitted by Transitional Provision Three of Law 24/2001, in 2001 El Corte Inglés, S.A. and Hipercor, S.A. opted to apply the regime provided for in Article 21 of the Corporation Tax Law and did not include income of EUR 34.49 million in the taxable profit. Both companies reinvested the total amount of the proceeds from the sale that gave rise to this gain in the same year in the Cádiz store. The method used to include the income in the taxable profit is that provided for in Article 21.3 of the Corporation Tax Law and Article 34.1.b of the Corporation Tax Regulations then in force, the detail being as follows.

	Thousands of Euros
2001 deferred income	34,489
Income included from 2002 to 2011	(4,069)
Income included in 2012	(398)
Outstanding amount	30,022

The outstanding amount will be included in the taxable profit in the tax periods in which the Cádiz store is depreciated, for the proportional amount corresponding to the value of the depreciation taken on the aforementioned building with respect to its acquisition cost.

17.2 Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, in 2012 the Group recognised an expense of EUR 15.21 million directly in equity (2011: income of EUR 1.45 million). These amounts relate mainly to the tax effects arising from the revaluation of available-for-sale financial assets.

17.3 Reconciliation of accounting profit to the income tax expense

The reconciliation of the accounting profit to the income tax expense is as follows:

	2012	2011
Accounting profit before tax	175,691	191,315
Permanent differences and consolidation adjustments	18,057	(160,534)
Taxable profit for the purposes of calculating the tax expense	193,748	30,781
Tax charge	60,220	8,818
Tax credits		
Advertising and publicity of events	(2,015)	(15,295)
Double taxation	(35,030)	(8,817)
Reinvestment of gains	(9,447)	(6)
Other	(6,866)	(4,104)
Other	(2,680)	732
Total income tax expense (income) recognised in profit or loss	4,182	(18,672)

Amounts in thousands of euros.

The corporation tax legislation currently in force provides for double taxation and dividend tax credits and various tax incentives to encourage investments. The tax credits arising from the tax benefits provided for in this legislation for the year ended 28 February 2013 amounted to EUR 53.4 million, the most important being the double taxation tax credits.

The income in respect of which the tax credit for reinvestment of extraordinary gains was taken pursuant to Article 42 of the Consolidated Spanish Corporation Tax Law was as follows:

	Eligible Income	Reinvestment Date	Tax Credit
2006	14,288	2006	2,857
2007	213,950	2007	26,526
2008	3,459	2008	1,811
2009	12,435	2009	4,592
2010	93	2010	11
2011	50	2011	6
2012	78,727	2012	9,447

Amounts in thousands of euros.

17.4 Deferred tax

The difference between the tax charge allocated to the current year and prior years and the tax already paid or payable for such years, which is recognised under "Deferred Tax Assets" and "Deferred Tax Liabilities", respectively, arose as a result of temporary differences, the detail being as follows:

2012

	Deferred Tax Assets	Deferred Tax Liabilities
Balance at 29/02/12	197,320	247,496
Temporary differences		
- Current year	44,753	12,197
- Prior years	(18,900)	(22,610)
Other	(125,829)	15,318
TOTAL	97,344	252,401

Amounts in thousands of euros.

2011

	Deferred Tax Assets	Deferred Tax Liabilities
Balance at 28/02/11	41,785	225,087
Temporary differences		
- Current year	21,647	26,866
- Prior years	(10,165)	(4,457)
- Consolidation adjustment		
Other	144,053	
TOTAL	197,320	247,496

Amounts in thousands of euros.

As the head of the Group that files consolidated tax returns, the Parent recognises in full - as a result of the application of the aforementioned tax consolidation regime - all the tax assets generated at the Group in connection with unused tax credits and tax relief. The amounts of the tax assets recognised and yet to be used, by year, are as follows:

	Recognised Amount	Unused Amount
2008	37,739	1,397
2009	27,020	8,453
2010	17,934	13,781
2011	28,396	28,396
2012	57,300	57,300

Amounts in thousands of euros.

The Parent also recognised all of the tax assets generated by the tax group relating to tax loss carryforwards for 2012 and 2011, amounting to EUR 208.5 million. This figure includes the EUR 56.73 million resulting from the absorption of Industrias y Confecciones, S.A. by El Corte Inglés, S.A. in 2013.

The deferred tax assets indicated above were recognised in the consolidated balance sheet because the Parent's directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

17.5 Years open for review and tax audits

The tax authorities are currently conducting tax audits of the years from 2007/2008 to 2010/2011 for the companies included in the consolidated tax group for income tax and from 2008 to 2011 for the other annual taxes applicable in each calendar year. The Company's directors do not expect any material liabilities unrecognised at 28 February 2013 to arise from either the years open for review or from the tax audits performed by the tax authorities in prior years.

18. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

The detail of the most significant balances and transactions in foreign currency, valued at the year-end exchange rate and the average exchange rates for the year, is as follows:

	2012	2011
Accounts payable	56,060	55,807
Other liabilities	10,420	13,514
Sales	101,549	52,650
Services rendered	194,568	172,650
Purchases	627,619	603,262
Services received	24,521	17,551

Amounts in thousands of euros.

19. INCOME AND EXPENSES

19.1 Contribution of each consolidated company to profit

The contribution of each line of business included in the scope of consolidation to the consolidated profit for the years ended 28 February 2013 and 29 February 2012 was as follows:

Company	2012	2011
El Corte Inglés department stores	264,524	297,942
Hipercor hypermarkets	4,483	35,910
Bricolaje Bricor	(15,543)	(18,912)
Viajes El Corte Inglés Group	41,334	53,871
Supercor supermarkets	(7,027)	(9,401)
Opencor convenience stores	(20,142)	(14,924)
Sfera	10,050	1,893
Óptica 2000	4,593	5,179
Information and communication technologies	37,796	41,871
Insurance Group	37,338	34,814
Financial	42,562	29,555
Other business lines	685	5,616
Adjustments and eliminations on consolidation	(229,144)	(253,427)
CONSOLIDATED PROFIT	171,509	209,987
PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(989)	203
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	170,520	210,190

Amounts in thousands of euros.

19.2 Revenue

The breakdown, by business line, of the consolidated revenue for 2012 and 2011 is as follows:

Line of Business	2012	2011
El Corte Inglés department stores	8,541,744.46	9,211,963.44
Hipercor hypermarkets	1,866,842.17	2,114,135.28
Bricolaje Bricor	80,069.31	103,398.21
Viajes El Corte Inglés Group	2,238,467.61	2,425,800.65
Supercor supermarkets	422,838.20	402,207.09
Opencor convenience stores	244,204.92	337,961.05
Sfera	135,397.77	123,766.48
Óptica 2000	77,262.43	79,382.80
Information and communication technologies	699,670.36	732,181.58
Insurance Group	154,818.29	144,207.37
Other business lines	91,138.82	102,740.98
TOTAL	14,552,454.34	15,777,744.94

Amounts in thousands of euros.

19.3 Procurements

The detail of the balance of "Procurements" in the consolidated income statement for the years ended 28 February 2013 and 29 February 2012 is as follows:

	2012	2011
Cost of goods held for resale used		
Purchases	10,079,424	10,986,151
Changes in inventories and write-downs	(40,986)	(101,413)
	10,038,438	10,884,738
Cost of raw materials and other consumables used		
Purchases	64,707	77,155
Changes in inventories	1,059	1,344
Work performed by other companies	37,167	47,868
TOTAL	10,141,371	11,011,105

Amounts in thousands of euros.

"Procurements" in the accompanying consolidated income statement includes the expenses incurred in preparing goods for resale. EUR 17.73 million were incurred in this connection in 2012 (2011: EUR 22.15 million).

"Procurements" also includes EUR 31.18 million relating to internal and external expenses incurred in 2012 (2011: EUR 27.48 million) in the preparation for resale of food products sold by El Corte Inglés, S.A.

19.4 Employee benefit costs

The detail of "Employee Benefit Costs" in 2011 and 2010 is as follows:

	2012	2011
Employee benefit costs		
Social security costs	584,924	587,813
Uniforms	5,821	9,267
Life insurance premiums	4,007	6,902
Other employee benefit costs .	8,532	8,689
TOTAL	603,284	612,671

Amounts in thousands of euros.

20. RELATED PARTY TRANSACTIONS AND BALANCES

20.1 Balances and transactions with related parties

The detail of the transactions with related parties in 2012 and 2011 is as follows:

	2012	2011
Sales	16,799	66
Purchases	35,735	7,778
Disposal of non-current assets ...	10	30,635
Acquisitions of non-current assets	12,289	48,535
Services rendered	3,327	3,662
Services received	918	1,546
Interest paid	100	17
Interest charged	5,198	4,754

Amounts in thousands of euros.

In addition, the detail of the on-balance sheet balances with related parties is as follows:

	2012	2011
Trade receivables	32,925	17,527
Current payables	(341,277)	(223,995)

Amounts in thousands of euros.

The main transactions carried out by the Group with other related parties were due to commercial operations.

20.2 Remuneration of the Parent's directors

The breakdown of the remuneration received in 2012 and 2011 by the members of the Board of Directors (including the senior executives) of El Corte Inglés, S.A. is as follows:

	2012	2011
Board of Directors		
- Salaries	5,000	4,030
- Other items	7,000	7,405

Amounts in thousands of euros.

At 2012 and 2011 year-end, the Group had not granted any advances on remuneration or loans to the members of its Board of Directors and it did not have any pension, retirement bonus, life insurance or special indemnity obligations to them.

Also, in 2012 and 2011 the members of the Board of Directors did not receive any remuneration for attendance fees, pension plans, termination benefits or share-based payments.

20.3 Detail of investments in companies with similar activities and of the performance, as independent professionals or as employees, of similar activities by the Parent's directors or persons related to it

In 2012 and 2011 the members of the Board of Directors of the Parent and the persons related to them as defined in the Spanish Limited Liability Companies Law did not hold any significant investments in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity constituting the company object of the Parent or of the El Corte Inglés Group companies.

Also, they have not performed, and do not perform, as independent professionals or as employees, any activity that is identical, similar or complementary to the activities that constitute the company object of the El Corte Inglés Group companies.

21. INFORMATION ON THE ENVIRONMENT

The Group continued to implement its environmental management policy in accordance with the environmental protection legislation currently in force in Spain.

The main lines of action were as follows:

21.1 Environmental assets

As regards the current systems implemented by the Group in order to reduce the environmental impact of its facilities, it has continued to reduce emissions into the atmosphere, to carry out water treatment and recirculation work and to reduce noise and vibrations, etc. The cost of these items was included in the cost of the facilities at which they are located. The breakdown, by nature, of the cost of the identified environmental assets and the related accumulated depreciation and impairment at 2012 and 2011 year-end is as follows:

2012

	Cost	Accumulated Depreciation	Valuation Adjustments Recognised in the Year	Valuation Adjustments Recognised in Prior Years	Carrying Amount
Water protection	2,323	(474)	-	(1)	1,848
Air protection	78,332	(28,309)	-	(2)	50,021
Noise protection	1,877	(840)	53	(197)	893
Other	5,578	(839)	8	(3,016)	1,731
TOTAL	88,110	(30,462)	61	(3,216)	54,493

Amounts in thousands of euros.

2011

	Cost	Accumulated Depreciation	Valuation Adjustments Recognised in the Year	Valuation Adjustments Recognised in Prior Years	Carrying Amount
Water protection	2,232	(308)	-	(1)	1,923
Air protection	78,285	(23,848)	-	(2)	54,435
Noise protection	1,880	(738)	109	(306)	945
Other	5,649	(739)	(3,008)	(7)	1,895
TOTAL	88,046	(25,633)	(2,899)	(316)	59,198

Amounts in thousands of euros.

21.2 Environmental expenses

The environmental expenses recognised in 2012 amounted to EUR 17.83 million (2011: EUR 21.78 million) and are included under the following headings in the consolidated income statement:

	2012	2011
Procurements	136	226
Outside services	14,740	18,157
Taxes other than income tax ...	2,955	3,395
Other	-	3
TOTAL	17,831	21,781

Amounts in thousands of euros.

"Procurements" relates to specific acquisitions of consumables not included in outside services, the objective of which is to improve the environment, such as: filters to eliminate pollution in the air released into the atmosphere, products for water treatment or to maintain boilers and treatment plants.

"Outside Services" includes all contracting, relating to both periodic maintenance and other services in general, aimed at protecting and improving the environment. The measures taken include most notably: cleaning of air conditioning ducts, water treatment at the Company's facilities (cleaning, disinfection, etc.), management of containers and container waste, waste transport and management (fluorescent lights, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.) or third-party liability insurance.

Lastly, "Taxes Other than Income Tax" includes environmental taxes, arising mainly from the use of landfills.

22. OTHER DISCLOSURES

22.1 Employees

The average number of full-time equivalent employees in 2012 and 2011, by activity groups, was as follows:

	Average Number of Employees	
Groupings	2012	2011
Directors and managers	236	267
Supervisors and coordinators	13,932	14,408
Sales staff	58,956	60,838
Services personnel	6,580	6,793
Other	6,777	6,514
TOTAL	86,481	88,820

Also, the workforce at the end of 2012 and 2011, by gender and professional category, were as follows:

	2012		2011	
Groupings	Women	Men	Women	Men
Directors and managers	10	207	12	235
Supervisors and coordinators	4,343	9,844	4,301	10,280
Sales staff	49,633	18,865	50,847	19,652
Services personnel	4,421	2,653	4,653	2,455
Other	3,222	3,481	3,151	3,737
TOTAL	61,629	35,050	62,964	36,359

The average number of employees at the Group in 2012 and 2011, with a disability equal to or greater than 33%, by category, was as follows:

Groupings	2012	2011
Directors and managers	1	1
Supervisors and coordinators	123	133
Sales staff	600	600
Services personnel	89	95
Other	110	113
TOTAL	923	942

22.2 Fees paid to auditors

The fees for financial audit and other audit services paid to Deloitte, S.L. or to a company related to the auditor as a result of a relationship of control, common ownership or management, were as follows:

	2012		2011	
	Main Auditor	Other Firms	Main Auditor	Other Firms
Audit services	1,699	63	1,692	5
Other attest services	627	4	102	81
TOTAL AUDIT SERVICES	2,325	67	1,794	86
Tax counselling services	50	19	27	-
Other services	1,450	33	54	23
TOTAL OTHER SERVICES	1,500	52	81	23

Amounts in thousands of euros.

22.3 Events after the reporting period

No significant events occurred after the reporting period except for that indicated in Note 15.1.

23. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2-1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

2012 CONSOLIDATED DIRECTORS' REPORT

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

2012 CONSOLIDATED DIRECTORS' REPORT

Business activities and performance

El Corte Inglés, S.A. and its subsidiaries engage mainly in the retail sale of consumer goods and in the provision of a wide range of services (travel agency, information technology, telephony, insurance brokerage, financial services, optical services, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and branches.

In 2012 the El Corte Inglés Group's revenue amounted to EUR 14,552.45 million, down 7.77% on 2011, the detail being as follows:

	Millions of Euros	% Change from 2011
Retail sales	11,614.70	(8.70)
Revenue from services	2,937.75	(3.86)

Operating costs and expenses amounted to EUR 14,301.92 million, EUR 10,141.37 million of which related to procurements, EUR 2,656.60 million to staff costs and EUR 1,216.60 million to outside services.

Inventories at 28 February 2013 totalled EUR 2,286.49 million.

The El Corte Inglés Group's EBITDA amounted to EUR 734.88 million.

Profit before tax, including financial loss, stood at EUR 175.69 million.

Cash flows from operating activities amounted to EUR 510.9 million, as shown in the consolidated statement of cash flows, and this amount was invested in non-current assets.

Capex on operating property, plant and equipment amounted to EUR 459.8 million in 2012.

Outlook

The outlook for the Group in 2013 is focused on the modernisation and adaptation of existing stores, ongoing improvement of internal management in order to enhance the effectiveness of the Group's investments and expenses, and on continuing to foster employee training and advancement.

Treasury share transactions

In 2012 treasury shares of the Parent were acquired for an effective amount of EUR 108.21 million and shares amounting to EUR 8.78 million were sold.

At 28 February 2013, El Corte Inglés, S.A. temporarily held 4,089,619 treasury shares of EUR 6 par value each and 71,834 treasury shares of EUR 60 par value each, which are earmarked for sale at short term.

Research and development activities

In 2012 the consolidated Group carried out several research, development and innovation projects as part of various strategic lines of action. The most significant projects, in terms of content and scope, include the following:

- Development of an e-commerce web platform for the travel agency business. This platform enables modular products and dynamic packages from multiple suppliers to be managed and may be used in multi-channel sales environments.
- New Information System, which enables all processes involved in insurance brokerage to be optimised. Priority is given to customer relations, while enhancing key functionalities such as security and sales management.
- Credit scenario simulation system. Facilitates financial transaction assessment, specifically tailored to the retailing area. This system is based on the use of Big Data technology.
- Development of a new remote health and assistance services platform. Fully integrated, interoperable and open, it provides an end-to-end solution for remote connection between health systems and potential patients.
- Tools to develop an intelligent dynamic management advertising system. It is aimed at e-commerce environments, operated on real-time TV platforms.
- Workflow management environment, allowing documentation in physical formats associated with insurance brokerage processes to be dematerialised. Ensures the decentralisation of the functions relating to the recording and indexing of information, and the digital recording of signatures.

As in previous years, the El Corte Inglés Group companies have continued to work on the development of continuous innovation processes in relation to both systems and operating procedures. This has led to the adoption and use of state-of-the-art technology and to the development of intellectual models which, based on experience, enable the Group to continuously improve its production and management systems.

The correct instrumentation of ongoing quality assurance processes is also another basic factor required in order to be able to continue offering customers an excellent level of service and personal attention.

Environment

The El Corte Inglés Group companies continued to implement their environmental management policy in accordance with environmental protection legislation.

The main measures taken in 2012 are described in Note 21 to the consolidated financial statements.

Code of good tax practices

The Company adhered to this Code and complied satisfactorily with its contents.

Other

For the purpose of controlling and reducing the potential adverse impact of interest rate and exchange rate fluctuations on profit, the Parent has implemented a management programme in relation to such risks over the medium term through the use of certain interest rate and foreign currency hedging instruments. The nominal amounts covered by the interest rate and foreign currency risk management programmes are EUR 1,645 million and USD 342.69 thousand, respectively.

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